

Recession Outcomes and the Urgent Need for a Less Self-Centered Nonprofit Sector

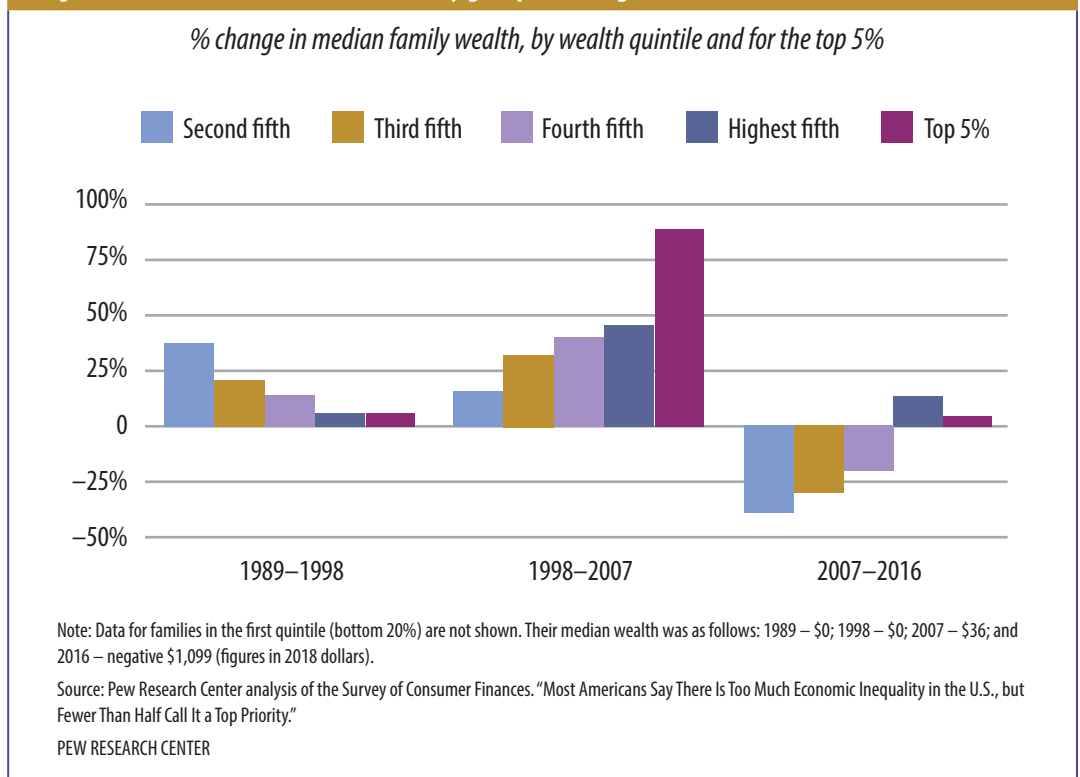
by the editors

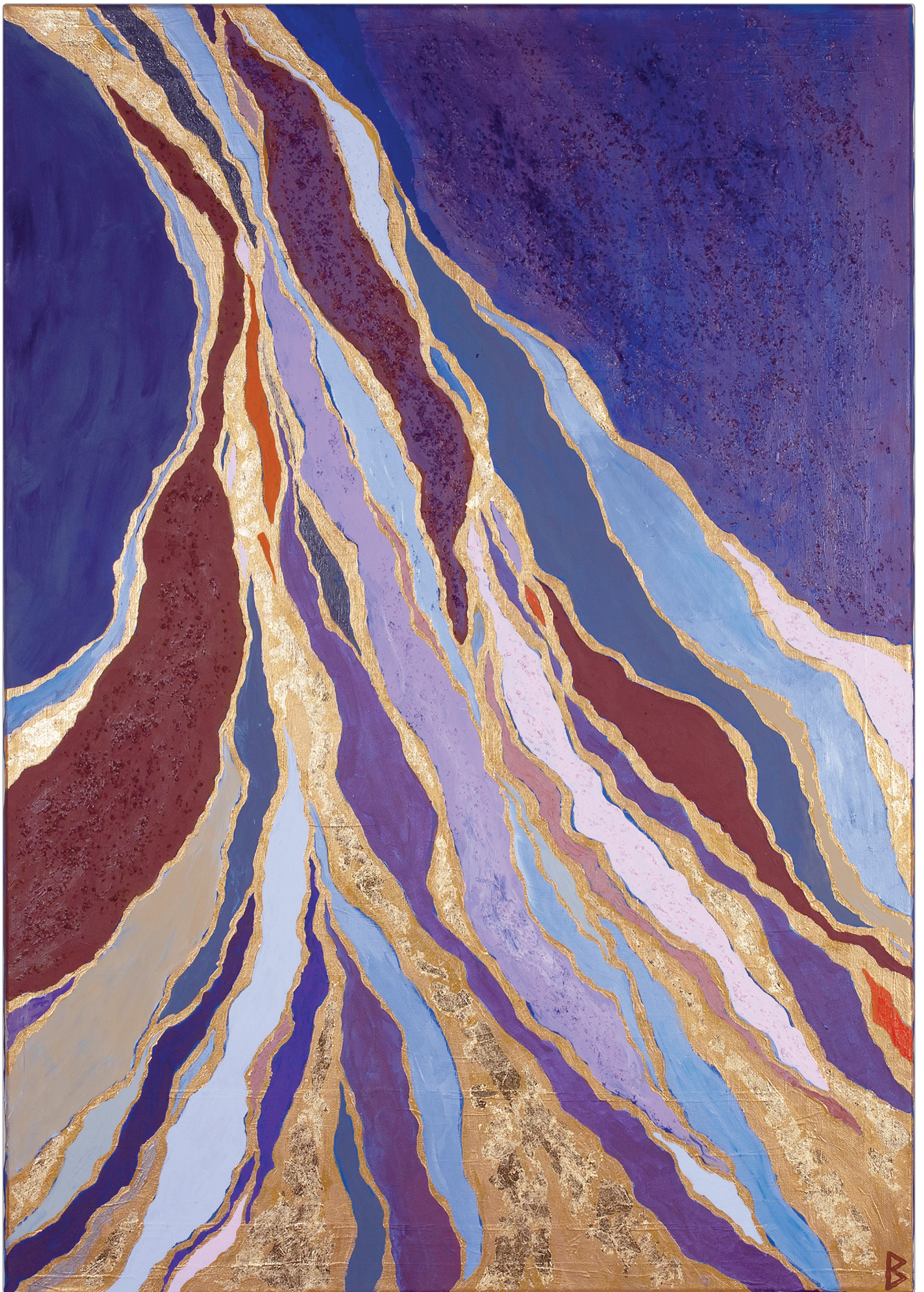
EVEN AS NONPROFITS LARGELY HELD THEIR OWN AS institutions during and immediately after the Great Recession—albeit with the asset divide between the haves and have-nots widening—many of the communities we serve were not so fortunate. A recent summary by the Pew Research Center summarizes a dynamic of growing wealth inequality that was accelerated by the recession and recovery.¹ In that summary, the following graph shows the reality of the winning and losing households, illustrating that the only

families to have gained wealth during the recovery were the richest fifth. If you fell below that top fifth, the poorer you were at the start of the recession, the more you lost during and after the recession.

This suggests that we may have been paying more attention to the long-term prospects and sustainability of our organizations over those of most of our constituents—or that we do not see ourselves as players in the larger tax and budgeting activities of this country. This imbalance

Figure 1: The richest families are the only group to have gained wealth since the Great Recession²





can be seen by contrasting Maslow's hierarchy of needs of individuals (and communities of individuals) with that of organizations, as consultant Virginia Ginsburg does in her article "Unstable Organizations Can't Grow."³ In the organizational hierarchy of needs, these two priority sets compete for our attention, creating the possibility that we will place institutional interests above those of constituents unless the balance is kept in conscious play.

