

# THE J.W. MCCONNELL FAMILY FOUNDATION

## On Not Letting a Crisis Go to Waste

Keynote address by

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***“You never want to let a crisis go to waste.” Rahm Emanuel***

A week ago we marked the first anniversary of the financial collapse. So, what happened a year ago?

- Too much risk people didn't understand
- Too much leveraging
- Too much doing what was rewarded: chasing profit at all costs
  - Mass delusion that through some alchemy human ingenuity, complex mathematical modeling, and sophisticated technology had combined to take us into an era of endless growth and permanent prosperity.

The initial response was to try to fix the financial system, stabilize the banks, get credit flowing, inject stimulus money to prevent a repeat of the Great Depression.

Superficially, it seems to have worked:

- The recession is “over”
- The market is back, credit is flowing
- Deals can be made (Barrick, Encana...), bonuses reinstated

We are supposed to believe that – especially for Canada – it wasn't so bad after all. Consider the tagline on a recent TV ad from the federal government: "We are coming out of this stronger than ever."

But of course there is more to it than that. We need to disentangle the long term trends which were already underway, and the short-term impacts of the crisis itself. In the latter category we can place the dismantling of the G8, the so-called executive committee that 'managed' the global economy, and its replacement by the G20 – reflecting not so much the rise of the BRIC countries (whose economic growth has been well underway for several years already) as the decline of the moral authority of the US and of the so-called Washington consensus of limited government and unfettered markets. (Perhaps we can also hope that a serious blow has been struck to what has been called 'autistic economics' and the credibility of economists more generally).

However, the far more important long term trend, which was to some extent obscured by the apparent prosperity industrialized countries have enjoyed, was a major shift in the economy itself. One aspect of this was the slow birth of the 'Green Economy' – the restructuring of Western economies to be more energy efficient, less wasteful, replacing mass production by customized products and distributed networks, with customers becoming 'pro-sumers' (blurring the line between producer and consumer). Canada, it must be said, is lagging in this transition, held back by the weight of vested interests, particularly in conventional energy production, and a desperate lack of leadership in the business and political realms. Bailing out dinosaurs like GM and Chrysler still has greater appeal than making sure that a technology company like Nortel stays intact and in Canada.

Another trend which has long term implications is the impact of rising energy prices. Jeff Rubin's recent book (*Why Your World is Going to Get a Whole Lot Smaller*) argues that the rising cost of oil will overturn the rationale for much offshore production, even throwing globalization into reverse as countries and communities turn to local sources for manufacturing low value items, food production, etc.

Finally there is the inexorable aging of the Canadian population. The balance of people in the workforce to those who are retiring is tilting; fewer people will be paying taxes to sustain the pensions and health care costs of the boomers. The implications of this are profound: governments will be unable to assure the level of services we currently enjoy, particularly to scattered or remote populations. Canadians have not been enthusiastic savers for their retirements, and a large number have no employer pension plans. Health care, and care more generally – for seniors, children, people with special needs, will become a key area of employment growth.

We are moving in the direction of a new economy which would be characterized by the following:

- A shift from export-led growth (relying on American consumers) to more production for local markets
- Moving from free circulation of capital to regulated flows and greater monitoring
- From global supply chains to more local sourcing, where feasible
- New products and processes arising from the 'greening' of the economy
- Local resources mobilized for local investment
- Goal of economic growth replaced by better quality of life
- More mixed enterprises, blending financial and social returns

Of course, changes don't happen seamlessly or according to a plan. The institutions and forms that we have inherited from the industrial era persist – not just corporations and bureaucracies, but educational institutions and those delivering health care. These remain compartmentalized, professionalized, centralized, and hierarchical and they deliver standardized services to clients or customers, not citizens or collaborators – all characteristics that we reject in our personal interactions, or at least recognize as being profoundly out-of-step with our needs and preferred methods of operating. Attitudes may be slow to change but institutions are even more resistant.

In the private sector we are now witnessing efforts to innovate, to configure workplaces, to encourage creativity, to develop whole new business models. The public sector is struggling to modernize but is hobbled, in Canada at least, by a culture of risk avoidance in part created by the Auditor General and in part by the deep suspicion politicians currently have for public servants.

