THE *DĒMOS FORUM* PRESENTS…

Assets for All: Leveraging the Market to Create Community Wealth

FEATURING

Jerry Colonna

VENTURE CAPITALIST, WRITER AND CONSULTANT

Sara Horowitz

FOUNDER AND EXECUTIVE DIRECTOR OF WORKING TODAY

Michael Shuman

FOUNDER OF BAY FRIENDLY CHICKEN AND AUTHOR OF *GOING LOCAL: CREATING SELF-RELIANT COMMUNITIES IN A GLOBAL AGE*

Andrew Lamas

PROFESSOR, UNIVERSITY OF PENNSYLVANIA

MODERATED BY

Ernest Tollerson

SENIOR VICE-PRESIDENT FOR RESEARCH AND POLICY AT PARTNERSHIP FOR NEW YORK CITY

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Dēmos, 220 Fifth Avenue, New York, NY

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Abridged transcript of June 28 event

This transcript has been edited for clarity and readability.

TAMARA DRAUT: Good Afternoon. I'm Tamara Draut, Director of the Economic Opportunity Program at Dēmos. For those of you who are new to the organization, Dēmos was founded in 1999 and is a non-profit, non-partisan public policy organization. Dēmos' work focuses on expanding economic opportunity and enriching our democracy. We are really honored to co-sponsor this event with the New York Regional Association of Grantmakers. And Michael Seltzer, who is the President, is going to say a few words. But before I do that, I also want to thank Ernest Tollerson who is going to be moderating the event today. Ernest, by the way, is one of Dēmos' board members. And he also, right now, is Senior Vice President for Research and Policy at the Partnership for New York City. And another key thing you need to know about Ernest is he once made his living as a scribe. He was Editorial Page Editor of *New York Newsday* for five years, and he also worked for *The New York Times*, and has a really wonderful and rich history of journalism. We've been delighted to have him on the board. He was really very key in pulling this event together. So, I want to thank Ernest for all the work that brought us these four wonderful panelists today.

So with that, the way the event will go is each of the panelists are going to have a nice interactive discussion with Ernest. And then we, as always, will open it up to questions. So without further ado, let me introduce Michael Seltzer, President of the New York Regional Association for Grantmakers. (APPLAUSE)

MICHAEL: Thank you very much. This was literally a no-brainer when Ernest called up and asked me to cosponsor the event. As a Trustee of the Nathan Cummings Foundation, one of our members, said, would we get involved in a program on asset building? I said, absolutely because it's a core theme that runs through the work of a number of foundations. And in any way we can bring the kind of activist, intellectual inquiries that Dēmos is known for for this topic, is something we are overjoyed to do. So I just want to thank you for giving us this opportunity, and thank the panel for what I know will be a very important session.

ERNEST: Thank you, Michael. And I really appreciate your help. Once again, folks thanks for coming out today. I really appreciate it. As a young reporter a few decades ago, I sat near an oil industry reporter who had a really wicked sense of humor. And one of his favorite jokes went something like this: "The meek shall inherit the earth, but not the mineral rights." (LAUGHTER) And frankly, I've been haunted by the underlying message in that joke ever since. I think it's probably the same for some of you.

All of us are acutely aware of the data on the distribution of income and wealth in the US. We know how wealth is concentrated in the top 2 percent, the top 1 percent, the top 5 percent. There have been great gains while people in the other quintiles are losing ground, if they had any ground to begin with. Our forum today is not about rehashing any of the fine work by Ed Wolf, and the other people who focus on both income and wealth distribution, and what's happening with these trends. The forum today is focused on some things that we can do to address these inequalities. So, I hope that we can explore a set of issues prompted by the lopsided distribution of wealth in our society. And here are some broad questions. What roles can communities and NGOs play, creating assets and wealth for individuals and groups in our society that don't have either?

For the purpose of this discussion, this event is not about the set of ideas that we've been thinking about for a while, such as individual development accounts or baby bonds. But, rather, the goal is to ask whether there are things in the market economy that can also help us achieve the goals that many of us have—are there opportunities to build assets and wealth that NGOs or communities are just missing? Can the same level of energy that communities put into fighting the abuses in the market, and championing meritorious redistribution policies, be harnessed to make the nation's economy work for the other 4/5ths of the people? Can we do it? And at the fundamental level, for me, the question is, really, can we build an ownership society for the rest of us?

Now, fortunately, none of our panelists are spooked by these big questions. Andy Lamas, Sara Horowitz, Jerry Colonna and Michael Shuman are all experts on the opportunities and risks involved in putting a market economy at the service of communities and NGOs. I'm briefly going to give you just a little bit of their bios, so we know who everyone is. And then we'll walk you through a discussion.

Andy Lamas is a professor at the University of Pennsylvania, and an authority on social and economic development. As a senior consultant for the Praxis Consulting Group, he works with employee-owned companies in creating ownership cultures that include company performance for the benefit of all shareholders.

Sara Horowitz is a lawyer and the Executive Director of Working Today, which was founded in 1995 to deal with the needs of the nation's growing independent-slash-freelance work force. Working Today runs a broadbased operation that provides affordable health insurance to more than 7000 freelancers. In 1999, Sara was awarded a McArthur Genius Award Fellowship. And in 2004, Sara received a Community Development Award from the Mayor of New York, and Working Today was recognized as a leading social entrepreneur by *Fast Company Magazine*.

Jerry Colonna is a writer-consultant, and an expert on early stage investment and information technology companies. He was one of the founding partners of Flatiron Partners. Flatiron invested more than $500 million in the '90s, which today has returned more than $1.7 billion. He writes a column for *Inc Magazine*, and serves on the board of a number of private sector ventures. Through Hudson Heights Partners, he advises NGO clients on diversifying their earned revenue stream and other issues. Jerry's also on the board of the Queens College Foundation and Pencil.

And last but not least, Michael is an attorney and economist, as well as a Vice President for Enterprise for the Training and Development Corporation in Bucksport, Maine. As many of you know, he's the author of *Going Local: Creating Self-Reliant Communities in a Global Age*. And he's the founder of a triple-bottom-line business in the Chesapeake Bay region called Bay Friendly Chicken, which will be a community-owned company. He's also developing Work Sphere Community Corporation, which is a for-profit unit of the Training and Development Corporation. And that'll focus on community and small businesses, and local purchasing.

So, I hope I've just given you a brief sketch of the four panelists today. Andy, I think I'd like to get you to frame our discussion and get us started. I know you've recently returned from a conference of CEOs who run employee-owned companies. And I'm wondering whether you could give us your take on why communities and NGOs that engage in progressive causes and movements may seem a bit leery about market-based strategies.

And if you could, in your opening, discuss the Alaska Permanent Fund. It's been around since '77. Alaska basically decided that a share of the revenue it was getting from its oil and mineral explorations ought to go into a fund. And then of course, money from that fund builds up over time and each year, families in Alaska get a percentage of the money derived from the funds. A family of four might get $8000.

ANDREW LAMAS: It's six to $8000.

ERNEST: Six to $8000. An individual gets, what, something less than $2000?

ANDREW LAMAS: Yeah.

ERNEST: But—you know, we don't have a lot of Alaskan Permanent Funds.

