

Social Economy as the Mainstream of the European Union Development

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Abstract:

The global community is striving nowadays to find ways to stabilize social processes, as well as to solve the problem of involving socially vulnerable groups in the social and economic life and work out a strategy for reducing long-term unemployment. The development of the social economy has been chosen as the mainstream of the European Union development. A great deal of attention of European Commission is paid to studying and development of recommendations on the introduction of principles of social economy, both in the basic EU countries and in the countries that are becoming the new members of the EU. However the national approach to the legalization and support of social companies is used in each country. So, for example, in Slovakia it is supposed to create social enterprises for inclusion of disadvantaged people to the labour market first of all. Along with support of the traditional actors of the social economy, the EU is also actively developing new forms of social economy actors, social enterprises are primarily among which. The development of the principles of social economy and the activation of social enterprises is relevant for many post-Soviet countries, including Russia. However, so far in Eastern European scientific practice, many researchers do not see the difference between the concepts of social economy, social market economy, solidarity economy. The key characteristics of the social economy are considered in the article, the interrelation of social, social market and solidarity economies is observed, modern trends in the construction of the social economy of the EU are highlighted.

Key-words: Social economy, Social market economy, Solidarity economy, Social economy company, Social enterprise

1. Introduction

The European Union (EU) economic development strategy «A strategy for smart, sustainable and inclusive growth EUROPE 2020», approved by the European Commission in March 2010, notes that Europe is experiencing a crisis which exposed structural weaknesses in Europe's economy and faces a moment of transformation.

The Declaration, signed in Bratislava on December 1, 2016, notes that, despite the fact that at the end of 2016 there was an economic recovery in the European Union, there are regions and wide groups of citizens who are not benefiting from economic growth, and there is a significant problem of finding a way of unemployment's decreasing. The

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Declaration emphasizes that only more inclusive economy could reduce inequalities in income and wealth and contribute to the common European effort to combat social exclusion and thus to the return of EU citizens to the European integration project.

At the same time an implementation of a Social economy was chosen as a priority direction for the development of the European Union. The European Parliament, the European Commission consider that Social economy can become an effective mechanism for the integration of the European Union and for economy's stabilization. This mainstream corresponds to such priorities of the EU development mentioned in EUROPE 2020 as reduction of poverty and social exclusion, and modernization of labor markets, developing labor mobility and labor skills of all groups of citizens of the EU countries.

As it was estimated in official European statistics in 2010 the Social economy already provided work to 14.5 million Europeans and, according to the latest estimates, in 2016 accounts for 10% of jobs in the EU and 8% of EU GDP.

The European integration project is based on the principles of democracy, equality and diversity. The Social economy implements unique organisational models such as social enterprises which are based on the same principles. The strength of the Social economy is based on four values: collaboration, solidarity, pluralism and sustainability.

The Social economy and social enterprises have proven to be very resilient during the economic and financial crisis in recent years. They have demonstrated an ability to overcome multiple obstacles and to absorb shocks that affect the stability of employment, for instance. The Social economy is therefore a crucial part of the European economic landscape and needs to be part of any European entrepreneurship or job creation agenda.

However not all the members of the European Union have equally implemented the social economy model as a prior direction of their development. First of all it concerns relatively new members of the European Union from the post-Soviet countries and countries of ex-socialistic bloc, such as for example Slovakia which has its own historic background. These countries still have strong State (municipal) sector which aim is to produce basic social services and meet basic social needs. Weak implementation of the Social economy's model concerns both the level of slow legislative approval of the concept of Social economy as a priority direction of development, and weaknesses in the process of creating of the Social economy actors. In addition, due to the absence of universally accepted definition for the term «Social economy», there are certain contradictions in the interpretation of concepts of the Social and Social Market economy which was actually distributed in the ex-socialistic bloc countries and has an important role for all the countries of Europe at the present time as well as the social economy does.

2. Social Economy and Social Market Economy: Concept and Significance for the European Union country-members.

The Social economy is a modern form of economic development which has implemented in all countries members of the EU for more than 15 years. In the EU, there are around 2 million social economy entities, accounting for approximately 10-12% of all European businesses. Traditional social economy entities employed over 14.5 million people, equivalent to 6.5% of the entire EU working population in 2010, up from 11 million and 6.5% in 2002 (Liger, Stefan, Britton, 2016).

