Profit For Good: How Philanthropy Fuels the Market Economy

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ABSTRACT

A fierce debate over the social and political consequences of rising income inequality is at the heart of the presidential campaign for 2020 and is likely to be a critical issue for Congress no matter who wins the presidency. Recent books like *Winners Take All* (Anand Giridharadas), *Decolonizing Wealth* (Edgar Villanueva), *Just Giving* (Robert Reich) and *The Givers* (David Callahan) have criticized the rich and pointed to the self-serving nature of philanthropy, suggesting that it is fundamentally corrosive to American democracy. Lost in this debate is the important role that philanthropy and social investment play in driving innovation and opportunity in the American economy. This paper will serve as the introduction and overview for my book-in-progress: *Profit For Good.* The book will highlight the role that philanthropy has played in developing talent, new knowledge, and physical infrastructure to support innovation and economic growth over the last century. Just as important, it will show how philanthropy in the United States has built and sustained institutions critical to the development of social networks and social capital, cultivating values, attitudes, and levels of trust that spark financial investment and feed the marketplace for goods and services, as well as ideas.

Yet as sociologist Daniel Bell warned fifty years ago, the balance wheel between philanthropy and the market in the United States is threatened by the postindustrial expansion of capitalism. In disparate arenas ranging from the domestic to the political, systems of social exchange that strengthened the fabric of civil society in the past are being dissolved by the substitution of depersonalized or anonymized market transactions that do little to bind people to the larger culture or society as a whole. Thus, paradoxically, the market's expansion into the social economy now threatens to unravel the civil society that fueled its growth.

Profit for Good explores these tensions in a series of historical chapters, spanning roughly 150 years, that look at the relationship between civil society and economic growth, changing American attitudes toward the separation of non-profit from for-profit activities, and the evolution of the regulation of philanthropy and the market in the public interest.

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> "If representative government was the great social invention of the eighteenth century, and bureaucracy—both public and private—of the nineteenth, it is organized, private, voluntary activity, the proliferation of civil society organizations, that may turn out, despite earlier origins, to represent the greatest social innovation of the twentieth century."[1]
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> Lester M. Salamon & Helmut K. Anheier

In October 1999, the Xerox Corporation warned analysts that its third quarter results would not be good. The long-time leader in the document-processing industry, Xerox was besieged by an army of low-cost competitors who were eating away at the company's market share. After a conference call, one analyst described the company's CEO as "shellshocked."[2] The news triggered a sell-off of Xerox shares. Within twelve months, the company's struggles would bring it to the verge of bankruptcy.

At the heart of Xerox's problems was its failure to keep pace with the transition to digital technology, a problem rooted in leadership and corporate culture. The company's board had foreseen the problem to some extent, choosing a former IBM executive to lead the business. But as the company scrambled to revise its strategy, the board soon realized its mistake. In May, they fired the CEO, brought back the company's former top executive to provide interim leadership, and promoted two women who would engineer a remarkable turnaround over the next several years. One of them was Ursula Burns.

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[1] Lester A. Salamon & Helmut K. Anheier, "The Civil Society Sector," *Society* 34:2 (January 1997), 60.
[2] Claudia H. Deutsch, "Xerox Warns That Results Will Be Short of Projections," *New York Times*, October 9, 1999, C1.

When she was seventeen, Ursula Burns knew the odds were against her. Entering her senior year in high school in 1975, she lived with her mother and two siblings in a low-income housing project on Delancey Street in Manhattan's Lower East Side. Everyone she knew was poor. Growing up, she learned to avoid the drug deals taking place in the stairwells of the Baruch Houses. At night, she frequently heard gunshots. Twice in two years, toddlers had crawled out of the windows of 14-story buildings in the project and fallen to their deaths.[3]

Despite the circumstances, Ursula's single mother, a Panamanian immigrant, was determined that her children would grow up to lead a better life. She washed and ironed clothes and cared for other people's children to put food on the table. In her best year, she earned $4,400. She spent $780, nearly a sixth of her total income, to send Ursula to a seventy-year old, private, all-girls Catholic school.

At Cathedral in the early 1970s, Ursula was one among nearly 1.3 million students enrolled in private high schools in the United States.[4] In common with the nearly 1 million other nonprofit organizations across the United States, each of these schools had been created by citizens to achieve a specific social purpose that the organizers felt was not or could not be addressed by government or private industry.[5] In New York, Cathedral served the children of minorities and aspiring immigrants from throughout the city. In the mid-1970s, more than two-thirds of the school's 1,600 students represented communities of color.[6] The school was housed in a 20-story high-rise at First

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[3] "Fresh Copy: How Ursula Burns Reinvented Xerox," *Fast Company*, November 19, 2011; Stuart Crainer and Pearl Doherty, "Leading the Way: Ursula Burns," *Think* at London Business School, November 29, 2012. See also, "High-Rise Falls Fell 2 Tots; 1 Lives," New York Daily News, August 6, 1974, 8;

[4] Table 9 – Enrollment in regular public and private elementary and secondary schools, by grade level: 1869-70 to fall 1992 in Thomas D. Snyder, ed., *120 Years of American Education: A Statistical Portrait* (Washington, D.C.: National Center for Education Statistics, 1993), 37.

[5] This idea aligns with the "government failure theory" that Douglas has offered to explain the creation of nonprofit institutions. See J. Douglas, "Political theories of nonprofit organization," in W. W. Powell, ed., *The Nonprofit Sector: a research handbook* (New Haven: Yale University Press, 1987), 43-54. See also, Kwang Bin Bae and Hosung Sohn, "Factors Contributing to the Size of Nonprofit Sector: Tests of Government Failure, Interdependence, and Social Capital Theory," *Voluntas* 29 (2018), 470-480.

[6] William Reel, "20 Stories & a New Chapter," *New York Daily News*, November 9, 1973, 30.

Avenue and 55th Streets that also included the Archdiocese of New York as well as the offices of Catholic Relief Services, an international charity. Ursula's tuition paid for only a portion of running the school. The rest of the budget came from philanthropy, large and small donations made by a variety of contributors.

In high school, Ursula was outspoken and argued with the nuns. She helped to organize the Black Students Union and was temporarily expelled several times for participating in demonstrations and marches. Despite her strong-willed personality, she could only envision three options for her future: become a nurse, a teacher, or a nun. Her mother, however, was determined that her daughter would go to college, even though she had no idea how she would pay for it. When Ursula took the PSAT she scored high in math, and her guidance counselor suggested that she focus on this strength. Ursula found a book on colleges and careers and looked for the path that would lead to the highest salary. She decided to become a chemical engineer. With only an elementary chemistry class and pre-calculus on her transcript, she applied to several colleges. Brooklyn Polytech admitted her and offered her a scholarship.[7]

Brooklyn Polytech had opened the door to the middle class for generations of immigrants and minorities long before they admitted Ursula Burns, and it had fed the growth of the American economy by developing a culture of innovation and entrepreneurship. Established as a private preparatory school in 1854,[8] the college spun off and was separately incorporated as the Brooklyn Polytechnic Institute in 1889, with its curriculum focusing on science and engineering.[9] Catering to

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[7] Stuart Crainer and Pearl Doherty, "Leading the Way: Ursula Burns," *Think* at London Business School, November 29, 2012. Deborah Fineblum Raub, "Passion, candor, and confidence," *Rochester Democrat and Chronicle*, February 8, 1994, 18.

[8] The school's alums at the end of the nineteenth century included Alfred P. Sloan, Jr., who went on to MIT and eventually became chairman and CEO of General Motors Corporation. Jeffrey D. Rodengen, *Polytechnic University: Changing the World, the First 150 Years* (Fort Lauderdale: Write Stuff Enterprises, 2005), 76.

[9] Apparently, with its incorporation, the school was granted a charter by the Board of Regents. Need to clarify whether this meant it was in some way becoming a public school. Also, under the old charter, the school was required to "turn down any endowments." What does this mean and why? Jeffrey D. Rodengen, *Polytechnic University: Changing the World, the First 150 Years* (Fort Lauderdale: Write Stuff Enterprises, 2005), 63.

aspiring members of the working class, the Institute was one of the first colleges in the United States to offer its core curriculum at night.[10] Through the early part of the twentieth century, Brooklyn Polytech relied on tuition payments to finance operations and philanthropy to pay for facilities, appealing to successful alumni and other benefactors to help it become the "'West Point' for captains of industry."[11] Indeed, by the 1920s, the institution had become a critical source of human capital for the Second Industrial revolution and was sending graduates to AT&T, "Brooklyn Edison, Pennsylvania Railroad, United States Rubber Company, Curtis Engineering, Standard Oil Company, General Chemical Company, and Westinghouse."[12]

Expansion continued through the Depression and World War II and the relationship with industry grew closer. Corporate money funded research and talent development. Industry, in turn, benefited enormously from the human capital.[13] By the 1950s, Poly had become the second largest engineering school in the country with assets of $8.35 million and an endowment worth $1.7 million.[14] Operations were supported in part by the creation of Polytechnic Research and Development Company, a for-profit initiative operated by the school. In a transition that was emblematic of an expansion of the market's dependence on higher education and other nonprofit institutions to take a major role in research and development, the school's share of operating revenues derived from tuition declined between 1933 and 1953, from 75 to 47 percent, with sponsored research accounting for the difference.[15] In the immediate postwar era, a large percentage of these research dollars came from the federal government, but over time, contributions from industry and philanthropy played an increasing role.

