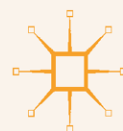


SECOND EDITION

UNDERSTANDING
**THE SOCIAL
ECONOMY**
AND
**THE THIRD
SECTOR**

SIMON BRIDGE, BRENDAN MURTAGH
AND KEN O'NEILL



Understanding the Social Economy and the Third Sector

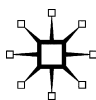
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UNDERSTANDING THE SOCIAL ECONOMY AND THE THIRD SECTOR

2nd Edition

Simon Bridge, Brendan Murtagh &
Ken O'Neill

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preface

This is a book about the social economy and that section of the economy which is now often referred to as the third sector: a name which is intended to distinguish it from the public and private sectors. For many people the most important part of the third sector is the social economy, often because it seems to be the part which offers the most economic and social benefit. Some people refer to this area, or to parts of it, as the voluntary sector or the community sector, and there are other concepts associated with it such as social capital.

However, although these and other associated terms are now in relatively wide use, there is no general agreement about what they mean, and there seems to be little clarity about how they are linked. As a result, for those now working in this field, especially when they are new to it, there can be considerable confusion about what is involved. While there has been a third sector in an economy for as long as there have been the two other sectors, much of the language about it is only now developing, and, often with government encouragement, a new industry is evolving to promote and support it.

The aim

The aim of this book is to help make sense of this field by summarising, in an objective framework, what is known about these and similar issues and by indicating some of the main perspectives on them. The book therefore tries to present an overview of the key concepts, to explore the relevance today of the third sector and its components, to explore the varied meanings and definitions of these components including in particular the social economy, and to highlight some of the current key issues in the field, how they are being addressed, and some of their future implications.

Who should read this book

This book is targeted at policy-makers and staff of social enterprise support organisations, at students of the third sector at universities and business schools, at researchers and teaching staff, at social entrepreneurs and those working in the sector, and at funders and potential funders of third sector organisations. It provides a foundation text for those who are studying this sector and want a perspective appropriate both for those who might want to engage in it and for those who might want to work with, but not necessarily in, it. It has been written in the UK but it also refers to developments in other countries, and much of its content should be relevant elsewhere, where people, for whatever reason, wish to know more about the third sector and its context. It seeks to present them with a sound

introduction to the key concepts and issues as a grounding for understanding and work in this area and as a starting point for further explorations of more specialised aspects.

The second edition

In this second edition we have endeavoured to update our reporting on the social economy and the third sector. We have also tried to focus more on the social economy and less on the wider third sector.

We have altered the layout slightly. In particular, we have added a new fifth chapter in which we consider the different paradigms of, and aspirations for, the social economy and what they might mean for its future. This replaces and amplifies the material which was in the Afterword. Other significant changes include:

Part I has been restructured to describe the social economy by considering its past, its present, and its future. Chapter 2 has been redrafted to describe economic evolution and the history of that part of an economy which is neither public nor private. Chapter 3 presents a picture of various aspects of the current position, including for instance Big Society, and Chapter 4 follows that with more detail on definitions and differing interpretations. Chapter 5 has then been added, incorporating much that was in Chapter 10.

Part II has been updated throughout – and the chapters renumbered after the addition of the new Chapter 5. For instance, information on Community Development Finance Institutions (CDFIs) and the Big Society Bank has been added to Chapter 7, a vitamin analogy for social capital has been added to Chapter 8, and policy updates to Chapter 9. Chapter 10 now concludes the book by looking at the impact of the social economy and includes a critique of some of the estimates which have been offered to indicate the scale of the sector.

Thank you

In our work in writing this book we have been conscious of many people who have helped and encouraged us, and others who have been tolerant of the time we have devoted to this instead of to other tasks. There are too many to name here but we owe them all considerable thanks.

Simon Bridge
Brendan Murtagh
Ken O'Neill
Belfast, April 2013

1

why address the social economy?

contents:

- introduction
- interest in the social economy and the third sector
- the appeal and benefits of the social economy
- the agenda of this book

Key concepts

This chapter covers:

- the emergence of interest in the social economy, its scale, and why it might have been overlooked in the past;
- the concept of the third sector and how it relates to the social economy;
- the range of benefits which, it is claimed, the social economy has the potential to deliver;
- the agenda, and layout, of this book.

