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Beyond the crisis: the social economy, prop of a new model of sustainable economic development

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Abstract This article analyzes the social economy (SE) as a third major sector between the public economy and the capitalist private economy. It examines the SE concept, compares it with the nonprofit sector and analyzes its microeconomic foundations, functions in the economic system and implications for economic policy. The field of economic analysis needs to be broadened, abandoning the mainstream monism that emphasizes the study of capitalist private enterprises and taking a plural view of the economy. In this approach, other forms of business organization, particularly SE enterprises, become a priority for analysis, opening up new scientific, social and economic vistas.

Keywords Social economy · Third sector · Cooperatives · Nonprofit sector · Concept · Functions · Policy support

1 Introduction

The basis for the institutional model of global growth and markets in which companies operate to maximize profits, leaving little space for public intervention or for other forms of enterprise, a paradigm which has been termed *market fundamentalism*, has been called into question more than ever in recent years, most obviously during the latest crisis to convulse the international financial system and with it the national economies. Indeed, the problems of coevolution in the

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economic system, which were already structural—the environment, the struggle to stamp out hunger and poverty and the inability to bring all too many regions and populations onto the path of development—have been joined by deep, newly-created imbalances with not only economic but also political and ethical significance. The orthodox recipes for this model based on applying structural macroeconomic adjustment policies have been applied in many countries recently, but not only have they not provided effective solutions, they have actually accentuated the imbalances.

In this situation the idea of rethinking the institutional model, moving beyond this paradigm in the direction of more plural and balanced economies, has gathered strength in scientific, political, and institutional circles. In a new, pluralist view of the economy, greater value is placed on the roles of the public sector and of the different forms of enterprise and organization that make up the SE (SE). Stiglitz (2009), one of the most prestigious economists of our times, is quite clear on the subject: '*a massive re-thinking of the role of the government and of the market is necessary not only to propose large-scale public intervention in the economy but also to recast the role to date assigned to for-profit enterprises* (… *and*) *It is necessary to find a new balance between markets, governments and other institutions, including not-for-profits and cooperatives, with the objective of building a plural economic system with several pillars*'. For their part, international institutions such as the European Economic and Social Committee are also arguing for this new vision. The European Economic and Social Committee's own-initiative opinion on the 'Diverse forms of enterprise' (2009/C 318/05) states that 'The pluralism and diversity of the different forms of enterprise are valuable aspects of the European Union's heritage and are crucial to achieving the aims of the Lisbon Strategy for growth, jobs, sustainable development and social cohesion based on maintaining and developing the competitiveness of enterprises. Protecting and preserving this diversity are of the utmost importance to guarantee competitive markets, economic efficiency and the competitiveness of the economic agents, as well as maintaining the EU's social cohesion'.

The common denominator in this new current of thought lies in leaving behind the monistic idea of the economy, typical of the market fundamentalist paradigm, and moving towards a pluralist view in which other forms of private enterprise and organization that are not guided by the profit maximization logic, such as cooperatives, not-for-profit organizations and social enterprises, coexist with capitalist companies and the public sector, occupying more balanced spaces. This change of viewpoint broadens the field and the priorities for analysis, extending them to other forms of organization, particularly the *social economy*, and demanding the study of their differentiated nature, their working logic and their role in the economic system, all of which have only been marginally touched upon by mainstream economics (Borzaga et al. 2011).

The first part of this article defines the SE conceptually as the third major institutional sector in a plural economy. This demarcation makes it possible to establish the microeconomic foundations for the behaviour of these types of enterprise through the three key questions for typifying organizations: their objectives, their decision-making criteria and who benefits from their activity or from their surpluses. The concept is then analysed from three points of view: firstly, contrasting it with rival definitions and expressions to depict this third sector, secondly, examining the historical evolution of the concept and thirdly, studying the statistical, regulatory and national accounts implications.

The second part of the article examines the microeconomic bases of SE companies and organizations, comparing them with those of traditional capitalist private companies. A study of the mesoeconomic and macroeconomic consequences that ensue from their behaviour patterns reveals that the economic, political and social functions of SE enterprises are clearly different from those of equivalent capitalist enterprises and generate important social value added. The fact that these microeconomic patterns of behaviour generate differentiated macroeconomic effects not only justifies a review of economic theories, particularly those concerning market failures, but also has implications from the point of view of economic policy, in the sense of facilitating mass deployment of these forms of enterprise in the different economies to achieve higher levels of welfare and encourage a new model of economically and environmentally sustainable development.

2 The social economy: between the public economy and the capitalist economy

2.1 Historical evolution of the social economy concept

As an activity, the SE is historically linked to popular associations and cooperatives, which constitute its backbone. The system of values and principles of conduct of the popular associations, synthesized during the history of the cooperative movement, are those which have served to formulate the modern concept of the SE. This is structured around three broad families of organizations: cooperatives, mutual societies and associations, and a recent addition, foundations. In reality, at their historical roots these families were intertwined expressions of a single associative impulse, the response of the most vulnerable and defenceless social groups, through self-help organizations, to the new conditions of life created by the development of industrial capitalism in the eighteenth and nineteenth centuries.

The great nineteenth century surge in associations, mutuals and cooperatives in Europe and America has been well analysed by a number of researchers, including Gueslin (1987) and Solà i Gussinyer (2003). The extraordinary influence that the cooperative movement and its operating rules have had in forming the concept of the SE can be gauged very precisely from the studies of Monzon (1989, 2003), Vienney (1966) and Desroche (1991). The famous *Co-operative Principles* that governed the Rochdale Equitable Pioneers Society, set up ìn 1844, have been decisive in the development of the modern concept of the SE. Inspired by these principles, cooperatives from all over the world gathered in London in 1895 and created the International co-operative alliance (ICA).