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[10] Ibid., 83.
[11] Charles Crocker gave $10,000 to help the newly incorporated college secure a building. Elihu Spicer contributed $20,000 to establish the library. Ibid., 62 & 88-90.
[12] Ibid., 103. Also, see story of the Shellac Institute at Poly which began conducting research in 1928 on behalf of the United States Shellac Importers Association.
[13] [Add story of Pfizer, penicillin and Brooklyn Polytechnic.]
[14] Ibid., 183.
[15] Ibid., 184.

Polytechnic officially went co-ed in 1958, but most of the students were men until the early 1970s.[16] In 1971, out of a student population of nearly 4,000 undergraduate and graduate students, only 50 were women.[17] With growing pressure from the women's movement, a new president at Polytechnic launched a program to actively recruit women.[18] Ursula Burns was an early beneficiary of this initiative.

At Brooklyn Polytechnic, Burns soon grew bored with chemistry, but she loved mechanical engineering and math. In her senior year, she volunteered to tutor other students. Through one of these students, she learned that Xerox had a program for minority students that included an internship and scholarship to help pay for graduate school. This program represented a classic blend between corporate self-interest and corporate philanthropy. After Ursula graduated with a double major in mechanical engineering and math, she spent the next summer working in the research labs at Xerox and then began a master's degree at Columbia University (also in mechanical engineering and math) with a Xerox scholarship. When she graduated in 1981, she went to work for Xerox.[19]

Burns' development between 1981 and 2009 reflects a long pattern of internal talent development in corporate America. Starting in research, she moved on to operations with increasing responsibilities for production and sales. Along the way, she had mentors who helped position her for greater responsibility.[20] In the fall of 1992, following a major corporate reorganization, she was

[16] A significant number of women enrolled and graduated during World War II, but the school did not establish a co-educational policy until 1958. Ibid.

[17] Marcia Kramer, "Polytech Drives for More Women," *New York Daily News*, October 27, 1971, 435.

[18] Jeffrey D. Rodengen, *Polytechnic University: Changing the World, the First 150 Years* (Fort Lauderdale: Write Stuff Enterprises, 2005), 220.

[19] Deborah Fineblum Raub, "Passion, candor, and confidence," *Rochester Democrat and Chronicle*, February 8, 1994, 18

[20] Burns came under the wing of Wayland Hicks (EVP in 1994) after she challenged his ideas around affirmative action in a large staff meeting early in her career. He later invited her to talk about the issue, and the conversation led to years of collaboration. She later served as executive assistant to CEO Paul Allaire, who also served as an important mentor. She continued to grow in her role as CEO Anne Mulcahy's number two. Deborah Fineblum Raub, "Passion, candor, and confidence," *Rochester Democrat and Chronicle*, February 8, 1994, 18

named vice president and general manager in the office document products division.[21] By 1997, when she was 38 years old, she was running a $3 billion business portfolio at Xerox.[22]

As Burns would later acknowledge, a significant factor in her training came from her engagement with nonprofit institutions in Rochester, New York, where Xerox had a major presence. In 1987, she was elected as vice chair of the Urban League of Rochester, where she deepened her appreciation of the relationships between social conditions in Rochester and the success of Xerox.[23] Her involvement with organizations like the Urban League gave her a chance to learn leadership skills and organize teams outside of the formal hierarchies of corporate America. Interviewed as one of a handful of African American women in senior corporate leadership in the United States in 1997, Burns confessed that she could imagine herself in the CEO's role, but did not believe "the world would be ready for a black woman at the head of Xerox at the time she'd be ready for the job."[24] But she was wrong. In 2009, she became the first African-American woman to lead a Fortune 500 company. Her ascension to this position was a testament to her abilities, but it also offers a window on the powerful role that nonprofit institutions play in cultivating talent as one part of the multifaceted contribution they make to feeding innovation and growth in the American economy.

The Argument

In some ways, Ursula Burns' remarkable story is a modern-day version of a Horatio Alger tale of pluck and determination. But to read it this way would be to fundamentally misunderstand the nature of American capitalism and its relationship to the larger culture, including government and civil society. Like any other capitalist system, the American economy has

[21] "People," *Rochester Democrat and Chronicle*, November 2, 1992, 47.
[22] Janet Lively, "Making It To The Top," *Rochester Democrat and Chronicle*, August 18, 1997, 27.
[23] "People," *Rochester Democrat and Chronicle*, June 14, 1987, 4B.
[24] Janet Lively, "Making It To The Top," *Rochester Democrat and Chronicle*, August 18, 1997, 27.

been fueled by new inputs of labor, capital, and natural resources. Since the colonial era, growth has continued as markets have integrated and expanded, giving entrepreneurs the opportunity to specialize, increase the scale of their operations, and reduce the costs of production. As the economy met the needs of consumers with greater levels of efficiency, it generally raised the standard of living.[25] This is one idea of "Profit for Good" that I want to explore in this book. It is anchored in philosophical debates over the moral qualities of capitalism, as well as theoretical arguments over the role of innovation in enhancing social welfare.[26] It is also fiercely contested empirically and rhetorically in the current debates over income inequality in the United States.[27]

The economist Joseph Schumpeter famously asserted that innovation—in the form of new products, new processes, and new knowledge—drives economic growth.[28] Think of the typewriter, the pay phone, or the video store among millions of products and services that have largely disappeared in the wake of waves of innovation. Schumpeter described this ongoing process as creative destruction.[29] The social returns from innovation are high, contributing to significant improvements in social welfare, even as the disruption they cause brings challenges to people and

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[25] Alan Greenspan and Adrian Wooldridge, *Capitalism in America: An Economic History of the United States* (New York: Penguin Random House, 2019); Stuart Bruchey, *The Wealth of the Nation: An Economic History of the United States* (New York: Harper & Row, 1988); Douglass C. North, *The Economic Growth of the United States, 1790-1860* (New York: W.W. Norton & Co., 1966).

[26] Scholars debate the moral qualities of capitalism. Some, going back to Karl Marx, suggest that it is essentially a system based on exploitation, colonization, and conquest. Others, going back to Adam Smith, believe that capitalism's invisible hand guides it toward social welfare gains that benefit all, or most, of society. Several recent books seek to outline the framework of a moral, capitalist economy. Stephen Young, *Moral Capitalism: Reconciling Private Interest with the Public Good* (San Francisco: Berrett-Koehler Publishers, Inc, 2003) and Samuel Bowles, *The Moral Economy: Why Good Incentives Are No Substitute for Good Citizens* (New Haven: Yale University Press, 2016). Economic theorists take several approaches to measuring the social returns of innovation within the field of welfare economics. In pharmaceuticals, for example, the "human capital "method correlates the opportunity costs associated with illness or death (measured by income losses). This method does not include broader social benefits – to a person's family for example of avoiding or curing illness. Another approach measures the "consumer surplus" generated by the innovation that may result in lower costs to the patient. S.Y. Wu, "Measures for Social Rate of Returns from Pharmaceutical Innovations," *Managerial and Decision Economics* 1:4 (December 1980), 179-183. See also, E. Mansfield, J. Rapoport, A. Romeo, S. Wagner and G. Beardsley, "Social and private rates of returns from industrial innovations," *Quarterly Journal of Economics*, May 1977, 221-240.

[27] See, for example, Anand Giridharadas, *Winners Take All* (New York: Alfred A. Knopf, 2019).

[28] Joseph A. Schumpeter, *The Theory of Economic Development* (New Brunswick: Transaction Publishers, 1993 (1934 original)), 65-74.

