

THE SOCIAL ECONOMY IN AMERICA

From Nonprofits to Social Enterprise

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Executive Summary

This paper will take a brief look at the state of the social economy in America, in its historical context, and examine some of the dynamics that are currently threatening the current world of nonprofits. I will examine some of the rapidly changing environment that is changing doing good from simply nonprofit (*or not for profit*), to *social enterprise*, *social entrepreneurship*, and in fact the merging of the business sector and government sector into approaches of a comprehensive social economy. Will the changing boundaries between nonprofits, business, and government be a positive or detrimental force for tackling society's biggest problems?

All slides for the presentation are embedded in this paper.



Who are these people?



(Answer: The Giving Pledge 40)

Two Quotes to kick us off--

New York Times “Ten days after the big storm hit New York, donations to aid the relief effort exceeded \$116 million.”

The outpouring of support highlights how central a role charity plays in our social contract—we Americans view ourselves as generous, yet we mistrust the government to help those in need. Our trust in charity is uniquely American. We pay less tax as a share of our income than citizens of virtually every other rich economy in the world. But we contribute more to charity than citizens of any other country”

November 13, 2012

“Over its history, the nonprofit sector has become a distinct and pervasive part of the American political economy. Taken together, it’s funding from four principle sources- annual gifts including monies solicited through fund raising campaigns, returns on endowments, net income earned in performing not for profit functions, and government subsidies, all tax exempt- today is comparable to that of the Pentagon”

Oliver Zunz: Philanthropy in America, pg.4

Introduction

Tonight my paper is on **the Social Economy- an important engine that drives social capital.** (As you might recall, my paper five years ago was on Social Capital) In this time of economic challenges, which includes a focus on the conflict and **tension between Main Street and Wall Street, and the debate between too much government and too little regulation,** is this very important third sector. A sector that has a history all of its own.

Our judgments and evaluation of nonprofits and philanthropy are formed with a faulty or incomplete understanding of the history, dynamics, and realities of how the three sectors of our society work together or compete in **the work of enhancing civic life and better the lives for our citizens.**

Often our decisions of whether to donate, why to donate, where to donate, and how to give, are based on stereotypes and beliefs that have not been tested. Our decisions to give are also often based on law, tax codes, and our own subjective beliefs that often complicate execution of philanthropy. Many times the needs of our communities and the reason to give to certain causes are poorly backed up by information or valuable metrics to guide us.

The scope of the sector

In 2010, there were 2.3 million nonprofits in the U.S. That year nonprofit organizations in America had total revenues of \$1.5 trillion! **This was 5.5% of the GDP.** If the nonprofits were a country they would have a GDP larger than many countries. **9.2% of all wages in the U.S. went to nonprofit employees.** Also In 2010, the 31,900 nonprofits in Michigan had the combined assets of almost \$64 billion, with revenues of \$40 billion. In 2007 there were 13.5 million paid workers and 4.5 million volunteer equivalents in the nonprofit sector. Where does revenue come from? 52% of the revenues come from service fees, 38% comes from government contracts, and only **10% comes from philanthropy.**

To look at this way: **40% of hospitals are nonprofits, 1/3 of clinics, 40% of higher education providers, 90% of orchestras and operas, and 70% of social service agencies.**

There is a question before us, however.

Are our current channels of social improvement and our ways of funding these improvements relevant in today's world? Are the past nonprofit approaches threatened to the point of needing a new perspective, and new commitments? If so, how can we avoid throwing out the excellence and success of our current nonprofit communities?

Understanding **the threat that nonprofits currently face,** understanding **the history of our county's approach to philanthropy,** and understanding the **new opportunities and threats to the social economy** are extremely important to any civic minded person- especially those who have the resources to do

something. **The current lines between nonprofits and for profit enterprises are becoming blurred.** What direction will this trend take, and will the results be providing the social forces we need in the future?

Why did I choose the topic: Social Economy?

Several years ago several Holland area nonprofits got together to find ways to confront some profound changes that threatened many of the organizations in Holland- especially the smaller agencies. Some of these agencies provided core services to our area for years, services to children, women, special needs children, foster kids, prisoners returning to society, veterans, substance abuse, pregnancy etc. The Lakeshore Nonprofit Association (LNA) was the outcome of this effort. **In 2005, nonprofits were already feeling financial stress and the stress of more and more demand.** **The 2008 recession created a crisis blow to the nonprofit sector** due to the loss of capital to donors, foundations, and government funding. At the same time the loss of jobs and family issues surrounding the recession put more and more people in need of services. It was a perfect storm.

During the last decade both the nonprofit sector and the funding community were changing and becoming more sophisticated. New partnerships were developing, social media and new data was changing what we know about our social problems and how to connect with each other. International crisis and the instant media of crisis such as Katrina, the Tsunami in Japan, and the storms in Haiti all began to force a new paradigm of matching resources to needs. A new generation was also ready to look at the world very differently.

In 2010 Jim Brooks and Dick Haworth and other community leaders initiated ***The Model Community Initiative***. This initiative brought three sectors of leaders together to look at how working together could **cut government overlap, empower schools, and improve our community for everyone.** The three sectors they identified were:

Business, Government, Education and Non profits

After that event, local nonprofits (mostly human service agencies) realized it was time to define their own best future and come together in order to work in the new and redefined environment of 2012. In our initial discussions it became clear that, while nonprofits share the common element of being Tax Exempt, in many other ways there were great differences in the scope, size, funding, and focus of nonprofits.

"Many of these (925,000) nonprofits are very small.¹ In 2007, only about 37 percent of public charities met the IRS threshold for filing the annual Form 990 or 990EZ by having \$25,000 or more in gross receipts.

These organizations (under \$100,000 in revenues) are the sources of community support and social interaction—the stuff of civil society. They have modest resources but engage their communities in myriad activities. Many provide programs that forge the connections and trust that are the bedrocks of our civic culture.

Yet the smaller organizations include parent and teacher groups, sports teams and clubs, animal protection groups, scholarship funds, community service clubs, community arts groups, preschools and day cares, fairs and recreation groups, professional associations and business groups, and many more.”

