"OIL AND WATER OR THE PERFECT MARGARITA?" WHERE IS THE "SOCIAL" IN "THE SOCIAL ECONOMY?"

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ABSTRACT "Philanthrocapitalism" – the belief that business thinking can strengthen philanthropy and the not-for-profit sector – is the latest buzzword among donors, journalists and politicians, but has its impact been overrated? Does mixing for-profit with not-for-profit values and approaches produce the "perfect margarita" of "creative capitalism" or pour "oil on water" in ways that pollute civil society and reduce its transformative potential? This article examines these questions and concludes that there are serious risks involved in injecting market ideology into voluntary citizen action.

RÉSUMÉ «Philanthro-capitalisme» – la croyance que penser comme un homme ou femme d'affaires peut contribuer à la philanthropie et au secteur à but non lucratif – est le dernier mot à la mode parmi les donateurs, journalistes et politiciens, mais est-ce que l'on surestime cette approche? Est-ce que le mélange de valeurs commerciales et non commerciales produit une Margarita parfaite – une instance de capitalisme créatif – ou jette-t-il de l'huile sur le feu de manière à dégrader la société civile et réduire son potentiel transformateur? Cet article examine ces questions et conclut qu'imposer une idéologie de marché sur une action citoyenne volontaire comporte de sérieux risques.

KEYWORDS Philanthrocapitalism; Market ideology; Voluntary citizen action; Not-for-profit values

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THE FIRST THING I WANT TO DO IS TO GET SOMETHING OFF MY CHEST ABOUT MY new radiant heating system, which was designed and installed by a plumber who is also a friend, a neighbor of mine in Swan Lake, the small town where I live with my wife in upstate New York. My wife and I thought that by employing a neighbour who was also a professional contractor we would get the best of both worlds – guaranteed quality at a lower price – ignoring the admonition never to do business with one's friends. In reality we got the reverse – a heating system with forty percent less radiant tubing than the minimum required but, because of our feelings toward our friend and his family, we didn't feel able to cut him loose, ending up in a messy dispute that couldn't be satisfactorily settled either through the disciplines of the market or the solidarity of social bonds.

Why am I telling this story? Because I want to emphasize the fact that mixing the different rationalities of friendship and the market; re-combining the logics of exit, voice, and loyalty, as Albert Hirschman put it many years ago; financing social change activities through commercial revenue-generation; and injecting business thinking into philanthropy and the not-for-profit sector – which are all variants of the same process and philosophy – carry risks as well as opportunities, costs as well as benefits.

Understanding , analyzing, publicizing, and debating these costs and risks to a far greater degree than is visible at present is, I think, the key to moving the social economy conversation forward successfully, rather than becoming lost in the hype, exaggeration, and self-serving ideology that colours much talk about these issues today, at least outside the university. Hence the title of my talk, which comes from a pamphlet I published last year called "Just another Emperor?" By mixing these different rationalities together, are we producing the "perfect margarita" of "creative capitalism" or pouring "oil on water" in ways that pollute civil society and reduce its transformative potential? That's the question, and unless we are clear on the answer, we may find ourselves facilitating the rise of the economic society rather than the social economy. The consequences of that would, I think, be profound, in terms of a society driven by finance and defined by economics instead of an economy transformed – or at least held accountable – by social or civil society values and priorities.

Turning to the other part of my title, at least part of the answer to this question lies in being clearer and more rigorous about the meaning of the "social" in the phrase "social economy." Does it refer to a part of society – disadvantaged or lower-income social groups – identified as targets for individual access- and asset-building strategies? Or to the social structures, power relations, and strategies for collective action and political mobilization that historically have underpinned large-scale social progress for these groups in both industrialized and developing societies? Or does it refer to some new combination of the two, and, if so, can we really "have our cake and eat it?"

All of us are here today, I would guess, because we are convinced that new pathways to social progress can be found in creative encounters between civil society, government, and the market, and because we think this could and should be a genuinely emancipatory project. I share that view, but I also worry that this agenda is being overly-influenced by powerful interest groups in ways that divert attention away from the deeper changes that are required to transform society, screen out difficult but vital questions for research and policy-making, reduce decision-making to an inappropriate bottom line, and lead us to ignore the costs and trade-offs involved in extending market mechanisms into the social world. And if I am right, I think this represents a call to action for the academic community just as much as to practitioners, funders, and the media.