[29] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (New York: HarperPerennial, 2008 third ed.) (1942 original), 81-86.

communities that prospered in an earlier era. Innovation also leads to high levels of income inequality, which has a tendency to fuel political and social criticisms of the capitalist system—as well as philanthropy—in accordance with the rise and fall of the business cycle.[30]

If we think about how this market economy works, we quickly understand that it needs certain features to keep it healthy. First, as even the deepest conservatives will agree, it needs some level of government to establish rules of the road so that contracts can be enforced, infrastructure like roads, sewers and water systems can be built, and people can be assured that they can go about their business with relative peace and security.[31] For centuries, governments have also played a significant role in research and development to create new knowledge and promote new ideas.[32]

Government, however, does not create the social system that allows capitalism to work. This system is a product of our civil society. In this book, I am looking particularly at the role that philanthropy and the social economy—that segment that is variously called the nonprofit, third, or independent sector—plays in sustaining innovation, entrepreneurship, and the market economy in general.[33] I am also interested in how an evolving attitude toward the work of institutions in this

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[30] On income inequality, see Thomas Piketty, *Capital* (Cambridge: Belknap Press of Harvard University, 2014), 20-27. For current criticisms of high net worth philanthropy, see Edgar Villanueva, *Decolonizing Wealth* (Oakland: Berrett-Koehler Publishers, 2018); David Callahan, *The Givers: Wealth, Power, and Philanthropy in a New Gilded Age* (New York: Alfred A. Knopf, 2017); or Anand Giridharadas, *Winners Take All* (New York: Alfred A. Knopf, 2019).

[31] Adam Smith outlined three primary roles for government: national defense, protecting the peace, and the development of public infrastructure and institutions "which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society." Adam Smith, *The Wealth of Nations* (New York: Modern Library, 1994 ed.), 745. Robert Reich summarizes the key functions of government in a market economy: "Markets depend for their very existence on rules governing property (what can be owned), monopoly (what degree of market power is permissible), contracts (what can be exchanged and under what conditions), bankruptcy (what happens when purchasers can't pay up), and how all of this is enforced." *Robert B. Reich, Saving Capitalism: For the Many, Not the Few* (New York: Alfred A. Knopf, 2015), xiii-xiv.

[32] Mazzucato argues for the important role that government plays in innovation, but like many analysts she focuses on a binary relationship between capitalists and the state. Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (London: Anthem Press, 2013).

[33] Many scholars have sought to define the nonprofit, independent, or third sector. Most take an institutionalist approach that looks primarily at organizations that do not formally distribute profits to investors and have certain characteristics including an altruistic or socially-oriented mission. Some people include religious institutions; others see religion as something separate, particularly because they are treated differently under the tax code. As various scholars have pointed out, since many nonprofit institutions charge fees for services and are therefore engaged in the market economy, the boundary lines between the social and market economies are blurry. Nonprofit hospitals, for example, are often seen as

nonprofit sector reflects a changing approach to "doing good" in society as well as shifting attitudes towards business, profit-making, and capitalism in general.[34]

In the United States, civil society begins in families and then encompasses churches and synagogues, clubs and organizations, as well as many nonprofit institutions that address a host of social needs. At different points in our history, these institutions have served to help the disenfranchised as well as exercise social control.[35] They have also channeled efforts to resist existing rules and regimes and champion the cause of reform. When this system works well, it supports an underlying social stability and builds the trust that the market needs to support buying and selling.[36] It breeds values that are conducive to hard work and pragmatic risk taking. It fuels savings and investment as part of a personal and socially responsible way to live. In short, it enhances social values that are critical ingredients of a strong market economy.[37]

For generations, nonprofit institutions have played an exceptional role in strengthening the glue that holds American society together. On board the *Arabella* in 1630, as the Puritans waited to put ashore after weeks at sea, Governor John Winthrop urged them to create a mutually self-reliant

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capitalist enterprises, but some studies show that patients have significantly different experience when they seek services from a church-sponsored hospital. My concept of the social economy embraces all transactions performed by nonprofit institutions, as well as services and goods that are provided as part of a system of mutual obligation rather than a system of explicit barter or exchange. This idea of the social economy overlaps the concept of what economists call the "informal economy." Services that might be included in the social economy or the informal economy include auto or home repair, landscaping or garden services, child or adult care, counseling, personal grooming, catering or food preparation, sewing or tailoring.

[34] Doing good is clearly a contested notion that is subject to exploitation and demagoguery as well as appropriation by various interest groups. In this book I am focused primarily on the intention of individuals to do good rather than judging the social value of their efforts. For an exploration of the concept of public good, see Jane Mansbridge, "On the Contested Nature of the Public Good," in Walter W. Powell and Elisabeth S. Clemens, *Private Action and the Public Good* (New Haven: Yale University Press, 1998), 3-19.

[35] The role of the family and community in institution building has been described by many scholars. Stephan Thernstrom says family was "the agency through which social stability was maintained" in seventeenth century Puritan New England. He also shows how churches and other third sector institutions sought to exercise social control. Stephan Thernstrom, *Poverty and Progress: Social Mobility in a Nineteenth Century City* (Cambridge: Harvard University Press, 1964), 35.

[36] Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Free Press, 1995).

[37] Weber anchored this "spirit of capitalism" in the rise of Protestantism in Europe and the United States. Max Weber, *The Protestant Ethic & The Spirit of Capitalism* (Los Angeles: Roxbury Publishing Company, 2002 ed. (original 1946). This idea is also developed in Samuel Bowles, *The Moral Economy: Why Good Incentives Are No Substitute for Good Citizens* (New Haven: Yale University Press, 2016), 2-3.

society that would be "A Modell of Christian Charity." When Benjamin Franklin organized a group of fellow printers in Philadelphia known as the Junto to aid one another and the community in 1727, he set the pattern for the service clubs and chambers of commerce that we recognize today. When Isabella Graham established the Society for the Relief of Poor Widows in New York in 1797, her organization addressed an important social need, but it also provided women, who were unable to vote or hold office, with a way to have a public voice on social issues. Following this pattern, when two former slaves, Absalom Jones and Richard Allen, established the Free African Society in Philadelphia in 1787 and later the African Methodist Episcopal Church, they gave African Americans a way to practice their faith, strengthen their community, and advocate for themselves.

As many scholars have pointed out, this American penchant for creating associations and nonprofits has deep roots in American history, and it has been a critical component in the development of our politics and our economy.[38] It was also pivotal to the development of what Naomi Lamoreaux and John Wallis have described as an "open access" social order that allowed citizens to extract significant economic, political, and social benefits from their associations with others and in the process grow the American economy and strengthen its democracy.[39]

Within the context of these institutions, Americans have interacted in ways that were critical to what I am calling the social economy. This is the realm of face-to-face interactions unrelated to products or services that are bought and sold in the marketplace. This is where people engage in

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[38] On the third sector's influence on the development of American democracy and the market economy, see Kathleen D. McCarthy, *American Creed: Philanthropy and the Rise of Civil Society, 1700-1865* (Chicago: University of Chicago Press, 2005). Theda Skocpol provides a rich perspective on the role of voluntary associations in influencing government in Theda Skocpol, *Diminished Democracy: From Membership to Management in American Civic Life* (Norman: University of Oklahoma Press, 2003).

[39] Many business historians over the last half century, following in the footsteps of Alfred Chandler, have focused on the internal processes and management of the firm. Students of regulation, particularly, have looked at the dynamic interaction between the firm and the political/regulatory system. And some historians have focused on ways in which changing social attitudes (the women's movement, for example) led to changes in business. Angel Kwolek-Folland, *Incorporating Women: A History of Women & Business in the United States* (New York: Palgrave, 2002) Efforts to interpret the structural relationship between the market and institutions in the third sector are rarer. See Naomi R. Lamoreaux and John Joseph Wallis, "Introduction," in Naomi R. Lamoreaux and John Joseph Wallis, eds., *Organizations, Civil Society, and the Roots of Development* (Chicago: University of Chicago Press, 2017), 1-21.

systems of informal exchange and collaboration that shape the culture and character of our families, communities, and the nation.[40] Neighbors helping neighbors with yard work, home or car repair, or childcare. Farmers and ranchers assisting one another in the harvest or at branding time created informal systems of obligation that strengthened the economy and civil society. These person-to-person interactions in the social economy translated to the creation of organizations or institutions in civil society that amplified these interpersonal systems of exchange: church congregations assisting the elderly or bereaved families; social clubs hosting dances, Bingo, or potlucks; fraternal organizations raising money for disabled children. These were and are important arenas for creating social capital.[41]

Throughout American history, this social capital has played an important role in our economy.[42] As the nation's markets expanded and integrated in the nineteenth century, the social capital developed in churches and civic organizations often determined which entrepreneurs or

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[40] Lamoreaux and Wallis write about the economic rents that individuals derive from their interpersonal relationships. The favors and obligations that individuals extend and receive from one another are part of the process by which people derive these rents. Since my book will be written for a more general audience, I'm avoiding this language, but my concept of the social economy aligns with their framework. They suggest that organizations and associations in civil society are "bundles of relationships" that "coordinate human behavior and in the process they create rents that increase the well-being of their members." The authors anchor their approach in theories of organizations developed in economics (Ronald Coase and Oliver Williamson), business (James March), and sociology (Max Weber, Peter Blau, W. Richard Scott, Paul DiMaggio, and Walter Powell), among others. "Introduction," in Naomi R. Lamoreaux and John Joseph Wallis, eds., *Organizations, Civil Society, and the Roots of Development* (Chicago: University of Chicago Press, 2017), 4-5. See footnote #3 particularly. For another explanation of the problem of transaction costs applied to social institutions, see Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (New York: Cambridge University Press, 1990), 25.