And what about the community sector? On the one hand, that is arguably where innovation is constantly occurring. We find examples of social purpose businesses, alternative energy coops, new ways to deliver services to vulnerable populations – in short, a dynamic social economy. What we don't find is public recognition of this (except in Quebec) by politicians or business leaders, too many of whom are ignorant or dismissive.

We need to change that. In the UK when the Labour government took power, Prime Minister Tony Blair concluded that the problems facing the country could not be solved by any sector on its own; solutions required cooperation between government and business and the Community, or Third, Sector. He established the Office of the Third Sector in the PM's Office and instituted a series of measures to build the sector's capacity and to ensure adequate and diverse funding. A Taskforce led by a successful venture capitalist, Sir Ronald Cohen,

recommended a series of measures, including a several initiatives to build infrastructure, including Unltd (seed capital for entrepreneurs); Venturesome, to provide loans and equity for charities; Bridges Ventures (venture capital, with a focus on deprived areas and environmental businesses; and Bridges Social Entrepreneurs Fund for investment in enterprises with a blended financial/social return; Triodos, which provides equity and loan capital for social enterprises, and Futurebuilders, which provides loans and grants funded by government (now managing a L. 100 million Social Enterprise Development Fund). The overarching goal was to ensure access to capital, training, and networks of mentors and advisors for anyone or any organization with the ingenuity and initiative to develop a new approach or a new enterprise to tackle the problems of disadvantaged individuals and communities.

A new legal structure was set up, called a CIC, for social enterprises seeking social value and impact. Since its launch in 2005, over 2,800 of these CICs have been registered in the UK. The US is moving in the same direction, with the L3C or Low Profit Limited Liability Companies, and of course one of the first acts of the Obama administration was the creation of an Office of Social Innovation in the White House.

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So Canada is out of step, apparently locked into an old paradigm where business, government and community sector operate independently, with the latter as a distinctly junior partner. Of course it is not quite as straightforward as that: businesses are talking up the need to be 'socially responsible', governments are looking at the benefits and costs of PPPs, community organizations are in some cases launching social enterprises ... foundations are beginning to engage in PRIs and MRIs. But it is slow, and uphill.

Our challenge is to accelerate the process of innovation and to create institutions and processes to support it, as has been done in the UK and the US, and here in Quebec.

When we describe aspects of the new economy, it resembles nothing so much as what we call the 'social economy'. Driven by a new environmental and social consciousness it looks for ways to both engage and satisfy the needs of people at risk of being ignored or poorly served by the market and the state – people who at present are treated as marginal because of barriers that prevent them from participating fully in the economy and society. I am talking of people with various disabilities, or mental illness, or lacking skills, or suffering from addictions, or unemployed... Until now we have treated them as clients to whom services are provided, not as people capable of making their own contribution to the common welfare.

To foster this economic shift, we need better data (research), we need a stronger public image (“social economy” seems to marginalize – people simply aren’t aware of its scope and scale ), we probably need a private sector champion like Sir Ronald Cohen, we need to create the infrastructure for building capacity and investment vehicles like the Fiducie. Above all, we need a new narrative: one that replaces the story offered by ‘autistic economics’, of growth as the panacea that solves all problems, by a more textured story that better reflects the reality of people’s search for fulfillment, relationships, and happiness.

Some of this is starting to happen: Causeway, SiG, the multitude of innovations springing up as people and organizations struggle to find solutions to challenges both local and national.

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Leadership has been defined as “the courage to see reality as it is, to see possibility when others can’t see it, and to inspire people to move from reality to possibility”. The reality for many of us is that classical economics is just an ideology – albeit one that has served for many decades now as the economic version of the infamous “End of History” proposed by Francis Fukuyama – that has led us into a blind alley. The current economic crisis has served to remove some of our blinkers: other possibilities exist – new ways of creating economic opportunities which contribute to environmental sustainability and human well-being and happiness are being tested. Leadership has been defined as the courage to see the world as it is, to see possibility when others don’t see it, and to inspire people to move from reality to possibility. The challenge is clear: Your task, our task, is to inspire people to move from so-called “reality” to those possibilities.