SOCIAL ENTREPRENEURSHIP — FALSE PREMISES AND DANGEROUS FOREBODINGS

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As a reaction against neo-liberalism, Social Entrepreneurship has been promoted as the solution to welfare problems brought about by social change and persistent unemployment. The Social Entrepreneurship Movement (SEM) proposes the reconstruction of welfare by building social partnerships between the public, social and business sectors. Major aspects of this agenda include non-profit organisations undertaking entrepreneurial ventures and the pooling of government welfare funding under the control of local communities.

In this paper we argue that the SEM literature is based on two false premises: the failure to understand the true causes of mass unemployment, and the assumption that the government faces financial constraints in the provision of welfare services. We also argue that implementation of the SEM proposals would erode the rights-based eligibility to universal welfare services based on the principle of social justice. We also conclude that the SEM is indistinguishable from neo-liberalism and as such does not represent a viable solution to unemployment and the welfare needs that accompany it.

Introduction

Unemployment rates in most economies have risen and persisted at higher levels since 1975. In the midst of on-going debates about labour market deregulation, privatisation and welfare reform, the most salient, empirically robust fact over the twenty five years (shown in Figure 1) is that the Australian economy has not produced enough jobs to achieve full employment (Mitchell and Carlson 2001). The shaded area in 1(a) shows the Keynesian period where government took responsibility to maintain full employment.

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Figure 1 An historical view of labour market performance in Australia

(a) Unemployment rate, 1861–2000

(b) Labour force and employment, 1944–2000

Source: ABS, The Labour Force, 6203.0, and Withers *et al.* (1985).

Over the last 25 years, successive Federal governments have used restrictive fiscal and monetary policy to control inflation with high unemployment the consequence. Policy makers deny any link between their inflation-first strategy and the persistent unemployment, and see the latter in terms of the shortcomings of the unemployed themselves rather than any macroeconomic failure (Abbott 2000). In this paper, we use the term neo-liberal to classify this shift to supply side policy and explanations.

Watts and Mitchell (2000) show that the costs of unemployment dwarf the costs of the so-called microeconomic inefficiencies that have been used to justify the neo-liberal agenda. High unemployment has also placed stress on the welfare system to the point that an underclass has emerged in Australia (Johnson and Taylor 2000). The Third Way movement emerged amidst growing resistance to neo-liberalism and a perceived welfare system breakdown (Johnson 2001). However, the Third Way also eschews Keynesian remedies and casts the Welfare State as being undemocratic, bureaucratic, with alienating and inefficient institutions (Giddens 1998). Social Entrepreneurship is the means that Third Way writers propose to reconstruct welfare and involves building social partnerships between the public, social and business sectors and harnessing the 'dynamism of markets but with the public interest in mind' (Giddens 1998: 100).

In this paper we argue that the Social Entrepreneurship movement (SEM) is based on two major false premises and also has some alarming implications. Overall, we argue that the SEM has become indistinguishable from neo-liberalism, and, as such, does not represent a viable solution to unemployment and the welfare problems that accompany it. First, the SEM fails to understand the phenomenon of mass unemployment. Once this understanding is achieved a substantial number of the problems taken as given by the SEM disappear. Second, the SEM alleges that government financial constraints prevent welfare problems being solved using budget deficits. We argue there are no financial constraints on government and this undermines a significant part of the SEM agenda. Third, we examine the implications of specific SEM proposals including the role of entrepreneurship in generating resources for welfare provision and models of community development. We argue that these proposals threaten the long-standing status of universal rights, which are at the heart of a socially cohesive society.

The SEM and the causes of unemployment

The Great Depression taught us that capitalist economies are prone to lengthy periods of unemployment without government intervention. From 1945 until 1975, governments used fiscal and monetary policy to maintain levels of overall spending sufficient to generate employment growth in line with labour force growth. Throughout this Keynesian full employment period unemployment rates rarely rose above 2 per cent (see shaded area of Figure 1(a)).

