

## Chapter 6

# Social Economy

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### Introduction

Economic theory characterizes businesses as instruments to maximize the financial profitability of invested capital. This important supposition does not explain what drives a large number of initiatives within the production network. A field analysis shows that many organizations exist for reasons very different than the mere maximization of profits. In a market economy, private and autonomous organizations that deal in financial resources must cover their costs with their income. And they must report their profits. But they should not necessarily be governed or run by the objective of maximizing profits for private distribution.

In early twentieth century Europe, the label that was coined to identify this cohort of “other businesses” was the social economy. In academic circles, Charles Gidé, a French economist and the main representative of the historical school of economics, was one of the first scholars to use the term social economy (1905a,b) and to consider it a key element of social progress.<sup>1</sup>

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<sup>1</sup>For a more in-depth look at Charles Gidé (1847–1932), see Marc Penin (2006). The historical school of economics was an approach to academic economics and to public administration that emerged in nineteenth-century Germany and held sway there until well into the twentieth century. This school held that history was the key source of knowledge about human action and economic matters, since economics was culture specific and hence not generalizable over space and time. In English-speaking countries, the historical school is perhaps the least known and least understood approach to the study of economics, yet it forms the basis – both in theory and in practice – of the social market economy, for many decades the dominant economic paradigm in most countries of continental Europe.

## **The Rise of Not-For-Profit Organizations**

In the mid-nineteenth century, the European market was far from developed and it still lacked a welfare state; as a result, a number of collectives were organized voluntarily, forming businesses to deliver services. The first manifestations were consumer cooperatives started by workers from the factories that emerged during the Industrial Revolution. The most prominent consumer cooperative was that of Rochdale, near Manchester, England, which had a lasting impact for having created and imposed the International Cooperative Principles around the world. These workers banded together to make purchases for their “market basket” at lower prices than those offered by retailers at the time. Following the consumer cooperatives were agricultural cooperatives, worker cooperatives, housing cooperatives, social security mutualism, and associations.

This group of socioeconomic initiatives seeks to improve the well-being of each member. It is the concept of mutual aid. These citizen initiatives were not limited to financial pursuits. In parallel, they promoted intense social endeavors: the members of these organizations dedicated their free time to training and to the collective sharing of their leisure. These mid-nineteenth-century socioeconomic organizations in Europe developed as a vehicle for business activities. But fundamentally they were schools of democracy promotion, local identity, and a primary source of social capital.

After the two world wars, a path of economic growth was forged that gave way to the development of more competitive markets in Western Europe and the construction of welfare states characterized by the growing capacity of production and public service provision. The result was a new institutional environment where mutualism and nonprofit entities emerged as economic actors geared not only toward their members but also to the public market. When public administrations began to establish strategic alliances with private organizations, they started adjusting their action plans and directing them toward the market, preferentially the public. The solid development of mutual benefit societies and associations in France and Belgium throughout the course of the second half of the twentieth century is largely due to the contracting of public services to nonprofits.

Currently, the growing demand for relational goods in industrialized countries opens new market doors for businesses specializing in the delivery of handmade and custom relational goods. These new markets foster the expression of the new social economy combining the economic rationality of wealth generation with the political rationale of promoting cohesion and social welfare. During 2002–2003, in 25 European Union countries, the social economy provided more than 11 million jobs, equivalent to 6.7% of salaried employment in the European Union (CIRIEC 2007).

## **The Concept of Social Economy**

It is commonplace among many continental European scholars to distinguish between two main research traditions, which are “Anglo-Saxon” and “Francophone”

or “Latin.” Social economy is a term that forms part of the “Francophone” or “Latin” tradition. In the mid-1980s, major strides were made to define the concept of social economy.<sup>2</sup> In this chapter, we present two definitions. The first employs a normative perspective and the second a legal or institutional perspective.

### *A Normative Perspective*

From a normative standpoint, organizations that form part of the social economy can be categorized as private, autonomous organizations with the following characteristics: they are formed by a group of citizens; political power within such organizations is not based on capital ownership; there is dedication to the production and delivery of goods and services on a continual basis; there is partial or no distribution of profits; and there is an explicit objective of mutual assistance or community benefit.