ANDREW LAMAS: No, we don't. First, thanks very much for having me here on this panel. I was telling Ernest that I love New York audiences, because they're always the most intellectually sophisticated, and have this great combination of skepticism and hope. And that's kind of how I think about my own intellectual orientation. So, I'm happy to be here.

I was asked to do a little bit of framing. And I guess I'm going to assume two things. One is that some of you are very, very new to this topic, and some of you have been into this for a long time. I hope you'll be patient with me, both groups of people. So, why haven't we been doing more of this wealth creation, asset development? I wanted to begin with three propositions. And I've got a demo first. Right? Professors have demos—I'm from Atlanta. I live in the land of Coke. Notice how many cans I'm putting up here. Nine, right? [Professor Lamas places nine cans of Coke on the table.]

So, in 1996, Coca Cola, in its annual report, revealed to the world its marketing strategy. And if you're putting a marketing strategy together, you want to know what the potential size of your market is so you can measure your progress year by year, right? So they sent nutritionists and anthropologists, not MBAs, out all over the world to determine how many times a day people got thirsty. They called these counts "thirst events." And it turns out that on average, humans get thirsty 8.5 times per day. We'll round it up to nine. Okay?

So, in that annual report, they had several pictures, which are sort of the cultural obstacles to them reaching their market. One was a picture of a water fountain on top of a mountain at a public park. One was a group of people sitting around a table in China drinking tea. One was a group of people sitting around a table in New York, during a lunch place, drinking coffee. Okay?

So, this is the vision. And I describe this, for purposes of today's presentation, as a kind of totalism. We're living in a time of totalism. And I think that's one of the main obstacles to those of us that are progressives and liberals, to engaging in market-based activities. Because it's a very seductive, almost irresistible idea out there, that we need to relentlessly privatize, and do so in a way that concentrates power and wealth, and that it's going to benefit all God's children.

And so, I think that idea actually weighs on all of us. Even those of us that are trying to resist it, or we begin to think, "Well, yeah. There might be a better blood supply, if we would just allow that to be regulated in the market, there might be more kidneys available, if that could be privatized, the sale of kidneys," and so on and so forth.

And the idea is seductive. And it poses some barriers to us engaged in liberal and progressive activity in the marketplace. So, I think the first obstacle is coming to terms, ourselves, as people in our communities with that idea of, how can we resist the intellectual impact of this? So, that's the general problem with totalism. I think it expresses itself. I'm going to give you three propositions. One is—this is not the end of history. The second one is, capitalism is not the same thing as the market. And the third is, inequality is not mainly about income. It's mainly about wealth. And the power that it focuses. So, those are the three.

Those of you that know about Francis Fukuyama's article in 1999, and what's happened with this end of history idea, is basically that there really are no more debates about the big questions. So that, when I was in college and in law school, there was still a sense that our generation could make some choices about how it is that we should govern ourselves. How is it that the economy should run? We could debate that with each other. Those questions have now been resolved, and it's American-style capitalism—that's the answer. And it's the answer, regardless of the situation, the culture, the place. That's the answer.

So, there are no more debates about this question. Really, only technical issues remain. Everybody might as well stop going to my Urban Studies program and go to Wharton, because it's really about, should interest rates be a quarter percent higher or a quarter percent lower?—those kinds of technical questions. And then the last element of this, I think is—by the way, the poor aren't poor. And this comes about in three kinds of expressions, I've noticed recently. One is—the Heritage Foundation is trying to calculate the per capita value of various public subsidies. The things like transportation, and roads, and other kinds of things that we don't normally think of as welfare. And that adds up, to say that in fact, the poor aren't really poor, if you add that all in.

Two other ways in which this idea is out in the world—one is by a former student of Milton Friedman, named Hernando De Soto, who's a very big deal in global development circles, IMF and the World Bank. And some of his ideas are, in fact, interesting. But he also basically makes the point that the poor aren't poor. The poor have generated gobs of assets. They just don't have title to their stuff. In other words, you know, if you go into Third World countries, you see all kinds of amazing entrepreneurial activity. You really do. Right? They're really vibrant markets. And you see lots of people building houses. Some of them are shanties, but they're building places to live. There's a lot of economic activity.

And his point is people don't have title to what it is that they own. They don't have titles to their businesses—they don't have titles to their homes. And as a consequence, the capital that they have accumulated is, in his words, dead capital. And in order to make it living capital, they need the liberal institutions that we've had in this country. There's some sense to that. Like, we have mortgage instruments that we are allowed to go into markets even as individuals, and borrow against home equity, and then start the business, and do other kinds of things. But those institutions are important.

But his argument is basically that what is needed to bring about wealth for the poor is to have the wealth that they are, in fact, operating with daily, acknowledged as their own. But this is a real problem in a place like El Salvador, where 12 extended families own 80 percent of the land, and they're not gonna give it up. So, to propose a kind of legal strategy that, "Oh, well, let's just give people titles to their property on that farm land"—well, they don't own it, and they're not gonna own it, unless something revolutionary happens. So, it's a kind of naïve idea.

The most recent one that's come out of the Wharton School Press—CK Prahalad—who is doing a book tour. Some of you might have seen him. His book is *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. This is a quote: "The real source of market promise is not the wealthy few of the developing world, or even the emerging middle income consumers. It is the billions of aspiring poor who are joining the market economy for the first time." So again and again and again in a variety of ways, they say, "Hey. By the way, the poor aren't poor."

The second obstacle: capitalism is not the market. This is a problem that left and liberal people have. We've accepted that these two things are synonymous. And what that's meant is, our arena is the arena of the state—an arena of regulation, of the private autonomy. And we haven't thought of the market enough. I mean, we've got wonderful examples of that on our panel, right? But generally, as progressive and liberal people, we haven't thought of the market as an arena that can be our own for entrepreneurial work, for experimentation, for advancing the interests of the constituencies that we represent.

And it's that problem with equating the market with capitalism, rather than taking inspiration from secular and religious ideas that have been out there for a long time. The Book of Ruth. The Jewish prophets. Martin Luther. Reconstructionists, and reform commentaries on the economy. The third way, not of Clinton and Blair, but of Catholic social theory going all the way back to the 1890s. Liberation theology in the '70s and '80s, Sydney Hillman, so on and so forth. The women striking after Triangle Shirt Factory. I mean, it's in our secular sources and our religious sources, and we need to get back in touch with it.

And then finally, the third problem is this idea that inequality is mainly about income, not actually about wealth. This is the problem that progressives and liberal people have had for a long time. I'll just give you a few examples. Probably the most famous book that—and earliest book in the memory of this room would be Michael Harrington's *Other America*. It pointed a light on what had heretofore been the invisibility of poverty in America, and helped to shape Kennedy and Johnson's Great Society programs, and so on and so forth. It's a powerful book. It influenced me. If you reread that book, it's all about income, and income security. Okay?

Let's take his most famous student who we all love, Barbara Ehrenreich. The book that we all love to pass around to others who need to be informed about poverty in America, *Nickel and Dimed*. I reread the book with this lens. The book gives us two ideas when we're done. Raise the minimum wage, and support living wage income. There's not a word in the book about wealth. Okay?