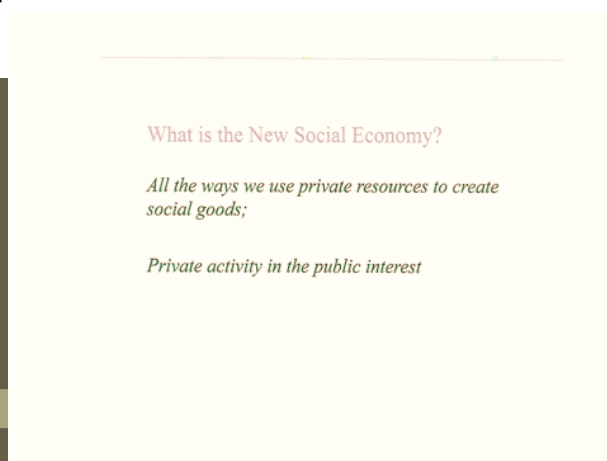
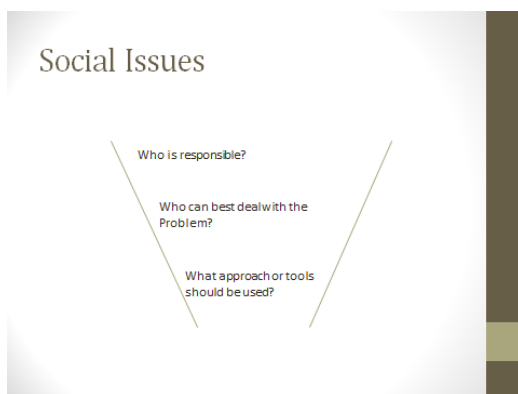
Boris and Roeger- Urban Institute

The lack of definition of nonprofits and the lack of a clear direction of the best future for this sector is what encouraged me to research this paper and learn more about the Social Economy. I just did not think we were looking at the problems broadly or strategically enough. Despite the size of what is called the nonprofit sector, there is a generally misunderstanding about the nature and scope of this part of our American life. There are serious questions about whether this term *nonprofit* may even be relevant or helpful anymore. First of all, there is little in common between the scope and size of nonprofits that range from Harvard Medical School, the Boys and Girls Club, to the Bill and Linda Gates Foundation. The only thing in common with nonprofits is often the tax exempt status or their designation as 501(c) 3 organizations by the IRS.

Another factor that drove me to write this paper was the fact that the Presidential election of 2012 avoided many debates about the social economy and many of the issues that need policy attention. Presidential debates about entitlements were about cost cutting not policy change. Poverty was only discussed in relation to employment, jobs and the middleclass. Discussions about the social economy were trumped by focusing on the government sector or business sector. There was a sense that if the job market heated up, all of our other problems would go away.

The Social Economy

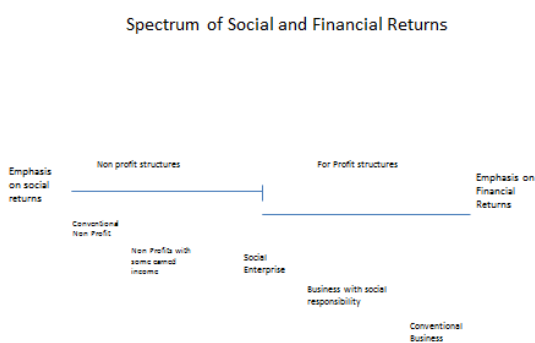
The concept of a civic sector called the social economy gives us a better way to look at the dynamics of how Americans convert private assets into efforts of public good. The movement from charity to organized philanthropy and from nonprofit organizational structures to social investing takes us on an interesting study of America’s civic philosophies and sense of social conscience.



Lucy Bernholz

The three sector approach to our economy looks at the social economy, which is traditionally the **non-profit sector** operating along two other sectors of the **Business or private sector** (the capital distributing sector), and the **government sector** (the power sharing and public governing arm).

The dynamics and relationships of these sectors are both driven by **complex public policy** and **economic decisions and forces**, but also define an important part **of American social policy**. We know the relationships of donors and nonprofits are changing. Crowdsourcing, big data, B corporations, the Givers (Warren Buffett) Club, giving circles, and the transfer of trillions of dollars of wealth to the next generation, all make **talking about the social economy more relevant than just talking “nonprofit” sector.**



One thing is for certain-- **Traditional nonprofit organizations and the traditional funding streams are in crisis. Government is pulling back, younger donors do not embrace the standards or methods of the former generation- and the demands are only increasing**

The nonprofit times, 10/15/2012, "United Way Fundraising Up, but trails inflation":

Seattle down 12.6 %, Cincinnati – down 7.1%, Los Angeles up 20%, Central Indiana down 11.5%,

In order **to meet civic goals** of dealing with the gaps in our society we need to investigate how to use the social economy in innovative and often totally new ways.

An example of the shift that is occurring is expressed in a New York Times article from December 11, 2012,

“The shift comes from a **new generation of philanthropists**, like Bill and Melinda Gates, Pierre and Pam Omidayar and Steve and Jean Case, hoping to stretch their dollars. As they see it, the pool of philanthropic assets, even at a whopping \$4 trillion plus, is too small to make a dent in ...social problems. So they are **trying to find ways to reuse existing financing and to attract new types of capital.** It’s not

just the language that is changing, said Anthony Bugg Levine, chief executive of the nonprofit fund, **The actual distinction between the two sectors, for-profit and nonprofit, is starting to collapse.**"

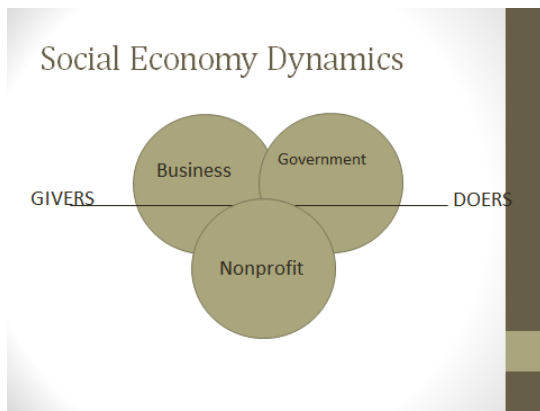
NYT Deal book Stephanie Storm, Dec 11, 2012

Compare this to Phil Buchanan's opinion article in The Chronicle of Philanthropy for September 16, 2012; titled **"Charities should resist Drinking the "Kool-Aid" of business superiority."**

"While some hybrid organizations that blend social and business goals may do tremendous good, the rush to embrace the idea that for-profits can more easily combat our toughest social problems denies the reality that **many crucial objectives simply cannot be accomplished while generating a financial return.** The laudable push for companies to commit energy to dealing with social problems while pursuing profit **should not obscure the need for strong independent nonprofits that focus on mission, not profit.** And while nonprofits can learn from companies and companies can learn from nonprofits, it is a mistake to erase boundaries or deny differences".

