



## Kiss Me: I'm the Nonprofit Economy

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### Insular Pilot Programs or To-Scale Response?

by Rick Cohen

Even a modicum of exposure to the recent trajectory of national politics and progressive advocacy will lead just about anyone to despair of policy change. With an increasing suburban representation in Congress plus red-leaning rural areas, the likelihood of progressives seizing political control in the near future looks pretty slim to many observers, and the progressive side of the national equation is frequently striking for its ideological mushiness, sometimes little more than 527-financed Internet slogans.

Much of traditional philanthropy was predicated on experimenting with social program innovations and then watching government pick up on the ideas, replicate, and expand—à la the conversion of a good portion of the Gray Areas project of the Ford Foundation into the programs of the War on Poverty during the Johnson Administration. Lots of foundations have given up on the federal government learning from foundations or nonprofits—or perhaps anyone—and have decided to take on solutions to local or regional problems without waiting for the resuscitation of a federal government learning curve. Gar Alperovitz seems to be in the same position, despairing of the notion that there is much to hope for in turning back the clock and reversing the ideology behind federal actions. But he has not despaired about the nonprofit sector, and proposes an image of nonprofit social entrepreneurs taking on problems and challenges at the local and state levels with impacts that may be well nigh impossible at the national.

How might the nonprofit sector find its way to the long term hope Alperovitz foresees for nonprofits? He envisions a mostly localized response—municipalities and states using tax revenues for community reinvestment, neighborhood-based community development corporations developing new models of community wealth-building, businesses and factories owned by workers or structured as cooperatives.

It is true that lots of CDCs are engaged in income-generating activities, but to finance social programs? The bulk of the income that many CDCs generate is from real estate development, including the most significant income source—development fees—frequently earned in Low Income Housing Tax Credit (LIHTC) deals, sometimes in homeownership development projects. It would be nice to think that CDCs are plowing that money into new services for the tenants, but a good chunk of development fees goes into keeping the CDCs alive, paying for their core operating costs, and sometimes a slice goes into paying for the costs of operating the housing developments whose operating costs frequently outrun the projected estimates in *pro formas*.

Assume that CDCs were generating loads of excess capital that they could devote to social experiments instead of the nonprofit primal need of staying alive as healthy organizations. In reality, these development projects don't earn money simply because of the market, but because of state and national policies subsidizing CDC construction, making the numbers work, in some cases prioritizing tax credits for CDC-sponsored projects or syndications. CDCs wouldn't be earning the limited profits they currently do were it not for the ability of community development groups to join together and advocate for subsidies such as tax credits, HUD subsidies, mortgage revenue bonds, and numerous other incentives for affordable housing annually chipped away by successions of presidential budgets.

At the Local Initiatives Support Corporation,<sup>1</sup> the nation's largest community development financial intermediary, most of the major innovations truly came from LISC's local program areas. The National Equity Fund<sup>2</sup> was born in the Chicago LISC program, what was once the Local Initiatives Managed Assets Corporation<sup>3</sup> originated as an experiment in the Hartford program, and so on. But the success of the National Equity Fund in generating private investment for affordable housing development isn't simply due to NEF's longtime status as the largest nonprofit tax credit syndication pool, but to the role that LISC and others played in arguing for the creation of tax credits, for prioritization of tax credit allocations for nonprofit developers, for additional housing subsidies, and for HOME and Community Development Block Grant (CDBG) support for CDC projects and CDCs themselves—all of which are reflections of successes, albeit limited to say the least, of local organizations advocating for national solutions.

Same goes for worker-owned employers and small, community-responsive manufacturers. Those of us raised with images of the successes of the long successful, democratically run Mondragon worker-owned cooperatives in Spain's Basque region<sup>4</sup> or the flexible manufacturing networks heavily laden with cooperatives in the Po Valley of Italy's Lombardia and Emilia-Romagna region<sup>5</sup> instinctively recognize the appeal of the smaller scale, more democratic models of employment and production. As attractive as an occasional worker-owned facility might be, the reality is that the health and well-being of communities in this nation (and perhaps elsewhere) are more dependent on addressing the wage and labor policies of the world's largest employer, Wal-Mart (and its smaller act-alike retail competitors), than in promoting cooperative shops, factories, and service providers. Enacting a higher minimum wage, organizing for worker representation at the anti-union Wal-Mart and other big box retailers, requiring that these and other employers provide decent health insurance and other benefits instead of sloughing those costs onto the public<sup>6</sup>—these are nonprofit agenda items that are beginning to take hold among many community-based nonprofits realizing that micro-solutions are increasing overwhelmed by national and global economic trends and policies.

Asset-based community building is an attractive concept. Some, like John McKnight and Jody Kretzman, have turned it into an acronym (ABCD) replete with a methodology for mapping community assets and identifying community strengths for the purposes, supposedly, of generating strategies to build communities. From left to right, funders love ABCD because it addresses community "assets" rather than "deficits" (needs), with a sort of "pull yourselves up by your bootstraps" underpinning, which Kretzman and McKnight characterize as "building communities from the inside out."<sup>7</sup> But nonprofits are rarely engaged in such unfettered self-

reliance. Rather, they are dependent on governmental subsidy and foundation funding, not self-generated income-earning strategies (no, don't point to the income-generating proportion of nonprofit revenues, unless you're willing to own up to how much of that income comes from large institutions such as universities, hospitals, museums, etc. selling services and products that are beyond the minor income-generating potentials that exist for the vast majority of nonprofits, the venture philanthropy make-a-profit prophets notwithstanding).