However, following the first oil price rise in 1974, which led to accelerating inflation in most countries, there was a resurgence of pre-Keynesian thinking. Governments reacted with contractionary policies to quell inflation and unemployment rose. The economic dislocation that followed provoked a paradigm shift in macroeconomics

(Thurow 1983). The Keynesian notion of full employment, defined by Vickrey (1993) as 'a situation where there are at least as many job openings as there are persons seeking employment' was abandoned as policy makers adopted the natural rate of unemployment (NRU) approach (Friedman 1968). The NRU approach redefines full employment in terms of a unique unemployment rate (the NRU) where inflation is stable, which is determined by supply forces and is invariant to Keynesian demand-side policies. It alleges that free markets will always guarantee full employment and Keynesian attempts to drive unemployment below the NRU will only generate inflation. The Keynesian notion that unemployment represents a macroeconomic failure that can be addressed by expansionary fiscal and/or monetary policy is rejected. Instead, unemployment reflects supply failures such as poor incentive structures facing individuals, skill mismatches between demand and supply, and excessive government regulation (OECD 1994). Consequently the role for government is confined to dismantling supply impediments (like minimum wages, social security payments). The NRU and Keynesian notions of full employment are thus diametrically opposed.

There is a growing literature outlining fatal flaws in the NRU approach, which render it unsuitable as a policy framework. After 25 years, neo-liberalism has been a stark failure given that the economy has not been able to generate sufficient employment to match the available workforce. On average there have been 11.1 unemployed persons per unfilled vacancy since June 1974 (Mitchell and Carlson 2001).

Despite this evidence, the SEM adopt a characterisation of unemployment, albeit somewhat blurred, that is hard to distinguish from the NRU hypothesis. They suggest that government fiscal and monetary policy is impotent and that individuals have to be empowered with appropriate market-based incentives (Botsman and Latham 2001; Pearson 2001). For example, Latham, (2001a: 28) says 'in the new economy ... [governments] ... need to shift to supply-side interventions.' Anyone concerned with welfare problems arising from unemployment should initially start with an understanding of why unemployment arises. A fully-employed economy imposes significantly lower welfare burdens than one beset with chronic, government-induced unemployment.

The failure to see mass unemployment in macroeconomic terms represents the first false premise of the SEM. Some SEM advocates point to local schemes that have created small numbers of jobs (for example, Henton *et al.* 1997), but fail to understand that in a constrained macroeconomy the scale of job creation required is beyond the capacity of local schemes. This specific-to-general logic pervades neo-liberal logic and formed the basis of the Keynesian attack on orthodoxy during the Great Depression.

Introductory macroeconomics teaches us that unless spending equals the value of goods and services supplied in expectation of that demand, unplanned inventory accumulation and increases in unemployment and/or underemployment will occur. To avoid this situation, net government spending (the budget deficit) must fill the spending gap. Thus, mass unemployment reflects a choice made by government to provide lower net government spending and accept higher unemployment¹

SEM and the fiscal constraints on government

The corollary of the abandonment of macroeconomic demand management has been the obsession by government with budget surpluses and a denial that they promote persistent unemployment. SEM advocates support this line, arguing that Keynesian demand management policies are no longer possible because of '... what has become known as the fiscal crisis of the welfare state — that is, the gap between the revenue raising capacity of an internationally competitive taxation regime and the public outlays required to fund social democratic programs and the local costs of economic adjustment.' (Latham 1998: 31)

The acceptance of federal fiscal constraints represents the second false premise of the SEM. In fact, there are no financial constraints on federal government spending. This is a myth peddled by neo-liberalism and contradicts the way the financial system operates. The substantiation of our claim requires a difficult technical argument. In this section, we provide a sketch of the argument only. Readers are referred to Mitchell and Mosler (2001, 2002) for a more detailed exposition.