The concept of Social economy has an undoubted scientific interest. Social economy is the subject of research by a significant number of European authors, including Carlo Borzaga, Jacques Defourny, Jean-Louis Laville, Carlo Morales, Marthe Nyssens, Roger Spear, and others.

The most complete trends in the Social economy in Europe are covered in the European Commission reports and CIRIEC reports (International Centre of Research and Information on the Public, Social and Cooperative Economy) which is a non-governmental international scientific organization.

In most of the reports it is highlighted that nowadays there is still no clear, precise and unanimously accepted definition for the Social economy because of a multitude of national and regional approaches in EU member countries. However in official Social Europe guide «Social economy and social entrepreneurship» (2013) the next definition for the Social economy is given: «The term «Social Economy» is used to define a specific part of the economy: a set of organisations (historically, grouped into four major categories: cooperatives, mutuals, associations, and, more recently, foundations) that primarily pursue social aims and are characterised by participative governance systems. For close to two centuries, these organisations have engaged in the production of goods and services alongside the Market (i.e. private corporations) and the State (i.e. public sector institutions)» (Andor, Barnier, Tajani, 2013).

The study of the European Parliament on the Social economy (2016) notes that the Social economy consists of private, formally-organised enterprises and networks that operate on the basis of democratic and participatory decision-making processes, producing market and nonmarket goods and services. In Social economy initiatives, the distribution of profits or surpluses amongst members is not directly linked to the capital or the fee contributed by each member, but is directed towards meeting the members' needs, through the production of goods and the provision of services, insurance and finance.

In European Parliament study (2016) it also states that the Social economy is a sector of the market which operates between the public and the private sphere. This sector is made up of private socio-economic initiatives that, regardless of their specific legal status: a) produce goods and services for both market and non-market purposes; b) are based on values of sustainability, solidarity, trust, reciprocity, local development, social cohesion and inclusion; and c) aim at the reinforcement of social cohesion, awareness and citizenship, through internal and external collaboration and collective efforts.

As there is no universal definition for the term «Social economy» and due to the historic past many Russian as well as other western European authors have poor knowledge of interpretations of the concept of Social economy. In the overwhelming number of scientific works there is a confusion of concepts. The Social economy is seen as a process of socialization of the economy. They regard the Social economy and the Social Market economy as synonymous terms. They confirm that the socialization within the global economy, the development of the concept of social responsibility of business and social partnership lies at the basis of the social economy (which is equal to the social market economy). The European reports however assert that although these terms are similar, «Social economy» and «Social market economy» are two completely different

political and economic concepts that were developed in Europe and other parts of world for different purposes. Nevertheless, they both play a decisive role in determining the European socio-economic model.

The term «Social market economy» refers to the political-economic model created after the World War II, in response to the need to spread confidence in the new democratic system. The model was based on the desire to harmonize the principle of freedom in the market with the principle of social security through providing the State with an active role in encouraging both market competition and balanced social development by the implementation of social policy measures aimed at ensuring social justice by adjusting the negative effects of the market and strengthening social protection. This approach was often seen as the «third way» between capitalism based on the principle of minimal state intervention in the economy «laissez faire», and a centrally planned economy in which the state fully controls economic activity.

Many principles of the social market economy have become an essential part of the European social model and found expression in the Treaty on the European Union. So far nowadays the model of Social Market Economy in Europe is changing to the model of Social Economy and they have fundamental differences.

A detailed report on the status and form of the Social economy in the European Union is given in CIRIEC Report by José Luis Monzón and Rafael Chaves (2012). The report describes the historical retrospective of the formation of the Social economy in European countries, assesses the presence of social economic entities in the post World War II period, distinguishes the features of social economic entities formation in the Eastern European countries of the socialist bloc. The report also highlights the current significance of the Social economy for the countries of the European Union.

Monzón and Chaves (2012) note that the term Social economy appeared in economics literature for the first time in 1830. In that year the French liberal economist Charles Dunoyer published a «Treatise on social economy» that advocated a moral approach to economics. Over the 1820-1860 period, a heterogeneous school of thought that can collectively be termed the social economists developed in France. Most of them were influenced by the analyses of T.R. Malthus and S. de Sismondi, regarding both the existence of «market failures» that can lead to imbalances, and the delimitation of the true subject of economics, which Sismondi considered to be man rather than wealth. However, most of the social economists must be placed within the sphere of liberal economic thinking and identified with laissez-faire principles and the institutions that the emerging capitalism was to consolidate, including capitalist companies and markets.

