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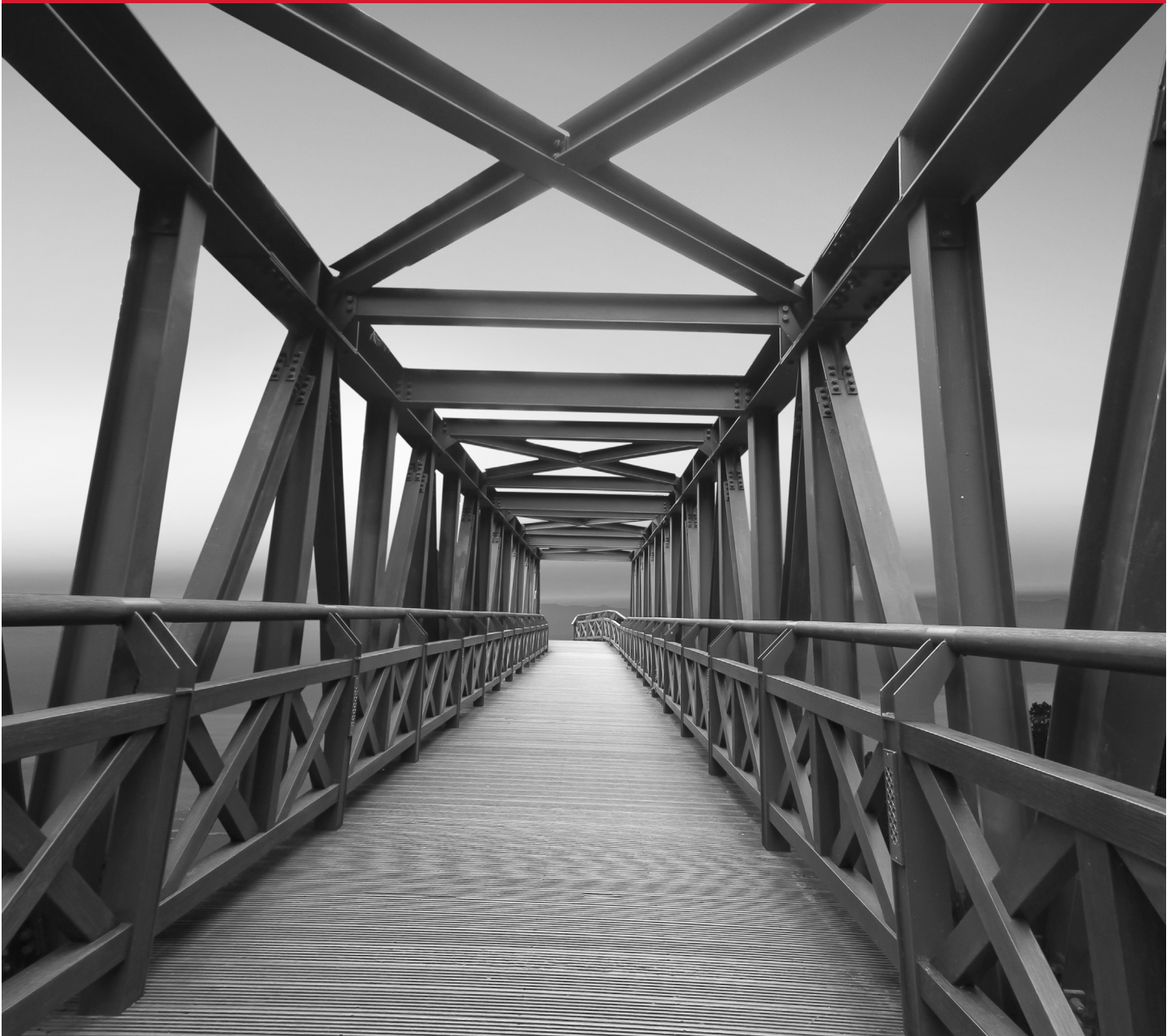
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# BEYOND SYNERGY: CHARITIES BUILDING THE FUTURE CANADIANS WANT

Discussion Paper

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## **Beyond Synergy: Charities Building the Future Canadians Want**

Discussion Paper

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# 01 INTRODUCTION

The charitable sector is an important force in meeting Canada's social, economic, cultural, and environmental objectives. As a big part of the economy, the sector can contribute to growth, innovation, and job creation. As a social mission sector, it is expert in delivering social, economic, and environmental solutions, especially at the community level. But fundamental economic, social, and demographic trends threaten to undermine the ability of charities to contribute to the future Canadians want: a society in which needs are met by economic growth that is equitable, inclusive, and environmentally responsible.

