Developing an Operational Definition of the Social Economy

Len Arthur, Molly Scott Cato, Tom Keenoy and Russell Smith

The social economy has attracted considerable rhetorical and policy interest in recent years. And yet, it seems that many of its most ardent supporters are not clear about what it is. It resembles, as the voluntary sector which forms a part of it was once called, 'a loose and baggy monster'. This is problematic, since in order to develop and argue for a certain economic sector we must first be clear about what its boundaries are. This paper offers a pragmatic response to this definitional problem, one that was developed in connection with an audit of the social economy in Wales that the researchers are conducting.

The paper begins by presenting a summary of the various competing definitions and perceptions of the term 'social economy' that are prevalent in policy discourse and in academic writing. This is a necessary precursor to any empirical work in the field, and also has intrinsic merit in helping to elucidate what is distinctive and valuable about the particular kind of economic activity indicated by the term. The argument presented here is supported by a sister paper which addresses the theoretical problems with definitions of the social economy (Arthur *et al*, 2003) Since researchers must be clear about the boundaries of the sector they are analysing, they must have some means of determining which businesses fall within the defined sector and which not. Hence this paper proposes that, rather than a theoretical definition, an operational definition is developed, taking into account several dimensions of importance. For the various parts of the social economy researchers may then decide their position of interest on each dimension - for example whether the sector is publicly funded or not, or whether it has a mutualistic value system or not - and then select the businesses to be included accordingly.

A list of fuzzy definitions

Journal of Co-operative Studies, 36.3, December 2003: 163-189 ISSN 0961 5784©

1. The non-profit sector
2. Charitable sector
3. Community regeneration: community initiatives outside the market
4. Co-operatively owned businesses
5. Employee share ownership plans
6. Credit unions
7. Mutually administered public services

The Non-profit Sector

The non-profit sector[1] has been variously defined according to criteria such as its functions (Hatch 1980; Kendall and 6 1994; Weisbrod 1988; Salamon and Anheier 1997); its sources of funding (Hatch 1980; Johnson 1981); the nature of its organisation (Seibel 1989; Oerton 1996); its inability to distribute profits (Johnson 1981; Brenton 1985; Weisbrod 1988; Salamon and Anheier 1996); its eligibility for charitable status; its independence from government control (Johnson 1981; Brenton 1985; Salamon and Anheier 1996; Kendall and Knapp 1997); its contribution to the 'public benefit' (Brenton 1985); and its 'meaningful degree of voluntary participation' (see Salamon and Anheier 1997; see also Johnson 1981; Kendall and Knapp 1997).

The definition of 'non-profit sector' is the broadest of those considered here, and for many the term is synonymous with the 'social economy'. The problems of definition of this sector appear to result from a confusion of objectives. Researchers appear torn between creating a well-grounded and objective academic definition and providing a limited and defined area of the economy for which data is available. Thus considerations of measurement appear to have confused the question of definition. Salamon and Anheier's (1997) identification of the growth of this sector in countries with different polities is significant, since one theory of its expansion is as a substitute provider of social services as the public sector shrinks in response to government cuts. The unmet needs this generates are unlikely to be met by the private sector, given its inherent limitation in providing such collective goods. While some theorists suggest such a 'gap-filling role' for the non-profit sector (see eg Nisbet 1962; Weisbrod 1988, 1998; Ben-Ner and Van Hoomissen 1993), others propose government and the non-profit sector as co-operative partners in a constructive dynamic to influence the future provision of social services (Salamon and Anheier 1996; Kendall and Knapp 1996).

Measurement of the non-profit sector is hedged around with problems, so that any reported figures must be treated with great caution. However, such figures as do exist suggest that non-profit activity now represents a significant minority sector of developed economies, its share of employment ranging from 1.8 per cent in Italy, through 4 per cent in the UK, to 6.9 per cent in the USA. If attention is focused specifically on the service sector, where most non-profit activity is concentrated, these percentages of total employment rise to 5.5 per cent for Italy, through 9.7 per cent in the UK, to 15.4 per cent in the USA (Salamon and Anheier 1996: Figures 3.1 and 3.2).

From the point of view of measurement, at least in the context of a single country, the legal definition is the most appealing, since government data follow this definition and its measurement therefore presents only the usual difficulties of misreporting and data collection errors. However, from an objective point of view the legal definition is the least satisfactory, since it merely reflects historical political prejudices about which organisations should be granted tax benefits, and has no objective theoretical justification (for a full account of the legal situation facing non-profit organisations in the UK see Kendall and Knapp 1996: 61-99).