But am I right? Many commentators think not and see the rise of "philanthrocapitalism," as Mathew Bishop of The Economist calls it, as a tremendously positive phenomenon. Bishop applies this label to at least three developments that he sees as inter-connected: the new generation of mega-rich, business-savvy, and celebrity philanthropists like Bill Gates and Jeffrey Skoll; the use of the market to pursue social goals through social enterprise, social entrepreneurs, and corporate social responsibility; and the application of business thinking to strengthen nonprofit organizations and foundations, which he sees as sloppy and wasteful under-performers.

Lumping these different things together may obscure more than it reveals, but the philanthrocapitalists are not shy about their claims, declaring their intention in books, blogs, and speeches to be "changing" or "saving the world." As Oracle founder Larry Ellison puts it, "the profit motive could be the best tool for solving the world's problems," a confidence echoed by many others, and one that does not seem to have been dented by a worldwide financial crisis that has shown many businesses to be incapable of fixing themselves, never mind fixing anyone else.

I first became worried about philanthrocapitalism while sitting at my desk at the Ford Foundation in 2007, receiving phone call after phone call, e-mail after e-mail, that extolled the virtues of business thinking for the nonprofit sector and the superiority of market mechanisms for social change, sang the praises of a new and more dynamic generation of social entrepreneurs and venture philanthropists, and – at least by omission – underplayed the good if imperfect things that foundations and civil society groups, cooperatives, and community economic development associations had been doing for many years, with lots of quiet successes and some spectacular ones, like the achievement of civil rights and the rise of environmentalism.

Neither was I persuaded by claims that these new actors and approaches were actually achieving better results, at least in social terms, though they were clearly increasing access among lower-income groups to goods, services, jobs, and other assets that create social and environmental value at a price point that is affordable to the poor and still makes a profit – think of micro-credit loans, "Bottom-of-the-Pyramid" interventions, solar-rechargeable light-bulbs, low-cost laptops, new vaccines against malaria, workforce training programs, Hollywood films with a positive message, and so on. These are important experiments, but the evidence shows that few are truly self-sustaining, failure rates are high, and trade-offs between social and financial goals are well nigh universal. For example, a recent survey of 25 joint ventures in the United States by SEEDCO showed that 22 "had significant conflicts between mission and the demands of corporate stakeholders," and that the two examples that were most successful in financial terms deviated most from their social mission – reducing time and resources spent on advocacy, weeding out clients who were more difficult to serve, and focusing on activities with the greatest revenue generating potential – which is not a surprising conclusion to anyone who has worked in a nonprofit that is encouraged to play by for-profit rules.

So, while it is perfectly possible to use the market to extend access to useful goods and services, by itself this rarely leads to social transformation. The reason is pretty obvious: transformation – systemic changes – involves social movements, politics, and government, which these experiments generally ignore.

Much of this movement isn't even new, particularly in the world of international development where I've been working for the last 25 years. While at the World Bank in the late-1990s, I had been through the "social capital experience," as some of us called it, another attempt to reduce the complexity and contestation of social phenomena to economic valuations so that donors could invest in something new and shiny, and measure the short-term returns in a way that satisfied their paymasters or constituents. In fact I was digging out some old World Bank papers for another project recently and came across a couple of internal memos written by the excellent David Ellerman, who at that time worked as an adviser to the Chief Economist, Joseph Stiglitz. I thought they were just right for the argument I want to make so I'm going to quote them at some length.

> "This section of my comments (on the World Development Report)," writes David, "relates… to its use of the language of 'social capital' and 'social assets'– a discourse that I find yields little insight into the relevant problems, serves as a trendy cover for much pedestrian thinking, and diverts intellectual attention away from more promising approaches."

