**Social Innovation, Personal Empowerment, and the Death of the Social Service:**

**What Would a Basic Income Mean for the Social Sector?**

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**Overview**

The institution of a basic income would dramatically reshape the nature of the modern welfare state and the relationship it has to its citizens. Most of the discussion about how a basic income would alter the political economy of a society focuses on those elements that generally fall within the standard discussions of fiscal policy – taxation, transfers and public spending. However, a key component of the modern welfare state that has been growing in importance since the 1970s is the voluntary sector. This sector is generally defined as including not-for-profit organizations that people support voluntarily through their donations and labour, though some related organizational forms such as cooperatives and social enterprises. What discussions of basic incomes that focus on fiscal policy miss is that a basic income would trigger Schumpeterian creative destruction within the social sector. This paper presents a model of the social sector as a response to market and government failures though subject to its own particular set of institutional failures. Using this ‘Cascade of Failures’ model the expected impacts of a basic income on the social sector are outlined. Some human and material resources will become unavailable while others are likely to come available to organizations as people respond to the changes incentive structure under a basic income regime. However, the analysis in this model will not make a ‘budget balance’ assumption and will instead leave the impact of funding cuts and tax increases unexamined. Rather the analysis will focus only on the disruptive effects of an introduced basic income itself and how this change in the relationships between individuals and organizations will change the ecology of the social sector.

**An Institutional Perspective on Social Innovation**

There are a wide variety of complex ecological, social and economic challenges. Ecological challenges, such as global warming, social and health challenges such as the promotion of mental health and wellness, and economic challenges such as poverty alleviation present seemingly intractable wicked problems (Rittel & Webber, 1973). These wicked problems continually change and coevolve with the interventions meant to solve them. To maintain some social-ecological resilience a society must be able to continually generate social innovations in response to changes in these complex problem domains (Westley and Antadze, 2009). The greater the variety of innovations a system can produce, the greater the variety of shocks to which it can respond (Ashby, 1961). These responses can maintain stability in a system and can also allow adaptive system transformations without systems falling into maladaptive traps (Holling, Gunderson and Peterson, 2002; Schumpeter, 1942).

Identifying and implementing social innovations to meet complex social, ecological and economic challenges can be understood as the resolution of institutional failures. Specifically, social innovation can be viewed as the development of new social institutions that enable the resolution of institutional failures. Of course, as institutions adapt to a problem domain, other agents adapt in response and will often generate new institutional failures. Consequently, institutional adaptation has a Red Queen race character to it, a metaphor taken from the Lewis Carrol’s *Through the Looking-Glass* in which the Red Queen state that “In this place it takes all the running you can do, to keep in the same place” (quoted in Beinhocker, 2007: 332).

The approach taken towards understanding institutions here is drawn largely from the New Institutional Economies school of thought. In his Nobel Lecture, *Economic Performance through Time*, Douglas North defined institutions as a combination of formal constraints, informal constraints and their enforcement characteristics (1993). These institutions operate at multiple levels, with the higher-level institutions setting constraints upon lower-level institutions (North, 1990). Additionally, institutions serve a governance role according to transaction cost economics. The transaction cost theories developed by Coase (1937, 1988) and later refined by Williamson (1975) view institutions as comparable governance mechanisms. There are three types of transaction costs: search, bargaining, and enforcement. Search coast are those incurred through the identification of new transactional opportunities, bargaining costs are those resulting from how parties assignment rewards and obligations from an agreement and enforcement costs result from ensuring all parties execute their role as agreed. Coase argues that externalities only exist in the presence of transaction costs (1937), and the institutional failure model presented here uses this as a starting point to explain the process of internalizing social and environmental externalities.

New Institutional Economics is particularly well-suited to the analysis of institutional forms in complex systems because it incorporates evolutionary mechanisms. Generally, institutions that provide the lowest transaction costs in a given context should have an evolutionary advantage over higher transaction cost structures. Importantly, self-reinforcing mechanisms allow institutions well-adapted to their niches to grow and become entrenched within them, even if the processes according to which they are selected are not always observable (Alchian, 1950). New Institutional Economics allows us to look at the selective pressures that allow some institutional forms to acquire resources and expand while others are starved and contract, allowing evolutionary selective mechanisms to emerge (Nelson and Winter, 1982). It also suggests that there are complex institutional systems in which different institutions coevolve and contribute to overall system resilience (Ostrom, 2005) and how the radical transformation and reorganization of social systems can emerge (Schumpeter, 1942).