Monzón and Chaves (2012) give the following definition of the Social economy in its modern comprehension: «The set of private, formally-organised enterprises, with autonomy of decision and freedom of membership, created to meet their members' needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote, or at all events take place through democratic and participative decision-making processes. The Social economy also includes private, formally organised organisations with autonomy of decision and freedom of membership that produce non-

market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them».

The Social economy basis is made up of individuals deciding to collaborate on a voluntary, co-operative and reciprocal basis; ownership of the capital does not determine the decision-making process. Monzón and Chaves (2012) also highlight the presence of the non-market sub-sector and market or business sub-sector of the Social economy. The non-market sub-sector of the Social economy consists mainly of associations and foundations, although organisations with other legal forms can also be found. Non-market producers supply the majority of their output free of charge or at prices that are not economically significant.

The market sub-sector of the Social economy is made up of cooperatives and mutual societies; social economy business groups and social enterprises. The last ones are new and the most innovative forms of Social economy entities.

It can be asserted that social enterprise is the social economy operator with the main objective of achieving a social impact rather than generating profits for its owners or members. Social businesses operate in the market to provide goods and services in an entrepreneurial and innovative way. They mainly use their surpluses for social needs and their organisational form is based on democratic or participative principles. A social enterprise must fulfill the following conditions: a) it must engage in an economic activity; b) it must pursue social aims explicitly and as a primary goal; c) it must have limits on the distribution of profits and/or assets; d) it must be independent; and e) it must have inclusive governance.

Despite the considerable interest of the European Commission towards the development of the concept of Social economy, not all countries with equal enthusiasm are implementing this practice. All EU Member countries can be divided into three main groups depending on their level of recognition of the Social economy concept (this division was made in 2012).

The first group of countries represents the highest level of the Social economy acceptance. In these countries numerous initiatives directed to creating Social economy legal frameworks have been undertaken. In Spain, France, Portugal, Belgium, Ireland and Greece, the concept of the Social economy enjoys greatest recognition by public authorities and in the academic and scientific world, as well as in the Social economy sector itself. The first two countries stand out: France is the birthplace of this concept, and Spain approved the first European national law on the Social economy in 2011.

The second group includes countries that have adopted some issues covering the process of creation and development of social economy organisations but who have stopped short of developing a systematic normative approach. In these countries the concept of Social economy enjoys a moderate level of acceptance. Among these countries are Italy, Cyprus, Denmark, Finland, Luxembourg, Sweden, Latvia, Malta, Poland, the United Kingdom, Bulgaria and Iceland. In these countries the concept of Social economy co-exists with other concepts, such as the non-profit sector, the voluntary sector and social enterprises.

The third group of countries with has low level or no legal recognition of the Social economy, stemming from either the low development of the Social economy or the fact

that it is not clearly defined. The related terms non-profit sector, voluntary sector and non-governmental organisation enjoy a relatively greater level of recognition in these countries. The concept of the Social economy is little known, emerging or unknown in the following countries: Austria, the Czech Republic, Estonia, Germany, Hungary, Lithuania, the Netherlands, Slovakia, Romania, Croatia and Slovenia, a group which mainly comprises Germanic countries and those which joined the EU during the last round of enlargement.

It should be noted that the situation in the period 2012-2017 has undergone significant changes in connection with the significant efforts of the EU to implement the principles of the Social economy and its forms in Member countries.

Among other concepts related to the Social economy in some of the European countries can be distinguished the Third sector approach, the Non-profit organisation approach, the Solidary economy approach and the Social enterprises approach.

As far as the Social enterprises approach is concerned, it must be emphasized that the concept of the Social economy is far broader than that of Social enterprise. The Social economy is made up of a wide range of operators and social enterprises are only small part of them.

At the same time, in the works of a number of researchers the concept of the Social economy is being transformed into the concept of the Social and Solidary economy. Solidary economy is a complex of organizational structures and initiatives in which collective principles dominate the principles of individualism. The decision-making process is democratic. The goal of economic activity is to meet the needs of society, for example, in creating jobs, implementing civic initiatives, protecting the environment, the sphere culture and education. At the same time the activities of the Social and Solidary economy organizations can make a profit, but it must be reinvested in accordance with collective interests, i.e. here the logic of the market is subordinated to the logic of solidarity. The solidarity economy is based on the principle of «bottom-up», and its structures are built on the concern for the well-being of people, on the principles of cooperation and solidarity. Logic and motivation in this economy are opposite to the logic of competition and the individualism of the market system.