[41] The concept of social capital was promoted by Pierre Bourdieu and James Coleman in the 1980s and popularized by Robert Putnam, especially with his book *Bowling Alone*. For a cogent overview of the development of various theories of social capital, see Bob Edwards and Michael W. Foley, "Civil Society and Social Capital: A Primer," in Bob Edwards, et. al., *Beyond Tocqueville: Civil Society and the Social Capital Debate in Comparative Perspective* (Medford: Tufts University Press, 2001), 1-14.

[42] Most people who have written about philanthropy have treated it as a separate sphere and devoted little attention to its contributions to economic growth. Books by Zoltan Acs and Claire Gaudiani are clear exceptions. Acs focuses primarily on philanthropy's role in introducing opportunity back into what might become a closed system that perpetuates the wealthy elite. Gaudiani is focused mainly on making the case for philanthropy's contribution to the economy in terms of human capital, physical capital, and intellectual capital. Although both authors use historical examples, neither articulates a coevolutionary concept of the market and the third sector. Zoltan J. Acs, *Why Philanthropy Matters: How the Wealthy Give, and What it Means for Our Economic Well-Being* (Princeton: Princeton University Press, 2013) and Claire Gaudiani, *The Greater Good: How Philanthropy Drives the American Economy and Can Save Capitalism* (New York: Times Books, 2003).

families would be extended credit to start businesses or even feed their families.[43] During the Great Depression, one study showed, in states where church membership was higher, bankruptcies were lower.[44] For believers, God undoubtedly had a hand in this outcome, but it is also true that membership in churches and synagogues created social capital that could be deployed during times of personal or economic crisis to receive assistance from fellow members of the congregation, service club, or other association. In this way, the strength of the social economy and its nonprofit institutions helped stabilize and sustain the capitalist system.

Social capital has also been a part of the dark side of American history. The bonds formed between members of dominant racial or economic interests strengthened mechanisms of oppression, reinforcing segregation and exclusion. Insider privileges in bank lending in the nineteenth century, for example, gave way to institutionalized patterns of redlining in the residential mortgage business in the twentieth century. Social bonds formed in the operation of the Rotary or the Chamber of Commerce in the 1920s, were not unlike those formed by members of the Ku Klux Klan in the same era. Even today, discrimination based on gender, class, or social identity plays a big role in shaping opportunities for would-be entrepreneurs. According to Bloomberg in 2015, for example, only 7 percent of companies that received venture capital were founded by women.[45]

Whether social capital is used to strengthen communities or divide them, it is often associated with philanthropy, which plays a critical role in developing the institutions of civil society

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[43] Lamoreaux emphasizes the role of kinship networks in the development of banks in early nineteenth century New England, but also shows that social ties played an important part in the formation of banks and their lending practices. The early reporting system developed by R.G. Dun and Company, for example, included testimonials from local lawyers and businessmen as to the character and creditworthiness of potential borrowers. Naomi R. Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (New York: Cambridge University Press, 1994), 11-30, 103.
[44] Bradley A. Hansen and Mary Eschelback Hansen, "Religion, social capital, and business bankruptcy in the United States, 1921-1932," *Business History* 90:6 (November 2008), 714-727.
[45] Laurie Meisler, Mira Rojanasakul, and Jeremy Scott Diamond, "Who Gets Venture Capital Funding," Bloomberg, May 25, 2016. https://www.bloomberg.com/graphics/2016-who-gets-vc-funding/ (Accessed January 28, 2020).

and the vibrancy of our associational life.[46] The coins tossed into the collection plate, the dollar bills given to the Rotarians, the checks written to the YMCA all provide critical financial resources to support services provided to the community. Similarly, volunteer labor contributed to coordinate and produce these services helps to sustain this work.[47] As Rob Reich has written, philanthropy, in the form of donations and volunteer time, constitutes "the essential fuel—of associational life."[48]

Reich and other writers, along with many Americans for generations, have been suspicious of philanthropy, especially as it has been practiced by the wealthiest member of our society. They tend to see it less as a gesture of generosity and more as an exercise of power and influence that should be checked by democratic government. When John D. Rockefeller sought an act of Congress to establish the Rockefeller Foundation between 1910 and 1913, for example, legislators were deeply skeptical of his motives and nervous about ways in which such a great concentration of private capital directed towards public purposes would undermine the institutions of democracy.[49] This debate took place at the height of the Progressive era, when many Americans still associated big business and politics with corruption and self-dealing.[50] For years, this broad social concern with the role of private wealth affected American attitudes toward philanthropy and ultimately the government's regulation of the third sector.

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[46] I am using a broad definition of philanthropy in this book to include all financial gifts, large and small, as well as volunteerism.

[47] Robert Putnam and Theda Skocpol have described an important institutional shift in the nonprofit world over the last half century that is relevant to the arguments in this book. Previously, volunteer labor and active membership played a significant role in the operation and management of these organizations. Since the 1960s, management has been increasingly professionalized and membership has been reduced to check writing. Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000), 154-166; Theda Skocpol, *Diminished Democracy: From Membership to Management in American Civic Life* (Norman: University of Oklahoma Press, 2003), 127-174.

[48] Rob Reich, *Just Giving: Why Philanthropy is Failing Democracy and How it Can Do Better* (Princeton: Princeton University Press, 2018), 12-13.

[49] Eric John Abrahamson, Sam Hurst, and Barbara Shubinski, *Democracy & Philanthropy: The Rockefeller Foundation and the American Experiment* (New York: Rockefeller Foundation, 2013), 24-52.

[50] Galambos suggests that this era witnessed a gradual reduction of the extreme hostility toward big business, which peaked in the 1890s. Louis Galambos, *The Public Image of Big Business in America, 1880-1940* (Baltimore: Johns Hopkins University Press, 1975), Chapter 5, 117-156. See also Richard L. McCormick, "The Discovery that Business Corrupts Politics: A Reappraisal of the Origins of Progressivism," *American Historical Review* 86 (1981), 247-74. (Cited in Balogh, Reorganizing the Organizational Synthesis)

In *Profit for Good*, however, I want to avoid the common conflation of the problems of philanthropy with the problem of concentrated wealth in a democracy. Obviously they are related and intertwined, but as we have seen in recent years, the wealthiest Americans can deploy their resources in many ways to influence social policy.[51] This problem cannot be resolved simply by changing the laws affecting charitable contributions, but must be addressed with more fundamental changes in a variety of sectors ranging from tax policy and campaign finance.

In *Profit for Good*, I want to take a new and systemic look at the ways in which philanthropy and capitalism as systems depend on one another. As philanthropy strengthens the bonds of civil society by supporting the organizations that channel our collective demand for services not provided by the market or government, the nonprofit sector has grown to become a significant element in the market economy. In the United States today, the sector accounts for nearly $1 trillion of the nation's gross domestic product, or roughly 6 percent of the total economy. In 2016, 12.3 million people were employed by nonprofit institutions, 10.2 percent of all private sector jobs.[52] Employment in the nonprofit sector as a share of the total economy has grown dramatically since the 1950s, and entities in this sector now compete with and supplement the services and products provided by for-profit companies and government in ways that sometimes make it hard to discern the difference between these institutional types. This expansion of the nonprofit sector, discussed in greater detail below, is at the heart of structural changes taking place in the economy that will provide a key analytical framework for *Profit for Good*.

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[51] Rob Reich, Chiara Cordelli, and Lucy Bernholz, eds., *Philanthropy in Democratic Societies: History, Institutions, Values* (Chicago: University of Chicago Press, 2016) and Rob Reich, *Just Giving: Why Philanthropy is Failing Democracy and How it Can Do Better* (Princeton: Princeton University Press, 2018).