All of our opportunities for philanthropy and most of our tools to give have developed over a long and complex history of public opinion, public policy, natural and manmade events, and changing conceptions of how best to match societies resources with the unmet needs.

A new look at the "Doers" show many new options on the horizon about **how we as a society go about translating private resources into private goods.**



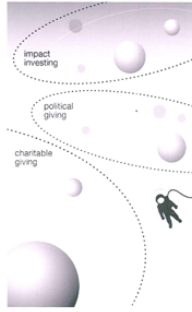
Lucy Bernholz

There are three major ways that the donors or givers can approach the social economy. These two groups define the current and new social economy.

Donors Choices

3 Components

- Charitable Giving
- Impact Investing
- Political Giving



The Data of Doers and Givers

But before we get too far into the relationships of doers and givers, let me give you a brief overview of the data around current doers and givers.

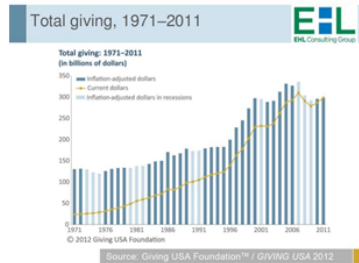
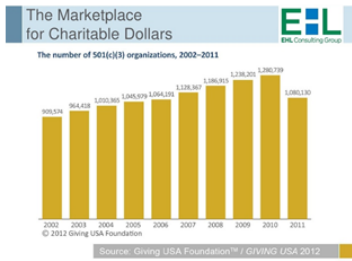
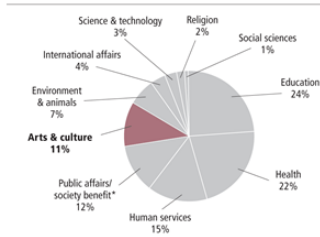


FIGURE 1. Percentage of grant dollars by major field of giving, 2010



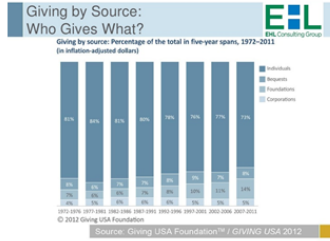
Source: The Foundation Center, 2012. Based on all grants of \$10,000 or more awarded by a sample of 1,330 larger foundations representing approximately half of total giving by all US foundations. Due to rounding, figures may not total 100 percent.

* Includes civil rights and social action, community improvement, philanthropy and volunteerism, and public affairs.

Then and Now: Giving in 2001 vs. 2011

	2001	2011
TOTAL	\$212 billion	\$298.42 billion
Individuals	\$160.72	\$217.79
	75.8%	73%
Foundations	\$25.90	\$41.67
	12.2%	14%
Bequests	\$16.33	\$24.41
	7.7%	8%
Corporations	\$9.05	\$14.55
	4.3%	5%

Source: Giving USA Foundation™ / GIVING USA 2012



Slide #8

Number of Nonprofit Organizations in Michigan, 1999 – 2009

	1999		2009		Pct. Change
	Number of Orgs.	Percent of All Orgs.	Number of Orgs.	Percent of All Orgs.	
All Nonprofit Organizations	40,062	100.0%	50,300	100.0%	25.6%
501(c)(3) Public Charities	19,534	48.8%	31,131	61.9%	59.4%
501(c)(3) Private Foundations	2,304	5.8%	3,371	6.7%	46.3%
Other 501(c) Nonprofit Organizations	18,224	45.5%	15,798	31.4%	-13.3%

Ottawa County

Public 501c3 charities				
	Number	990s	Revenue	Total Assets
Ottawa County, MI	852	526	749,279,340	1,306,356,399
Registered nonprofits				
Ottawa County, MI	285	230	47,922,517	79,253,776

Nccsdataweb

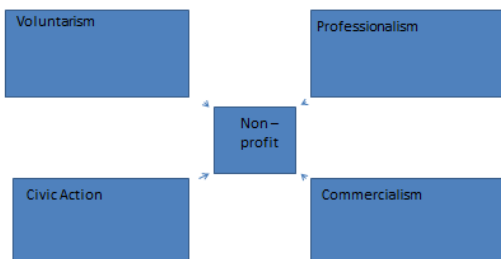
Revenue: Of the nonprofit revenue, 58% came from Healthcare, 21% education, 4% for civic support, 3% for culture and recreation, and 14% for social services.

The sector has \$25 trillion in assets, and the real growth of the sector has been 118% from 1985- 2008, while the real growth of our economy went up 67% in the same period.

Another surprising fact is that human service agencies is of modest size and absorbs only a small percentage of philanthropic and government spending. From 1977- 1996 employment in social service increased by 104% and revenues by 240%. During this period government spending on social service declined by 15%.

Non Profit Dynamics

Non Profit tensions



Salamon, “The State of Nonprofits in America”, page 4

Today there are mixed and often misunderstood dynamics within the nonprofit sector. This dynamic plays out with the donor who thinks all nonprofits should be voluntary (or closes) and a public that expects professional and reliable care or service. As more for profits compete for services and grants, the need for commercialization and professionalism also goes up. One might see, for instance Blue Cross Blue Shield of Michigan as an example of a commercial enterprise that is accused of giving up some of the civic action first entrusted to them. In fact, they are at the edge of converting from nonprofit tax exempt, to simply nonprofit. They are willing to leave the tax exemption behind in order to “compete” by giving up the favored nation (civic action) status. A great deal can be determined about an organization by looking at where they fit on this grid.

Challenges of Nonprofits

So today the typical nonprofit is struggling to deliver the services required. Lester Salamon lists five areas that put nonprofits in the line of fire:

Salamon, Page 22

Fiscal challenge: First in the mid- 1980s and again in the mid- 2000’s the economy slowed growth of capital in foundations. Endowments, grew absolutely, but slowed in relations to the economy and slowed donations in general. The government became an unreliable funder due to financial and political changes. At the same time costs skyrocketed and regulation expenses increased.

Competitive Challenge: The line between profit and not profit allowed nonprofit competition to take a bite out of the nonprofit funding stream. One only needs to look at the growth of new nonprofits to see the competitive changes. **For-profit Hospitals, clinics, schools, and even service delivery** changed the landscape and also competed for nonprofit “business”.

Effectiveness Challenge: The changing landscape left **funders looking for performance measures and outcome demonstration**. People who wanted professional and commercial outcomes from their donations wanted more information about the resource utilization. The challenges of nonprofits and the commercialization of services forced an **expectation of outcomes and finite goals**.