While the legal dimension is fundamental to explaining what is meant by the non-profit sector, various authors have found that it fails to capture something essential about this sector, namely, the motivation of the people who work in it. As Kendall and Knapp identify, this criterion requires that "organisations should be 'other-regarding', 'altruistic' or operate 'for the public benefit'" (1996: 20). Salamon and Anheier (1997) also considered the necessity of adding an extra qualification to the original definition, suggesting that the work of the organisation must involve 'some meaningful degree of voluntary participation'. Such definitions also fail to take account of the basis of many such organisations in other networks of interest, such as labour movements or evangelical bodies.

The final dimension is functional and relates to what the organisation considered actually does. Most authors agree that non-profit organisations limit themselves to a range of activities, falling largely into the social services sector: Kendall and Knapp (1995) include the categories of service provision for the sick or elderly and mutual aid as being the major sectors of activity. They also identify activities concerned with advocacy and campaigning, although Salamon and Anheier (1997) were less happy to include these in the voluntary sector. Again, it is difficult to pin down exactly what functions are involved within this definition of 'non-profit', but the concept of 'common bond' or the provision of a service to a defined community is the key issue. This seems a more empowering notion than that of vulnerability, whether this is due to illness, disability, or homelessness, or, as in the case of campaigning and advocacy groups, discrimination.

All three of these dimensions are also useful in arriving at an operational definition to aid research into the 'social economy' and we will return to them later. In their foreword to a series of books devoted to analysing the non-profit sectors of various countries, Salamon and Anheier (1996) report that one of the most salient findings of the collaborative research project has been that

> the non-profit sector is a far more significant economic force than has been acknowledged in countries as diverse as centralised France and Japan and decentralised Germany and the United States (pxii).

This underestimation of the importance of this sector is another point we will return to later.

Charitable sector

The charitable sector is distinct from the non-profit sector, but is mostly a subset of it. It similarly addresses itself to social needs that are not met by private sector provision, usually because of an inability of those needing services to be able to pay, or to be able to pay sufficiently for private-sector companies to make sufficient profit to attract them. Historically, in the UK at least, much of this activity was marginalised by state involvement in social services following the radicalisation of policy-making after the Second World War.

In an international context, countries' individual cultural and legal histories are also important. Salamon and Anheier (1996: 10) conclude that in general

> common law systems provide a more supportive environment for the emergence of non-profit organisations than do civil law systems.

Given the central role that religious organisations have historically played in the area of voluntary social services, a country's religious development is also a fundamental influence on the development of its charitable sector. An example is the strength of this sector in Germany, where 68 per cent of its funding comes from the state (Salamon and Anheier 1996: Figure 5.2), which results from the dominance of Catholic social doctrine in the pre-war period, later to be enshrined in the principle of subsidiarity of welfare provision.

In the specific context of the UK, the voluntary sector has experienced an unstable history, buffeted by the winds of changing political attitudes. At the turn of the twentieth century

> the relief of poverty and the promotion of welfare were still largely in the hands of the voluntary sector. (Kendall and Knapp, 1996: 47)

Opposition from the developing socialist tendency in British politics was predictable, given its commitment to state provision and its consequent hope that the need for private welfare, which was from this perspective tainted with the ideologically problematic concept of philanthropy, would wither away. The apotheosis of the left-wing position was achieved with the election of the Labour government in 1945 and the introduction of a wide welfare state, particularly in the field of health care, which had previously been dominated by voluntary hospitals. The change in ideology was convincing: by 1948, 99 per cent of people surveyed believed that the welfare state had made philanthropy obsolete (Kendall and Knapp 1996: 55).

The 1950s and 1960s in the UK represented a low point for the charitable sector, which gradually turned its attention to residual activities not covered by the NHS (such as special needs and hospice care) and to the developing world. Until the late 1970s the welfare-state consensus that provided the direction for government policy assigned a limited and residual role to the non-profit sector, as made clear in the Wolfenden Committee Report (1978). However, the profile of the sector was to be revived following the election of a Conservative government in 1979: if the intention of the new government was the 'rolling back of the state' the acknowledged corollary of this would be an expanded role for charitable activity (see Mrs Thatcher's speech to the WRVS quoted in Sheard 1995: 118).

