

Restoring Reciprocity: How the Nonprofit Sector Can Help Save Capitalism from Itself

by Elizabeth A. Castillo

The role of nonprofits is likely to become different from what we have been used to. To preserve our values, we need to enter the fray and re-embed the market in society by restoring social norms of reciprocal obligation and commitment. As Castillo writes, “Value creation at its core is a process of *values* creation. It is therefore paramount that the nonprofit sector find its voice and articulate its values of equity and reciprocity. . . . How exchange gets enacted (parasitically or mutualistically) reflects who we are as a society. It also determines what kind of soil we cultivate, expanding or limiting our future possibilities.”

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WHILE THE 2016 U.S. PRESIDENTIAL election surprised many people, there is one person, if he were still alive, who would not blink an eye that Donald J. Trump—the corporate magnate—won. Economist Karl Polanyi (1886–1964) studied the evolution of capitalism. His 1944 book, *The Great Transformation*, argued that the market and the state (business and government) increasingly work together to advance their mutual self-interest, often at the expense of the people. This is because the market, rather than being truly “free,” requires legislative policies to support it. Examples include legal enforcement of contracts, private property rights, and labor policies to influence wages.

If such entanglement between the state and market benefited all equally, this would be a nonissue. However,

Polanyi claimed that the effects of this transformation come at the expense of the majority of the population. He showed that before the industrialization of England, trade was limited, but the economic exchange that did take place within villages was based on norms of reciprocity. As capitalism expanded, it increasingly benefited those who already had resources, often at the expense of those who didn’t. Examples of one-sided benefit practices today include rent seeking (making money without creating value, which produces social costs) and suboptimal competition (taking advantage of vulnerable people through businesses like high-interest payday loans).

But Polanyi was nuanced in his thinking, arguing that capitalism actually fostered a dialectic. On the one hand, there can be no market *without* a state. In contrast to the myth of their supposed

opposition, the two actually depend on each other, because capitalism requires a more invasive state than any economic system preceding it. In today’s mixed capitalist economies, for example, government takes up between a third and a half of gross domestic product in most countries, including the United States.

On the other hand, Polanyi observed that capitalism generated the need for a welfare state because it increasingly created social problems as it expanded production. The need for welfare protections led to the development of social forces (unions, etc.)—and growth of the nonprofit sector itself—as a way to *generate* those social protections. He wrote that this “double movement” could be understood as the action of two organizing principles in society, each with its own institutional aims, supporters, and distinctive coordination methods.¹

One was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez-faire and free trade as its methods; the other was the principle of social protection, aiming at the conservation of man and nature as well as at productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market—primarily, but not exclusively, the working and the landed classes, and using protective legislation, restrictive associations, and other instruments of intervention as its methods.²

As Polanyi shows, there is no end point to this process. In the past few decades, the social protections that were carefully constructed have eroded as corporations, aided and abetted by government, have escaped safeguards like unions and minimum wages through means such as globalization, outsourcing, information and communication technology, etc. While some embrace the fiction that our system is functioning well, we know all too well that it is not. For nonprofits, this means we must find our voice to protect core social values and help create new systems of social protections. We must enter the fray to re-embed the market in society.

For we know how things are working today in our current “pay to play” system. To obtain legislative support, businesses spend billions of dollars annually to influence political campaigns and rule making. In 2016, total spending on lobbying was \$3.15 billion, led by pharmaceutical companies (\$284 million), insurance (\$152 million), and business associations (\$143 million).³ Beyond policy victories, results of lobbying often have a cascade effect, generating more power for those who already have power. For example, the Arizona Public Service Co. is a utility company privately owned by

Pinnacle West Capital Corp. Over the past four years, it has legally provided financial support to campaigns of candidates running for regulatory positions that oversee its own rate setting and compliance.⁴

This type of political influence, along with exploitive business practices like suboptimal competition and rent seeking, has substantially contributed to America’s growing income inequality.⁵ Why does this matter to nonprofits? First, because many of our clients are affected. What matters to them should matter to us. Second, many of the problems nonprofits are trying to fix exist because some businesses create negative externalities, essentially privatizing profits while socializing costs.⁶ Third, entanglement between government and business threatens democracy and civil society.

