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## **Providing Public Goods and Commons. Towards Coproduction and New Forms of Governance for a Revival of Public Action.**

Philippe Bance, Malika Ahmed Zaïd-Chertouk, Juan Fernando Álvarez, Cristina Barna, Pierre Bauby, Manuel Belo Moreira, Jean-Claude Boual, Monique Combes-Joret, Pascal Glemain, Miguel Gordo, et al.

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**PROVIDING PUBLIC GOODS AND  
COMMONS.  
TOWARDS COPRODUCTION AND  
NEW FORMS OF GOVERNANCE  
FOR A REVIVAL OF PUBLIC  
ACTION**

by Philippe BANCE (dir.)

**CIRIEC STUDIES SERIES- 1 - 2018**



**CIRIEC**

**Philippe BANCE (dir.)**

**Providing public goods and commons.  
Towards coproduction and new forms of governance  
for a revival of public action**

**CIRIEC Studies Series – No. 1**

**CIRIEC (International Centre of Research and Information on the Public, Social and Cooperative Economy) is a non-governmental international scientific organization.**

Its objectives are to undertake and promote the collection of information, scientific research, and the publication of works on economic sectors and activities oriented towards the service of the general and collective interest: action by the State and the local and regional public authorities in economic fields (economic policy, regulation); public utilities; public and mixed enterprises at the national, regional and local levels; the so-called “social economy” (not-for-profit economy, cooperatives, mutuals, and non-profit organizations); etc.

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Université de Liège

Quartier Agora

Place des Orateurs, 1

Bât. B33, bte 6, BE-4000 Liège

[ciriec@uliege.be](mailto:ciriec@uliege.be); <http://www.ciriec.uliege.be>

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Philippe Bance





## Foreword

This book features the output of the transversal working group in public and social economy set up under the auspices of CIRIEC's International Scientific Council. After a call for contributions launched in December 2015 and a selection of responses in February 2016, a meeting was held at the 31st CIRIEC Congress in Reims in October 2016, to establish a collegial process of coordination and articulation of contributions and concrete modalities for interactive progress of the work.

The book inaugurates, for CIRIEC, a new form of publication, in open access, on its website. 2018 sees indeed a new online collection of CIRIEC: the *CIRIEC Studies Series*. It is in accordance with CIRIEC's vocation to develop scientific analysis on the potentialities and action of public economy and social economy organizations in the implementation of general and collective interest.

The book combines analyses of academics and researchers from seven countries on three continents, specialists of social and solidarity economy organizations and public policies. Their scientific expertise and their territorial knowledge bring a varied and detailed light to showcase profound transformations on a planetary scale which are part of a new paradigm of public action resulting from a process of creative destruction.

Philippe Bance



## Introduction

Philippe BANCE\*

Recent decades have been characterized not only by the increasing spread of liberal economic conceptions and their worldwide ascendancy in public policy, but also by emerging issues revisiting economic analysis and public policies, in particular on the basis of potential opportunities arising from the production of global public or common goods (or “commons”). To respond to the global issues of sustainable development, the United Nations Development Programme (UNDP), in the 1990s, advocated rethinking public policies within the framework of global public goods (Kaul *et al.*, 1999).

The concept of global public goods in standard economic theory holds the double characteristic of non-exclusion and non-rivalry of consumption; this calls for public action in order to compensate the market failures that induce the insufficiency of their production (and thereby limit access to their consumption). However, the UNDP broadens the standard approach by not restraining this production need solely to technical characteristics. It also confers on public goods social characteristics that necessitate their production for socio-political reasons, to meet the needs of equity (Ballet, 2008) between countries, populations and citizens of the world. The UNDP thus calls attention to the necessary participation of all actors in the decision-making process and the distribution of the benefits of public goods (Thoyer, 2011).

This approach, nonetheless, neglects the possible role of organizations in this production of global public goods. This lack of consideration concerns particularly hybrid organizations of the public and the social economy, i.e. organizations in a position to pursue sometimes compelling general-interest missions and to satisfy commercial considerations. By way of example, the choices made as regards public action to prevent global warming are largely based worldwide on the creation of pollution rights markets, and by that very fact on a fundamentally commercial rootedness of public policy, the results of which now appear, after nearly two decades of implementation, not very convincing at all. The production of public services, public enterprises and, in a more general way, the role of structures with capacity allowing the public authorities to implement or steer policies towards

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\* Normandie Univ, UNIVROUEN, CREAM, 76000 Rouen (France).

sustainable development and the improvement of the well-being of populations deserve to be reconsidered and are indeed currently being rethought.

At the same time, the works of E. Ostrom and her disciples have sparked increasing interest through their focus on the merits of common goods and by giving the lie to the theory of the tragedy of commons: they show that commons are a source of wise management of the resource in allowing, for instance, the development of participation-driven actions espousing non-commercial principles, actions with territorial proximity designed to meet the needs of populations. The common is here, in fact, defined as a good displaying three main features: the sharing of the resource, the nature of the rights and obligations linking the participants and, finally, a form of governance allowing participants to ensure respect, over time, of the system of rights and obligations that regulate it (Coriat, 2015).

The common is, in that perspective, a good shared for itself, the product of individual interactions ensuring the sound governance of organizations providing or managing it, while the global public good is accessible to all for the purposes of the general interest, without necessarily being the object of a form of governance allowing the resource to be managed efficiently. Ostrom and her disciples thus see the management of the resource by the common as a higher form of property, arguing against the theory of property rights that upholds the intrinsic superiority of private property. However, as Weinstein points out (in Coriat, 2015), this type of affirmation is still insufficiently supported, and there are also questions to be answered about the capacity of the governance of commons to be able to lead to: one, discarding the commercial development logics of contemporary economy and, two, meeting the needs of an active production of global public goods and managing them efficiently in order to contribute towards sustainable development. The commons, moreover, occupy a small space in today's economy and, if they happen to acquire greater importance in the future, there is also the risk of their drifting off and becoming absorbed by the traditional commercial market.

Rather than reasoning in terms of the supremacy of one form of property over another, it is more relevant to question the deployment of public policies contributing to the extension of the coproduction or joint production of commons and global public goods, next to private production, according to modes of governance that meet the expectations of sustainable development and of the general interest.

The above analytical developments give great relevance to the research themes that are those of CIRIEC's tradition and intrinsic vocation, namely to analyze how to best serve the general interest under the auspices of collective organizations of public and social economy. Without going into too long a presentation of the past work done in this respect by CIRIEC, two collective books should be highlighted: Monnier and Thiry (1997) and Enjolras (2008). Then, in early 2016, the CIRIEC International Scientific Council decided to launch a call for papers to carry out a research leading to the publication of this book which deals with the modalities and effects of the

deployment of new cooperation modes between public and social economy organizations to produce common and public goods. The present collective book is intended to analyze how and why the action of public and social economy organizations is a source of renewal in the conduct of policies of general interest in the economy of the 21st century. The research also deals with the potential of these partnerships without neglecting their limits.

In this perspective, the book brings together experts from a variety of backgrounds: their analyses are based on theoretical and applied contributions in various sectors (finance, health, services, forest economy); coming from all over the world (Europe, Japan, South America); their methodologies are diverse, presenting theoretical developments, case studies or various examples to prove the pertinence of their analysis. Nonetheless, the diversity of point of views leads to shared diagnoses that show that the globalization of the economy is a source of “regularities” and in particular of transformation of public policies leading to the decompartmentalization of the action of the organizations of public economy and social economy producing public goods and commons. This also leads to identify new forms of meeting of the general interest, strong mutations of the organizations assuming the actions that can contribute to the production of commons and public goods, the need to rethink this production around multiple actors and new modes of governance.

To study transformations in progress in the new economy and emergent questions that arise, the book is structured in four parts.

- The first part examines the territorialization of public and social organizations and various ways of shifting the frontiers between public economy and social economy, observable during the last decades. Further, the deployment of new public policies has reinforced their territorial anchoring.
- The second part of the book focuses on the need of radical transformation of the finance sector caused by the specificities of this sector as public good or commons and its impacts on society.
- The third part studies the consequences on identities and behaviors of partners of the emergence of new forms of cooperation between public authorities, public organizations and social economy organizations.
- The fourth part analyzes the transformations of governance modes, due to the new multi-actors context, to partnerships and forms of emerging organizations.

\* \* \*

The **first part** begins with a chapter titled “*The contribution of the non-profit sector in narrowing spatial inequalities: four cases of inter-institutional cooperation in Italy*”. Andrea Salustri and Federica Viganò examine how the public sector might fail in narrowing spatial inequalities, and how both underdeveloped markets and urgent territorial needs create in peripheral areas robust individual incentives to turn towards non-profit activities or even household production. It shows that in all these situations, a well-developed non-profit sector can offer marginalized or excluded

social groups a legal and ethical opportunity to obtain a decent income by offering rewards (monetary or non-monetary) in exchange for volunteering, allowing households to afford the cost of living. Four Italian cases of successful cooperation among social and solidarity economy (SSE) institutions on one side, and the private and the public sectors on the other side show notably how they facilitate the development of the non-profit sector by contracting out part of the production process to reduce costs and achieve a higher level of effectiveness.

The second chapter by Pascal Glémain *“The Work Integration Social Enterprises as “Learning Organizations”* shows that the model of sustainable development implies political support from local authorities to the actors of the territorial dynamic, i.e. the social and solidarity economy’s organizations with their potential of transformation at the economic, social and environmental level. In this perspective, social enterprises as learning organizations involved in the field of integration through the economic sphere appear like “firms” at the heart of the features of territorial and local development processes. They are dialogue organizations, as much top down as bottom up, in servicing employment through labor learning processes. The case of the « *Ateliers et chantiers d’insertion* », which are supported by the institutions of the French network *Chantier école*, permits to demonstrate this phenomenon.

The third chapter by Ancuța Vameșu, Cristina Barna and Irina Opincaru, *“From public ownership back to commons”* is an analysis of the re-institution, in Romania, after 50 years, of forest commons. This chapter analyzes these forest commons as social and solidarity economy organizations and shows their capacity to provide a viable framework for sustainably managing common resources under a significant economic pressure. It shows how the collective production of norms in these new organizations impacts the sustainability of the management of natural goods and permits to produce new goods and services of interest for the community. The commons allow the development of building projects, mixed farming, support for farming, and succeed to take into account as much the economic and social as the environmental objectives.

The last chapter of the first part by Shinichi Saito, Munenori Nomura, Fumitoshi Mizutani and Francis Rawlinson *“Redefining the borders between public, social economy and for-profit organizations in the provision of public services”* demonstrates the shifting roles by the Japanese public sector from direct service provider towards supporting intermediary. After a strong direct intervention of public authorities in public services, institutional reforms in the field of public services make possible the private participation, particularly in some rural areas facing major difficulties in maintaining public services including public infrastructure. Alternative ways, namely the restructuring and the foundation of “social businesses”, are thus explored. This extends the former concept of Public Private Partnership (PPP) from the relationship of private operators and the public sector to a mutual relationship with social enterprises which are independent of the private commercial companies.

\* \* \*

The three chapters of the **second part** of this book give arguments to better take into account the characteristics of this particular sector of finance to transform it, permitting to serve the general interest.

Faruk Ülgen in his chapter *“Financial stability as a global public good and relevant systemic regulation as a problem of collective action”* suggests an alternative approach to financial economics by adopting a public service and collective action view of financial markets in a globalized environment. He argues that financial stability is a peculiar (global) public good that every member of society needs, but no one can provide at individual level. Financial stability then requires a specific public service organization that must design and manage the production and maintenance of financial activities (going from bank credit to enterprises and households to financial intermediation activities, including pure speculative operations) through collective action, in order to ensure a socially coherent working of financial markets. An institutionalist analysis is used showing that the path of economic development is closely determined by financial markets’ evolution. This demonstrates that public action as well as private strategies are all relying on a given financial framework and on its sustainability which depends on the stability of market operations.

In the second chapter, *“Understanding financialization and its impacts on Social Economy”*, Manuel Belo Moreira analyzes, in a political economy perspective, the role of neoliberal ideological hegemony on the development of financialization and its impacts on social economy. He shows the ways in which the ideology not only influences academic thinking, but goes well beyond, by shaping the “common sense” and therefore reinforcing its dominance, and finally why, in spite of its negative effects meriting the rejection of the majority, the ideology is nonetheless reinforced. In this context, the impacts of financialization on social economy are drawn by reflecting about the main differences between the different social economy branches and how they can be affected by neoliberal ideology and policies. The author also suggests to separate the institutions of social economy that do not compete with profit firms from the institutions that by competing on the market could function as an alternative to capitalist enterprises.

Bernard Paranque closes the second part of the book with a chapter on *“Finance as a ‘commons’ understood as ideal-type for emancipation”*. He uses an ideal-type approach to analyze ‘interstices’ in which emancipation could appear in the transformation of finance. The question is how usage value can escape from the domination of exchange value, and how another kind of private property freed from capital could be promoted. He refers to the research based on the ‘commons’ to open new prospects, in particular concerning finance as a commons, in order to reform on this basis the dominant financial theory. The development of knowledge about finance should be based on recognition of the diverse nature of coordination methods and on the various ways in which milieu, history and institutions allow relationships with third parties. This should conduct, at the macrosocial level, to conceptually redesigning financial objects (currency, credit, value) and, at the



microeconomic level, to the emergence of new ways of doing business, cooperating, and running organizations.

\* \* \*

The **third part** of this study regroups four chapters concerning new forms of cooperation, their impact on identities and behaviors of partners of public and social economy, and finally the qualities of such co-operations for service provisions.

Philippe Bance, Jean-Philippe Milésy and Christelle Zagbayou enquire in a first chapter *“The development in France of partnerships between public and social economy organizations and the new paradigm of public action”*. They explain why and how the institutional and social transformations during the last decades, with the advent of the new public management, are at the origin of new forms of cooperation between public and social economy organizations. Today, public and social economy partnerships are encouraged by public enterprises, public non-market organizations or public authorities, which see those as a means to extend public service delivery in a general context of reducing financial resources. As shown by multiple examples, various forms of cooperation between organizations permit to maintain or increase public service provisions for the benefit of citizens. But this new model raises three main interrogations: the capacity of social economy organizations to retain their own identity; the resilience of the fundamentally centralist conception which permeates the French model; and last, the banalization of social economy organizations which limit the ability to co-construct the general interest with the different partners.