Following the 1995 Congress of ICA, held in Manchester, these *Principles* identify cooperatives as democratic enterprises in which the decisions are in the hands of a majority of user members of the cooperativized activity, so investor or capitalist members, if any, are not allowed to form a majority and surpluses are not allocated according to any criteria of proportionality to capital. Equal voting rights, limited compensation on the share capital obligatorily subscribed by the user members and the creation in many cases of indivisible reserves that cannot be distributed even if the organization is dissolved are further aspects in which cooperatives differ from capitalist companies.

From Rochdale onwards, cooperatives have attracted the attention of different schools of thought. Indeed, crossing ideological boundaries and analytical pluralism are amongst the characteristics of writings on this phenomenon. Socialists, utopians, Ricardian socialists, social Christians (both Catholic and Protestant) and social liberals, as well as eminent classical, Marxist and neo-classical economists, have analysed this heterodox type of company profusely.

The term *social economy* appeared in economics literature, probably for the first time, in 1830. In that year the French liberal economist Charles Dunoyer published a *Treatise on social economy* that advocated a moral approach to economics. Over the 1820–1860 period, a heterogeneous current of thought which can collectively be termed 'the social economists' developed in France. Most of these social economists were influenced by the analyses of T. R. Malthus and S. de Sismondi, as regards both the existence of 'market failures' that can lead to imbalances and the delimitation of the true object of economics, which Sismondi considered to be man rather than wealth. However, most of them must be ascribed to the sphere of liberal economic thinking and identified with laissez-faire principles and with the institutions, including capitalist companies and the markets, that the emerging capitalism was to consolidate.

Social economics underwent a profound reorientation during the second half of the nineteenth century, through the influence of John Stuart Mill and Leon Walras. In his *Principles of Political Economy*, J. S. Mill examined the advantages and drawbacks of workers' cooperatives in detail and called for this type of company to be encouraged because of its economic and moral benefits (Monzon 1989).

Leon Walras' *Études d'économie sociale* (Walras 1898), not only considers the SE part of science ('that part of the science of social wealth that addresses the distribution of this wealth between individuals and the State') but views it as a field of economic activities in which cooperatives, mutuals and associations abound, just as we know them today, and outlines the main features of the present-day concept of the SE, inspired by the values of democratic associationism, mutualism and cooperativism.

2.2 Identification of the social economy by its leading members

The most recent definition of the features of the SE identity drawn up by its leading figures is the *Social Economy Charter* published in June 2002 by the European Standing Conference on Co-operatives, Mutual Societies, Associations and Foundations (CEP-CMAF), known as social economy Europe (SEE).

The principles in this Charter are:

- The primacy of the individual and the social objective over capital
- Voluntary and open membership

– Democratic control by the membership
– The combination of the interests of members/users and/or the general interest
– The defence and application of the principle of solidarity and responsibility
– Autonomous management and independence from public authorities
– The essential surplus is used to carry out sustainable development objectives, services of interest to members or of general interest.

These principles have also been adopted by the main EU institutions, including the European Economic and Social Committee (Opinion of 1 October 2009 on Diverse Forms of Enterprise) (CESE 2009) and the European Parliament (Report of 26 January 2009 on Social Economy).

2.3 A conceptual delimitation of the social economy in accordance with national accounts systems

In spite of the considerable importance of SE enterprises, few reliable, precise and comparable data on them is available, although great advances have been made in recent years. There are two main reasons for this institutional invisibility of the SE. The first is that the two principal national accounting systems currently in force, the United Nations' 1993 SNA and the European Union's 1995 ESA, do not recognize the group of economic operators that comprise the SE as a separate institutional sector. However, the European Commission recently published a *Manual for drawing up the Satellite Accounts of Companies in the Social Economy* (*co-operatives and mutual societies*) (Monzon and Barea 2007) which is making it possible to obtain consistent and reliable data from a very significant part of the SE, made up of cooperatives, mutual societies and other similar enterprises.

In 2003, United Nations also published a manual (*Handbook on Non-profit institutions in the system of National Accounts*) that made it possible to prepare homogeneous statistics on the nonprofit sector, which includes an important large group of SE organizations, mostly composed of associations and foundations (United Nations 2003).

The institutional invisibility of the SE can also be explained by the lack of a clear, rigorous concept of this sector that is suitable for use in national accounts systems. Consequently, it is important to define the SE on the basis of analysing the behaviour of SE actors, disregarding legal and administrative criteria and identifying the resemblances and differences between them and between these and all other economic agents.

The European Commission's Satellite Accounts Manual, which combines the historical principles and defining values of the SE with the methods of the current national accounts systems (the 1995 ESA and the 1993 SNA), has played an important part in the conceptual delimitation process. Based on the criteria set out in the Satellite Accounts Manual and broad political and scientific consensus, the European Economic and Social Committee's Chaves-Monzón Report (Chaves and Monzon 2008) contains an operative working definition which is making it possible to quantify the main aggregate data on SE organizations and make them visible in a homogenous, internationally harmonized form. This definition states that the SE is:

'The set of private, formally-organized enterprises, with autonomy of decision and freedom of membership, created to meet their members' needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses amongst the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote. The SE also includes private, formally-organized entities with autonomy of decision and freedom to join that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them'.

