

THE SOCIAL ECONOMY IN THE CREATIVE TROPICAL CITY

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The Creative Class

These days there is a lot of interest in creativity in the context of economic growth, urban renewal and so on.

Charles Landry (*The Creative City*) describes strategies for getting ideas for urban renewal: original, different, paradigm changing ideas. He wants to unleash people's creativity and apply it to urban renewal.

Richard Florida (*The Rise of the Creative Class*) claims to have identified the emergence of a new class – the creative class. The creative class has become the driver of economic growth in the new knowledge economies emerging in developed and some less developed countries. The creative class consists of people who work to develop and apply new ideas, new technologies, and new content: artists, engineers, scientists, educators, and journalists. They have distinctive values and lifestyles and will congregate in cities and regions that are tolerant, diverse and can offer them a wide range of stimulating experiences. In the United States, these are the cities and regions that are experiencing most economic growth. The creative class now accounts for almost one-third of the American work force. It is 27% of the UK workforce and probably around one quarter of Australia's.

Both authors use the term “creative” with some ambiguity, sometimes narrowly to refer to those who work in what are conventionally called “the arts and culture”, or what some call the creative industries, but at other times to refer to all those who generate new knowledge or apply knowledge to generate new forms and products, to all forms of invention and innovation. Thus software engineers, microbiologists, journalists, school teachers, architects, doctors, advertising executives, financiers, even lawyers are part of the new creative class. For Florida, at least, the ambiguity is resolved thus: those who work in what is conventionally called “culture and the arts” may not be the direct generators of the innovations in science, engineering and finance that drive the new economy, but they attract those who are. An environment attractive to arts and culture workers, an environment that is tolerant and stimulating, that values diversity and self expression, is the environment that the rest of the creative class finds most attractive. They define new possibilities for the new dominant class, much in the way that the bohemian artists of *fin-de-siecle* Paris defined new styles and mores for the younger middle classes of the Edwardian era. Neither writer comments on, but they might have, the growing convergence of art and manufacturing, as testified, inter alia, by the growing importance of designers in manufacturing and other forms of fabrication.

There is a lot to be said for these analyses. But that is not my topic. I want to use them as a starting point for the question of how we can best organise for creativity (in both uses). What types of organisation are most likely to encourage creativity?

Organising Creativity

According to Florida, the creative class prefer a loose, informal organisational culture; one that gives them a good deal of autonomy, but also opportunities to work with others – to stimulate creativity, to brainstorm. They see merit as the basis of promotion and are happy to be placed under pressure to perform, but are easily alienated by unsympathetic, uninformed management. They have little loyalty to a particular employer and because they carry the most important form of capital in their heads, firms have to work hard to attract and hold them. But that is not by giving lots of money; only a few are interested in stock options and the like. Rather, most members of the creative class look for stimulation and wider experiences and will change jobs, even take a pay cut to get this. Only a few are budding entrepreneurs, seeking that first elusive billion dollars.

Florida assumes that his creative class works in business – in the for-profit firm. That is overwhelmingly the case. Landry on the other hand addresses his book to people who work in government; but as people whose job it is to find paths to, ideas for successful urban renewal. These ideas might come from individuals, but more usually from informal groups of citizens or from collections of people, or organisations with strong interests in renewal. He stresses the importance of partnerships between governments, firms and what he calls NGOs. But he does not pay much attention to the organisational question.

So, leaving aside the self-employed creator, how do we assess the contribution of different organisational forms to the stimulation, to the facilitation of creativity – both as artistic creation and as inventiveness and innovation? The three forms are the for-profit firm, the government agency and what some call the third sector, or what I will call here, following the example of the European Union, the social economy. I will say a good deal more about the social economy in the second part of this presentation, but suffice to say here that it encompasses a wide variety of organisations known variously as associations, mutuals, cooperatives, unions, clubs, societies, charities, churches and so on: that is organisations that are private but not organised primarily or solely for the financial enrichment of their members.

Generally, government agencies are not very good at encouraging creativity, unless they are given a good degree of independence from ministerial interference and a clear statutory responsibility to do so. Universities, museums, the CSIRO all meet these criteria, but in all cases they are finding the challenges of meeting contradictory demands placed on them by governments increasingly hard, and many of their creative class employees claim to be working in an environment that is increasingly hostile to creativity.