Monique Combes-Joret, Laëticia Lethielleux and Anne Reimat, in their chapter *“Cooperation strategies between public and social economy organisations”*, analyze how these organizations could cooperate in a sustainable manner. First, they review the literature to identify the ideal type of sustainable cooperation, *i.e.* preserving the identity of social economy organizations and allowing a consensus regarding objectives, decisions, and the implementation of public policies. Then, they apply this framework to three case studies: i) the cooperation, based on a partnership, enables the co-construction of public policy; ii) the cooperation, also founded on a partnership, is oriented toward complementarity rather than co-construction; iii) the cooperation, based on contracting, leaves less room for the preservation of non-profit organizations’ identity. The case studies reveal both the difficulties of cooperation, and some conditions for sustainable cooperation, in particular the ability of social economy organizations’ identity to influence the relationship towards exchange and co-construction.

Malika Ahmed Zaïd, looking at the *“Co-construction of the general interest and social innovation forms in Kabylia”* (Algeria) discusses the conceptualization and the co-construction conditions in this territory basing on an enquiry nearby the associations and the concerned public stakeholders. After a characterization of the social innovations carried out by social economical organizations in relation with public offer, she points out the impacts of these innovations on the community and the territory, which depend on institutional predispositions for shared territorial

governance integrating the innovations while providing the economic and social services. The contributive capacity of the public economy and social economy organizations to the construction of public interest policies, and the interaction with different partnership forms (public community, social public and international public) are observed in three territorial case studies, by different forms taken by the institutionalization of this innovation for public authorities.

Juan Fernando Álvarez, Miguel Gordo Granados and Hernando Zabala Salazar analyze, in the last chapter of the third part, *“The institutional organization of health in Colombia and its disconnection with the common good and mutuality”*. They study the provision of health services by looking at the market orientation promoted by the legal framework, the effects it has on the general interest, and the tendency towards the deterioration in the provision of services. From an institutional point of view, they point the governance inefficiencies and the disconnection with respect to the principles of the general interest and common goods, and thus the disincentives for optimal service benefit. In this context, the organizational logic of mutual associations would be more consistent with the principle of general interest. However, the monopoly logic of the capital leaves too narrow space to the solidarity organizations. Under appropriate institutional framework, mutual associations can generate institutional arrangements aimed at mitigating the effects of the merchandizing health services, capitalist organizational uniqueness, and at optimizing relations between public agencies and citizens.

\* \* \*

The **fourth and last part** of this book counts three chapters which are dedicated to the important question of “transformations of governance modes in a multi-actors context”, caused by the new co-operations.

In her chapter titled *“Multi-stakeholder governance of the commons, a pragmatic approach”*, Alexandrine Lapoutte considers commons that have to compose with the different logics of multiple stakeholders within a horizontal governance. After explaining the main features of pragmatism, and especially the concept of inquiry, she proposes a theoretical contribution underlining the relevance of a pragmatist approach to understand the governance of the commons and the paradigm shift observed in the cooperation between public economy and social economy for the development of commons and public goods. The good governance of the commons relies on problem solving devices and discussion settlements. The commons are seen as hybrid organizations, a promising way of organizing, yet experiencing intense internal conflicts. A pragmatic point of view brings the ability to overcome this difficulty since it allows to collectively address a situation, define and resolve a problem through inquiry. Beyond a contractual understanding, it renews the foundation of the stakeholder approach by suggesting to take into account experience and social interaction.

In the following chapter, Jean-Claude Boual and Cathy Zadra-Veil analyze the transforming governance mode introduced by *“New hybrid organizations in the social and solidarity economy in France”*. Indeed, since 2001, a new form of firms, not private and not public, is created in France: cooperatives of collective interest firms. They are based on a cooperative model with several shareholders producing or supplying goods or services in the interest of the community. As hybrid organizations, they allow openness between the different economic actors in a territory. Other forms of mixed (semi-public) economic firms emerged in 2014, shaking the traditional borders between the economic actors. One of these innovations is the “living labs”: they are defined as user-centered, open innovation ecosystems based on a systematic user co-creation approach, integrating research and innovation processes in real life communities and settings. They are intermediaries among citizens, research organizations, companies, cities and regions for joint value co-creation, rapid prototyping or validation to scale up innovation and businesses.

The last chapter of the book, by Pierre Bauby, deals with the *“Conditions of convergence between public economy and social economy organisations”*. From a political science perspective, two organization and operation models of social and economic activities (public economy and social economy organizations) are examined looking at the possible convergences that could satisfy the societal needs of the 21st century. Recalling the basic features of public economy and social economy, their histories and relationships, this chapter analyzes the conditions of a successful hybridization of their action, in particular by a participative governance. From a country to another, participative governance can take different forms: open meetings of local councils, referendums, on line expression, public meetings... But it supposes consultations, debates, popular expression of needs, complaints handling, election of users committees and digital means to obtain the awaited objectives.

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## **Part I.**

**Territorialisation of public and social organizations  
and malleability of the borders in the new economy**



**The contribution of the non-profit sector  
in narrowing spatial inequalities:  
Four cases of inter-institutional cooperation in Italy / Chapter 1**

Andrea SALUSTRI<sup>\*</sup>, Federica VIGANÒ<sup>\*\*</sup>

**Abstract**

In this chapter we illustrate how the public sector might fail in narrowing spatial inequalities, and how both underdeveloped markets and urgent territorial needs create in peripheral areas robust individual incentives to turn into non-profit activities or even household production. In all those situations, a well-developed non-profit sector can offer marginalized or excluded social groups a legal and ethical opportunity to obtain a decent income by offering rewards (monetary or non-monetary) in exchange for volunteering, allowing households to afford the cost of living.

Laying on the results of the analysis, we discuss four cases of successful cooperation among SSE institutions by one side, and the private and the public sector on the other. In all those cases, the private and the public sector decided to facilitate the development of the non-profit sector by contracting out part of the production process to reduce costs and achieve a higher level of effectiveness. The result was successful because the non-profit sector did not incur in the opportunistic behaviors that might affect profit-oriented activities.

Therefore, we suggest how local inter-institutional cooperation among the SSE, the private and the public sector should become the norm rather than the exception, in order to achieve at the same time a higher level of equitable and sustainable development and well-being.

**Keywords:** marginalized places; distance costs; non-profit institutions; spatial inequalities

**JEL-Codes:** J54, L34, R11, R12

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<sup>\*</sup> Fondazione Economia, Università Tor Vergata, Roma (Italia) ([asalustri@hotmail.com](mailto:asalustri@hotmail.com)).

<sup>\*\*</sup> Libera Università di Bolzano, Free University Bozen, Freie Universität Bozen (Italia) ([federica.vigano@unibz.it](mailto:federica.vigano@unibz.it)).



## Introduction

Since the seminal Theory of Central Place developed by Christaller (1933), cities have been usually perceived as poles of territorial development because they cluster social and economic activities, reducing transaction costs and generating economies of scale and agglomeration. Also empirical literature proves that economic activity and productivity are more intense in urban areas, i.e. when a consistent aggregate demand, economic agglomeration, and a consistent infrastructural stock facilitate the economic routines (Ciccone & Hall, 1996).

However, if, by one side, the proximity (geographical, relational, cognitive, institutional) to the export markets and the access to a large domestic market are key factors to contrast isolation and distance (Redding & Venables, 2002), it is also true that remoteness puts small and isolated economies in a position of marginalization and deprivation. Furthermore, the degree of centrality and the spatial accessibility to goods and services market generate migration inflows toward the urban areas, often depriving the rural areas of skilled jobs, business services and technological expertise. In all those cases, as often indicated in the vast urban-rural literature (Champion & Hugo, 2004), cities polarize the space becoming “central places” that, in the absence of development and cohesion policies, relegate suburbs and rural areas to the role of “peripheries”.

Laying on these premises, our research focuses on the issue of spatial inequalities and on the impact of “distance costs” (i.e. costs generated by a multivariate spatial distance from the central place) on the level of economic activity. Specifically, we observe how, in a territorial framework characterized by the dualism between cores of economic agglomeration and left behind peripheries, where residents and firms have to pay higher distance costs (i.e. fuel costs, transport and commuting costs, labor market accessibility costs...), the institutions of the social and solidarity economy (SSE) are able, at least partially, to offset the distance costs and to satisfy the aggregate demand of goods and services served neither by the market nor by the State. The reason is that, by operating directly in peripheral areas and by matching the needs of marginalized communities, they are more resilient to marginalization and they are able to pay lower monetary wages and dividends compared to for-profit firms, as they primarily reward workers with non-monetary assets (Frey, 1997; Leete, 2000; Narcy, 2011; Becchetti *et al.*, 2012).

The remainder of this contribution is as follows:

- in paragraph one, we briefly summarize the major issues regarding the interaction between geographic and economic thought, and we use the issues collected to provide a brief explanation of the connection among peripheralization, marginalization and exclusion;

- in paragraph two, we discuss the rationale that might induce marginalized communities and individuals to explore the opportunities offered by a well-developed non-profit sector;
- in paragraph three, we present four cases in which non-profit institutions have been able to overcome a specific kind of distance cost, by developing synergies with the public and the private sector;
- in paragraph four, we briefly draw a set of recommendations and conclude.

## **1. Economic theory, institutions and geography: an epistemological comparison**

During 1950s, polarization theories emerged as a critical response to the neoclassical theories, according to which regions would converge towards a common equilibrium of productivity and wealth (Myrdal, 1957; Hirschman, 1958). The growth processes observed in central places were linked to the shrinking processes affecting peripheries via the interregional mobility of people, goods and capitals. In the 1960s and 1970s, the concepts of “growth poles” and “growth centers” were related to the spatial scale of cities and their surroundings, measured in terms of agglomeration, and density of services and activities. However, the dichotomy between centers and peripheries was questioned and often considered dubious, therefore, since late eighties, several strands of economic literature tried to innovate a consolidated economic view that so far had mostly ignored the spatial implications of the economic behavior.

At the beginning of nineties, Krugman innovated the relation between geography and economics, by providing an endogenous explanation of the agglomeration processes. Specifically, in his seminal work of 1991, he illustrated how, in a two-regions, two-sectors general equilibrium model, under specific hypotheses regarding firms’ behavior and the underlying scenario, due to circular causation the manufacturing sector concentrates in a unique region. Furthermore, he adopted the increasing-returns-to-scale hypothesis to explain how economic behavior is “path-dependent”, i.e. initial conditions determine the optimal location into which agglomeration economies must be produced. Finally, Krugman proposed to analyze firms’ localization choices through a model-based approach, involving a multiregional scenario accounting for transport costs, economies of scale and factor mobility (Krugman, 2011).

An alternative view was provided by Douglass North, which abandoned the perfect rationality assumption and focused on the rise of transaction costs to invalidate standard neoclassical results, downsized to a hypothetical benchmark case of maximum efficiency. According to North, transaction costs always exist and might depend both on the “costs of measuring the multiple valuable dimensions of the goods or services exchanged or of the performance of agents” and on “the costs of enforcing agreements” (North, 1992). Therefore, rather than on efficiency and market clearing mechanisms, the economic performances depend on institutional

changes, i.e. on changes in the formal and informal rules that regulate the interactions among organizations at several societal scales (political, economic, social and educational).

This theoretical debate might be considered as the analytical counterpart of the ongoing debate on the issues of periphery and peripheralization. Following Kühn (2015), the concept of periphery refers to a regional/local structural view that considers remote areas as disadvantaged by construction, due to a higher distance from the centers and scarce population. This condition is in a certain sense immanent, as, both in the urban-rural dichotomy and in the core-periphery model, once the initial conditions are fixed, they cannot be reversed, at least in the short run. A more dynamic concept is instead that of peripheralization, which refers to the process of “production of peripheries” and involves multiple dimensions (Kühn, 2015).

By providing an integrated view of the literature surveyed, we observe how, at economic level, as argued by Krugman, a process of centralization implies the agglomeration of the economic activities in a core location, and consequently new jobs, economic growth and R&D investments. On the contrary, an economic process of peripheralization implies deindustrialization, and therefore unemployment, stagnation and lack of innovation. At political level, as argued by North, centralization means achieving the institutional power to design incentive schemes to promote local interests, while exclusion means the lack of this power. At geographic (informal) level, centralization means the development of a common narrative enforced through shared norms, while marginalization means the loss of heritage and cultural identity, and therefore homologation.

Finally, it is worth noticing how territorial imbalances and spatial inequalities are usually more pronounced during recessions and in times of crises, when the action of public and private institutions (firms, administrations and financial intermediaries) is limited to what can be considered financially sound. In those periods, central places often focus on core business activities or follow innovation patterns that, as a collateral effect, lead to cut the supply of goods and services to the neighborhoods, producing peripheralization. Therefore, marginalized communities are forced to explore complementary patterns of development to overcome the economic scarcity. Indeed, both underdeveloped markets and urgent territorial needs create in peripheral areas robust incentives to turn into non-profit activities or even household production by virtue of social norms which motivate individuals to focus on achievements rather than on monetary compensations.

## **2. The role of non-profit institutions in activating sources of local development**

Public institutions play an important role in fostering economic and territorial development, by:

- providing more public goods and welfare to the excluded, especially in marginalized places, to compensate spatial (social and territorial) inequalities;
- providing incentives for investments that reduce vulnerability to shocks (environmental, economic, social, human), and by promoting and sustaining resilience in time of crisis.

Notwithstanding the action of the public sector, several factors underlying economic poverty and marginalization still constrain the level of agency and participation of a relevant share of population. To overcome these bottlenecks, and to improve resilience, to reduce vulnerability and to achieve equitable and sustainable development, we suggest how the non-profit sector, taken as a large category, must become a major source of employment and a key player in eradicating poverty. Specifically, non-profit institutions (NPOs) are in charge for a large share of the production and distribution of goods and services with the employment of voluntary workers, while non-governmental organisations (NGOs) are crucial for what concern foreign aids (Salamon, 2010). Lastly, civil society organisations (CSOs) are becoming a major resource in supporting the public sector in developing activities of public interest. For what concerns cooperatives, they have a mixed nature as their objective function nests profit and dividend maximisation for their members in a mutualistic logic, where employment and availability of goods and service is more relevant than earnings. Moreover, cooperatives as place-based organizations are very keen in satisfying territorial needs (Birchall, 2011).

In the coming years, therefore, non-profit institutions need to change profoundly to meet the increasing unsatisfied demand of welfare, while facing harsher economic conditions determined by more competitive and volatile markets, and by the collateral effects of globalization.

### **2.1. The economic incentives at the base of household production and non-profit activities**

Non-profit institutions can contribute to narrow spatial inequalities by rewarding volunteers and donors with gifts that are more valuable than the wage offered in the same place by private firms and by the public sector. As an example, in remote places the cost of living might be higher than the wage offered in the same place by either the private or the public sector. Furthermore, in remote places the latter might be unable to employ everyone looking for a job. Therefore, in the absence of non-profit institutions, at least a share of residents is structurally unable to afford the minimum cost of living, and suffers the negative effects of economic marginalization. Indeed, in

the short run marginalized residents have no exit strategies, as both economic development and migration require time and resources.