The official definition of poverty in the United States is income. *The New York Times* over the 20th century, if you do a search of all of its charts, tables and graphs, about poverty and inequality, about 90 percent of the time, the focus of those charts, tables and graphs during the 20th century will be about income, not about wealth. Okay? So.

[Passes out handouts on wealth/income distribution]. Now if you just look at the racial income figures you can say, "Wow, there's been some progress." But if you turn the page over, and look at net worth, it's about 11 to one. In addition to that, one out of five Americans owes more than they own. One in four can't support themselves for more than three months above the poverty line if they lose their job. One in four females in female-headed households, and one in three in minority-headed households have zero or negative net worth. Okay? So, if you want to tell a story about progress, and reducing inequality in America, you tell a story about income. If you want to tell the real story about the concentration of power, and the lack of opportunity, you tell the real story about ownership.

Okay. So, we need to do more of that kind of talking with each other. I think the best thing for me to do now is sit down. And I'd love to have a chance to hear some sort of critical remarks about what we're doing to remedy this problem.

ERNEST: Really. Thank you. Sara, you've been working and trying to use market-based solutions. Do you want to pick up and tell us why you formed your own company, and maybe—are there points where you agree or disagree with Andy?

SARA HOROWITZ: I have to say that at the end of this panel, one of the major themes that will emerge from this event is that capitalism does not equal the market. And I really think that that is so profound, because the way that we keep analyzing the world on the left is that the success of any liberal or left program is that we get the government to do something. So, the government gives rights, or there's a program. And it really narrows our thinking about what is possible. And more important, what will be strategically successful, because it makes our current ideology really untidy. And it means that we have to start looking at fears, or ideas, or groups that we don't agree with. And because our ideas aren't so well thought-out yet, we can't really defend it. So it makes people quietly have these thoughts. But it's very hard to enter into a public debate, because you get politically corrected out.

I think the goal in some way is to start making these ideas acceptable to people to start raising them and not having to deal with the giggle factor of, it's really uncool and not politically correct. And I don't mean to make that sound juvenile. I think it's really true. And so, when I read Michael's article in *The Nation*, I thought, "this is excellent." It really helps to say why what we're talking about is something that's absolutely very political. And we're really not talking about assets, in the way that is about asset development and ideas. Which is important, but that's not really what we're talking about here.

And I would say the next phase after realizing that it's actually okay to talk about the market, is to acknowledge that the liberal-left doesn't have independent institutions that we've built up. So, we know how to engage people, and mobilize people on e-mail lists. But we don't even have our own ownership society of our own institutions. And you know, I wish I could remember the name of the person that I'm stealing this from. But some really smart person at a conference said, "The revolution will not be foundation-funded." (LAUGHTER)

And I think that there's a lot of truth to that. Except for NYRAG, perhaps. (LAUGHTER) And so, I often think of the terrible—I love Sydney Hillman. And he was somebody who was the head of the Amalgamated Clothing Workers. And he was this really brilliant labor—I think, entrepreneur, actually. He was a trade unionist, who really understood that he needed to use the power of the market. And one of the first things that he did is he went to the big department stores at the time, and he said, "If you all get together and start having a private insurance pool, so that when people can't work because they have to be laid off, they'll then get this thing called unemployment insurance. You will actually drive out all your competition because the smaller merchants will never be able to survive if we raise that level of social protection for workers." So they said, "Do it." And so he started the first model of unemployment insurance with FDR in his New Deal, that went on to become the model of unemployment insurance in America.

So the example would be how you could start having private institutions that do really important work, like delivering unemployment insurance. Having that be something that's an R&D model for the nation—but that it also builds up a constituency, so that when you do have these debates, you actually have a group of people who are connected to an institution, that are funded by their own dues, so that they're independent. It's not a charity movement. And then, they can make the democracy advance, because they're speaking through their own institutions, and not just the latest you know, poll, by ABC and CNN.

Let me conclude by saying that Working Today, which is in the midst of transitioning to the Freelancers Union is really built on this idea that we have this growing group of people who cannot unionize. So we need to really figure out how to build an institution, and that base has to be built on their own economic power. And from that economic base, then you can start participating in the democracy, to start talking about how you're gonna get the democracy to start working both politically, but also economically, for working people. And so, it's not because we've made people—we've really made our argument well, and pulled at their heartstrings. But that it's a constituency of voters that really need the democracy to make changes that will be fair to the most people, which is always the aspiration of what a democracy should be.

ERNEST: Jerry. As we look around the country, we obviously see Native-American groups creating wind farms. And we see other forms of economic development in areas controlled by Native-Americans. I guess the first thing, are there similar opportunities in the urban setting that we're missing? And then if you could, give us your sense of the risks, rewards and issues of communities trying to set up for-profit businesses that actually work as businesses out there in the world—because after all, we know that perhaps nine, ten of every ten or 12 business ideas in the private sector, fail.

JERRY COLONNA: I think it's more like 11 out of 12. Before I comment on that, I wanted to make a personal note. Did you ever have a moment where you're listening to someone say something, and the light bulb goes off so profoundly that your heart starts to race?

Andy, I had that moment listening to you. And I really want to thank you. You actually gave me powerful language to understand something that I've been struggling with since I stepped down as an active venture capitalist in 2002, and really started to step up my activities for nonprofits.

And one of the things that I've been struggling with is what I always took to be a cultural impediment, among NGOs, towards actually making money. And I don't mean making profit. I mean breaking even. And that there was a—almost a cultural problem with the notion that it is an anathema to somehow charge fees.

I taught a course on leadership for entrepreneurs and we struggled a lot with issues associated with it. And I would make a corollary to your theory capitalism doesn't equal the marketplace. And that is that entrepreneurs don't necessarily equal capitalists. In fact, the greatest capitalists of our society were most famous for taking advantage of the innovators and the entrepreneurs. Right? The people who built those institutions like General Motors weren't the people who in fact invented the key components. Henry Ford himself didn't invent most of the key components. We all know this. This is part of our mythology, part of our culture.

So, I wanted to thank you, because you really helped me open up some of that discussion. And to answer your question, and respond to your point, I absolutely believe fundamentally and wholeheartedly in there being opportunities for entrepreneurs—whether we use the term social entrepreneurs or not is irrelevant in my theory—for entrepreneurs to look at societal issues, societal problems, and create a market-performing solution. Now, whether the sponsoring organization is in fact a for-profit institution or an NGO, or a religious institution, or whatever, is less relevant. It's only relevant when it comes to the capitalization of that organization.

And I'll tell you what I mean by this. One of the most interesting developments has been the profound influence of 527s in the election process. This is a mechanism used mostly by the left to get out a message that is theoretically non-partisan. It's a way to take advantage of changes in federal election rules to actually put more money into the process. You may not like the fact—none of us like the fact that elections are bought. But that's the game we're playing. And thank goodness Move On is putting out the ads they're putting out.