In a previous discussion paper <sup>1</sup> Imagine Canada forecast an increasingly difficult future for Canada's core charities as revenues, squeezed by a slowing economy, struggle to keep up with accelerating demands for the mission-driven services charities provide. Imagine Canada's research has attached an intimidating number to this social deficit — some \$25 billion in the year 2026 under reasonable assumptions about future growth rates of revenue and demand.<sup>2</sup>

This paper argues that an effective approach to equitable, inclusive, and environmentally responsible economic growth and an effective approach to the social deficit are overlapping policy issues. The missions of charities can boost efforts to achieve the broad objectives of Canadians and their governments. In turn, economic growth that is equitable, inclusive, and environmentally responsible can assist the charitable sector in managing the emerging social deficit.

Today, benign neglect of its economic contribution and a set of antiquated rules, regulations, and constraints that impede its ability to do its job hamper the sector. If unchanged, these will prevent it from developing the innovative social models and revenue sources needed to fulfill its promise.

The policy implications of this analysis are extensive — a broad range of changes are required, from the way charities are thought of as part of the economy to revisiting the complex web of legislation, regulation, and programs within which charities operate. Many of the elements of a revised relationship are not expensive — they are straightforward and sensible suggestions for relationship management, operational practice, and program design which come at little or no financial cost but require some policy change and organizational effort by both the sector and the government.

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<sup>1</sup> Charities, Sustainable Funding and Smart Growth, Brian Emmett, Imagine Canada, October 2016.

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<sup>2</sup> These conclusions are like those reached by other analyses. For example, Civil society challenged: towards an enabling policy Environment, Helmut K. Anheier Discussion Paper No. 2017-45 | July 13, 2017 | <http://www.economics-ejournal.org/economics/discussionpapers/2017-45>

## 02 CHARITIES, ECONOMIC GROWTH, AND WELL-BEING

<sup>3</sup> 2007 is the most recent year for which good data is available in Canada.

<sup>4</sup> Source: Satellite Accounts of Non-profit Institutions and Volunteering, Statistics Canada, 2007.

<sup>5</sup> The State of Global Civil Society and Volunteering: Latest Findings from the Implementation of the UN Nonprofit Handbook, Lester Salamon, et al., Johns Hopkins Centre for Civil Society Studies, 2013.

<sup>6</sup> The Resilient Sector Revisited: The New Challenge to Nonprofit America, Lester Salamon, 2015.

From 1997 to 2007<sup>3</sup> charities expanded noticeably faster than the market economy, growing nearly 100% during this 11-year period.<sup>4</sup> This expansion was “need driven” by factors such as demographics, social and cultural change, and concern for the natural environment.<sup>5</sup> <sup>6</sup> These include:

- The aging of the population, increasing the demand for a range of elderly services;
- The expansion of labour force participation by women, increasing the demand for childcare and related services;
- Shifts in family structure with an increase in single-parent families, often accompanied by significant economic hardship and social disruption;
- The rapidly expanding need for substance abuse treatment services; and
- Immigration, increasing the demand for cultural and resettlement assistance.

But many of the growing demands faced by charities have been driven by the nature of economic growth itself: an economy which has not been growing in an equitable, inclusive, and environmentally responsible way. This has led to attempts by the Ottawa Canada Centre for Studies in Living Standards (CSLS), the Organisation for Economic Co-operation and Development (OECD), the United Nations, and others to try and quantify the relationship between GDP growth and the more elusive concept of well-being or quality of life.<sup>7</sup>

*“GDP accounting omits consideration of many factors — leisure time, longevity of life, asset stock levels, income inequality, and so on... a better measure of ‘access to resources needed for a decent standard of living’ is needed if economic and social trends are to be combined into an index with greater ambitions.” <sup>8</sup>*

<sup>7</sup> These efforts include Gross National Happiness (see the World Happiness Report 2015 Edited by John F. Helliwell, Richard Layard, and Jeffrey Sachs, <http://worldhappiness.report/wp-content/uploads/sites/2/2015/04/WHR15.pdf>; and Agenda 21, reflecting the sustainable development goals of economy, environment and social justice, agreed to at the United Nations conference on Environment and Development in Rio de Janeiro in 1992 and elaborated in a number of fora since. All have the intent of expanding the understanding of well-being beyond traditional economic measures. The IEWB is used here because of the availability of time series data for Canada directly comparable with trends in GDP.