The selectionist pressures on markets and governments are clear. Market-based organizations that are able to sell superior goods or services and constrain production costs are able to collect greater profits than their competitors. These profits enable internal expansion and may attract new imitative competitors using similar technologies. For governments, particularly elected governments, popular policies attract public support. This allows the proponents of these policies to win elections and increase their legislative power or force other political actors to adopt similar policies.

With social sector organizations selective feedback mechanisms are unclear. The organization with the most effective approach to restoring an ecosystem does not necessarily collect more resources than less effective organizations doing similar activities, nor does its successes compel less effective organizations to adopt similar practices. In large part, this is because of a disconnect between the beneficiaries of an organization’s work and the people who supply the resources sustaining their work. For example, the wealthy philanthropist may provide money to a homeless shelter, from which a person experiencing homelessness directly benefits, but if that beneficiary does not like that shelter or thinks the resources could be better used on warm clothing or a rent subsidy, there is no market through which that beneficiary can change the allocation of resources. Unlike a market in which the buyer and consumer are the same person or during an election where the voter will also benefit from the basket of public goods being voted on, in social sector organizations there is often no direct feedback loop between the resource provider and the beneficiary.

**The Cascade of Failure**

Despite the directness of their feedback mechanisms, both markets and governments can fail to adequately respond to externally-generated system change. Market failures fall into three broad categories: market power, externalities and information asymmetries. Market power, which includes monopolies, oligopolies, monopsonies and cartels, occurs when buyers or sellers in a market can restrict exchange for their own benefit against a less well coordinated group of actors. Market power and its negative effects result from high bargaining and search costs on both sides of the market; indeed, through price discrimination those with market power should be able to resolve failures while still maintaining their dominant positions. Externalities are positive or negative impacts from an exchange that are not felt by either the seller or buyer, with public goods being an extreme form of externality felt by everyone in a society. For example, the pollution that occurs as part of the manufacturing process is born by the environment and the population living near a factory, not by the producer or purchaser of the manufactured product. The overall effect is that markets tend to overproduce goods that create negative externalities and underproduce goods that create positive externalities. Externalities can be seen as the bargaining cost of incorporating additional stakeholders into an agreement, often including the long-term interests of the included stakeholders. Finally, information asymmetries are a market failure in which the buyer and seller have different information about the good or service being traded, allowing one side to offer something other than what their counterparty expected, resulting in a failure to enforce the agreement.

The standard response to market failure is government intervention. However, governments have their own institutional failures: self-interest, short-term thinking, and imperfect information. Self-interest is a failure that occurs when decision-makers choose policies that are in their own personal interest rather than in the interest of the public. Corruption is the classic example of self-interested decision-making and is a failure in the enforcement of a principal agent relationship between elected officials and voters. The second government failure, short-term thinking, occurs when elected officials base their policy decisions on short-term gains rather than long-term investments. For example, if elections are held every four years a politician may only be concerned about policies whose impact will be noticeable and remembered by the next election. This can be seen as a failure to strike a bargain between current voter-politicians and future voter-politicians. Finally, governments operate with imperfect information, resulting in an inability to identify more effective policies. At times this imperfect information results because the problem domain is complex and the identification of straight-forward policy solutions is difficult, and, quite often even with relatively simple issues the signal to noise ratio of information coming to decision-makers is too high.

In addition to market and government failures there are collective action failures that do not neatly fit into either category but somewhere in between arising from the heterogeneous preferences people have for public goods. For example, one in five people in a city might want a new public park. Too many people want this part for a single person or small group of people to marshal the resources to purchase it, but too few people want it to rally the necessary political support for it. Olsen addresses these problems in the *Logic of Collective Action* arguing that the fewer people with an interest in a particular policy the easier it is for that group to act in support of it (1965). Olsen uses the support for agricultural supply management policies as an example. These policies restrict output, raising prices for both producers and consumers so that a small number of farmers are subsidized by a large number of consumers. However, because the consumers are difficult to organize and the farmers easily organized, supply management remains in place as a public policy.

