
THE INVISIBLE PUBLIC BENEFIT ECONOMY: IMPLICATIONS FOR THE NONPROFIT SECTOR

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ABSTRACT For many years the nonprofit sector has known what it is not, but not what it is. In this article, the author describes the nonprofit sector as part of a public benefit economy that operates in Canadian communities on principles that are fundamentally different from those of the commerce economy. The two economies are intertwined, but the public benefit economy operates almost invisibly and is undervalued in comparison to the commerce economy.

Markedly different from the private commercial economy, the public benefit economy measures success not by how much wealth is amassed but rather by how much common wealth is shared, preserved for future generations, or given away. Those in the nonprofit sector, therefore, need to rethink their language and approach to the nonprofit sector if government, the nonprofit sector, and business are to tackle the “wicked problems” that challenge our world. It is time for a rebalancing these economies in Canadian communities.

RÉSUMÉ Depuis plusieurs années, le secteur à but non lucratif sait qui nous ne sommes pas, mais pas qui nous sommes. Dans cet article, l’auteur décrit le secteur à but non lucratif comme faisant partie d’une économie pour le bien public qui fonctionne dans des communautés canadiennes selon des principes qui sont fondamentalement opposés à ceux de l’économie commerciale. Les deux économies sont interreliées, mais l’économie pour le bien public est presque invisible et elle est sous-évaluée par rapport à l’économie commerciale.

L’économie pour le bien public, qui diffère considérablement de l’économie commerciale privée, mesure le succès non par la quantité de capital amassée mais plutôt par combien la richesse en commun est partagée, conservée pour les générations futures ou donnée. Ainsi, ceux et celles qui oeuvrent dans le secteur à but non lucratif ont besoin de repenser leur langage et leur approche par rapport à leur secteur s’ils tiennent à ce que ce dernier, le gouvernement et le secteur des affaires résolvent les graves problèmes de ce monde. Le moment est venu de rééquilibrer ces économies dans les communautés canadiennes.

KEYWORDS Public benefit economy; Nonprofit sector, Public-private intersection; Public policy; Funding

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AS THE NONPROFIT SECTOR STRUGGLES TO COPE IN THESE TROUBLING TIMES, we need to be clear about who and what the sector is. I worry that in the rush and clutter of activity that is occurring during this economic downturn we in the sector will not stop long enough and ponder thoughtfully enough to find the right way forward. But now is exactly the time to consider a new way of viewing our role and relationships.

A shift in how we think about things might help us find a better way forward. In this short article, I set out my thoughts about the intersection and interrelationship of public and private benefit. I am not an economist or a theorist, but I found I could not just get on with my practical applied work in the nonprofit sector. There is something here that needs our attention.

I have been mulling over these ideas for a couple of years and, after what seems like a long muddle, have finally been able to shape them and put them down on paper. They now seem so self-evident to me that I cannot believe it took me so long to formulate them. My thinking and approach to sector issues has been forever changed. I do not know, however, if my musings will resonate with others. I hope I will be able to articulate my thoughts well enough that you will want to join me in a discussion of public benefit economics and what it might mean for our communities.

What you are about to read is the distillation of my on-the-ground experience in the nonprofit sector, together with the results of years of reading research, articles, and news relating to trends and issues in the sector. I have spent my career in nonprofit management – writing grant proposals, raising money, managing budgets, and hiring and managing staff. In recent years, as a consultant and rescue management specialist, I have had the opportunity to look at the sector from a more reflective vantage point.

Gradually, I have come to believe that we require our own language and a new way of approaching the nonprofit and charitable sector if we are to meet its challenges. The new language that I believe we need would have profound implications for how we think not just about organizations serving the public good but also about our interactions in the world. Let me try to explain.

In this article, I suggest that the nonprofit sector is part of what I am calling a public benefit economy² that operates in our communities on principles that are fundamentally different from those of commerce. I will also try to make the case that we need to pay much more attention to this economy because it is central to our ability to tackle the challenges facing our planet.