<sup>8</sup> A Tepid Recovery: The Index of Economic Well-Being for Canada and the provinces, 1981-2014, Jasmin Thomas and James Ugucioni, CSLS Research Report 2016-05, June 2106.

The broader measure developed by the CSLS is the Index of Economic Well-being (IEWB). It includes traditional economic growth but adds important elements such as the distribution of income, life expectancy, damage to the environment, and job anxiety (Table 1).

Sub-indices tracking consumption, wealth, economic equality and economic security provide a snapshot of the extent to which each of these areas contribute to well-being. The sub-indices can be integrated to produce a single number capturing the quality and quantity dimensions of economic activity.

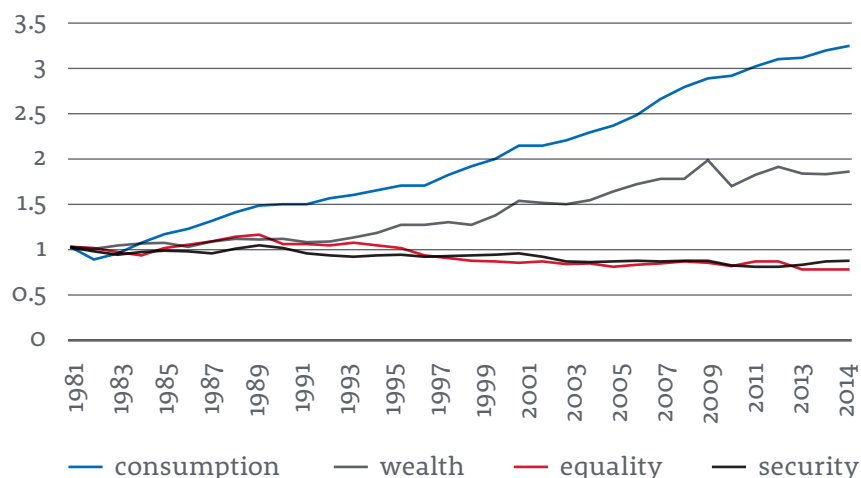
**Table 1: Index of Economic Well-being Components**

<b>CONSUMPTION</b>	<ul style="list-style-type: none"> <li>• Per capita market consumption</li> <li>• Life expectancy</li> <li>• Unpaid work</li> <li>• Leisure</li> <li>• Government spending</li> <li>• Minus regrettable expenditure</li> </ul>
<b>WEALTH</b>	<ul style="list-style-type: none"> <li>• Capital stock</li> <li>• R&amp;D expenditure per capita</li> <li>• Natural resources</li> <li>• Human capital</li> <li>• Minus social cost of environmental degradation</li> </ul>
<b>ECONOMIC EQUALITY</b>	<ul style="list-style-type: none"> <li>• Income inequality</li> <li>• Poverty rate and gap</li> </ul>
<b>ECONOMIC SECURITY</b>	<ul style="list-style-type: none"> <li>• Risk of unemployment</li> <li>• Financial risk from business</li> <li>• Financial risk, single parent poverty</li> <li>• Risk of poverty in old age</li> </ul>

SOURCE  
A Tepid Recovery:  
The Index of Economic  
Well-Being for Canada  
and the provinces, 1981-  
2014, Jasmin Thomas  
and James Uguccioni,  
CSLS Research Report,  
June 2106; and [http://  
www.csls.ca/iwb/  
FinalIEWBCanada2014.  
xlsx](http://www.csls.ca/iwb/FinalIEWBCanada2014.xlsx)

Chart 1 shows the CSLS measurement of the contribution of each of these domains to economic welfare over the period 1981 to 2014.