As this manifests itself in the social sector, this creates strong incentives for organizations seeking similar goals to emphasize their differences and appeal to smaller, more homogenous groups of people. Consequently the sector is characterized by in-fighting and organizations that remain too small to accumulate productivity-enhancing capital. Salamon refers to these as the failures of philanthropic particularism (1987). Internally, the result of this philanthropic particularism is the emergence of clan-style organizations that reduce internal transaction costs through tight value-alignment. However, because value-alignment is so central to this type of organization, the socialization process is both critical and costly. As a consequence, clan organizations have a difficult time managing high turnover or heterogeneous workforces (Ouchi, 1979). The clan model is effective at maintaining access to donations and volunteers through tight identification with the organization, but the strict enforcement of social norms can lead people to sort themselves into a large number of small organizations. An alternate response to philanthropic particularism other than the clan-style organization is the development of tools that make the benefits from a collective good excludable, in effect converting it into a club good that can charge for access. This is the approach that underpins every corporate form with a clear ownership structure, including the producer-owned farmer cooperatives, workers’ cooperatives, partner-owned professional firms and standard investor-owned corporations. Similarly, consumer-owned cooperatives, mutual financial institutions, housing cooperatives and condominiums, and clubs are all excludable ways of engaging in collective action (Hansmann, 1996).

Market failures, government failures and collective action failures all create space for social sector organizations to partially resolve these failures. Donors and volunteers produce social goods that “fill the gap” between market failures and government failures. While voluntary action might present the only alternative to ineffective state and market provision (Weisbrod, 1988), however donations are at the root of an additional set of philanthropic failures. Unlike the consumer of a private good, donors are not the direct beneficiaries of their purchase. As a consequence, the purchaser-donor cannot directly validate the quantity and quality of the purchase, creating an information asymmetry between the donor and the agency providing the good. Salamon refers to the consequences of this asymmetry as philanthropic paternalism (1987). The non-distribution constraint present in not-for-profit legal forms intends on preventing donations from being directed towards excessive compensation of organization executives and the collection of owner profits (Hansmann, 1980).

The not-for-profit restrictions placed upon many social sector organizations contribute to a set of failures common in the sector. Salamon identifies these failures as philanthropic particularism, paternalism, insufficiency and amateurism (1987). Particularism is the strategic response to collective action failures mentioned above. This results in paternalism, which is a failure that results from the separation between the purchaser-donor and beneficiary of goods. Insufficiency refers to the general lack of resources social sector have available to meet social need, though it is more specifically redefined here as the inability to accumulate capital for productivity-enhancement. Insufficiency then, is a consequence of the non-profit constraint which restricts revenues that can form a stream of future earnings to repay debt, and bars the sale of equity, both of which severely limit the ability to finance. Finally, amateurism is the philanthropic failure that describes the phenomenon that those working in the social sector often bring a relatively low level of sophistication in their skills compared to those serving equivalent roles in the for-profit and public sectors. This failure can be seen as a consequence of insufficiency as workers do not have access to the real capital that similarly-skilled workers do in the for-profit and public sectors, resulting in the realization that they are limited in their ability to do their work effectively. The philanthropic failures model (Salamon, 1987) and the non-distribution constraint (Hansmann, 1980) can be used to understand social finance as comprising a set of strategic interventions that can be applied in response. The failures of the social sector are cascading such that one failure is like tipping a domino that leads to additional failures. Stopping the failures at the market, government or collective action level prevent further failures, but if the failures do occur at that level than philanthropic paternalism leads to the adoption of a restrictive non-profit legal form, which in turn creates philanthropic insufficiency that then generates philanthropic insufficiency. Like stopping a single domino in the line from falling prevents further dominos from falling, resolving an institutional failure at any one stage prevents the additional failures that it then causes.