This definition, which is consistent with that of the SE organizations themselves, comprises two major subsectors: market producers and non-market producers. This classification is very useful for drawing up reliable statistics and analysing economic activities in accordance with the national accounts systems currently in force, notwithstanding the close ties between market and non-market in the SE that result from a feature that all SE organizations share: they are organizations of people who conduct an activity with the main purpose of meeting the needs of persons rather than remunerating capitalist investors.

2.4 Identification of the actors included in the social economy concept

Both the European Commission Manual and the Chaves-Monzón Report analyse the conceptual delimitation of the SE given in the preceding section in detail, identify the main actors and group them into the two major subsectors (market and non-market). The features that both subsectors share are (Monzon and Chaves 2008): private, formally-organized entities with autonomy of decision, freedom of membership and democratic decision-making processes in which if there is any distribution of profits or surpluses, it is not proportionate to the capital or fees contributed by the members but in accordance with the members' activity in the organization.

2.4.1 Market subsector

The market subsector of the SE is made up, essentially, of cooperatives, mutual insurance and mutual provident societies, company groups controlled by SE organizations and other similar enterprises and integration enterprises and non-financial corporations under the majority control of their workforce that have democratic decision-making processes and equitable distribution of profits. In some countries there are also savings and credit companies and savings banks which fit the definition of 'SE companies' given here.

As well as the features mentioned above, SE enterprises in the market subsector possess the following characteristics:

(a) They are created to meet their members' needs through applying the principle of self-help, i.e. they are companies in which the members and the users of the activity in question are usually one and the same.

(b) They are market producers, which means that their output is mainly intended for sale on the market at economically significant prices.
(c) Whilst they may distribute profits or surpluses amongst their user members, this is not proportional to the capital or to the fees contributed by the members but in accordance with the member's transactions with the organization.

2.4.2 Non-market subsector

The great majority of this sub-sector is made up of associations and foundations, although organizations with other legal forms may also be found. It comprises all the SE organizations that the national accounts criteria consider non-market producers, i.e. those that supply the majority of their output free of charge or at prices that are not economically significant. They are private, formally-organized entities with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them. In other words, these are nonprofit organizations in the strict sense of the term, since they apply the principle of non-distribution of profits or surpluses (the non-distribution constraint) and, as in all SE entities, individuals are the true beneficiaries of the services they produce.

Most of these organizations operate democratically, although some may lack democratic structures. In this last case, the SE also includes what is known as the *social action third sector*, which provides social or merit goods of unquestionable social utility free to households.

2.5 Other theoretical approaches related to the social economy concept

The *Third Sector* (TS) is an expression that has become a meeting point for different concepts, fundamentally the 'nonprofit sector' and the 'social economy', which despite describing spheres with large overlapping areas, do not coincide exactly.

As well as the *Nonprofit Organization* (NPO) approach, there have been other developments in theory which have led, in substance, to identifying actors that can be placed without problems in the sphere of the SE: solidarity economy (Laville 1994), third sector of social utility (Lipietz 2001), social enterprise (Borzaga and Defourny 2001), corporate social responsibility approach (García-de-Madariaga et al. 2010), etc.

Because of the importance of the Nonprofit Organization approach, it is worth pausing to examine it and compare it with the SE approach.

2.5.1 The nonprofit organization approach

This approach, which originated in the English-speaking world, only covers private organizations which have founding rules (articles of association, bylaws etc.) forbidding them to distribute surpluses to those who founded them or who control or finance them (Weisbrod 1975).

The nonprofit sector has been defined more precisely through work at Johns Hopkins University (Salamon and Anheier 1997) which defines the nonprofit sector sphere on the basis of five criteria: (a) organizations, (b) private, (c) self-governing, (d) non-profit-distributing, (e) with voluntary participation.

The United Nations has published a *Handbook on Non-Profit Institutions in the System of National Accounts* (*NPI Handbook 2003*) which defines the nonprofit sector in terms of Salamon and Anheier's criteria. It considers this sector to be made up of a broad and varied set of nonprofit institutions, excluding such important organizations as cooperatives, mutual societies and social enterprises, amongst others.

Although the SE approach and the NPO approach coincide in many ways, there are also important differences between them.

2.5.1.1 The nonprofit criterion In the NPO approach, all the organizations that in any way distribute profits to the persons or organizations that founded them or that control or fund them are excluded from the TS. In other words, TS organizations must apply the non-distribution constraint strictly. As well as not distributing profits, the NPO approach demands that TS organizations be not-for-profit, in other words, they may not be created primarily to generate profits or obtain financial returns.

In the SE approach, the nonprofit criterion in this sense is not an essential requirement for TS organizations. Obviously, the SE approach considers that many organizations which apply this nonprofit criterion strictly belong to the TS: a broad sector of associations, foundations, social enterprises and other nonprofit organizations serving persons and families that meet the NPO nonprofit criterion and all the SE organization criteria established in the Chaves-Monzón Report. However, whereas cooperatives and mutual societies constitute a decisive nucleus of the SE, in the NPO approach they are excluded from the TS because most of them distribute part of their surpluses amongst their members.

2.5.1.2 The democracy criterion A second difference between the NPO approach and the SE approach is the application of the democracy criterion. The NPO approach's requirements for considering that an organization belongs to the TS do not include such a characteristic element of the SE concept as democratic organization. Consequently, in the NPO approach the TS includes many, very large nonprofit organizations that do not meet the democracy criterion and are consequently excluded from the TS by the SE approach. Indeed, many nonprofit institutions in the non-financial corporations and financial corporations sectors that sell their services at market prices do not meet the democratic organization principle. These nonprofit organizations, which are considered part of the TS by the NPO approach and not by the SE approach, include certain hospitals, universities, schools, cultural and art bodies and other institutions which do not meet the democracy criterion and sell their services on the market whilst meeting all the criteria required by the NPO approach.