Learning objectives

By the end of this chapter the reader should:

- understand why interest in the social economy is now growing;
- understand the concept of the social economy, why it might not have been widely recognised in the past, and why interest in it is now growing;
- understand the concept of the third sector and how it links to the social economy;
- appreciate the range of benefits that might be provided by this sector.

Introduction

This book is about an area of organised human activity which has often been overlooked but is now receiving greater recognition. It is an area which has both social and economic impact and is often referred to as the social economy. This, it has been said, ‘constitutes a significant movement worldwide’¹ and has become ‘a prominent field of public policy innovation, directly linking social policy and economic development’.² This link with social policy is often associated with the concept of social capital which the social economy is said to use and to build in the same way that many businesses use and build financial capital. But, although the social economy has been linked to social policy in this way, it is not in the public sector and, despite its links to economic development, it is not in the private sector either (although see the suggestions of Bjerke and Karlsson summarised in Chapter 5). It is therefore said to be, or to form a significant part of, the third sector of an economy. But what exactly are the social economy and the third sector, what is social capital and why is it relevant, why are these issues now of interest, and what is being achieved? These are the types of questions to which this book attempts to provide some answers. Much written material about these subjects tends to be academic, disparate, partial, and/or scattered, so this book attempts to bring key aspects of it together to provide a general introduction for those seeking to learn about it – or a starting point for those who might wish to delve deeper.

If economies are about apportioning resources and if, as has been suggested, the two main means for apportioning resources are the market and the state, what is the role of the social economy? Markets are linked to the private sector and the state to the public sector, so what then is the third sector to which reference is sometimes made, and what has it got to do with the social economy?

Traditional economics sometimes appears to ignore the social economy, apparently seeing no role for it in a modern system. Thus, a recently published book called *Modern Economics* includes the following statement about what is in a mixed economy:

It is convenient to distinguish between the ‘private sector’ and the ‘public sector’. The former consists of those firms which are privately owned. The latter includes government departments, local authorities, and public bodies such as the Environment

Agency. All are distinguished by the fact that their capital is publicly owned and their policies can be influenced through the ultimate supply of funds by the government.³

Thus it seemed to many that, based on the market and the state as the two main means of apportioning resources, the two key parts of an economy were the private and public sectors. Indeed, about 50 or so years ago, the two main options for society appeared to be private sector led, market-based capitalist economies of the sort apparently exemplified by the USA or public sector, state-controlled Marxist/socialist economies of the sort to which the USSR apparently aspired. However, while communist societies sought to abolish the private sector, capitalist societies still saw the need for some state input – recognising, for instance, that there were some things, like defence, which the private sector could not deliver satisfactorily. Also the state was needed to police and balance what might otherwise be the unrestrained power of private sector business.

Marx had seen the dangers of unrestrained capitalist power, but his ideas for a solution led, under communism, to the state takeover of all business. Thus, in those economies, the public sector became all powerful but with no separate monitoring or regulatory force. History, it would seem, has subsequently shown that such forms of unrestrained state power have not worked well. Therefore, to many observers, the ‘capitalist’ system seemed, on balance, to be better able to deliver a rising standard of living, and, around 50 years ago, it seemed that economic development was, and would continue to be, driven by big businesses which could maximise the advantages to be gained from economies of scale. However, John Kenneth Galbraith spoke then of the economic future as ‘big business’ balanced by ‘big labor’ and ‘big government’.⁴ Thus, just as a monopolistic state sector had not worked in communist systems, Galbraith was pointing out the danger of too much monopolistic power accruing to the big businesses which had come to dominate the private sector. But Galbraith was not just suggesting a balance of power between the private and public sectors: ‘big business’ and ‘big government’. He also included ‘big labor’, and the views of ‘big labor’ are often voiced by labour unions, which, it is generally acknowledged, belong in neither the public nor the private sectors.

It is relevant, therefore, to ask whether it is sensible to divide an economy just into the private and public sectors, as suggested by the above quote from *Modern Economics*. A division into sectors implies that clear boundaries can be identified between the sectors, and recognising just two sectors suggests that between them they include all the relevant components. Is the reality not that there is a spectrum of different organisations, some of which may clearly be private sector as usually defined and some clearly public sector but with a variety of organisations lying between them and elsewhere? In a spectrum there are gradations of change with no sharp distinguishing features between different areas: for instance in the light spectrum between say what is clearly red and what is clearly yellow.