Combining market, government and collective action failures with the philanthropic failures creates a general cascade of failures model. The highest-level cascading failures of the model are the market, government and collective action failures. Developing social innovations that resolve social, ecological and economic challenges through markets or governments would radically change those systems and build structures that reinforce those changes. If the challenges are broadly felt but not enough to enable government intervention, then the resolution of the problem through the creation of a club good model would resolve the collective action failure. However, if market, government and collective action failures persist at the systemic level then a social entrepreneur can act directly to partially mitigate the consequences. However, this would expose the social entrepreneur’s strategy to potential particularistic or paternalistic failures and, in turn, lead to the adoption of governance mechanisms that produce insufficiency and amateurism. These approaches can provide some immediate benefit, for example in reducing the burden of homelessness through access to emergency shelter, they do not necessarily lead to the development of new approaches that would resolve institutional failures early on. Combining all four types of failures and responses produces an overall ‘Cascade of Failures’ in social responses to changes in complex social-ecological systems (see Figure 1).

**Figure 1. Cascade of Failure**



**Basic Income**

This framework allows us to identify the likely impact that a basic income would have on the social sector. To simplify this analysis the assumed policy is a universal demogrant, without any other revenue-generation or spending reductions being considered. Of course, in practical terms both revenue-generation and spending reductions are likely, and both will impact the structure of the social sector. However, the changes triggered by the simplest of basic income programs are broad-ranging enough that the additional complexities introduced by identifying how the basic income is financed will muddy this analysis rather than clarify it. Rather, the assumption that some cuts in spending or increases in revenue are needed is present in a macro-level sense without specification.

*Market Failures*

Overall the impact of a basic income on markets is a positive one, as it generates incentives that would allow the profitable provision of goods and services that would otherwise be provided through the social or public sectors. One can anticipate that a basic income would be deeply disruptive of market power arising from both ex ante monopolistic power and ex post lock-in **market power**, though this will primarily be concentrated among those who are directly receiving net benefits. For small capital-holders such as independent retailers, tradespeople and farmers, having a basic income as a supplement to profits would smooth the impact of market fluctuations and allow greater investment in real capital. For example, the operators of a family-owned restaurant, knowing that they have incomes sufficient to provide their basic consumption needs, can become less reliant on accessing financing tools such as lines-of-credit and reduce their overall cost structure. This may make it easier to acquire capital and overcome a barrier-to-entry into some markets. For low- and middle-income laborers the impact of a basic income is often thought of in terms of increasing their bargaining power by raising their reservation wage, which is often thought of as manifesting itself in terms of people leaving or refusing unsatisfactory work to reduce working hours. While this may be true, this is also fundamentally the response to ex post lock-in effects and gives short shrift to ex ante barriers to entry. What a basic income does provide is subsidization to valuable but low-paid or unpaid labor. This includes household labour such as childcare and time investments in education, but it also includes the up-front unpaid time investment that is often necessary for entering certain markets. For example, in many professional media occupations unpaid internships are required work experience before paid work can be secured, presenting a barrier to entry for skilled workers lacking financial resources.

The impact of a basic income on managing failures arising from **externalities and public goods** is ambiguous and dependent on what type of externality is in play. For some positive externalities, such as those arising from inadequate access to education or childcare, a basic income will have a positive impact through the subsidization of household service provision. For others, such as many large-scale environmental issues such as reducing the CO2 emissions causing global climate change, the impact is ambiguous as the increased purchasing power of low-income consumers could allow voluntary substitution towards low-impact consumption or simply increase the level of high-impact consumption. Where the impact is clear are those externalities or public good problems caused by a lack of consumer demand. Two clear examples here are food and housing insecurity. It is not, in the strictest sense, a market failure when food and shelter are not provided to people who cannot afford to purchase it. In fact, that is likely the “efficient” market outcome. However, many people quite rightly place view starvation and homelessness as socially undesirable and the geographic concentration of low-income people manifests the undesirable consequences in the form of “food deserts” and slums. These result from of a long-term lack of demand causing real capital underinvestment. When people in those areas do have adequate incomes the adequate food and housing they seek may be unavailable, inducing them to leave the area and perpetuating the lack of demand that has caused this poor infrastructure. Consequently, whatever capital investment such areas do receive comes from the public sector through social housing or philanthropic routes like food banks. The collective impact of a basic income would not only be an immediate increase in consumer demand of food and shelter, but also a predictable level of consumer demand that would induce private expenditure on adequate food supply networks like grocery stores and well-maintained housing.