**Chart 1: IEWB Components 1981-2014**



SOURCE  
<http://www.csls.ca/iwb/FinalIEWBCanada2014.xlsx>

<sup>9</sup> Beyond GDP: Measuring Economic Well-Being in Canada and the Provinces, 1981-2010, Lars Osberg and Andrew Sharpe, CSLS Research Report, September 2011.

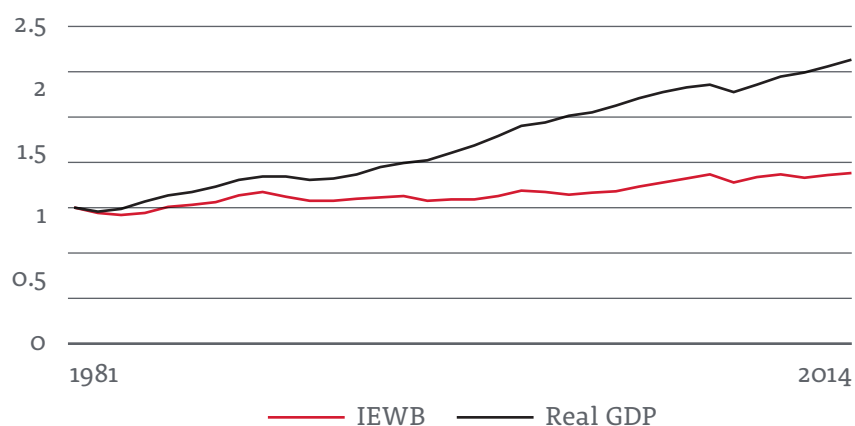
Over the period 1981-2014, sub-indices related to economic performance – per capita consumption and wealth – increased as would be expected during a period of economic expansion, except for decline in the wealth-related index after the 2008 Great Recession. In contrast, indices tracking economic equality and economic security have not performed nearly as well, trending generally downward. The sub-index on economic inequality, for example, fell by 23.6% from 1981 to 2010.<sup>9</sup> This is a period during which economic inequality increased and become a major public policy concern.

The sub-indices comprising economic well-being can be aggregated to create an overall index of economic well-being integrating both GDP growth and social values. We can then compare the trend of economic well-being to the trend line of GDP growth. The CSLS and the OECD have prepared estimates of the rates of growth of both GDP per capita in Canada and the IEWB (Chart 2).



**Chart 2: Trends in the Overall Index of Economic Well-being and GDP per Capita, Canada, 1981-2014, Indexed, 1981=100**

*Index of Economic Well-being and Real GDP, 1981=1.00*



SOURCE  
A Tepid Recovery: The Index of Economic Well-Being for Canada and the provinces, 1981-2014, Jasmin Thomas and James Uguccioni, CCLS Research Report, June 2106; and <http://www.ccls.ca/iwb/FinalIEWBCanada2014.xlsx>

<sup>10</sup>  
ibid.

The results show that performance of the IEWB has significantly lagged rates of growth of GDP:

*“...the improvement of economic well-being in Canada over the 1981-2014 period has been driven by the dramatic increase in per-capita consumption and wealth, though it was somewhat hampered by the increases in economic inequality and insecurity.”<sup>10</sup>*

Growth can be a mix of good and bad for the charity and nonprofit sector. Economic growth provides revenue for the sector, but growth that is not equitable, inclusive, and environmentally responsible causes demand for already overburdened charities and nonprofits to grow more quickly. Charities need to take a nuanced view of economic growth. It is best for the sector and for Canada if growth achieves a balance between prosperity, opportunity, social inclusion, and respect for the environment.



## 03 POLICY IMPLICATIONS

The synergistic relationship between the economy and charities has not been the result of explicit policies adopted by governments and the sector. Rather, the relationship has evolved as both adopted a series of ad hoc decisions and strategies. Few, if any, of these decisions were explicitly targeted on extracting maximum value from the connection between the sector and the economy, or on broad measures of well-being. As a result, the existing mix of government policies and regulations are inconsistent, outdated, and prevent charities from contributing to both growth and well-being.

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<sup>11</sup> The innovation, productivity, and infrastructure emphasis of the current government's fiscal policy is a good example of this.