For-profit firms are best equipped to bring creative ideas to production and to market. Businesses are the repository of most large-scale organising experience, particularly because of the importance of finance in the task of bringing to market any innovation. They also have a built-in bias toward exploiting their employees and consumers. The built-in pressure to earn a return on their investments frequently works against creativity and unless a business manager or an investor is particularly far-sighted, they will not provide the time frames needed for creativity and invention to flourish.

This leaves us with the social economy. Social economy organisations are the product of collective action for a wider good. Sometimes that good is of the collective – the membership. The driving principle is mutuality. The chosen form is a cooperative, one

where everybody gets a say in the running of the enterprise. Artists and crafts people will often organise thus (but will sometimes find the responsibilities of maintaining the organisation gets in the way of their creativity). Sometimes the wider good is other people: such as people with a particular chronic illness, or all of humanity, or future generations or the planet. The driving principle is altruism or philanthropy. The chosen form is the nonprofit association or company. These are the forms of organisation most often chosen by idealists; people who want to help address some problem in an original way, and who don't want to get rich by doing so. The drawback to the social economy is that these organisations generally do not start off with a financial investment and they find it hard to raise capital (it must be in the form of dues, donations, grants or loans). But when social economy organisations do have a large fund of capital, as is the case of the big endowed foundations like Ford, Gates, Rockefeller, Rowntree, they can make investments in creativity and over time-spans that no firm or government could possibly envisage. To the extent that creativity and idealism are closely related, the social economy form of organisation has a lot going for it. If we are interested in encouraging creativity and innovation, then we should not ignore the possibility that creative people may wish to organise in that way or that within the social economy there may be a significant source of innovation.

The Importance of the Social Economy

Two recent studies provide a clear indication of the importance of the social economy to the new, creative economy. In a new study for the UK think tank Demos, Florida and Tinagli use country level data to rate fourteen European nations and the US along a number of indexes and to create a composite "Euro-creativity index". Their indexes include comparisons of employment in each country's creative class, of human capital, scientific talent, innovation and R&D and values of tolerance, diversity and self-expression. Quite independently, Lester Salamon and colleagues at the Johns Hopkins University recently developed what they called a "global civil society index". This is designed to measure the strength of civil society in some twenty countries worldwide. By civil society Salamon and his colleagues mean the nonprofit sector, that large set of organisations that comprise the bulk of the social economy. They draw on a variety of data mostly collected through the Comparative Nonprofit Project that Salamon coordinates, to develop indexes of the capacity, sustainability and impact of civil society (read social economy) in each country.

Many of the European countries included by Florida's Euro-Creativity index are included in the civil society index. There is clearly a high level of correspondence between the two indexes. That is, countries that are high on the civil society index are also stellar performers on the Euro-Creativity index, while those that are not so high on the civil society index are also lesser performers on the creativity scales. For example, of the four top countries on the civil society index (in order, Netherlands, Norway, United States and Sweden), three are in the top four of the Euro-Creativity Index (in order, Sweden, USA, Finland and Netherlands). Norway is not included in the Euro-Creativity Index, while Finland is number 8 on the civil society index. It is the same pattern further down the list. The next four European countries (in order) on the civil society index (UK, Belgium, Ireland and France) are 5, 7, 8 and 10 respectively on the Euro-Creativity Index. The correlation is striking. Since the civil society index is measuring a longer established set of phenomena, it seems reasonable to see a causal connection between a strong civil society (or a strong social economy) and strength in the emerging creative economy.

These measures of civil society are not measures of social capital. In his earlier study of the United States, Florida cites other research to suggest that regions that rate highly on Robert Putnam's social capital measures rate poorly on the indicators of what he calls "creative capital". Although in Putnam's work the presence of many voluntary associations is taken as a measure of strong social capital, the relationship is a complex one. Social capital researchers generally draw a distinction between bonding and bridging social capital. Putnam's social capital measures generally emphasise bonding social capital rather than the bridging sort. In the social economy some organisations embody and reproduce bridging social capital, while others are products of, and reproduce the bonding sort. It is that entirety of the social economy that the Johns Hopkins civil society index measures and that appear to underpin strong creative economies.

