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STATES, MARKETS AND SOCIETY – NEW RELATIONSHIPS FOR A NEW DEVELOPMENT ERA

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Back to the Future?

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Abstract It has become fashionable to claim that institutions that blend elements together from civil society and the market such as social enterprises and social impact investing are (a) widespread empirical realities and (b) beneficial trends in terms of welfare, rights and equality. Neither assumption is correct. Confronting the key problems of development and transformation requires a return to traditional, separate-but-connected patterns of interaction between states, markets and civil societies – though updated to take account of new opportunities and threats.

Keywords: blended institutions, hybrids, social enterprise, civil society, collective action, democracy.

Blended institutions which incorporate elements of civil society and business *inside* their own governance and operations are important elements of social and economic policy today in both high- and lower-income settings. Social enterprises, and social and environmental impact investing, are prime examples. Although definitions vary – with European models emphasising social impact and US models prioritising earned income – the consensus is that these institutions represent something that is qualitatively new, different and important (Ridley-Duff and Bull 2015). Such institutions are often praised for their effectiveness and efficiency in delivering human services and promoting social innovation, yet we know comparatively little about their macro-level effects on poverty, inequality, democracy and collective action.

These organisational hybrids are different to straightforward privatisation (which involves the wholesale displacement of functions into the private sector), public–private partnerships for delivery and decision-making, and the co-production of social and economic value by different institutions. In all three of these cases, the boundaries between public, private and civic actors are maintained even if they decide to work together more closely. In the case of blended institutions these boundaries are deliberately blurred or removed completely. That's what makes them especially interesting from a practical and philosophical point of view; they provide a radical departure from the belief that civil society and business, or 'doing good and doing well', are and should be kept separate from one another (Edwards 2014).

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But how important are they as compared to more traditional institutions, and is the enthusiasm for their achievements well founded? What does the rise of blending and blurring imply for the balance of power in society and for the changing relationships between states, civil societies and markets?

1 What do the data tell us?

These are difficult questions to answer, partly because it is impossible to measure hybridisation with any great accuracy – the data aren't classified in this way and the definitions of the terms involved are often elastic. But if we use social enterprises as a rough proxy and compare them with conventional enterprises and conventional charities in the UK (which is thought to have the most developed social economy in the world), we find that in 2015 there were 70,000 social enterprises (or 1.29 per cent of all privately registered companies) and they contributed 0.96 per cent of total gross domestic product (GDP) (Social Enterprise UK 2016; FSB 2016). Only around 2,000 social enterprises were added to the total between 2012 and 2015 (Floyd 2013).

By comparison there were at least 200,000 registered charities in the UK in 2015 and another 200,000 or so that weren't registered (like church and community groups), together outnumbering social enterprises by almost six to one (Ainsworth 2015). They actually showed a much higher growth rate than social enterprises with over 60,000 being added during the same period (*The Guardian* 2012).

To take another rough proxy, one can compare social and environmental impact investing with commercial investment and philanthropy, and again I will use the most developed context we know of, which in this case is the USA. For 2015 we find that US$10 billion went into social and environmental impact investing versus US$15.1 trillion for total private investment (or 0.06 per cent of the total (Global Impact Investing Network 2016; Federal Reserve Bank of St Louis 2016)). By comparison, private philanthropy generated US$358.38 billion, with giving by individuals making up 72 per cent of that amount, an increase of almost 6 per cent over 2013 (Giving USA 2016).

The conclusion from these figures is clear: the vast majority of enterprises in the UK and the USA are traditional businesses; the vast majority of civil society organisations are conventional charities; the vast majority of resources for this sector come from giving and not from investment; and these patterns have not changed significantly in the last five years. Data from lower-income settings would no doubt paint a different picture, but given the much smaller size of the social economy in all countries outside of North America and Europe, it is doubtful whether these conclusions would be invalidated.

However, if the numbers are small, why is there so much excitement around social enterprise, impact investing and related experiments? That question provides a clue as to what is really happening, which is as much ideological as empirical – in the form of an aggressive campaign to promote the philosophy of blending as a more effective way of dealing with social and economic problems. However, there isn't much evidence or logic to support that broader claim.

2 Is blending or separation best for tackling inequality?

Traditionally – think of the old image of a three-legged stool or the separation of powers in a constitution – government, business and civil society were seen as different but equally valuable parts of a healthy whole, complementary but necessarily separate from each other because they undertook different tasks and ran on different principles: the legal or bureaucratic authority of government, the free market competitive mechanisms of business, and the voluntary spirit and cooperative values of non-profits and community groups. Each provided at least some level of counterweight to the others.

This model – so unfashionable today that it is seen as retrograde or even irrelevant – was the framework that underpinned the longest period of shared prosperity the North has ever seen from the late 1940s to the mid-1970s, and in various forms it also helped to anchor the East Asian 'miracle' and the later growth of China, Vietnam and the more successful economies of Latin America (Edwards 1999; Wade 2003).