In the SE approach any nonprofit entities that do not operate democratically are generally excluded from the TS, although it is accepted that voluntary nonprofit organizations which provide non-market services to persons or families free of charge or at prices which are not economically significant can be included in the SE. These nonprofit institutions justify their social utility by providing merit goods or services free to individuals or families.

2.5.1.3 The criterion of serving people Finally, a third difference lies in the intended recipients of the services provided by the TS organizations, as their scope and priorities differ between the NPO and the SE approaches. In the SE approach, the main aim of all the organizations is to serve people or other SE organizations. In first tier organizations, most of the beneficiaries of their activities are individuals, households or families, whether as consumers or as individual entrepreneurs or producers. Many of these organizations only accept individuals for membership. On occasion they may also allow legal persons of any type to become members, but in every case the SE's concerns centre on human beings, who are the reason for its existence and the goal of its activities.

The NPO approach, on the other hand, has no criterion that considers service to people a priority objective. Nonprofit organizations can be set up both to provide services to persons and to provide them to the corporations that control or fund these organizations. First-tier nonprofit organizations can even be composed exclusively of capital-based companies, whether financial or non-financial. As a result, the field analysed by the NPO approach is very heterogeneously defined.

In short, the above resemblances and differences between the NPO and SE approaches, together with the existence of a shared space composed of organizations included by both, make it possible to appreciate important conceptual and methodological divergences which prevent the TS from being formed by simply adding together the groups of organizations considered by the two approaches.

3 The role of the social economy in a three-sector economy: from microeconomic foundations to macroeconomic functions

3.1 The social economy and the microeconomic foundations of enterprises and organizations

In organization theory, the different types of company are described according to three criteria: the company or organization's objectives, the way in which they take decisions and the way in which their profits or surpluses are distributed.[1] Their

[1] Gui (1991) proposes a similar approach to distinguishing between organizations when he classifies economic agents into two categories: the dominant category and the beneficiary category. The dominant category is that of the economic agent with the ultimate decision-making power, whilst the beneficiary category refers to the economic agent which mainly benefits from the organization's activities or takes its profits or surpluses. For instance, in capitalist companies the capital investor is assigned both the dominant and the beneficiary role. In the social economy, the organizations in which the same economic agent occupies both the dominant and the beneficiary category (as in farm or workers' cooperatives) are mutual or internally-oriented in nature, whilst those in which the categories are occupied by different economic agents (as in development aid foundations, controlled and funded by donors in the developed world and whose beneficiaries are in the third world) are altruistic or externally-oriented.

different answers to these three touchstones define the different types, each with its own model of microeconomic behaviour.

When these criteria are applied to traditional private companies, they are found to be characterized by the objective of maximizing profits and by the logic of decision-making and profit distribution in proportion to the capital invested. In other words, capital is the key element in these companies and guides their microeconomic behaviour pattern. Mainstream economics, which has studied their microeconomic foundations at length, sees these companies as being highly efficient at producing goods and services but also as generating negative collateral effects, which have been termed 'market failures'. For its part, public economic action has made the deployment of this type of company a priority, setting up a system which is favourable to them and intervening in the economic process to correct their failings. As mentioned in the introduction, however, this has not been effective in correcting major economic and social problems. Moreover, it has restricted and encumbered the development of other forms of private production with a high potential to generate social utility.

It is worth spending a little time on market failures. We would argue that their cause lies not in the market but in the microeconomic foundations of capitalist companies. For instance, the unequal distribution of income and wealth in the capitalist system is a direct result of the form that microeconomic profit distribution takes in capitalist companies; the inefficient assignment of resources to attend to insolvent social demands for merit goods (such as social services for vulnerable or socially-excluded population groups) is a result of these types of company's needing to obtain and maximize profits, which these demands cannot bring forth; and, similarly, the inability to mobilize all the available economic resources (particularly the entire workforce), the generation of unequal growth in different regions and the externalization of considerable social and environmental costs to the rest of the economy are mesoeconomic and macroeconomic effects which are directly linked to the microeconomic foundations of these dominant private enterprises.

From this point of view it is a mistake to speak of market failures. The market is the institutional environment in which economic agents operate and these agents can be maximizers of profits, or not. It is more exact to link the above failures to the canonical capitalist form of enterprise.

As will be seen here below, other forms of enterprise with different patterns of behaviour, SE enterprises for instance, exhibit very different macroeconomic effects.

Moving beyond a monist view of the economy, and market fundamentalism with it, does not only imply expanding the object of study and paying greater attention to the way in which other forms of enterprise work, with their possibilities and limitations, as Stiglitz (2009) notes: '*we have focused too long on one particular model, the profit maximizing firm, and in particular a variant of that model, the unfettered market. We have seen that model does not work, and it is clear that we need alternative models. We need also to do more to identify the contribution that these alternative forms of organization are making to our society, and when I say that, the contribution is not just a contribution to GDP but a contribution to satisfaction*'. It also implies the need to change the methodological focus of analysis to one with greater heuristic potential. The methodological foundations of the dominant paradigm are well known to rest on the following pillars: methodological individualism as the analytical approach, in the concrete form of a *homo economicus* whose behaviour is rational and his motivations material, the predominance of static analyses divorced from their historical and institutional contexts of beliefs and value systems and from the power balances in economic processes, and the universality of economic theories and the sufficiency of purely economic analysis. This methodological approach has proved useful for explaining the behaviour of private companies that are guided by profit maximization and of the individuals who are most functional within this logic.