Moving beyond synergy to maximize the benefits of the relationship between charities and government will require broad and coordinated changes at the strategic level as well as in legislation, regulation, and in the way charities operate.

With real GDP growth widely forecast to slow, governments have focused on increasing GDP, enhancing innovation, and employment creation.<sup>11</sup> A sector that accounts for 8% of GDP and two million jobs can help. But the structure and mandate of programs to stimulate growth, innovation, and employment often leave charities out — either by neglect or design — failing to take advantage of the contribution this large and dynamic sector can make. On their part, charities must be prepared to show how they can contribute to good macroeconomic policy if governments are to take their role seriously in policy development and program design.

Charities also need to think beyond the bottom line synergistic relationship to deal with root causes arising from narrowly focused economic policies. Persistent economic inequality and insecurity have held well-being back and increased stress on charities. They have a strong track record in responding to the demands created by economic growth that is not inclusive, equitable, and environmentally responsible. Today's rapidly changing environment calls for an even deeper response. Charities need to advocate growth and employment policies for which a social lens is integrated, not added on.

Good economic policy with a social lens requires a more prominent value-added role for charities — a seat at the economic policy table. Charities have a large and profound contribution to make to sound economic policy. Efforts to stimulate economic growth through innovation, productivity improvement, and investment in

infrastructure have the potential to boost well-being. But history suggests that “moving the needle” on economic growth may well be extremely difficult.<sup>12</sup> Accelerating economic growth will present a significant challenge to even the best designed and most aggressive economic policies.

But measures such as the IEWB suggest taking a broader view. GDP growth is not the only way to boost growth in well-being. If economic growth proves difficult for policy makers to accelerate, then acting on economic inequality and insecurity may well become a more attractive and effective means of improving well-being among Canadians. Economic policy with a social lens will have real benefits, especially if conventionally-defined GDP growth proves to be a difficult objective.

Bringing sophisticated, nuanced, and well researched views promoting a balanced approach to economic progress and growth in well-being to the economic policy table is a huge analytical and strategic challenge. A seat at the table would impose a requirement on charities to improve their economic literacy and policy capacity. The sector needs to be capable of taking a two-track approach: dealing with urgent issues affecting the sector and its financial sustainability in the context of a difficult social deficit and addressing broader macro-economic policy issues balancing growth, equity, inclusion, and the environment.

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<sup>12</sup> See William Nordquist, *Why Growth will Fall*, New York Review of Books, August 18, 2016; Robert J. Gordon, *The Rise and Fall of American Growth- U.S. Standard of Living Since the Civil War.*, Princeton.

## 04 AN ARCHITECTURE FOR CONSIDERING STRATEGIC GOALS, OVERARCHING ACTIVITIES, AND THE RESOLUTION OF SPECIFIC ISSUES

This is an ambitious agenda, which will involve resolving several specific issues ranging from the straightforward to the technically complex. It is therefore important to consider how to establish a structure that will make sense of specific proposals and relate them to a larger whole.

First, there is a need to specify a clear objective that reflects the broad values of Canadians, showing how the agenda of charities contributes not only to a resolution of the sector's problems but to the achievement of a coherent economic and social strategy. It is important to maintain a clear focus on the overall strategic objective of a recalibrated relationship: an economy and society which creates jobs and growth in a way that meets broader objectives like opportunity, equity, inclusion, and the environment.

Second, this broad objective should be parsed into three broad priorities. A third level accompanies each in turn — a set of specific issues that need to be resolved by working with government.

The suggested three broad priorities are:

- **A new operating environment for charities and government** to make sure charities can constructively participate in the national conversation about social and economic goals and related policy development. This means seeking a seat for the sector at economic policy tables and a corresponding commitment to look at all policies and programs with a social lens. In addition, a change in approach on a more day-to-day level is required. The sector also needs a point of stewardship — a plug and socket — in the federal system. It needs a minister and a supporting bureaucracy that cares about the sector and nurtures the contribution it can make to the economy; that deals with the issues linking strategy with practice, broad ideas with program development.
- **Enabling policies** that remove counterproductive constraints on the sector's ability to do its job. For example, restrictions on earned income in the Income Tax Act; changing CRA's emphasis

on charitable activity to charitable purpose, economic program development with the structure of the sector in mind; a data strategy that generates the numbers that will allow the sector and government to make evidence-based decisions about the sector and its relationship to the economy. In addition, the sector and government would benefit from investment in sector innovation and productivity, and management of results.