According to A. Dash (2013), the Social and Solidary economy is not a model of an organization of an economy, but a process of ordering (shaping the structure, configuration) of economic activity (economic organizing).

3. Models and features of Social Economy

The interpretations of the concept of Social economy presuppose the singling out of two alternative models: Emancipative social economy and Integrative social economy (Pavlenko, 2016).

The Emancipative model of the Social economy is based on the importance of the dissemination in the social and economic practice of the principles of solidarity, equality and justice. This model in some of its features goes back to understanding the Social economy as a «third sector» economy. This model in particular is considered by Professor Jacques Defourny. He proposed the following definition of Social economy adopted by the European Social Enterprise Research Network (EMES): «Social economy includes

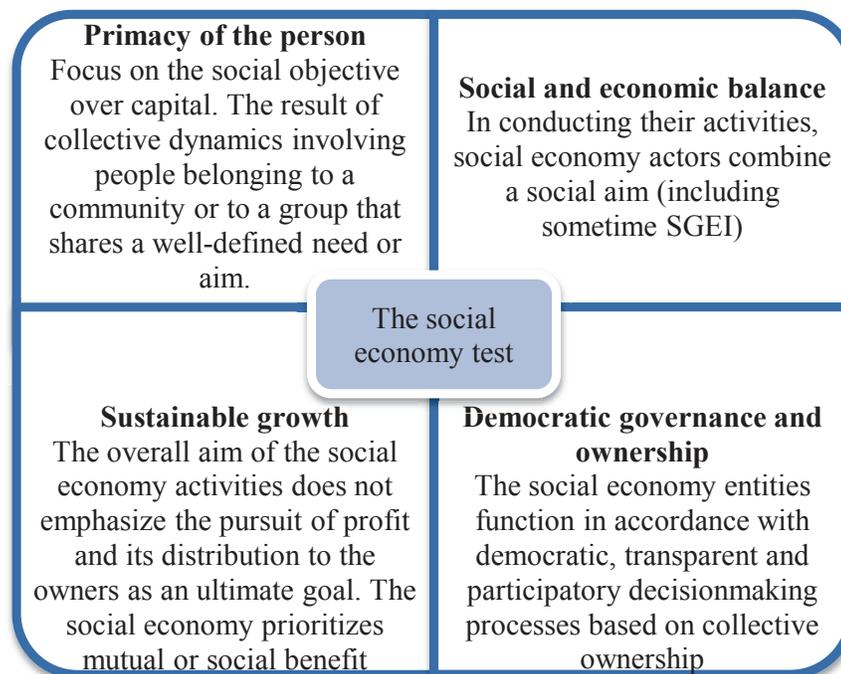
cooperative enterprises, mutual and insurance corporations, foundations and all the other non-profit organisations which hold principles that correspond to the «third sector» of the modern economies» (Defourny, 2014, p. 9). The main economic entities of an emancipative model of the economy are social economy companies which are decentralized independent enterprises, governed by the principles of grass-roots democracy.

CIRIEC (2005) proposes the following definition of the social economy company: «private, formally-organised enterprise, with autonomy of decision and freedom of membership, created to meet its members' needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote».

Social economy companies can be established in different forms but all of them have distinctive features which help to identify Social economy actors from other enterprises. These distinctive features include:

- the primacy of the person: the Social economy is based on the primacy of the individual and of social objectives over capital,
- sustainable growth: the overall aim of the Social economy activities does not emphasise the pursuit of profit and its distribution to owners as an ultimate goal,
- social and economic balance: in conducting their activities, Social economy actors focus on social aims, and
- democratic governance and ownership: social economy entities function in accordance with democratic, transparent and participatory decision-making processes (figure 1).

Figure 1. Key features of social economy company



Source: Elaborated by author based on Liger Quentin, Stefan Marco, Britton Jess (2016). Social Economy. Study. European Union.

Main sectors of economic activities of social economy companies are social services (16.70% of all social economy companies), employment and training (14.88%), environment (14.52%), education (14.52%), economic, social and community development (14.34%), culture, the arts and recreation (7.08%), health (6.90%), other 8.35%.

Social economy entities can be divided to the traditional actors of the social economy and new actors. Historically in lots of European countries, social economy organisations have been grouped into four major categories: cooperative enterprises, mutual societies, foundations and associations. The legal form of these organisations may vary considerably from one country to another. These organisations are all committed to promoting social, religious, educational activities or various general-interest activities according to the founder's will.

