

What is the Social Economy?

by Jack Quarter, Laurie Mook, and Betty Jane Richmond

Based on "The Social Economy," Chapter 2 of *What Counts: Social Accounting for Nonprofits and Cooperatives*, Prentice-Hall, 2003.

1. The economic role of nonprofits and cooperatives

The economic role and contribution of nonprofits and cooperatives are often overlooked, for a variety of reasons – their use of volunteer labour and unpaid member contributions, the fact that many of them rely on government grants, and, for organizations that do not sell their services in the market, the difficulty of quantifying their economic contribution.

Yet, much like for-profit businesses, nonprofits and cooperatives purchase supplies, rent office space, employ paid staff who pay taxes, and provide valuable services. Some nonprofits and cooperatives compete in the market, and the economic value of their services is unquestioned. However, for those organizations that serve the community without a market transaction, their economic value is often ignored, even if they are providing the same services as a profit-making firm that charges a fee. For example, both nonprofit and for-profit organizations provide various types of health care. However, for nonprofits, the service is usually characterized as "social," whereas for a for-profit company, the exact same service is seen as commercial or as a "business."

Because of their economic contributions, scholars and analysts have begun to use the term "social economy" with reference to nonprofits and cooperatives, replacing the term "third sector." Although some people use the term "social economy" as a catchall term for organizations that are neither in the private nor public sectors, the three sectors are not clearly separate. While some social organizations are distinct from business or government, others overlap with either the private or public sector.

2. How big is the social economy?

According to research on 22 countries conducted at Johns Hopkins University in 1995, the nonprofit sector of those countries (excluding religious organizations) had combined revenues of \$1.1 trillion – greater than the entire national economy of Canada. Canada itself has an estimated 175,000 to 200,000 nonprofits, including 78,000 with a charitable status that generate revenues of more than \$90 billion a year and employ 1.3 million people (not including volunteers). It also has about 10,000 cooperatives that generate more than \$37 billion a year and employ about 150,000 people.

3. Types of organizations in the social economy

Social organizations generally can be grouped within three categories: public-sector nonprofits, market-based social organizations, and civil society organizations.

Public-sector nonprofits

These organizations have the common characteristics of relying on government funding in the form of either grants or billings for services, having a charitable status that allows donors to receive a tax deduction, and often having volunteers who contribute free labour.

Public-sector nonprofits can be subdivided into two groups.

1. Some rely heavily both on government funding and policy direction (for example, hospitals, extended care facilities, universities, and museums) and are perceived by many as part of the public sector. Nevertheless, they have an independent incorporation

and have some degree of freedom from government in their decision making.

- Others receive a substantial portion of funding from government, but also receive funding from donors such as the United Way and operate at a greater distance from government. These include social-service agencies such as the John Howard and Elizabeth Fry Societies and agencies in international development such as the Red Cross.

Public-sector nonprofits serve an external constituency rather than a group of members. The constituency might be the general public, as is the case with organizations such as museums, zoos, hospitals, or universities. Alternatively, it might be a specific group such as the disabled, low-income people, run-away teenagers, or abused women.

The number of organizations of this kind has increased in recent years, partly because government agencies that once provided services directly are no longer doing so, and partly because individuals and families have fewer informal supports, such as extended family members or neighbours, who are able to help out when problems arise.

Market-based social organizations

These nonprofits and cooperatives compete in the market for revenues. They include credit unions, marketing cooperatives (largely in farming, but in other endeavours as well), food retailing co-ops, commercial nonprofits such as automobile associations, Travel Cuts, and Blue Cross, sports and recreational organizations such as YM-YWCAs, Scouts, and Guides, competitive sports teams, and performing arts groups. They differ from public-sector nonprofits in that their revenues come largely from the market in payment for goods and services, rather than from the government, although in some cases they may receive grant money.

These organizations belie the stereotype that equates the private sector with market competition. In Canada, 7 of the 10 largest farm-marketing firms are co-operatives. Similarly, although health clubs come and go with such rapidity that the government passed legislation to protect consumers against the loss of membership fees, the YMCA and YWCA, which compete in the same market, continue to grow.

Civil society organizations

These include primarily nonprofit mutual associations that, unlike public-sector nonprofits, provide services to a clearly defined membership and finance their services through members' fees, rather than through payments for specific services. Examples include trade unions and professional associations, religious congregations, social clubs, ethnocultural associations, and self-help groups, not only those that hold face-to-face meetings, but increasingly those based on the Internet.

