

The Social Economy in a Recession: A Trial or an Opportunity?



by Patrick Shine

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The recession places both business and society under stress. Not only do wealth and economic confidence decline, but rising unemployment leads to rising social needs. A significant feature of this recession is the decline in trust in politicians and the financial system. The social economy can play a uniquely positive role in these challenging times. But how does the sector itself cope with the economic downturn, and what is the role of Christians and churches in the sector?

Introduction

This Easter, on my return from holiday, I was contacted by several friends and colleagues in the social economy who were looking to hire new posts. I quickly found myself saying to friends “it doesn’t look like a recession from where I’m sitting”. Our curate picked up on this and mentioned an individual who was looking for work. A few phone calls and emails later and that person had secured a new position.

This anecdote informs the two main points of this article – that the social economy has shown remarkable resilience in the recession, and that the church is in a unique position to provide support to people who are affected by the economic downturn. More speculatively,

there is an opportunity for the church to provide a challenge to secular values including economic values, not just in words, but in deeds and track record.

What is the Social Economy?

The Social Economy refers to a third sector in economies between the private sector and business or between the public sector and government. It includes community organisations, charities and social enterprises such as cooperatives. These organisations carry out a multitude of activities but are distinguishable by four characteristics:

- their primary purpose is social
- they are separate from government

- their financial structure is not for profit, or not mainly for profit, with surpluses reinvested for social purposes
- many draw heavily on volunteers to achieve their objectives.

The social economy is broader than the social enterprise sector, although social enterprise is increasingly important within it. The social economy includes charities and other more informal community organisations; the trends discussed in this article, whether financial, social or spiritual, are affecting all such organisations, albeit unevenly.

The social economy has gained considerable attention by New Labour, with the creation of an office of third sector (OTS) to

give a focus to the government's desire for a thriving third sector, "enabling the sector to campaign for change, deliver public services, promote social enterprise and strengthen communities"¹.

The sector is substantial. In 2006/07 there were 870,000 civil society organisations in the UK with a total income of £116 billion and assets of £210 billion. However, many of these organisations are small: 54% of general charities in England had an annual turnover of under £10,000; 85% had an annual turnover of under £100,000. Just 3% have income over £1million².

The sector is a significant employer, with 464,000 full-time equivalent employees (66% female, 34% male). This makes it larger in staff terms than financial services, although pay levels are very different!

But such figures understate the importance of the sector. Its role in creating *social* capital has to be taken into account. The value of the sector includes the value of volunteering, increasing levels of trust, creating support networks, and valuing people. Social capital is especially important in times of upheaval and change. For example, there is a wealth of evidence that people's ability to find work is related to the nature and size of their social networks.³ From a Christian perspective, the emphasis on the non-financial value of an enterprise and the healing effect of community drawn together by love of each other and love of the work is part of bringing the kingdom of God on earth.

The Economic Impact of the Recession

The recession has not hit the social economy in the same way as the private sector. Charities and social enterprises are very different, needing different resources and providing different goods and services. For example, across the sector, about 50% of income is earned, with 40% from grants, donations and legacies. Two thirds of earned income is in the form of contracts with public sector agencies.

In February 2009, 25% of charities said they had been significantly affected by the downturn; in most cases the main effect was a drop in income. The main area where this was felt was through investment income, due to lower interest rates and bond yields. (Investment Income is 8% of total income for the sector, although very unevenly distributed). Those working overseas were also hit by the fall in the sterling exchange rate.

Although there is some evidence for declining income from donations, the picture is incomplete and patchy. There is some suggestion that donors will become more conservative, sticking to the organisations they know; we have also noted with amusement that charities in particular are reviewing their own expense policies especially for

management. And we may see a decline in conspicuous consumption models of fund raising such as charity balls. For Christians, this less worldly approach is a relief.

Turning to earned income, as opposed to donations, the picture is rather better. Although the economy as a whole has suffered a significant contraction, there are



Macmillan Cancer Charity Ball October 2008 (note the date!)

some parts of the social economy that are much better positioned:

1. To date, public sector spending has held up well. Although new contracts will be negotiated in a much tougher financial context, the public sector is more stable than the private sector and in some cases counter-cyclical.