[52] This number only includes institutions that are 501(c)(3) tax-exempt institutions. It therefore includes most private universities and many hospitals. It does not include churches or other organizations, like trade associations, lobbying groups, or other entities that are considered nonprofit under IRS rules, but not tax-exempt. Therefore, as a measure of the social economy, it is incomplete. https://www.bls.gov/opub/ted/2018/nonprofits-account-for-12-3-million-jobs-10-2-percent-of-private-sector-employment-in-2016.htm

Through the agency of these associational or nonprofit institutions, philanthropy fuels the engine of capitalism in the United States in a number of important ways. Since the eighteenth century, along with our system of public education, it has helped to develop the talent and human capital the marketplace needs to thrive.[53] The story of Ursula Burns and of her education at Cathedral High School and Brooklyn Polytech provides one small thread in an enormous tapestry of talent development in the United States. Over the last century and more, her story has been repeated millions of times in the context of different communities and different institutions. As studies have shown, this system of talent development among private institutions is imperfect, tending to favor inheritors of success over the industrious, talented, and aspiring in the lower classes.[54] But as Burns' story illustrates, this system, fueled by philanthropy, has been an important conduit for channeling new talent into an economic system that carries a natural human bias toward insiders.

Too often, philanthropy's role in promoting innovation has also been overlooked. In the early years of the 20th century, philanthropy was the leading funder of basic scientific research at a time when government focused on applied research initiatives through agencies like the Department of Agriculture.[55] In the middle of the century, with the expansion of the federal government, agencies like the National Institutes of Health, the National Science Foundation, the Department of Defense, and others came to dominate science funding in the United States. Today, however, philanthropy's role is once again increasing as federal funding, relative to the total, declines.[56] America's leading colleges and universities, as well as its nonprofit hospitals and medical research

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53 Philanthropy's role in creating opportunity, especially through higher education, is a major theme in Zoltan J. Acs, *Why Philanthropy Matters: How the Wealthy Give, and What it Means for Our Economic Well-Being* (Princeton: Princeton University Press, 2013).

54 John Marcus, "Wealthier students more likely than poor to get private scholarships," *Hechinger Report*, April 17, 2015. See also, Jon Marcus and Holly K. Hacker, "Divided We Learn," *Hechinger Report*, November 30, 2014.

55 Robert E. Kohler, *Partners in Science: Foundations and Natural Scientists, 1900-1945* (Chicago: University of Chicago Press, 1991).

56 In 2012, science grants from the federal government still totaled nearly $60 billion, while donations from individuals and private foundations totaled just over $4 billion. Michael Anft, "When scientific research can't get federal funds, private money steps in," *Chronicle of Philanthropy*, February 8, 2015.

centers, are increasingly at the center of the national and regional innovation systems.[57] Today, they rely on philanthropy for more than 30 percent of their annual research dollars.[58]

Whether we look at philanthropy's role in supporting a social economy conducive to capitalism, identifying and training the next generation of innovators and business leaders, or developing new knowledge that feeds innovation, it's clear that the nonprofit sector is an engine of economic growth in the United States. Measured strictly in dollars, that role seems to be increasing. In recent years, philanthropy's share of scholarship and research dollars in higher education has been expanding as government's role declines.[59] In large part this is because philanthropy has increasingly aligned itself with the market economy, adopting the tools, strategies and language of the investment community. As *Profit for Good* will show there are opportunities and risks in this trend, especially as they relate to the social bonds that stabilize society.[60]

Over the last two decades, many scholars have written about the shifting nature of social capital in American society. Sociologist Robert Putnam's books including *Bowling Alone*, *American*

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[57] As I will argue in a later chapter, research universities (public and private) are increasingly dependent on current philanthropy and endowments to fund their operations and research activities. Although the public universities remain subject to the culture of public bureaucracies, their strategies and programs are driven primarily by the private dollars flowing into the system through tuition payments, corporate grants, and philanthropy. For a case study of San Diego's regional innovation system that looks at the role of the University of California, San Diego, see Mary Lindenstein Walshok and Abraham J. Shragge, *Invention & Reinvention: The Evolution of San Diego's Innovation Economy* (Stanford: Stanford University Press, 2014).

[58] In 2012, Fiona Murray estimated that science philanthropy (annual giving and income from endowments) totaled nearly $7 billion and accounted for almost 30 percent of annual research funds in leading universities in the United States, compared to just 6 percent from industry (including corporate philanthropy). Moreover, philanthropy's contribution was growing at a rate of 5 percent per year, compared to federal dollars which grew less than 1 percent per year. She also noted philanthropy's emphasis on helping to translate basic research into new products. Fiona E. Murray, "Evaluating the Role of Science Philanthropy in American Research Universities," NBER Working Paper Series, #18146, National Bureau of Economic Research, June 2012. Researchers also suggest that dollar-for-dollar philanthropic money may have an outsized role in promoting innovation because it generally comes with greater flexibility and helps to fund gaps in the work that might otherwise slow the innovation process. See Interview with Ramesh Rao, Qualcomm Institute, University of California, San Diego by Eric John Abrahamson and Eric Steven Zimmer, March 19, 2019.

[59] Fiona E. Murray, "Evaluating the Role of Science Philanthropy in American Research Universities," NBER Working Paper Series, #18146, National Bureau of Economic Research, June 2012.

[60] Samuel Bowles synthesizes work in behavioral economics to suggest that overreliance on market-based incentive systems may promote self-interest, diminish altruistic behavior, and "undermine the means by which a society sustains a robust civic culture of cooperative and generous citizens." Samuel Bowles, *The Moral Economy: Why Good Incentives Are No Substitute for Good Citizens* (New Haven: Yale University Press, 2016), 2.

Grace, and *Our Kids* highlight his concern that social capital is declining in the United States, especially for low- and moderate-income people.[61] In *Bowling Alone*, Putnam detailed the decline of bowling leagues, church congregations, political volunteering, PTAs, and many other third sector organizations. In a chapter entitled "What Killed Civic Engagement?", he tried to analyze why this is happening and pointed to a number of common hypotheses: changes to the American family structure, particularly the rise of the two-income family; continuing tensions over race and integration; the rise of big government; and the growth and globalization of commerce, which has tended to undermine local independent retailers.[62] While all of these factors may have contributed, Putnam was not convinced that any represented the key to explaining the decline in social capital. In her book on the decline of membership-based, voluntary organizations in American society, Theda Skocpol suggests a confluence of factors are at work: epic changes in attitudes toward race and gender that delegitimized older civic organizations, structural changes in federal policymaking and national politics that have made centralized lobbying more effective, new technologies that favor professional management and mass fundraising, and the broadening of a "relatively privileged, high individualistic" professional class and business elite that can wield "formidable civic resources" on their own.[63]

In *Profit for Good*, I want to explore a different hypothesis. Nearly 50 years ago, sociologist Daniel Bell wrote a series of books in which he foreshadowed the coming of what he called post-

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[61] Robert D. Putnam, *Our Kids: The American Dream in Crisis* (New York: Simon & Schuster, 2015), Robert D. Putnam and David E. Campbell, *American Grace: How Religion Divides and Unites Us* (New York: Simon & Schuster, 2010). Other scholars suggest that social capital is not declining, it is shifting to new patterns of relationships and institutional forms. For a discussion of this debate, see Theda Skocpol, *Diminished Democracy: From Membership to Management in American Civic Life* (Norman: University of Oklahoma Press, 2003), 14-15.
[62] Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000), 277-284. On the issue of increasing globalization and the presumptive decline in multinational support for local civil society institutions that focuses on Xerox and Rochester, New York, see Patricia Ellen Tweet, "Where Global Meets Local: Multinational Corporations, Nonprofit Organizations, and Local Civil Society in Rochester, New York," Ph.D. Dissertation, State University of New York, Buffalo, December 12, 2002.
[63] Theda Skocpol, *Diminished Democracy: From Membership to Management in American Civic Life* (Norman: University of Oklahoma Press, 2003), 178.

industrial society. He predicted many of the changes we are experiencing today: the expansion of the service sector, the increasing role of information and knowledge in creating new products, the rise of a consumer culture dedicated to the fulfillment of the individual, and the continued expansion of the nonprofit sector.[64]

Bell and other social scientists in his era predicted that with the transition to post-industrial capitalism, the relationship between the social economy and the market would change in important ways. Social institutions engaged in knowledge production, especially universities, would be increasingly commercialized or brought into the market system.[65] At the same time, the conventional model of the economy, which divided the for-profit and nonprofit (including government) realms, would be increasingly difficult to discern, especially in the growing arenas of education and health care.[66] Bell also predicted a shift in economic and political power from industrialists and property owners to technocrats and knowledge producers.[67]