The myth starts with a false analogy between household and federal government budgets. While a household must find ways of financing its spending, the government can spend without such a constraint because it has the power to issue the legal currency. Several consequences follow from this distinction. As the sole provider of legal tender the government requires that we discharge our tax obligations to them using this currency (money). Logically, the only way the private sector overall can get the currency is to sell goods and services to the government. Thus government spending provides the money to the private sector that it needs to meet its tax obligations. This negates the popular view that the function of taxation is to provide revenue to facilitate government spending. The private sector also typically desires to save some money and therefore there must be sufficient government spending above tax obligations to provide that currency necessary to facilitate saving. So a budget deficit is necessary for the private sector as a whole to save. This means that budget surpluses actually prevent the private sector from saving overall.

Neo-liberals claim that budget deficits are bad because they allegedly push interest rates up and thus squeeze or “crowd out” private spending that relies on borrowed funds. This is commonly referred to as the “crowding out” argument which leads to the conclusion that government deficit spending is futile because it is offset by falling private spending as interest rates rise. However, the argument fundamentally misconstrues the way the banking system operates to set interest rates. Far from pushing interest rates up, budget deficits actually put downward pressure on interest rates.

Briefly, a budget deficit provides a net injection of cash into the overall banking system which if unspent by the private sector ends up in commercial bank reserves. Banks don't like to hold excess reserves. An excess held by one commercial bank alone can be loaned out to other banks to ensure the funds earn a market rate of return. But when the banking system overall has excess money in its accounts such a strategy is lost. These excess reserves show up on a daily basis in the bank accounts that the commercial banks hold with the Reserve Bank of Australia (RBA).

To understand their impact we note that the RBA conducts monetary policy by setting and maintaining a target cash (short-term) interest rate. This rate influences a range of other interest rates including the home mortgage rate. The RBA increases the target rate if it wants to slow down economic activity (and vice versa). When there is media speculation over the direction of interest rates in the economy, it is the cash rate that they are talking about.

Strong private demand for money (relative to supply) places upward pressure on all interest rates and the RBA has to supply money to the private banking system (by buying government bonds back from private holders) in order to keep the cash rate within its target range. When private demand for money is less than supply, interest rates will fall unless the RBA sells government bonds to private buyers in return for cash. It thus can keep the cash rate within its target range by withdrawing “excess money” from the banking system. That is how monetary policy works.

So the excess funds that occur following a budget deficit will place downward pressure on interest rates. This is totally at odds with the crowding out argument. If the RBA is intent on holding its interest rate target then it must take this excess money out of the system by selling government debt. Otherwise, market interest rates would fall. That is the reason government debt is issued. The private sector purchases the debt to earn a market yield on their reserve holdings. Government debt is thus not issued to finance government spending. The latter would have occurred

with or without the debt issuance. Further, far from pushing interest rates up, debt issuance maintains existing rates, which would otherwise fall.

Neo-liberals also claim that budget deficits without debt issuance always create inflation. With no government debt issued following a budget deficit, the private sector may use the excess cash in the banking system to increase consumption given that they cannot find suitable interest-bearing assets to absorb the cash surplus. Clearly, with demand higher, the budget deficit could be reduced and still maintain full employment. The relationship between monetary growth (nominal demand) and the price level is complex and depends on the state of aggregate supply. In times of deficient-demand, business firms have excess capacity and will respond to increased demand for their products by increasing production and employment rather than increasing prices.

In summary, the government, as the issuer of money, cannot be financially constrained and has an obligation to ensure that its net spending is sufficient to maintain full employment. By failing to understand that budget deficits are required if there is mass unemployment, the SEM constitutes a false agenda, which would disappear once governments restored full employment. Given that, we now turn to some of the specific implications of the SEM policy agenda.