Social economy organizations are part of the private sector and do not rely on third parties. The characteristic of “being autonomous organizations” is very important. It means that their members are the ones who actually make vital decisions such as to close the organization. These organizations are created voluntarily by a group of citizens who – by their association, subsequent creation of an enterprise, and their becoming principal actors in the organization – hope to reach a goal which would be difficult to attain on their own and which the conventional private sector or the public sector does not adequately serve in the present time and place. This interpretation often depicts the social economy as being driven by a demand that is unmet or in need: citizens come together, decide to create a productive entity, and become principal actors in the organization by necessity.

The definition of social economy emphasizes that the organizations are democratic in nature. This is the principle of “one person, one vote”; political power is not a function of the capital invested. The legal restriction on profit distribution plays a minor role in relation to being an organization governed by democratic principles. In the age of Charles Gidé, the factor of mutual aid was the main driver for these organizations. It bears mention that at that time, Europe was undergoing a significant economic and organizational transformation without having created a welfare state. As a result, the nascent social class comprised of workers from the new factories tapped into the social economy as a tool to defend their interests. Social economy organizations are also typically commercial organizations. Once again, primary emphasis is on who runs the organization and who the organization serves. Businesses and organizations that share the label of social economy indeed form part of the market.

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<sup>2</sup>Among the first contributions relating to social economy and the third sector is the book by Defourny and Monzón (1992), written in French. Monzón and Chaves (2008) published an article in English, compiling the primary institutional definitions of the concept of social economy.

### *A Legal/Institutional Perspective*

From a legal or institutional standpoint, the three major components of the social economy concept, both in the age of Gidé (early twentieth century) and 100 years later, are cooperatives, mutual societies, and associations. These three structural forms fall under the same formal definition of being an association of people. This formal definition spans the legal obligation of democratic governance based on the inspiring principle of “one person, one vote.” As Defourny points out (2001, p. 5),

The third component, association, includes a lot of advocacy organizations which may also be seen as providers of services to their members, to other people . . . or to the whole community . . . More generally, it includes all other forms of free associations of persons for the production of goods or services where making a profit is not the essential purpose. Obviously, these organizations have a wide variety of names, such as: associations, non-profit organizations, voluntary organizations, non-governmental organizations, and so on. Foundations and some other country-specific organizations (such as charities in the United Kingdom) are also often considered under this heading.

The influence of territory in the social economy’s profile is understood in terms of its specific strongly defined historical identity. The context is not therefore a fabric compatible with any type of print; history, culture, and relationships among public administrations and private organizations determine, or rather select, the forms of development taken by the social economy. For this reason, it is important to recognize territory as a space populated by people, institutions, and businesses that are interrelated; understanding the way in which these people, institutions, and businesses interact is crucial to understanding the dynamic of the social economy in each time and place. Consequently, although the social economy is considered to be composed of three major legal structures, every country has a group of related businesses that bear a different legal structure yet still comply with the normative definition proposed above. In Monzón and Chaves (2008), the different forms of these related businesses are detailed for each country within the European Union.

### **Terminological Debate**

In Europe, social economy was the prominent term to designate a group of business initiatives whose objective is not to earn profits for subsequent distribution to private shareholders. Following the mid-1980s, new labels began to emerge that partially eclipsed the term social economy, which had dominated until then. Third sector is a term originating in the United States. In Europe, many scholars are gradually replacing social economy with third sector. As Hodgkinson and Painter point out (2003, p. 4), on an international level, it has not been easy to arrive at a universally accepted definition of third sector: “Part of the problem stems from the role of the sector in different societies and economies. Some countries want to include the social economy and cooperatives, whereas others see these types of organizations as part of the market sector.” In Europe, the result of this tension is that third sector has two meanings, depending on the scholar’s focus. Researchers of the Anglo-Saxon tradition

identify the third sector with nonprofit organizations. For those of the Francophone or Latin tradition, the third sector is synonymous with social economy. In Europe there are two definitions of third sector: one that identifies the third component of the social economy and another that spans the three major components of the social economy in addition to related businesses.

In 1992, Laville claims the existence of “another economy,” which is more plural, for Europe. He identifies new nonprofit organizations that are emerging under the term “solidarity-based economy.” Little by little, this term is being used to identify a group of small, local businesses that offer custom services in which the worker establishes a direct relationship with the user.