But perhaps most importantly, we should care because nonprofits offer at least parts of a model for how to restore reciprocity to commerce. As David Bollier noted at the peak of the Great Recession, in an article titled “Why Karl Polanyi Still Matters”:

We need to enlarge the scope of political conversation to include such questions as: How shall we re-integrate market forces into society so that they can be constructive and not disruptive—and yet go beyond the traditional (ineffective) regulatory schemes for restoring trust and *[sic]* lending? In the emerging post-neoliberal environment, what new and better ways can we devise for blending government, markets and the commons? Could the decentralized participation of the Internet be leveraged to enable greater self-policing of markets, greater transparency in transactions, and greater trust among consumers, investors and taxpayers?⁷

We shouldn’t give up on markets completely. Despite their faults, markets foster innovation that has improved the quality of life at a speed unprecedented in human history.⁸ How then, can we learn to make money by benefiting people rather than by taking advantage of them?

Nonprofits offer a model. They create prosocial value through their public benefit missions, making life better for individuals and the community. In exchange, they receive community support from donations, tax breaks, and earned income (e.g., museum admissions, fees-for-service). The underpinnings of these exchanges are long-term relationships and mutual lifting up. Transparency and accountability further build trust with stakeholders. While nonprofits have been admonished over the past two decades to act more like businesses, it is businesses that must learn to operate more like nonprofits (reciprocally) if they are to be sustainable. That is, commerce must restore reciprocity to the exchange process.

Some businesses have already begun this shift to operate more reciprocally. Sometimes this is due to personal conviction—the “enlightened” business leader, if you will. Sometimes a third-party certification system, such as the B Corporation assessment process (already employed by thousands of companies), provides a kind of “Good Housekeeping” seal that incentivizes and rewards “good” corporate behavior. Sometimes shared proprietorship structures, such as cooperative or employee ownership, advance democratic distribution of profits and governance. What these approaches have in common is the adoption of economic structures, policies, regulations, and “enlightened” business norms that embrace a long-term time horizon. Further, if genuine, they invest in intangible assets like social and intellectual

capital, lift up stakeholders as well as shareholders, and improve practice and education to develop a business community that abides by the medical principle of *first, do no harm*.

Nature offers an excellent model to understand this principle. Organisms have three primary ways of interacting. *Parasitism* benefits one organism at the expense of another, such as a flea feeding off a dog. *Commensalism* benefits one organism with neutral outcomes to the other, such as a bird nesting in a tree. *Mutualism* benefits both organisms, and their exchange produces larger systemic benefits. An example is a bee gathering pollen from a flower, which enriches both. Repeated interactions among different bees and flowers lead to cross-pollination, in turn increasing biodiversity and ecosystem resilience.

Capitalism likewise occurs along a continuum. Some companies operate through extraction, e.g., parasitic practices like suboptimal competition and rent seeking. Some operate transactionally (neutral exchange), and some act reciprocally (mutualism, creating benefits for both individuals and the community). Often, more important than an organization's tax status is its functional behavior. Sadly, as we know all too well, not all nonprofits operate mutualistically. Happily, not all businesses operate parasitically.

The current degree of entanglement between government and business makes it very difficult for mutualistic organizations to thrive. This is because the different exchange processes employ different logics, time horizons, strategies, and scales. The short-term time horizon of parasitic-style capitalism accrues profits faster. These firms buy political influence, entrenching their power and making it more difficult for nonparasitic companies to compete. This has serious implications for social enterprise and

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strategic philanthropists, since many seem to believe nonprofits could be successful if only they did *x* better (e.g., use big data, produce clear measurement and results, be more strategic).