The importance of the social economy in underpinning a creative economy seems clear. For countries, regions and even cities that wish to build a strong creative economy, the central role that a strong social economy will play should not be overlooked.

This point is given wide international recognition. At a time when the capacity of governments to provide for their populations is being questioned, when discussions about the governing of economy and society are about governance rather than government, when the search for new forms of organising to achieve public good is accelerating, the social economy (or civil society, or nonprofit or voluntary sector) is given a central role. The United Nations, the World Bank, the European Union, the OECD have all spent many hours in conferences, and devoted many thousands of pages exploring the role the social economy will play in the new century. Its potential for innovation and for mobilising citizens to collectively solve common problems, and to act as a counterweight for an over strong business sector or corrupt governments are the oft repeated themes.

In the UK, in Canada and in France, national governments have negotiated and signed off on compacts or accords with the social economy. The Blair government signed its compact with the voluntary sector in 1998. Since then it has introduced around thirty important policy initiatives designed to build the capacity of the sector, not only to provide services but as a source of innovation. In a complex globalised world where the state senses its diminishing capacity, it is necessary to find new ways of organising to serve the public. As Tony Blair put it, introducing his government's 2002 *White Paper on Social Enterprise* (a particular form of social economy organisation):

Our vision is bold: social enterprises offer radical new ways of operating for public benefit. By combining strong public service with business acumen, we can open up the possibility of entrepreneurial organisations – highly responsive to customers and with the freedom of the private sector – but which are driven by a commitment to public benefit rather than purely maximising profits to shareholders.

Yet Australia Ignores the Social Economy

Australia stands in increasing contrast to much of the rest of the developed world. By contrast with his erstwhile ally, Tony Blair, our prime minister talks wanly of a "social coalition" of big charities, big business, and government. Senior public servants talk of the nonprofit sector as an ideal vehicle to deliver public services without having any desire to understand what sort of organisations they are talking of and whether the new funding rules they are constantly inventing might impair the capacity of the sector (and

be unnecessary as well). In their next breath they talk of such organisations being the voice of the community, while simultaneously proposing laws that would remove from organisations providing care the right to speak out.

Australian governments (and the media and most of the public) are deeply attached in their thinking to a two-model world of organisations – a world of for-profit businesses and government. As a result, governments have encouraged business to enter fields of community care previously occupied exclusively by the social economy. A decade ago Australian governments encouraged the conversion of mutuals into for-profit businesses. Billions of dollars were wasted as a result. Apparently to protect the public, they have now made it almost impossible for members of the public to form a new credit union. And so on....

In its mixture of indifference and hostility to the social economy, Australia stands apart from other OECD countries, and much of the developing world. Yet, Australia is not an exception because we have a smaller social economy than those other OECD nations. On the contrary, the social economy in Australia, despite the destruction of many mutuals in the past twenty years, is still large by world standards (it scores 9th place in the global civil society index).

Some Dimensions of Australia's Social Economy

According to some rough estimates a colleague and I made a few years ago there are as many as 700 000 social economy organisations in Australia. Many of these are very small – babysitting clubs, hobby groups, resident associations and the like. But around 320 000 are incorporated. That means that their members have taken the trouble to obtain for their organisation a separate legal identity – as an association or a company or cooperative or through many other specialised forms of incorporation available or are required for social economy organisations undertaking certain activities. Only around 35 000 social economy organisations employ people. The great majority of these prohibit the distribution of profits, or on winding up, net assets, to members. This strict nonprofit test is a major determinant of the behaviour of these organisations; about 1500 (eg some cooperatives, credit unions) do not have that limitation, though like most nonprofits, and unlike investor owned firms, they are democratically governed.