The impact of a basic income on resolving **asymmetric information** problems is likely small, though it may play a large role in mitigating its consequences. While having additional income may increase the bargaining power of a consumer in an asymmetric information-ridden market, it does not directly reduce the information asymmetries themselves. What a basic income may do is allow a wider range of alternatives to market participation, such as enabling an increased use of home-based childcare if the market is providing childcare of inadequate quality. Similarly, the basic income may increase resources available to consumers for purchasing services provided by nonprofits, cooperatives, consumer ratings services and other specialized institutional responses to asymmetric information problems.

*Government Failures*

The direct impact of a basic income on government failure would likely be limited, though it may enable a number of indirect changes. Political **self-interest** is essentially a principal-agency problem and although a basic income may make some marginal improvements, for example by allowing low-income workers to replace some of their working hours with unpaid labour lobbying public officials or engaged in electoral campaigning, the impact of these shifts is likely small. The impact of a basic income on **short-terms solutions** is more ambiguous, since much of the work here is likely conducted through increased activity in an association. Though this will be examined more thoroughly below, appeals through associations may mitigate or encourage short-term government approaches. However, there may be more direct benefits on long-term public planning. Specifically, there are many key public policy issues, including health status, education, criminality and long-term employment prospects, for which income and the access to services it provides is a key social determinant. As a consequence, public policy choices are often made in the presence of deeply ambiguous goals. For example, a public health agency may be making a decision on whether or not to consolidate medical services from a few locations to a single one may produce great efficiencies and an improvement in outcomes for many procedures. However, those weak by decentralized services may provide access to health care for people with inadequate access to transportation due to their low incomes. What appears to be a tradeoff between service quality and service accessibility may in fact be a public health agency simultaneously pursuing both a health outcome and a redistributive outcome. While a basic income would not eliminate this dual-goal consideration, at the margins it would reduce the ambiguity of many public policy decisions and allow more focused planning, since this dual-goal consideration is a central dilemma in most major public policy portfolios. By simply clarifying the goals of many public agencies, a basic income could reduce unnecessary complexities in the public policy-making process and allow more effective long-term planning.

Where a basic income is likely to have a strong, albeit still indirect, impact is on **imperfect information**. Here the basic income provides greater scope to communicate directly through public service providers by not using their services. For some people these programs provide insufficient inflexibility, such as public housing projects of a quality or in a location that does not meet the needs of some beneficiaries or employment programs that provide inadequate services for people with certain specific skill-sets. Other people may find the requirements themselves counter productive. For example, mandatory “workfare” requirements are usually time-consuming and low-skilled, reducing the amount of time a professional may need to invest in †he networking and research activities that may be vital for their employment searches. What I will simply call “the power of no” is a direct feedback mechanism that basic income recipients can provide government service providers to communicate when those services are not meeting their needs. In the short-term, this revealed preference may push responsive service providers to rework their programming to meet the needs of their intended beneficiaries. In the long-term, this will undermine public confidence in underutilized programming and send a signal as to which services could most easily be reduced.

*Associational Impacts*

There are a wide variety of associational types and domains in which those associations operate, so the focus here will be on social sector associations and the types of associations that have a high degree of interaction with them. The analysis here is less focused on the resolution of failures than the sections on market, government and philanthropic failures for a number of reasons. First, associations are often used to mitigate the damage caused by market and government failures, leaving them at times as the second-best response. Second, while particularism is the only true failure that can be generalized across all associations, in many circumstances its resolution directly causes other failures. For example, when all of the investor-owned firms in an industry merge into a single company it resolves their own particularistic failures in the associational sector at the expense of imposing a single large monopolistic power failure on the market sector. Finally, the set of philanthropic failures tend to be primarily present in the specific nonprofit subset of associational forms and will be dealt with there specifically.