Even in the most capitalist of societies there are generally many organisations which do not seem to fit into the private sector yet which are not part of the public sector – and Table 1.1 lists just a few of them. Their capital is not privately owned and, although they may trade, they exist for a social purpose rather than to make money for their owners yet neither are they state/public bodies and so do not belong in either sector. Nevertheless, they have an economic impact and are part of the economy because they spend money, because many of them employ people, and, in some cases, because they generate income by trading. In the past it seems that the dilemma of where they belong in an economy may, to some extent, have been avoided by ignoring them, but now that their impact is being highlighted, that is less easy to do.

Table 1.1 Organisations and activities not in the public or private sectors

Amateur dramatic clubs	Mountain rescue services
Building preservation trusts	National Trust
Co-operatives	Oxfam
Donkey sanctuaries	Professional associations
Enterprise agencies	Quakers
Foundations	Rotary clubs
Golf clubs	Scouts
Hospices	Trade unions
Independent schools	University colleges
St John Ambulance	Voluntary Service Overseas
Knights of St Columbanus	Women's Institutes
Lifeboat service	Youth clubs

Note: The organisations and activities in this table are all part of the economy because they trade, buy things, and/or employ people. However, if the economy is thought only to consist of the private sector, in which organisations trade in order to make profits for their owners, and the public sector, in which organisations use public funding to deliver government services for the benefit of those who need them, then where do these organisations belong? (See also Table 3.1 for an expanded list.)

All of the organisations listed in Table 1.1 have to generate enough income to sustain themselves, but their purpose is not fundamentally concerned with making money. Some of these organisations, such as churches, have been around for a very long time, longer than any private sector businesses, but they have not been widely thought of as comprising a specific sector, possibly, as noted earlier, because of the lack of language with which to make that distinction. Now the words needed are starting to appear, and the terms 'social economy' and 'social enterprise' are often used to refer to this sector, or this portion of the spectrum, and to the organisations within it. However there are, as yet, no agreed standard definitions of these terms, and some consider that not all the organisations listed are social enterprises, or are in the social economy. Therefore, reference is increasingly being made to the 'third sector', to which, it is assumed, all such organisations will belong.

Interest in the social economy and the third sector

Although, as indicated above, for a long time traditional economics seemed largely to ignore the social economy, its importance is now being recognised, at least in government circles (as Case 1.1 suggests). This interest in the social economy and its various ramifications has arisen, however, not because the social enterprises in it are necessarily new types of organisation or are engaging in any new areas of activity, but because there is a new expectation of the potential of this sector of the economy to address some of the problems in, or of, society. Despite this potential, and despite the history of some of the organisations which might now be considered to be in the social economy, it was, until recently, often overlooked in economic analysis, at least in the UK, and there are a number of probable reasons for this:

- *It has been a very disparate area.* The social economy does not have a clear homogeneity, as is indicated by the differing definitions of it (see Chapter 4) and the variety of social enterprises and other organisations within it.

- *There was no agreed vocabulary with which to discuss it.* It is hard to discuss a subject without having agreed words in common with which to refer to it.
- *There was little information about it.* Many social enterprises have been created, operated, and closed without leaving clear records of their presence. They have not been officially categorised, and the statistical information on them which has been collected has been fragmentary and incomplete.
- *Attention has been focused either on the public or on the private sector, or on the comparison between them.* The socialist economic systems of formerly ‘communist’ countries focused on the public sector, and their failure was seen by many to demonstrate the superiority of capitalism and of the private sector. At the same time, in countries such as the US and the UK, which actually had mixed economies, there was an emerging political emphasis on the supposed efficiency of the private sector and its economic development potential. There was an emphasis therefore on enterprise and markets, and a desire, where possible, to transfer activity from the public to the private sector under the banner of privatisation. All this has tended to highlight the economic value of the private sector, and to contrast it with many parts of the public sector and, as a result, to overshadow other areas which were in neither the public sector nor the private sector.
- *Social economy organisations rarely make the headlines.* Almost all social enterprises and other organisations of which the social economy is comprised are relatively small, and few of them receive much publicity, whether for good or bad reasons. It has been the larger private sector organisations which, because of their successes or spectacular failures, have featured in the headlines, often because of the large amounts of money involved. Similarly, large public sector organisations, such as government departments, have also featured in press stories, again often because they have lost money or otherwise been shown to impact on a large scale. In contrast, many social enterprises, because they are small, have not been seen as worthy of individual attention, even when they too have had successes and failures.

