

“Four Futures” of the Great Recession Revisited:

Nonprofits’ Hopes, Fears, and What *Really* Happened

by Ruth McCambridge and Cassandra Heliczer



IN 2008, THE NONPROFIT QUARTERLY ASKED THE INSIGHTFUL DR. PAUL LIGHT (NYU Wagner’s Paulette Goddard Professor of Public Service and founding principal investigator of the Global Center for Public Service) to make a set of predictions about what might happen to nonprofits in the course of what became known as the Great Recession. Light gamely obliged, organizing his predictions into four “futures,” or potential scenarios.¹ We reviewed them recently, and found aspects of each scenario that did indeed play out during the recession and its immediate aftermath, and some that did not, as the following pages illustrate. But there was one scenario—“Transformation”—that intrigued us the most. We did not expect to see aspects of this scenario reflected to as great an extent as they were—though in a significantly limited way. It is this scenario that we hope will be carried forward as we enter into another economic downturn—one that heralds greater hardship for nonprofit organizations and their communities than that caused by the Great Recession.

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THE PREDICTION	WHAT HAPPENED
<p>SCENARIO 1: “The rescue fantasy”</p>	<p>The reality was that many nonprofits rescued themselves! But there were two subsectors where a bailout attempt was evident.</p>
<p>In this first scenario, Paul Light suggested that many nonprofits would suffer from the trickle-down effect of reduced federal budgets—combined with reduced tax income at the state level—and that any fantasies of a wholesale nonprofit bailout were just whistling in the wind. Specifically, Light predicted that:</p>	<p>This was a clear-cut case of “you are the one you’ve been waiting for.” The knight in shining armor turned out to be nonprofits themselves, most of which proved to be strong enough, wise enough, and flexible enough to self-rescue. Direct-service nonprofits, for example, managed to get through the recession without closing their doors, even though government money to that subsector was cut or delayed even as needs escalated.</p>
<p>1. The public was unlikely to pick up the tab via small private donations, but nonprofit leaders would cling to that hope.</p>	<p>1. Indeed, the public did not pick up the tab overall—but there were two areas where a public bailout attempt showed itself: during the depths of the recession, individual contributions increased in the realms of human services and mutual/membership benefit. Where human services was concerned, both individual and institutional philanthropies appeared to understand that they needed to step up—but they stepped back when the recovery started. Where mutual/membership benefit organizations were concerned, there was a sharp decline in program-service income, leaving a gap that was, strangely, only very temporarily filled in by contributions, even when the losses showed themselves to be more permanent. The revenue chart for this type of organization clearly reflects the most tumultuous ride of all the subsectors.²</p>
<p>2. If some form of government bailout occurred, it would likely target a few well-connected and well-known nonprofits. Other large national nonprofits could line up for funding as well, but many smaller nonprofits would be left behind. Rescues tend to favor single organizations or relatively small slices of an industry.</p>	<p>2. There was no general government bailout of the nonprofit sector, and money that did come down from the federal government generally had some rigorous requirements attached. These sometimes placed extra pressures on nonprofits left dealing with temporary contracts for which they had to staff up, build protocols, and take on some measure of risk.</p> <p>And rather than funding a few well-connected and well-known nonprofits, government money was sprinkled widely and into lots of different pots via such programs as the American Recovery and Reinvestment Act of 2009, which was a nationwide stimulus package that targeted employment generally, temporary relief programs, and investment in the areas of infrastructure, education, health, housing, renewable energy, arts, and transportation, across the board.</p> <p>Finally, so far as <i>NPQ</i> picked up, there was no major push by big nonprofits in terms of lining up for funding, and smaller nonprofits did not, as a trend, get left behind.</p>



THE PREDICTION	WHAT HAPPENED
<p>Scenario 2: "A withering winterland"</p> <p>This scenario has almost every nonprofit in the sector suffering and forced to reduce staff and programming. Light imagined the scenario in this way: "How ironic that organizations created in part to help the needy may well contribute hundreds of thousands to the ranks of the nation's unemployed. With roughly 20 million Americans now looking for work, federal job centers are already overwhelmed by demand. How many of those cast aside will be from the ranks of the nonprofit sector?"</p>	<p>Nonprofits as a sector did not wither—in fact, they flourished.</p> <p>While nonprofits were challenged mightily during the recession, they proved more than equal to the task of sustaining, even without shedding staff in large numbers. In fact, during and immediately after the recession, nonprofits taken as a sector gained staff at a steady rate, avoiding any dips in overall employment.³</p>