You can see why he got on with Stiglitz and why both of them, like me, didn't last long at the Bank! He continues:

> In recent years, political scientists, sociologists, organizational theorists, and anthropologists have been tempted to 'economize' their discussion of social structures so that economists will be able to partially understand what they are getting at and will thus be more willing to 'play ball' with these other social scientists. This asset-talk is misleading in the context of pro-poor strategies due to one fundamental fact. The strength of the poor lies not in their assets but in their numbers, and that strength is made effective through the democratic political process and through representative pro-poor associations.

Here's another salvo on the Bank's proposed "Social Protection Sector Strategy":

> "I find this document to be rather strange both in what it considers and in what it leaves out. One thing it leaves out is any social organization of the poor or of working people; there is only the state on the one hand and the individual or family portfolio management of market-based assets on the other. Any reference to intermediary organizations of the poor themselves or their social allies is either perfunctory, parenthetical, or absent. This is a world with no rural cooperatives, no self-help associations, no tenant unions, no land-rights organizations, no adult education associations, no labor unions, no welfare rights

> organizations, no peasant associations, no consumer co-ops, no faith-based groups, no parent-teacher associations, no poor-oriented political parties, no civil rights organizations, no credit unions, no Alinsky-style community organizations, no choral societies, and even no bowling leagues,"

a reference to Robert Putnam's thesis which had just been published at the time.

As I delved into the phenomenon of philanthrocapitalism, I heard many echoes of these thoughts: social activists are replaced by social entrepreneurs; collective action is replaced by household asset-building; politics are replaced by technocracy; mutuality is replaced by individualism; co-operation is replaced by competition in "social capital markets"; negotiated measures are replaced by standardized "social returns on investment"; citizens and their rights make way for customers, clients, or consumers; economic and political empowerment is defined as having more choice between suppliers; and the pressure to scale-up quickly in order to lower unit costs begins to dominate the slow, careful, and messy work of grassroots development and civic engagement.

Such ideas are not inherently wrong, but they are certainly inaccurate as generalizations about the social economy and how best to support it, and are perhaps only applicable to particular groups doing particular things, a point I'll return to in a moment. Has anyone actually considered, still less evaluated, the impact of these changes on the health and performance of the complex ecosystems of organizations, values, and relationships that make up civil society in and across different contexts? If not (and I'm pretty sure the answer is "no"), shouldn't we be more sanguine about going even farther and faster down this road?

We don't have conclusive evidence of the damage they might create, but we do see some worrying signs, at least in the United States where I am most familiar with the evidence. They include year-on-year declines in volunteering (excluding government-induced schemes) and the general dilution of "other-directed" behaviour; increased inequality within civil society between established groups doing things that large investors like and others doing things that are unpopular; widening gaps between nonprofit intermediaries and those on whose behalf they claim to act as democratic accountability is eroded; the increasing difficulty faced by smaller, grassroots associations and coalitions in advocacy and fundraising; and increased control or attempted control by donors over the activities of the organizations they support.

Will these trends undermine civil society's transformative potential by reducing the ability or willingness of citizens' groups to hold public and private power accountable for its actions, generate alternative ideas and policy positions, push for fundamental changes in the structures of power, represent a different set of values and motivations based around co-operation and solidarity, and organize collective action on a scale large enough to force through long-term shifts in politics, economics, and social relations? Welcome to "civil society-lite" – the natural consequence of the continued commercialization of the not-for-profit sector.

So what should we do? I think our first task is to build a body of theory that can address all these potential conflicts, trade-offs, and contradictions, and so help us to identify when the introduction of market mechanisms is likely to be helpful to social goals of different kinds and when it is likely to be harmful. As far as I can see, the theory of "blended value" that underpins much current experimentation is not a theory at all, but simply a set of assumptions that claim either that there are no negative consequences of mixing different rationalities or that those consequences are insignificant. It's true that all organizations produce different kinds of value in varying proportions – financial, social, and environmental – whether they are citizens' groups or businesses. It's also true that these proportions can be changed or "blended," but not without real implications for those forms of value that are reduced, challenged, or contradicted in return.

