Innovation in the Social Economy

Emerging Best Practice in Ireland and Wales

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CHAPTER 2
BUILDING INCLUSIVE ECONOMIES: THE SOCIAL ECONOMY AND PUBLIC POLICY OPTIONS IN AN ERA OF AUSTERITY

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Introduction

This chapter situates the debate about the social economy in the context of the recent collapse of Ireland's neo-corporatist social partnership model and the ongoing economic crises facing Ireland.[3] In doing so it examines the paucity of robust public discourse regarding appropriate models of sustainable economic development and the consequences for public policy formulation. It also reviews two distinct rationales for developing the social economy, development and instrumental, through the work of Erik Olin Wright and Elinor Ostrom. The chapter concludes with broad recommendations for policy makers and stakeholders in the social economy.

The Irish case is pertinent for those involved in the public policy debate on the social economy internationally for a number of reasons. Despite the resilience of many of the institutions of social partnership to previous upheavals the scale and the multi-stranded nature of the current crises have been fatal (Ó Broin 2009). Some of the outlines of a new model of public deliberation and economic governance exist but there remains a great deal of 'institutional space' in which to innovate.[4] It is this 'institutional space', the extremely fluid nature of political opinion and the constraints arising from the economic austerity programme agreed with the EU/ECB/IMF, that give added relevance to the Irish experience. For example, the proposed expansion of the delivery of existing public services by locally-accountable social

[3] As noted earlier the book uses the term 'crises' rather than 'crisis' because of the multi-stranded and separate nature of the economic, political and regulatory challenges facing Ireland.

[4] These include the changes at national level like the establishment of the Irish Fiscal Advisory Council, the Government's Economic Management Council, and changes at local level which include a series of councillor-centred reforms of the Irish local government and local development systems and establishment of a more coherent and structured enterprise system linked to a reformed local government systems. One could also include a new openness to social enterprises playing an enhanced role in local economies.

enterprises, using public procurement as a tool to enhance local economies (Doyle and Lalor 2010) has much to recommend it but doesn't appear to be a realistic component of the ongoing public sector reform process.

Discussing the Social Economy and Social Enterprise

The OECD observes that across the EU "the social economy, whilst in no way a new phenomenon, has been reinvigorated in recent decades" (2007: 9). This new vibrancy is linked to the "constant and seemingly ever growing pressure" on the welfare state in Europe "to justify its very existence" (Hay and Wincott, 2012: 1). While the pressure on the welfare state has been an important trigger in stimulating the growth and development of the social economy, other factors, including changes to local economies, the exclusion of some vulnerable groups and a gradual move away from traditional conceptions of civil society organisations towards more dynamic, issue-oriented organisations, have also contributed to the reinvigoration of the sector. Social enterprises have:

> *moved to fill the gaps left by the market and the state, and have shown themselves to be innovative, adaptable and responsive to local needs when provided with the opportunity and environment which enables them to fill their potential* (OECD, 2007: 9).

Exploring issues such as the role of the social economy in service provision and the contribution it can make to local development and examining how a supportive and enabling environment can be created for the social economy and social enterprises, this chapter, and others in the book, highlight the fundamental role of the social economy in improving the lives of, not only, society's most vulnerable, but also communities as a whole. The challenge is to ensure that the social economy is able to play that role to best effect.

What is the Social Economy? What is a Social Enterprise?

Given its critical role, it is clearly important to develop a clear understanding of what the social economy is. However, defining it is not without difficulty. Attempts to define it have drawn on two main approaches. The first seeks to identify those legal and institutional forms which are part of the social economy, namely associations,

mutual benefit societies and co-operatives. The second focuses on the common principles which inform those organisations, notably the primacy of individuals and communities over profit, although without completely limiting the distribution of profit (as the US non-profit approach does).

It is important to note, and this is repeated through many chapters of the book, that there is, as of yet, no uniform language and understanding around the idea of social enterprise. Many definitions exist and a wide variety of organisational forms are adopted by social enterprises around the world. For example, while the definitions adopted by Forfás, the Irish Social Enterprise Network, Social Enterprise UK, Scottish Social Enterprise and the Social Enterprise Alliance in the United States share key components, they are distinct from one another.