A well-developed non-profit sector, instead, can offer a legal and ethical opportunity to obtain a decent income by offering rewards (monetary or non-monetary) in exchange for volunteering, allowing marginalized residents to afford the cost of living. As in the central place a significant share of residents' demand is satisfied by the market and by the public sector, leading to consumption patterns that overcome the minimum living standards, it is reasonable to expect increasing rewards as far as non-profit activities are located from central areas, because where the market supply of goods and services is lower, non-profit institutions are asked to pursue more urgent (and therefore more valuable) needs. We assume that the opportunity cost of volunteering is equal to the wage that could be earned by being employed in a private firm or in a public administration, and that the reward obtained by volunteers corresponds to the value of their marginal productivity. Laying on these assumptions, we suggest how peripheral residents might prefer volunteering rather than working, while residents in central areas might prefer the opposite. Instead, in intermediate areas the spread between the reward offered by the non-profit sector and the wage offered by the market and the public sector might be close to zero, therefore workers might be almost indifferent between volunteering and working for a comparable level of disutility of effort. Due to shocks involving the demand and the supply curves on the markets of goods and services and to changes in welfare needs, the spread between the two sources of income can be highly volatile, and we suspect that intermediate areas might be characterized by frequent "motivational shifts", i.e. a constant need of rebalancing the mix of non-profit and for profit activities. In intermediate areas, therefore, we suggest how cooperatives and social enterprises might be the most efficient institutions, as by their nature they integrate social motivations with economic interests, avoiding frequent reorganizations of the production process.

## **2.2. Spatial inequalities and equal opportunities**

As far as a territory is characterized by positive and increasing distance costs, spatial inequalities might raise concerns on the need of achieving equal opportunities among residents in terms of participation in the labor market and in non-profit activities.

Specifically, in the absence of distance costs, the highest wages are assigned to the most efficient workers, as in equilibrium, when the ability of each employee is observable, the private sector hires all those people whose productivity is equal or higher than the equilibrium (real) wage. For the same reason, the most rewarded non-profit activities are assigned to the most motivated and capable volunteers, as, when the non-profit sector exists, it hires all the volunteers whose productivity is higher of the reward offered.

When, instead, land is characterized by positive distance costs affecting individuals' mobility, the latter must compare the utility of the net compensation offered by the

private and by the public sector (gross wage minus distance costs) with the disutility of the job proposed. Similarly, when residents decide to apply for a volunteering position in the non-profit sector, they must compare the net value of the reward (gross reward minus distance costs) with the disutility of the activity that they must perform.

Clearly, in both cases residents face a subjective assessment, depending on their skills and on their attitude to mobility. Specifically, a person living in the central place has an advantage in achieving the most paid jobs positions in the private sector, but might have a limited access to the most rewarded non-profit activities. Similarly, a person living in a peripheral area has an advantage in volunteering in the most rewarded non-profit activities, but might have a limited access to the most paid jobs. Lastly, people living in intermediate areas have a privileged access to jobs and volunteering activities characterized by an average compensation, but might have a limited access to the most paid positions both in the for-profit and in the non-profit sector.

Finally, it is worth noticing how the individual net utility (wages minus the total costs, i.e. disutility of effort plus distance costs) decreases as far as an individual finds a job that is distant from the place of residence, as distance costs counterbalance the utility of wage. The disutility of commuting can be partially reduced by peoples' intrinsic motivation, as it reduces the disutility of effort, but anyway it raises concerns on the opportunity of achieving a broader diffusion of work-from-home activities.

### **2.3. Spatial inequalities as a market failure: is government spending really a feasible solution?**

Distance costs can be modeled as a territorial mark-up over firms' marginal cost function, therefore as a source of inefficiency (i.e. as a market failure). In similar circumstances, the role of the public sector is usually invoked to correct the biases and turn the economy back to an efficient equilibrium. But sometimes also public policies lead to an inefficient use of resources, determining the rise of government failures.

As an example, we discuss the case of territorial imbalances between the North and the South of Italy. At the beginning of fifties, the Italian government founded "*Cassa del Mezzogiorno*" (CasMez), an institution aimed at financing the economic and social progress in Southern Italy. CasMez was financed with public funds, and operated until 1992, allocating the equivalent of almost 140 billion euros in 40 years (VV.AA., 2014 b). A complete assessment of CasMez's activity goes beyond the purpose of this research, but it is worth noticing how after 40 years of government spending, at the beginning of nineties, the Italian territory was still characterized by both regional and local imbalances, and the Centre-North was benefitting of a higher level of public expenditure with respect to the South.

Therefore, in the last two decades the idea of concentrating on Southern Italy at least a 45% share of public expenditure (that compared to a demographic share of 35% means a higher level of per capita public expenditure with respect to Centre-North) in order to incentivize infrastructural development and foster economic growth became very popular (DPS, 2013). Nevertheless, most policy makers have recently recognized the failure of both interregional and intraregional policies in narrowing the territorial divide between the two parts of the country (not in terms of redistribution policies, though). Specifically, during the Great Recession (but also before) the 45% share of public expenditure in capital account was never achieved, and Southern Italy remained a peripheral area (Salustri, Miotti, 2014).

Therefore, the key question is still how the national government could narrow regional and local divides, and what kind of policies should be developed. Clearly, if the public sector fixes a homogeneous level of gross per capita public expenditure in a territory characterized by positive and increasing distance costs from the central place, the level of net per capita public expenditure decreases with the level of remoteness of a place, raising a specific kind of spatial inequality. As residents must buy several public services independently from their economic convenience (consider, as an example, health, education, mobility), in places where distance costs overcome the level of gross per capita public expenditure they obtain a negative contribution in terms of welfare.

#### **2.4. Cooperatives as intermediaries between the formal and the informal economy**

The private and the public sector might decide to facilitate the development of the non-profit sector by contracting out to qualified actors one or more parts of the production process in order to reduce costs and achieve a higher level of social responsibility. However, non-profit institutions often lack the economic know-how required to interact with governmental and market institutions. Therefore, the role of the social economy institutions (cooperatives, social enterprises) is crucial in intermediating between the two poles of the formal (market-oriented and governmental) and informal (non-profit and household production) economy.

Indeed, several streams of literature discuss how outsourcing is risky and not always successful, both for the public and for the private sector. However, all the arguments discussed are related to a mix of information asymmetries and opportunistic behavior, and both arguments are not appropriate if referred to the SSE institutions. As regards the information asymmetries, non-profit institutions contribute to reduce uncertainty by providing a precise picture of the socioeconomic scenario in which they are deeply rooted, as they are in a certain sense part of the landscape in which they operate. Moreover, the ethic and esthetic values that inspire the action of volunteers contribute to reduce opportunistic behaviors (adverse selection, free-riding, moral hazard...), fostering a sense of community that might overcome the “tragedy of the commons”, giving rise to a new wave of commoning practices. For

these reasons, we consider the non-profit sector as the institutional perimeter within which to develop a process of cooperation among the social economy, the public sector and the market. However, as we already pointed out, the non-profit sector left to itself has not all the characteristics to create an interface with private firms and public administrations. Instead, the social economy institutions (as an example, consider cooperatives and social enterprises) have the economic structure needed, but if not supported by non-profit institutions, they might lose their mutualistic attitude, and turn into a stagnant institutional sector, due to a mixture of less binding competition constraints and lack of motivation.

To sum up, the SSE institutions are key actors in promoting resilience, reducing vulnerability and fostering equitable and sustainable well-being, especially in all those situations in which both the public sector and the market are unable to satisfy the demand of low-income social groups and peripheral territories. Specifically, while non-profit institutions are able to identify unexploited resources and rise intrinsic motivation in the volunteers involved, cooperatives and social enterprises can provide an additional supply of goods and services aimed at satisfying the needs of specific social groups and territories by virtue of reduced transaction and transport costs. When (and where) also cooperatives and social enterprises fail in satisfying people's basic needs, the non-profit sector plays a pivotal role in achieving a decent level of human well-being and development.

### **3. A survey of best practices of cooperation among the SSE institutions and the public and private sector**

The “revolutionary” content of a development pattern based on people's agency and particularly on the empowerment of the excluded strictly depends, at institutional level, on the development of the institutions of the social and solidarity economy (SSE). In this paragraph, we survey four examples of cooperation between the formal and the informal economy in order to highlight the role that non-profit institutions can have in reversing peripheralization, marginalization and exclusion, especially when supported by the private and the public sector. Specifically, in this short overview we follow a bottom-up approach, from micro-cases where citizens activate themselves on a voluntary basis to have access to a public good, to more articulated processes of collaboration between the private sector, the public sector and the social economy institutions.

#### **3.1. The Mura Latine Committee and the “adoption” of the Park of the Aurelian Walls**

In May 2014, a group of local residents, retailers, artisans, artists, professionals and enthusiastic of arts and culture founded in Rome, in the Appio Latino neighbourhood, the Mura Latine Committee (CML), with the aim of fostering a sustainable model of human and territorial development based on the implementation of cultural and creative experiences. With the decree n. 622/15 of the Municipality of Rome, the



CML legally “adopted” the Park of the Aurelian Walls, an urban green area located in front of the Aurelian city walls at the margin of a densely populated residential area that was abandoned by the local administration due to lack of funds. Specifically, volunteers of the CML committed themselves to clean and maintain the so called “horizontal green” (everything but trees) and the street furniture located in the area, at zero costs for the Municipality of Rome and with the aim of turning a dilapidated green area into a place of aggregation and leisure both for residents and for tourists (Salustri, 2016).

Since the CML and the group of volunteers have been taking care of the park, the quality of the green area has considerably improved, even if there are still episodes of negligence that provide evidence of an insufficient level of care. The last step should be made by the Municipality of Rome, restoring the park in its integrity, and kicking off a structural maintenance, especially regarding street lighting and safety.

This first case illustrates how a bottom up initiative is able to temporarily solve a public social and environmental emergence. The volunteers of the CML have achieved the primary goal of giving back, a (previously) dilapidated urban green area to residents living in the neighborhoods and tourists. At the same time, they have produced an additional value in terms of opportunity costs, even if the park, given the scarcity of financial resources of the Municipality of Rome to provide an ordinary and standard maintenance, risks to be neglected again.

The need for a public intervention by the Municipality in supporting and recognizing the work of citizens is nevertheless necessary, as this kind of initiatives risk to remain spot and isolated. Schemes for a more formalized cooperation between civil society organisations (CSOs) and the public sphere are desirable to avoid potential degenerations of the free and not controlled use of public goods.

### **3.2. RomAltruista: a civic network for occasional volunteers that links citizens and enterprises**

A more formalized and structured example of CSOs, which has evolved towards a NPOs is given by RomAltruista. This is a non-profit organization founded in 2011 with the purpose of facilitating the participation in volunteering activities in the metropolitan area of Rome. RomAltruista adhered to the idea of flexible volunteering, leaving the volunteer free to offer his/her time and competences whenever possible, without entering in a permanent or formal agreement with a specific organization. RomAltruista supports the vision that everyone should have the opportunity to pledge a good cause, notwithstanding the scarcity of time and the numerous constraints that stifle daily life. To achieve this goal, RomAltruista has developed a network of non-profit institutions operating in the local context, to which it delegates the organization and the implementation of most of the volunteering activities proposed. The management of the network works on a digital platform where each activity scheduled on RomAltruista’s website is coordinated by a

team leader according to a set of common goals and standards defined by RomAltruista's staff.

RomAltruista has developed a smart and efficient working scheme based on specific target groups that become a social and economic source for guaranteeing the economic sustainability of the initiative, sustaining the core activities of the platform and the concept of flexible volunteering. Three groups participate in the initiatives offered and coordinated by RomAltruista: individual citizens participate as donors and supporters by offering economic contributes and/or their free time and competences; NPOs act as partners and beneficiaries, as they receive the work of volunteers and share their competences in the network; last but not least, private enterprises are one of the most interesting target group, as they can link the profit and not for profit worlds.

Enterprise volunteering is an important expression of the commitment of the profit enterprises towards the community. Time and professional skills of employees are valuable resources that can be offered, through volunteering, to the non-profit organizations. Individual or group volunteer days, unpaid professional services, or solidarity events are ways in which a company can contribute to a good cause in favor of the community. RomAltruista, thanks to its experience and network, is able to activate employee volunteering by supporting firms that are willing to improve their corporate social responsibility schemes, achieving a higher level of cohesion and intrinsic motivation of the personnel involved, and building a more profound connection with the hosting communities and territories.

This second case provide a more evolute example of networking between NPOs and profit firms working together for a cause of general interest, exploiting the potential of volunteers. There is a lot of potential for the future of such networks, which are as effective as they are locally based and close to sense of belonging of individuals and communities.

### **3.3. The reuse of the dismissed railway stations of Rete Ferroviaria Italiana (RFI)**

In order to avoid the dilapidation of the dismissed railway stations, Rete Ferroviaria Italiana (RFI) developed a programme of free renting to non-profit institutions and social enterprises.

The initiative has the main purpose of regenerating the physical space and giving an opportunity to excluded or vulnerable groups of people to develop initiative of public and social interest. Therefore, RFI dismissed stations constitute nowadays "community assets" that host cultural, social, economic and environmental initiatives. The initiative has been reviewed and four main typologies of activities carried out by cooperatives and social enterprises have emerged:

- environmental, landscape and historical - cultural conservation and conservation activities promoting a touristic offer;

- solidarity initiatives aimed at providing care and fostering the reintegration in the labor market of excluded and discriminated people;
- civil protection bases that strengthen and manage the resilience of communities even in the case of “shock” of environmental character;
- cultural centers for the youth, as an instrument to prevent deviance.

The RFI initiative is not an isolated case, as in Italy there are already several experiences of free location of building stock to non-profit institutions (properties confiscated to criminal organizations, abandoned state properties, religious and personal properties...). However, Italy lacks national and local policy to integrate and create synergies among the multitude of processes activated, and of an assessment of the impacts that the activity of free location of properties to non-profit institutions might have at human, social, economic and environmental level (Zandonai, 2015).

The free commodity contracts counted in 2014 were about 510 in 345 stations, and they are destined to grow especially in remote areas. Indeed, the process of free renting has not reached yet a critical mass, even if, at least for the RFI initiative, several issues might suggest a rapid increase in the number of contracts of free location signed. Moreover, considering that, by one side, the free location of dismissed properties to non-profit institutions reduces capital depreciation rate for the owner, and on the other side abates fixed costs for the beneficiary, it will be reasonable in the future to design also location schemes upon payment, depending on the amount saved by RFI in terms of maintenance costs and on the level of social responsibility of the activity implemented by the beneficiary.

Hence, the benefits of making of a dismissed property a community asset might be shared among the two sectors (the formal and the informal), and the process might involve also cooperative and social enterprises, i.e. social economy institutions able to generate at the same time positive economic results and social added value (Borzaga, Zandonai, 2013).