So, what has happened? This 527 sector is under attack by the Republican-led Congress right now. And it will probably go away. And this very pleasant fellow that I know, a Harvard MBA—not a Wharton MBA—a very clever fellow I know has said, "Fine. Let's presume that the 527 structure"—which is analogous to a 501(c)3—will go away. If it goes away, what are we gonna leave in its place? A for-profit company. So, instead of going to George Soros and asking for $10 million for a nonprofit organization, we're gonna go to George Soros and ask for $10 million to sponsor this organization, and allow George Soros, instead of taking a tax deduction by donating money to a non-profit, to take a loss on his taxes." (LAUGHTER)

And so, what we're doing is using the market as it currently exists, to fund the operation. From Soros' perspective, it's the same. It's still a reduction in income tax. And so, it's a very clever response to the market. Fine. You're gonna take away our ability to raise money that way? We'll raise money another way. When you build a business, knowing that you'll be at best breaking even or slightly a loss, you run a business very, very differently.

That's one example. Here's another example. A woman I know came to Hudson Heights, our consulting firm, who wants to start a program called "Doctor in a Box." And the idea is to take advantage of the thousands and thousands of empty steel containers that come from China filled with goods, and sit on our docks empty for years and years. And instead of turning them into the Nomadic Museum, as they did in the pier recently, turning them into self-supported, self-sufficient medical facilities, and dropping them in the hot spots. Now, like a lot of you, you'll respond to this. She works for a nonprofit organization. And what she said was, "I definitely don't want to form a nonprofit. I can't stand that attitude." We said, "Well, here's the problem. I, as a donor, am not gonna give you money unless I can get a tax deduction. It just doesn't make sense. So, how are we gonna structure this?" And so, what she really wanted to do was take advantage of the market sensibility of running an organization that is not depending upon the non-consistent flow of money from foundations. Where there are lots of strings attached to the money from foundations. To create something that is more self-sufficient. And my point was you can do all that within the nonprofit sector. It doesn't have to be a for-profit structure.

Ernest, I don't think I've answered your questions. I think that there are lots of those opportunities. Bay Friendly Chicken is an example of that. There are dozens and dozens of examples. Smart, double-bottom-line, triple-bottom-line organizations that people will fund. It is unlikely that a traditional investment capital firm will fund that. But we can talk about where that funding can come from, later.

ERNEST: Thank you. Michael, from your vantage point, whether you're in Washington, or Bucks Point, are we looking at something that's sort of a niche? We'll come back to it five years from now and it'll still be a niche? Or are we at the start of something that's going to be significant as a sector? And I'm wondering whether, in this context, you would also talk about other pools of capital out there.

MICHAEL SHUMAN: Okay. Well, it's—I must say, I'm tempted to begin like you began with the Coke cans, except I didn't bring eight chickens. So, we're on our own. But, I have three essential points I want to make. And I think I'll answer the questions raised in there. One has to do with nonprofits. One has to do with small business. And one has to do with equity capital.

I appreciate, actually, the distribution of this *Nation* piece. Because there was actually very little feedback in the Letters column of *The Nation*, and I couldn't quite tell how people responded to it. But the essential argument that I make in there, is to take the line that was said earlier, not only will the revolution not be funded by foundations, but the revolution will not be led by nonprofits. And I—just so you know, am a reformed nonprofit-a-holic. I spent my entire adult life working for nonprofits. And so, I know intimately their advantages and their liabilities. And you know the liabilities, which sometimes we overlook, are the miserable working conditions—the humiliation of begging from funders as an ongoing way of life, the inaccessibility to equity, and focus on debt.

And consider this. That in an era when many, many nonprofits, like hospitals, have converted to for-profits to get greater efficiency, it is almost impossible to think of an example of where a for-profit has decided to convert into a non-profit to get a market advantage. So, whatever the advantages of nonprofits, efficiency is not one of them.

The second thing that I think we should focus on is that we have a giant economy right now, which is friendly to progressive values. And I believe that the small business economy, or what I call LOIS—locally-owned and import substituting, that is focused primarily on local markets—really constitutes our friends in the business community. Why are LOIS businesses our friend? Well, because they don't move around. Because they're immobile because of local ownership, communities can raise labor and environmental standards with confidence that they're going to adapt, rather than flee.

Another advantage is that locally-owned businesses spend more of their money locally. So that means, for every dollar spent at the local store, you have a greater multiplier impact on your economy. The prevailing view out there is that these businesses, while nice and pretty and maybe good for community well-being, are the bath water of the US economy. In point of fact, 58 percent of the goods and services you consume are from place-based enterprises—small business cooperatives, state and local government-funded enterprises.

And my belief is that that will increase over the next 20 years, with some concerted work on our part, to about 80 percent. And so, yes, we are on the verge of a gigantic thing, if we take advantage of it. I mean, think of a bunch of trends in the global economy that are actually making local business more competitive. Price of oil. As the price of oil goes up, the comparative advantage of a local business surveying a local market improves over Wal-Mart importing 80 percent of its goods from China.

Or, consider the movement from goods to services. As we move from goods-manufacturing to a service economy that is more inherently susceptible to localization—even home-based businesses.

What I believe stands in the way of this revolution are—strangely, given our history—anti-market forces. And so, you know, I think we find ourselves on the precipice of finding weird common bedfellows in arguing for the elimination of the anti-market forces. For example, best I can tell, something like 99 percent of all business subsidies, particularly those at the state and local level, are not in favor of local business. They support giant business attraction. Big oil. Big steel. Big cattle. Big water. Big highways. Big energy projects. Things that have very little connection to local economies. We have to wipe these out.

Second thing is, of course, trade rules, which are becoming more and more anti-community. You know, to choose just one example—why shouldn't a local government purchaser, or a local government investor, be on the same footing as a private purchaser, or a private government investor? And yet, the trade rules are seeking to undermine that.

What I have found is the most intriguing and least-understood, least-paid-attention-to obstacle is securities law. And I say this as, aside from being also a reformed nonprofit person, I'm a reformed lawyer. But, I think securities law is one of the most oppressive instruments out there. Consider that 58 percent of the economy is this placed-based economy, and yet, nearly all of our pension funds are going to Fortune 500 companies.

Now, sometimes people say, "Well, you know, my local bank—that is part of the economy." Or, consumer credit unions. But in fact, when you look at the big picture of finance out there—you know something like $90 trillion of financial instruments out there—about 15 percent are bank-related. So, you know, get the CRA [Community Reinvestment Act] on everything. And still, 85 percent of that universe is untouched. Stocks, bonds, mutual funds, insurance funds. Unless we begin to go after that, and capture that money for this growing economy, it's gonna be a complete failure on our part.

So, what I've been interested in is, how can we begin to crack open that securities market? And so, what drew me to Bay Friendly Chicken was not chicken, although I like to eat chicken, but, was the idea, as my grandmother would say, "Chicken stock is good for you." So, we are in the midst of creating a community-friendly chicken business in the heart of Purdue and Tyson country, on the eastern shore of Maryland, where we're gonna capitalize it with the issuance of local stock, that can only be bought or traded within the state of Maryland through what's called a direct public offering. And we're in the midst—we're halfway through preparing this offer under a USDA grant. And I am hopeful that we can begin to demonstrate the viability of opening up local business opportunities with this kind of small stock.

The next step is more about what we're planning to do in Maine. And that is, if we can get enough of these small stock issues running, why not begin to systematically create a state-based stock exchange? You know, take advantage of all this virtual technology, and make it easy for investors like ourselves, and small businesses, to find one another in the marketplace?