Figure 2: Maslow's Hierarchy of Needs

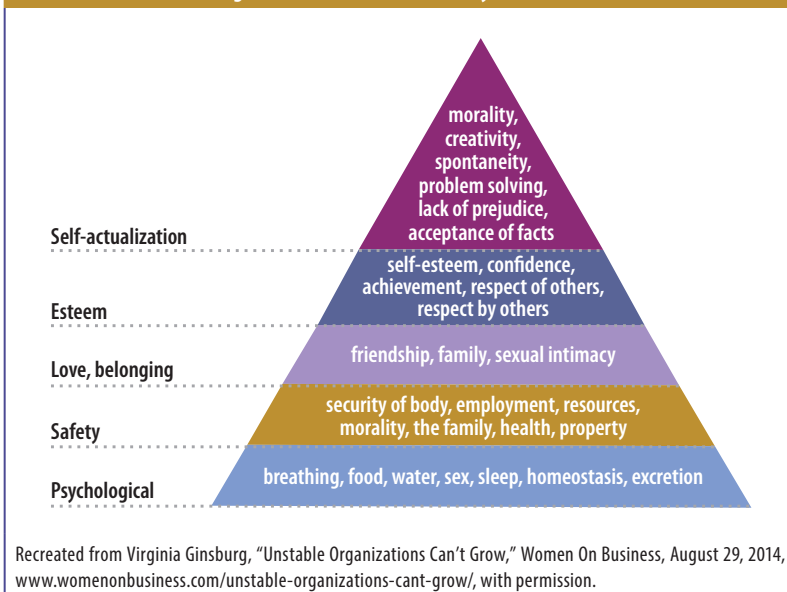
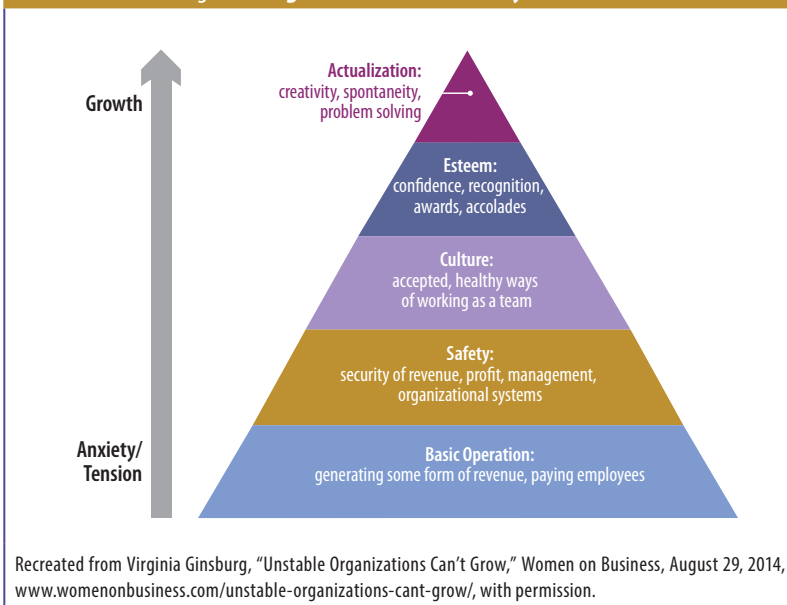


Figure 3: Organizational Hierarchy of Needs



The only way we think that can be done is to prioritize the well-being of the community over the sustainability needs of the organization. We suggest this because the principle behind the hierarchy is that entities tend to serve their own basic sustainability needs first and foremost, yet nonprofit organizations are meant to serve the public first. Therefore, in times of organizational threat, the balancing process needs to be brought to high consciousness and used as a guidance system in governance. And while part of that governance is at the organizational level (as the board), another part of it is at a more macro level (as networks and infrastructure). Both levels should think very carefully about their agendas for a reversal of the wealth gap and all of the disparities that go with it, before another recession hits.

If one understands nonprofits as being organized for the larger public good—and unless one thinks that having the highest level of income inequality among the G7 countries is a good thing—the recession and postrecession periods cannot be seen as a success in terms of our outcomes. As institutions, we flourished

Figure 4¹

U.S. has highest level of income inequality among G7 countries

Gini coefficient of gross income inequality, latest year available.

US	0.434
UK	0.392
Italy	0.373
Japan	0.363
Canada	0.352
Germany	0.351
France	0.326

Source: Organization for Economic Cooperation and Development.
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and showed resilience, and no doubt relieved a good deal of pain, during the recession—but the trends toward widening inequality and a declining middle class have advanced significantly.

The disproportionately negative financial effects that the recession and recovery have had on communities of people of color, which the Roosevelt Institute’s James Carr details elsewhere in this edition, speak to the need for more comprehensive advocacy work where financial policies are concerned—including, but not limited to, tax policy and government budgets.⁵ The disproportion implies that we have spent so much time in short-term responsive behavior that we have lost the muscle for affirmative advocacy on the issues most fundamental to

a healthy democracy. So, here we are in 2020 facing critical elections. Is the sector capable of focusing on long-term tax and financial policies that will benefit and protect our stakeholders?