Alperovitz suggests useful roles for nonprofits, perhaps going back to the community-level innovations that might have inspired some of the New Deal. Consequently, the nonprofit models he recommends may be best seen in that light: experiments of new ways for society to behave and operate that in small scale serve as yardstick competition against the inequities in our politics and economy. Nonprofit yardstick competitors point out new directions to go, identify new opportunities, test innovative approaches, but need not become micro-versions of New Harmony in Indiana<sup>8</sup> or New Llano Colony in Louisiana.<sup>9</sup> Show better ways of achieving social justice, but don't fall prey to notions that sometimes turn out to be more Potemkin Village<sup>10</sup> than Tolstoy Farm.

In fact, Gandhi's Tolstoy Farm may be the model that most fits Alperovitz's concept. Mohandas Gandhi established Tolstoy Farm in the Transvaal region of South Africa in the early 20th century as a rural experiment in communal living. Gandhi's approach to Tolstoy Farm was very focused on the creation of a self-reliant village with its own schools, shops, small-scale factories, and agriculture, governed by a strong commitment to religious values. The challenges facing Gandhi and Tolstoy Farm, unlike the inward-looking history of many comparable communal village efforts, emanated from being located in the racially divided and hostile South Africa governed by Gen. Jan Smuts and Gandhi's leadership of the satyagraha movement for political and social liberties. There could be no truly successful Tolstoy Farm in a nation with the oppressive racial, ethnic, and economic policies of turn-of-the-century South Africa.

For CDCs, worker-owned cooperatives, and other social enterprises under way in American communities, the challenge is similar. Like Tolstoy Farm, these nonprofit ventures can test and implement innovations in social change and community benefit that warrant attention, admiration, and replication. But their successes in this modern era will depend in part on their access to equity capital and subsidies made available directly and indirectly through government policies and programs, whether incentives such as the Community Reinvestment Act or funding partners such as the Treasury Department's Community Development Financial Institutions (CDFI) program, or direct funding such as the Office of Community Service programs of Health and Human Services, or the multiple programs made available through HUD. These programs will only exist, much less endure, if the progressive nonprofit community ventures Alperovitz described remember that their small scale activities have to be matched by public policy advocacy and community political mobilization.

## Endnotes

1. [www.lisc.org](http://www.lisc.org)

2. [www.nefinc.org](http://www.nefinc.org)

3. LIMAC eventually became the Community Development Trust ([www.commdevtrust.com](http://www.commdevtrust.com)), functioning to purchase fixed-rate mortgages from community lenders and making long term equity investments in affordable housing.

4. [www.mondragon.mcc.es](http://www.mondragon.mcc.es)

5. See [www.bcca.coop/pdfs/BolognaandEmilia.pdf](http://www.bcca.coop/pdfs/BolognaandEmilia.pdf) for a very intriguing account of Italy's flexible manufacturing networks.

6. Although eventually vetoed by Governor Bob Ehrlich, the Maryland legislature passed the "Fair Share Health Care Bill," which would have required employers with more than 10,000 employees in the state (Wal-Mart had 15,000) to "to spend at least 8 percent of their payroll on health benefits—or put the money directly into the state's health program for the poor" ([www.washingtonpost.com/wp-dyn/articles/A28219-2005Apr5.html](http://www.washingtonpost.com/wp-dyn/articles/A28219-2005Apr5.html)).

7. [www.northwestern.edu/ipr/abcd.html](http://www.northwestern.edu/ipr/abcd.html)

8. Visionary 19th century British industrialist Robert Owen established a well-known model cooperative community in New Harmony, Indiana in 1824, but the experiment eventually failed and dissolved only four years later, though Owen is credited with significant advances in industrial policies in the U.K. dealing with child labor, for example (cf. <http://robert-owen.midwales.com/rowen/>), and New Harmony spawned "the nation's first kindergarten, first free public school, first free library, and first school with equal education for boys and girls" ([www.infoplease.com/ce6/us/A0835424.html](http://www.infoplease.com/ce6/us/A0835424.html)).

9. A self-sufficient cooperative community, New Llano survived from roughly World War I until the Great Depression, but was recognized for providing residents/members with various free social services, medical care (though the community's doctor was a chiropractor), and six months of leave for new mothers (cf. [www.lpb.org/programs/utopia/article.html](http://www.lpb.org/programs/utopia/article.html)).

10. In the wake of the Crimean War, a Russian government official, Potemkin, supposedly built elaborate fake villages to impress Empress Catherine the Great and various diplomats with the prosperity and harmony of Crimean communities after being conquered by Russia in the late 18th century. The term Potemkin Village "has come to mean, especially in a political context, any hollow or false construct, physical or figurative, meant to hide an undesirable or potentially damaging situation" ([http://en.wikipedia.org/wiki/Potemkin\\_village](http://en.wikipedia.org/wiki/Potemkin_village)).

### About the Author

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