However, enterprises and individuals that have questioned it, through the presence of atypical phenomena such as altruism, reciprocity or the collective interest, marked by their own value systems and beliefs, have systematically been left out of the analysis. All these phenomena are bound up with many human behaviour patterns and other forms of enterprise, particularly SE enterprises. The new view of economic pluralism demands breaking through the restrictions of traditional economic analysis, as has already been done by a number of currents of economic thought such as evolutionist and institutional theories and behavioural economics, with its intrinsic and extrinsic motivations, and the great majority of the social scientists who, down the years, have addressed the SE as a subject of study. To grasp a broader and more complex reality requires individualistic, non-restrictive (limited rationality, *homo benevolente*, etc.) or directly holistic analytical approaches, consideration of the dynamic, historical and power dimensions and, as far as possible, seeking cross-disciplinary dialogue, whilst always bearing in mind that the theories devised are socially and institutionally influenced (Chaves 1999).

Three main forms of private enterprises and organizations other than capitalist companies that have been identified in the economics literature are not-for-profit organizations, member-based enterprises (such as cooperatives and mutuals) and SE enterprises.

In *not-for-profit organizations*, the defining feature is the non-distribution constraint. This constraint or principle has a direct effect on the objective/function and the distribution criterion of these organizations. The main consequence of its application is the negation of the behavioural logic of capitalist private companies, and since capitalist investors cannot receive a return on their investments or establish their logic of maximizing profits, they will have an incentive to minimize their presence in this type of environment. In contrast, the members or founders of the not-for-profit organization establish its three microeconomic foundations, from which a plurality of objectives and, therefore, of forms of enterprise emerge (to paraphrase Young 1983: ‘*if not for profit, then for what?*’). This concept finds an explanation for nonprofit organizations set in motion by *idealistic entrepreneurs* who see them as a way to institutionalize their project of social or general interest and attract resources and people with similar values, beliefs or interest, as well as for organizations set up by *social entrepreneurs* such as social, religious or political groups that compete to gain socio-political ground or join together to satisfy, collectively and under their control, needs that are not being adequately met by the other two institutional sectors. The rationale of these organizations moves beyond the logic of maximizing profits and opens up a broad gamut of forms of enterprise.

For their part, *member-based enterprises*, most obviously cooperatives with their well known Co-operative Principles, are characterized by the following microeconomic foundations: the object of the organization is to provide a service or utility (such as work or a merit good) to its members, the members' equitable participation in the decision-making process is ensured (the one member, one vote rule), and any distribution of surpluses and profits is proportionate to the use of the service or utility provided by the enterprise. This behaviour pattern makes it possible to bring out phenomena such as internal solidarity, the collective interest and reciprocity, and broadens the possibilities for forms of enterprise along the lines of worker cooperatives, consumer cooperatives, farm cooperatives, housing cooperatives, credit cooperatives and mutual insurance companies, etc., each with objectives/functions that are bound up with the motives and interests of specific social groups—their members—whose demands are not satisfied adequately by the other two institutional sectors and who seek other solutions in the SE.

Finally, with the aim of integrating the two preceding concepts, the *social economy enterprises* approach as explained above in section 2 responds to the three defining criteria of organizations as follows: their aim is to serve their members and/or society, their decision-making process ensures balanced participation by members and other agents with an interest in the purpose of the organization but the interest of capitalist investors can never prevail and, finally, the way in which they distribute any profits or surpluses gives priority to people and work rather than to capital.

The microeconomic foundations of these three forms of social enterprise and organization means that they play roles of their own in the economic system that are quite distinct from those of capitalist companies. Economics research has studied these roles from the point of view of nonprofit organizations and market and public sector failures (Hansmann, Weisbrod), the share economy (Weitzman, Kruse), socioeconomics (Vienney, Demoustier) and the externalities of the SE (Fraisse, Greffe, Chaves and Monzón). They will be examined in the next section.

3.2 Macroeconomic functions of the social economy

3.2.1 The nonprofit sector and the institutional failures approach

The mainstream of the nonprofit organizations approach has argued that nonprofit organizations have a greater capacity than the other two institutional sectors (public and capitalist private) to satisfy certain demands for public and private goods.

Hansmann (1980), following Arrow (1974), argued that in markets for private goods with information asymmetries between suppliers and demanders, such as social services for people with mental disabilities or old people or kindergartens for young children, whether or not these goods are under-supplied depends on the behaviour pattern of the supplier. If the supplier is a profit-maximizing company it will have an incentive to make use of its market and product knowledge advantage at the expense of the consumer because it is able to appropriate this advantage. In these situations the consumer will distrust the supplier and will tend to consume fewer of these goods. However, if the offerer is a nonprofit organization it is impelled to not distribute profits and will therefore have no incentive to exploit its information advantage, so consumers will prefer this type of offer because they will not be afraid of being cheated.