Management theorists in the same era suggested that the shift to services and knowledge production had other important ramifications for society. They highlighted essential differences in production between industrial and service businesses, emphasizing the role of the consumer in the process of production.[68] Think of a man getting a haircut, a woman ordering lunch, or even a child arriving at day care. For the entrepreneur running the barbershop, the restaurant, or the childcare

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64 "In the post-industrial society…there will be an enormous growth in the "third sector"; the non-profit area outside of business and government which includes schools, hospitals, research institutes, voluntary and civic associations, and the like." Daniel Bell, *The Coming of Post-Industrial Society: A Venture in Social Forecasting* (New York: Basic Books, 1999 edition (original 1973), 269. Bell wrote or edited 17 books and numerous articles over the course of a prolific career. In this book, I focus particularly on *The Coming of Post-Industrial Society* and Daniel Bell, *The Cultural Contradictions of Capitalism* (New York: Basic Books, 1976).
65 Bell, *The Coming of Post-Industrial Society*, 116-117; 212-241. See also, Daniel Bell, The Reforming of the General Education (New York: 1960), Chapter 3 cited in *The Coming of Post-Industrial Society,* 246.
66 Bell, *The Coming of Post-Industrial Society*, 322,
67 Bell, *The Coming of Post-Industrial Society,* 358-364.
68 The management literature on services exploded beginning in the late 1970s. Mainstream journals like the *Harvard Business Review* and the *Sloan Management Review* featured articles on service management and new journals proliferated, including *Service Industries Journal* and *International Journal of Service Industry Management.* James and Mona J. Fitzsimmons provide a summary of essential differences between managing service and manufacturing enterprises in *Service Management for Competitive Advantage* (New York: McGraw-Hill, 1994).

center, the interaction between staff and the consumer is critical to the cost and success of the product and the customer's ultimate satisfaction. With the growth of the post-industrial economy, management began to focus on how to systematize these interactions and relationships to control the process of production.[69] A key element in this process was the development of digital knowledge systems, including databases and algorithms that could allow computers to replace human agency in the transaction and reduce the need for face-to-face exchange. These systems also "delocalized" many of the core functions of large, geographically distributed businesses in the retail and hospitality industries, as well as financial services.[70]

A key element in this process was the development of digital, knowledge systems, including databases and algorithms that could allow computers to replace human agency in the transaction and reduce the need for face-to-face exchange. Let me give you just one example. In 1960, if you went to get a loan to buy a house, the banker would look you in the eye, ask about your work and your finances. He would check your credit history and references and ultimately make a judgment as to whether you were a responsible and creditworthy individual.[71] In the early 1970s, Fair Isaac and Company developed algorithms to assess data and information on millions of borrowers so that computers could determine whether you were a good credit risk rather than the banker across the desk.[72] Today, Fair Isaac's FICO scoring system, along with similar tools, plays a major role in determining who will or won't be able to borrow money, regardless of the church or service club you attend. Is it any surprise then, that lenders and borrowers have one less reason to join the Rotary or a bowling league?

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[69] Theodore Levitt, "Production-Line Approach to Service," *Harvard Business Review*, 50:5 (Sep/Oct 1972).
[70] Charles H. Heying, "Civic Elites and Corporate Delocalization," in Bob Edwards et. al., *Beyond Tocqueville: Civil Society and the Social Capital Debate in Comparative Perspective* (Medford, MA: Tufts University Press, 2001), 101-11.
[71] Author interview with Bruce Rampelberg, January 22, 2020 and author interview with Patrick Burchill, January 24, 2020.
[72] Martha Ann Poon, "What Lenders See — A history of the Fair Isaac scorecard," Ph.D. Dissertation, University of California, San Diego, 2012.

In many ways, with the expansion of the post-industrial economy into the service sector, we have seen a dramatic decline in the number of transactions that used to take place in the social economy. At home, families are less likely to cook and eat together; instead, they buy take out. Over a hundred years, the transition to radio and then television and finally individual computers and smart phones has privatized entertainment and eliminated much of its social—meaning face-to-face—dynamic.[73] In the last fifteen years, we have even commercialized the processes of making and sustaining friendships through the introduction of social media. With Facebook and Tinder, people don't need to belong to a church or organization to find a friend or a mate; there's an app for that.[74]

The structural transition to a post-industrial economy over the last century has been supported by the concomitant rise of an ideology or social philosophy called neoliberalism that champions the idea that competitive markets offer the most efficient way to advance human well-being.[75] As the post-industrial market explored opportunities to industrialize services, it has appropriated systems of exchange from the social economy as well as arenas of activity that were given to government to organize in the aftermath of the Second Industrial Revolution. Although much has been written about the neoliberal turn, most of it characterizes the turn as a transformation in ideology, often associated with the resurgence of conservatism as a political ideology, without roots in structural changes taking place in the economy.

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[73] Some scholars who focus on the evolution of social capital suggest that social media and online gaming contribute to the development of social capital. See, for example, Kane X. Faucher, *Social Capital Online: Alienation and Accumulation* (London: University of Westminster Press, 2018). See also, Lucy Bernholz, "Creating Digital Civil Society: The Digital Public Library of America," in Rob Reich, Chiara Cordelli, and Lucy Bernholz, eds., *Philanthropy in Democratic Societies: History, Institutions, Values* (Chicago: University of Chicago Press, 2016). See also, Lucy Bernholz, "Philanthropy and Digital Civil Society: Blueprint 2020," (Stanford: Stanford Social Innovation Review, 2019).

[74] In 2020, total revenues for online dating are estimated to exceed $2 billion with one in five marriages resulting from an online connection. https://www.statista.com/outlook/372/100/online-dating/worldwide#market-revenue (accessed January 28, 2020). See also, https://www.visualcapitalist.com/online-dating-big-business/ (accessed January 28, 2020).

[75] There is an extensive literature on the origins and influences of neoliberalism. Angus Burgin describes its intellectual origins in *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge: Harvard University Press, 2012). I am indebted to him for sharing a draft of a review essay he has developed on the subject and for pointing me to Michel Foucault's *The Birth of Biopolitics*, a series of lectures in 1978-79 and published in English in 2008 focused on the development of neoliberal ideology. David Harvey offers a neoMarxian analysis of neoliberalism's emergence to center stage in global economic policymaking in *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005).

In *Profit for Good*, I will look at this relationship between the structure of the economy and the ascendancy of neoliberalism. In particular, however, I will focus on how the post-industrial economy and the rise of neoliberal ideology have affected the nonprofit sector and the social economy, infusing a market orientation that champions ideas of social entrepreneurship, sustainability, and investment. On one hand, the shift has led to a radical revision of the American concept of socially-beneficial institutions, eroding the bright line that traditionally divided the non-profit from the for-profit world.[76] Today, terms like impact-investing, philanthrocapitalism and others celebrate efforts to embrace market mechanisms for achieving social good.[77] These strategies seek to expand the pool of capital and talent available to solve the world's problems by tapping into the power of the marketplace. In *Profit for Good* I will argue that these approaches reflect a confluence of the evolution of the post-industrial economy and the triumph of its supporting ideology—neoliberalism.[78] At the same time, they have resulted in a battle over the idea of philanthropy and the role of the nonprofit sector in our society.

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[76] Jonathan Levy documents the evolution of the corporate form of the nonprofit institution in society and the law, asserting that the public purpose (and public charter) that originally defined the character of the nonprofit corporation has been eviscerated by a series of US Supreme Court decisions. Jonathan Levy, "From Fiscal Triangle to Passing Through: Rise of the Nonprofit Corporation," in Naomi R. Lamoreaux and William J. Novak, *Corporations and American Democracy* (Cambridge: Harvard University Press, 2017), 213-244.

[77] The literature on the rise of impact investing is exploding. Lester M. Salamon summarizes this transition by focusing on new "tools" in the development of philanthropic initiatives and, to some extent, a shift in donor attitudes that reflects a blend of neoliberal beliefs in the power of the market and the faith of a new generation in digital technocratic solutions. Like most of the writers in this arena, who are excited about the potential for these new approaches, he does not come to terms with the profound shift in social and moral perceptions of the role of philanthropy in society. Jeremy Beer takes on this important question, but roots the transformation in the early years of modern, or scientific, philanthropy associated with Rockefeller and Carnegie. Beer suggests that this new technocratic approach to philanthropy undermined philanthropy's age-old role in creating social bonds. Lester M. Salamon, *Leverage for Good* (New York: Oxford University Press, 2014), 2; and Jeremy Beer, *The Philanthropic Revolution: An Alternative History of American Charity* (Philadelphia: University of Pennsylvania Press, 2015).