Reparations: Why It Matters in Economics

Although this has changed somewhat in the years since Black Lives Matter appeared on the scene, there is often a tendency to try to be “race neutral” in economics. Even today, that legacy continues. In January 2020, the Roosevelt Institute, a left-of-center think tank, failed to even mention reparations in its report, *The Emerging Worldview: How New Progressivism Is Moving Beyond Neoliberalism*.⁶ For many (if not all) powers that be, the idea of race

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TEN (OF MANY) ECONOMIC POLICY ISSUES THAT NEED OUR ATTENTION

1. Amend the tax code to create more equitable ownership of wealth.

Instead of lowering taxes on the wealthy, as the 2017 tax bill did, increase taxes on the wealthy and use the money to create healthier, more vibrant, and sustainable communities. And while we’re at it, create tax breaks for support of and services to children, up to and including the seeding of bank accounts that will provide appreciable assets for every child.

2. Raise wages to living wage status, starting with phasing in a raise in the federal minimum wage to at least \$15 an hour, as some cities and states have already done. This would help to raise the wage floor, benefiting not just minimum-wage workers but also those who earn somewhat above the minimum. Also, impose wage ratio standards on business.

3. Make reparations a priority. Reparations, of course, are not merely a matter of economics, and there are many ways to structure the economic component of reparations. What is clear is that poverty is heavily correlated with race in the United States, so our economic policy advocacy needs to address that.

4. Support the Green New Deal, and ensure that co-ops and other forms of community-centered organizations play a leading role. The future of our planet is at stake, so our sector should act accordingly.

5. Support Medicare for All. An underestimated driver of inequality in the United States is access to healthcare. With more than half of all U.S. bankruptcies stemming at least in part from medically induced debt, having the United States join Canada and other nations in providing basic healthcare for all citizens seems like an obvious sector-wide advocacy demand.

6. Empower workers. One of the most important drivers of inequality has been the vitiating of unions. It is notable that when unionization rates climbed at midcentury, inequality fell, and as unionization rates have fallen,

inequality has climbed. The Protecting Rights to Organize (PRO) Act would rebalance the scales by speeding union elections, making employer violations subject to meaningful penalties, banning permanent replacement of strikers, and getting rid of “right-to-work” laws that weaken union finances.

7. Protect consumers against banks. Over the years, the federal government has increased the power of banks and lessened consumer rights (most recently with the 2005 bankruptcy law). It is time to do the reverse. Stronger “cramdown” provisions—that is, provisions that allow judges to write down debt owed by borrowers, such as mortgages—would increase individuals’ bargaining power and reduce foreclosure rates.

8. Extend the Community Reinvestment Act to cover all mortgage lenders. The Community Reinvestment Act was meant to ensure that “safe-and-sound” lending took place in low- and moderate-income communities, but it only applies to banks and thrifts, the leading private lenders of their time. Back in 1977, when the law was created, nearly all mortgages originated with banks. Now, fewer than half do. It is time for these other lenders (including mortgage brokers and credit unions) to face the same rules.

9. Make early education funding and public funding of child care a priority. Study after study shows that providing support early in life pays off highly later in life. Yet our government policy puts this among the lowest of public priorities, leaving our nonprofit sector picking up the pieces. It is time to move toward universal access to child care and pre-K education.

10. Support free public higher education for all. The failure to keep public higher education affordable has not only heightened youth anxiety levels and created a generation of indebtedness to the tune of \$1.6 trillion but also dissuaded talent from joining the nonprofit sector (debt forgiveness programs that don’t really work don’t help) and diminished our collective sense of possibility. This must change.

For many (if not all) powers that be, the idea of race neutrality is tempting. Race, after all, is full of conflict. It asks uncomfortable questions of those least used to discomfort.

neutrality is tempting. Race, after all, is full of conflict. It asks uncomfortable questions of those least used to discomfort. And don't "economic problems" require "economic solutions?"

In other words, if you increase taxes on the wealthy, strengthen regulations, split up large companies, support unions and cooperatives, and so on, won't that end up narrowing racial disparities anyway?