A notable example of counter cyclical spending is the Future Jobs Fund. The Government has allocated £1 billion to create jobs and provide hope for young people and jobseekers in deprived communities. Many charities and social enterprises that work in these areas have been well positioned to benefit from this spending.⁴

Demand for services provided by third sector organisations is already rising and expected to rise further as unemployment rises towards 3 million next year, with the associated social challenges.

2. The environmental movement is a big part of the social economy. The rise in concern about climate change has not only strengthened campaigning organisations. It has re-invigorated many community organisations and seen a host of social businesses emerge. One of the strongest business drivers is the cost of landfill. With local authorities suffering enormous financial penalties if they do not reduce landfill use, a host of social businesses have found an important income stream for recycling and reuse for everything from coffee grounds to flat pack furniture.

3. The fair trade /ethical trading sector, though still small, continues to exhibit above average trend growth. Although some weaker businesses may struggle in the short term, the “mainstreaming” of ethical trade demonstrates the strong foundations for this part of the social economy.

4. The third sector has been almost immune from the credit crunch. As a sector it is a net depositor, and after some prodding, deposits were

protected by government guarantee. The ethical banks – Charity bank, Co-op bank and Triodos – had minimal exposures to toxic debt and have been able to increase market share. More significantly, given that most social economy organisations are not very attractive to lenders,



■ *The Java-Log made from recycled coffee grounds. It burns longer and more cleanly than timber. Made by Robustion Products Inc., Quebec, Canada.*

there are sector specific loan funds that third sector organisations have been encouraged to tap for cash flow, restructuring and expansion. Of these, Futurebuilders is the largest social investor in the UK. Their aim is to substantially improve the financial and strategic capability of the third sector. This government funded programme has been significantly expanded in recent years and is promoted actively within the sector.

Longer term the situation is more problematic. The public sector squeeze will affect the voluntary sector disproportionately, unless it can find innovative ways to work with public sector commissioners to offer cheaper

solutions in delivering social services. However, after allowing for timing differences (the private sector shrank first, and hence is likely to be the first to recover), overall the social economy looks to be at least as resilient as other sectors of the economy across the current economic cycle. A sector which has a long-term future in tackling unemployment, environmental concern, fair trade and low exposure to risky debt holds out the prospect of a more compassionate society.

It may therefore demonstrate both greater stability and closer conformity to the biblical vision.⁵

The Social Impact of the Recession

It is important to note that the inputs and outputs within the social economy may have no monetary value. As a result, this understates the importance of the sector in national accounts (i.e. GDP calculations). Many organisations in the sector are more dependent on volunteers than income. For example, my local scout group has an income of approximately £30,000 p.a. but the leaders and parents provide several thousand hours of volunteer time, worth at least as much as the funds raised. It could handle a drop in income without too much difficulty, but if there was an equivalent drop in volunteers it would have to close.

It is difficult to find recent statistical data on volunteering, but the recession appears to have

affected volunteering in two opposing ways. First, we see a decline in commitment by some existing volunteers as they respond to the recession by working longer or more flexible hours. In many cases this will be driven by employers taking steps to increase productivity or reduce costs. However, it can also be an individual response to increased job uncertainty, as employees signal their commitment and value to the employer. Either way, many people who are in work have had to halt or reduce their commitment to the social economy in favour of the corporate economy.

Against this, there are signs of increased volunteering and more generally interest in engaging with social issues. First, many who have lost their jobs are seeking to engage with the sector, often via an unpaid internship. For example, there has been a noticeable supply of ex-bankers offering their skills to the sector. But across all parts of the employment spectrum volunteering opportunities can be invaluable to those who have lost their jobs and many will choose to engage for all sorts of reasons.

The pool of talent is also growing due to the increasing numbers of people, often with professional qualifications, who are considering careers with the

sector. A recent survey by VSO suggested that almost two out of five workers were questioning their vocation as a result of the recession⁶. In part this reflects a rational response to the shrinkage of the financial sector and the need to look further afield. But there is also increasing demand for people with business skills, with the rise of social enterprise and increased emphasis in



■ Investment banker Kieran Ball left his job last year to work as a volunteer for Kiva microfinance. The picture shows him (in white shirt) with a group of borrowers in a village in West Timor. ■

professionalism and earned income among charities.