Despite the apparent political support, this conservative rhetoric in favour of charitable activity was no more than 'a stalking horse for a broad-gauged assault on state-financed welfare services' and actually undermined the sector as it

> threatened to discredit the whole concept of voluntarism and nonprofit action by converting them into an ideological cover for conservative policy objectives. (Salamon and Anheier 1996: 120)

Nor has the role of the charitable sector been neglected by New Labour. The third way that has been so much discussed amongst social critics of a New Labour persuasion (see eg Giddens 1998), emphasises the importance of a revival of community through increased voluntarism, although critics have suggested that in reality it, in turn, contributes to the 'blurring of the traditional boundaries between public, private and voluntary sectors' identified by Knight and colleagues (1998).

The charitable sector addresses the same failure of provision as is addressed by the wider non-profit sector, namely social needs which cannot be profitably addressed and which exceed the financial scope of public funds. It is tempting to draw the distinction between non-profit and charitable activity on the basis of the greater ideological, and especially religious, motivation of the former. However, this would be simplistic. Many mutual organisations derive either organisational or ideological support from religious traditions:

as an example, credit unions are receiving much attention in the Muslim community because of the religious constraint on ‘usury’. While ideological motivation can help to explain the distinction, the concept of philanthropy is also important, with its inevitable implication of an unequal relationship. This seems central to our understanding of ‘charitable’ as opposed to ‘mutual’ activity.

Community regeneration: community initiatives outside the market

The fact that there are whole geographical areas where the economy has failed to generate sufficient employment and activity over a significant period (see Webster 2000) is undoubtedly a failure of regional policy. Since at least the 1980s regional policy has been downgraded, with all areas of the economy, even those that have been facing quite particular and intense economic problems as a result of industrial restructuring, expected to prove themselves fit in the economic jungle envisaged by the economic Darwinists. Rather than a considered regional policy, the response to continuing high levels of unemployment, and the public concern these generate, has been the reliance on investment and job creation by foreign companies, attracted by financial incentives offered by regional development agencies.

The disadvantage of corporate job creation, as contrasted with state regional planning, is that the balancing of local economies within a region or country is not important: from the perspective of the multinational the only criterion is the availability of a labour-force with appropriate skills and available at an acceptable wage rate. This has been particularly apparent in Wales, where regional inequalities in employment rates have always been extreme. Thus one result of an employment policy based on inward investment that has been deleterious to Wales as a whole has been the exacerbation of regional economic imbalance, particularly focusing around available road links. The result of unplanned development has been:

> a clustering along the M4 corridor in south Wales and in Alyn and Deeside in north-east Wales, thus creating

> or amplifying regional growth inequalities within Wales … Nearly three-quarters of the employment in foreign-owned plants is located in industrial south Wales (Mid, South and West Glamorgan together with Gwent) with another 20 per cent in Clwyd in the north-east. (Thomas, 1996: 227)

Amongst those with a more interventionist bent, the social economy is frequently proposed as a solution to the problem of long-term economic depression in regional economies, particularly in response to the decline of a dominant industry. The social economy is suggested as a defensive response to unsatisfied needs, primarily unemployment, as in several publications from Ireland such as those by the Scheme Workers' Alliance (1996), the Alliance for Work Forum (Hedges and Lawlor, 1997), and the Community Workers Co-operative (1998). In some depressed economies the social economy represents the only growth sector, leading to the development of the 'social entrepreneur'. St. Patrick's College Maynooth offers a Diploma for Social Entrepreneurs (Hedges and Lawlor, 1997), while a similar qualification is available in the UK from universities such as Cambridge and Ulster.

In political circles the need for the 'social economy' to soak up the energy of those who face long-term unemployment is seen as an urgent necessity, and a central requirement of the 'third way':

> Since the revival of civic culture is a basic ambition of third way politics, the active involvement of government in the social economy makes sense. Indeed some have presented the choice before us in stark terms, given the problematic status of full employment: either greater participation in the social economy or facing the growth of 'outlaw cultures. (Giddens 1998: 127)

To counteract such a tendency Giddens suggests greater participation in the 'social economy'. These theories have found expression in policies targeted at young people both via the environment programme of the New Deal (Employment Service, 1997) and the Millennium Volunteers scheme (DfEE

1999).