In 2020, during a presidency based on white supremacy, a race-neutral approach to economics might seem especially absurd; but that approach has been (narrowly) effective in the past. In the 1940s—long before the peak of the civil rights movement—racial disparities in wages declined at what economist Robert Margo called an "unusually rapid pace."⁷ The reasons had little to do with civil rights law and a lot to do with an expanding economy and a growing unionization rate. Today, declining unionization is leading to increased racial disparities in wages.⁸

But more important overall, race-neutral approaches ignore assets—that is, *how people got their wealth*. And, in the United States, it is hard to ignore two central facts of asset allocation. First, the original inhabitants, the nation's Native American populations, were subjected to genocide and had the overwhelming majority of their lands violently taken from them and turned into a commodity. U.S. wealth is tied up in and has continued to expand from this stolen land (and what gets extracted from and grown off of and built on it). Second, a lot of U.S. wealth is tied up in and has continued to grow off of wealth generated by African Americans, held in bondage for hundreds of years and, as slaves, entirely uncompensated for their labor. Yale historian David Blight has said, "Slaves by 1860 were worth approximately \$3.5 billion. That was the largest single asset in the entire U.S. economy. That was worth more than all railroads, more than all manufacturing, all other assets combined."⁹ And, of course, the costs of racial discrimination in the 150-plus years since the Civil War ended have continued to mount.

As an economic textbook published in 2016 points out, a central principle of orthodox economics theory is that "endowments" (such as

access to capital) are "given" (i.e., outside the model). The textbook authors write, "For orthodox economics, the institutions of exchange, such as markets, contract law, and contract enforcement, are assumed to be in place prior to economic agents exchanging. Additionally, by assuming that initial endowments are given, orthodox economics assumes the existence of income on the part of trading parties, but generally fails to recognize where income originates"—which, of course, is precisely the problem.¹⁰

So, beyond the moral imperative to make amends, there is in fact an inescapable economic issue. The possible approaches to addressing the wholesale theft of land and bodies are varied, and the answers surely will not be easy. That said, given the scale of America's twin sins of genocide and slavery, it is hard to imagine a path to a more people-centered, democratic economy that does not make reparations and repair central to its agenda.

NOTES

1. Juliana Menasce Horowitz, Ruth Igielnik, and Rakesh Kochhar, "1. Trends in income and wealth inequality," in "Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call It a Top Priority," Pew Research Center, January 9, 2020, pewsocialtrends.org/2020/01/09/trends-in-income-and-wealth-inequality/.
2. Recreated from Katherine Schaeffer, "6 facts about economic inequality in the U.S.," February 7, 2020, FACT TANK: News in the Numbers, Pew Research Center, pewresearch.org/fact-tank/2020/02/07/6-facts-about-economic-inequality-in-the-u-s/, with permission.
3. Virginia Ginsburg, "Unstable Organizations Can't Grow," Women On Business, August 29, 2014, womenonbusiness.com/unstable-organizations-cant-grow/.
4. Recreated from Schaeffer, "6 facts about economic inequality in the U.S."
5. See James H. Carr, "Why Recovery from the Great Recession Favored the Wealthy: The Role of Public Policy," in this issue.
6. Felicia Wong, *The Emerging Worldview: How New Progressivism Is Moving Beyond Neoliberalism* (New York: Roosevelt Institute, January 2020).

7. Robert A. Margo, "Explaining Black-White Wage Convergence, 1940–1950," *ILR Review* 48, no. 3 (April 1995): 470–81.

8. Valerie Wilson and William M. Rodgers III, *Black-white wage gaps expand with rising wage inequality* (Washington, DC: Economic Policy Institute, September 19, 2016). And see Meredith Kleykamp and Jake Rosenfeld, "How the Decline of Unions Has Increased Racial Inequality," Scholars Strategy Network, August 1, 2013, scholars.org/contribution/how-decline-unions-has-increased-racial-inequality; Christian Weller, "Racial Wealth Gap Much Smaller Among Union Members," *Forbes*, October 17, 2018, www.forbes.com/sites/christianweller/2018/10/17/racial-wealth-gap-much-smaller-among-union-members/; Heidi Shierholz, "Weakened Labor Movement Leads to Rising Economic Inequality," Morning Consult, January 24, 2020, morningconsult.com/opinions/weakened-labor-movement-worsens-income-inequality-racial-wage-gaps/; and Christian E. Weller and David Madland,

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9. "Historian Says '12 Years' Is A Story The Nation Must Remember," David Blight, interview with Terry Gross, *Fresh Air*, WHYY and National Public Radio, October 24, 2013, accessed May 20, 2018, npr.org/transcripts/240491318. And see Steve Dubb, "The Economy Is Changing—and So Must We," *Nonprofit Quarterly* 25, no. 2 (Summer 2018): 9–19.

10. Erik Dean et al., "Utility and Pareto Optimality: The Orthodox Economic View of Social Welfare," chap. 8.3 in *Principles of Microeconomics: Scarcity and Social Provisioning* (Salem, Oregon: Open Oregon, 2016).

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