Technology Challenge: The investment and capital available to non- profits left them at a **significant disadvantage** in the rapidly changing technological age. **Donors and foundations expected the high tech outcomes without the willingness to invest in the infrastructure**.

Legitimacy challenge: as people become less involved in religion, social engagement, and as their own resources became challenged, **questions about outcomes and legitimacy rose**. There were also significant image problems due to **sexual abuse** (Boy Scouts, Sports, Catholic church, camps), **high paid executives, fraud,** and other missteps in the sector, etc., that made donors question the sector.

Human resource challenge: In the high tech age, and the age of innovations and entrepreneurship, **how do we attract the best people to the sector?**

Back ground of the Social Economy



Conflicts of Social and economic policy toward civic investment

De Tocqueville in his visits and writings from 19th Century America noted the unique and special way that Americans used civil society, associations, and philanthropy to reach for the good of our citizens. De Tocqueville also saw associations as a way for the wealthy elite to control and influence politics. The notion of a three sector society, however, was first coined during the Flier Commission in the 1960s, when Congress, under the prodding of John D Rockefeller Jr., felt the need to assess the relationship of Wealthy businessmen, government, and philanthropy. The three sectors of business, government, and nonprofits, have been in a continuous and ever changing dance that has changed through our history.

“Not until the end of the 19th Century, when rising taxes on real estate and other organizational assets and the imposition of inheritance taxes created financial incentives to adapt the not for profit corporate form, did the distinction between proprietary and non-proprietary firms emerge with any clarity.”

Hall, *Nonprofit Sector: a research handbook*, 2006

Significant events in our social history are all played out in approaches to the social economy. The need to deal with the slums and settlement of the immigrants in the large cities in the early years of industrialization, for reconstruction after the Civil War, the needs for relief and for the disabled veterans of the World Wars, up to natural disasters such as Katrina, and most recently Sandy, all have transformed the public and government approach and policies of philanthropy and social good. And the American The social economy is not just domestic. From Biafra, Honduras, to Haiti, to Japan, American philanthropy has set the stage for international aid and assistance. The social economy is also not just the giving of financial resources, Americans volunteer millions of hours domestically and abroad. I know that most of you in this room have contributed generously both financially and with your time.

But the social economy has also been a dance between the provider organizations who do the work and provide the services, and the funders- the donors and philanthropists who, not only give money, but also more and more determine the tune and the dance itself. There has been a tension played out between nonprofits, donors, large philanthropists and foundations and the government about who should determine public policy, what ideology should drive social change and when does “doing good” become influencing political or economic direction.

What began as an attempt to improve our community life with volunteers and marginally organized approaches to suffering and ignorance has become a uniquely American approach of applying wealth, political will, and professional training to intervention, education, and advocacy aimed at helping the marginalized, victimized, or disabled in our country. On the journey we also made impressive progress in Education, medicine, the arts, and countless other efforts to raise the spirit and conscience of the American people.

To understand the current role of the three sectors in our economy we need to take a brief historical tour of Philanthropy in America.

From the 16th Century through the 19th Century the growing role of the state, the diminishing role of the Church, expanding role of a new commercial class set the stage for questions about the role of charity as it was known. Then during reconstruction after the Civil War it was clear that the government could not

repair the South alone. Associations, businesses and local unions were called upon to come alongside to help the reconstruction, assist with Slaves and veterans who needed a new start. The role of charity went from a somewhat unorganized effort to a partnership between the government of the people and private parties who could spend money and time. No doubt the increase of immigrants to the American cities fueled the need on both the doer and donor side of philanthropy.

In the early 1900s an unprecedented amount of people became millionaires. Henry Ford and J.D Rockefeller were worth billions. These wealthy businessmen diverted enormous amounts of money to what they called the service of human progress. They were not satisfied handing money out to existing charities, they partnered with reformers to build a new vision of philanthropy. In the area of education alone we see the likes of Johns Hopkins, Ezra Cornell, Leland Stanford, and J.D. Rockefeller funding universities, research organizations, Libraries and vocational schools. These Philanthropists moved from short term charity, to long term solutions and a search for root causes.

Zunz, 2012

In the early years of 20th Century philanthropy it was the left over British concept of wills and inheritance and the suits of several heirs to fortunes that limited the growth and rise of the social economy. The laws limited the size and scope of gifts. For example, in New York, both the New York library and Cornell Library received gifts that exceeded the legal limits, and were prevented from accepting the posthumous donations.

We must also remember that in 1910, Standard Oil was broken up with anti-trust legislation. At that time government saw wealthy donors and businessmen as a threat to the separation of business and state affairs. As one politician stated: "Rockefeller's wealth is a menace to the welfare of society."

The emergence of "Scientific Philanthropy" in the late nineteenth century was driven by the new studies in psychology and sociology that encouraged the change of behavior and advised against allowing people to become dependent on society. It was better to prevent social problems than to try to alleviate them. This was the beginning of the belief in building capacity rather than just tackling problems. Andrew Carnegie and JD Rockefeller were instrumental in the adopting of this approach to philanthropy. They encouraged research into the problems, hired professional staff to manage sophisticated foundations, and tried to change laws to allow the foundations to work in perpetuity. This rise of Scientific Philanthropy also drove the beginnings of the profession of Social Work.

Payton, 2008, pg144

In 1913 Congress signed the 16th Amendment to the United States Constitution. This amendment established the national income tax that allowed the federal government the ability to tax individuals regardless of individual state's population and without states voice in the amount of tax.

One could make the case that this act created the platform of nonprofit organizations as we know them today. The code allowed for the exceptions to charitable, scientific, and education purposes. Our

current form of nonprofits was firmly cemented in 1953 with the IRS code 501c3 was created to shelter certain humanitarian and civic endeavors for the need to pay federal income taxes.

Creating tax exempt organizations was an important step in bringing America from a focus on poorhouses, individual alms to people in need, or the random religiously based charity that was present from the foundation of our country – to an approach to improving the human life and civic engagement through the application of scientifically based social concepts and data, governmental intervention, and the involvement of extremely wealthy industrialists to social ills and civic responsibility.

Along with this beginning of nonprofits and tax exemption is also the beginning of the point and counterpoint between the three sectors of our economy. One comment made by an historian is:

The emergent charitable tax exempt universe of the postwar era differed dramatically from its associational domain of prior years. In the past, when national foundations etc., sought to influence government, they did so as outsiders. In the postwar decades, associations and foundations, now enjoying the benefits of charitable tax exempt status, increasingly became- if not extensions of government itself- an intrinsic part of the organizational field of public governance.