Cooperative enterprises are «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» (International Cooperative Alliance, 1995). This definition was also adopted in the International Labour Organization (ILO) Recommendation 193 of 2002.

Mutual organizations or mutual aid societies can be defined as an association that offers insurance services to the benefit of its members. Mutual aid societies are based upon reciprocal contracts and require that members receive benefits as a consequence of their participation.

An association is a group of people who join together for a particular purpose (cultural, recreational, social, or economic in nature) and give raise to a lasting organization. Associations can be formal, with rules, by-laws and membership requirements, or can be an informal collection of people without a set structure.

Foundations are legal entities created to accomplish specific goals for the benefit of a specific group of people or of the community at large, through the use of an endowment or systematic fundraising. In some instances foundations can take on some other country-specific organisational form (such as charities in the United Kingdom or even religious organisations). Throughout Europe, foundations typically take on one of two roles: in some instances they engage directly in the provision of goods and services, while in others they provide funding for specific categories of people or activities, including the production of specific services. In recent years, there is a surge in the number of foundations that are engaged in the support of social projects and organisations. So these foundations started a process of becoming a strategic philanthropic investor.

Innovative tendencies in the context of the Social economy include the emergence of social enterprises. Despite the lack of a universal definition of the term, in Europe the concept of social enterprise is increasingly used to identify a «different way» of doing business, which occurs when enterprises are created specifically to pursue social goals.

The European Commission gives the term «social enterprise» the following meaning: «an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible

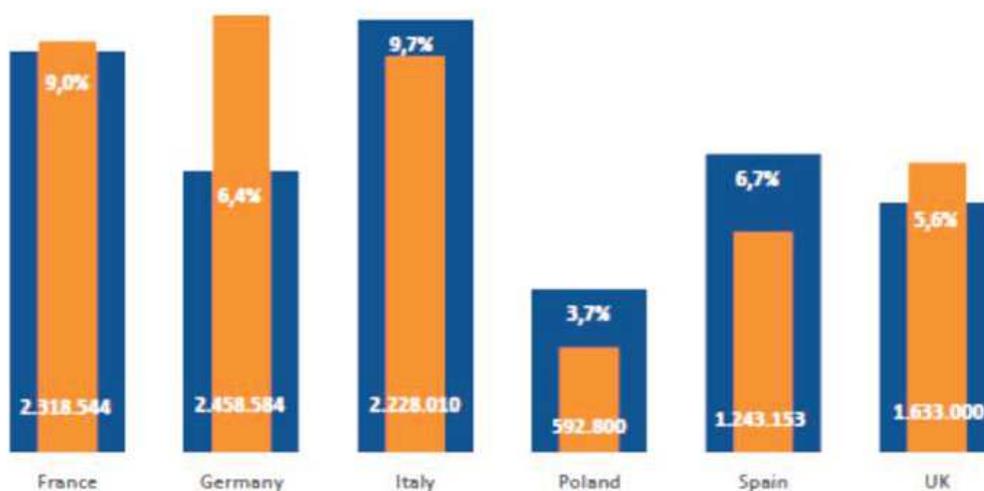
manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities» (Social Business Initiative, 2011³).

A social enterprise overlaps can be registered as an association, cooperative, charity etc., as a private enterprise, or as one of the specific forms set up in recent years under national legislation. What distinguishes social enterprises from traditional associations or charities is the fact that social enterprises earn a substantial proportion of their income through trading, rather than being dependent on grants or donations.

When compared to traditional social economy organisations, social enterprises may be seen as more oriented towards addressing not only the needs of their owners or members, but also of the entire community (including the needs of the most fragile segments of society). This does not mean, however, that social enterprises only work with the poor or the most vulnerable social groups – rather, they provide a variety of services of general interest, including for instance health care, child care and educational services.

The Integrative model of the social economy presupposes the social integration of both active and passive subjects of economic relations into the social and labor life. The model is also based on the fact that the social exclusion of socially vulnerable groups of the population who's got disadvantages on the labor market and belong to the passive part of the labor potential, threatens the social community, entails social and economic losses, and threatens economic development. Such groups of the population most often include people with disabilities, former prisoners, long-term unemployed, citizens over 50 years of age, migrants, national minorities (for example, in Eastern Europe, gypsies who live on their territory are one of the problematic national groups), young people without a previous one place of work, etc. the social economy entities can provide up to 10% of working population employment (figure 2).