And I guess the last thing I would say about this agenda—to just answer a question that I know some people were interested in as we were planning this—is that there are huge policy obstacles to all of this. And so, you know, it's easy for me to say, "Local stock issues. Local stock exchange." But in fact, technically to get there, it's gonna require—you know, that we overhaul a lot of securities laws. We have to overhaul ERISA [Employee Retirement Income Security Act]. We have to overhaul pension investment funds. We have to overhaul the ability to take 401Ks, or IRAs, and begin to target some of that money in local business. It's a big agenda. But it's—in my view, it's the only serious ownership society agenda that I know of.

ERNEST: Just picking up on that last part of that agenda, that set of barriers. Is that an agenda that has appeal for people who are—you would sort of say, are on the other side? And is there any evidence of that?

MICHAEL SHUMAN: Yeah. I—one answer I would give is that for the last two years, besides working with the chicken people on the eastern shore of Maryland, I've been working in Millinocket, which is a paper mill town in the middle of Maine. And two Christmases ago, the mill there shut down, leaving a regional unemployment rate of about 40 percent for a year and a half. And I mean, by every indicator—income, wealth, poverty, health indicators, crime indicators—this is a society there that has totally fallen apart.

And yet, the interest in beginning to find these other financial instruments to begin to fund local business, to fill that massive gap in their economy, is huge. I mean, I think people with almost nothing to their name would put 10, 15, 20 percent of what they do have into these kinds of alternative instruments.

ERNEST: A question for all of the panel. We're all sort of vaguely familiar with—or maybe intimately familiar with—the Ben and Jerry's story. So, two guys from New York end up in Vermont. And—you know, initially it's just a very, very small ice cream shop operation. They come up with a product that people actually want. It catches on. And then they need to scale up. They need to build a factory.

But they didn't go to someone like Jerry Colonna. They had an in-state, place-based, stock offering. And at some point, one of every 100 families had Ben and Jerry's stock. They do very well. Eventually, the company's acquired by Unilever. For the panel, is that a successful case of the kind of institution to build? Or not?

JERRY COLONNA: Well, I'll just quickly—what I would say is that it's an indicator of our failure to have alternative capital sources to provide exit to a company that starts off on the right footing, but then grows to be something else. So, when Ben and Jerry's—you know. I mean, to be sure, they actually were participant in going public, and making themselves vulnerable to a buy-out. So, part of that was their fault. But, they were very interested in finding partners who would—you know, keep the values alive. And the Unilever offer was actually the third offer that was on the table.

The first one was a horrible one. A bunch of socially responsible investors came together and put a second one on the table. And then Unilever then beat 'em out with a third. And—but what was put together was so little, and so ad hoc, so late. You know, what we really need is mechanisms to put this capital together in advance of these kinds of situations.

ERNEST: By the way, Michael, can you give us an example of a state, or a set of states, that you feel have the right climate, want to capitalize small businesses?

MICHAEL SHUMAN: Yeah. Well, I think both Maine and New Mexico are two examples that come to mind where I've done work.

New Mexico is an interesting example because it's the second poorest state in the country, and were it not for Santa Fe, it would be poorest. But New Mexico has very easy, small-scale stock issue programs. Law 27J, $200, postage stamp, cheap filing, you can issue stock. But what we've learned from that is that you also need a network of underwriters, broker-dealers, and other kinds of market requisites to make this all work. So, I think that in New Mexico, there's some interest in doing this.

But you know, again, think about where the government also goes wrong. Like, right now the government is sitting on, the New Mexico government is sitting on $13 billion that it gets from land trusts, and severance taxes, and mineral rights and oil and gas. Where is that money going? Well, almost all of it is going into conventional stocks and bonds. They put $70 million of $13 billion in New Mexico business. They put four times more money in emerging economies, forgetting that they are an emerging economy. So, there's a madness that we have to sort of put a spotlight on, to change.

Regrettably, due to technical difficulties with the audio recording equipment used during the "Assets for All" forum, the question and answer section among the panelists and audience was inaudible.

Profits for Justice

Michael H. Shuman & Merrian Fuller

The Nation, January 24, 2005

Now that the religious right dominates all three branches of the federal government, one of the few avenues still open for creative progressive initiative is business. To get an inkling of what's possible, drop by the Used Book Cafe in the SoHo district of New York City. There you'll find an independent bookstore that lacks the selection of a Borders but enjoys regular visits from leading agents and publishers in the city and boasts a fabulous events calendar that reads like a Who's Who of contemporary writers and musicians. What's truly revolutionary about the cafe, however, is that last year the business, along with sister thrift shops, provided more than $2 million to its parent nonprofit, Housing Works, one of the nation's largest advocacy groups for homeless people with HIV/AIDS. Housing Works runs clinics, conducts public-policy research, lobbies federal and state officials, even leads sit-ins. It is fearless, aggressive and stunningly effective—and its $30 million of annual work would be impossible were it not for a vast range of realty, food service, retail and rental companies that help pay the bills.

"What we are about," says Housing Works president and CEO Charles King, "is the business of changing the entire paradigm by which not-for-profits operate and generate the capital they need to carry out their mission—a new paradigm based on sustainability and social entrepreneurship." King is helping other nonprofits adopt these ideas through the Social Enterprise Alliance, which recently held its fifth annual conference, involving 600 social entrepreneurs from thirty-nine states and seven countries.

This new paradigm increasingly defines our own jobs. One of us, after raising some $15 million for various progressive nonprofits, decided six years ago to start creating socially responsible enterprises, including community-friendly poultry production, small-business venture capital and buy-local purchasing clubs [see box on page 18]. The other has run a network of progressive independent businesses in Philadelphia, an effort based at the White Dog Cafe, one of the city's top restaurants, which serves food from local farmers.

We believe that the spread of social entrepreneurship, and the positive alternative to conventional fundraising it provides for raising resources, offers a fundamentally new and powerful strategy for progressives to expand their power and their voice in the United States.

ENTREPRENEURIAL NONPROFITS

Mainstream nonprofits actually have been entrepreneurial for years. Every year the *Chronicle of Philanthropy* publishes a list of the top 400 nonprofits in the United States, ranked by their fundraising. Re-rank the October 2003 list on the basis of revenues not derived from private sources such as donations and foundation grants, and the top performers, unsurprisingly, are universities and medical centers. Remove these heavyweights, and one finds a fascinating assortment of do-gooders. Lutheran Services, number one, serves as an umbrella for 300 organizations that supplement their many contracts, grants and donations with a wide range of fee-for-service programs to help, among others, the poor, the elderly, the sick, at-risk youth and refugees. Number two is the YMCA, which supports its youth outreach programs with a vast network of health clubs. The American Red Cross, number three, draws blood and sells it to hospitals and health centers. Fourth is Good Will Industries, which raises more than a billion dollars through the collection, refurbishment and sale of secondhand clothing and household items, and nearly another half a billion from fees for contracts and services. In eighth place is the Girl Scouts, which generates millions of dollars through the sale of cookies.

For the most part, these charities are engaged in work lacking the kind of coherent vision of systemic change that progressives embrace. But there is no good reason why a progressive organization with business sense and imagination could not create its own universities, healthcare systems, secondhand stores and cookie operations that provided substantial revenue for more serious political work.