While these developments may generate employment, it tends to be employment for those with skills who could find employment in the mainstream economy, but whose position in the social economy soaks up funding which might find a better use. A related problem is the reliance of this sector on grants and its resistance to building up its own income streams. The skills that are developed in terms of attracting money tend to take the form of proposal-writing rather than creating saleable products, leading to the development of what can be termed ‘grant entrepreneuralism’.

In this sector we see clearly the failure to take community enterprises seriously from an economic perspective. To establish the credibility of the sector the term ‘social entrepreneur’ has been created, yet this credibility is only expected to extend so far as the next European or national handout. The literature on such social entrepreneurs has traditionally portrayed them as achieving social rather than economic success, and failed to identify the potential for either a bridge to self-sustaining economic activity, or a preferable form of economic activity to the dominant, competitive, profit-making model. A recent study reports that

> Social enterprises stand out from the rest of the social economy as organisations that use trading activities to achieve social goals and financial self-sufficiency. (Shaw *et al*, 2001)

Here we see the requirement for financial independence (although not profits, which never seem to find a comfortable home within the social economy: see note 1), although again this is explicitly made distinct from the ‘social economy’ as a whole. So even while these authors attempt to lend credibility to social enterprises as financially viable businesses, they are themselves perpetuating the negative stereotype of the social economy as a whole.

Co-operatively owned businesses

Co-operatives are unusual in the social economy in having a strict definition, which is established and maintained by organisations such as the International Common Ownership

Movement (now part of Co-operatives[UK] in Manchester). The International Co-operative Alliance defines a co-operative as 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise'. The International Co-operative Alliance also gives a list of values that co-operatives should share, which include: self-help, self-responsibility, democracy, equality, equity, and solidarity. In addition 'in the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others' (information from the Co-operatives[UK]). An early academic definition of co-operative enterprises still seems to sum up their combination of social and economic objectives:

> [Co-operatives] are associations of persons, small producers or consumers, who have come together voluntarily to achieve some common purpose by a reciprocal exchange of services through a collective economic enterprise working at their common risk and with resources to which all contribute. (Mladenatz, 1933)

The co-operative movement was developed by working people to meet their own needs, initially for reasonably priced, high-quality food. Its origin in the mid-to-late nineteenth century, the height of bourgeois capitalism, is no coincidence. The founders of the co-operative movement were both reacting against the negative social consequences of the profit-making, exploitative industrial system they lived within, and aspiring to a preferable and more just form of economic activity. While the origin of the co-operative movement is clear, during the years of post-war welfare consensus its strength of purpose declined. During this period co-operatives were frequently formed either for primarily ideological reasons or as a solution to problems of business succession. More recently, however, the co-operative movement has found new strength and, particularly in the retail sector represents a beacon for an alternative way of organising the economy including a commitment to fair trade, organic production and fair labour standards (see Co-operative Group, 2002).

Producer and secondary co-operatives are also seeing something of a renaissance, at least in the Welsh context, where Tower Colliery, the only worker-owned coal-mine in the world and the only remaining deep mine in south Wales, is a shining example. Tower has been operating in a highly competitive sector for eight years, returning a surplus and paying a dividend in most of those years. It also plays an important role in the local community by its multiplier effect: it is estimated that without it the local economy would lose up to £10 million per year (Heath, 2000). To the 239 members of the original co-operative have been added another 61, making a workforce of 300 people, 90 per cent of whom are shareholders. In December 2002 the *Western Mail* published a list of Wales's top 300 companies. Tower Colliery was number 174 on the list, with a £28m turnover, profits of £2.7m and a 26.8 per cent return on capital (for more details see Keenoy *et al*, 2003; Cato, 2004). Wales has also seen a large increase in the number of secondary co-operatives in the agricultural sector, in response to falling stock prices and supermarket power.[2]

In the wider European context Spain is considered to have a thriving social economy, employing 200,000 in Catalonia alone (Holmstrom, 1993). Holmstrom sees the Spanish co-operatives, including Mondragon, as a response to economic failure, although he also considers the cultural background and the economic history of worker control within Republican Spain (1936-9) as part of the explanation for their success. This success is best represented by Danobart, Spain's largest machine-tool firm, which is part of the Mondragon group.