Entrepreneurship and welfare provision

It is hard to precisely define what constitutes social entrepreneurship (Johnson 2001 provides a good survey). The Canadian Centre for Social Entrepreneurship (CCSE 2001) defines it as 'a variety of initiatives which fall into two broad categories. First, in the for-profit sector, social entrepreneurship encompasses activities emphasizing the importance of a socially engaged private sector, and the benefits that accrue to those who "do well by doing good". Second, it refers to activities encouraging more entrepreneurial approaches in the not-for profit sector in order to increase organisational effectiveness and foster long-term sustainability.' Fowler (2000) extends this by identifying three layers of social entrepreneurship: (a) integrated social entrepreneurship where profit making corporate activity also produces social benefits, (b) reinterpretation involving cost-cutting or revenue diversification of the non-profit organisation, and (c) complementary social entrepreneurship where non-profit organisations undertake profit-seeking activities to cross subsidise their social mission.

For space reasons, we ignore the for-profit sector activities. Within the SEM literature on non-profit organisations, there is less emphasis on the social and more

on the entrepreneurial activities and abilities of individuals (Dees 1998; Henton *et al.* 1997). Dees (1998: 2) considers social entrepreneurs to be 'one species of the genus entrepreneur.' The Australian Social Entrepreneur Network (SEN 2001) also push a commercial emphasis, 'Social entrepreneurs are people who possess both an innovative idea for social change and the entrepreneurial drive to achieve its realisation' and 'they use best practice commercial, management and risk taking skills to create solutions to social problems.'

The SEM argues that not only do welfare services need to be delivered more *efficiently* but entrepreneurial activities have to be adopted to create more funds (profits) to cross-subsidise welfare provision, given that it, wrongly, assumes that government is financially constrained. Welfare groups have always participated in small-scale capitalism (like opportunity shops), but the SEM envisages full-scale business models are needed to generate extra resources. Efficiency is a term borrowed from microeconomic text-books and means the highest output at the lowest cost. The text-book model claims that private markets allocate resources to the most efficient uses but also recognises that any social costs arising from private market transactions (like pollution) are not accounted for. Where social costs (or benefits) are present and not valued in the market, the private entrepreneurial model is not efficient. Pursuing *social justice* aims, which cannot be valued in the market, using a private entrepreneurial model, is likely to violate the conditions required for efficiency. It is unclear how a social entrepreneur balances resource allocations between profit-making and welfare-providing activities. Certainly there can be no authority gained from economics to guide them. Yet the SEM uses text-book terminology to claim legitimacy for its agenda. Dees (1998: 2) admits that:

Markets do not work as well for social entrepreneurs. In particular, markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay. These elements are often essential to social entrepreneurs ... it is much harder to determine whether a social entrepreneur is creating sufficient social value to justify the resources used in creating that value. The survival or growth of a social enterprise is not proof of its efficiency or effectiveness in improving social conditions. It is only a weak indicator, at best.

In short, no economic case in terms of efficiency can be made to support the shift to social entrepreneurship. No market discipline can guide resource allocation and correctly value the contributions and costs of social entrepreneurial activity. Accordingly, the market is not a legitimate benchmark to justify the changes from rights-based welfare.

Entrepreneurship, communities and welfare provision

The SEM advocates a focus on local, community-designed and implemented solutions (Botsman and Latham 2001). The main welfare-role for government should be to assist the development of local social entrepreneurs, encourage entrepreneurial projects and to 'devolve its resources and service delivery to place management models' (Latham 2001c: 130). They aim to break the government-individual nexus and use taxpayer funds to subsidise private entrepreneurs. They also support strengthening the ties between non-profit organisations and corporations for mutual benefit. For example, d'Indy (2000: 12) argues:

The significance of corporations investing directly in the community is that they, the holders of private wealth, are determining for themselves where social spending should occur. At the same time, these allocations are tailored for the long term benefit of companies.