The OECD defines social enterprise as:

> *…any private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment* (OECD, 1999: 1).

More recently, the European Commission has defined a social enterprise as being:

> *... an operator in the social economy whose main objective is to have a social impact rather than make a profit for its owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities* (European Commission, 2011: 4).

The different definitions of social enterprise underline different aspects of the same reality. In Europe, social enterprises are closely linked to, and emanate from, the tradition of the social economy, which is

characterised by principles and values such as solidarity, the primacy of people over capital, and democratic and participative governance. In Europe, the social economy gathers entities such as co-operatives, associations, mutuals and foundations.

Social enterprises take various legal forms in different countries across Europe. These forms include solidarity enterprises; co-operatives or limited liability social co-operatives; collective interest co-operatives, as have been adopted in Italy, France, Spain, Portugal and Greece; social purpose or collective interest companies in Belgium; and community interest companies in the United Kingdom. A review of the legal structures and legislation in a number of European countries that have adopted national laws regulating social enterprises (i.e. Belgium, Finland, France, Italy, Poland, Portugal and the United Kingdom) reveals that these laws address common issues including the definition of social enterprise; asset allocation; stakeholder and governance systems; and accountability and responsibility towards internal and external stakeholders. These "national laws provide different legal solutions based on specific cultural contexts" (OECD, 2013: 3).

For the purposes of this book we contend that what is critical about the idea of the social economy is that it seeks to capture both the social element and the economic element, inherent in those organisations which inhabit the space between the market and the state. It is important to recognise that not all social economy organisations are focused on economic activity. Indeed the social economy includes advocacy organisations and also those, such as foundations, who redistribute resources. However, the term is a useful one because of its inclusiveness, and ability to incorporate new organisational forms which have emerged, such as social enterprises.

Cause for hope?

In Ireland there exist the components of a potentially robust and facilitative support framework:

- Ireland has the highest per-capita credit union membership in the world;
- Historically Irish civil society has supported the establishment of human-centred economic and social institutions and activities (Ó Broin and Kirby 2009);
- There is significant philanthropic support for social economy-

linked organisations;[5]
- It retains an extensive nationwide network of rural agri-business and community service co-operatives;[6]
- The state funds a very significant social enterprise support programme, one of the largest in the European Union;[7]
- National civil society representative organisations are actively calling for the development of a more supportive public policy framework to expand the social economy.

Despite the above the social economy is widely accepted to be underdeveloped in Ireland, representing only 3% of GDP compared to 4%-7% in other EU member states (SEETF 2012). In addition Irish public policy retains a very strong and distinct pro-private enterprise bias (Kirby 2010) and calls for support for the social economy are often perceived as attempts to undermine private enterprise and the role of the market. In addition Irish public policy efforts in this area tend to use the market-oriented discourse of 'social entrepreneurship' rather than the more society-oriented discourse of 'social economy' (Ó Broin 2012). As the situation evolves a variety of social, economic, civic, governmental and political processes and issues will impact key decisions. These include:

- The strong desire on the part of civil society to establish a robust social economy component of the national economy;
- The openly pro-market bias of many Irish government agencies;
- The economic, financial and policy constraints imposed as a result of the austerity programme;
- The highly open nature of the Irish economy, one of the most globalised in the world;
- The advocacy actions of existing social economy actors;
- The outcome of debates between proponents of social entrepreneurship and social economy;
- The establishment of appropriate national social economy support agencies;

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[5] See http://socialentrepreneurs.ie/, http://www.ageingwellnetwork.com/ and http://www.guinness.com/en-ie/arthursday/fund.html for more details.

[6] See http://www.forfas.ie/publication/search.jsp?ft=/publications/2007/Title,706,en.php for more details.

[7] See https://www.pobal.ie/FundingProgrammes/CommunityServicesProgramme/Pages/CSP%20Home.aspx for more details.