France also has a thriving *économie sociale* made up of three sectors: co-operatives, mutual societies, and social economy associations. The sector is based on the principle of non-profit-making, democratically organised enterprises that are independent of the state and have a concern with human development. As in the Spanish case, the decision to become a co-operative is often a defensive one. An example is LACOM, a manufacturer of phone equipment which was created from a bankrupt company in La Manche. It is now the third largest company in its field. At a conference comparing the social economies of the UK and France

> A shared hope was identified: that as an alternative to rampant individualism, collective self-employment could be a basis for employment, and that the institutions of the social economy could anchor capital. (Wilson, 1996: 15)

One result of the marginality of co-operatives in discussions of the economy is the paucity of literature providing either measurement or theoretical discussion of their development. The latest analysis was provided by the Co-operatives Research Unit of the Open University (Hobbs, 1989) and relates to 1988. Their findings are presented in Table 1, which indicates the absolute number of co-operatives in each UK region, together with an indication of their prevalence in the various regions.

Table 1. Regional distribution of co-operatives in the UK
Source: Hobbs, 1989; ONS 2001 census.

In spite of the fact that the movement towards the co-operative form is often a defensive one, the successes of the co-operative movement should not be underestimated. Once businesses do organise themselves along co-operative lines they are often very successful by standard economic indicators, which is particularly impressive given the fact that they may have been created only as an alternative to bankruptcy. ICOM figures indicate that local initiatives through Co-operative Development Agencies and local authorities in the UK in 1983-4 created 2,000 new jobs at a cost of £1,500 per job. This compares favourably with many of the inward investment projects that have created jobs in Wales in recent years: the average cost per RDA (regional development agency) job given in the report is £3,510, while the cost of keeping a person on the dole is £7,000 (Taylor, 1986).

Credit Unions

Because of their specific legal status, credit unions are another social economy institution that enjoys a specific definition:

> A credit union is a co-operative society offering its

Region	No	Co-operatives per 100,000
East	88	1.633212
East Midlands	144	3.451434
London	390	5.437786
North East	95	3.776617
North West	167	2.4815
Northern Ireland	10	0.593378
South East	77	0.962434
South West	99	2.008742
Scotland	99	1.955744
Wales	82	2.824581
West Midlands	105	1.993417
Yorks/Humbs	141	2.839972

> members loans out of the pool of savings built up by the members themselves. A union is formed by a group of people with a common interest or 'bond' - working for the same employer, living in the same area or belonging to the same church, club, or ethnic group. By agreeing to save regularly they build up a fund from which they can borrow at favourable interest rates … The common bond between members is intended to minimise the risk of default on loans. A credit union is a non-profit organisation, controlled by its own membership. (Berthoud, 1989: 1)

Here we see some overlap with other definitional categories, particularly co-operatives, of which credit unions may be considered a subset, and non-profit organisations.

Credit unions have had very different histories in different countries, in terms of their growth in numbers and assets. They first developed in Germany and Italy in the 1850s and 1860s and spread rapidly in North America during the first half of the 20th century. The USA now has more than 16,000 credit unions with a membership of 54 million. In Canada a quarter of adults belong to a credit union. In Ireland there are 388 covering a membership of 654,000 (Berthoud, 1989). In the USA some 36 per cent of the population are members of a credit union and in Ireland the figure is as high as 44 per cent (Balkenhol, 1999). In Great Britain[3] credit unions have not taken off to the same extent. The first was founded in

1964 and their existence was encouraged by the passing of the Credit Union Act in 1979, leading to the foundation of 70 new credit unions by 1982. ABCUL, the main trade association for credit unions in Britain currently has 483 members and lists the total number for the UK as 685. Although credit unions are still marginal in Great Britain, they have experienced recent growth, especially in Wales, where their development is being supported by the Wales Co-operative Centre with funding from the Welsh Assembly.

Employee Share Ownership Plans

Employee Share Ownership Schemes (ESOPs) represent one means of spreading the ownership of firms more widely amongst employees and they have been considered by some to form part of the social economy. ESOPs work by using future company earnings to pay off company-guaranteed debt and then leverage capital to acquire company shares which are then sold to employees. US family-owned business Cargill, for example, used an ESOP in 1992 to acquire 17 per cent of its shares, enabling the heirs to liquidate their assets while keeping financial control of the company within the wider family of the company and its employees. ESOPs can also be used to obtain capital to fund acquisitions. Employees can be asked to 'buy their own jobs' and may see substantial shareholder returns in a good economic climate, although the schemes involve no management power or increased role in decision-making.