[78] In his lectures on The Birth of Biopolitics in 1979, Michel Foucault suggests that at the heart of neoliberalism is a shift in the concept of "economic man" from consumer to entrepreneur. "In neo-liberalism—and it does not hide this; it proclaims it—there is also a theory of *homo economicus*, but he is not at all a partner of exchange. *Homo economicus* is an entrepreneur, an entrepreneur of himself…being for himself his own capital, being for himself his own producer, being for himself the source of [his] earnings." Michel Foucault, *The Birth of Biopolitics: Lectures at the College De France, 1978-1979* (New York: Picador, 2008), 226.

As I hope to show in *Profit for Good*, the expansion of the post-industrial marketplace has played an important role in contributing to the decline in social capital in the United States, thinning the glue that holds us together as a society. We see this especially in the fabric of our nonprofit organizations who increasingly adopt market models, relying on earned revenues, mass mailings, and professional staff rather than volunteers. We see it as people are less able to turn to friends, relatives, or parishioners in times of crisis and seek help from food banks, clinics and shelters instead. Ironically, the success of the post-industrial economic order and neoliberal ideology may be undermining the social cohesion that capitalism needs for continued growth and success.

In *Profit for Good*, I want to draw attention to this systemic crisis, but I also want to offer some solutions, especially to readers in business, nonprofits, and government seeking to understand philanthropy's role in the American economy and civil society, many of whom are aware of the social breakdown that we are witnessing.

Structure of the Book

Like most historians, I believe that the effort to address today's concerns and to test the emerging tools of philanthropy, begins with a better understanding of the past and of the coevolution of philanthropy and capitalism through a series of critical transitions over the last century. Chapter One provides background on the development of associational life in the United States in the late eighteenth and nineteenth centuries with an eye to the ways in which the third sector supported and fed the growth and integration of local, regional, and national markets.[79] It touches on Alexis de Toqueville's descriptions of the role of associations in antebellum society

[79] Kathleen D. McCarthy's work on civil society in the US before the Civil War sets the stage for this chapter, especially with regard to the development of the third sector. *American Creed: Philanthropy and the Rise of Civil Society, 1700-1865* (Chicago: University of Chicago Press, 2005).

and their relationship to the government and the market. It also synthesizes the scholarly debate over the interpretation of Toqueville's work and the cultural appropriation of the Tocquevillian ideal in American society.[80]

The Second Industrial Revolution of the nineteenth century precipitated a social crisis as industrialization, urbanization, and immigration tested the traditional roles of the government and the third sector.[81] Americans responded to this crisis by organizing. Chapter Two chronicles the growth of bureaucracy in the nonprofit sector in parallel with business and government in this era.[82] An explosion of new associations and institutions in the third sector, fueled by philanthropy, helped to expand educational and economic opportunities, restructuring the institutions of higher education to meet the needs of the modern corporation for talent, reformulating the nation's approach to public health to lower the social and economic costs of disease, and laying the groundwork for a new system of research and development anchored in the nation's leading universities.[83] In this same era, we see the beginnings of post-industrial capitalism as knowledge management, driven primarily through the growth of the professions, became a critical source of innovation and growth. We also witness the rise of the first large scale service sector enterprises—department stores, hotel and retail

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[80] Alexis de Tocqueville, *Democracy in America* (New York: Alfred A. Knopf, 1980 (original 1840)). See also, Bob Edwards, et. al., *Beyond Tocqueville: Civil Society and the Social Capital Debate in Comparative Perspective* (Medford: Tufts University Press, 2001), in particular the essay by Keith Whittington, "Revisiting Tocqueville's America: Society, Politics, and Association in Nineteenth Century," 21-31. Also, Leo Damrosch, *Toqueville's Discovery of America* (New York: Farrar, Straus and Giroux, 2010).

[81] Galambos focuses on four key challenges in this transition: urbanization, innovation, economic security, and managing global power. Louis Galambos, *The Creative Society—and the price Americans paid for it* (New York: Cambridge University Press, 2012), ix-xiv

[82] Louis Galambos, "The Emerging Organizational Synthesis in Modern American History," *Business History Review* 44:3 (Autumn 1970), 279-290.

[83] Peter Dobkin Hall highlights many of the important elements of the transition in the Gilded Age and the Progressive Era, including the role of leading philanthropists like Carnegie and Rockefeller in creating general purpose foundations, transforming higher education, and promoting scientific research. Peter Dobkin Hall, *Inventing the Nonprofit Sector* (Baltimore: Johns Hopkins University Press, 1992), 13-57. See also, Olivier Zunz, *Philanthropy in America: A History* (Princeton: Princeton University Press, 2011), 1-75. For a case study of the role of voluntary associations in promoting social stability in the face of industrial change in one community in the middle of the eighteenth century, see Stephan Thernstrom, *Poverty and Progress: Social Mobility in a Nineteenth Century City* (Cambridge: Harvard University Press, 1964), 166-91.

chains, institutions that focused managers on bringing social interactions into the production function of business.[84]

The Progressive era championed the role of education and expertise in developing institutions, growing the economy, and strengthening democracy.[85] Many of these experts came from universities, which were being transformed with the encouragement of major foundations and donors, to become leaders in the development of science and social science.[86] They also played a role in the development of the nation's first think tanks, which aimed to strengthen public policy via the application of disinterested or "objective" expertise.[87] The role of nonprofits and associations in shaping the economy was also evident in the efforts of producers and consumers to organize cooperatives and mutual benefit associations to provide access to markets, insurance policies to workers, savings establishments for working class households, and telephone and electric services to farms.[88]

The rapid expansion of the federal government during the Great Depression, World War II, and the Cold War, as Chapter Three will show, had a tremendous impact on the nation's economy and politics, including the nonprofit sector and its relationship to the market. As historian James T. Sparrow has described, the war forged "a new iteration of the associational state." As business leaders signed up as "Dollar-a-year" men to help manage the enterprises that would help win the

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[84] On the professions, see Louis Galambos, "Technology, Political Economy, and Professionalization: Central Themes of the Organizational Synthesis," *Business History Review* 57 (Winter 1983), 471-493 and Burton J. Bledstein, *The Culture of Professionalism* (New York: W.W. Norton & Co., 1978). For the early years of service sector management, see Alan R. Raucher, "Dime-Store Chains: The Making of Organization Men, 1880-1940," *Business History Review* (Spring 1991) and William Leach, *Land of Desire: Merchants, Power, and the Rise of a New American Culture* (New York: Vintage Books, 1993). For conceptual articulations of the industrialization of service, see Arlie Russel Hochschild, *The Managed Heart: Commercialization of Human Feeling* (Berkeley: University of California Press, 1983).

[85] Brian Balogh, "Reorganizing the Organizational Synthesis: Federal-Professional Relations in Modern America," *Studies in American Political Development* 5 (Spring 1991), 119-172.

[86] On the Rockefeller Foundation's pivotal role in shaping public health and medical research and training in the Progressive Era, see Angela Matysiak, *Health & Well-Being: Science, Medical Education, and Public Health* (New York: Rockefeller Foundation, 2014.

[87] James Allen Smith, *Brookings at Seventy-Five* (Washington, D.C.: Brookings Institution, 1991). See also, James A. Smith, *The Idea Brokers: Think Tanks and the Rise of the New Policy Elite* (New York: The Free Press, 1991).

[88] Jerry Voorhis, *American Cooperatives* (New York: Harper & Row, 1961).

war, they became "creatures of the state as they were servants of capital."[89] Progressive era planners and big business forged an alliance to achieve the nation's social goals and enrich its citizens. The introduction of the mass tax, in combination with high tax rates on the wealthiest individuals and families, had a leveling effect on incomes even as the American economy enjoyed a period of minimal competition from the nations that had been savaged by the war. In this era, philanthropy and the nonprofit sector benefited from tax policies that provided large incentives for giving. Voluntarism also increased as the collective service ethic cultivated by the war effort infused the larger society.[90]

This era of associational life, rooted in a rare combination of historical circumstances, began to break down in the 1960s. As Chapter Four will show, the nonprofit sector grew rapidly in this decade as government increasingly contracted with nonprofit agencies during President Johnson's Great Society era. With millions of federal dollars swelling the budgets of social service agencies, as well as arts and culture organizations, hospitals, and other charitable institutions, employment in the sector began a dramatic increase that would continue to the present.[91]

Government's appropriation of the nonprofit sector by the end of the 1960s seemed to be so complete that congressmen debating the Tax Reform Act of 1969, on both sides of the aisle, wondered if philanthropy, or at least private foundations, were still useful in the United States. The debate over the Tax Reform Act sharpened the focus on a growing tension in the economy and in public policy: the dividing line between the nonprofit and for-profit worlds. With passage of the act,

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89 James T. Sparrow, *Warfare State: World War II Americans and the Age of Big Government* (New York: Oxford University Press, 2011), 7. I have also explored this theme in Eric John Abrahamson, *Building Home: Howard F. Ahmanson and the Politics of the American Dream* (Berkeley: University of California Press, 2013).