The institutional recognition of the social economy rose dramatically during Jacques Delors’s presidency of the European Commission (1985–1995). In this period, a general director of social economy was instituted within the Commission. In the cascading effect typical of Commission decisions, countries then created their own directors of social economy in different levels of public administration. This institutional recognition resulted in greater visibility and led to the exploration of a new field of research by young economic scholars.<sup>3</sup> This period also coincided with a wave of high unemployment rates throughout the member countries of the European Union. At the time, the cooperative movement reflected a more favorable job rate than did public or private businesses. This led the public heads of labor to promote the cooperative movement as a vehicle of active labor politics. In the year 2000, the general director of Labor and Social Affairs of the European Commission ordered a study to evaluate the overall contribution of these organizations in terms of jobs. In order to identify this cohort of organizations and eschew the polemical issue brewing of that time building between those who favored the use of the term social economy and those who favored third sector, the Commission created a new category name: “third system.”<sup>4</sup>

Having defined the key terms, it bears mention that some scholars consider social economy, third sector, solidarity-based economy, and third system to be labels that aim to categorize different forms of people-serving business and economy without regard to legal structures. The term “social enterprise” refers to a subgroup from any of the four terms mentioned. Of course, when emphasis is placed on the words “business” and “economy,” it refers to a group of market-oriented organizations, public or private, including other organizations whose mission is carried out on a completely voluntary basis, outside the market.

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<sup>3</sup>The doctoral theses of Demoustier (1981), Vidal (1987), and Defourny (1990) emerged in this period.

<sup>4</sup>According to the European Commission (2000), organizations that belong to third system are private, autonomous groups with the following characteristics: the aim is not profit; limit profit distribution; paid work; an explicit aim to benefit the community or a specific group of people; a participatory nature, which involves the persons affected by the activity; multi-stakeholder organization.

## Researching the Social Economy

The academic community is probably wider than what is commonly thought, but as Perri 6 and Vidal (1994) pointed out, it is highly fragmented, and many individuals in it are working in very isolated settings. It is larger than is sometimes recognized because there are so many scholars working in the sector who would not think of themselves as doing so. This fragmentation is amplified when a term is used that spans several legal structures within a single realm of structures; for example, in the cooperative movement there are different types of cooperatives – agricultural, consumer based, and worker – and as such, scholars focus on a single legal structure (such as mutual benefit societies) or on concrete types of cooperatives (such as worker cooperatives) or on a concrete sector of activity (such as production and delivery of relational goods in a particular geographic area).

Another element that deepens division and fragmentation among European researchers is the distinction between the two major research traditions in the social sciences: the Anglo-Saxon and the Francophone or Latin. The broad concept of social economy is accepted in academic circles of Francophone or Latin tradition; this tradition also includes French Canada, the province of Québec, which boasts a group of researchers who are very active in the study of different social economy organizations (see the websites of Louis Favreau, Benoît Lévesque, and Marie Claire Malo, three professors affiliated with the University of Québec).<sup>5</sup> Social economy is a term used in academia in Belgium, France, Italy, and Spain on the European continent. As a result of human migrations springing from mutual and cooperative experiences in the early twentieth century, the term social economy is also known in some academic circles of Latin America, such as the case of Venezuela (for example, the title of the journal CIRIEC-Venezuela is *Cayapa: Revista Venezolana de Economía Social*).

That said, even though the social economy from a research perspective is supported by a broad community of researchers from different fields within the social sciences, from the viewpoint of academic legitimacy, there is still a long way to go to reach full recognition and become a prominent focal point in social science research. Social economy is not at the core of any theoretical or empirical work of research in any social science discipline. It may appear to be a core area of interest, but it is not. It always plays a secondary role in the interest of the academic community, as understood as a whole.