However, recently, interest in the social economy has grown, as the perception of the benefits and the economic contribution of the area of activity has widened. This is not unlike the rise of interest in small businesses which occurred in the 1980s. There always had been small businesses since businesses began but it was not until the end of the 1970s, when Birch published the results of his research into employment in the US, that significant interest in them as a distinct sector of business began to develop. The second half of the 1970s was a time of rising unemployment, and so when Birch concluded that it was those small firms employing up to 100 people which had, in the 1970s, created over 80 per cent of the net new jobs,⁵ governments took notice. Not least because of that link to employment creation, small businesses became the subject of much attention and many new programmes. Since the link was highlighted, small businesses have arguably become the most researched and supported part of the business spectrum. Some key dates in the emergence of interest in the social economy have been outlined in Table 1.2.

Indications of the scale and impact of the sector

It was not that social economy organisations had not employed people before the end of the twentieth century, but just that the totality of their economic contribution, and

Table 1.2 Some key dates

Emergence of the co-operative movement in the UK	1880s
Possible first use of the term 'social capital' in the US	1916
First European Conference of Co-operatives, Mutuals and Associations	1978
Establishment of Social Economy Unit within EU DGXXIII	1989
Establishment of the Social Exclusion Unit to help the UK government reduce social exclusion	1997
OECD report on social enterprises	1999
Social Enterprise Unit set up within the UK Department of Trade and Industry	2001
UK Prime Minister Blair hosts a social enterprise breakfast at 10 Downing Street	2002
UK Department of Trade and Industry publishes <i>Social Enterprise: A Strategy for Success</i>	2002
The publication in Scotland of the Scottish Executive's social economy review	2003
Launch of the <i>Social Enterprise Journal</i> , the first journal dedicated to social enterprise	2005
New Office of the Third Sector formed within the UK government's Cabinet Office	2006
Publication by the Office of the Third Sector of the <i>Social Enterprise Action Plan: Scaling New Heights</i>	2006
Publication by the UK government of <i>The Future Role of the Third Sector in Social and Economic Regeneration: Final Report</i> to provide 'a vision of how the state and the third sector working together . . . can bring about real change' and the announcement of an investment of over £500 million 'to make this vision a reality' ⁶	2007
The Office of the Third Sector was renamed the Office for Civil Society (OCS) under the coalition government	2010
UK government announcement of a new fund aimed at enabling public sector workers to create mutuals to take over the running of services	2010
Launch in the UK of Big Society Capital as a £600 million social investment wholesaler to invest in organisations that lend money to charities and social enterprises	2012
Public Services (Social Value) Act requires public authorities in the UK to have regard to economic, social, and environmental well-being when awarding public service contracts	2012

particularly of their employment impact, had not been recognised. However, in 2005, it was claimed that in the UK social enterprises generated about £18 billion in annual turnover and employed more than 775,000 people.⁷ In 2012, it was suggested that these may have been underestimates and that in England there were more than 1.1 million full-time equivalent employees in the sector, equating to over 5 per cent of the workforce.⁸ In the European Union, the European Commission estimated that by 2007 approximately 10 million people were employed in the social economy, that co-operatives had a total of 78 million members, and that at least 109 million Europeans were insured with mutual insurers.⁹ (See Chapter 10 for a fuller critique and exposition of UK statistics and international comparisons.)

The social economy is not the biggest sector of the economy but it is nevertheless a significant sector in many countries. In addition, the social economy appears to be able to provide not just jobs and economic activity but jobs in deprived areas and with

associated social benefits. It appears to be able to respond to opportunities to establish economic activity where the private sector could, or would, not operate. As Amin et al. have suggested,¹⁰ as well as this ability to avail of ‘market opportunities’ to address needs not met by the public and private sectors, there were other expectations of the social economy:

- It had a potential role in building social capital, which was seen as an ability and capacity to enhance economic efficiency and collective engagement.
- It helped to build participatory democracy.
- It supported a counterculture of survival and transformation on the margins of capitalism.