In 2002 the ABS published what it called a Satellite Account to the National Accounts, devoted to the nonprofit sector. That meant it included almost all the social economy (though for the great majority of organisations, those that did not employ staff, only the value of volunteer labour, and not money they might have in their bank accounts could be counted). They found that the nonprofit sector turned over \$33 billion annually and employed over 600 000 people. When volunteer labour was valued and counted, it contributed 4.8 per cent of the economic output of Australia. Least that be thought small, it is as large as the economic contribution of the mining industry. It is a much larger economic contribution than agriculture industry or the communications industry. It is a great deal larger than the entire economic output of Tasmania (and much, much larger than the Northern Territory's).

The social economy provides about sixty percent of employment in community services, a bit under half in the hospitality industry and about thirty percent of employment in primary and secondary schools. It provides about half of employment in sport and recreation and about twenty-five percent of employment in the performing

arts, though volunteer contributions in these fields are very considerable and would further boost the sector's contribution.

Some who are familiar only with small parts of the social economy imagine that it draws most of its revenue from government. This is not so. We only have reliable data for the nonprofit component. For those, 50% of revenue comes from sales of goods and services. Revenue from government grants and contracts contributes 30% of revenue. 18% comes from fundraising and membership fees and the remaining 2% from investments. The remaining social economy organisations receive all their revenue by trading with their members. They had a turnover of roughly \$15 billion; This reduces the government contribution to the full social economy to only 20%.

The social economy is directly supported by over seventy per cent of Australians. Around two thirds are members of a social economy organisation; around one-third belong to at least two. One-quarter claim to be active members. A little over two thirds of Australians support the social economy with donations of money. Over one-quarter donates their time, as volunteers (or active members).

Social economy organisations not only make a significant contribution to the economy, they also are an essential component of an open tolerant society and of a democratic political system. It is in this way that they underpin a creative economy. They are the product of the willingness of some people to work together for some common good (for themselves – mutuality; or for others - altruism). Most have two defining characteristics (a few have only one or the other). They are prevented from distributing profit or net assets to members, and that they are governed democratically. These fundamental rules ensure their commitment to a wider set of goals than simply the enrichment of their members. They define their behaviour as organisations, and ensure that they behave differently to government agencies and for-profit businesses.

The social economy created, and owns, many of the iconic brands that define Australia: the Melbourne Cup, the surf lifesaver, and the bush fire brigade. More importantly for this presentation, the social economy has in the past been a major source of social or institutional innovation. It was people from within the social economy that invented the terminating and then permanent building societies that enabled so many Australians to own their own homes after the late 1930s into the 1970s. Staff of social economy organisations invented specialist old persons housing (now the ubiquitous retirement village); they pioneered many forms of community care and invented Landcare.

Signs of Decline

But despite this achievement, there is a lot of evidence that Australia's social economy is now far from healthy. The best that can be said is that it faces considerable challenges, and if it does not meet these challenges, then it faces long-term decline.

What are the signs of ill health?

- Membership in many of the better-known membership organisations is declining: service clubs, political parties, trade unions, youth clubs such as scouts and guides. Others, such as professional societies find it increasingly difficult to find volunteers for their various committees.

- Some small sporting and social clubs are collapsing, unable to retain their membership; members often migrating to larger clubs or to business enterprises that provide a wider range of services without the responsibilities of membership.
- Nonprofits are reducing their presence in the hospital field and in the provision of some community services such as child care in favour of for-profits; others are vacating aged care. They will all face a major capital crisis over the next decade, as they need to renew ageing facilities and equipment.
- The social movements of the 1960s and 70s: feminism, environmentalism, various rights movements, have either declined or ceased to grow.
- Numbers who identify with a religious denomination and numbers regularly attending religious worship are declining.
- Over the past 20 years, the members of most mutual finance organisations (building societies, insurance societies) have agreed to exchange their membership for tradeable shares. Most of the remainder (large credit unions, health insurers) are preparing to follow.
- Small producer cooperatives have either collapsed or amalgamated into major agribusinesses but now face pressures to convert to investor owned firms or be taken over.
- In focus groups, people from their twenties to their forties say that they are aware that they are not engaged in formal associations in the way their parents were but they say that the increased demands on their time make it difficult to change.