There are major concerns with these proposals. First, basing social spending according to corporate aims starkly contrasts with the social justice orientation of the Welfare State where resources were allocated according to an ordering of societal needs, determined in the public domain, rather than by corporations. Second, using non-profit organisations to administer state welfare programs for commercial gain may fundamentally change the character of these organisations. In particular, imposing sanctions (income-losses) on some of the most disadvantaged members of the community may conflict with long-standing organisational goals and values (d'Indy 2000: 15). This may cause internal conflict between the enterprise and welfare divisions of such organisations, as clients sanctioned by one part of the organisation seek emergency assistance from another.

Third, community pooling arrangements are proposed as a radical new form of welfare provision. Botsman and Latham (2001) suggest government allocations for health, education, housing, training and employment and all social security payments, currently paid to individuals be pooled 'to invest in community cooperatives that allocate a living wage for community employment' (Botsman 2001a: 71). What are the problems with this model of community entrepreneurship? Clearly, the government would become a venture capital provider and underwriter of small-scale capitalist production. The ABS statistics on small business failure show around 7 per cent fail within one year (ABS, Cat. No.1321.0). It is undesirable to implement a welfare system where the fortunes of the disadvantaged receiving assistance are dependent on entrepreneurial vagaries. Further, community entrepreneurship is susceptible to a major source of market failure referred to by economists as *moral hazard*. The government would have a moral obligation to prevent an entrepreneur

from failing. The entrepreneur thus faces distorted risk and return choices because they can effectively ignore downside risks of any particular development plan. Market failure would be endemic and wasteful investment schemes would proliferate. There is no moral hazard in a government provided welfare model where the allocations are based on a system of political accountability.

Fourth, the SEM claims that social cohesion is only developed at the community level (Latham 2001d). However, social cohesion can take many forms. Some countries like Japan, Switzerland, and Norway maintained Keynesian policies and avoided the sustained unemployment that beset most economies after the mid-1970s. Ormerod (1994: 203) notes that each of these countries retained 'a sector of the economy which ... functions as an employer of last resort ... [and] ... exhibited a high degree of shared social values ... [or] ... social cohesion, a characteristic of almost all societies in which unemployment has remained low for long periods of time.' Social cohesion, here, refers to the willingness of citizens to allow the state to use macroeconomic policies to maintain full employment.

SEM advocates want community to replace the state as the vehicle for social cohesion and argue that the community-focus would help to overcome the "one size fits all" aspect of bureaucratic Welfare States. However, a series of separate communities pursuing competitively driven aims do not necessarily develop shared values or social cohesion. They are indeed more likely to develop social antagonism toward each other. Further, transferring service delivery to communities 'relieves the government of the responsibility for social problems because it puts the onus for reform onto the community.' (Everingham 2001: 110) Moreover, the substitution of community-developed, for bureaucratically determined, programs may introduce discord between sections of the community with divergent priorities, including intolerance of minorities.

Unique programs in each community also imply the erosion of the individual right to a minimum service standard. Not only are rights exchanged for the concept of earning entitlements by proving deservingness, but, members of dynamic communities with greater entrepreneurial skills will be relatively advantaged.

The assumption that positive outcomes of a small number of organisations will automatically be transferable to every community is also problematic. Social entrepreneurs would compete with private companies and employment generated in these communities may be partially or totally offset by losses in the private sector.

In short there are numerous dangers in pursuing the SEM model of community entrepreneurship. Communities working together with the fiscal power of the federal

government to achieve national goals would best ensure the protection of citizens' rights originally secured by the introduction of the Welfare State, and, avert the possibility of divisiveness between and within communities.

The SEM and the rights of citizenship

The Welfare State evolved in parallel with the Keynesian full employment commitment and defined the state's obligation to provide security to all citizens. The welfare state 'conveyed a notion of society's collective responsibility for the wellbeing of its citizens' (Jamrozik 2001: 15). It was a definitive break with the poor law tradition, replacing the deserving-undeserving poor dichotomy with the provision of benefits as a right of citizenship (Timmins 1995: 21). Transfer payments were provided to disadvantaged individuals and groups and a professional public sector, provided standardised services at an equivalent level to all citizens.