Weisbrod (1975) and James (1987) argued for the nonprofit organizations' capacity to offer public or collective goods. As these are supplied jointly, the difficulty in discriminating between their users leads to the well-known problem of the 'free rider'. When this problem arises, private for-profit companies find it difficult to make all the users pay for the service and their profitability falls. The public sector, on the other hand, uses taxes to make everyone fund the public good. However, public supply fails in some cases. In what conditions does this occur? In a democracy, public supply responds to the preference of the average voters, who make up the majority. When there is an excess of demand or it is heterogeneous, in other words, when demand considerably outstrips public supply or society makes very fragmented demands (e.g. different types of education or social and health services), the public sector fails to meet them. It offers public goods to the majority but neglects large minorities. Since the free rider problem is not a problem for nonprofit organizations, as their objective is not to maximize profits, they can make up for the shortfalls of the other two institutional sectors. The public subsidies and voluntary resources they mobilize help to fund non-solvent demands and those of the free riders.

3.2.2 The share economy

The share economy theory developed by Weitzman (1984) and followers such as Kruse (1994) argues that profit-sharing companies have the potential to improve both macroeconomic and microeconomic performance. According to this theory, profit-sharing companies are defined as those in which the employees (and, by extension, worker-members), share in the profits, in the decision-making processes and in setting objectives. Thanks to these microeconomic foundations, during economic crises they favour wage adjustment mechanisms rather than reducing their employment levels. This corrects two major classic market failures: firstly, by assigning their production resources better they achieve lower unemployment levels and, secondly, by maintaining greater business stability they manage to buffer the economic cycles. At a microeconomic level, these self-same microeconomic foundations and the group incentives they generate tend to stimulate the efforts, involvement and cooperation of employees and worker-members, the exchange of information and ideas and a willingness to make sacrifices (wages, working hours, commitment), all of which bring increased productivity, output and quality.

3.2.3 The socioeconomics approach and system regulation functions

The socioeconomics approach (Demoustier 1999; Vienney 1994; Levesque and Mendell 1999) sees the SE as a set of institutions with a "*socioeconomic logic of the organization of production and exchanges that seeks to satisfy social needs through mobilizing a group of people on a democratic, solidary and nonprofit basis and is characterized mainly by mutualizing the risks, skills and resources*" (Demoustier 1999, p. 32). The social economy's functions go well beyond the Anglo-Saxon world's view of the nonprofit sector and the institutional failures approach, which consider that they only provide answers where the public and the capitalist private sectors fail. In fact, they extend, replace and/or complement the activities of both these sectors, contributing new answers, innovating in products, processes and forms of organization and foster the involvement of and control by the workforce and the users. In this view, the SE fulfils three important functions in the system, regulating the supply of goods and services, regulating the labour market and regulating the capital market.

Consumer cooperatives, mutual provident societies and associations have historically opened up markets for goods and services, generally merit goods, and contributed to their statutory regulation, to bringing prices down, to improving quality and to making them accessible to large segments of the population that were previously excluded from their consumption, in sectors such as housing and construction, the consumption of everyday goods, tourism and leisure, social insurance and the social and health services (Chaves and Sajardo 1997; Sanchis and Ribeiro 2010).

The function of regulating the labour market has been shown in various ways (CIRIEC 2000; CICOPA 2009; Diaz and Marcuello 2010; Basterretxea and Albizu 2010): by the greater business and employment resilience of worker-owned companies (particularly worker cooperatives and labour companies) in times of crisis and adjustment, defending jobs; by the recognition and institutionalization of new occupations and qualifications (such as social workers or socio-cultural events organizers); by making the labour market more fluid by facilitating access to employment, through social and integration enterprises, for people who are labelled unemployable; by making work more flexible through collective management of the working hours and jobs within the company; or by reshaping employment through fostering new types of entrepreneur (worker-entrepreneur, social/collective entrepreneur) and developing paths to professionalism and from volunteering to paid work. This regulation has also taken place in agriculture and the countryside. Farm cooperatives have been key agents in the structural adjustment of the agricultural sector and in rural development, undertaking major agricultural restructuring, modernization and industrialization processes and maintaining and diversifying the productive and social fabric in rural areas (Julià and Melià 2008; Melià et al. 2010).

Finally, the function of regulating the capital market is shown by the social economy's ability to achieve financial inclusion for large segments of the population who are excluded from the traditional banking sector, by its being a prime path to public funding and subsidies for people with scant resources, and by its collective control of the financial flows generated by the work and the organizations of the SE (such as salary and pensions funds, ethical and social banks, credit cooperatives and the reserves and other funds from the profitable operations of cooperatives and mutuals). Also, the credit cooperatives have behaved in an exemplary fashion during the current recession. They were not responsible for this international financial crisis and have not felt its impact as strongly as other financial institutions, but have maintained healthier balance sheets and continued to fulfil their function of providing credit and financial inclusion (Demoustier 1999; Palomo et al. 2010; Melian et al. 2010).

3.2.4 The social economy externalities approach

A fourth perspective for analyzing the macroeconomic effects of the SE is based on the theory of externalities, which owes much to the work of A. Pigou.[2] SE enterprises are considered prototypical of companies which generate positive externalities in many areas (Fraisse et al. 2001; Greffe 2007). However, in practice the externalities theory's justification of public intervention requires calculations and assessments of costs and benefits. At this point, in the context of assessing the SE, despite accepting the interest of the externalities approach, a number of authors consider it too narrow and have introduces new, broader concepts such as social value added and the social utility of the SE (Bouchard 2009). The spheres in which the impact of the SE is assessed have been extended beyond the strictly economic ones of producing goods and services to others, including social and political areas, by devising new assessment methods and indicators that highlight the multidimensional nature of its effects.[3]

The main spheres in which SE enterprises have been shown to have social benefits are: from an economic point of view, in correcting the various imbalances in the labour market, in producing merit goods, in local development and self-government, in social cohesion and the fight against poverty and exclusion, in social innovation, in democratizing the business function and contributing to a fairer distribution of income and wealth; from a political point of view, in improving the efficiency of public policies and extending democracy and citizen involvement; and from the social point of view, in their ability to generate and maintain social capital and the social fabric and to generate and develop civic values (Berger and Newhaus 1977; Chaves and Monzon 2008; Van Der Meer and Van Ingen 2009; Enjolras 2010). Table 1 briefly summarizes these functions of the SE.