THE PREDICTION	WHAT HAPPENED
<p>Scenario 3: "An arbitrary winnowing"</p> <p>Light speculated that it was likely that the sector would be rebalanced toward larger, richer, and fewer organizations. In this scenario, he suggested, "some nonprofits will fold, while others will prosper as contributions flow to the most visible, connected and largest organizations." He also suggested that "marketing budgets and levels of community engagement may be the best predictors of survival." And, "Well-known organizations will survive through more aggressive fundraising appeals."</p> <p>On the other hand, Light asserted that "some small nonprofits will survive through sheer will or because their communities are used to supporting them. Others will merge, be acquired, or simply melt away. Overall employment will decline somewhat, though not in most universities and hospitals, but the total number of nonprofits could drop by 10 percent. As with the withering scenario, a winnowing scenario would seriously undermine the sector's ability to meet increasing demand."</p>	<p>Larger organizations definitely got richer, but the number of organizations was not seriously affected, and employment actually went up in the sector.</p> <p>There was outsized growth of larger and more monied organizations (represented in our analysis by the eds and meds)⁴—but they did not necessarily grow through contributions. In fact, in the case of higher education institutions (which tend to have buckets of cash hanging around), the starkest dramatic growth was in the area of program-related income. Hospitals saw the same trend, but in a more restrained way. This realm of income requires capital, and it makes sense that more cash-rich institutions would excel in this area, even during a downturn, when investments are not performing. Contributions to higher ed remained on a slight downward trajectory through 2015 (with one bizarre blip⁵), even while contributions to hospitals held steady.</p> <p>There did not seem to be an unusually rapid merger or closure rate generally; but that said, the overall picture is complex. Between 2003 and 2013, closures didn't approach 10 percent. They peaked at 7.3 percent in 2009 (non-eds-and-meds). This could be because they closed down, dropped below \$100,000 in total revenues, failed the public support test and became private foundations, or simply didn't file a tax form in 2009.</p> <p>However, smaller nonprofits were excluded from our sample; the overall closure rate might have been greater than 10 percent during the peak of the recession, as Light predicted, if smaller nonprofits had been included.⁶ Finally, employment did not decline even somewhat.⁷</p>



THE PREDICTION	WHAT HAPPENED
<p>Scenario 4: "Transformation"</p>	<p>The sector fell well short of transformation . . . so far.</p>

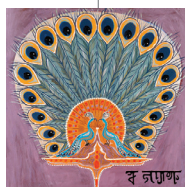
This fourth scenario has nonprofits responding to a faltering economy as an opportunity to reinvent themselves. A transformation-oriented approach, according to Light, would require deliberate and collective action by the sector's stakeholders (communities, philanthropists, governments, intermediaries, constituents, nonprofit associations, and boards) to:

Ensure a voice for the less powerful. "It's imperative to ensure that the less connected and powerful have a say in the future of this sector, which is, after all, meant to facilitate our ability to self-organize."

Build advocacy. "Generally, advocacy must be seen as a necessary capacity for nonprofits—and one that should be funded well during times of political upheaval. There is no way to recover quickly from a government retrenchment that has already happened. The sector needs to weigh in loudly on where the trenches have been dug."

Spark a dialogue around philanthropy. "Since philanthropy is a private allocation of funds to be held in public trust, in times of such serious upheaval there should be a more public conversation about philanthropy. This doesn't mean that philanthropy needs to coordinate better among itself but that it should be more responsive and responsible to its community partners."

Become more flexible. "Whatever happens, the sector needs to innovate and mobilize more flexibly to keep pace with a new era."



Light's transformation scenario is close, but in this case a miss may be as good as a mile. Did we start a dialogue on the legitimacy of philanthropy? You bet. And we undeniably showed ourselves to be flexible and resilient. But we only scratched the surface (and that is being generous) on the most important cornerstone of them all: Light placed ensuring a voice for the less powerful first on his list of necessary changes—and he was prescient, because it was exactly the less powerful who lost resources during the recession. The less money they had going in, the more they lost on a proportionate basis; and although there have certainly been some significant organizing and advocacy attempts to focus on workers with fewer resources (think unionizing efforts among the former unrepresented, and even Occupy Wall Street, which happened in the wake of the recession), these have not halted nor slowed the steady widening of our economic fault lines.

What we have seen is a surge of leaders who are women of color bringing intensified attention to racial justice and economic justice, including reparations—but this surge is not tied to nonprofits but more broadly to civil society.

Thus, advocacy organizations may have been effective in the maintenance of services and the stabilizing—and even growth—of the sector, but this has not necessarily ended up improving either people's financial positions or the power of constituent voice in advocacy for a changed world. This suggests to us that although nonprofits appear to have accepted advocacy as a core competency, this advocacy may be too often focused on themselves, in too many cases involving the community only by extension.

We are entering into a time of great uncertainty, where this new recession is concerned. It may, in fact, turn out to be a depression. At the onset of the last recession, nonprofits were veritable prophets of doom, but their survival—and, even, growth—turned out to be surprisingly robust. This time, we may not be so fortunate. We are already experiencing dramatic layoffs in general and in the sector, which will put our communities at deep risk. Thus, Light's message of transformation still holds—we must make sure to lift up the voices of the less powerful, build advocacy as a necessary capacity, keep up the public conversation about the job of philanthropy, and "innovate and mobilize more flexibly to keep pace with a new era."

NOTES

1. Paul Light, "Four Futures," *Nonprofit Quarterly* 15, no. 4 (Winter 2008); published online December 21, 2008, nonprofitquarterly.org/four-futures/.
2. See "Mutual/Membership Benefit" chart in Ruth McCambridge and Nathan Dietz, "Nonprofits in Recession: Winners and Losers," in this issue, p. 10.
3. See "Changes in U.S. Employment" chart in Jon Pratt and Kari Aanestad, "Deconstructing the (Not-So-Great) Nonprofit Recession," in this issue, p. 31.
4. It should be noted that we use the eds and meds as a proxy for size differentials, but the "other" category includes some larger organizations as well. See McCambridge and Dietz, "Nonprofits in

Recession," pp. 6–21.

5. This blip had to do with a few major gifts. See "Education (not higher ed)" chart in McCambridge and Dietz, "Nonprofits in Recession," p. 10.

6. See "Data and Methodology" sidebar in McCambridge and Dietz, "Nonprofits in Recession," pp. 16–20.

7. See "Changes in U.S. Employment" chart in Pratt and Aanestad, "Deconstructing the (Not-So-Great) Nonprofit Recession."

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