Many of the foundations that I think of today as supporters of the arts, public television, libraries, scholarships, leaders of research, etc., were at one time under tense battles with certain factions of congress and by sub sets of the public itself, as too powerful and too ideological. Might this be a precursor to the Big Bird- Public Television thinking?

By the turn of the century almost all Americans believed in the progressive ideal – the belief that the defects of the social, economic, political institutions could be remedied by the applications of scientific principles. Between the wars “all major social actors strove to find ways of balancing the possibilities of free economic enterprise which was seen as the ultimate source of innovations and prosperity- against shared beliefs in democratic governance and economic justice”

This time was when Frederick Taylor applied scientific management into society and the age of “Fordism” where the corporation first was seen as a social enterprise. While Ford himself sneered at philanthropy- we must remember his stockholders sued him for using corporate money to improve the life of his workers. In Dodge vs. Ford in 1919, the ruling stated: A business corporation is organized and carried on primarily for the profit of the shareholders”. This debate is still a major dynamic in the social and political economies today.

Hall, pg. 48

During World War I the nation faced new demands and sought new solutions to social problems cause by the war. Herbert Hoover, first as Commerce secretary and later as president used his position to encourage “associationism” as a way to address special needs and was careful to deem nonprofits as a “collateral” arm of government. The Tennessee Valley Authority was an example of using private, non-profit and government to tackle a large and overwhelming need. Hoover compounded policy with polity. Hoover’s ideology and policies helped foster the movement that formed Rotary, Lions Club, Boy

Scouts, American Legion, and community chests. These associations began community foundations, city planning, education efforts and the need to address leisure and recreation. Hoover ushered in the beginning of Mass Philanthropy, where more than the super wealthy are responsible for pitching in.

With the advent of World War II and the new deal, Roosevelt formalized the cooperative relationship of Business, Government, and nonprofits. Roosevelt led the fight against T.B... He stated “the weak and spasmodic efforts of charity are not effective to respond to the scourge of T.B. The once elite approach now became a mass effort with the introduction of the Christmas and Easter Seal door to door campaigns, Tuberculosis Sundays, and Jewish Charity involvement. The Government also took on wholesale assumption of supporting Old age benefits, unemployment, disability services and dozens of other “causes”. Roosevelt’s main boost to the social economy, however, was to boost the tax preferences in the form of corporate charitable deductions which translated into business support of nonprofits and various new social efforts. FDRs head of the Federal Emergency Relief Administration stated: Public funds should be administered by public agencies,”

“While the depression underscored the limited capacity of government, new Deal Policies affirmed the importance of the social economy of private philanthropy. The best example of this is the WPA.

The advent of universal taxation in 1943 drove innovations and spending of the private sector like never before. Following this were Federal programs like Hill Burton (Hospitals) NIH, GI Bill. The changes in inheritance Tax led to the creation of the Ford Foundation. In 1936 Michigan Senator Arthur Vandenberg stated: “Under this tax the money will be driven into the hands of Wall Street.”

In 1950, public philanthropy accounted for 9% of the 482 billion GDP.

A major boost to the number and scope of nonprofits took place with the programs of the Johnson “Great Society”. The Economic Opportunity Act of 1964 allowed the government and private organizations to work together to provide a vast array of services- especially in the urban and very rural areas of America. In 2012, the effects of the Great Society funding were still winding down.

The influx of the new social economy played out on a whole separate stage regarding Civil Rights from 1940 – 1964. As the nonprofits sectors receive direct and indirect support from the government they took more and more of a role in advocacy and policy making. This dynamic created a whole new policy war about the role of philanthropy, political philosophy, morality and the role of different factions of civic life. This conflict continued even into the debate of the 2012 elections.

In the 1960s the conservatives in congress, under the banner of Barry Goldwater used the avenue of non- profits and foundations to push their causes, and decided to use the methods formerly favored only by progressives. The Goldwater strategy initiated the beginning of conservative advocacy, the Heritage Foundation to promote conservative values, and other tax exempt organizations to counter what the conservative movement saw as the liberal control of the social economy sector. The political

battle now became a battlefield for both the Republican and Democratic parties. With both parties now using nonprofits as political tools, the growth of nonprofits was free to soar.

Ronald Reagan, in his 1980 bid for president, offered major cutbacks in nonprofit funding, and believed these cuts would encourage private donors and community groups to begin grass roots efforts to change society. The benefits and detriments of Reagan policies are still a debate with nonprofit groups, but the Reagan policies unquestionably began the language of entrepreneurship and partnerships in the social economy. During this period program money and subsidies shifted to clients not to the organizations. This means a more commercial and professional role for the whole nonprofit field. Many for profit organizations began to move into the “social economy” beginning to blur the distinction of the three sectors even more. This was also a time when nonprofits not only served marginal citizens, but also provided services from health care to marriage counseling for clients who were able and willing to pay for the service.

The Republican revolution under George Bush further argued that ‘the volunteer sector, especially the faith based organizations could solve many social problems with a “1000 points of light”. The dismantling of the nonprofit sector was in the wind.

As I mentioned, the 2012 election did not talk much about the economic sector. Obama tried to distance himself from the community organizing he did after graduating from Law school. Romney talked about how much he donated, but never talked specifically about his social economy policy. It was clear that this campaign was about the business sector and the government sector and their ability to address the civic challenges. It was almost like the social economic sector was off limits and very dangerous for the mainstream American to debate.

The political and social policy history of American has been a constant tension about questions of who is responsible for creating, solving, or assisting with our community problems. From government handling the issue itself, to government providing resources to other agencies, there is no doubt tax policy and political decisions empowered and built a powerful nonprofit sector. The conservative administrations looked at private funds to address many social issues; the liberal agenda saw the responsibility of government being up front and central.

The future of the Social Economy

So what is going to happen into the future and what are the trends that are going to determine our civic progress and social economy.

The large multiservice organizations will do better. They have the flexibility and discretionary funding. They have connected Board members, strong connection to political actors, and close links to lobbyist

etc. The more typical small focused nonprofits are at risk. They are often undercapitalized, politically weak, and provide niche services.

The smaller agencies, which in many ways are the seen as the backbone of nonprofits could struggle. There are several themes that describe the future debate about the social economy.

I want to look at some the trends that might occur in the next few years in the social economy and then refer to some primary source material to give illustrations of what is happening as we speak.

Lucy Bernholz, a professor at Stanford and researcher on the Social economy looks at several trends that are driving our social economy. The rise of corporate social responsibility, the creation of impact investing, networks of activists and the rise of social enterprise. The informal networks of people who get together are increasing viable options for doers and donors. The groups work without Boards or hired staff, and they often fund their efforts from within the group. Artist network SOUP in Detroit, and FEAST in Brooklyn or Crisis Commons and international list of 2,000 volunteers who create software for disaster response efforts.