These are among the reasons why the social economy, or the third sector if that terminology is used, matters and why there is interest in it. It is why in the UK the Prime Minister described it, in his introduction to the report on the future role of the third sector in social and economic regeneration, as being ‘at the heart of society’.¹¹

Issues of terminology

Although, as indicated here, there is now considerable interest in the social economy and/or the third sector, noticeably in government and research circles, there is no single clear definition of what the social economy is. The third sector is easier to define as it is generally taken to refer to that area of the economy encompassing those organisations which are in neither the public nor the private sectors. The term ‘third sector’ is thus inclusive – including all those organisations not in the other two sectors. However, the term ‘social economy’ is different as it is often used in a way which excludes those organisations which do not fit within a particular definition – even if they might nevertheless be considered to be in the third sector. Nevertheless, those exclusions are often ignored and the term social economy is used synonymously with the term third sector, although that is not always the case.

The term social economy itself apparently entered the English language only in the late 1980s and early 1990s, having been taken from the French term *l'économie sociale*, and it is generally used to refer to a set of organisations with social purposes which neither are in the public sector nor have the profit-realising objective that typifies the private sector, although they do generate at least some of their income from providing goods or services. Such organisations are often called social enterprises and reference is made to the social entrepreneurs who have created them and to the social entrepreneurship that is demonstrated in their creation. Associated with them, community enterprise and community business are also referred to alongside the voluntary and community sector, and sometimes other terminology is used as well (see Table 1.3). This variety of terms may be a reflection of the interest in the subject although the terms are not only varied but are also varyingly defined – and occasionally the subject of disagreement. (These issues are explored further in Chapter 4.)

The appeal and benefits of the social economy

The above explanation might be summarised as the suggestion that, as well as the public and private sectors, there is in an economy a ‘third sector’, which includes a wide variety of organisations established for social and other purposes, such as the pursuit of artistic,

Table 1.3 Some current terminology in this field

Association	Non-profit
Charity	Not-for-profit
Citizen entrepreneur	Not-for-profit-distribution
Community business	Social economy
Community enterprise	Social economy business
Community interest company	Social economy enterprise
Citizen sector	Social enterprise
Community sector	Social entrepreneur
Company limited by guarantee	Social entrepreneurship
Co-operative	Third sector
Foundation	Voluntary organisation

sporting, environmental, ethical, or cultural objectives. Sometimes referred to as the social economy, or at least said to include the social economy, this sector has the potential to provide a variety of contributions, the recognition and appeal of which explain why interest in it has grown. It is relevant in this introduction to try to list and summarise some of the main benefits claimed for it, although the proclaimed benefits can depend on the perspective from which the sector is viewed, and, in any case, it is not claimed that all organisations in the third sector provide all these benefits.

The provision of goods and services which are free from excessive private sector profit-taking

Some people see the social economy as an alternative to the private sector for the provision of some goods and/or services. In the belief that often the private sector is subject to excessive capitalistic monopoly profits and restrictions, they think that social economy organisations will provide a more equitable or fairer allocation of returns. Thus, for instance, fair trade organisations try to pay Third World producers a fair price and co-operative distributors also try to reduce the potential for excessive middleman profiteering.

The provision of services and social benefits which the public sector does not provide adequately

Social economy organisations often attempt to meet basic needs and to improve people's lives. In the past, hospitals were often in the third sector before there was a public health service, and hospices often still are. Third sector organisations have for a long time been active in the education field, and some still run 'specialist' schools such as faith schools and integrated schools.

Social economy organisations may see the need to act to improve things before governments do, and, currently, that is particularly noticeable in the area of the environment. Schools and hospitals are also examples of initiatives which were pioneered in the third sector and only later taken over by the public sector once they were shown to be addressing a clear need. Social economy organisations are also active in areas such as arts, culture, and sports, which people welcome but which often do not offer enough financial return to attract private sector investment. And, of course, while religion has in the past been

closely aligned with the state in many countries, and might have been considered to have been part of the public sector, it would now generally be considered to be in the third sector.

A means for addressing some problems of the welfare state

An extension of the above benefits is the potential the social economy is seen by some to have to complement public service delivery by addressing some needs without the drawbacks which had become apparent in the welfare state system of public sector provision. Amin et al. suggest a number of reasons why the principle of a universal welfare state was, towards the end of the twentieth century, being reconsidered. These include the following:

- Economic growth was faltering and so the employment prospects of the more excluded were reducing.
- Tax revenues were threatened and objections were being raised to the use of tax revenues for universal welfare and income redistribution.
- The welfare state was seen as a choiceless option and more people wanted choice.
- Political parties were starting to reject the idea of the all-providing state and suggested that it fostered a culture of dependency and entitlement.¹²

For reasons such as these, the social economy has been seen sometimes as having the potential to provide more efficient and more effective delivery of public services.