Some, in fact, do. Antioch College and the New School University, among other schools, have designed social-change-oriented curriculums that have graduated several generations of activists. Planned Parenthood's 850 clinics, in some communities the only places where contraception and safe abortion are available, generated more than $306 million last year, a financial base that has helped insulate it against various retaliatory strategies by anti-choice groups. For several decades, Green's Restaurant in Fort Mason Center in San Francisco has sold not cookies but high-end vegetarian meals to help finance the Zen Center, which has numerous programs for peace, the homeless and prisoners.

Below the radar of the top-400 list are many other huge progressive success stories. The Rodale Institute has long underwritten cutting-edge work in sustainable agriculture, community economics and alternative healthcare through a publishing empire that includes *Prevention* magazine, a fixture on supermarket checkout lines. The Worldwatch Institute has supported its environmental work through the widely sold *State of the World* series. Greenpeace has creatively used everything from special music albums to concerts to raise many millions for its work.

Or consider Global Exchange, whose founders, Medea Benjamin, Kevin Danaher and Kirsten Moller, have been outspoken critics of free trade and the war in Iraq, and leaders of the California Green Party. More than half the organization's budget is financed through reality tours to countries such as Cuba; Green Festivals, which draw thousands of participants; fair-trade stores; and speaking fees. The organization is now creating a Global Citizen Center by renovating a building in San Francisco that will house a coalition of progressive groups and a community meeting space. It plans to bring down the costs through rentals, sales and fees generated by green businesses on the ground floor.

To get a full sense of how far US nonprofits could go to become self-financing, check out Cabbages & Condoms, a popular restaurant in Bangkok. As your senses become intoxicated by the aromas of garlic, ginger, basil, galangal and lemongrass, you cannot avoid noticing the origins of the name. On top of each heavy wooden table is a slab of glass, under which are neatly arranged rows of colorful prophylactics. Posters and paintings adorn the half-dozen large rooms, all communicating the restaurant's central message: The AIDS epidemic afflicting Thailand can be checked only through the unabashed promotion and use of male contraception. With balloon animals made from carefully inflated and twisted condoms and the after-dinner candies replaced with your own take-home "condom-mints," even teens cannot escape the message prominently framed on the wall: "Sex is fun but don't be stupid—use protection."

What makes the five "C&C" restaurants unique, along with an affiliated beach-front resort and numerous gift shops, is that they are all owned by the Population and Community Development Association, a rural development organization that has been a leader in promoting family planning and fighting AIDS in Thailand. Seven out of every ten dollars spent by PDA on such activities as free vasectomies and mobile health clinics are covered by the net revenues from its sixteen subsidiary for-profits. Were PDA dependent on funding from the Thai government, the World Bank or even the Rockefeller Foundation, it no doubt would be told to tone down the message. Jokes on its website—like "the Cabbages and Condoms Restaurants in Thailand don't only present excellent Thai food, the food is guaranteed not to get you pregnant"—would certainly be discouraged.

The cash flow gives PDA a measure of confidence and boldness. The founder, Mechai Viravaidya, has no qualms about his decision to employ for-profits: "Unlimited demand is chasing limited supply [of charitable donations]. No longer are gifts, grants or begging enough. From day one, thirty years ago, we have been acutely aware of sustainability and cost-recovery."

PROGRESSIVE RESISTANCE

To many progressives, the notion that nonprofits can enlist the power of entrepreneurship to gain independence and increase their effectiveness is heresy. Philanthropy guru Pablo Eisenberg's view is that "neither charities nor foundations and other donors should harbor the illusion that more than a minuscule number of nonprofit groups can ever become self-sufficient by running businesses or charging fees for their services. Their missions do not lend themselves to self-sufficiency."

The fear that a nonprofit mission will be warped by business values is not, of course, unfounded. J. Gregory Dees of the Duke University Fuqua School of Business argues, for example, that the entry of the YMCA into the exercise and health club business pulled it away from its original mission to serve at-risk young men and made it an upper-middle-class organization. Many community development corporations (CDCs), founded in the 1960s to lead the fight against poverty, now build crass shopping malls and sprawling neighborhoods for the middle class. The bottom-line logic of business can lead these enterprises to neglect people without money, including the young, the old, the poor and the sick.

However, critics overlook the fact that many of these dangers already swirl around those rattling a tin cup for "soft money" from wealthy individuals and foundations. Building a philanthropic base of support instead of an entrepreneurial one can cripple an organization's mission, and wreck it altogether when the well runs dry. Most progressive nonprofits have engaged in a kind of fundraising arms race in which our best leaders focus more time, energy and resources not on changing the world but on improving their panhandling prowess to capture just a little more of a philanthropic pie that actually expands very little from year to year. Armies of "development" staff spend as much as a third of an organization's resources not to advance the poor or other needy groups but to cultivate wealthy donors. Significant numbers of our colleagues create campaigns, direct-mail pitches, telemarketing scripts, newsletters and other products exclusively to "care and feed" prospects, and frame positions and adopt tactics that will not offend the rich.

Those of us who chase foundation dollars must make a devil's bargain with a system (as one of us argued in these pages seven years ago; see Shuman, "Why Progressive Foundations Give Too Little to Too Many," January 12/19, 1998) that often undermines the effectiveness of progressive beneficiaries through small, single-year, single-issue, project-oriented and action-over-thinking grants. In this context, successful fundraising may well reduce the chances of effecting significant social change, because too many foundation overseers, despite admirable intentions, discourage the long-term, systemic thinking progressives so desperately need. And increasingly, major foundations are actively setting social-change agendas themselves, often with little consultation with grassroots groups, pulling these same groups into new and distracting coalitions and bringing more and more projects in-house.

As Pablo Eisenberg notes, the Philadelphia-based Pew Charitable Trusts "has built a reputation for pouring millions of dollars into its own environmental projects and creating new organizations." Moreover, its recent decision to convert from a foundation into a charity means that "Pew will find it easier to bring many of its programs in-house and become less dependent on nonprofit organizations to run its programs and carry out its mission."

If Mohandas Gandhi were a typical leader organizing in a nonprofit environment like ours, he would probably be wearing a three-piece suit and working in a plush office with his law degree prominently displayed. He would have little time to lead protests, since every other week would be spent meeting with donors—and those power lunches would hardly go well with fasting. He would be careful to avoid initiatives like salt marches or cotton boycotts, so as not to offend key donors. To sharpen his annual pitch to foundations, he would be constantly dreaming up new one-year projects on narrowly focused topics, perhaps a one-time conference on English human-rights abuses, or a PBS documentary on anti-colonial activities in New Delhi. To insure that various allies didn't steal away core funders, he would keep his distance and be inclined to trash talk behind their backs. In short, there's little doubt that the British would still be running India.

The real Gandhi, of course, promoted personal and community self-reliance, so that people would have the time, energy and resources to participate in a serious mass movement. It's no accident that some of the most successful social-change organizations in the United States have achieved a modicum of self-reliance through membership dues, fees for service and active community-based chapters. The strong membership bases of Greenpeace and the Sierra Club enabled them to take bold stands against free trade and NAFTA long before their foundation-dependent brethren like the Natural Resources Defense Council.