A review of three leading international journals covering third sector issues confirms this perception. Taking the *Revue Internationale de l'Économie Sociale (Revue des études coopératives, mutualistes et associatives) (RECMA)*, *Annals of Public and Cooperative Economics*, and *Voluntas*, it is clear that only the first – *RECMA* – features the social economy label and specifies the three principal components of

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<sup>5</sup>The University of Québec has campuses throughout Québec Province. Louis Favreau is part of the Université du Québec in Outaouais ([www.uqo.ca](http://www.uqo.ca)). Benoît Lévesque and Marie Claire Malo are part of the Université du Québec in Montréal ([www.uqam.ca](http://www.uqam.ca)).

social economy. This journal was founded in 1921 by Charles Gidé and Bernard Lavergne.<sup>6</sup> Its social base is in Paris, its language of communication is French, and in October 2008 the journal published its 310th edition, representing 87 years of publication. *RECMA*'s articles contain studies and reflections surrounding the three components of the social economy, and recently they have featured other legal business structures, such as foundations. The journal is not well known in academic circles, however, where English remains the primary language of communication.

A second journal of greater international impact, which in December 2008 published its centennial-year issue, has since 1974 been titled the *Annals of Public and Cooperative Economics* in English and *Annales de l'économie publique, sociale et coopérative* in French. It is a review journal published on behalf of the International Centre of Research and Information on the Public Social and Cooperative Economy (CIRIEC), based in Liège, Belgium.<sup>7</sup> Edgard Milhaud was the journal's founder and its first editor.<sup>8</sup> As noted by Fecher and Lévesque (2008), this journal incorporates the term social economy in its French title. Geerkens (2008), in an evaluation of the journal, cites that one-quarter of its articles reference topics related to the public sector economy, cooperation, and economy organization. Among the articles that address the third sector, as understood from a wide viewpoint of social economy and nonprofits, Fecher and Lévesque (2008) demonstrate that from 1975 to 2007 articles related to the third sector grew in relative importance, reaching 56% of the total published in the 100-year-old journal (see Table 6.1).

**Table 6.1** Third sector articles published by the *Annals* journal, 1975–2007

Year	Percentage
1975–1985	24.6
1986–1996	44.1
1997–2007	55.9

Source: Fecher and Lévesque (2008)

Fecher and Lévesque (2008) recognize that one of the main drivers of the academic community's current interest in third sector organizations is the generalized practice of public administrations contracting out certain services in countries with welfare states. Regarding the growing interest of scholars, Fecher and Lévesque (2008, p. 679) begin an article highlighting that "The social economy did not yet constitute a recognized 'third sector,' despite the fact that mutual societies, cooperatives and associations had existed for over a hundred years."

The third journal referenced to illustrate academic interest in third sector organizations is *Voluntas*, published by the International Society for Third Sector

<sup>6</sup>Bernard Lavergne (1884–1975) was a law professor in Lille, France, an influential member of the cooperative movement in France, and a member of the Political Economy Society. In 1938, he published a book entitled *Grandeur et déclin du Capitalisme*.

<sup>7</sup>This journal's history, from its inception as the *Annales de la Regie Directe* to the present, is outlined in Geerkens (2008).

<sup>8</sup>To understand the importance of Milhaud in *Annales*, see Geerkens (2008).

Research. An analysis of published article titles reveals that the dominant approach is to identify the third sector with the third component of the social economy: associations, foundations, nonprofit organizations, voluntary organizations, and NGOs. For the period spanning 2003–2008, following the analysis of Hodgkinson and Painter (2003), the concept of social economy and cooperatives is used preferentially by authors from Italy and France, as seen in the papers of Thomas (2004) and Lindsay and Hems (2004). Nevertheless, it has also been observed that the Anglo-Saxon community has begun to express interest in the wider definition of third sector, as noted in Kerlin (2006) and also by the fact that this book has a dedicated chapter on social economy.

Social economy is an identification label; it is not an academic concept. The academy has opted for the disciplinary division of social science and stringent specialization – a state of affairs that make things difficult for researchers who consciously or not contribute to the study of social economy organizations, for much research is widely dispersed within the academy and often rather instrumental in approach, with a corresponding lack of visibility. This is a situation that does not facilitate the advance of sector studies, attract new scholars to the field of research, or provide incentive for the funding of empirical work. Furthermore, such diversification and lack of visibility results in a paucity of basic social statistics.

## **Final Considerations**

In summary, this chapter presents two main reflections: first, it flags the risk of not knowing how to properly grasp the potential of a particular term, and second, not unrelated, it highlights how the credibility of social economy/third sector studies has been compromised – especially among social economy researchers.