The provision of jobs for people who might not otherwise be employed

While the private and public sectors also provide employment, the third sector often provides jobs for people who might not find employment easily in either of the other two sectors. Jamie Oliver's Fifteen Foundation deliberately recruits unemployed young people to train for jobs in its restaurants in order to give them a start which they might not otherwise have got. Other social enterprises deliberately try to employ people from disadvantaged areas or people with particular disabilities. Many of these organisations would be categorised as intermediate labour market (ILM) organisations and often access national and European funding for such initiatives.

The fostering of enterprise and innovation

The social economy is thought to help foster new and better ways of doing things, particularly in more marginalised areas. The evidence for this is said to be seen in a positive correlation between the strength of social enterprises and that of the local mainstream economy,¹³ although such a correlation does not indicate what of this is cause and what is effect. It is thus recognised that many individuals wish to display their entrepreneurial abilities through projects with a social purpose. and the third sector can foster such entrepreneurship.

The promotion of environmental sustainability, or ethical operations

Whereas some social enterprises are formed specifically to deliver environmental benefits, others at least try to operate in environmentally sustainable ways or to promote ethical behaviour. A building preservation trust, for instance, may have been formed specifically

to restore a particular building, but it will often try to do so in a way which causes a minimum of consequential environmental damage. Although social enterprises often struggle financially, and so do not want to pay more than absolutely necessary for a good or service, they are not institutionally bound always to select the lowest-cost route and they are often closer to those who might be most affected by their actions. For instance, as already mentioned, fair trade organisations deliberately try to pay an above-market price for their supplies, where the market price is thought to be unfairly low.

The creation of social capital and social cohesion

It has been suggested that social capital is an essential, but often overlooked, prerequisite for success in an enterprising venture, whichever sector it is in. It has also been suggested that it is a lack of social capital that explains why the provision of financial capital, through grants, has often not been enough, on its own, to help ventures in deprived areas. Thus the idea that social enterprises can generate social capital, in parallel with the way that financial ventures can generate financial capital, and that social capital can also help to develop social cohesion, is seen as indicating another important benefit which they have to offer. (For more on this, see Chapter 8.)

Other development help

As well as building social capital, it is also argued that the social economy, and other third sector organisations, can offer services to the local economy or help local developments in other ways. The provision of start-up workspace, work preparation training for unemployed people, and childcare provision are all activities often undertaken by social enterprises, which can, in turn, benefit other businesses in that area.

The ability to reach parts that other initiatives cannot reach

As well as the provision of both economic and social benefits, there is another feature of at least part of the social economy which is often of interest to governments, and that is its geographic dimension. As their name suggests, community businesses are linked to communities, and, although that can refer to an 'interest'-based community, it is usually a place-based concept at least in terms of the employment and other benefits provided by the organisations concerned, and it is the locality focus typical of some social enterprises that is 'the thread that connects them to disadvantaged neighbourhoods'.¹⁴ Governments have noted that many social enterprises and/or community businesses have been established in areas of need, and it has been said that the major objectives of social enterprises are to provide goods and services which the market or public sector is either unwilling or unable to provide, to develop skills, to create employment, and to foster pathways to integration for socially excluded people.¹⁵

There are several aspects of the social economy which, to some extent at least, have been thought to have an impact on deprivation. As a result, as one analysis suggests:

It is becoming seen as a holistic solution for social exclusion in a number of ways. First, by encouraging collective self help, confidence and capacity building, and nurturing the collective values of the economy via socially useful production. Second, by humanising the economy via an emphasis upon autonomy, associated values, and organising the economy at a 'human' scale. Third, by enhancing democracy and participation via a decentralisation of policy to local communities and places. Fourth, by bringing about a greater degree of systemic coherence to the local economy via the

local production and consumption of goods and services. Fifth, by acknowledging the relationships between economy, environment, politics, and society.¹⁶

There has therefore been a tendency to see social enterprise as capable of reaching the parts that other initiatives cannot reach. It is as if it might be a sort of magic bullet for targeting social exclusion and reducing deprivation.