This initiative has been classified also as a corporate social responsibility policy of RFI, aimed at promoting the sustainable development of communities and territories in remote areas where the services mentioned above are often missing. We consider it as an interesting case of cooperation between a large profit company and small associations, NPOs and cooperatives with an explicit social mission. The example moreover could be easily replicated for other properties and assets, i.e. for all those fixed inputs (dismissed warehouses, shopping malls, factories, patents and so on...) generating fixed costs that, if recovered, might enhance firms’ efficiency, in a way that at the same time alleviates the lack of capital means that often characterizes the solidarity institutions.

### **3.4. COMI and the education to global citizenship**

COMI (Cooperation for the Developing World) is an NGO founded in 1973 and accredited by the Italian Ministry for Foreign Affairs and International Cooperation (MAECI). COMI aims at promoting people's full human development by offering opportunities of independent and informed personal growth, achieved in a spirit of multiculturalism and mutual recognition.

Being a well-established NGO, COMI has built a strong network of relevant NPOs, associations and private enterprises at national and international level sharing a common vision and approach based on solidarity. The economic sustainability of the organization is guaranteed through donations and fundraising campaign, as well as through the development of international projects.

COMI is also in charge to manage the open call for the international civil service, one of the more recent measure introduced by the Italian third sector reform. Moreover the organization is very active in awareness-raising initiatives through exhibition, conferences, meetings on cultural, social and artistic as well as climate change and environmental issues.

In 2016, COMI launched a project of education to global and active citizenship, to adapt the concept of education to global citizenship (EGC) to the national and local context, and to integrate this activity in the standard education processes by fostering the interaction between the students involved and the non-profit institutions. Specifically, COMI supported the teaching personnel that manifested an interest in activating courses of EGC with their students by providing the necessary know-how, in order to narrow the gap between teachers' cultural background and the educational tools needed to teach the issues of international solidarity and of sustainable development.

Due to the consolidated connections with socially and culturally heterogeneous contexts in developing countries and in Italy, COMI has been able to foster perspectives and follow-up events that contributed to train (both at human and social level) the students involved, making them real agents of solidarity, and establishing the basis for a cultural change, able to foster a multicultural and active citizenship.

This case provides an example of cooperation between NPOs and NGOs, supported and officially recognized at an institutional level. The work of this organization however, thanks to the official recognition and the strong network, is able to reach different targets and to create an effective collaboration between organizations at a local level, such as small associations, cultural centers and schools.

#### 4. Concluding remarks

In our research we have illustrated how the public and the private sector might be unable to guarantee a fair supply of goods and services, especially in peripheral and remote areas, due to lack of resources or to high distance costs. Spatial inequalities thus emerge, raising urgent territorial needs and creating the conditions for citizens and non-profit institutions to intervene. In all those situations, a well-developed non-profit sector can offer to marginalized or excluded social groups a legal and ethical opportunity to obtain a decent income by offering rewards (monetary or non-monetary) in exchange for volunteering, allowing households to afford the cost of living.

Laying on these issues, we have observed how the academic literature often emphasizes the role of cooperatives and of the non-profit sector in reinforcing the social capital boundaries, and the existing views of social capital share a fundamentally rational and instrumental vision of the role that social capital plays in economic development. Social capital is explicitly regarded as a productive resource just as much as financial, environmental, or human capital, which requires investments and generates returns in the form of better access to information and services, better communication and coordination, and reduction of opportunistic behavior. Cooperatives and the non-profit sector in this perspective are seen as potential tools for economic development as they make feasible what could not be achieved by people operating individually: they can build stock of capital, give members a “voice” to advocate change in government policies, promote local ownership, create jobs, promote local control of capital, and fight inequality (Valentinov, 2004, Pestoff, 2009; Birchall, 2011). Finally, when individuals act collectively, trust increases and social transactions costs decrease, establishing the premises for a community development.

On the other hand, peripheralization, marginalization and exclusion are issues that in Italy cannot be ignored, as a recent assessment of the Territorial Cohesion Agency (VV.AA.2014 a) shows how peripheral areas (the so called “Inner areas”) cover almost the 60% of the Italian territory and host a quarter of the Italian population. Negative demographic trends partially compensate the lack of welfare services observed in those areas, but this mitigation effect does not overcome the need of revitalizing marginalized areas, in order to “untap” a significant share of natural and human capital and overcome the urban/rural or core/periphery dichotomy.

The good practices mentioned in this study serve to show different stages of evolution of the collaboration between the public, the private and the third sector. At the same time, the activation of NPOs and CSOs to solve problem of public interest are the symptom of a deeper urgency of the intervention of the public sphere. Unfortunately, Italy has not developed yet the necessary level of cohesion and solidarity to achieve this goal. Therefore, it is of utmost importance to build

leaderships able to track an equitable and sustainable pattern of development, both at political and at socio-economic level. Our chapter supports that local interinstitutional cooperation among the SSE, the private and the public sector should become the norm rather than the exception, in order to achieve a higher level of equitable and sustainable development and an improved well-being at societal level.

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## **The Work Integration Social Enterprises as “Learning Organizations”: In the quest for a new local governance in order to build another model of local sustainable development? / Chapter 2**

Pascal GLÉMAIN\*

### **Résumé**

Le modèle de développement durable implique un soutien politique des collectivités locales aux acteurs de la dynamique territoriale portée, entre autres, par des organisations d'économie sociale et solidaire porteuses d'un potentiel de transformation. Dans ce cadre, les entreprises sociales apprenantes, intervenant dans le champ de l'insertion par l'économie, apparaissent comme des organisations au cœur des dispositifs d'aménagement du territoire et de processus de développement local dans le cadre d'un dialogue « entreprise-territoire » autant descendant qu'ascendant, au moyen de la mise en situation d'apprentissage par le travail. Pour le démontrer, nous nous appuyons sur le cas des ateliers et chantiers d'insertion (ACI) portés par les établissements du réseau français Chantier école. Une partie importante de cette contribution est issue d'un document de travail au sein du programme ICSEM-SOCENT du réseau EMES.

**Mots-clés** : entreprise sociale; organisation apprenante; insertion; développement durable local

### **Abstract**

The model of sustainable development implies political support from local authorities to the actors of this territorial dynamic which is sustained by the social and solidarity economy's organizations and this, whether is their potential of transformation in the economic, social and environmental level. In this context, social enterprises as learning organizations involved in the field of integration through economic appear like “firms” at the heart of the features of development of the territory and local development process, in the way of a dialogue “company-territory” as descending as ascending in servicing employment through learning processes with work. To demonstrate this, we rely on the case of “*ateliers et chantiers d'insertion*” (ACI),

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\* HDR, PhD, Assistant Professor, post-doctorate graduate both in Management Sciences and in Social Economy, University Rennes 2 (France); Co-Director of the Interdisciplinary Research Laboratory in Social Innovations - LiRIS EA 7481; Associate Professor in Management CERMI-University of Mons and ULB-CEB (Belgium) ([pascal.glemain@univ-rennes2.fr](mailto:pascal.glemain@univ-rennes2.fr)).



which are sustained by the institutions of the French network *Chantier école*. A large part of this contribution comes from a working paper out of the research program ICSEM-SOCENT into the European network EMES.

**Keywords:** social enterprise; learning organization; integration; local sustainable development

**JEL-Codes:** A13, D23, L31, M13

“Knowledge is the fundamental resource in our contemporary economy and learning is the most important process”: here is the sentence, which was written by Lundvall and Johnson (1994, p. 24) in their research paper about the learning economy model. In others words, we understand that both “knowledge” and “learning process” are the new common goods to achieve a local sustainable development model. Indeed, it seems to depend on the capability to act quickly, on the capability to get social tools at the good time, and, on the ability to find the fair partnership in order to build the best way towards a social sustainable local development model. Could we consider Social and Solidarity Economy (SSE) as a “learning laboratory” to imagine another payoff to find not only some local solutions for the social integration process but, the potential to create or to sustain local employment with the Work Integration Social Enterprises as Learning Organizations (WISELOs) too? Moreover, those WISELOs seem to be only a theoretical concept if the local public administration would not sustain them. But, what does mean “local political sustain” for social enterprises?

Indeed, we often call those Work Integration Social Enterprises (WISEs) in general as “territorialized organizations”. But, inspiring by Fraisse (2007, p. 5), we can say that: “the local impact of social and solidarity politics on the territory was not as trivial as we think about that, because not only the plurality of the local initiatives exist, but because the local politics approach can be characterized by its youth”. Could we consider that these WISEs would become “common goods” in favor with a local sustainable development target, through their capabilities to produce social and local payoffs as “Learning organizations”?

“The standard paradigm may be recognised in that wherever rules and organisations may be detected, there is no longer any individual or collective learning – it would be to no purpose. This observation leads by antithesis to a conjecture. The way ahead for research into a non-standard paradigm is clear: wherever there is no longer any individual or collective learning, there will no longer be any rules or organisation – they would be to no purpose” (Favereau, 2004, p. 147). This sentence, by Favereau, brings out how the idea of collective learning does not figure within standard economic theories (internal labor markets, the theory of economic regulation, and the theory of social justice), emphasizing the need to conduct research into “learning organizations” in the wake that carried out by Argyris and Schön (1978), for whom:

Organisational learning occur[s] when individuals, acting from their own images and [cognitive] maps, detect a mismatch of outcomes to expectation which confirms or disconfirms organisational theory-in-use. In the case of disconfirmation, individuals move from error detection to error correction. Error correction takes the form of enquiry. The learning agents must discover the sources of error – that is, they must attribute error to strategies and assumptions in existing theory-in-use.<sup>1</sup> They must invent new strategies, based on new assumptions, in order to correct error. They must produce new strategies. And they must evaluate and generalise the results of that new action. But in order for organisational learning to occur, learning agents' discoveries, inventions, and evaluations must be embedded in organisational memory. They must be included in the individual images and the shared maps of organisational theory-in-use from which members will subsequently act. If this encoding does not occur, individuals will have learned but the organisation will not have done so.

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<sup>1</sup> Argyris and Schön make a distinction between “theory-in use”, and “espoused theory”. “Espoused theory” is to be found in official documents, which are regulation and control instruments (Bernoux, 2009).

This theoretical approach of “learning” for local development is based on managing and appropriating error in order to establish strategic interaction between “individual learning” and “organizational learning”. This leads to the following question: do learning processes relate solely to the error management within an organization, and to the relationship organizations entertain with their environments (social, cultural and political)? Or may these individual and organizational learning processes be envisaged in a different way, in particular with regard to social and solidarity economy organizations engaged less in error management than in managing social experimentation for general interest across a localized territory? In other words, can we consider Social and Solidarity Economy (SSE) organizations as “archetypal collective of learning organisations” (Favereau, 2004, p. 52) for a local and social sustainable development model in which a cognitive project is focusing on the external environment, combined with another one which is focusing on their internal environment in the name of local experimentation and societal innovations?

In order to answers to this research question, we proceed in two parts. In first one, we try to define the WISELOs in the French context of a “new” social sustainable local development model. In the second one, we try to develop a theoretical approach of the WISELOs ideal-type hypothesis which could be discussed through the theory of “convivial management tools”.

## **1. “Learning organization”: a new organizational model of social enterprise in servicing a local sustainable development?**

Comeau *et al.* (2001) consider that social economy can be considered as a “social innovation laboratory”, which try to find new collective payoffs to individual unemployment problem. But, can we accept this Canadian result for the French case, in the holistic methodologic approach which is ours? According to Donzelot (1994), “social” appears like a needed invention in order to manage a collective democratic model of society. “Social” is not for him and us a frontier which builds a wall between those people who believe that the Market regulation is first, and those who believe first in the State regulation. Indeed, “Social” must be considered as a common convivial tool between the citizens and the politicians, which is invested by social and solidarity-based organizations. In other words, a “common convivial tool” can be defined as a convivial management tool managing and servicing a social target: employment access, social housing access, mobility access, for example. Tool becomes a “management tool” under its investment in specific activities (Canet, 2013, p. 3). Thus, we can consider “common convivial tool” as “social management tool”, both social instrument and social means, because its investment is in social utility activities for a local sustainable development model. In other words, we are in front of an organizational learning process which tries to make, in a strategic interaction, several partnerships. Therefore, if we consider the contemporary stakeholders or multi-stake holders theory (Lapoutte, 2017)<sup>2</sup>, we must not forget the

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<sup>2</sup> You can read with high interest her chapter in this collective book.

Penrose's research papers (1959) which define "enterprise" as a "cohesive institution" which tries to develop both the creation and the development of the learning organizations. That is why, it's easier to understand the nature of the firm and the managers' function (Pitelis & Wahl, 1998, p. 259). So, we think that the idea of a "learning organization" is intimately linked to an implicit criticism of traditional forms of organizational management (Senge, 1990) dominated by the hierarchical line of command, the sheer weight of procedures and rules, the separating out of responsibility, and the dichotomy between places where things are designed and those where they are implemented. These various elements were viewed as leading to a set of "dysfunctions" – or even errors – said to act as a brake on businesses' ability to adapt and develop within the new competitive environment of the "knowledge-based society". The Learning process is becoming a key strategic importance for management, in particular in the social and solidarity economy where social enterprise, under the French associative legal status<sup>3</sup>, needs to make the shift of its organizational strategy from its own global associative project towards an answer at the public supply side new policy which takes place through the form of a public purchase or a public services delegation in the target of a local model of development. Whilst the idea of the "learning organization" presents an undeniable heuristic interest in particular in the social and solidarity economy, it nevertheless gives us a set of theoretical and operational difficulties. Senge (1990) defines "learning organizations" on the basis of five fundamental principles:

- the presence of employees in a permanent dynamic of self-learning in order to support the individual's personal and professional development;
- the ability of the organization to adapt its behavior and to generate itself new knowledge by regularly testing its mental models and dominant frameworks of interpretation;
- building up espoused shared norms rooted in a strategic vision;
- team learning;
- developing systems thinking, in which problems are tackled as a whole and in their multiple interrelationships.

Thus, according to Senge: A learning organisation places perpetual learning at the heart of its values and operational processes. It makes intentional use of learning processes at individual, team/unit, and hierarchical levels, as well as with the outside, in order to permanently transform the organisation for the ever greater satisfaction of all stakeholders, and of local citizens. Grimand (1999, p. 5) detects many flaws which "leave him doubtful". His major criticism can be translated in the following question: what are the mechanisms of transfer between individual learning and organizational learning? In order to remove this theoretical "black hole", we need to be able to bring out the strategic interaction between the individuals, the public authorities and the social enterprise (stakeholders) in this collective learning process.