In my opinion, this trend has a deeper significance. The recession has been accompanied by a shift in values, which are just as important as income and volunteers for a vibrant social economy. We have seen a loss of trust and respect for bankers and politicians. So who can you trust? The recession has created opportunities for the sector to benefit from changing public attitudes. Working in the social economy now looks much more socially acceptable. And, based on my personal experience as a

Christian, faith as a motivation is far more accepted and respected. Might there even be a prospect of an age of faith?

Although this is to be welcomed, there is a potential darker side to the increase in volunteer or low cost resources. With income at risk, many charities are planning to reduce paid staff, and more broadly the sector's workforce will not be immune to the

increased job insecurity and stress levels seen in other parts of the economy. There is some anecdotal evidence of conflict over pay and terms, especially when employers reduce numbers of staff while increasing numbers of volunteers. The sector continues to be inadequately managed, partly because most organisations are very small, but also because donors have unrealistic

expectations on core costs. This lack of capacity becomes most exposed in adverse times, and can be in painful contrast to the high ethical values adopted in the sector.

The Role of the Church in the Social Economy

So far this discussion has downplayed the role of the Church. However, it plays a disproportionate role in the social economy for three main reasons. The first is that, in contrast to many secular third sector organisations, Christian third sector organisations (including

churches) have very low dependence on public sector contracts or grants. This makes them less dependent on cyclical changes in government spending.

The second is that Christians contribute disproportionately to the sector. Christians are more likely than non-Christians to become staff and volunteers in



Salisbury Foodbank
run by the Trussell Trust, a Christian Charity

third sector organisations. Although firm evidence is hard to come by, it has been suggested that a third of all youth work is carried out by Christians (either directly with churches or within secular organisations). This corresponds well with my personal experience in a range of secular community programmes.

The third is the role of values. Churches have a long tradition in working with the most vulnerable in society. Many third sector

organisations are founded by Christians even if they later become more secular in ethos. When individuals say they still trust the third sector, it is because of the historical and current commitment by the Church and its members, which informs both the track record and the ethos that they admire.

An example is the Foodbank network, a project run by the Trussell Trust to feed people in crisis across the UK⁷. Foodbanks are run by groups of local churches, and provide boxes of donated food to individuals and families who have literally run out of cash (often because of problems with benefits payments). Founded in 1997, the programme has seen rapid growth and, working with local churches, has launched over 45 Foodbanks in the last five years. In doing so they have fed 24,000 people but also created space for new positive relationships with

vulnerable people.

This programme demonstrates the distinctiveness of church based social initiatives. It is financially independent of the state, delivered largely by church-based volunteers and is inspired by the biblical injunction

*For I was hungry and you gave me something to eat, I was thirsty and you gave me something to drink, I was a stranger and you invited me in, I needed clothes and you clothed me...*⁸

Conclusion

The Social Economy is facing many challenges as a result of the recession. However, it is at least as resilient as other parts of the economy for both structural and cyclical reasons. But the sector is as dependent on values as on more economic factors. Only with strong moral authority will the sector secure the donations and volunteers that it needs to be effective. And the church plays a disproportionate role in the sector partly because it puts its values into action.

Looking ahead the public sector seems certain to shrink, and with it the ability to meet the social needs of society. This will create new opportunities for the social economy as whole, and a great opportunity for the church to influence the social landscape in the coming years. ■

Patrick Shine is a partner of the Shaftesbury Partnership, a practice of professionals committed to 21st century social reform.

Notes

- 1 http://www.cabinetoffice.gov.uk/third_sector/about_us.aspx
- 2 http://www.cabinetoffice.gov.uk/third_sector/research_and_statistics/facts_figures.aspx
- 3 First demonstrated by Mark Granovetter in a 1973 paper "The Strength of Weak Ties"
- 4 <http://campaigns.dwp.gov.uk/campaigns/futurejobsfund/index.asp>
- 5 See, for example, Isaiah 61:9, 'they are a people whom the Lord has blessed'.
- 6 <http://www.telegraph.co.uk/finance/financetopics/recession/6146247/Recession-affecting-workers-skills.html>
- 7 <http://www.trusselltrust.org/content/foodbank/foodbank.htm>
- 8 Matthew 25:35-36