The future

1. There is a movement to rethink nonprofits
2. Policy and legislative changes will change non profits.
3. Collective Impact
4. Data and information will become extremely important for givers and doers.
5. Private and public initiatives will blend
6. Nonprofit and for profit will merge in Social enterprise and social entrepreneurship.

The Future

1. Increase in philanthrocapitalism could change social economy as we know it
 1. Social impact bonds
 2. Program related investments PRIs
 3. Shape sifting
 4. B Corporations
 5. L3B Corporations
(will they address the important social issues?)
2. The giving club will influence philanthropy
3. Changes in corporate responsibility and responses to social issues
4. New social networks and social fundraising.

How did we get here?

<i>Technological change</i>	<i>Market innovation</i>
<i>Information on demand</i>	<i>Social Enterprise</i>
<i>Crowd participation</i>	<i>Social Finance</i>
<i>Mobile organizing</i>	<i>Impact investing</i>
<i>Big data</i>	<i>Venture Philanthropy</i>
<i>Measurement Demands</i>	
<i>Public Funding Declines</i>	
<i>Policy Changes</i>	

Donor changes

Old Patterns and Habits	Seeds of Change
Giving primarily late in life	Giving throughout life
Foundations as the key institutional form	Foundations as one form among many
Social benefit equals the nonprofit sector	Social benefit can come from any sector
Philanthropy corrects for the market, because the market is part of the problem	Philanthropy connects to the market, because the market is part of the solution
Older, white, male leadership	Diversifying leadership
Donors focus on communities where they live or have a connection	Donors focus both close to home and on systemic global problems with equal ease
Donors fund great strategies brought to them by nonprofits	Donors have great strategies and fund great strategies
Donors set general goals	Donors set specific targets
Donors make gifts	Donors make investments, award contracts, and make gifts
Money is the resource, grants the tool	Influence is the resource, money is one tool
Donors keep grantees at arm's length	Donors highly engaged with partners
Donors give independently	Donors give independently and give together
Donors content to do good	Donors try to assess impact
Donors learn from their own work	Donors learn from their work and share

Outline for the future:

1. There is a movement to rethink nonprofits in general
2. A series of policy and legislative changes will change non profits
 - a. Charitable tax reform
 - b. New definition of role of government
3. Collective Impact
4. Data and information will become extremely important for givers and doers.
5. Private and public initiatives will blend
6. Nonprofit and for profit will merge in Social enterprise and social entrepreneurship
 - a. Shape sifting
 - b. B Corporations
 - c. L3B Corporations
7. The giving club will influence philanthropy
 - a. Mark Zuckerberg gives \$500 to silicon valley community foundation
 - b. Gates, Buffett
8. After Citizens united, Political giving could divert funds from nonprofits
9. Rise of philanthrocapitalism
 - a. Social impact bonds
 - b. Program related investments PRIs
10. Changes in corporate responsibility and responses to social issues
11. New social networks.
 - a. Crowdsourcing., i.e. Carrot mob
 - b. Giving circles
12. International Philanthropy

Examples of the changes in Philanthropy from Primary sources. My presentation took short passages from this material to illustrate the concept.

1. A series of policy and legislative changes will change non profits

Charitable tax reform. This congress could dramatically change or eliminate charitable deductions, **The Chronicle of Philanthropy**, Dec 3, 2012 “Charities would lose \$10 billion under tax cap. Taxpayers who itemize will hit the cap before donations.”

2. There is a movement to rethink nonprofits in general

Proctor: Time to rethink what makes nonprofits successful: April 20, 2012. “Here are the first signs that the theory of the nonprofit business no longer works. The government has turned out to be an unreliable customer. It abruptly cancels contracts. It pays late. It continually holds payments down even while costs increase. Even the assumption that philanthropy is ready to fill the gap turns out never to have been a reality. Philanthropy had expanded in dollar terms as the number of nonprofits surged, but philanthropy in its best years managed to rise to just about 23 percent of nonprofit revenues.”

MiBiz: “ Nonprofits brace for additional changes to charitable deductions” (December 10, 2012) the elimination or cap on charitable deductions. We’ve asked community foundations about their giving, and they have found a very deep drop off of givers at the \$200 - \$400 level.

The foundation Center January newsletter showed that 49% of family foundation had less than \$50,000 in giving in 2009, but still gave \$20.3 billion in 2009.

3. Collective Impact

The idea of Collective Impact (CI) made waves when the Stanford Social Innovation Review published the article "Collective Impact" in its Winter 2011 edition. It was then followed up with a more in depth article, "Channeling Change: Making Collective Impact Work," in 2012. In the first article, the authors suggest that the social sector, funders in particular, need to shift their focus from one of isolated impact to that of collaborative impact. In order for CI to be successful, the following five conditions must be present:

Collaborating organizations must create a common agenda.

These organizations must also share a measurement system that tracks indicators of success.

Stakeholders must work together in mutually reinforcing activities.

They must also engage in continuous communication.

There must be a backbone support organization that coordinates, supports, and facilitates the collective process.

Article Source: <http://EzineArticles.com/7420565>

4. Data and information will become extremely important for givers and doers.

New York Times: December 6, 2012 Opinionator: “Putting Charities to the test.”

How do you decide where to give? People want to give where their money will be used effectively of course. For many this means researching on Charity Navigator or the BBB web site to see which charities are well run and take only a small percentage of donations for administration or fundraising,. Overhead does matter. But it is dwarfed by a different question:

Is this group's work effective? Most individual donors lack the resources or training to determine which charities meet these requirements.

Givewell was started by a couple of hedge fund master of the universe who wanted to apply their skills in quantitative analysis to figure out how best to give their money away. Abdul Latif Jameel Poverty Action lab at MIT, and Innovations I Poverty Action founded by Yale professor Dean Karlan.

5. Private and public initiatives will blend

Wall Street Journal, November 9, 2009: "Traditionally, when it comes to philanthropy, there has been private philanthropy, and there has been government philanthropy, and rarely did the two meet.

But that division is now changing, as a growing number of philanthropists are looking at new opportunities in so-called public-private partnerships.

Take global financier [George Soros](#). In August, his Open Society Institute and Soros Foundations Network gave \$35 million to New York State to help fund a cash payment to poor families with school-age children. Qualifying families in New York got \$200 each after Mr. Soros's gift enabled Albany to receive \$140 million in matching federal funds, part of the federal stimulus bill, which otherwise wouldn't have been available.