In addition to nonprofit mutual associations serving their members, civil society has some volunteer organizations funded by a combination of donors, membership fees, and fundraising and providing services to the public. The services may be advocacy for social change (from environmental protection to human rights) or research into the causes of and cures for a particular disease. Amnesty International, Habitat for Humanity, and various medical research organizations fall into this group.

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4. What are the characteristics of the social economy?

In general, all the organizations that make up the social economy are self-governing, and have at least some formal structure, whether or not they have been formally incorporated. That is, they have been duly constituted as institutions and do not depend wholly on the participation or goodwill of particular individuals. They

Type	Subtype	Funding source	Orienta-tion	Examples
Public-sector nonprofits	Largely govt. funded	Mostly government; some donations	General public or specific group	Hospitals, universities, museums
	Partly govt. funded	Partly government, partly donors	General public or specific group	John Howard Society; Red Cross
Market-based organizations	Non-profits	Revenue from clients	General public	Boy Scouts, performing arts organizations
	Co-ops	Service charges from members	Members	Credit unions, food retailing cooperatives
Civil society organizations	Mutual associa-tions	Fees	Members	Trade unions, social clubs
	Volun-teen organi-zations	Mostly donations	General public	Habitat for Humanity and Amnesty Inter-national

are also characterized by social objectives, social ownership, volunteer or social participation, and civic engagement.

Social objectives

Social economy organizations are formed with a particular purpose other than pure profit-making (although some may accrue a net income that is labelled as a profit). The purpose may be charity to those in need, support for members, or service to a particular group.

Charitable organizations have a long history, and many were originally formed to help the poor, the sick, orphans, or prisoners in a local community. However, the notion of charity has expanded, and charitable organizations now include those devoted to the advancement of education, international aid, culture and the arts, or environmental protection. Donations to such institutions constitute “charitable donations” for tax purposes.

Mutual associations are organized around the principle of self-help, or members helping other members, rather than the delivery of services by the more fortunate to the less fortunate. Some of the oldest of these organizations were created by members of a particular profession or a particular ethnic background, and they offered their members services such as insurance or burials. Others, such as credit unions, were formed as less-expensive or more accessible alternatives to market institutions. Membership organizations now include associations of all kinds, from professional associations to the Royal Canadian Legion to golf clubs. Members are brought together because of their jobs, their interests, their religion or their culture, and the organization helps them meet largely social and cultural objectives.

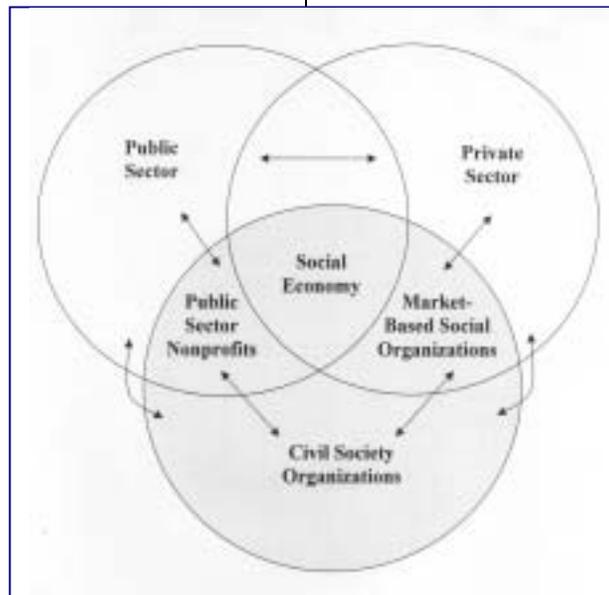
Although some social organizations do operate in a way that makes a positive net income, they can be distinguished from purely profit-making businesses by the fact that they have social as well as commercial goals. However, for organizations that compete in the marketplace, there is often a tension between achieving social objectives and ensuring their own survival by remaining competitive and efficient. If the pursuit of commercial

goals becomes the over-riding objective, the organization cannot be considered a part of the social economy.

Social ownership

Unlike profit-making businesses, which are pieces of property that belong to their owners (usually shareholders) and can be bought and sold for personal gain, social organizations generally do not have shareholders and their assets belong to no particular individual. Any surplus revenues generated by a social organization are usually ploughed back into services and any deficit results in a reduction of services.