- The implementation of a radical local government reform process which includes a proposed social economy support function;[8]
- The political decisions taken by the two current government parties.

Analytical Framework

This chapter uses the frameworks developed by Erik Olin Wright (2013) and Elinor Ostrom (1999) to examine the potential for the development of social economies. The frameworks are very different in perspective but provide a powerful conceptualisation of the developmental potential offered by the social economy and the instrumental effectiveness offered by reordering many economic activities to improve their impact.

In relation to the social economy Wright's key argument is that the development of the social economy can constitute an interstitial transformation, i.e.

> *… new forms of social empowerment in capitalist society's niches and margins, often where they do not seem to pose any immediate threat to dominant classes and elites* (2013: 20).

The central theoretical idea is that building alternatives on the ground in whatever spaces are possible both serves a critical ideological function by showing that alternative ways of working and living are possible, and "potentially erodes constraints on the spaces themselves" (Wright, 2013: 20).[9] Wright (2010) suggests that the social economy may

[8] See http://www.environ.ie/en/PublicationsDocuments/FileDownLoad,31310,en.pdf for more details.

[9] Wright (2013: 17-18) uses the term 'social economy' to "designate configurations of social empowerment within an economy in which the state is not involved". He outlines three separate configurations: (a) Social Capitalism, (b) the Core Social Economy and (c) the Co-operative Market Economy. The term social capitalism is used to describe a power configuration in which secondary associations of civil society, through a variety of mechanisms, directly affect the way economic power is used. The core social economy goes beyond social capitalism by constituting an alternative way of directly organizing economic activity that is distinct from capitalist market production, state organized production, and household production. Wrights suggests that Wikipedia is a "striking example of core social economy". It produces knowledge and disseminates information outside of markets and without state support. Its funding is provided by donations from participants and supporters. In a cooperative market economy, all workers jointly control the economic power represented by the capital in the firm. If individual cooperative firms

also be conceived as a "real utopia" since it presents a plausible vision of a radical alternative and a project of emancipatory social change:

> *The 'social economy' constitutes an alternative way of directly organizing economic activity that is distinct from capitalist market production, state organized production, and household production. Its hallmark is the production organized by collectivities directly to satisfy human needs not subject to the discipline of profit-maximization or state-technocratic rationality* (Wright 2010:140–141).

The concept of "co-production" was originally developed by Elinor Ostrom at Indiana University during the 1970s to describe and delimit the involvement of ordinary citizens in the production of public services. As a result, the term ''co-production'' is used to describe the potential relationship that could exist between the ''regular producer'' (street-level police officers, schoolteachers, or health workers) and their clients who want to be transformed by the service into safer, better-educated or healthier persons.

Initially co-production had a clear focus on the role of individuals or groups of citizens in the production of public services. Co-production is, therefore, defined by the mix of activities that both public service providers and citizens contribute to the provision of public services. The former are involved as professionals or 'regular producers', while 'citizen production' is based on voluntary efforts of individuals or groups to enhance the quality and/or quantity of services they receive.

Within European discourse, co-production tends to refer to the growing direct and organized involvement of citizens in the production of their own social services (Pestoff, 2012: 1106). For example, parents participate in the co-production of their own childcare, both individually and collectively by joining a parent association or co-operative preschool that produces such services in France, Germany and Sweden. We also find ample evidence of co-management and co-governance of childcare services in some European countries.

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join together in a larger association, collectively providing finance, training, and other kinds of support, they begin to transcend the capitalist character of their economic environment by constituting a cooperative market economy. The Mondragon Cooperative Corporation is an example.