Against this evidence of decline, there are examples of growth in the social economy. But even here the evidence is mixed. The growth in nonprofit schools provides the most prominent recent example of growth in the social economy. But that growth is attracting increasingly hostile attention from government school interests. More importantly for the longer term, the successful investor owned childcare companies are moving into the provision of school education.

Elsewhere, there are examples of new social economy organisations emerging. New causes or movements, such as anti-globalisation or Pentecostalist religions, are attracting an increasing membership, but their numbers do not balance the declines mentioned above. Neither do the numbers joining reading groups or investor clubs. Some optimists point to an increase in numbers of incorporated associations but this may do no more than reflect an increased tendency for members of previously unincorporated associations to seek the protection of incorporation: they have to incorporate to receive government funds or obtain insurance cover.

Others point to increases in numbers volunteering. It is true that there was an increase in the volunteer rate between 1995 and 2000, but 1995 was lower than 1980s. It is too early to tell whether the 2000 figure was a spike caused by the very extensive and favourable publicity for volunteering given by the Olympic games. But all agree that the expectations of younger volunteers are changing. They will not make long-term commitments and want volunteering to give them new skills or memorable experiences. These are the values of the creative class. They are reconstructing volunteering as a consumption item.

A Hostile Environment

There are three reasons why Australia's social economy is far from healthy. One is government indifference that sometimes slides into hostility; another is business

competition. The third reason is lack of awareness and lack of organisation on the part of the social economy.

More than in other countries, Australian governments have come to embrace a neo-liberal or economic rationalist ideology which says that the public welfare is best served through the operation of free competitive markets and that the role of government is to create and protect these. Thus governments reconstruct their support for nonprofit organisations, once given as an expression of partnership, into the purchase of a service governed by a contract entered into after a competitive tender. Simultaneously, governments encourage for-profits to compete for these contracts. They talk of level playing fields.

In some government reports, mutual associations are deemed acceptable provided they remain small; if they become economically significant, these reports argue, they should be required to convert to investor-owned firms. These, they say, are better than mutuals at reading the signals of the market. In the interests of creating a “level playing field”, tax advantages given mutuals and cooperatives have been largely removed, ignoring the disadvantages they face in raising capital compared to investor-owned firms. The attempt to create a single regulatory regime for the financial system has created a set of rules that now make it almost impossible to form a new credit union.

Governments have also sought to redefine their relationship with the electorate, encouraging people to see themselves as consumers of government services rather than as citizens. Compared with that of citizen, the role of consumer is a passive one; a role that demobilises and undercuts civil society.

In short, governments in Australia have come to believe that there are only two legitimate forms of organisation: the investor owned firm and the government department.

Encouraged by government and by the ready availability of capital, businesses, big and small, push into areas previously exclusively occupied by nonprofits (and by governments). At the big end, media corporations have transformed sporting clubs and sporting competitions, changing the nature of the game, sometimes inventing new games (eg. one day cricket) and forcing dramatically different organisational logics upon nonprofit clubs. Other firms generate huge fees arguing for and then advising the demutualisation of perfectly successful mutuals. At the smaller end, for-profits are moving into service markets that had previously been the preserve of nonprofits or governments.

Australia’s social economy has been slow to respond to these challenges. There is little recognition of the seriousness of the challenges that social economy organisations face. Apart from a few fields of activity such as religion and advocacy, there are few areas where for-profits would not be able to do what the social economy does today. But if that were to happen, much would be lost, much of what might well be a crucial underpinning of the new creative economy. What would be lost would be the willingness of people to work together in collective self-initiated endeavours, and their belief that it is good to do so.

Regrettably, social economy organisations in Australia rarely speak across their industry boundaries. As a result, they do not draw the attention of either their own membership, of governments or of the wider public, to the fact that collectively the social economy

represents something particularly valuable but which is particularly threatened by a wider indifference.

Unless Australia's social economy begins to recognise and expound its common features as a sector; unless Australia's social economy begins what for many organisations will be a slow and painful process of adaptation to a new and challenging environment and of renewal, and unless governments, businesses and the wider public come to recognise and value the contribution of the third sector and engage with it and in it in a collaborative manner, then in Australia, the social economy will surely decline. And, perhaps, so will our capacity to ride the new creativity wave to continuing economic prosperity.