As pointed out, the term “social economy” has existed in Europe since 1905 when introduced by economist Charles Gidé. The three major components of social economy in Europe are cooperatives, mutual societies, and associations. All three share a formal meaning of being associations of persons; as a result of this formal meaning their main characteristic lies in their governance, which is based on the democratic principle of one person one vote. All three emerged primarily as tools to serve the new social class which arose in the Industrial Revolution. At that time, workers decided voluntarily to come together and face new social challenges in a coordinated fashion; even today, they use organizations as a tool to meet their ever-changing demands.

As the socioeconomic environment has evolved, these organizations, in turn, adjust their objectives to the new institutional context, and as European countries began to build welfare state models, the mutual societies and associations in countries such as Belgium, France, Italy, and Spain evolved into primary stakeholders in public administration. Hence, the social origins of the three components of social economy remain, while organizations’ management and operations are adjusted. Over the past 50 years, social economy organizations have not ceased to grow



in economic, social, and political importance (CIRIEC 2007); there have been no exclusion on behalf of governments responsible for managing the welfare model in each region (see Vidal 2008, for the case of Spain). Associations, mutual societies, and cooperatives complement the duties fulfilled by conventional businesses and government. Evidently, regional considerations play a key role in how the social economy is structured in any given place. Relations based on cooperation and collaboration among the private conventional sector, government, and social economy organizations are crucial to understanding the profile of the social economy.

The term social economy is not an academic concept. As Lorentzen argues in his contribution to this volume (Chapter 3), terms may be an academic tool, but they are fundamentally a tool that these organizations use to identify themselves and gain the support of citizens – public support. That said, we must avoid the risk of failing to preserve the potentiality of a term that facilitates the identification of a group of organizations that share the same formal traits. The proliferation of terms in the past 40 years to refer to organizations of the same structure has caused the misperception among the general population that each term is referring to a distinct and separate group of organizations. As Lorentzen further states, the formal meaning and, therefore its style of governance, is what is vital for knowing if one is referring to very different or similar organizations. After having reviewed some of the terms that have emerged, this chapter maintains that social economy, third sector, third system, and solidarity economy refer to the same type of organizations – cooperatives, mutual societies, and associations – in addition to other related types that have come about in each specific area.

Perhaps the main obstacle dividing those who study the social economy and/or third sector organizations in their broadest definition is the uncertain or debated status of these terms in academia. Among economists, businesses are disproportionately portrayed as producers of goods and services, whose objective in a market economy is to generate profits for subsequent distribution to private shareholders. Far too often, organizations are classified as private and public only. And in the realm of the private sector, no differentiation is made. This gives the impression that all businesses are geared toward the same single purpose and that all organizations in the private sector act solely based on economic rationale. Another major obstacle impeding the social economy from becoming a more popular research area is the widespread shortage of information specifically related to these organizations in a great number of national statistics systems. As such, the research methodology that prevails far too often is that of the case study. This method is valid for an initial approach to research analysis and in particular to track innovations occurring in organizations, but in the middle- and long term case studies fall short, and, in the end, researchers seeking quantitative results end up making generalizations without distinguishing the behavior of different organizations across disparate industries.

In light of all the aforementioned difficulties, there is clearly a long way to go in this research field, including a need to evolve from descriptive analyses to more theoretical analyses. All the same, social scientists – especially economists – should make an effort to think more often in terms of plurality. Social economy organizations have existed since the Industrial Revolution; they will not disappear from

productive networks – on the contrary, their presence is growing. These organizations are rooted in solidarity, in the appreciation of social, cultural, human, and environmental resources. Such values are the basis of all sustainable development. Any society that hopes to achieve sustainable growth must have a very efficient public sector, a lucrative innovative private sector that is competitive and socially responsible, and a strong and visible third sector. All three sectors are necessary. With unique strategies or action plans, each one meets different, occasionally divergent, objectives, but they all work together toward sustainable development. All three depend on each other and all three should act in coordination. They should not be studied as though they were three streams of water flowing side by side; on the contrary, they are three organizational forces whose action and coordinated work efforts guarantee the sustainability of a welfare society.

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