90 David Hammack, "Failure and Resilience: Pushing the Limits in Depression and Wartime," in Lawrence J. Friedman and Mark D. McGarvie, eds., *Charity, Philanthropy, and Civility in American History* (New York: Cambridge University Press, 2003), 263-280 and Olivier Zunz, *Philanthropy in America: A History* (Princeton: Princeton University Press, 2011), 169-200.

91 Peter D. Hall, "The Welfare State and the Careers of Public and Private Institutions Since 1945," in Lawrence J. Friedman and Mark D. McGarvie, *Charity, Philanthropy, and Civility in American History* (New York: Cambridge University Press, 2003), 363-383.

Congress sought to draw a bright line between the two sectors and foreclose all paths to self-dealing in the name of charity.[92]

Over the next ten years, as the nation's economy struggled and equity markets floundered, philanthropy declined and the nonprofit sector struggled as institutions searched for new ways to sustain their operations.[93] At the same time, Richard Nixon's efforts to reduce domestic federal spending left many of Great Society nonprofits struggling to cut budgets and staff even as they faced continuing demands for service. These demands rose as corporations downsized in the face of rising global competition. Nevertheless, the nonprofit sector's role in the economy continued to grow.[94]

With Ronald Reagan's election in 1980, neoliberal ideology combined with the broad commercialization of major breakthroughs in digital technology accelerated the growth of the post-industrial economy and opened new opportunities for the market to incorporate elements of the social economy. As I will describe in Chapter Five, under the influence of this new ideology and in reaction to cutbacks in federal spending, many organizations in the nonprofit sector adopted sustainability models based on earned revenues in the marketplace. Increasingly, the separation between the realms of nonprofit and for-profit activities blurred. New institutional models for "social enterprises" emerged in the late 1980s reflecting a confluence of corporate social responsibility initiatives and new profit-based approaches to doing good in American society. Companies like Ben & Jerry's Ice Cream or Newman's Own advanced their social purpose as a critical part of their mission.

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92 Eric John Abrahamson, "Control Stock: Corporate Power and the Tax Reform Act of 1969," *HistPhil*, February 11, 2020, https://histphil.org/2020/02/11/control-stock-corporate-power-and-the-tax-reform-act-of-1969/.

93 Waldemar A. Nielsen, *The Endangered Sector* (New York: Columbia University Press, 1979). See also, Teresa Odendahl, ed., *America's Wealthy and the Future of Foundations* (New York: The Foundation Center, 1987).

94 Between 1972 and 1994, private sector social welfare expenditures (in four primary categories: health and medical care, welfare services, education, and income maintenance) rose from 7.7 percent of GDP to 13.3 percent. During this same period, public expenditures increased from 16.6 percent of GDP to 21.1 percent. These figures include spending by private health insurance companies and consumers for out-of-pocket health expenses. Income-maintenance expenditures include private-sector employee benefit plans. W. L. Kerns, "Private social welfare expenditures, 1972-1994," *Social Security Bulletin* 60:1 (1997), 54.

One of the most critical transformations in this era was in higher education. Although university relationships with industry to promote research and development have been continuous since the Progressive era and continued after World War II in parallel with a massive increase in federal funding, a relative decline in corporate expenditures for in-house research, especially in basic science, furthered the development of complex regional innovation systems with universities at the center of a constellation of investors ranging from government to corporations to private philanthropists. The development of this system accelerated after the passage of the Bayh-Dole Act, which was signed into law by President Jimmy Carter in December 1980. Bayh-Dole allowed universities to appropriate rights to intellectual property developed by faculty or staff and brought universities into the center of the innovation system in the United States, fueled by a mix of public and private money.[95]

With the commercialization of the internet starting in 1994, a host of new entrepreneurs reaped enormous rewards in the tech economy. As these entrepreneurs turned to philanthropy, like their forebearers in Rockefeller and Carnegie and in line with Schumpeter's ideas about innovation, they believed that their products and services had transformed society for the better. They believed they could build on their business models to launch new businesses that would do even more good and that they could develop nonprofit entities that would take advantage of their underlying business models. Using digital strategies to remove barriers and foster disintermediation were critical components of the new tech philanthropists' approach.[96] Further blurring the lines between the for-

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[95] David C. Mowery and Arvids A. Ziedonis, "Numbers, Quality, and Entry: How Has the Bayh-Dole Act Affected U.S. University Patenting and Licensing?", *Innovation Policy and the Economy, Volume 1* (Chicago: University of Chicago Press/NBER, 2000), 187-220. For a broader critique of Bayh-Dole's social effects, see Walter D. Valdivia, "The Stakes in Bayh-Dole: Public Values Beyond the Pace of Innovation," *Minerva* 49:1 (March 2011), 25-46.

[96] Tech billionaires included in this group include: Bill Gates (Microsoft), Pierre Omidyar (eBay), Jeffrey Skoll (eBay), Stephen Case (AOL), Sergey Brin and Larry Page (Google), and Mark Zuckerberg (Facebook). See Lewis D. Solomon, *Tech Billionaires: Reshaping Philanthropy in a Quest for a Better World* (New Brunswick: Transaction Publishers, 2009); Matthew Bishop and Michael Green, *Philanthrocapitalism: How Giving Can Save the World* (New York: Bloomsbury Press, 2009); David Bornstein, *How to Change the World: Social Entrepreneurs and the Power of New Ideas* (New York: Oxford University Press, 2007).

profit and nonprofit realms, some members of the new generation of philanthropists spurned the benefits of the charitable deduction, opting for greater freedom in giving, and chose to incorporate their own entities for doing good rather than choose the traditional route of establishing a private foundation.[97] Others took advantage of a newly created corporate form—the "B corporation"—that eschewed the older imperative of maximizing shareholder value in favor of a new model that sought to balance social and shareholder returns. With all of these innovations, a new field, soon known as "impact investing," was born that encouraged donors and investors to prioritize impact over the question of which institutional form to use.[98]

Donors, private foundations, and other nonprofits made an analogous transition from the 1980s to the present. In the Progressive era, nonprofit trustees were guided by the concept of the "prudent man" to avoid risking the organization's capital, so they invested in blue chip stocks and bonds. In the late 1960s, this approach began to change as private foundations, authorized by Congress in the 1969 Tax Act, made loans to promote economic development and housing through a vehicle named the program-related investment. In the 1970s, as social concerns about the environment and Apartheid in South Africa made the headlines, nonprofit and university boards debated whether their investments should be screened in some way for social issues.[99] By the 1990s and early 2000s, these questions related to the alignment of a nonprofit's mission with its practice of investing and gave birth to the concept of "mission-related investing."

Looking back over more than a century of institutional change in the relationship between the third sector and the market economy, the Conclusion synthesizes American's changing attitudes toward profit-making and philanthropy and the role of each sector in improving social welfare.

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97 Dana Brakman Reiser, "The Rise of Philanthropy LLCs," *Stanford Social Innovation Review*, Summer 2018.
98 Rockefeller Philanthropy Advisors offered one of the earliest efforts to synthesize the emergence of impact investing. For a short history of mission-related and impact investing at the Rockefeller Foundation, see Eric John Abrahamson, *Beyond Charity: A Century of Philanthropic Innovation* (New York: Rockefeller Foundation, 2013), 227-247.
99 John Simon, *The Ethical Investor: Universities and Corporate Responsibility* (New Haven: Yale University Press, 1972).

Using history as a lens, the Conclusion highlights the often overlooked risks in the expansion of the market model and the post-industrial economy into civil society. In particular, the Conclusion focuses on the continued expansion of the post-industrial economy into the social economy, moving hand-in-hand with a nonprofit sector that is increasingly anchored in the market model. The Conclusion synthesizes what researchers are learning about the ways in which new institutions are transforming the process for creating social capital, and it explores the continuities and discontinuities with the past. At the same time, the Conclusion will underscore ways in which people in the world of impact investing and the nonprofit community can look to now forgotten historical precedents to strengthen their approach to using profit for good.