Scaled up from the level of individual organisations to a general principle, the rise of hybridisation might weaken the ability of society to function in this way when those counterweights are removed and the differences between institutions are watered down: blurred boundaries mean blurred accountability; blended institutions mean less of a single-minded focus on social considerations; and distributed governance signifies a weakening of central or legal authority to redistribute resources, curb abuses and regulate the market. In a miracle of social science, enthusiasts for hybrids want to make civil society stronger by weakening its most important characteristics, which are its independence and attachment to non-market, non-bureaucratic values.

To illustrate this thesis, consider the long-term trajectory of income inequality in the USA. Between 1947 and 1979, the bottom 95 per cent of families in the USA received three quarters of the growth in incomes that took place during that period (Center on Budget and Policy Priorities 2015). Fast forward to the three years between 2009 and 2011 when the top 1 per cent of American families captured *all* the growth in incomes that occurred (*ibid.*). That is a remarkable turnaround in terms of inequality and its associated costs. What happened?

Tax rates were much higher from the 1940s to the 1970s so governments were able to redistribute wealth and opportunity. Business was more highly regulated so the costs and benefits of a growing economy could be managed more effectively. And civil society groups were stronger, more independent, more highly connected, more political in their activities, and largely financed by their own members or supporters.

This last point is especially important to the argument I want to make, because these characteristics underpinned the ability of civil society groups to exert their influence separate from, but connected to, businesses and the state.

Just prior to the Second World War for example, there were well over 1 million members of the National Federation of Women's Clubs in the USA (Skocpol 2004). By 1955, 9 per cent of all adult Americans were members of a Parent Teacher Association (PTA) and 12 per cent were active in a labour union (*ibid.*). By today's standards these figures represent a very high degree of popular involvement in the nation's social and political affairs.

Cross-class, non-partisan, membership-based, internally democratic and nationally federated networks of voluntary organisations helped to animate debates and conversations in the public sphere and provided avenues for leadership development and accountability from the bottom up so that ordinary Americans were not simply governed by elites acting on their behalf, but were able to participate in the system directly. These networks helped to cement a consensus across political and religious interests and identities concerning the direction of society (though they were heavily segregated by race), providing a strong platform from which pressure could be exerted on state and federal governments to adopt measures such as the GI Bill of 1944 which had hugely beneficial, broadly-based welfare effects (in that case by providing free college education for returning military personnel).

From the late 1950s to the mid-1970s, these achievements were extended by new social movements for civil rights, gay rights, equality for women and the birth of environmentalism, but the 25 years or so after 1975 were marked by a fundamental turn away from these kinds of broad-based, democratic forms of civic action (Edwards 2014). One strand of the non-profit sector moved into service delivery on contract to governments, and another strand moved into professional advocacy work which required high levels of legal and policy expertise but much less of a connection to the grass roots. Labour Union membership in the USA has fallen by half since 1945, for example, and the decline is even greater for PTAs (which have lost 60 per cent of their members (Skocpol 2004)).

The rise of blending and blurring represents the next stage in the evolution of these processes of professionalisation, corporatisation and distancing from community control, with even more of a focus on hierarchical, market-oriented civil society activity as states are retrenched and business is invited deeper and deeper into the world of human services. Many of those businesses are more mindful of social concerns, at least if 'social' is defined as serving target groups that are considered vulnerable – as opposed to social transformation or deep-rooted social change. But in the process the characteristics that previously made civil society groups important actors may be eroded.

The result is what Skocpol (2004) calls 'diminished democracy', or a hollowing out of civil society and a loss of capacity, connectedness and independence, which is linked in at least three ways to the trends that began to emerge in the USA in the 1970s towards rising inequality, concentrated economic and political power, and partisan polarisation (Edwards 2016).

3 Why is blending problematic?

Firstly, blending social and financial considerations together automatically reduces the priority that is given to one side or the other, since one can't have more than 100 per cent of anything at one time. Is 50 per cent good enough to make real progress on deeply embedded problems like inequality? What if social considerations fall even further below that level? In theory, it is possible to give equal weight to social and financial criteria, but in practice that is very difficult to do because of a second reason: money is nearly always the more powerful force in the equation.

The mangling of altruism with self-interest is supposed to achieve the perfect mix of both, but in reality, it usually leads to the erosion of social objectives over time – or their immiseration as social concerns become reduced to a target group in society rather than the full range of social considerations concerning power, values and relationships. Social enterprises begin to ignore clients who are more difficult to reach, a problem that has also emerged with charter schools in the USA which are privately managed public institutions with a tendency to prioritise children from higher-income families (Cohen 2015; Decker 2015). Social impact investors are more patient than the stereotype of Wall Street financiers or those in the City of London, but they still need to make some money from their investments and that limits what they can support (Bugg-Levine and Emerson 2011).