"Government and philanthropists have been on parallel tracks for decades trying to solve bigger problems, and now the tracks are coming together," says Eric Kessler, founder of Arabella Philanthropic Investment Advisors in Washington, D.C. Mr. Kessler says he is working with a number of wealthy families and foundations on establishing public-private partnerships."

6. Nonprofit and for profit will merge in Social enterprise and social entrepreneurship

- a. Shape sifting
- b. B Corporations

Corporate responsibility newswire: B lab Announces UBS AG as a GIIRS Pioneer Investor

B Lab is a US-based nonprofit dedicated to building a new sector of the economy that uses the power of business to solve social and environmental problems. In pursuit of this vision, B Lab focuses on (i) developing GIIRS Ratings & Analytics, a global impact ratings system and analytics platform that drives private investment capital to high impact for-profit social enterprises, (ii) establishing

social and environmental performance standards for certifying B Corporations, and (iii) promoting a new corporate form for profit-based companies providing a public benefit. For more information, visit www.giirs.org, www.bcorporation.net, and www.benefitcorp.net.

Bcorporation.net: “Today there is a growing community of more than 600 Certified B corps from 15 countries and 60 industries working together toward one unifying goal: to redefine success in business.

Cascade Engineering is pleased to join the growing number of Certified B Corporations who are finding collective strength and voice through the power and credibility of the ‘B Corp.’ brand. At Cascade the **B Corporations** philosophy is not new, it's what we have been all along - passionate advocates for the positive **impact business can make** economically, socially and environmentally.

Cascade Engineering is looking forward to interacting with and learning about other Certified B Corporations and their best practices. This will help Cascade enhance its systems, processes and practices and hopefully share ideas and learn from other Certified B Corporation.”

c. L3B Corporations

The L3C: A More Creative Capitalism

By Jim Witkin | January 15th, 2009

“The formation of the L3C corporation: Unlike a LLC, **the L#C is explicitly formed to further a socially beneficial mission.** The L3Cs operating agreement specifically outlines its PRI purpose. 2009 was the test year for the LC3 with the IRS. The L3C is able to form flexible partnerships where ownership rights can be tailored to meet the requirements of each partner. The foundations **membership stake provides very low rate of return** and can be subordinate to other investors. The L3C can either make grants or fund program related investments.”

7. The giving club and very large donors will influence philanthropy

Wall Street Journal, 9/18/.12. “More Billionaires sign on to giving Money away.” PND Philanthropy News Digest. “We have said from the beginning that this is a long term effort, so it’s exciting to see continued progress of the last two years, Bill gates said, co-chair of the Bill and Linda Gates Foundation. This new group brings extensive business and philanthropic experience that will enrich the conversation about how to make philanthropy as impactful as possible. Their thoughtfulness and deep commitment to philanthropy are an inspiration to me and I’m sure to many others as well.”

d. Mark Zuckerberg gives \$500 to silicon valley community foundation

8. After Citizens united, Political giving could divert funds from nonprofits

Political Contributions

One of the most disturbing trends, a trend that takes money out of the pocket of many nonprofit organizations is the rapid increase in the amount of political spending that donors are contributing to campaigns. As of October 17, 2012 the campaigns for the Congress and the presidency was tracking at almost 2 billion. This is technically nonprofit spending. The Sunlight Foundation estimates that \$186 million of the 450 million in outside investing was made possible by Citizens United. Lucy Bernholz

9. Rise of philanthrocapitalism

The Economist, Feb 23, 2006: "The birth of Philanthrocapitalism"

"First there must be something to you philanthropists to invest in something that ideally will be created by social entrepreneurs. Second the market requires and infrastructure. Third philanthropists must act more like investors.

Should the new generation of philanthropist try something different for the traditional foundation? eBay's Mr. Omidyar thinks so. He has folded his Foundation into Omidyar Network, which is free to make for profit investments as well as philanthropic donations to pursue its mission of "individual self-empowerment. After a few years of trying to be a traditional philanthropist, I asked myself, if you are doing well; trying to make the world a better place, why limit yourself to nonprofit? Similarly, the Google Foundation can mix for profit and nonprofit investments (this is a corporate philanthropy unlike EBAYs

Networks too are an increasingly popular way of leveraging money and experience. Peggy Rockefeller Delany's global philanthropists circle brings together about 50 super rich families from 20 countries to exchange ideas and experiences, mainly with a view of finding solutions to international poverty and inequality. Often this will involve the use of connections and influence as well as money.

The Economist, The rise of the social entrepreneur:: in his book, How to change the world: social entrepreneurs and the power of new ideas, David Bernstein notes that most discussions of social entrepreneurs revolve around how business and management skills can be applied to achieve social ends. Certainly the number of business school graduates going into the nonprofit sector has increased. That appeals to the new philanthropists, who want to see people like themselves in charge of the non-profit organizations they support..."

- a. Social impact bonds

Impact investing

The Vermont Community Foundation has more than a decade of experience in impact investing. The Foundation states in their recent [newsletter](#) that they "believe these investments advance our mission, yield a reasonable return, and strengthen our communities."

The Foundation's impact investment portfolio, which has been focused on housing and jobs, expanded recently. Debbie Rooney of the foundation quotes, "we now see an opportunity to complement our philanthropic initiative around Vermont's food and farms by refocusing some of our impact investment dollars in ways that support the state's [working landscapes](#)."

As part of their refocus, the Foundation created the [Evergreen Fund](#), which supports equity and loans in Vermont's working landscape, food, and energy sustainability, available to their donors since 2010. Funders can make a grant to the fund, where the invested dollars are redeployed when returned.

b. Program related investments PRIs

www.missioninvestors.org May 15, 2012

"Council on Foundation's Jeff Clarke discusses Mission Investors Exchange launch

Long-time mission investing and PRI Makers Network leader Jeff Clarke, who serves as interim CEO of the Council on Foundations, wrote about Mission Investors Exchange's integration of More for Mission and PRI Makers Network, in a column last week. He contends the creation of Mission Investors Exchange is important to the field for at least four reasons, excerpted here:

"First, it's recognition by two leading voices in philanthropy that the conversation about mission investing has quickly evolved, largely because of their individual efforts and those of such peers as the Global Impact Investing Network (GIIN). The distinction between program and mission-related investing is now essentially meaningless."

"Second, creation of Mission Investors Exchange offers a compelling story of collaboration in service to the field to advance the use of financial investments as tools for achieving social change [r]rather than growing new, stand-alone philanthropic infrastructure."