Alongside neo-liberal attacks on macroeconomic policy, were concerted attacks on supplementary institutions such as the industrial relations system and the Welfare State. These attacks were a mixture of misplaced perceptions of fiscal necessity and ideological zealotry (see Mitchell and Carlson 2001). In terms of welfare provision, neo-liberalism sees individuals as being accountable for their own outcomes and rejects the importance of macroeconomic failure (Rees 1994). Government welfare policy changes have introduced beneficiary obligations to counter-balance existing rights, while promoting the movement from passive to active welfare (Burgess and Watts 2001). Individuals now face broader obligations and their rights as citizens have been replaced by compulsory contractual relationships with behavioural criteria imposed as a condition of benefit receipt.

Notable SEM advocates support this policy shift and claim that individuals have to accept responsibility, be self-reliant, and fulfill their obligations to society (Latham 2001c). Accordingly, 'passive welfare' produces 'dependence' which 'disempowers' and causes 'social exclusion' (Pearson 2001: 135). They also argue that welfare reform must establish incentive structures to overcome welfare dependence. There is confusion in this literature over what causes dependency. Giddens (1998: 114) argues that it arises because people act rationally to take advantage of the opportunities offered by the Welfare State. However, Latham (2001c: 117) declares it is 'anything but a rational state of mind. Logic and responsiveness to financial incentives are replaced by an irrational and negative way of life.'

Specific proposals from the SEM are consistent with a desire to break from rights-based welfare provision, thus shifting responsibility from government to the

individual. The necessity of reintegrating the allegedly, welfare dependent underclass into the community provides the justification for 'mutual obligation' and the concept of 'no rights without responsibilities' (Latham 2001d: 258). Mutual obligation is at the forefront of current Federal Government welfare policy and forces individuals to expend effort in return for their welfare payments. Unfortunately, a reciprocal obligation is not imposed on government to ensure that there are enough jobs. Some SEM advocates go further and suggest that 'improved personal health habits, the care and maintenance of public housing accommodation, and good parenting practices' among others, be conditions to be met before welfare benefits are paid (Latham 1998: 219). None of these conditions would be imposed on other members of society.

Latham and others appear to ignore the role that macroeconomic constraints play in creating welfare dependence. Their preoccupation with instituting behavioural requirements and enforcing sanctions for welfare recipients, suggest that they perceive dependence as an individual preference. However, with the unemployment to vacancy ratio averaging around 11 since 1974, it is a fallacy of composition to consider that the difference between getting a job and being unemployed, is a matter of individual endeavour. Adopting welfare dependency as a lifestyle is different to an individual, who is powerless in the face of macroeconomic failure, seeking income support as a right of citizenry.

Conclusion

We have argued that the SEM literature is based on two false premises: (a) the failure to understand the true causes of mass unemployment, and (b) assuming that the federal government faces financial constraints and cannot afford to fund the welfare services that are required. The SEM policy agenda that follows contains a number of proposals that threaten the concept of citizenship. In many key respects, the SEM literature is indistinguishable from neo-liberalism.

We suggest that the SEM proposals to enhance community entrepreneurship would have two major consequences. First, the remnants of rights-based eligibility to universal welfare services would disappear due to the differentiation of service provision based on location. Welfare would revert to residual provision. Second, the objective of social control would replace social justice, and individuals would be pressured to conform to values determined by social entrepreneurs on behalf of the community.

Finally, like neo-liberalism, the SEM does not represent a solution to persistent unemployment. That requires active federal government intervention using

expansionary fiscal and monetary policies, politics which neither of these perspectives support.

Endnotes

- ¹ See Mitchell and Mosler 2001, for a more technical discussion.

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