Generally, the potential resolution of collective action failures resulting from a basic income are tied to the broadening of membership in different types of associations. Hansmann separates associations into three broad classes: producer-owned, consumer-owned and nonprofit (1996). Among the **producer-owned** associations are investor-owned, worker-owned and farmer-owned associations. It is unlikely that the basic income will have any appreciable impact on any of the producer-owned types of enterprises. For investor-owned associations it is unlikely that any basic income set at a level intended on providing for basic needs will be at a level that would appreciable change the highly-concentrated structure of capital ownership and even less likely that it would lead to any substantive change in the way investor-owned associations are governed. Similarly, farmer-owned producer-cooperatives are structured around the ownership of land and, again, unlikely to change substantially at any basic income level one would assume. Somewhat surprisingly, it is also unlikely that a basic income would lead to a substantial increase in the number of worker-owned associations. Although the basic income may lower the barriers workers face to market entry, worker-owned associations are only common where the worker-owners are in the same profession and similar in skill-level, such as law, medicine and consulting, because any substantial heterogeneity in worker interests makes the governance costs of internal priority-setting relatively costly. While a basic income may increase the make entrepreneurial market entry easier for many workers, this is likely to increase rather than decrease worker heterogeneity. Since homogeneity seems to be the key enabler of worker-owned enterprises, a general expansion of worker-owned associations is unlikely. One possible exception is that the reduced economic impact of termination upon low-wage workers could encourage unionization in some industries, which is a particular type of worker-owned association. However, this may also be mitigated by a strengthened relative bargaining position between many individual workers and management, potentially reducing the expected benefit from collective bargaining.

While the impact on producer-owned associations is likely minor, a basic income could greatly increase the number of **consumer-owned** associations. An immediate class of associations likely to see a major benefit from a basic income are the ones that benefit from both increased purchasing power and increased leisure time that could be devoted to volunteer and social activities. These are the mutual-benefit associations and include, amongst other types of associations, sporting activities, adult education associations, peer-support groups, fraternal societies and to an extent religious activities, with the benefits largely being shared among the participants in these organizations. Simply because of the increased purchasing power of many low-income consumers, there may be an expansion of membership in consumer-owned associations and a move into low-income communities where they had not been common prior to the institution of a basic income. However, one can expect that expansion of consumer-owned associations will primarily be in those domains where they have already shown success before. In particular, consumer-owned housing through both co-operatives and condominiums, are likely to expand into neighborhoods where they had not previously been viable or required heavy public subsidization. Consumer-owned multi-unit housing is relatively common without public subsidization amongst middle- and high-income earners, and a basic income may simply push this type of consumer-ownership into the realm of possibility for low-income earners. In addition to housing, finance is also a sector with a long history of consumer-ownership through mutually- and co-operatively owned insurance and banking companies, with the co-operatively owned banks more commonly known as credit unions (and caisses populaires in Francophone Canada). Increased consumer power among people buying financial tools that had not previously been available to them would expand the market for finance in general, though cooperative, mutual and nonprofit financing institutions have a track record of moving into new consumer populations before investor-owned financiers. Moreover, if basic incomes increase flexible and self-employment activities, the need to manage market variations will quickly generate the need for new savings, credit and insurance products that these consumer-owned associations can fulfill.

Advocacy associations share a lot in common with consumer-owned mutual-benefit associations but have a particular focus on achieving a change in government policy. To that extent, they can mobilize popular support and force changes to government policy, potentially mitigating imperfect information, self-interest and short-term thinking by governments through increased accountability. However, this directly runs into the challenge raised by Olsen that the fewer people that have a shared advocacy interest the easier it is for them to organize their lobbying efforts (1965). Also as noted before, **philanthropic particularism** can arise when organizers from different associations with a shared cause seek to secure resources through intense socialization into Ouichi-style homogenous clan organizations (1979) and emphasize their differences in ways that splinter the movement and prevent capital accumulation. The basic income is unlikely to directly solve this problem, though it does change the strategic calculus. Currently, there are relatively few people who have time or substantial financial resources to provide an advocacy organization. As noted with consumer-owned mutual-benefit organizations, the basic income is likely to increase both available volunteer time and available financial contributions, albeit in small amounts form a large number of people. This may make the strategy of approaching many potential volunteer-donors more fruitful than is currently the case. More importantly, broadening the range of potential volunteer-donors may lead to the overall mix of advocacy coming from the sector being more representative of the opinions felt by the general public rather than skewing in the direction of a relatively small collection of large donors. Indeed, if this were the case it would follow a well-trodden path of broad-based advocacy following the granting of material wealth as occurred following broadly redistributive programming like the GI Bill of Rights in the US.