We believe it's time for American progressives to break free of their philanthropic habit—and for truly progressive funders to help them do so. Those of us serious about social change increasingly must get down to business, figuratively and literally. Every nonprofit may not be able to generate all its funding through revenue-generation, but every nonprofit certainly can generate a greater percentage than it is doing now. According to an IRS sampling of charitable filings in the year 2000, fees for service already account for two-thirds of all nonprofit budgets, yet relatively little of this is being done by progressive nonprofits.

BEYOND TYPICAL NONPROFITS

Even if nonprofits *can* generate more of their own revenue, it's questionable whether the IRS-prescribed mold, the "Section 501(c)(3)" organization, offers the best structure for doing so. Despite many success stories of enterprising nonprofits, we share the skeptics' nervousness about confusing nonprofit and for-profit missions. Plus, we are concerned that nonprofits, however entrepreneurial, are usually poor competitors in the marketplace.

Consider just one issue—finance. While a for-profit can meet cash-flow difficulties by issuing bonds or stock, a nonprofit usually must turn to debt. Without much in the way of assets to serve as collateral, few nonprofits qualify for significant loans. Even well-run nonprofits tend to grow slowly, if at all. With a social mandate to spend accumulated earnings, most perpetually operate on the brink of bankruptcy.

After reviewing this and other problems facing nonprofits (high staff turnover, poor management, overreaching boards, zealous IRS regulators), one of the leading promoters of entrepreneurial nonprofits, the Roberts Foundation, concedes, "Were there a significant competitive advantage to being a non-profit engaged in revenue-generating activities, we would have witnessed a marked increase in the number of businesses seeking...to take advantage of the added financial benefit of non-profit status in the marketplace. In fact, we see just the opposite."

The solution for a revenue-minded nonprofit is not to give up on entrepreneurship but to set up a subsidiary. Put everything that can conceivably be placed on a break-even footing (or better) into the revenue generator, and use the proceeds to underwrite everything else through the nonprofit. The subsidiary can be either a for-profit (our preference), a separate nonprofit with a clear revenue-generating mission or even just a department of the nonprofit with a strong measure of autonomy. In all these models, the mission-oriented nonprofit need only become an investor, leaving actual operations of such an enterprise in more business-oriented hands.

The Rocky Mountain Institute, a leading promoter of alternative energy technology in Snowmass, Colorado, has embraced this strategy. E-Source, begun as a project within the nonprofit in 1986, provides in-depth analysis of services, markets and technologies relating to energy efficiency and renewable energy production. In 1992 RMI secured a program-related investment from the MacArthur Foundation to move the work into a for-profit subsidiary. By 1998 it was generating about $400,000 for the parent nonprofit, but RMI decided it could do even better under new management, so it sold the company to Pearson PLC in Britain for $8 million. Today, RMI assists and benefits from other for-profit spinoffs, such as Hypercar, Inc., which aims to create a lightweight body architecture to improve the efficiency of the entire US automobile fleet.

Another example is the Intervale Foundation, a nonprofit based in Burlington, Vermont, which derives more than half its income from inside enterprises. On a 325-acre tract of land Intervale develops socially responsible farm businesses while protecting natural resources. The leading cash generator is the largest commercial composting facility in the state. Its farms program collects rents and fees for land, equipment and other infrastructure from a dozen for-profit organic farms and community-supported agriculture initiatives. Other ventures under development include a conservation plant nursery and technology that processes cow manure into methane and other salable products.

Pioneer Human Services is a nonprofit based in Seattle that assists a wide range of at-risk populations, including the unemployed, the homeless, alcoholics and addicts, and ex-convicts. The organization serves 6,500 people a year and generates nearly all its $55 million budget through a web of ambitious subsidiary nonprofit businesses: cafes and a central kitchen facility for institutional customers, aerospace and sheet-metal industries, a construction company, food warehouses, a real-estate management group and consulting services for other nonprofits. Most of the jobs in these businesses are awarded to its at-risk clients, allowing it to further its mission to integrate clients back into society.

These kinds of subsidiaries, of course, are not without risks. A cautionary tale comes from the Milwaukee YWCA, where the director, Julia Taylor, had distinguished herself as a model entrepreneur. Between 1986, when she began her tenure, and 2002 she had developed a variety of for-profit businesses, including a computer software company and a plastics factory, to expand the organization's budget nearly 100-fold. The collapse of these subsidiaries in 2003 left the YWCA saddled with millions of dollars of debt. Taylor herself was one of only two board members overseeing the computer software company, and she paid herself stock options (ultimately worthless).

Minnesota Public Radio's sale of its mail-order catalogue business to Dayton Hudson Corporation for $120 million was also controversial. The deal was executed by the Greenspring Company, a for-profit subsidiary whose executives—including William Kling, who is also president of the nonprofit MPR—are expected to pocket $7.3 million personally.

What made Taylor's and Kling's actions ethically problematic was not that they acted entrepreneurially but that each kept one hand in the nonprofit while putting the other in the pocket of the for-profit. Nonprofits must operate at arm's length from related revenue generators, with different management, staff, activities and cultures. And personal enrichment of any person within the nonprofit must remain strictly prohibited. But the examples above also suggest how nonprofits, if they are careful about how they structure the relationship, can use sister companies to become more financially independent without drifting from their mission.

Foundations that really believe the mantra that grantees become more self-reliant should support these efforts, but to do so they must overhaul the way they do business. Today the typical foundation usually spends 5 percent of its assets annually on do-good nonprofits—the legal minimum—derived from investing the other 95 percent in do-bad for-profits. In a recent interview, Mark Dowie, author of *American Foundations: An Investigative History*, said the Pew Charitable Trusts, "the largest environmental grant maker of all the foundations, was earning more money in dividends from the nation's largest polluters than they were giving to the environmental movement."

The Hewlett Foundation's in-house scholar on entrepreneurial philanthropy, Jed Emerson, finds the skewed use of foundation resources indefensible: "Imagine a baseball team manager choosing to send just two of her three dozen players through the rigors of spring training, regular practices and coaching. The rest of the team members would be enrolled in 'anti-training,' in which they'd be encouraged to park on the clubhouse couch all day watching *Dukes of Hazzard* re-runs."

Foundations need to start investing a greater percentage of their asset base in businesses aligned with their missions. The good news is that IRS law allows "program-related investment" (PRI) losses to count toward the minimum 5-percent-per-year payout. Consistent with its mission, the F.B. Heron Foundation now uses PRIs to invest $42 million of its $226 million asset base in housing, real estate and other community-development enterprises in low-income neighborhoods. These investments thus far have performed as well as the foundation's remaining assets, and, in Emerson's view, illustrate how a foundation has put "more than *four times* the annual grant assets…at work." [Emphasis in original.]

The total percentage of foundation asset bases being invested in PRIs right now? An embarrassing one-tenth of 1 percent.

WHAT ABOUT PURE FOR-PROFITS?

The possibility of a for-profit undertaking social-change work without a linked nonprofit also needs to be considered. While we reject the libertarian argument that every human problem has an economic solution, many social-change issues clearly have economic dimensions that are susceptible to creative business plans.