"Third, interest among funders and a range of other important players are, for many reasons, expected to accelerate significantly. Policymakers, whether within the executive or legislative branches, are signaling their commitment to become partners."

"Finally, though the Council traditionally has been absent from conversations about 'investing,' it is entirely committed to 'impact.' Impact investing, which includes mission investing, is a conversation in which the Council intends to participate fully in concert with established voices."

10. Changes in corporate responsibility and responses to social issues

11. New social networks.

a. Crowdsourcing., i.e. Carrot mob

Carrot Mob

About Carrotmob

In a boycott, everyone loses.

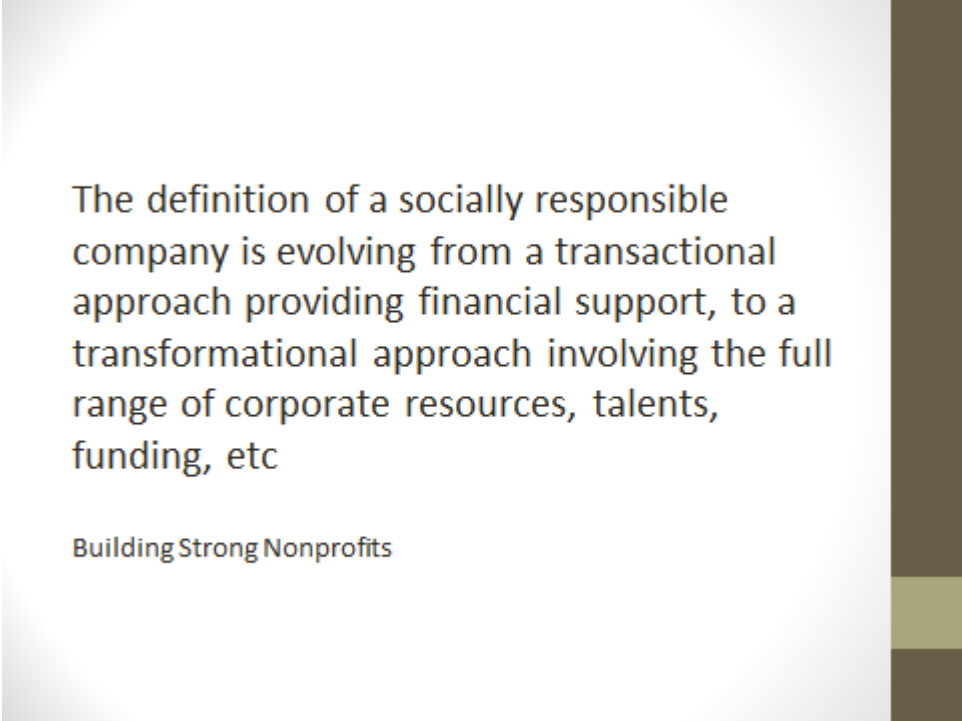
In a Carrotmob, everyone wins.

In a Carrotmob campaign, a group of people offers to spend their money to support a business, and in return the business agrees to make an improvement that the people care about. We are called Carrotmob because we use the "carrot" instead of the "stick." Traditionally, people who wanted to influence businesses would threaten or attack them. We believe people can have more influence on businesses by giving them a positive incentive to change: our money.

People want to "vote with their money" to advance their values and improve the world from New York to Paris to Bangkok. We're building a website to make voting with your money easier, more effective, and more fun! Carrotmob organizers around the world have already created a growing movement. [Join the mob!](#)



- b.
- c. Giving circles
- 12. **International Philanthropy** –for another paper



The definition of a socially responsible company is evolving from a transactional approach providing financial support, to a transformational approach involving the full range of corporate resources, talents, funding, etc

Building Strong Nonprofits

Conclusions: Highlights from Lucy Bernholz' Blueprint 2013, released January 7, 2013

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Appendix A

Quick Facts About Nonprofits

For the latest figures and quick facts please refer to [THE NONPROFIT SECTOR IN BRIEF](#).

Nonprofit Organizations

- **1,561,780 tax-exempt organizations**, including:
 - - 966,711 public charities
 - 98,671 private foundations
 - 496,398 other types of nonprofit organizations, including chambers of commerce, fraternal organizations and civic leagues.

(Source: NCCS [Business Master File](#) 08/2012)

- In 2010, nonprofits accounted for **9.2% of all wages and salaries** paid in the United States. (Source: *The Nonprofit Almanac, 2012*)
- Nonprofit Share of **GDP was 5.5%** in 2010. (Source: *The Nonprofit Almanac, 2012*)
- There are an estimated **320,749 congregations** in the United States in 2012. (Source: [American Church Lists](#))

Public Charity Finances

- In 2010, public charities reported over **\$1.51 trillion in total revenues** and **\$1.45 trillion in total expenses**. Of the revenue:
 - - 22% came from contributions, gifts and government grants.
 - 73% came from program service revenues, which include government fees and contracts.
 - 5% came from "other" sources including dues, rental income, special event income, and gains or losses from goods sold.

(Source: [NCCS Core Files](#) 2010)

- Public charities reported **\$2.71 trillion in total assets** in 2010. (Source: [NCCS Core Files](#) 2010)

Volunteering and Charitable Giving

- Approximately **26.3% of Americans** over the age of 16 volunteered through or for an organization between September 2009 and September 2010. This proportion has remained relatively constant since 2003 after a slight increase from 27.4% to 28.8% in 2003. (Source: [Current Population Survey](#), September 2010)

- **Charitable contributions by individuals, foundations, bequests, and corporations reached \$298.42 billion** in 2011, an increase of 0.9% from the revised 2010 estimates and after adjusting for inflation. Of these charitable contributions:
 -
 - Religious organizations received the largest share, with 32% of total estimated contributions.
 - Educational institutions received the second largest percentage, with 13% of total estimated contributions.
 - Human service organizations accounted for 12% of total estimated contributions in 2010, the third largest share.

(Source: [Giving USA](#) 2012)

- **Individuals gave \$217.79 billion** in 2011, about the same as in 2010.
(Source: [Giving USA](#) 2012)

Foundation Giving

- **Foundations gave \$46.9 billion** in 2011, up 2.2 percent from 2010.
(Source: [The Foundation Center](#), 2012)
- Of total foundation giving in 2010:
 -
 - 71% came from independent foundations
 - 9% came from community foundations
 - 11% came from corporate foundations
 - 9% came from operating foundations.

(Source: [The Foundation Center](#), 2012)