For now, what is important to understand is that the economy will be sustainable to the degree that businesses enact reciprocity rather than parasitism. Economic growth alone is not the answer, because expanding current practices will only produce more extraction, not well-being. It is worth recalling that the last period of *somewhat* equitable growth in the United States was the 1950s and 1960s, a period that emerged in large measure because of social policies enacted in the 1930s that—for many, but certainly not for all—cultivated the soil for economic prosperity, leading to what economists Claudia Goldin and Robert Margo called the Great Compression.⁹ Backed by strong social movements, visionaries like Frances Perkins (the first female cabinet secretary) shaped mutualistic policies like the forty-hour work week, minimum wage, worker's compensation, Social Security, health insurance, worker safety laws, and bans on child labor. Those policies led to thriving businesses and a revitalized economy, fueled

by workers who could now support their families. Their new disposable income and savings created a “trickle up” effect that helped fuel relative economic prosperity for three decades. Of course, this model is based on a system that benefited white men over women and people of color, and a more equitable system of reciprocity and recirculation must become the aim of our current economic policies.

The nonprofit sector must lead the way by demonstrating—and demanding—that businesses embrace reciprocal exchange. While advocacy is important and effective, alone it will be insufficient because of the government's deep entanglement with corporate interests. As a complementary strategy, we should work with prosocial businesses and associations (e.g., Conscious Capitalism) to help them learn the logic and operational logistics of reciprocal exchange in which we are expert. Beginning steps to exercise our leadership include:

1. Develop capacity to clearly articulate the premise of nonprofit exchange—mutualism and reciprocity. The logic of nonprofit organizations is to benefit all parties in transactions. In so doing, we create larger systemic benefits (e.g., well-being) that make economic prosperity possible.
2. Adopt a capability approach. Capabilities development is based on complexity theory rather than reductionist logic. Activating potential at the micro level (e.g., investing in children's education) produces macro-level outcomes that generate increasing returns over time, such as higher wages, a prepared workforce, a stronger tax base, higher levels of parental involvement, and more voting and volunteering. Similarly, when nonprofits help clients improve their lives, their expanded capabilities and agency set off a cascade effect of positive outcomes for themselves, their families,

- their communities, and the economy.
3. Learn to think dynamically. Most of us grew up learning to analyze, separate, and categorize. While these are very useful skills under certain conditions, when working in complex contexts they can lead to overlooking important aspects of reality. New skills we must develop include recognizing and understanding how things are interconnected (coupled), the important role of time as a strategic variable, how effects at the micro level can produce macro-level changes, feedback loops (today's outputs become tomorrow's inputs), and how order can arise through self-organization rather than command and control. Our logic models must begin to reflect such dynamism over multiple time spans across multiple levels (individual, organizational, community, national, and global).
 4. Recognize that resources come in multiple forms beyond money. Intangible assets (invisible resources like relationships, knowledge, and reputation) are increasingly recognized as the primary driver of value creation in firms. Yet, because such resources aren't included on balance sheets, our society underinvests in them. To move beyond this privileging of financial capital, we must begin to understand the types, flow, and convertibility of these fungible resources, and how they can be created through strategic program design. Accountability and reporting frameworks such as integrated reporting offer nonprofits new ways to think about and tell the story of how these multiple forms of capital create value while producing social and financial returns simultaneously.¹⁰



Value creation at its core is a process of *values* creation.¹¹ It is therefore

paramount that the nonprofit sector find its voice and articulate its values of equity and reciprocity. Nonprofits must become "sensegivers," helping commerce make new meaning of its exchange practices.¹² How exchange gets enacted (parasitically or mutualistically) reflects who we are as a society. It also determines what kind of soil we cultivate, expanding or limiting our future possibilities. If we want our country to thrive in the coming centuries, we must develop the wisdom and will to make reciprocity America's guiding economic principle.

NOTES

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