3.3 The failures of the social economy

The modus operandi of SE companies is not all positive. From the microeconomic point of view it too tends to generate some problems, which have also been analysed in the economics literature (Seibel 1989; Sajardo and Chaves 2006; Tomas-Carpi 1997; Monzon and Chaves 2008). The first and probably the most important problem, as pointed out above, is the typical economic and financial weakness of

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[2] An externality exists when the consumption or production of a good or service by a company has positive or negative effects for third parties. The external effects are positive when they generate social benefits for the rest of society which has not borne the cost, and negative when the company exports its private costs and appropriates the benefits that are generated. Pigou took this market failure as a justification for public intervention, which internalizes externalities in two ways: by taxing the companies that generate negative externalities (such as those which pollute the environment) and by subsidizing those that generate social benefits (such as social action organizations favouring disadvantaged people).

[3] There is a strong analogy with improvements in the national accounts systems to measure wealth and welfare that leave the classic GDP a long way behind. The Commission on the Measurement of Economic Performance and Social Progress, of which Nobel prize-winners such as Stiglitz and Sen are members, is reviewing these measuring systems (http://www.stiglitz-sen-fitoussi.fr).

Table 1 Functions of the social economy

Function	Content
Economic	Correcting failures in assigning supplies of goods and services (private and public goods)
	Fairer income and wealth distribution and fighting poverty
	Correcting failures in assigning resources (capital, work, business function).
	Regulation of economic cycles
	Combating monopolies and practices that restrict competition
	Correcting the unequal distribution of spatial growth and local development
	Generating positive externalities and internalizing negative externalities
	Correcting failures linked to technical and production change (innovation, restructuring of production sectors and the business fabric)
Political	Greater democracy (in both extent and quality) and active citizenship. allows under-represented interests to be expressed and represented. creates public spaces for deliberation. constitutes spaces for acquiring public skills and virtues (schools of democracy)
	Improving the efficiency of public policies
Social	Generating and maintaining social and relational capital
	Generating social cohesion rather than social, consumer and financial exclusion
	Generating social commitment, volunteering and cooperation
	Generating and preserving social values based on reciprocity, social justice, collective responsibility, commitment and solidarity

these companies. It is a direct result of the way in which decisions are taken and the surpluses distributed, which sidelines capitalist investors and discourages them from investing in this institutional sector. As a result, the SE has traditionally had to invent new financial instruments to avoid this problem. A second problem springs from the democratic, participative decision-making model itself. When appropriate channels for participation are not in place, failures in governance arise that can cause various types of problems, such as inefficient decision-making (slowness), deterioration of participation in favour of the technostructure and, finally, insufficient provision of strategic human resources as a result of the leader's dilemma. In one segment of the SE, nonprofit organisations (Salamon 1987), there is a risk of what is termed 'voluntary failure', which includes the typical philanthropic amateurism of volunteers, philanthropic paternalism and particularism.

A third problem is organisational isomorphism (Dimaggio and Powell 1983). This mimetic process, which can even lead to the conversion of SE enterprises into other types of company, consists of imitating the dominant enterprises or organizations working in the same field. As a result, SE enterprises that operate in the market tend to adopt the practices of capitalist private companies, even when they do not convert into this type of company, in order to carry on competing in that market, whilst SE enterprises that work more closely with government tend to become instruments of the latter, both financially and operationally. The challenge is to preserve their microeconomic badges of identity, as their ability to generate macroeconomic effects depends on it.

3.4 Implications for economic policy

From an economic point of view, government fulfils three basic functions: establishing the institutional framework in which private economic agents operate; intervening actively in the economic process to correct failures in the operation of the markets; and the general objective, for the first two also, of systematically satisfying social needs as effectively and efficiently as possible and achieving a maximum of economic and social well-being for the entire population.

From this point of view, public intervention in SE matters is justified in three spheres: the institutional framework, market failures and meeting social needs.

In democratic developed societies, governments must guarantee the conditions for *economic pluralism*, recognizing the different forms of economic entrepreneurship in laws and regulations and guaranteeing equal opportunities for all. Consequently, the institutional framework is the first public economic action area. In respect of cooperatives and the SE, this regulatory framework has to recognize their specificity, taking account of their characteristic principles of democratic decision-making and of limitations on the way that their surpluses and profits are distributed. However, this particular modus operandi is not neutral and leads to greater operational costs for the economic agents that opt for these legal forms. This is because these legal forms internalize the social costs they generate, linked to their democratic decision-making process, to their form of distribution and to the nature of the goods and services they produce, which are generally merit goods. Private for-profit companies, on the other hand, tend to externalize private costs of different types. The result of this situation is that based on cost/benefit calculations to assess the options and their advantages and disadvantages, economic agents (entrepreneurs) tend to be discouraged from using these legal forms rather than other business forms, as they identify legal option economies. From the point of view of guaranteeing equal opportunities for the different forms of organizations, the authorities have to correct such imbalances through the institutional framework, by establishing measures to compensate for the higher relative costs of SE enterprises. From the point of view of the institutional framework, all kinds of legal obstacle that hinders the operations of any form of company in any sector of business activity should also be removed.