- **Financial sustainability** incentives for giving, treatment of different costs in contracting with government, procurement policies, and social investment.

The logical structure of this approach is summarized in Table 2:

**Table 2: Structure of Strategic Goals, Overarching Objectives and Specific Issues/Actions**

<b>STRATEGIC OBJECTIVE</b>	<b>OVERARCHING PRIORITIES</b>	<b>ISSUES/ACTIONS</b>
Prosperity, equity, inclusion, and environment	A new operating environment for charities and government	<ul style="list-style-type: none"> <li>• A seat at the table</li> <li>• All government policy includes implications for charitable sector</li> <li>• Political activity – panel recommendations adopted</li> <li>• A point of stewardship in government</li> <li>• Development of policy capacity</li> </ul>
	Enabling policies	<ul style="list-style-type: none"> <li>• Innovation support</li> <li>• Procurement policy and contracting terms</li> <li>• Data strategy</li> <li>• Innovation and productivity</li> </ul>
	Achieving financial sustainability	<ul style="list-style-type: none"> <li>• Treatment of earned income and social investment</li> <li>• Proposed Tax Credit Reforms</li> </ul>

Pursuing a complex agenda of wide-ranging changes is a significant management problem. The capacity of both government and of the charitable sector is limited. Setting priorities and managing initiatives will be required, needing to reconcile many different views within the sector regarding its most pressing issues. Further, success in negotiating and resolving specific issues will require extended efforts over time.

The next step would therefore require both setting priorities and determining which issues should be tackled now and which tackled later. Putting this in timing with an electoral context, this means determining which issues might be tackled in the mandate of the current government — now to 2019 (more realistically now to mid-2018, at which point Parliament shifts its focus to election preparedness). A new mandate, beginning late in 2019 or 2020 and beyond, would deal with other issues.

The immediate priority for this mandate is changing the operating environment for government and charities — a seat at the table and a place in government. System change and the related higher profile of the sector would enhance the chances of success in dealing with the specific issues of concern to charities in the next mandate.

## 05 CONCLUSIONS

The social deficit forecast by Imagine Canada in an earlier discussion paper is a symptom of a set of converging economic, social, cultural, and demographic forces which Canadians will need to deal with through their governments and the charitable sector. The social deficit is also intimately related to a central political and public policy issue — stubborn social inequality and what to do about it. These pressures are not short-term, they require governments and charities to rethink their broad relationship in a way that maximizes the synergy between the two, and make effective use of this alignment to achieve the core values of Canadians facing difficult choices.

This relationship has grown so important that government and the charitable sector can no longer be content with evolution. It is time to manage this relationship for maximum value to Canadians. The sector and the government need to move beyond the ad hoc to a more sophisticated strategic approach based on the importance of the sector to jobs and growth and on the integration of the economic, the social, and the environmental.

Government and charities have much to gain by recognizing and managing their economic interconnectedness. What matters to Canadians, expressed by a measure like the IEWB or by aspirations captured by the United Nations' Sustainable Development Goals, requires moving beyond economic synergy to recognize the fundamental proposition that economic success, equity, inclusion, and environmental responsibility are not separate issues but are elements of the same strategic objective. This creates reciprocal interests for government and charities. It requires governments to view all economic policy through a social lens. Equally, it requires charities to recognize, value, and promote their contributions to economic prosperity and their dependence on the overall success of good economic management.

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## 07 ABOUT THE AUTHOR



### **BRIAN EMMETT**

#### **Chief Economist for Canada's Charitable and Nonprofit Sector**

In 2013, Brian Emmett joined Imagine Canada in the unique role of the Chief Economist for Canada's Charitable and Nonprofit Sector. As Chief Economist, Brian is tasked with measuring the impact of the sector and bringing economic issues facing charities and nonprofits to the forefront of public policy decision makers.

[imaginecanada.ca/chief-economist](http://imaginecanada.ca/chief-economist)

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