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<sup>3</sup> It is worth pointing out once again that most common legal status for organizations as work integration social enterprises in France, is that of an association relating to the social and solidarity economy (as an accredited "ESUS" (social enterprise with a social utility) association).

In order to bring out a partial answer, we have selected the following theoretical sources (Table 1):

**Table 1 - Management Practice Theories and their main authors**

<b>Management practice</b>	<b>Authors</b>
Creating a strategic vision, a stimulating ideal-type, based on formulating clear, shared objectives.	Senge (1990), Handy (1995)
A high degree of participation by members of the organization, and strategic learning processes open to experimentation (learning by doing).	Zarifian (1988), Revans (1983), Handy (1978)
Developing information and supervision systems aiming to provide permanent assessment of organizational performance. Implementing measures (feedback, progress groups, etc.) to standardize and disseminate learning.	Starkey (1998), Watkins & Marsick (1993)
Collective learning with “relay actors” disseminating new ideas across the organization. Processes of socialization and social interaction between individuals enabling “communities of practice” to emerge.	Watkins & Marsick (1993), Senge (1990), Duguid (1991)
An opportunity for employees to develop internal and external professional networks.	Kops (1997)

Source: inspired by Grimand (1999, p. 6).

Through these scientific papers and according to Bernoux (2009, p. 237), we can point out that: “there is a collective dimension to learning, which presupposes not only the acquisition of new knowledge by construction, but also the integration of social representations within the learning model”. Moscovici (1979) defines social representations as “the way in which individuals theorise and talk about the experiences they are familiar with, and, furthermore, the way in which the theories thereby formulated lead them to construct reality and, ultimately, to determine their own behaviour”.

But, this definition makes sense, if and only, if the collective learning process is “located”, i.e. “place planning” under the local public policies of the local development. Indeed, the territory is a “social building”, which is sustained by local public policies with local socio-economic projects. It means that the public policies, about social and solidarity economy, are a forward project for all local initiatives towards “another local development” (Fraisie, 2007, p. 3). This approach wants to consider that: social and solidarity economy must be considered as a particular case of a “local policy tool as learning tool” for a social and territorialized innovation. Therefore, we can accept the following definition: “social economy is the science which study general rules of production, of allotment, of trade and consumption, in their interactions with the social order” (Fallon, 1924, p. 3). Are we thus in a position to model social enterprises in France as learning organisations, in interaction with the local public institutions?

## 2. Modelling social enterprises as learning organizations – the case of the Work Integration Social Enterprises (WISEs) in France

The “Work Integration Social Enterprises” (WISEs), in France, are always faced with political and economic change because, they must respond not only to dictates of the local or central public administration to create jobs for people who are excluded from the labor market. But, they are organizations which try to specify the opportunities to articulate individual abilities and learning organizational processes to build capabilities. Thus, with Bernoux (2009, p. 217), the French WISEs could be viewed like “places for learning how to cooperate” into the organization itself, and between the organization and its economic, social, cultural, and political universes. Work Integration Social Enterprises (WISEs) (Table 2) have to work with the local public government which is in charge of the local quantitative employment policy. While, WISE as “learning organizations” (WISELOs) are operating in the social integration target in a “learning-by-doing” process, instead of the unique “learning-by-learning” process which is preferred by the public local government only to make the stock of learnings and the stock of “knowing to do” grow.

**Table 2 - Classification of work integration social enterprises in France**

Social enterprises	Integration enterprises	Intermediary associations	Temporary employment enterprises for integration (TEEIs)	GEIQ, Employers groups for integration and qualifications
<b>Social and professional integration objectives</b>	Socialization, learning practical knowledge and/or acquiring professional qualifications, access to job market	Dignity from work and welfare cover, creating new activities, youth training	Immersion via social temporary work in business ventures, socialization and acquisition of practical knowledge	Work-based training in business ventures, continuity between training course and work integration
<b>Types of job</b>	Fixed-term training jobs (16 to 18 months)	Precarious employment on placements	Temporary employment	Work-study contracts of up to 18 months
<b>Importance attached to training</b>	“On-the-job” training; theoretical training in some instances	Training schemes, training programs for neighborhood service activities	In-job tutoring	Alternating periods of training and employment
<b>Types of employee recruited</b>	Young people in difficulty, long-term unemployed, rSa recipients <sup>4</sup>	Young people in difficulty, long-term unemployed, rSa recipients	Young people in difficulty, long-term unemployed, rSa recipients	Young people in difficulty, long-term unemployed, rSa recipients
<b>Types of resource</b>	Subsidies for integration job, exemption from employer social security contributions, supplementary social action subsidies, local authority subsidies, market resources (sale of goods and services)	Exemption from employer social security, funding for job creation, market resources (individuals, enterprises, local authorities)	Public financing for supporting and supervising positions, exemption from employer social security contributions for integration positions, market resources via the sale of temporary missions	Partial financing of additional social cost for support, public subsidies for job creation, resources from the sale and management of jobs and training

Source: Eme and Gardin, 2001. CRIDA-EMES report, p. 8.

<sup>4</sup> We have updated the original table by replacing the RMI with the rSa. The *Revenu Social d'Activité* (rSa, social income for work) was introduced in the 2000s by M. Hirsch to replace the *Revenu Minimum d'Insertion* (RMI, minimum income for integration) brought in by M. Rocard in the 1980s.

Applied to our “Work Integration Social Enterprises as Learning Organizations” WISELOs’ model, the idea of an espoused theory borrowed from Argyris and Schön (1978), appears in the social and professional integration targets. It is set out in the public contracts concluded between the local government and the WISELOs to struggle against professional “AND” social exclusion. Thus, WISELOs which are sustained by local public administration can provide “on-the-job training” and “in-job tutoring” develop permanent processes by conducting various modes of learning, amounting to unusual forms of organizational knowledge. In other terms, the WISELOs’ learning process is how to adapt and experiment both people and organization in a status of a permanent strategic territorialized interaction. Consequently to place people in work situations or on training schemes, does not so much trigger individual learning than cooperative learning system between the WISELOs, the local public government, and their social and economic environment. Bernoux (2009, p. 227) argues that it is the capacity to bargain that emerges as a collective, organizational learning process that thanks to its permanence becomes common knowledge. This partially brings into question the approach adopted by Midler (1991, p. 4): “the idea of learning instead places the emphasis on the confusion and uncertainty of the objectives and representations that actors draw upon in practice, and on the collective nature of the formation of these representations”. The management practices put emphasis on the pre-eminence of either individual learning or organizational learning. But, the two, in fact, occur in tandem within WISELOs. Furthermore, the methodological individualism of Bernoux’s Sociology of organisations – just like Eme and Gardin’s characterisation of WISEs – is to “take off” these social organizations from their territory. Yet one of the aim missions of the WISELOs is precisely territorial development and social sustainable local development, in articulation with the local government and the local market-based firms.

The EMES network, under Defourny’s and Nyssens’ approach, defines “social enterprise” through three dimensions: economic, social and governance. But, it has never been apprehended with their territorial dimension! Yet, we consider that it is as a fundamental characteristic of the French WISELOs firstly, in their territorial project that the stakeholders try to carry out and corresponding to a process of organizational learning to achieve a social local sustainable model of development, and secondly, a territory of projects (individual socio-economic learning processes) within a single coordination body operating on a local scale and placing people in work situations in order to further the socio-economic integration of the beneficiaries. This leads us to re-examine the interaction between local systems of production and the learning region (Maillat & Kebir, 1999, p. 430): “Given the importance that immaterial resources have nowadays in development dynamics, the accent is placed less on naturally occurring resources than on resources that are built up (skills, know-how, and qualifications, together with ways of doing and acting)”.

These “building resources” are perpetually created and updated, presupposing a truly interactive dynamic between individual learning and organizational learning, which

corresponds to the situation of WISELOs in France. Hence as argued by Lundvall and Johnson (1994, p. 24), “knowledge is the fundamental resource in our contemporary economy, and learning is the most important process”, for they:

- develop an ability to react rapidly;
- make it possible to have the “right” resources and use them at the right moment;
- make it easier to find competent partners as rapidly as possible.

Consequently, in accordance with our thesis presented and espousing the EMES network approach to find an ideal-type of WISELOs, we define in general “the social enterprise as a learning organisation” (SELO). The EMES network advocates conceptualizing social enterprises by looking for an ideal-type of social enterprise in the Weberian meaning of the term i.e. “an abstract model that synthesises the main characteristics of the new form of partnership that may be observed within the social and solidarity economy” (Defourny & Nyssens, 2012, p. 19). It is here worth pointing out that for Weber an ideal-type (1920 and 1922) is not just a set of integrated concepts that are indispensable for apprehending reality, but also a “guide for drawing up hypotheses” (Boudon *et al.*, 1993, p. 231). We wish to take the hypothesis formulated by the international EMES network in order to argue for our thesis postulating the theoretical existence of an ideal-type of a work integration social enterprise as a learning organisation (WISELO) within the family of work integration social enterprises (or WISEs). The most recent scientific approach of the EMES indicators “reorganizes” them into three groups (instead of two), with indicators relating to the economic and social dimensions now supplemented by indicators relating to the governance structure (Table 3).

**Table 3 - The EMES approach of Social Enterprise in the EU**

<b>Indicators relating to the economic dimension</b>	<b>Indicators relating to the social dimension</b>	<b>Indicators relating to the governance structure</b>
<ul style="list-style-type: none"> <li>- Continuous activity producing goods and services</li> <li>- Significant levels of risk-taking</li> <li>- Minimal level of paid employment</li> </ul>	<ul style="list-style-type: none"> <li>- Explicit objective of serving the community</li> <li>- Initiative emanating from a citizen group</li> <li>- Limits on profit distribution</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of autonomy</li> <li>- Decision-making power not dependent upon share ownership</li> <li>- Participatory stakeholder dynamic</li> </ul>

Source: inspired by Defourny and Nyssens (2010).

The indicators relating to the economic dimension characterize the enterprise in tune with standard economic theory, but the social and governance dimension indicators turn it into a “social enterprise” distinct from commercial ventures – which as we have seen are “eligible” in France for ESUS status – because commercial enterprise primarily meet needs expressed by clients on a given market, and only secondarily direct their efforts to activities of general utility. This new group of EMES indicators brings to the fore the “powerful collective nature” of social enterprises in comparison to standard business firms. In other words, under the EMES ideal-type characterization, “social enterprises” are differentiated on the basis of their



commitment and involvement in serving an autonomous entrepreneurial collective body that is not regulated by shareholding. The governance structure indicators thereby place social enterprises within a form of corporate social responsibility (CSR) applied to the SSE, where governance is combined with two other non-financial indicators, namely the environmental and social dimensions. The “social dimension” is present because the sustainable development model targets pursued by “business ventures” in these early years of the twenty-first century, mean that: they are “key societal actors, whose management depends on values acceptable to those in the social environment” (Capron & Quairel-Lanoizelée, 2004). In terms of the social objectives of “responsible” commercial enterprises, this leads to their, adopting codes of behavior, social norms and accreditations, and social reporting and scoring systems as part of their management practices. “Social enterprises” as conceived in line with the social indicators laid down by EMES are explicitly at the service of the local scale. But, WISELOs as actors for local territorial development, must be envisaged in turn as a social construct. Indeed, as Pecqueur (1989, p. 19) observes: “Local development phenomena are a function of localised groups’ ability to adapt to the constraints imposed by internationalized competition, on the basis of their own specific potential for organisation. What may thus be observed are highly localised regulations presiding over the standardisation of behaviour, triggered by the globalisation of trade, and delivering more intense forms of asset development?” The hypothesis put forward here is that the social enterprise as learning organization responds to the territory more than it does to the locality for, as Pecqueur (1989, p. 18) points out: “the word territory accounts more accurately for the phenomenon of cultural unity and collective adaptation currently experienced by certain human communities”. The territory is neither neutral nor passive, but rather the space for political creation and social experimentation in which the social enterprise as learning organization provides a fixed point in a situated process of collective learning. Furthermore, for Favereau (2004, p. 150), “collective learning is at least partially related to the collective body's choice of the level at which to produce a common good”. Hence the indicators for social enterprise as learning organizations may be presented as follows, with a new “territorial” dimension with its own indicators (Table 4):

**Table 4 - The Territorial dimension added to the EMES’ conceptual approach**

<b>Indicators relating to the economic dimension</b>	<b>Indicators relating to the social dimension</b>	<b>Indicators relating to the governance structure</b>	<b>Indicators relating to the territorial dimension</b>
<ul style="list-style-type: none"> <li>- Continuous activity producing goods and services</li> <li>- Significant levels of risk-taking</li> <li>- Minimal level of paid employment</li> </ul>	<ul style="list-style-type: none"> <li>- Explicit objective of serving the community</li> <li>- Initiative emanating from a citizen group</li> <li>- Limits on profit distribution</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of autonomy</li> <li>- Decision-making power not dependent upon share ownership</li> <li>- Participatory stakeholder dynamic</li> </ul>	<ul style="list-style-type: none"> <li>- Situated process of collective learning</li> <li>- Ability to adapt to the local political and socio-economic environment (expanded territorial social dialogue)</li> <li>- Capacity for “territorial entrepreneurship” (creative solidarity economy)</li> </ul>

Source: Glémain *et al.*, 2016.

The new “territorial dimension” that we have introduced here, is based on the idea of an expanded social territorialized dialogue. This consists in taking into account the capacity of a WISELOs to build up the right sort of relationships between economic actors, social and political partners at the local scale, so as to draw up and share the information required for social innovation by experimenting with proposals for work-based and job-based learning, and for social integration process. Hence “territorial entrepreneurship” is a matter of adopting an entrepreneurial approach to a “mesosystem” (Pecqueur & Zimmermann, 2004) endowed with its own characteristics and autonomy. The social enterprise as learning organization becomes a local management tool for this mesosystem, by coordinating effectively the supply and demand of work placements (work-based learning) with local public authorities which cooperate with the WISELOs, and the social investment in favor with the local sustainable development. Thus, WISELOs are the product of a dual process of institutionalization:

- a process engendered by the social dialogue between public authorities, civil-society actors, and professional social workers, leading to a modification in the rationales for apprehending social issues relating to unemployment;
- a process of support for initiatives carried out by commercial or associative actors, mainly with the support of local public actors, where these initiatives are subsequently consolidated by the making of new laws and regulations.

Those enterprises are today confronted with mechanisms restricting public funding, together with the need to bring their procedures into line with norms and to “proceduralize” their activities. Within this context the concept of the “social enterprise as learning organization” strikes us as pertinent for the situation in France. Nevertheless, the ways in which it is put into operation are far from fixed. This appellation is indicative of the need to associate more closely a WISELO with its training activities targeting people in difficulty, so as to generate new local synergies for improving the training process to sustain local social development.