If a charitable organization is dissolved, the assets are usually passed on to another charity with similar objectives. If a credit union or cooperative is closed, the assets may be shared among the members, in a process known as demutualization, provided the by-laws specify this option. However, it is rare for a social organization to be dissolved for reasons other than financial insolvency.



Although most cooperatives have shareholders, the shares do not serve the same purpose as those of a profit-making business. They do not reflect the value of the business or what speculators might pay on the stock market; they usually remain at a constant level. When members leave, they simply get back what they originally paid in, plus a modest amount of interest.

Some social organizations hold valuable assets – a large endowment, a collection of fine art, or substantial real estate holdings – but these assets are neither the property of private individuals nor of the government. Rather, they serve as a social dividend passed from generation to generation. In many cases, the assets were originally provided by the private sector as a donation, but they have been converted from private wealth to social wealth.

Volunteer and social participation

Most social organizations have volunteer boards of directors and many rely heavily on volunteer labour for day-to-day operations. In Canada in 2000, a Statistics

Canada survey found that 26.7% of the adult population (15 and over) contributed 1.05 billion hours of volunteer work – the equivalent of 549,000 full-time jobs.

It is not, however, correct to label all such organizations “voluntary,” a term that suggests a grassroots grouping with no paid staff or a loose coalition of like-minded individuals. Most well-established social organizations have paid staff (who supervise the volunteers and define their roles) and a permanent administrative structure. Voluntary associations are usually informal groupings, such as neighbourhood organizations or even Internet-based discussion groups.

Volunteers may be closely involved in the organization’s work (such as a Girl Guide leader), or only passively involved through the payment of membership fees (such as a professional who is required to be a member of an association). Nevertheless, the power and influence of a particular organization may be related to the size of its membership, even if very few do more than write a cheque from time to time. For example, Amnesty International is an influential organization, but in Canada, only about 10% of the members are actively involved in helping the organization campaign for human rights.

Civic engagement

Robert Putnam, the author of *Bowling Alone* (Simon and Schuster, 2000), argues that social or civic engagement, an essential component of “social capital,” is in decline in North America. He notes that civic engagement reached an apex between 1880 and 1920 – the period during which groups such as the Red Cross, the Rotary Club, the Boy Scouts, the Teamsters Union, and the PTA were formed. According to Putnam, the last three decades of the 20th century saw a decline in civic engagement, and social institutions that have been formed more recently tend to be more transient, more narrowly defined, and less likely to require the active participation of members.

The strongest proponents of civil society are searching for a space other than the state and the market in which to improve the quality of life (although a few organizations have less constructive goals). Some organizations involve intense forms of civic engagement; for example, in rape crisis centres and food banks, employees, volunteers, and board members work hard to ensure consensus on issues and practices. These organizations practise a form of direct democracy. However, in other organizations, many members are passive and do little beyond writing a yearly cheque; the work of the organization is largely carried out by paid staff. Nevertheless, these organizations exist because members

identify with the organization’s goals and support those goals year after year. They also offer citizens a voice in public policy that may be more meaningful than elections every few years. These organizations might be described as a form of social democracy, not in the secretarian political sense, but, quite literally, democracy within a social institution. Voting rights in such organizations are accorded on the basis of one member, one vote, rather than on the basis of property holdings as in for-profit businesses.

Although the expression of democracy within social organizations may not always be ideal, particularly in public-sector nonprofits with a closed membership, in general, the organizations of the social economy provide a fertile ground for ordinary citizens to engage with each other and to influence the organizations of which they are members.

5. Relationship to the public and private sectors

The social economy continually interacts with governments. Public-sector nonprofits are influenced by government policy and may receive government funds. However, these organizations are separate from government, and have independent boards of directors and management who shape their policy and guide their day-to-day operations.

Market-based organizations may overlap with the private sector by competing to provide certain services. In the case of some nonprofit business associations, private-sector companies may be members of the organization.

Civil society organizations are the most clearly separated from the public and private sectors, although they may seek financial and volunteer support from either or both sectors.

6. Conclusion

The term “social economy” should remind us that social organizations – that is, organizations established primarily to meet social objectives rather than to make a profit – have economic value. They employ people, they purchase goods and services, and they own valuable assets. Although they may take a variety of forms, they share certain characteristics. They call for a new kind of “social accounting,” which moves beyond traditional measures such as net income and requires a greater understanding of and appreciation for social capital and social outputs, and for transactions that do not take place through the market.

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