In her seminal article on co-production, "Crossing the Great Divide" (1999), Ostrom compares the conditions for co-production in two developing countries, i.e., in water systems in suburban areas in Brazil[10] and elementary education in rural Nigeria. In the latter she notes that villagers were traditionally engaged in several community projects, including building roads and the maintenance of school buildings. However, she notes the detrimental effects of centralisation and frequent changes in government policy on primary education. She compared four Nigerian villages, two where parents valued education highly and focused on primary education, with good results in terms of pupils passing their school exams (85 percent). In two other villages parents valued education less and contributed very little to the local primary schools. Without parental support the teachers were incapacitated and demoralized and the children only obtained a scattered education, if at all. She concludes that when co-production is discouraged by the government taking over schools that villagers had perceived as their own, by creating chaotic changes in who is responsible for financing them and by top-down command administration, etc., only the most determined citizens will persist in co-production activities (1999).

When exploring citizen involvement in the co-production of social services in Europe, we need to consider two-related issues: the ease of involvement and the motivation of individuals to participate in the co-production of social services. How easy is it for citizens to become involved in the provision of social services and why do they become active participants in the service provision process? The ease or facility of citizens becoming involved will depend on several things, like the distance to the service provider, the information available to citizens

[10] Condominial sewerage is the term used to describe the application of simplified sewerage coupled with consultations and ongoing interactions between users and agencies during planning and implementation. The term is used primarily in Latin America, particularly in Brazil, and is derived from the term *condominio*, which means housing block. From an engineering perspective there is no difference between designing a regular sewage system and a condominial one. However, bureaucratically a condominially-designed system includes the participation of the individuals and owners who will be served and can often result in lower costs due to shorter runs of piping. This is achieved by local concentration of sewage from a single "housing block". Thus a number of dwellings are grouped into a "block" known as a condominium. The condominium may share no other aspects of ownership or relation except geographic proximity. In addition, individuals and owners may share a role in the maintenance of the sewers at the block level.

about the service and its provision, etc. They are related to the time and effort required for citizens to become involved and might therefore be seen as the transaction costs of participation. If, and when, opportunities exist for motivated citizens to participate actively in the co-production of a social service, lowering the transaction costs will make it easier for them to do so. By contrast, the greater the effort required of citizens to become involved the less likely they are to do so.

Citizens' motivation to become involved as a co-producer will, in turn, depend on the importance or salience of the service provided. Is it a very important service for them, their family, loved-ones, a relative, a friend, or not? This will reflect how the service affects them, their life and life chances. Does it make a direct impact on their life and/or life chances, or does it only have an indirect effect? If and when a person feels that a service is very important for them and/or their loved-ones or vital to their life chances they will be more highly motivated to become involved in the co-production of it.

It is, therefore, necessary to make a distinction between enduring and non-enduring social services (Pestoff, 2012). Many social services belong to the former category and, therefore, have an immediate impact on the life, life chances and quality of life of the persons and/or families receiving them. The importance and impact of such services guarantee high client interest in their development especially in their quality. Enduring social services include: childcare or preschool services, basic and higher education, elder care, handicap care and housing as well as preventative, and long-term health care.

The Co-operative Gambit: Why Citizens Engage in Collective Action[11]

The pursuit of self-interest can either be individual or collective. In the latter there is an element of common benefit, not found in the former. Collective action and even more so collective interaction have the ability to transform the pursuit of self- interest into something more than the sum of individual self-interests. It makes possible the achievement of common goals that would otherwise be impossible for isolated, unorganized individuals. Such goals can include good quality primary education, good quality pre-school services, good quality health care, elder care, etc., at a reasonable cost to individuals and society.

[11] This phrase is taken from Victor Pestoff's paper "Co-production and Third Sector Social Services in Europe: Some Concepts and Evidence" (2012).

Collective action can help solve social and personal dilemmas, created either by the lack of some important social services on the market or by the variable quality of such services provided by the state. The lack of good quality childcare services in Ireland is a prime example. The local authorities don't provide them, or enough of them in many counties and the market simply prices them out of reach of most citizens. Thus, many families struggle to combine their professional career demands with family needs, particularly for high quality childcare. Many of them then reason that if they don't join hands with other like-minded persons to form an association and provide the service themselves, it simply won't be available to them.