In the USA, where the idea was developed, the financial impact has been huge: some 9 per cent of the more than $8 trillion of corporate equity was owned by employees in the late 1990s, with a market value of $750 million (Gates, 1999). However, the inherent instability of the schemes is made clear by the realisation that recent Wall Street falls will now have reduced this value of stock to closer to $400 million, with employees seeing their share values halved. Spain has a similar scheme known as SAL (salt), standing for Sociedad Autonomina Laboral (autonomous workers' society). In such schemes, at least 85 per cent of permanent employees must be shareholders and a single shareholder cannot own more than 25 per cent of the shares (with the exception of the state or a local authority, which is limited to 49 per cent). As in the case of most co-operative businesses the value of the enterprise is kept in an indivisible reserve fund (Holmstrom, 1993).

ESOPs have developed as a mechanism for giving employees a stake in the success or failure of their own company, and thus of improving incentives. Operating a share ownership scheme links the individual employee with the profit of the firm and is then expected to increase productivity. Supporters of such schemes as a way of ‘sharing capitalism’ consider that ‘principled employee ownership offers a promising starting point’, with ESOPs being equally important in ‘spreading capitalism among the general population’ as stock brokers (Gates, 1999: 60). These schemes form part of a whole raft of measures to reinvigorate US capitalism sometimes referred to as the Universal Capitalism Movement. For the employee there can be a significant down side. Effectively, by buying the shares of the company she or he works for, the employee is sharing the risk of the entrepreneur for what is probably a lower share of the potential profits. She or he is also putting all his or her eggs in one basket, by relying on selling the shares to cover future retirement income. If the company folds (the most spectacular recent example was Enron) or the general economic climate worsens, there may be little or no income in old age.

Mutual Public Services

One response to the failure of the public provision of services has been the gap-filling role played by the social economy, often in the form of charitable enterprises, as described above. According to a survey of community enterprises in Scotland (McGregor, 1997):

> As the public sector has retrenched the Third Sector has moved into areas of service provision that it does not pay the private sector to exploit.

Non-charitable voluntary provision has also been found in areas where the state has failed to recognise a need, the foremost example being the hospice movement.

The distinction between public service provision and non-profit provision to fill the gaps in it appears to be being blurred by the development of a new form - or at least a new definition - that of ‘public interest companies’. (Maltby, 2002). The Institute for Public Policy Research defines such companies as organisations which:

- do not have shareholders, or if they do have shareholders are restricted in the ability to receive dividend payments and sell their holding for profit;
- are to some degree independent from the state;
- deliver what could be termed ‘a public service’ (Maltby, 2002: 8).

The report sees this type of organisation as a response to two factors: the demutualisation of Industrial and Provident Societies on the one hand; and the restrictive nature of charity legislation on the other.[4] Its author admits that there has been some confusion between public interest companies and non-profit companies, especially because such companies tend to fill a similar role in other countries such as the USA and Germany. However, it is keen to keep the distinction for reasons that are, as much else in the definitions in this field, are political as much as academic.

> In our view the term not-for-profits as a description of these organisation is unsatisfactory. It is neither accurate (all of these organisation will want to generate surpluses) nor helpful (it would be unwise to make these organisations sound like they have a limited commercial orientation to the financial markets). (Maltby, 2002: 7)

In some ways the latest proposal for reorganisation in the NHS can be seen as related to these public interest companies. The ‘foundation hospitals’ planned by Health Secretary Alan Milburn to be functioning by April 2004, will be turned into not-for-profit businesses. They will have contracts with local organisations rather than through central government planning, but will still be subject to inspection by government watchdogs and expected to meet national targets (Parker, 2002). This is another attempt to solve the perceived problem of public services in the UK, which are seen as overbureaucratic and failing to respond to local need, but which have also faced a long history of underfunding (UK funding to the public health sector is around 7 per cent of GDP compared with an EU average of between 8 and 9 per cent: Appleby and Boyle: 2002).