First, I will try to explain what I mean by a public benefit economy. It took some time before I dared to suggest that something that does not operate on private enterprise principles can be a legitimate economy in its own right. The private commercial business model has been so dominant in our culture that I tended to think of the word “economy” only in those terms. The original meaning of economy, however, was “household law” (from the Greek *oikos*, meaning household, and *nomos*, meaning law) but is now better understood as an orderly functional arrangement of parts or an organized system. In this article, I use the word economy to denote a series or cluster of behaviours that

follow a reliably predictable pattern. In particular, I focus on the economies of private commerce and public benefit as they relate to nonprofit organizations.³

TWO PARALLEL AND INTERTWINED ECONOMIC SYSTEMS

I found myself intrigued by thinker and writer Lewis Hyde's description of two parallel and intertwined economic systems that coexist in our communities.⁴ The most familiar and dominant of these is the private commercial economy, which is focused on making a profit. The other, much less visible and potentially much larger, economy operating in our communities is what Hyde calls the gift economy and I am calling the public benefit economy.⁵ This economy is markedly different from the private commercial economy; in the public benefit economy, success is measured not by how much wealth is amassed but rather by how much our common wealth is shared, preserved for future generations, or given away.

I have observed that, as individuals, we participate in both economies as we go about our daily lives. When we buy a loaf of bread from a supermarket, we are part of the commerce economy. The commercial transaction of selling and buying the bread, however, is a transaction that could not happen without the public benefit economy; it is "common wealth" resources that are responsible for the water that grew the grain, the soil and sun that are a natural gift, the public investment that built the roads to transport the grain, and the public education that taught the baker how to make the bread. I find myself agreeing with Lewis Hyde that the two economies are inextricably intertwined and interdependent.

As individuals, we move easily from one economy to the other, but our participation in the public benefit economy is not always imbued with value. When we shovel our neighbour's driveway, help out in the local school, or coach our child's soccer team, we are participating in the public benefit economy. We move naturally from the market economy to the public benefit economy and, although we may derive great private satisfaction and hopefulness from our public benefit activities, it is most often our participation in private commerce that is publicly recognized, valued, and given top priority in today's culture.

When I think about organizations, however, it seems to me they are more often slotted into one or the other economy either as "for-profit businesses" or "not-for-profit organizations." A smaller but growing number of organizations, such as social economic enterprises, fall somewhere in between; they are hybrids, part commerce and part social purpose.

Building on the concepts of parallel economies, I now understand better some of the organizational conflict we currently see between for-profit enterprise and nonprofit organizations. There are certain fields – hospitals, prisons, schools, daycares, nursing homes, and other human services – in which we have had longstanding debates over who does the better job. We all know the arguments: private businesses say they can deliver services more "efficiently," while nonprofit organizations argue that the public interest is compromised because financial profit, not public good, is the real priority of private business. The debate festers unresolved because we as a society have muddled thinking.

We have not clearly recognized the fundamental differences between “commerce for profit” and “public benefit for the public good.” Too often we act as if they were interchangeable. Increasingly, I do not believe that this is so.

TOWARDS A MORE CONGRUENT COEXISTENCE

I now believe that we need to formulate a more congruent coexistence and better relationships between the two economies. But to accomplish this, we need a much better understanding of their operations, particularly those of the public benefit economy, which has received so much less study and attention.

As a society, we understand the private commercial economic model at its most basic – a person or corporation seeks to produce or purchase services or products for the lowest possible cost in order to maximize profit. In practice, the maximizing of profit by private business is, of course, more complicated, but our daily newspapers are filled with private business news. We do not lack exposure to private business concepts, theories, and claims.

What set me thinking was my observation that the nonprofit organizations I worked with did not act the way a private business would. Was this because they were poorly run, or were they operating on a different set of principles? After observing multiple nonprofits behave in a similar fashion, I have concluded that they are operating on a different set of principles. I think we have much to learn about those principles and their implications for funding and managing our nonprofit organizations. Let me share some examples that I have observed of public benefit organizations operating differently from private commerce.