A mechanism for a counterculture

As previous points suggest, there can be a strong political dimension to some of the benefits claimed for the social economy, or at least for some of its components. For some, the social economy offers an alternative to high and/or increasing state expenditure on social services. Others claim that it can provide components of a counterculture to respond to some of the drawbacks of capitalism. Graefe suggests that the social economy was ‘once advanced by social democratic and radical academics as a core element of an alternative to neoliberalism’,¹⁷ and according to Amin et al.:

There is a long utopian tradition in favour of the organisation of society around needs, self-autonomy, and social and ecological balance. This utopian view reacts against the capitalist emphasis on individual greed, profit and market value rather than social need. As Fordism slid into crisis, this counter culture gained momentum . . . (and) some intellectuals even argued that ‘the end of work’ after Fordism offered a major opportunity to shift social organisation in this direction.¹⁸

Summary – the significance of the social economy

Twenty-five years ago, such a list of benefits might have looked a little strange, not because they did not exist, but because few realised that they did exist. Now there is a wider appreciation of the appeal of the social economy and a wider recognition of the benefits it provides. As a result, there is increasing interest in the sector, not just for its social impact and its economic contribution but also, as seen in the different perspectives on its potential, for its political significance. There is thus an increasing appreciation of its potential:

We need to recognise anew . . . the importance of the one to one, face to face, not impersonal but personal care, the support from families, neighbourhoods and voluntary organisations that are often the difference between success and failure and the support that demonstrates both the limits of markets and the limits of state action.

So in future I want . . . a new compact that elevates the third sector as partner, not as . . . a cut price alternative to government, but government fulfilling its responsibilities to fund services and fully valuing the contribution the voluntary sector can make.¹⁹

The agenda of this book

If the wording of the above list of benefits suggests that some of what is claimed about the social economy, and about its links and effects, might be more supposition than proven fact, it is intentional. Because the interest in the sector is relatively new, because there has not yet been an enormous amount of research into it (compared to, say, the small business sector), and because it seems to suit some people’s agenda but not others’, there still appears sometimes to be an element of politics, wishful thinking, and controversy in what is said about it. There is disagreement, for instance, about definitions of the social economy, and there are disputes about what should and should not be considered to be a social enterprise and what constitutes a ‘community’ in a community enterprise.

In any emerging field of study, it takes time for information gained to be analysed, and, despite considerable discussion and research, that information is not always converted into relevant and shared knowledge. Like the example of small businesses already mentioned, when interest in such a field grows, it is not always based on good knowledge, and areas of ignorance will remain. There will be a variety of approaches, alternative theories and opinions, and differing vocabularies. In such an evolving field, it can be hard to find a general introduction to help newcomers to make sense of the debate and to serve as a starting point for further exploration. This book is an attempt to do that.

The evolution and role of the social economy

Because there is such a jumble of definitions and of facts, supposition, and wishful thinking, Part I tries to map out how the social economy has evolved, what its current position appears to be, and how it is perceived. It starts, in Chapter 2, with a look at the history of the social economy, exploring the way in which it might have evolved into its current form.

Chapter 3 looks at the present state of the social economy and at various aspects of its current position. Because of the variety of different views which are held about the sector, Chapter 4 examines the variations in terminology, definitions, and interpretations that have been advanced and/or applied and may therefore be encountered in writing about it.

Finally, in this part, Chapter 5 looks at some different perspectives on the sector and at what they might imply for its future.

The nature of the social economy

Part II then looks at some concepts and issues in more detail in describing the nature of the sector, because it looks at how things behave, how they relate to other things, and how they might therefore be influenced. Chapter 6 examines the characteristics of social economy organisations including their legal structures, aims, methods, and management, and Chapter 7 considers their funding and includes a critique of sources of finance from micro-level support to venture capital, including the role of social business angels and other funding mechanisms.

A key area of potential linkages is explored in Chapter 8, which explores the concept of social capital and the evolution of some of the theories about it and how it might be linked to a wider socio-political concern for the health of civic society. Governments, and other stakeholders, are often interested in influencing and promoting the development of the third sector, so Chapter 9 explores the main issues associated with attempts to advance the social economy including both why this is attempted and the methods that have been used to affect the social economy. At the end of this part, Chapter 10 reviews the impact the sector is supposed to have and the evidence for that impact.

Key Points of Chapter 1

- The social economy has a long history but has, until recently, received relatively little economic attention.
- The language with which to describe the social economy and its components has been limited, but is now starting to evolve.
- Organisations which belong in neither the public nor the private sector of an economy are considered to form a third sector. The social economy can be variously considered to be either a part of this 'third sector' or synonymous with it.