*Philanthropic Impacts*

As noted earlier, **philanthropic paternalism** arises when there is a split between the purchasers and the consumers of a good or service. For many consumer goods, such as basic necessities like food, shelter and clothing, the basic income will make many consumers preferred basket of goods affordable, allowing the market or associations they are affiliated with to provide for their consumption needs. Consequently, a large number of philanthropic beneficiaries will be able to provide feedback directly through their consumption choices, reducing the philanthropic paternalism problem for those consumers by reducing the need for philanthropy. This impact will be primarily, if not exclusively, felt in those parts of the social sector oriented towards the reduction of the negative effects of poverty. It will do little to reduce the philanthropic paternalism in areas where feedback loops will be weak regardless of income distribution such as managing environmental externalities. Similarly, where the needs that can be resolved through market forces are tied to needs that cannot be resolved through market forces the changes resulting from a basic income may be muted. For example, if the basic income is sufficient it can be anticipated that low-income housing services would be radically transformed. However, one cannot assume that supportive housing in which health care is tied directly to low-income housing would be similarly transformed, as the supportive housing is really serving a dual mandate.

The move of market actors into areas that had traditionally been provided by the public and not-for-profit sectors is a consequence of relaxing the need for the non-distribution constraint. Note that this does not necessarily mean that investor-owned corporations need be the market forces that fill this need, as in many areas like housing and finance it could be anticipated that co-operatives will fill much of the demand. By reducing or eliminating the need for a non-distribution constraint, when the basic income stimulates consumer demand it allows for greater future revenue and can counteract **philanthropic insufficiency**. Where the non-distribution is not relaxed the basic income’s effect on insufficiency will be ambiguous. While it may increase donations from those who are net beneficiaries of the basic income, it will reduce them from those who are net losers from the combination of taxation and basic income tied to the policy. Thus, donations are likely to increase for associations supported by low-income people and fall for those supported by high-income people. Moreover, the net effect on those associations supported by low-income people may still be ambiguous if the shift in donating patterns spurs an increase in philanthropic particularism.

With an anticipated increase in voluntarism, and the implicit subsidization of relatively low-wage nonprofit organization work, it can be expected that the basic income would reduce **philanthropic amateurism**. While the core cause of philanthropic amateurism is the inability to accumulate real capital, the implicit subsidization of wages and volunteering in philanthropic association would be expected to reduce turnover of both paid and unpaid labour. Although this would not resolve the capital-accumulation problem generally, it would allow labour to have more time to accumulate organization-specific human capital through learning-by-doing. These learning-by-doing effects would increase the average productivity of labour. For example, the volunteer positions in a soup kitchen may have turnover rates in which more than two-thirds of volunteers stop volunteering within three months. A drop in the turnover rate to one-third of volunteers leaving within three months would cut the amount of time spent training volunteers on health and safety rules as well as their assigned tasks could fall in half and allow more time to train longer-term volunteers to do higher-impact work. The average increase in labour productivity here may not be dramatic because the same implicit subsidization that reduces turnover will also induce new people to volunteer or engage in non-profit sector work, though they will likely induce greater social sector innovation.

**Conclusions**

Although it is unusual to think of social sector organizations, particularly philanthropic ones, in terms of supply and demand, the overall finding of this analysis is that both of these will shift greatly in many domains. First, an overall aggregate increase in both donations and volunteer labour can be expected, though this will come primarily from low-income people. Second, the implicit subsidization of low-income workers – and many paid positions in social sector organizations provide only low-incomes – will increase the viability of social sector careers for many people, increasing the overall labour force. Third, domains in which social sector organizations are serving as a, inferior substitute for goods and services that are often provided by mainstream markets, such as food and housing security, can expect a fall in the demand for their services. Fourth, the increase in consumer power among low-income people is likely to incentivize an increase in consumer cooperatives, although this will not be matched by an increase in workers’ cooperatives. Fifth, the basic income is likely to increase entrepreneurial activity in all sectors – market, social and public – by reducing the barriers to entry for low-income people.

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