That was the experience of the SEEDCO study I mentioned earlier, and of just about every other scholarly study I've been able to find. And it was the experience of an earlier generation of organizations that started off with a social purpose and steadily lost it as they became more embedded in the market, like mutual aid societies in the late nineteenth and early twentieth centuries, or building societies in the UK prior to their recent collapse, or Fannie Mae and Freddie Mac in the United States today. Over time, the profit motive comes to dominate social concerns, leading to a tragi-comic farce of de- and re-nationalization as the only way to preserve a social focus, always, of course, at taxpayers' expense.

What might this body of theory look like? Imagine experiments in the social economy as pearls strung out along a necklace. At one extreme are activities that require a complete separation between market and non-market rationalities in order to secure the desired social impact in the deepest sense of that term, like community organizing and promoting the accountability of market and other economic interests. At the other extreme are fully integrated activities with no significant social costs, like the pre-purchase of new vaccines in order to lower prices and maintain enough profitability to engage in the necessary research and development. And in the middle we find a whole range of activities utilizing different combinations of service-delivery, asset building, collective action, capacity development, and other strategies to maximize the benefits and minimize the costs of experiments in the social economy. This is the area where there is the most potential room to maneuver, but about which (I would argue) we know comparatively little. It contains a huge array of social enterprises, social entrepreneurs, social innovators, co-operatives, community banks, traditional nonprofits, and other civil society groups, and I suspect between and across them we will find many more patterns and common denominators than we have identified to date, once we are more explicit about the social lens we want to train on their activities.

Most interesting of all, I suspect, are those groups that deliberately set out to use the power of the market while simultaneously altering patterns of consumption, production, ownership, and distribution – groups that aim to transform social and economic systems rather than simply enable more people to participate in those we have already. They include new business models built around the commons, community benefit agreements and worker-controlled firms, co-operatives like Mondragon (still doubling in size every ten years though virtually forgotten in the race towards philanthrocapitalism), and new ways of sharing resources with each other, like mutual funds that pay dividends to everyone, an idea recently put forward by Peter Barnes, the co-founder of Working Assets. Unfortunately, these are not the ideas that are most favoured by the new foundations or by most social entrepreneurs.

Three conclusions follow if we want to maximize the social impact of innovations in this middle ground. First, social and economic criteria must at minimum be given full and equal weight when new models are being designed and developed. Second, the definition of "social" must extend beyond the target group approach to embrace the full range of social relations, values, and collective action. And third, the more important direction of influence is from the social to the economic and not the other way around; in a democratic society, business and the market are the servants, not the masters, of politics, civil society, and government.

Equipped with a body of theory like this, our second task is to do much more comparative impact assessment of different models of financing and facilitating social change. I counted a few hundred reasonably-rigorous case studies when I wrote "Just another Emperor?", but I found very little that systematically compares and contrasts the social and economic impact of new and old philanthropy, social entrepreneurs and development NGOs, faith-based organizing and secular social movements, and different forms of social innovation, especially across different political and cultural contexts. There's a huge hole here waiting to be filled, and it is a perfect area for community-university partnerships, action research, and engaged scholarship.

Finally, we must be braver, not by selling a particular approach or interpretation over others but by actively contributing our knowledge and ideas to debates in the public sphere, where this is a very live topic, so that the conversation is not dominated by one particular point of view.

I believe that an integrated social economy requires an independent civil society, which may sound like a contradiction in terms but – when approached through the open, equal, and self-reflective framework I've described in brief – that makes perfect sense, at least to me! In some cases, we can get more social impact through integrated actions; in others, by working together as equal partners from a position of difference and independence; and elsewhere by simply keeping our distance, however unfashionable that may be.

For many years, there has been tension between radical and neo-liberal interpretations of civil society, with the former seeing it is the social, cultural, and political ground from which to challenge the status-quo and build new alternatives, and the latter as the service-providing, not-for-profit sector necessitated by "market failure." This debate has been drawn into sharper relief by the rise of philanthrocapitalism in a useful and provocative way, but also in a way that obscures the transformative potential of the social economy. The perfect margarita is probably impossible, while the image of oil and water is unnecessarily restrictive. Making the most of the middle ground between these two extremes is the task that lies ahead.