However, the idea of the mutual provision of public services is distinct, mainly because it will blur the division between public provision and non-profit or charitable provision. Mayo and Moore (2001) see what they call ‘the mutual state’ as a new form of social contract that will not only ensure more responsive, diverse public services but also have a wider positive effect of engaging citizens with the democratic system they have grown disillusioned with. They offer examples such as Greenwich Leisure, which was hived off from local authority control and increased its income threefold in six years while providing better leisure services to local people. Other commentators are more sceptical and see the move towards ‘mutualisation’ of public services as a form of creeping privatisation that will inevitably lead to competition and inequality between hospitals (see former Labour Health Secretary Frank Dobson, 2002). Just as the ideological support for the charitable sector during the Thatcher years undermined that sector’s ability to function freely, so the hijacking of the term mutualism by a government with failing popularity and its attachment to a failing sector may handicap the further development of the social economy.

The role of the academic is to report developments in the social economy and provide some sense of its size and scope. Such measurement is impossible without a rigorous definition of that sort that has been missing so far. As a first step in the following section we suggest the pragmatic development of an operational definition to guide further analytical and audit-based work in this field. In order to proceed to assess how many social-economy enterprises we have, and how they function, we need to have a rule-of-thumb for defining them. The next section proposes how we might develop such a definition, along various dimensions that are at the heart of this discussion.

Development of an operational definition

For those of us committed to researching the social economy to make progress it is essential that we develop a reliable definition of this sector. The failure of existing definitions is itself a handicap to the development and credibility of these enterprises. As a first step we are suggesting the identification of dimensions that play a significant role in our understanding of which enterprises we are interested in studying. What is it about social economy businesses that make them different?

We suggest that the following dimensions help to distinguish the social economy from the dominant economic model under capitalism. We propose these as a list to aid ongoing discussion; although we offer our views of how they define the social economy this is merely as a stimulus to further discussion.

- Ownership
- Control
- Values
- Product
- Source of finance

Ownership is clearly key to any explanation of the social economy. When we talk about this sector we do not have in mind a share-based company where dividends are divided amongst a limited range of shareholders. Nor are we thinking of a business which is a subsidiary of a large multinational grouping. For an enterprise to be identified as forming part of the social economy it must be locally based and owned with a significant proportion of its value owned by its own employees.

Control is another important defining aspect of the social economy. ESOPs can meet the first criterion if a sufficient number of employees buy up shares in their own company, but these employees are never given a significant degree of power in decision-making within the enterprise. Without this ability to exercise control employees are in some ways more subject to control by their employer than those in a traditionally owned firm. Whether through substantial union involvement in decision-making or through electing their own representatives to the board, or through direct democracy of all members of a small co-operative business, employees in a social economy enterprise must have genuine power to influence management decisions.

Product is a less well demarcated area. Is the actual output of a business relevant when considering if it forms part of the social economy? Could we envisage a prostitutes' co-operative or an employee-owned arms manufacturer forming part of the social economy? In other words, in order for an enterprise to be defined as falling within the social economy does its product itself have to be socially beneficial? For the purposes of an empowering definition that enables the future development of this sector as a real alternative to competitive capitalism it seems that the product of the enterprises is irrelevant in deciding whether it forms part of the social economy.

Does the social economy have any distinctiveness in terms of *finance*? How can we distinguish between the social economy and the public sector, particularly in areas of economic depression? We would suggest that the answer is that for an enterprise to be considered part of the social economy a significant degree of its value must be owned directly by its employees or by other members of the local community. This is distinct from the proposed foundation hospitals, where members of the community will be consulted on important decisions. If a community values a social economy enterprise its members will be prepared to 'put their money where their mouths are' and make a financial commitment to its success. It is this local financial commitment that offers the possibility of capital anchoring to prevent the capital flight that capitalist enterprises are vulnerable to. In a sense it is this financial tie between a local community and its economic enterprises that represents the attraction of the social economy. Private-sector businesses can move to labour-markets with lower wages; public sector projects are vulnerable to changes of government or of European funding priorities; but social economy enterprises are embedded in their local economy because they are owned and financed by local people.

Finally, it is important to address the more nebulous question of *values*. Do we have a right to require of businesses that claim to be part of the social economy that they operate in a way any different from other businesses? Can we decide that a business no longer forms part of the social economy if it makes a decision that goes against employees' or customers' interests but increases profits? Again, it seems to me that if the definition is to have any analytical power the answer to these questions must be positive. Social economy enterprises can be expected to demonstrate *mutualism*. This itself a piece of jargon that requires definition. Perhaps it is most easily explained by reference to credit unions, which are required to have a 'common bond' in order to achieve legal status. This common bond relates to the existence of a common identity where the nature of social relationships stems from reciprocal interdependence typical of traditional community relationships (Ferguson and McKillop, 1997: 22).