What Can Be Done?

The argument so far is that creativity is at the core of the new economy and economic growth; that creativity and innovation needs an organisational base and that the social economy (associations, charities, mutuals and cooperatives) provides a particularly conducive form of organising. The importance of the social economy is shown by the fact that countries with strong social economies are the same countries that are strong on the creativity index. Australia's social economy is strong, but there are clear signs of imminent decline. If the previous argument is correct, this would impair Australia's ability to retain a strong position in the new economy. This argument applies at a state/territory and city level. Florida's original work was a demonstration that certain regions can attract the creative class, which in turn makes them centres of economic prosperity. In a similar way, the social economy might prosper in some regions while declining in others. So, what can be done?

For a start, social economy organisations should come together to discover and publicise their collective contribution to society and economy. They should do so at the national, state/territory and city level. They might also exchange learnings and technologies, and discover ways to build new organisations to address pressing problems. For example in some English cities, the social economy has come together to develop new employment opportunities for young people. They discovered that some organisations had unused capital, others had skills that together could generate new businesses and new jobs.

This coming together must be across various industry boundaries – sports clubs, schools, social clubs, welfare organisations, churches, professional societies and so on. At the national and state/territory levels it makes sense for the peaks that represent so many organisations to come together. The formation of the National Roundtable of Nonprofit Organisations is the first step in this direction. Perhaps a couple of foundations will fund a national public enquiry into the future of the social economy as happened in the UK and Canada in the late 1990s.

Social economy organisations also must recognise that they the world changes and like any other organisations they must understand the implications of that changed world and adapt to it. Some have gone through the often-painful process of review and renewal. They should be a signal to the rest – but unfortunately, communication paths are so attenuated in the social economy that successes are not widely known. Nonetheless, those that have been successful are often prepared to help others. The social economy is not a highly competitive market, though some parts of it act as if it were (and are encouraged by government to do so)

Governments have an important role to play; but not primarily as a funder. In a way, government funding has done much damage to the social economy. It has enabled its growth, but at the cost of its capacity for independent action. More importantly, the relentless exploitation of the sector by governments refusing to pay the full cost of the services they “purchase” has drained the social economy of much of its capacity for innovation. Government funding has also destroyed the capacity of governments to understand the social economy; it has falsely reconstructed the social economy as a mendicant sector.

What governments can do is create a supportive legal environment. It is extraordinary to compare what has been done to facilitate business over the past 10 – 15 years with the legal and regulatory mess faced by the social economy. To incorporate a business, of any size, and to raise funds from the public, we now have one law and one regulator. A group of people wanting to start a social economy organisation faces a choice between many different forms of incorporation and then a separate set of acts and regulators when they want to raise funds. Governments sensibly seek to encourage parts of the social economy by tax concessions, but award these without any logic or sense. Ideally this would take national action, but much of the responsibility lies with the states and territories, and so moves to clean up regulation and fund raising could start there.

By tidying up regulatory arrangements, governments could obtain for themselves a body of useful and timely data that would enable them to work with representatives of the social economy to monitor its health and obtain a better sense of its dynamics. At present government policies operate in complete ignorance of their impact on the social economy.

Governments in Australia could take a leaf out of the book of governments in the UK and Canada and set aside hundreds of millions of dollars nationally to rebuild the capacity of the social economy. This is putting back what has been stupidly squeezed out. It is essential that responsibility for administering these funds be given to an independent authority. Governments should also look to sort out the terrible mess that their funding programs have fallen into. They need to recognise that there are three basic types of funding arrangements – grants, contracts or vouchers. Each have advantages and disadvantages; the last two can create an environment conducive to for-profit businesses, and governments should be clear about if they want to encourage that and recognise the additional monitoring costs that it will entail.

Finally, the future of the social economy lies with every Australian. We can still come together as active, autonomous citizens to address social problems in new ways, to create, to innovate. We don’t need to be “persuaded” by government or lured by the prospect of riches. Our organising principle should be shared values, fundamentally, our shared humanity. Without such a renewed commitment, Australia’s social economy will gradually fade, and without it, our capacity for creativity will be significantly reduced.