Hate Bush's hot pursuit of nuclear power? Launch energy-service companies to spread conservation measures, or build local wind farms to take control of your own electricity future. Concerned about the poor, minorities and women having equal access to credit? Create more community banks, credit unions and micro-enterprise funds. Troubled by pharmaceutical prices that make life-saving drugs unattainable for impoverished people across the globe? Start, as several companies based in the Third World did, companies that mass-produce affordable knock-offs of high-priced American drugs.

By some reckonings, we're now on the third generation of socially responsible businesses. The first generation comprised Fortune 500 companies that tried to improve their social performance, often in small ways with large public-relations budgets. Many executives in these companies continue to share best practices through Business for Social Responsibility (BSR), which got started in 1992.

The second generation represents small and medium-size businesses whose proprietors are more eager to align themselves and their companies with progressive causes, and whose CEOs collaborate through organizations like the Social Venture Network (SVN). We applaud the Body Shops, the Ben & Jerry's and the Benettons of the world, each of which manufactures decent products, comports (however imperfectly) with reasonably responsible labor and environmental standards and piggybacks snippets of political education in its advertising. The importance of the millions given by these kinds of companies—Newman's Own, for example, has donated more than $150 million to charities, including many progressive causes—should not be underestimated. But at the end of the day, the core products of each, whether cosmetics or ice cream, are pretty ho-hum, and they are not linked to any particular community.

What has impressed us most is the growing number of local businesspeople who not only "walk the talk" of social justice in the small details of their operations and products but also tout the virtues of local ownership.

This third generation is now being led by the Business Alliance for Local Living Economies (BALLE) and by the American Independent Business Alliance (AMIBA). Both emerged in recent years as grassroots alternatives to BSR and SVN, and have mushroomed into three dozen chapters with several thousand affiliated small businesses. Each promotes local ownership of the economy and pushes for new public policies that remove the tilts in the playing field that currently favor badly behaved big business.

One of the founders of BALLE is Judy Wicks, whose White Dog Cafe in Philadelphia is as much a community organizing center as a restaurant. Radical speakers from around the country provide a steady stream of lectures. An adjacent store sells "fair trade" products and will soon be introducing a line of locally made clothing. The White Dog itself embodies principles of social justice and environmental stewardship by paying all employees a living wage, insisting on humanely raised meats and eggs, using locally grown ingredients and running on wind electricity. Twenty percent of profits from the restaurant go to the White Dog Cafe Foundation, carrying on the cafe's mission through nonprofit activities.

American progressives have long preferred nonprofits over for-profits. Yet why should we lionize all nonprofits, even those with poor labor practices, bureaucratic excess and undemocratic power structures? And why should we view all business as the enemy, whether big or small, global or local, dirty or green, exploitative or responsible? These attitudes are self-destructive. They unnecessarily distance us from millions of otherwise simpatico entrepreneurs. We should remember the potential virtues of many businesses—the positive contributions their goods and services can make to people's lives, the living-wage jobs they can supply, the leverage they can provide for women, people of color and other long-disadvantaged members of our society.

If foundations and donors did not exist and professional panhandling were outlawed, we would be forced to turn to creating and running new enterprises, and our movement would be considerably healthier than it is today. Progressives have become the classic 20-something kid still living at home, expecting an allowance from the deep-pocket parents for a few basic chores, while agreeing, as a condition for the chump change, to obey someone else's rules on social change. It's time to grow up, move on and strike out on our own.

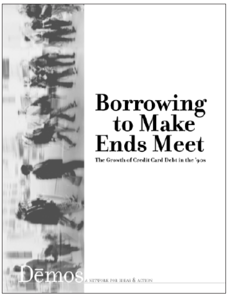
Here's a challenge to fellow activists (one we take seriously ourselves): Let's try to wean ourselves from the charity habit, say by 3 percent per year. Think about just one piece of your agenda that could be framed as a revenue generator, dream about it a little, develop a business plan, and give it a try. If you lack the skills, skip your next fundraising class and instead attend one of thousands of entrepreneurship programs around the country. Or hire someone who might start the entrepreneurial subsidiary of your nonprofit.

Gandhi understood that the key to freeing India was to transform his fellow citizens into economically productive agents by spinning their own cloth and taking their own salt from the sea. Martin Luther King Jr. implored African-Americans to form their own credit unions and community development corporations. The secret to being as radical as we want to be—and as radical we need to be—is to finance the revolution ourselves.

Dēmos: A Network for Ideas & Action

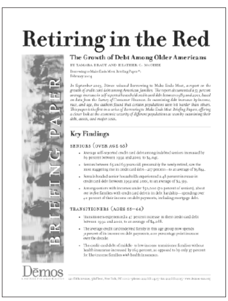
Dēmos is a national, nonpartisan public policy organization based in New York. Founded in 2000, Dēmos' work combines research with advocacy—melding a think tank's commitment to ideas with the organizing strategies of an advocacy group—to create a more vibrant democracy that promotes civic participation and offers equal opportunity for all.

Related Resources from Dēmos



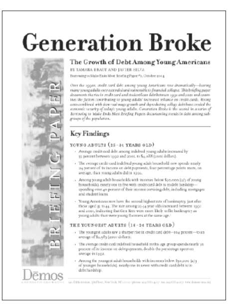
Borrowing to Make Ends Meet:
The Growth of Credit Card Debt in the '90s
by Tamara Draut and Javier Silva

Using new data, this report illustrates how families are increasingly using credit cards to meet their basic needs. Also examines the factors driving this record-setting debt and the impact of financial services industry deregulation on the cost, availability and marketing of credit cards.



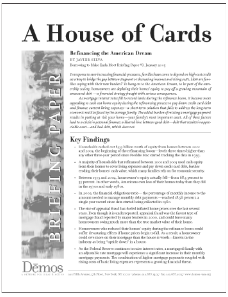
Retiring in the Red:
The Growth of Debt Among Older Americans
by Heather McGhee and Tamara Draut

This briefing paper documents the rise of credit card and mortgage debt among older Americans since 1992, identifying increases in retirement security due to diminished assets and rising basic costs.



Generation Broke:
The Growth of Debt Among Younger Americans
by Tamara Draut and Javier Silva

This briefing paper documents the rise in credit card and student loan debt between 1992 and 2001 and examines the factors contributing to young adults' increased reliance on credit cards.

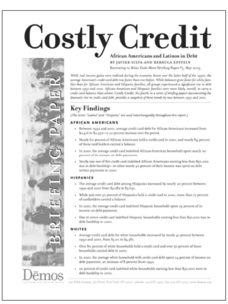


House of Cards:
Refinancing the American Dream
by Javier Silva

This report looks at the new financial insecurities facing homeowners as Americans cash out billions of dollars of home equity to cover rising living expenses and credit card debt.

Home Insecurity:
How Widespread Appraisal Fraud Puts Homeowners at Risk
by David Callahan

Many Americans have reduced the equity in their home to pay off credit card debts and cover day-to-day expenses. More troubling still is evidence that many appraisers fraudulently inflate property values during the buying or refinancing of homes. This paper explores the implications of appraisal fraud.



Costly Credit:
African Americans and Latinos in Debt
by Javier Silva and Rebecca Epstein

Costly Credit, the fourth in a series of briefing papers documenting the dramatic rise in credit card debt, provides a snapshot of these trends by race between 1992 and 2001.

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