- Interest in the social economy is now growing because it appears that:
 - a) Its size and impact are economically significant.
 - b) It, or parts of it, can provide benefits such as the following:
 - providing goods and services which are free from excessive private sector profit-taking;
 - providing some services and social benefits which the public sector does not adequately provide;
 - providing jobs for people who might not otherwise be employed;
 - fostering enterprise and innovation;
 - assisting environmental sustainability and ethical business; and
 - creating social capital and fostering social cohesion.
 - c) It can provide these benefits for areas and parts of the system that other sectors cannot reach. In particular, it is supposed that it can help to reduce social exclusion and counter deprivation.



Case 1.1 | Official interest in the social economy

One way of documenting official interest in the social economy is by listing initiatives which sought to recognise and/or help it. Here are some of them:

- In October 2001, the UK government launched the Social Enterprise Unit within the (then) Department of Trade and Industry (now the Department for Business, Innovation and Skills – BIS). In May 2006, this was brought together with the Active Communities Unit in the Home Office to form a new Office of the Third Sector, the creation of which reflected ‘the government’s recognition of the value, influence and importance of the third sector’.²⁰
- Also in October 2001, the European Commission established a Social Economy Unit in Directorate General (DG) XXIII.
- In 2002 a book about the social economy introduced it in this way:

Until the 1990s the term social economy hardly featured in English speaking academic and policy discourse, while older terms such as ‘third sector’, ‘non-profit activity’, ‘community business’ or ‘voluntary organisation’ captured something more modest. They described activity on the margins of a mainstream with primarily a welfare function... They were not seen as part of the economy (as they were not motivated by job generation, entrepreneurship, meeting consumer demand, or producing profit), nor were they seen as political (promoting citizenship, or empowerment). Their role was to see to the welfare of the marginalised.²¹

- In 2003, the Scottish Executive published ‘A Review of the Scottish Executive’s Policies to Promote the Social Economy’, which set out ‘the Government’s vision for the social economy... and the strategic priorities necessary to help the social economy realise its full potential’.²²
- In 2006, Invest NI, the Northern Ireland government’s business development agency, announced a two-year programme of support for the social economy sector.
- In 2011, The Department for Social Justice and Local Government of the Welsh Assembly Government commissioned an independent review of funded support for

social enterprise development in Wales. The review's aim was 'to assess the suitability of the current core funding arrangements in supporting the growth and development of Social Enterprise'.²³

- In 2011, in Northern Ireland, the Enterprise Minister released the findings of a report into the social economy sector, a report which 'sought to determine the sector's potential to contribute to the economic regeneration of our communities, and to establish the best mechanism to take this work forward'.²⁴
- In 2011, the UK Secretary of State for Business said at a conference: 'What is it about social enterprise which attracts three ministers and the leader of the Opposition to your event? ... I think the sector is big and growing ... I think it is also important in terms of the Government agenda.'²⁵

Questions, Exercises, Essay, and Discussion Topics

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Many colleges were founded and endowed to provide education. They have to secure enough income from their endowments and the services they provide to maintain their operations. They do not remit profit to individuals and they reuse any surpluses to enhance their activities. Are they social enterprises? 2. Does the language currently available provide clarity or cause confusion | <p>about the social economy and the third sector?</p> <ol style="list-style-type: none"> 3. If the social economy and/or the third sector are so beneficial, why have they been overlooked for so long? 4. What might a government hope to get from its support for the social economy? 5. What would life be like without the third sector? |
|---|---|

Suggestions for further reading

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2. P. Graefe, 'The social economy and the state: Linking ambitions with institutions in Québec, Canada', *Policy and Politics*, Vol. 30, No. 2 (Bristol, UK: The Policy Press, 2002), p. 247.
3. J. Harvey, *Modern Economics* (Basingstoke: Macmillan, 1998), p. 22.
4. J. K. Galbraith, *American Capitalism: The Concept of Countervailing Power* (Boston: Houghton Mifflin Co., 1956).
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18. A. Amin, R. Hudson and A. Cameron, *Placing the Social Economy* (London: Routledge, 2002), p. 8.
19. From Gordon Brown's speech, as Chancellor of the Exchequer, to the Labour Party conference in 2006.
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Part I

The Evolution and Role of the Social Economy