Nowadays “learning” is recognized as a societal payoff. The result of learning is central to several of society's institutions, and specifically into “business firms” or “for-profit” organizations. Midler (1991, p. 12) argues that, in theory, there are two ways of understanding an organization as a place of learning. The first one is keeping the normative or visionary current seeking in management science to reveal new theoretical types of organization, towards which enterprises need to tend. The second one is more sociological. The enterprise is considered like a place of negotiation between actors, whatever they are: public, not-for-profit, and for-profit. According with Bernoux (2009, p. 220), we agree with the following approach which takes “social enterprise” as a “place for learning cooperation” towards a general interest target: a kind of local “common goods” for a new way of local development, more “sustainable”. Therefore, we are in face with a territorialized governance which is trying to draw the frontier between the market and the collective goods, through a public action (Brodhag, 2002, p.50) which is conducted in a local partnership between the local public economy and the local WISELOs. “Learning” must be

understood as a socio-cultural and local phenomenon, and may thus be seen as heavily dependent on the nature of social localized relationships. It is thus intimately linked to the various social and language processes arising as part of the common activity, and in particular the operations of interpretation and communication between actors. “Organizational Learning” requires the sharing of experience, inter-comprehension, and the interpretation of jointly encountered situations between stakeholders, in order to know how to cooperate.

Our current scientific approach is based on a partnership with the French network *Chantier école*. That is why we are in a scientific back and forward approach from theory towards fieldwork. Our scientific posture is a research-intervention method to examine concepts in the “light of facts”, in order to conceptualize the WISELOs and to help social enterprise to adapt itself at the socio-economic and political shifts. We draw a first analysis with the case of the “*Association Cantonale des Chômeurs des Environs de Savenay*”<sup>5</sup> (ACCES) that was founded in 1987. The case analysis offers us the possibility to develop some hypothesis about our WISELOs theoretical model under the “light of facts”.

The French association “ACCES” has been set up by a social movement which wants to fight against local unemployment in a rural area. Under this challenge, a social workers movement (the Saint-Nazaire shipbuilding yards) and a social agricultural movement (with much livestock farming and market gardening) decided to struggle together. In the late 1990s the “Loire-Atlantique” General Council decided to support all social innovative associations to tackle local unemployment. In 1996, ACCES decided to join with REAGIS, an association from the neighboring *canton* of Pontchâteau working in the same cooperative spirit to “unite their forces to work for a common purpose in order to improve together the living conditions for each and every person” (Lasserre, 1959, p. 13-14). ACCES-REAGIS merged in 1998, laying down the following three strong guiding principles in their statutes:

- to set up work integration schemes as a stakeholder in developing local economic activity (in accordance with the principles of collaboration, mutualization, and cooperation);
- to develop local economic activity in order to meet situated needs identified as part of a broad consultation with the local social and economic fabric (territorialized business opportunities);
- to work for a local development model that was socially sustainable and environmentally responsible in order to create lasting not-for-profit employment.

The “Territorial dimension” of our WISELOs’ model takes on its full meaning here, because it is a challenge of “conducting local development via socially beneficial activities to create jobs” (ACCES-REAGIS, 2013). Two remarks need to be made here that confirm our hypothesis of the territorialized social enterprise as learning organization. Firstly, many studies of Social Enterprises have hitherto neglected this specific relationship with the territory – which goes beyond the simple fact of being

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<sup>5</sup> Local Unemployment Association which is set up near the middle town of Savenay, in the west of France.

anchored there – that is characteristic of situated WISEs linking up beneficiaries, the organizations in which they are placed and their territory. Secondly, the study of ACCES-REAGIS provides a way of analyzing not only a model of learning whose objective is primarily that of “work-based training” in which it is similar to the model of *enterprises as professional learning organizations* (EAPs or Professional Training Enterprises), introduced in Belgium in 1987 (Nyssens & Grégoire, 2003), but a social common convivial tool to achieve a post-industrial local model of society too. If ACCES-REAGIS does not focus solely on 18- to 25-years-old, even though some of its beneficiaries are coming from this age group, it is similar in profile to the Belgian work integration social enterprise, defined by Nyssens and Grégoire (2003, p. 3) as a “model of a social enterprise based on an initiative emanating from a group of individuals that includes an expanded [social] service dimension and openness to the local community, whilst emphasising a high degree of autonomy and risk-taking associated with continuous production activity”. To characterize ACCES-REAGIS as a WISELOs, we can consider the learning by learning process through the professional degree certificate “multi-functions employee” (Professional Qualification Certificate), which is given by the French Network *Chantier école*. This Professional Qualification Certificate is setting on a pedagogic-tool complex, such as: follow’s manual, learning guide, personal professional specifications, certificate of experiences. ACCES-REAGIS is trying to help not only beneficiaries themselves but also itself as a WISELO model by enabling excluded people to return to a work-based training in order to return to the labor market (CEDEFOP, 2013), and a solidarity business model by integrating skills to build a local safe society without high unemployment and social exclusion. The solidarity skills are understood, here, as a combination between knowing how to act in a concrete situation and an ability to draw on more abstract resources (Dietrich, 2010). Those specific skills constitute a territorialized social tools construct, and may be a subject of provisional dispute and compromise within enterprises as to how to define and recognize them (Dietrich, 1997; Scouarnec, 2000; Segrestin, 2004). But it is harder to pin down the definition of skills at the scale of a territory, for these are no longer defined solely by social enterprises but also by public actors wishing to place the long-term unemployed on such schemes. Thus for Sue (1994) the shift from a society dominated by work to a “society of freed time”<sup>6</sup> modifies the nature and forms of skill acquisition, together with how skills are used. Skills develop themselves outside the professional field, breaking free of the training system and standard professional classifications. The following table presents a synthetic overview of the two aspects of skills as identified within territorialized forward planning for employment and skills (Table 5):<sup>7</sup>

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<sup>6</sup> Here it is a matter of defining the leisure class in contradistinction to the society of work, as Thorstein Veblen did in 1899, where work is both a source of social status (recognition) and socio-economic integration.

<sup>7</sup> In the words Dejoux (2008: 60) a GPEC is an “HRM measure, with a legal framework, that pursues three complementary approaches: linking up HR needs to business strategy, anticipating needs for jobs and skills and comparing these to current human resources, and conducting dialogue with social partners on the means to be implemented (training, skill assessments, professional mobility, validation of prior learning) in order to collectively support the development of the skills needed to secure lasting employment and the company’s survival, the aim being to succeed in coming to an agreement”. We hold the territorialized GPEC (GPECT) to be

**Table 5 - Towards a territorial human resource management**

	<b>Skills strictly defined</b>	<b>Skills broadly defined</b>
<b>Underpinning rationale</b>	GPECT based on a prescript rationale	GPECT based on a social rationale
<b>Sphere in which skills are meaningful</b>	Skills relate solely to the world of work	Skills also relate to daily experience outside work in a local area
<b>Skill areas</b>	Solely professional areas	Solely non-professional areas (family, friends, associations, personal)
<b>Valorization of skills</b>	Easy, as socially validated by the professional sphere (certificates, diplomas, validation of prior learning, organizational career)	Difficult, as not recognized by the professional sphere (skill portfolios, assimilation-based recruitment)
<b>Spheres concerned</b>	Primary and secondary job markets	Work integration sector

Source: Glémain *et al.*, 2016.

In the WISELO model in general and for ACCES-REAGIS in particular, the recognition of a skill takes into account not only the professional field but also the field outside work (social and personal experience), viewed as a biography of opportunities for learning and skill acquisition. This recognition also requires a certain degree of reflexivity on the part of the individual, in which they transform events into experiences, and into instances of learning. Whilst “under French law”, as Guitton (2008, p. 23), “employment policy is not designed to be decentralised, but territorialized, that is to say drawn up and run by the central level yet implemented in devolved manner by the local public employment service,” further work needs to be done on territorialization as a process. In other words, WISELOs is becoming both a social innovation territory and a learning space, in partnership with the public local administration and their employment and social development policies.

## Conclusion

At the end of this chapter, we have shown how is important the territorial dimension for characterizing social enterprises, such as “work integration social enterprise as learning organizations” (WISELOs), in France. We have started bringing out the characteristics of social enterprises, particularly the work integration social enterprises as learning organizations, by adding the learning dimension to the WISEs, thereby consolidating the strength of the collective body structuring these particular social enterprises, as well as fostering the convergence of individual projects towards a shared territorialized project to deliver socially sustainable local development. Our aim in this research, rooted in the activity of stakeholders in the field, has been to go beyond the classic conceptual dichotomy between the social organization of work (formal structures and professional and group identities) and the personal activity of the trainer/support provider. Somewhere between these two dimensions lies the “work conducted by professional collective bodies to reorganise the task, in which the organising work of the collective body recreates the organisation of

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an expanded territorial social dialogue to support employment policy at the local level, in favor of an alternative form of development that is economically viable and socially sustainable.

work” (Clot, 2005) – where the idea of learning can bring into questions this work of re-organisation. The idea of learning is an artefact that needs to be interpreted by the individual as a situated social, collective, and interactional process (Vygotski, 1930, 1985)<sup>8</sup>. In other words, we have to study, in details, the different accompaniment models of work social integration, in order to understand their true social and territorial investing process?

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<sup>8</sup> “The Instrumental Method in Psychology”, paper given at the Krupskaya Academy of Communist Education.

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**From public ownership back to commons.  
Lessons learnt from the Romanian experience in the forest sector /  
Chapter 3**

Ancuța VAMEȘU<sup>\*</sup>, Cristina BARNA<sup>\*\*</sup>, Irina OPINCARU<sup>\*\*\*</sup>

**Abstract**

This chapter is an analysis of the forest commons in Romania (in Romanian - „*obște*”, „*composesorat*”) as social solidarity economy organisations mainly looking at how the collective production of norms in these new (re-instituted after 50 years) organisations impacts the sustainability concerns in the collective management of natural goods and production of new goods and services of interest to the community. The chapter has four parts: the first part is offering to the readers a conceptual framework of common goods in order to better understand the particular situation of Romanian natural resources (forests, pastures) as common goods and their transition from public management to commons across time; the second part is a brief history of commons in Romania covering evolutions from 1948 to 2012 and including estimates of the size of surfaces they manage; the third part studies the commons as social economy organisations using key social and economic indicators of commons as SSE organisations from the Prometheus research project in which the authors were involved; and the last part assesses the disposition of the commons for a public, community interest mission and sustainable management of forests using survey data analysis. The chapter thus provides an in-depth analysis of commons as social solidarity economy organisations in Romania and of their capacity to provide a viable framework for sustainably managing the common resources under circumstances of significant economic pressure.

**Keywords:** social economy; social solidarity economy organisation; commons; forestry

**JEL-Codes:** A13, L31, Q23

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<sup>\*</sup> Solidarity Laboratory, Bucharest (Romania) ([ancutavamesu@gmail.com](mailto:ancutavamesu@gmail.com)).

<sup>\*\*</sup> Solidarity Laboratory, Bucharest (Romania) ([cristina\\_barna1412@yahoo.com](mailto:cristina_barna1412@yahoo.com)).

<sup>\*\*\*</sup> Civil Society Development Foundation, Institute of Social Economy, Bucharest (Romania) ([irina.opincaru@fdsc.ro](mailto:irina.opincaru@fdsc.ro)).

## Introduction

In Romania, commons, re-instituted traditional forms of common ownership (in Romanian - „*obște*”, „*composesorat*”) administer significant natural resources, mainly forests and pastures which may also include hunting areas, fisheries, lakes, resources of strategic interest for sustainable development.

The commons were re-established as associations after the fall of communism, according to the Law no. 1/2000 (Lupu Law) and the Law 247/2005, in the context of the restitution of the above mentioned resources to the former owners, answering the need of a specific kind of organisation for the administration of such resources. Most of the Romanian restituted commons appeared around the year 2000 and few of them after, following over 50 years of public property and organisation of land and forests as public enterprises under the communist regime. There was a process of re-institutionalisation of community-based rules and procedures in a context which previously was governed in a non-participatory manner. The legal form of commons is that of a not-for-profit association but with particularities enshrined in the bylaws, such as permission of limited distribution of profit (in kind or in cash) among members. The main advantages of the re-establishment of the commons were allowing participatory management of the commonly-owned forest, access to the organisation’s products such as free or for very low-priced acquisition of wooden material.

In this chapter, we draw from Elinor Ostrom work in the field of common pool resources and we attempt an analysis of the forest commons in Romania as social solidarity economy (SSE) organisations mainly looking at how the collective production of norms in these new (re-instituted after 50 years) organisations impacts the sustainability concerns in the collective management of natural goods and production of new goods and services of interest to the community.<sup>1</sup> We start with a conceptual framework on common goods, review the changes incurred in property regimes of forests in Romania, and provide estimations regarding the surfaces of forests in question. We conduct an assessment of some key social and economic indicators of commons as SSE organisations starting from balance sheet data, we provide a comparative perspective of sustainability indicators such as illegal logging in public and common forests, and thus try to see how these hybrid organisations pursuing common and general-interest missions behave under commercial, economic pressures. Finally, we take an in-depth view on the sustainability concerns within the governance of these organisations through survey data.

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<sup>1</sup> NYSENS, M., PETRELLA, F., “The Social and Solidarity Economy and Ostrom’s approach to common pool resources: Towards a better understanding of institutional diversity?”, in: J-L LAVILLE, D. YOUNG, P. EYNAUD, *Civil Society, the Third Sector and Social Enterprise: Governance and Democracy* (Routledge Frontiers of Political Economy), Routledge, Oxford, 2015.

## 1. Transition of common goods from public management to commons – the case of natural resources (forests, pastures) in Romania

In order to understand the role of Romanian commons we have to remember the two characteristics of goods in economics: excludability (the property of a good whereby a person can be prevented from using it) and rivalry (the property of a good whereby one person's use diminishes other people's use). Using these two characteristics, the goods can be divided in four categories: private goods – which are both excludable and rival, public goods – which are neither excludable nor rival, common resources – which are rival but not excludable, and natural monopoly – when a good is excludable but not rival. (Mankiw, 2015). In the case of the public goods, people cannot be prevented from using a public good, and one person's enjoyment of a public good does not reduce another person's enjoyment of it. In the case of the common resources, when one person uses resources, there are fewer resources for the next person to use. Yet these resources are not an excludable good because it is difficult to charge persons for the resources they use.

In the communist time in Romania, common resources (forests, pastures, fisheries, lakes, springs, etc.) previously held in traditional common property have been 'nationalised', transferred into public property and management, and have been thus managed for a period of approximately 50 years before 1989 and 10 years after up to 2000, when some of them have returned to communal property. Although 'public forests' are not public goods in the economic sense, they are faced with some similar free-rider problems, negative behaviours that have lasted until now affecting the sustainability of the natural resources and leading to deforestation through excessive exploitation, poaching, etc. Currently some of the forests, those traditionally held and managed as commons (in Romanian - „*obște*”, „*composesorat*”), have been claimed by the former owners before nationalisation, transferred in their property and are administered, “as shared resources which people manage by negotiating their own rules through social and customary traditions, norms and practices”. We consider these as social economy organisations as they meet all criteria for such a classification.