The reason this happens isn't complicated: money doesn't only 'talk' as the old saying puts it, it jabbers incessantly in your ears until even the socially conscious begin to listen. There may not be a need to sacrifice financial returns in order to achieve a positive social impact, but there *is* a need to sacrifice *social* returns in order to make a profit (Edwards 2009). And that imperative excludes huge areas of important social action that need more time and patience than can be 'afforded', or that prioritise quality over quantity regardless of the cost, or that simply can't be monetised.

That leads on to reason number three: social change and market mechanisms are not easily interchangeable. They are fundamentally different – more like 'oil and water' than the 'perfect cocktail' that is presented by advocates of 'blended value'. Take, for example, cooperation and competition. These are not points along the same continuum but opposing principles and values. This implies that choices must be made between such alternatives rather than assuming that they can be blended harmoniously together. It is the same for individualism and collective action, or intrinsic and instrumental value, or gifts versus investments, or democratic versus market accountability.

One of the most pernicious effects of intrusions by market thinking into civil society is to make gifts and gift relationships seem suspect, second-rate or backward. But these relationships – expressed through community and solidarity and social movements – are the basis of all healthy human interaction. In many societies, people's imaginations have become so colonised by market thinking that they no longer know or care what it means to be fully human in this sense – to give freely with no expectation of return; to show solidarity without the need for a reward; or to hold a conversation that does not degenerate into a transaction or a deal. The truth of the matter – demonstrated time and again through the history of privatisation and the decline of public or civic values – is that markets have little useful role to play in any humanistic endeavour (Guinan and Hanna 2013). That includes health, education, politics, civil society and the arts.

4 Conclusions: alliances or blends?

By way of conclusion let me anticipate two obvious objections to my argument. The first is that I am over-generalising in a way that paints all experiments in blended value in negative terms, whereas there is at least a possibility that a 'progressive wing' of social enterprise and the like exists which combines economic and social criteria rather than substituting one for the other. Perhaps by promoting greater economic security among marginalised populations in new ways these experiments can actually strengthen civic and political engagement. There is certainly something to that argument, and it represents an interesting area for research.

These more positive blends, if that is what they are, would need to build on and defend traditions that have been inherited from the past *without* rejecting new opportunities and innovations out of hand, which would be foolish – to be *as* enthusiastic about community organising and popular protest as they are about social enterprise and social media. I would argue that the most interesting examples of citizen action in the world today exhibit these characteristics, such as Black Lives Matter (2016) or Making Change at Walmart (2016) in the USA, or Podemos (Iglesias 2015) in Spain. Crucially, however, these examples engage the market within a framework that is governed by democracy and the transformation of power relations. A case could also be made that older blended institutions like cooperatives have been more successful than newer social enterprises in generating a supportive mix of economic security and political activism (Ridley-Duff and Bull 2015).

The second objection is that I am just being unrealistic – there is no alternative, no going back in time to a healthier configuration of states, markets and civil societies, especially because of the impacts of globalisation and the relative decline of national state authority and autonomy. But this ignores the fact that the emerging orthodoxy around these questions is itself manufactured, the result of the ideological turn towards the market that began in the late 1970s and has continued ever since, and is now being supercharged in the softer language of blending and blurring by a well-resourced echo chamber of consultants, writers, donors, business leaders and philanthropists (Edwards 2008, 2010).

If that is true, then it must be possible to consciously deconstruct what is going on now and increase the space for more radical innovations in the social economy which could have positive macro-level results. And if that does happen, it would represent a turn 'back to the future' by re-emphasising the difference and independence of government and civil society even as they enter into alliances with business and the market. Alliances constitute a very different modality to hybrids, and they correspond much more closely to the kinds of relationships I am recommending, so long as they are composed of equal and independent partners to avoid problems of co-option. In an alliance, each member does not have to stop being what they are in order to be something else – in fact the opposite is true. The value of the participants lies precisely in the different properties, perspectives, constituencies and capacities they can bring to the table. Each member can also decide to enter or leave at any time.

These things are not true of blended institutions, though in terms of the potential reconfiguration of state–market–civil society relations at the macro level, it may be that non-blended institutional arrangements such as privatisation and public–private partnerships (which are much more extensive) are more powerful influences than the growth of blending and blurring. But that is an analytical question that needs to be tested over time through careful, comparative research. In the meantime, and as history shows, alliances work best when government, business and civil society work as equal and complementary sets of institutions that can hold each other in mutual, constant and creative tension. That is a better way forward than hybridisation because it creates relationships that add value overall rather than taking it away from one sector or another, with all the associated costs of that exchange. In other words, it is the difference between institutions that *makes* the difference to development and social change.

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