The second area that justifies public intervention in SE matters is correcting the various market failures, although in the case of the SE, the complexity is greater owing to its different institutional nature, the source of new institutional failures. The failures that public intervention has to tackle are of various kinds, related to information asymmetries, to funding asymmetries, to problems connected with training their human capital, to problems of resource assignment in technological and organizational innovation processes and to problems of access to public and international markets (Fonfria 2006). Most of the market failures of SMEs also apply to SE enterprises, as they are almost all small enterprises. However, their institutional nature, based on democratic decision-making and a specific model of surplus and profit distribution, brings additional difficulties.

For instance, because of their specific legal form they encounter added information asymmetries over business and legal information and advice. Their human capital needs additional training in organizational and decision-making aspects because of its structural involvement in the organization and management of the business. The difficulties in accessing funding inherent to SMEs, essentially related to the greater relative cost of accessing it and the guarantees and terms and conditions required to obtain it, are compounded by the lower incentives for capitalist investors to put their money into SE enterprises (Melian et al. 2010), owing to the limitations on their access to the business decision-making processes and on appropriation of the profits in proportion to their investments. In the same way, as regards technological innovation and access to public and foreign markets, the difficulties inherent in being SMEs (see Ripolles et al. 2010; Romero et al. 2010; Mas-Verdu et al. 2010) are joined by those related to the SE enterprises' genuine business behaviour logic, which is more given to valuing the work factor in processes of technical and organizational change, to the detriment of labour-saving innovations and of delocalizing and decentralizing their production. The consequences are that they have a tendency to opt for business strategies that are more related to satisfying the demands of the region of origin and to lower growth expectations, rather than strategies that could be more financially profitable. The mission of policies to encourage SE enterprises is to correct this list of market and institutional failures.

The third sphere in which public intervention is justified is to satisfy social needs. From this point of view, in the institutional contexts of the social state, where constitutions recognize fundamental values such as social equality and governments are impelled to guarantee fundamental social rights, if the state is unable to provide an adequate response to the many social demands with its own means it must coordinate mechanisms that facilitate the provision of positive responses by private spheres. Assessing what part of the private sector can meet the multiple social needs most effectively becomes a key issue. This calls for a comparative analysis of the two private institutional sectors—the traditional capitalist sector and the SE. The literature shows that whilst the former is economically efficient, it generates welfare market failures such as negative externalities, increasing inequalities in income distribution, regional imbalances and imbalances in the labour and services markets, as well as inefficiencies in the allocation of resources when there are social demands with little solvency, as is often the case in social welfare services. This is in contrast to the behaviour of SE enterprises, which are high generators of positive externalities (Greffe 2007). The spheres in which social value added contributions are most visible are employment, social cohesion, social and economic fabric generation, the development of democracy, social innovation and local development. The social benefits enjoyed by society whilst the costs are absorbed by the SE justify compensatory intervention for this type of social enterprise.

4 Conclusions

The field of economics and its priorities for analysis are broadened considerably by leaving behind a monist view of the economy, as in the dominant model of economic analysis, and adopting a pluralist view where different forms of enterprise—each with its own form of governance and profit or surplus distribution and its own objectives—coexist, cooperate and compete in the economic system. In a plural economy approach, the forms of private enterprise that do not maximize profits and whose behaviour logic is not guided by the capital factor, such as the various forms of SE enterprises, no longer occupy a marginal position but are at the centre of economic analysis.

The first great challenge is the theoretical definition of the frontiers between the different institutional sectors: the public sector, the capitalist private sector and the SE sector. Recently, the SE business sector and economists have achieved a precise definition. This concept has been systematized in national accounts systems manuals, which have been used by national statistics offices such as those of Spain and Belgium.

Definition of the concept of the SE involves providing an answer to the three criteria for characterizing companies: the corporate purposes or objectives, the way they make decisions and how they distribute their profits. In this study, SE enterprises are described as being those which have the purpose of providing a service to their members and/or to society in general, a decision-making process that ensures balanced participation by their members and other stakeholders rather than the interests of their capitalist investors prevailing, and a form of distributing their profits, if any, that gives priority to people and work rather than capital.

These microeconomic foundations are not neutral in their mesoeconomic and macroeconomic impact: they determine roles in the economic system that are very different from those of capitalist private companies. In approaches such as nonprofit organizations, the share economy, socioeconomics and externalities, the economics literature has discovered that the SE offers relative advantages and macroeconomic social value added. In short, what the SE contributes to society goes beyond tackling what the public and capitalist private sectors cannot perform effectively and efficiency and simply making up for market failures and substantive economic problems. It also shows enormous potential for generating innovative responses to old and new problems and demands, not only economic but also social and political, and becoming a pillar of a new economically and environmentally sustainable model of social development.

This potential has implications for economic policy. It constitutes a strong argument for public intervention in this field. Encouraging the spread of the SE in the system would help to generate greater systemic efficiency and higher levels of welfare. This also leads to questions about what intervention instruments to employ and about their scope and limitations. In fact, governments as England and Spain (Haugh and Kitson 2007; Chaves 2008; Fajardo 2010) have deployed policies in this field in last decade.

Last, it should be pointed out that the potential of the SE is not linear or direct. It faces intrinsic problems or failures linked to its own particular features. The most serious of these is the risk of institutional isomorphism, in other words, of a denaturing of its badges of identity, and with them its beneficial macroeconomic effects, through a tendency to become contaminated by the behaviour patterns of the dominant forms in the economic sectors in which it operates: capitalist private companies and general government.

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