Vasile and Mantescu (2009) offered a very good explanation of the commons as they functioned and still function in Romania:

“According to the rights of access to the common property, one may find two types of „*obște*”: equalitarian and non-equalitarian. The equalitarian type means that everyone in the village has the right to equal shares of wood, and every man or woman over 18 has the right to elect the president of „*obște*” and the councillors in the village assembly. In other words: one man, one share, one vote. (...). The non-equalitarian type might also be called the genealogical type: only some villagers have the rights to access, if, and only if, the parents had shares in „*obște*”. In most cases of non-equalitarian „*obște*”, the resulting money from the surplus of wood extraction is divided between the owners of shares, as shares from a company. In both types, there is only one property title, the „*obște*” owns the forest. The difference is that in the first type „*obște*” means the whole village, while in the second one, only a part of it. However, in both cases the property is indivisible – one cannot fence his shares from the common property because one doesn't even know where these shares are located, and the surface of land cannot be sold outside „*obște*”, according to the law.”

The *composesorat* functions as a non-equalitarian or genealogical *obște*.

The distribution of rights (and, subsequently of the benefits for members and their voting rights) follows either a community-based rule or a heritage rule. Benefits can be either in kind – around 1 cubic meter of fire wood per hectare, or in cash – ranging widely across the country from 50 RON/hectare to almost 700 RON/hectare, depending on the size and management practices of the common. The community as a whole is usually also one of the beneficiaries of the common's activity, which contributes in cash or in kind in various works of public utility: roads maintenance, repairs in the church or school, sponsorship of various local events etc.<sup>2</sup> This is the kind of simultaneous property, a type of concurrent, ancient property under which we can speak of a coexistence of rights, which are not in competition but in complementarity. (Boidin, Hiez & Rousseau, 2008)

The common property regime in „*obște*” is characterised by the fact that access to the resource (forest, pasture) is restricted to traditional community members and the management of the resources is governed by a set of rules which also have in mind the conservation of the resource. The organisational form that this property-governing regime takes has to allow these rules to function effectively. It is not clear to what extent the legal form of an association taken by the commons re-instituted in Romania manages to capture the specific features of this regime. In the research conducted we used various indicators that may reflect the extent to which this organisational form generates efficiencies and sustainable use of the resources. (Ballet, 2008).

Ostrom *et al.* (1999) considered four broad types of property rights that evolved or are designed in relation with common resources: open access, group property, individual property, and government property. The considered empirical studies show that no single type of property works efficiently, fairly and sustainable to all common resources.

We are therefore in Romania in a situation in which we can compare some of the features of two organisational models of managing these common goods: group property or communal and government property. In the case of the common property resources it is difficult to exclude potential beneficiaries from obtaining benefits from its use, so it is possible to face the problem of congestion. (Casari, 2011). Common resources are susceptible to face the “Tragedy of the Commons” (Hardin, 1968) - the tragedy of the rational users of a common who are

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<sup>2</sup> This information was gathered through a research project on the forest and pastures commons in Romania, whose final results and findings will be made available in the second half of 2017. The project named “Associative Environmentality: the Revival of Forest Commons in the Carpathians” is based at the Institute of Sociology, Romanian Academy and is supported by a grant of the Romanian National Authority for Scientific Research and Innovation, CNCS-UEFISCDI. Project number: PN-II-RU-TE-2014-4-2865. More information and some data extracts from all around Romania are available at this link: <http://romaniacommons.wixsite.com/project>.

caught in an inevitable process that leads to the final destruction of the common simply because they are thinking at utility 'to me'.

Casari (2011) pointed four ways out of the "tragedy of the commons": government regulations, individual ownership, informal cooperation (long-run relationship among the users) and self-governance among the users (contract among the users). We consider „*obște*” and „*composesorat*”, the traditional commons in Romania, established through commonly agreed bylaws, as a form of self-governance of users with a contract among them.

## **2. Recent history of commons (Romanian “*obște*”, “*composesorat*”) in Romania**

In the case of Romania, the commons (“*obște*”, “*composesorat*”) as social economy organisations (an association of owners/users - a group property) are a specific kind of organisations that could answer the inevitable problems described above, a form of organisation based on cooperation and participatory governance of the owners (users) of the natural resources. Using data from research we conducted, we attempt to determine how good a solution these organisations were for getting out of the “tragedy of the commons”.

Forest and pasture commons in Romania have different names according to the historical region where they functioned and were re-established. Thus, the “*obște*” appears in Wallachia and Moldavia (in the counties Valcea, Vrancea, Gorj, Arges, Bacau, etc.), while the “*composesorat*” functions in the villages of Transylvania (Harghita, Covasna, Hunedoara, Arad, Baia Mare, Brasov, etc.) (Vasile & Mantescu, 2009). The two names define the same form of organisation.

According to the research report “The collective organizations of the owners of agricultural terrains and forests”, coordinated by Petrescu, C. in 2013, this type of social economy organisation benefits of a long standing tradition in Romania, being the most common form of managing the common property of forests in the free peasants’ communities. In addition to these historical possessions, other forests were either bought by communities from aristocrats, or received by the whole community as a compensation for guarding the borders, especially in Transylvania. They were first legally recognised in associative forms in Romania around the years 1900, the property being received by the villages through different ways. They functioned as juridical persons from 1910 until 1948, when all their properties were declared property of the state and the organisations were dissolved.

After the fall of the communist regime, it took 11 years until the adoption of a law (the Lupu Law - 1/2000) that allowed communities and juridical persons to claim their properties, based on old documents that proved their rights: property titles and succession documents for the members. Most of the villages had at least one person that kept the old records from 1948 and were able to claim their rights on the forests and restart the organisations, but only for the surfaces for which property and

succession documents were available. A second law, 247/2005 completed the restitution process and allowed the commons to also claim the whole surface they had with property title in 1948, whether it was claimed by successors or not.

Romania has a total surface of forest of 6.5 mil ha, representing approximately 27.3% of its territory. This surface weight is 5.1% below the European average.

**Table 1 - Evolution of forest surface (ha) by type of property in Romania 1996-2014**

Year	1996	2000	2005	2010	2014
Total	6,690,292	6,457,283	6,742,825	6,758,097	6,734,003
Public property	6,179,136	5,845,690	4,730,378	4,146,815	4,077,541
Private property including commons	511,156	611,593	2,012,447	2,611,282	2,656,462

Source: National Institute of Statistics, Tempo database.

According to estimates, the commons hold about 17% of the forests in Romania in 1948, having been restituted about 67% of surfaces they were holding in 1948 when nationalisation occurred. In 2012, the commons held 11% of the forests in Romania and 34% of the total private forest surface.

**Table 2 - Evolution of ownership of forests in Romania 1948-2012**

Owner	Surface 1948 (ha)	Weight in total 1948 (%)	Surface 2012* (ha)	Weight in total 2012 (%)
State public property	2,008,492	31	3,396,095	52
Public property of - municipalities	681,197	11	974,025	15
Churches and monasteries	467,605	7	146,785	2
Commons	1,106,273	17	742,523	11
Private property of individual owners - physical persons and public (share) companies	2,097,276	32	1,269,672**	19
<b>Total forest surface</b>	<b>6,486,471</b>	<b>100</b>	<b>6,529,100</b>	<b>100</b>
<b>Total private forest surface</b>	<b>3,671,154</b>	<b>57</b>	<b>2,158,980</b>	<b>33</b>

\* according to the National Institute of Statistics.

\*\* Property was restituted to physical persons only.

Source: *Forest assets situation – a report of the Court of Auditors of Romania 2013*<sup>3</sup> – data processed by the authors.

Officially the total forest surface in Romania has increased over the period 1996-2014 with 43,711 ha, but there are though numerous independent reports that show the surface has in fact decreased in the last 20 years. For example, according to a Greenpeace report in 2012 a total area of 280,108 ha suffered deforestation and

<sup>3</sup> Curtea de Conturi, *Sinteza Raportului de audit privind "Situăția patrimonială a fondului forestier din România, în perioada 1990-2012"*, 2013, <http://www.curteadeconturi.ro/Publicatii/economie7.pdf>

forest degradation in 2000-2011 (approx. 28000 ha per year)<sup>4</sup>, meaning that around 4% of Romania forest cover was lost or degraded in recent years.

### 3. Commons as social economy organisations managing common resources – socio-economic indicators

Commons were first studied in Romania from the perspective of social enterprises in the framework of PROMETEUS research project<sup>5</sup> as a sub-sector of social economy associations with economic character (forest and pasture common ownership associations) and agricultural (i.e. farmers) associations. The project, conducted in cooperation by the Institute of Social Economy - Civil Society Development Foundation and the National Institute of Statistics in Romania, has generated aggregated data (number of organisations, fields of activity, regional distribution) and economic data (total revenues, economic revenues, fixed assets, employees, gross salary) of the main types of social economy organisations: cooperatives, associations and foundations, credit unions, commercial companies controlled by the social economy organisations. The main data sources used were the micro-data in the accounting balance sheets for the years 2000-2012 for the respective types of organisations, included in the Statistic Registry (REGIS) of the National Statistics Institute. These data were first published in the *Atlas of Social Economy*, publication of the Institute of Social Economy - Civil Society Development Foundation.

**Table 3 - Number of commons legally registered in the National Registry of Associations and Foundations in Romania 2000-2012 and annual registration growth rates**

Fields of activity	2000	2005	2005/2000 growth rate	2010	2011	2011/2010 growth rate	2012	2012/2011 growth rate
Commons/Forest	40	597	+ 1393%	1,106	1,195	+ 8.0%	1,326	+ 11.0%

Source: Extract from **Table no. 26: Fields of activity of Associations and Foundations registered during the period 2000-2012 – Atlas of Social Economy 2014** (data processed by IES-FDSC based on the INS 2000-2012 data, on NACE Codes in the balance sheets of AF, on the information included in the NGO Register from the Ministry of Justice).

According to the data from the Atlas of Social Economy (Barna *et al.*, 2014), in 2012 in Romania there were 921 active commons, meaning that not all registered commons were also active.

<sup>4</sup> Greenpeace Russia GIS Unit. *Forest Cover Change in Romania in 2000-2011*, 2012. Retrieved from <http://www.greenpeace.org/romania/Global/romania/paduri/Despaduririle%20din%20Romania/Forestcover%20change%20in%20Romania%202000-2011.pdf>

<sup>5</sup> Project: "PROMETEUS – Promoting social economy in Romania through research, education and professional training at European standards", POSDRU ID 57672, implemented by Civil Society Development Foundation in partnership with Institute of Quality of Life, University of Bucharest - Sociology Faculty, EURICSE-European Research Institute on Cooperatives and Social Enterprises (Trento, Italy), National Center for Training in Statistic, co-financed by European Social Fund, period 1 September 2010 - 1 September 2013.



The organisation of commons and the restitution were long processes in which the commoners had, in some cases, scarce legal or organisational assistance<sup>6</sup>. As such we see an average of around 60 new commons being legally registered yearly between 2005-2012 and thus in a legal capacity of taking back the assets.

**Table 4 - Commons active yearly between 2000 and 2012**

	Year of registration of balance sheet data							
	2000	2005	2007	2008	2009	2010	2011	2012
No. of active commons	33	508	612	720	810	898	854	921

(Note: active = registered balance sheets)

Source: National Institute of Statistics.

As we can see, not all the commons legally registered were economically active. Based on balance sheet data, we can identify how many of the commons were engaged in economic activity, namely production and sale of goods and services. As can be seen they were by far the types of organisations with the highest rate of economic activity among all the organisations in the social economy sector.

**Table 5 - Frequency of economic activities among Associations (including commons) and Foundations in Romania by fields of activity (AF% with the economic activity in the concerned field)**

	2000	2005	2007	2009	2010	2011	2012
<b>Commons/Forestry</b>	<b>32%</b>	<b>76%</b>	<b>72%</b>	<b>61%</b>	<b>45%</b>	<b>53%</b>	<b>51%</b>
<b>Agricultural</b>	19%	20%	29%	17%	13%	36%	31%
<b>Professional</b>	22%	18%	18%	10%	13%	12%	12%
<b>Education</b>	19%	20%	18%	12%	11%	10%	9%
<b>Cultural</b>	14%	14%	15%	9%	9%	10%	9%
<b>Development/Tourism</b>	19%	17%	19%	9%	9%	9%	9%
<b>Religious</b>	12%	12%	12%	8%	9%	8%	7%
<b>Civic</b>	18%	18%	17%	10%	9%	9%	9%
<b>Health</b>	13%	14%	15%	8%	8%	7%	8%
<b>Environment</b>	9%	12%	14%	7%	8%	8%	7%
<b>Social/Charitable</b>	9%	10%	11%	7%	8%	7%	7%
<b>Sport</b>	13%	11%	12%	6%	8%	7%	7%

Source: Extract from Table 38 Frequency of economic activities among AF by fields of activity of (AF% with the economic activity in the concerned field) Atlas of Social Economy 2014 (Source: processed by IES-FDSC based on the data from INS 2000-2012, on the NACE codes in the balance sheets of AF, and on the information included in the NGO Register from the Ministry of Justice).

The results of the survey (see part 4 of the chapter) show in fact that over 81% of the commons conduct some form of economic activity. Comparing with 2010 data (Petrescu, 2013), in 2012 there was a slight growth (+0,7%) of the number of the commons with economic activity. The commons had positive trends for the period

<sup>6</sup> According to qualitative data gathered through the “Associative Environmentalism: the Revival of Forest Commons in the Carpathians” project, many presidents of commons in Romania reported that they had several challenges in finding a lawyer well prepared in the legal particularities of the commons. The same issue applies to finding a well prepared accountant.

2011-2012 for the main economic indicators: assets, number of employees, incomes from economic activities, number of employees for economic activities. The operational and economic performance of these organizations was remarkable: 60,48% of the commons obtained surplus in 2012, 36,70% obtained profit, and the profit rate was 21,55%.

At this point, it is worth explaining shortly the way in which operations are run in the commons. As stated before, members of each common (with very few exceptions) receive some form of benefit – either in cash or in kind (a certain amount of wood). The main source for the cash that enter the common comes from the logging and sale of the wood to different exploitation enterprises<sup>7</sup>. All this activity is registered in accounts as economic activity of the common.

Considering sustainability, we looked at one of the economic and sustainability indicators collected by EUROSTAT on forestry around European Union, namely round wood removals under bark by type of ownership.