Following up on these dimensions the figure uses them to place a number of businesses along the various dimensions. The businesses listed here form part of the social economy of Wales, which we are presently mapping in research based at the Welsh Institute for Research into Co-operatives. Because of our interest in co-operatives we focus mainly on the firms that are owned and controlled by their own workers. We take Tower Colliery to be both a prototype of such a business and an inspiration to the social economy in Wales (for more details see Keenoy *et al*, 2003; Cato, 2004). We are suggesting that the product is less important, so long as it has economic value, meaning that the business will survive in the marketplace without permanent recourse to grant support. Hence the finance dimension must reflect self-support, at least in the long term. Finally we would suggest that the company needs to indicate that it shares some mutualistic values such as equity and equality and is committed to mutual and community support rather than profit maximisation. This leaves only the three businesses in bold type as forming part of the social economy as defined here. These form the basis of an alternative way of organising the economy of Wales, rather than a marginal sector of the existing capitalist economy which survives at the margin thanks to state or charitable grants.

Figure 1. Multi-dimensional definition space for social economy

Conclusion

It is clear that in order for this academic discussion to produce useful outcomes, and for the social economy to develop the credibility it needs to expand, we need to devise some pragmatic, operational definitions. This paper is intended as a ground-clearing exercise towards that end, and also as a pragmatic move towards establishing the working definition that the Wales Institute for Research into Co-operative will be using in its audit of the social economy in Wales. The suggested dimensions are open to addition, subtraction and amendment. Other clusters of enterprises may be found and placed along the various dimensions in their turn. Perhaps most urgently we need a definition for the mutualist but publicly-owned service companies that appear to be developing in response to the failure of public services in the UK (Glas Cymru and Network Rail are early examples; the foundation hospitals will soon dominate this sector). Otherwise the confusion over the definition of the social economy can only grow; and as a corollary its chances of building a viable alternative economic model will diminish.

Acknowledgements

We offer our grateful thanks to the helpful suggestions of the Journal's anonymous reviewer.

Len Arthur, Molly Scott Cato, and Russell Smith are based at the Business School of the University of Wales Institute, Cardiff; Tom Keenoy is based at the Management Centre of King's College London. Together with colleagues they have established the Welsh Institute for Research into Co-operatives, researching all aspects of the social economy. They work closely with the Wales Co-operative Centre and to support Welsh Assembly policy in this field. Their major research to date has focused around the worker-owned coal-mine Tower Colliery and they are currently completing an audit of co-operatives in Wales.

Notes

1. The term non-profit is itself the subject of debate at present, with some commentators suggesting that the term 'non-profit-taking' is more appropriate in the context of a market ideology

	Ownership	Control	Product	Finance	Values
Tower Colliery	Workers	Workers/ management	Economic	Employees /private	Mutualistic
OMSCO (organic milk suppliers' co-op)	Joint/workers	?	Economic	Private	Mutualistic (organic)
Local ESOP?	Worker/ shareholders	Managers	Economic	Employees /private	Market
Glas Cymru	Trust?	Managers	Public good	Private	Mutualistic?
Community enterprise	Workers	Employees?	Social	Public	Mutualistic
Newtown Credit Union	Members	Members	Financial	Members	Mutualistic
Foundation hospital	State?	Managers (with consultation?)	Social	Public	Market?
Ty Hafan children's hospice	Non-profit	Managers	Social	Charit-able	Philan-thropic

where even socially focused organisations should demonstrate efficiency and generate income. While we are strongly of the view that organisations should strive for financial independence wherever possible, we would rather term any excess income generated as a 'surplus' than a 'profit'.

2. The Wales Institute for Research into Co-operatives is presently conducting an audit of co-operatives in Wales which has provided the spur to creating this operational definition; results are due in February of 2004.
3. In Northern Ireland they have been considerably more successful, with the support of the Catholic Church, and in parallel with their prevalence in the Republic of Ireland (Berthoud, 1989). The Protestant community in Northern

Ireland has organised an alternative model through the Ulster Federation of Credit Unions, which is supported through the social capital in the Unionist community.

4. This restrictive charity legislation is paralleled by the constraints on mutual bodies, especially credit unions, that prevents their financing local businesses via microfinance schemes. This is an area where legal change is essential if the social economy is to develop access to local, low-interest finance.

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