Consider, for example, a nonprofit organization that provides support to people with disabilities. It is dedicated to its mission, which is to ensure that everyone, regardless of disability, is able to live in the community. Although government funds the organization through a service contract, the organization does not view itself as a service delivery agent delivering units of service for a fee. Rather, it sees itself as fulfilling its mission. In normal times, its role of service delivery agent and its commitment to supporting people with disabilities so that they can live in community is symbiotic. However, when conditions change, the organization’s attachment to providing a public benefit can clearly be seen. When funding is reduced or withdrawn, the nonprofit organization will do precisely the opposite of private enterprise. The nonprofit will make every effort to continue to assist people with disabilities, to the point of depleting the capacity of the organization and burning out its staff.⁶

For another vantage point, I looked at arts and cultural organizations and found them, too, behaving as one would expect public benefit organizations to behave. Many artistic endeavours are supported through a combination of grants, charitable donations, and ticket sales, and operate as nonprofit enterprises. In the arts, the artist or artistic company is driven to create. The creation – the product or performance – is a public benefit that enriches the lives of audiences today and in the future. Commerce, such as the sale of a painting or purchase of a performance ticket, is involved but is incidental to the creative process that underlies the activity. The paintings or plays are not just commodities; they

keep on giving and have a life of their own far beyond the monetary exchange. Moreover, the artist is driven to continue creating. In this way, arts organizations more closely resemble nonprofit service providers than they do private commercial businesses.⁷

THE DISCONNECT: USING PRIVATE BUSINESS THEORY TO ASSESS PUBLIC BENEFIT ORGANIZATIONS

Advocates of private business argue that for-profit business operates more efficiently than public benefit organizations. Their arguments are hard to refute because, when judged by for-profit business norms, public benefit organizations make poor businesses; thankfully so, because we would not want them to operate like business.

That we do not want public benefit organizations to behave like private enterprises became very clear to me in workshop discussions about the following after-school program, which pursues short-term grants to support its ongoing work:⁸

An organization runs a very successful and well-attended after-school program, but it is run on soft money (i.e., funding that cannot be relied on to continue). One year, the organization writes a proposal for increasing the physical fitness of the children, describing the active games in the schoolyard after school. The next year, it writes a proposal for a creative drama program, describing the play the kids put on every spring for their parents and the community that is a huge success. It writes a proposal for an anti-bullying program, describing how the program turns school “bullies” into schoolyard leaders by harnessing their leadership skills in a positive way. It writes a proposal for a school suspension program to allow the organization to support young people suspended from school so these young people can return to school having learned some new skills and gained insight into how they could do things differently. The organization also writes a proposal for a homework program, describing how the program provides a supportive environment for the children to keep up with their studies.

All of these proposals are, in fact, for the same after-school program that does “all of the above” every year, year in and year out, regardless of the “funding flavour of the month,” because the children need a well-balanced program that meets their needs.

I tried to engage funders in a conversation about the lessons this example might hold for funding policy and practice. To my surprise, one workshop participant strongly suggested that rather than trying to reform funding practice, a well-run nonprofit organization would not provide this program at all because it takes so much time and energy to operate on unstable funding. I found myself on the defensive, struggling to explain that while private business theory would lead one to conclude that the after-school program was not cost effective, the organization was not focused on maximizing profit. Rather, it was focused on serving its community. I pointed out that the program was extremely important to many parents and children in a high-risk community and that the organization and its staff were deeply committed to serving them. To eliminate the program would not be viewed as a sound decision; rather, it would be seen as a terrible betrayal of trust. The funder was applying private business values and principles to what I think

we should be calling a public benefit organization. Without a public benefit lens, this after-school program was viewed as an inefficient business decision. Until the sector has its own lens and language for public benefit organizations, it will continue to be judged by private business norms and found wanting.

This example illustrates the difficulty that the public benefit sector has in communicating and gaining recognition for its work when the only economic model our society currently understands and values is private commerce. Would the world be a better place if the program closed? Why would we want to manage public benefit organizations as if they were private businesses? Why would we want to frustrate, discourage, or even eliminate the passion and commitment to share and help in our communities? Are those the only choices we have – to continue a program with superhuman efforts or to pack it in and abandon those families?

PUBLIC BENEFIT ORGANIZATIONS DO NOT BEHAVE LIKE FOR-PROFIT MARKET ORGANIZATIONS

The magnitude of this challenge becomes clear when we see successful public benefit organizations being made “honorary businesses” and presented with awards, such as the Donner Award, when they are perceived as demonstrating sound for-profit business principles.