Figure 2. Absolute numbers and share of the working population employed in the Social economy



Source: CIRIEC, 2014

³ Social Business Initiative. Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation. Brussel, 2011.

Within the framework of the Integrative model of the Social economy the main attention in the countries social policy is paid to the employment policy aimed at providing employment for everyone in the labor market.

Slovakia where the priority in the national model of social policy is paid to the employment of persons disadvantaged in the labor market can be named as an example of the Integrative model of the Social economy. The country provides state support to those actors in the social economy who provide social inclusion and poverty reduction. These actors include different types of organisations, not necessarily legal forms. The most common to Slovak's model of Social economy are:

- WISEs (Work Integration Social Enterprises). WISEs are the labour integration structures, which operate with the objective of (re)introducing disadvantaged (long-term unemployed, ex-prisoners and drug and alcohol abusers) people to the labour market. WISEs can operate under any type of legal form (e.g. cooperative, civic association, limited liability company, public benefit organisation, allowance organisations etc.)⁴.
- Sheltered workshops/sheltered workplace. They also focus on work integration. Yet, unlike social enterprises the target group here is individuals with disabilities. Sheltered workshops can operate under any type of legal form (e.g. cooperative, civic association, limited liability company, public benefit organisation, allowance organisations etc.).
- Municipal social enterprises. They are traditional WISEs established by municipalities. This type reflects the specific situation in Slovakia, which has a rural population and a number of regions suffering from a marked absence of human and social capital, as well as of non-profit organisations or business entities. In such regions municipality is the strongest and most sustainable actor. Municipal social enterprise is not a legal form in itself; it can operate under any type of legal form, quite often the municipality social enterprise is registered as a Ltd company.
- Cooperatives. Whilst most cooperatives are member-oriented, there are a few examples of cooperatives in the field of regional development or entrepreneurship of disadvantaged groups, which can be regarded as social enterprises.
- However the quantity of social enterprises in Slovakia is still low (Table 1)

⁴ European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2016): Mapping study on Social Enterprise Eco-systems – Updated Country report on Slovakia. – 58 p.

Table 1. Estimated scale of social enterprise in Slovakia (2014)

	Registered (2014)	Estimated proportion at least partially meeting EU definition of social enterprise	Estimated number of social enterprises
Social Enterprises	94	100 %	52
Sheltered workshops – form of WISE	2 571	100 %	2 571
Non-profit Organisations	36 601	3 %	1 098
Municipal social enterprises	n/a (20)	n/a	n/a
Cooperatives	1 556	1 %	16
Total	~40 822		~3 737

4. Conclusions

As we finish the second decade of the 21st century, the globalisation of the economy, the low rates of economic growth, the complexity of society, and growing demands for new services are challenging the European model of development. Europe has been updating its social model to respond to the economic crisis and to 21st century challenges, and its business model also needs to be up-to-date. New actors of the economy appear, the activities of traditional actors, for example, funds, undergoes significant changes. Social entities work both in market and non-market sub-sectors and produce a significant social impact on its employees, consumers and stakeholders.

Despite the efforts of academics, EU institutions, international organisations, national governments and social economy representatives in trying to provide a common analytical framework, a universally accepted definition of the social economy still does not exist. Moreover, the concept of the Social economy is often replaced by others, for example, the Social Market economy. However «Social economy» and «Social market economy» are two completely different political and economic concepts that were developed in Europe and other parts of world for different purposes. Nevertheless, they both play a decisive role in determining the European socio-economic model. It seems appropriate to distinguish the concepts of the Social economy and the Socially-oriented market economy. Understanding by social economy part of the economy associated with the activities of social enterprises, and under the Social market economy as the economic system, the activities of the state, socially responsible business, aimed at addressing market failures.

With the aim of contributing to the common good, the Social economy and social enterprises offer specific tools that can be used to tackle important social challenges. Moreover, they can contribute to reducing the social divide and accelerating innovation while pursuing their overarching objective of providing a service to society. The social economy and social enterprises must become a priority for public authorities at the European, national and local level because they embody the power of change and have the ability to bring people back to the core of the European economy. The social economy, based on participatory organisational forms with the goal of serving the community at large rather than seeking profit, and social enterprises, driven by a commitment to resolve

societal issues rather than make a profit for their owners or stakeholders, shows that it is possible for business interests and social responsibility to converge.

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