If the market cannot provide an adequate amount of the service at affordable prices for most citizens, or if the quality of standardized public services is not acceptable to some citizens, they can come together to form an association to provide it both for themselves and for others.. Thus, without collective action a particular service would not be made readily available, or it would not be available at the level of quality desired by some groups. Therefore, in spite of well-known hurdles to collective action, without engaging in it no suitable childcare service will be provided for a number of concerned families.

Government understanding of this social and personal dilemma and acceptance of social economy alternatives may also prove crucial for success. A cooperative gambit is the willingness of individuals to sacrifice their short-term personal interest for the sake of the long-term individual and group benefits stemming from collective action in order to achieve a group goal or provide a social service. A social cooperative or social enterprise can create trust that helps to surmount the limits of the short-term personal interest of group members or to curb ''free-riding''. This encourages them to contribute their time, effort and other resources to achieve the fruits of their collective efforts that cannot be achieved by isolated individuals. Of course not everyone is willing to participate in collective action, but there may be enough of them to make it worth considering why some do

This chapter contends that while the introduction of a public policy framework facilitating the expansion of social economies in Ireland remains a distinct possibility there are a number of constraints that may mitigate the transformational outcomes Wright and Ostrom outline.

Suggestions for Policy Makers

The majority of evidence available to date, in particular that disseminated by the EU, OECD and UNRISD, suggests that there are a number of key areas that should be addressed to facilitate the social economy. These include:

- The legal, fiscal and regulatory frameworks;
- The development of sources of sustainable finance;
- Investment in human capital.

Specific enabling environments (legal, fiscal, regulatory) might be needed according to the form that their initiatives take. Social enterprises, like associations or co-operatives, need an ad-hoc legal status and regulatory measures designed to allow them to fulfil their social and economic goals, while pursuing medium and long-term sustainability on the market (OECD, 2010; UNRISD, 2014; Utting *et al*., 2014).

The EU has suggested that a social capital marketplace should be fostered. Policy measures could include offering fiscal incentives to attract investors; offering multiple forms of credit enhancement; and, spearheading and monitoring innovative institutional arrangements between civil society, governments and financial institutions. Seed funding is critical in the early phases of a project as it covers the costs linked to a start- up and also the costs of capital investments. This could be provided through small loans or grants.

Investment in human capital has two distinct dimensions. The first relates to providing training opportunities to social entrepreneurs and including social entrepreneurship in school and university curricula. This arises because social entrepreneurs might need special training to help them hone and develop their entrepreneurial and creative skills.

The second dimension relates to the provision of training opportunities for public officials in the area of public tenders. Public procurement measures can be further developed so that social enterprises can consolidate and expand their growth. European procurement law allows local authorities to insert certain social clauses in their procurement procedures terms of reference, for example to encourage the employment of long-term unemployed or disadvantaged people. Involving social enterprises in public service delivery can bring many community benefits. However, public officials are often not well acquainted with those benefits, while some small social enterprises are

not familiar with the public tendering process and need skills and networks to successfully compete in public bids. Training, both for public officials working on procurement and for social enterprises, should be provided and encouraged.

Conclusions

This chapter contends that public policy facilitating the expansion of the social economy in Ireland remains a distinct possibility. As Amin observes, "governments around the world, supported by parties and institutions of varying political hue, have begun to introduce legislation and policies to stimulate and support the social economy" (2009: 5). This change is not only linked to the ongoing economic crises but also stems from a "desire to make capitalism more caring through markets and modes of delivery that are socially responsible, needs-based and stakeholder-oriented" (2009: 5). In addition there is a very distinct discourse on the 'moral economy', that is "the norms which govern or should govern economic activity" (Sayer, 2000: 1). In Ireland this aspect of the debate has largely been mainstreamed by President Higgins' Ethics Initiative. It is feasible to enable the social economy in Ireland and Wales as a key component of a more sustainable and human-centred model of economic development. This process must be embedded in a public dialogue, detailing the role and nature of the social economy, how social economy stakeholders perceive themselves, how state and market actors and institutions perceive them and how an implementable policy framework might be developed. Ireland and Wales can avoid what Roberto Unger refers to as the "dictatorship of no alternatives" (2009: 1).