Take, for example, a small charity that won such an award. A closer look reveals that there was little business-like about it. On the contrary, it was an excellent example of public benefit economics at work and demonstrated the resiliency, creativity, and tenacious commitment to mission that characterizes public benefit organizations.

This charity had a budget of \$300,000, over 100 active volunteers, and 6.5 staff positions. It provided a variety of programs to youth at risk. Nine out of ten youth in the program showed improved grades, improved behaviour at home, and greater ability to resist peer pressure. The charity, with its 17-year track record, could count on only \$45,000 of its budget year to year. The rest of its revenue was in the form of “soft dollars” (the nonprofit sector term for funding that is non-recurring and short term). The program remained precarious despite its success, supported by loyal staff and volunteers who stuck with it despite the difficulties.

Although the program won an award for its “business practices,” i.e., for being low cost and effective, it did not operate on a private-business model. Indeed no business would continue to operate under the conditions that the charity did. This charity was, in fact, a classic public benefit organization forging on despite formidable difficulties.

WHEN PUBLIC BENEFIT ACTIVITY IS TREATED AS JUST ANOTHER COMMERCIAL TRANSACTION

In the early 1990s, governments in developed countries, influenced by private market economic theories, began to purchase specified services under contract from the public benefit sector. It was governments that determined and specified the services to be provided. They bought the services they needed; for them, it was just another commercial

transaction. But, as shown by the examples above, nonprofit organizations do not change their passion or commitment when they sign service contracts with governments. The result of these purchase-of-service agreements has been as disastrous as it has been predictable. While government funding followed the rules of private commercial transactions (i.e., get as much as you can for as little money as possible), public benefit organizations continued to operate with full commitment to their missions. It should come as no surprise that government funding has not kept up with the increasing costs of delivering services, while public benefit organizations have tried to maintain service levels beyond all reasonable expectations. Recent studies documenting the devastating impact on the organizational infrastructure of the public benefit economy are summarized in *Heads Up Ontario*, 2007.⁹

The shift to commercial market approaches for public benefit funding has occurred broadly, not just within government. A strong trend to emerge in the past 20 years has been the affinity of individual donors for “designated donations”; the purpose of the donation is specified and often overseen by the donor. “Designated donations” seem to me to be another form of private commercial purchase in which the donor “buys” the activity he or she has chosen. In this way, government funders and individual donors have adopted a commodity-purchase model of funding for the sector.

Ever-resourceful and lacking a means to slow down or turn back this funding trend, public benefit organizations have responded by developing great skills in persuading donors to make donations that at least somewhat align with their missions. This often results in public benefit organizations juggling a mismatched patchwork of funding agreements that seriously limits their capacity to work flexibly. Donations are no longer freely given; they come with “payback” to the donor that can, on occasion, override the organization’s mission.

The commodity-purchase approach to doing business in the nonprofit sector has had a far-reaching impact on our quality of life and our ability to tackle the “wicked problems” that challenge our world. In my research on the sector, I found that organizations involved in the public benefit economy spend their energies mitigating the damage that the commodity-purchase model has had on their ability to undertake their missions, instead of putting energies into community building, innovating, and creating.¹⁰

A NEW LANGUAGE, A NEW UNDERSTANDING, A NEW APPROACH

I began this article by saying that, having thought through these issues, I find myself looking at the sector with new eyes and through a different lens. I have come to believe that we short-change ourselves, our communities, and our futures if we dismiss public benefit organizations as inefficient businesses that need to try harder, and that we will be making a fatal mistake if we persist in buying into the myth that everything that counts in our communities can or should be made to turn a profit.

The “commoditization” of the public benefit sector and the need for nonprofit organizations to compete for donations, bid for service contracts, face the constraints of contract terms and conditions, and grapple with systemic and chronic under-funding have had a serious impact on many of the nonprofit sector’s defining characteristics. I think that if

the sector continues to let itself be evaluated and judged as a private business venture, it is at risk of losing what makes it most precious.

We lack the research on the public benefit economy to properly understand its characteristics and how it can best be managed for optimum performance. From my work in the sector, I believe that the following are underlying principles of operation that will allow public benefit organizations to flourish if properly supported. Public benefit organizations:

- serve the public good tenaciously, beyond all reasonable expectations, in periods of great difficulty and hardship;
- work collaboratively and cooperatively when they are allowed and supported to do so;
- apply creativity and innovation to solving community challenges;
- operate inclusive and consultative organizations; and
- mobilize civil society to support the greater good and tackle the enormous challenges facing the world.

I believe that we desperately need the passion, commitment, collaboration, generosity, and determined perseverance of the public benefit economy to face the challenges ahead. We need to take a fresh look at how we can best support, value, and grow the contribution that the public benefit economy makes to global well being.

WE MUST REBALANCE THE MARKET ECONOMY AND THE PUBLIC BENEFIT ECONOMY

Today, after the meltdown of the market economy, paying closer attention to the public benefit economy seems like a good idea.

A key rebalancing player is government, an important component of the public benefit economy. With the economic collapse, governments around the world have become more active on behalf of the public good and we are seeing renewed energy and purpose from government in the public domain.

When times get tough, individuals, communities, and nation states rely more heavily on the public benefit economy. Helping out your neighbour, coaching the local soccer team, and social agencies helping people in distress are the kinds of activities we know and expect from this economy. Less well understood is its contribution to creativity and innovation. Public benefit organizations are structured so as to retain their assets (creative and material) in the public domain now and for future generations. Arts organizations, social enterprises, community and religious groups, cooperatives, and other charitable or nonprofit organizations nurture and nourish new ways of doing things, new ideas, and new solutions to the challenges we face.

Government and public benefit organizations need to work together to enable, value, and grow the contribution of the public benefit economy. If we can revalue the public benefit economy – our capacity to give and share with each other – we can approach our challenges with new perspective and new opportunities. Government, the nonprofit sector, and business all have important contributions to make our collective well being, but no single component has all the answers. It is time to rebalance our economies.

¹ In Canada, the Canada Revenue Agency (CRA) has defined “public benefit” as serving the broader public in an equitable fashion, i.e., an organization fulfils CRA’s public benefit requirement if it has beneficiaries from among the public at large, provides its services without restriction to all classes and groups of people (unless there is adequate justification to do otherwise), does not charge prohibitive fees or benefit private individuals, and was not established for the purpose of making a profit. See <http://www.cra-arc.gc.ca/tax/charities/policy/cps/cps-024-e.html>.

² The term “public benefit economy” is a broadly inclusive term that includes activities grouped under a wide range of labels such as civil society, social economy, social enterprise, charities, social purpose cooperatives, and social purpose clubs.

³ In this article, “nonprofit organizations” refers to organizations that operate as not-for-profit organizations and that have a public benefit mission. There are some non-share capital organizations that operate as nonprofits but that do not have a social or public purpose (e.g., trade associations).

⁴ Hyde, Lewis. (1979). *The Gift: Imagination and the Erotic Life of Property* (New York: Vintage, 1979).

⁵ Lewis Hyde uses the term “gift economy,” but in today’s context we would understand the activities he describes as activities directed toward the public good. In this paper, I use the term “public benefit economy” to describe what Hyde refers to as the gift economy.

⁶ Eakin, Lynn & Thelander, M. (2006). *Beyond Numbers, The Implications of Financial Restraints and Changing Client Needs on Developmental Services*. URL: www.lynneakin.com.

⁷ Given the dominance of the market economy in today’s society, there are market economy enterprises operating in many public benefit domains. There are some commercial arts organizations that depend on and benefit from the ongoing creative renewal of artists who operate in the public benefit economy.

⁸ Eakin, Lynn. (2007). *We Can’t Afford to Do Business This Way*. Toronto: Wellesley Institute.

⁹ Howarth, Rob & Clutterbuck, Peter. (2007). *Heads Up Ontario! Current Conditions and Promising Reforms to Strengthen Ontario’s Nonprofit Community Services Sector*. Toronto: Community Social Planning Council of Toronto.

¹⁰ Eakin, Lynn. (2007). *We Can’t Afford To Do Business This Way*. Toronto: Wellesley Institute.