The balance sheets contain little information on the particular type of economic activities that the commons are engaged in. The main indicator is Statistical Classification of Economic Activities in the European Community, Rev. 2 (2008) NACE. In the table below, we summarise the NACE that the commons have listed for their economic activity. As can be seen most have described their activity as activity of membership organisations. In addition, the following are the types of economic activities listed by some of the other commons in their balance sheets.

**Table 6 - Commons main economic activity – Prometheus database of balance sheets**

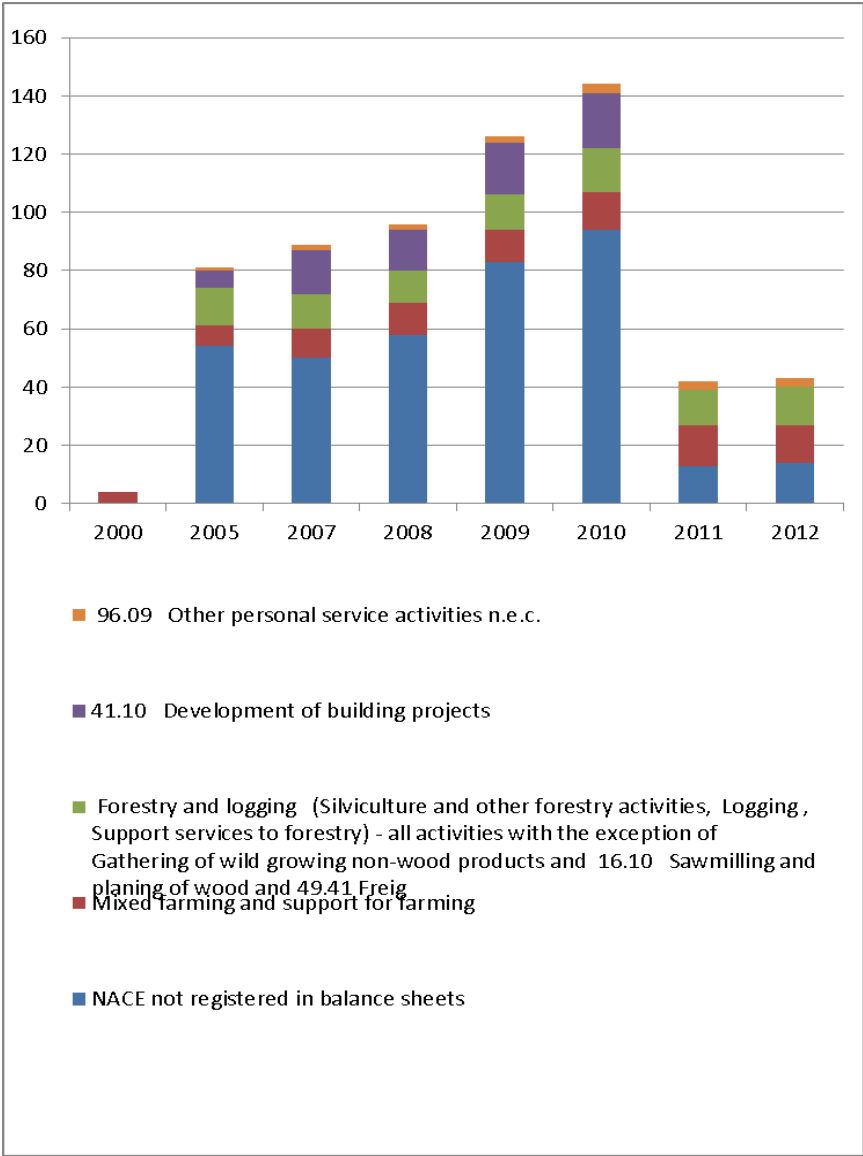
Statistical Classification of Economic Activities in the European Community, Rev. 2 (2008)	Year							
	2000	2005	2007	2008	2009	2010	2011	2012
NACE missing - not registered in the balance sheets	0	54	50	58	83	94	13	14
01.50 Mixed farming	4	6	9	10	10	12	12	12
1.61 Support activities for crop production	0	1	1	1	1	1	1	1
1.62 Support activities for animal production	0	0	0	0	0	0	1	0
01.70 Hunting, trapping and related service activities	0	0	1	1	1	1	1	1
02.10 Silviculture and other forestry activities	0	0	0	0	0	1	2	2
02.20 Logging	0	9	8	7	7	8	6	8
02.40 Support services to forestry	0	1	1	1	1	1	1	1
16.10 Sawmilling and planning of wood	0	3	3	3	4	4	3	2
41.10 Development of building projects	0	6	15	14	18	19	0	0
94.11 Activities of business and employers' membership organisations	1	13	14	15	15	17	18	17
94.12 Activities of professional membership organisations	0	1	1	1	2	2	3	3
94.91 Activities of religious organisations	0	0	0	0	0	1	0	0
94.99 Activities of other membership organisations n.e.c.	28	413	507	607	666	734	791	856
96.09 Other personal service activities n.e.c.	0	1	2	2	2	3	3	3

Source: processed by the authors from Prometheus project data IES-FDSC extracted from the National Institute of Statistics of Romania, on the NACE codes in the balance sheets of AF, and on the information included in the NGO Register from the Ministry of Justice.

<sup>7</sup> According to qualitative data gathered through the “Associative Environmentality: the Revival of Forest Commons in the Carpathians” project.

It is not clear how the commons report their economic activity – the activities with members sometimes is also economic – e.g. sale of fire or construction wood at subsidised prices towards members would be “an activity of a membership organisation” or silviculture and other forestry activity, or logging. Main economic activities besides activities of membership organisations in which the commons have engaged in the period 2000-2012 are: development of building projects, mixed farming and support for farming, and forestry and logging (silviculture and other forestry activities, logging, support services to forestry) – all forestry and logging activities with the exception of gathering of wild growing non-wood products, and also sawmilling and planning of wood.

**Figure 1 - No. of commons by NACE statistical classification of economic activities (2000-2012) – other than NACE activities of membership organisations**



Source: processed by the authors from Prometheus project data IES-FDSC extracted from the National Institute of Statistics of Romania, on the NACE codes in the balance sheets of AF, and on the information included in the NGO Register from the Ministry of Justice.

Total revenues and the revenues resulted from economic activities have constantly increased for the commons in the period 2005-2012.

The revenues generated from economic activities (of which a significant part resulted from forestry activities) seem to have grown faster than the total industry at least this is what it results from compiled data on the sector private enterprises from the National Institute of Statistics data and for the commons from data in the Prometheus project. If we include all enterprises (including public sector), the sector revenues would be around 4 billion lei, and therefore the weight of the commons would be much less of below 2, 5%, below its weight in terms of forest surfaces.

By law, forest owners have to work with specialized forestry services to plan and maintain their forests. The areas owned by legal entities, in particular the commons, are more likely (81.7%) to hire specialized public forestry services which ensure responsible and sustainable management of the forest than individual owners (only 41,7% with a contract for dedicated services from public company Romsilva<sup>8</sup>).

**Table 7 - Surface managed by the public company ROMSILVA forestry services**

Owner	Surface 2010 (thousand ha)	Managed by the public company ROMSILVA forestry services	
		No. of contracts	Surface (ha)
Churches and monasteries	144,000	4,625	719,266
Commons	736,000		
Individual owners - physical persons	1,213,000	146,647	418,953

Source: Forest assets situation – a report of the Court of Auditors of Romania 2013<sup>9</sup> - processed by the authors.

An official report from the independent auditing body of the Parliament estimated in 2013<sup>10</sup> that 633.500 cubic meters of timber was cut illegally in the two decades since the fall of Communism, corresponding to a surface of 291.932 ha.

**Table 8 - Illegal logging 2005-2012 of forests managed by the public company ROMSILVA forestry services – officially registered**

Owner	Surface 2010 (ha)	Surface managed by Romsilva ha <sup>11</sup>	Illegal logging 2005-2012 of forests managed by the public company ROMSILVA forestry services – officially registered		
			Cubic metres	Estimated forested surface equivalent ha	% of surface affected
State and municipalities		4,370,120	438,900	202,258	4.63
Churches and monasteries	144,000	719,266	194,600*	89,674	7.88
Commons	736,000				
Individual owners - physical persons	1,213,000	418,953			

Source: Forest assets situation – a report of the Court of Auditors of Romania 2013<sup>12</sup> - processed by the authors.

\* Only aggregate figures for private sector which includes churches and monasteries, commons and physical persons were published.

<sup>8</sup> They may still work with private forestry services companies.

<sup>9</sup> Curtea de Conturi, 2013, *op. cit.*

<sup>10</sup> Idem above.

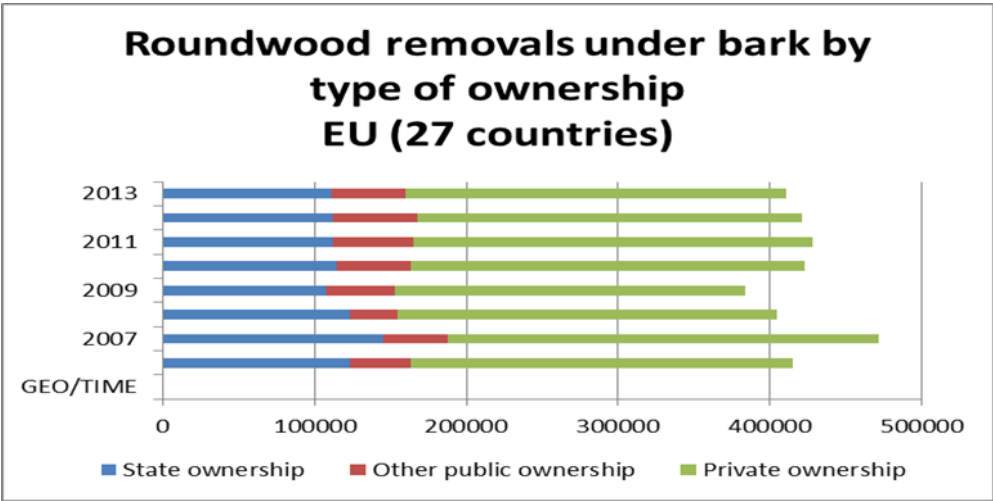
<sup>11</sup> under forestry contract.

<sup>12</sup> Curtea de Conturi, 2013, *op. cit.*

Official figures and estimates vary significantly; it is though clear that illegal logging is a process that affects the forests in Romania. Same official report shows that most illegal logging is happening in public forests – owned / controlled by municipalities which have received forests during the property restitution process. A Greenpeace publication in 2015 based on official data reports 34.870 cases of illegal logging in one year only, an increase from the previous year.<sup>13</sup>

The private sector which includes the commons seems to have a lower importance in Romania than at the level of European Union as a whole in wood production as the EUROSTAT figures on round wood removals under bark by type of ownership show.

**Figure 2 - Round wood removals under bark by type of ownership in EU**



As we can see, the proportion of wood being removed from the private forests was smaller in Romania compared to EU total.

**4. The dispositions of the commons for a public, community interest mission and sustainable management of forests – survey data analysis**

Further in-depth investigation was carried out of which we can draw data on the social and environmental (in terms of sustainable management of the natural resource) performance of the commons in Romania. A field survey was conducted on a representative probabilistic multistage sample, stratified by region of development and residential areas, representative for all the types of entities, 556 of commons having been surveyed. The approach taken was the following: to identify and measure the extent to which the organisations which by legal form respect the social economy principles internalise and operate in practice by these principles. The questionnaire was applied face to face by interviewers to the social enterprises’ representatives. The dimensions of the research were decided considering EMES definition criteria of a social enterprise: a permanent activity of production or commercialisation of products or services, assuming economic risks, the existence of

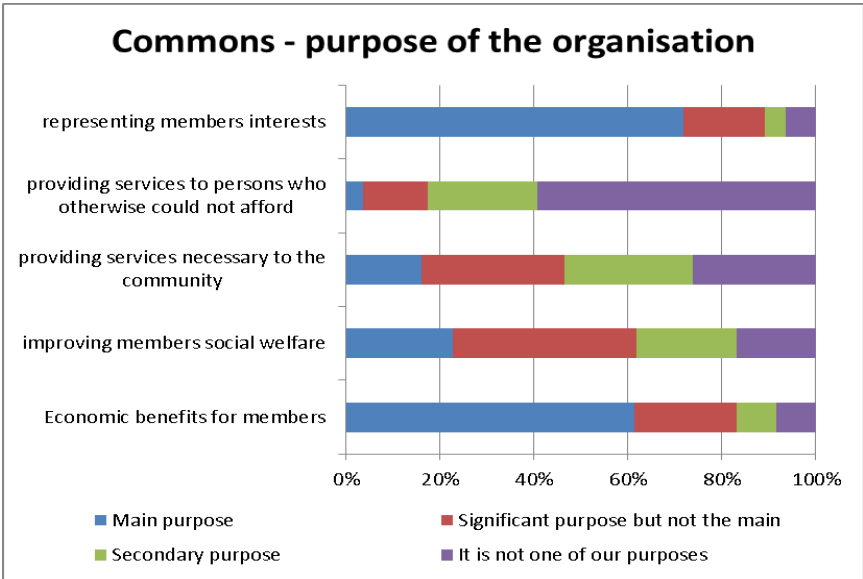
<sup>13</sup> Greenpeace România, *Tăierile ilegale de arbori din pădurile României*, 2015.

a small number of employees, a social aim which is helping the community or a group of persons, the organisation’s founding as a result of a collective initiative of a group of citizens or of some civil society organizations, limited distribution of the surplus, autonomy, democratic governance based on the principle “one man, one vote”, implication of different stakeholders (users, clients, representatives of the other community institutions, etc.) to the decision making process (Defourny & Nyssens, 2012). These data have been further analysed in 2016 using an analytical tool designed by the Belgian Section of CIRIEC (International Centre of Research and Information on the Public, Social and Cooperative Economy) in the framework of the SECOIA project that looked at tools to assess the social impact of social economy enterprises. The indicators chosen to measure the specific social impact of these enterprises were: the democratic governance and the surplus allocation principles.

In our research we tried to measure the disposition of this type of social economy organisations to meet the needs of sustainable development, considering its three dimensions: economic, environmental and social. It is an original approach, as in the Romanian literature we can find only historical and anthropological studies regarding commons. More specifically our objectives were: to identify the role of the commons in achieving sustainable management of natural resources, and the weight that sustainability has in the governance of the commons.

We have looked first to how leaders identify the main purpose of the organisation and its community role. Commons, re-created in Romania starting with 2000, were seen by the leaders 10 years after their recreation, mainly as organisations representing members’ (commoners’) interests, mainly economic interests, but also their social welfare. Almost 50% of them have also considered providing services to the community as main or significant.

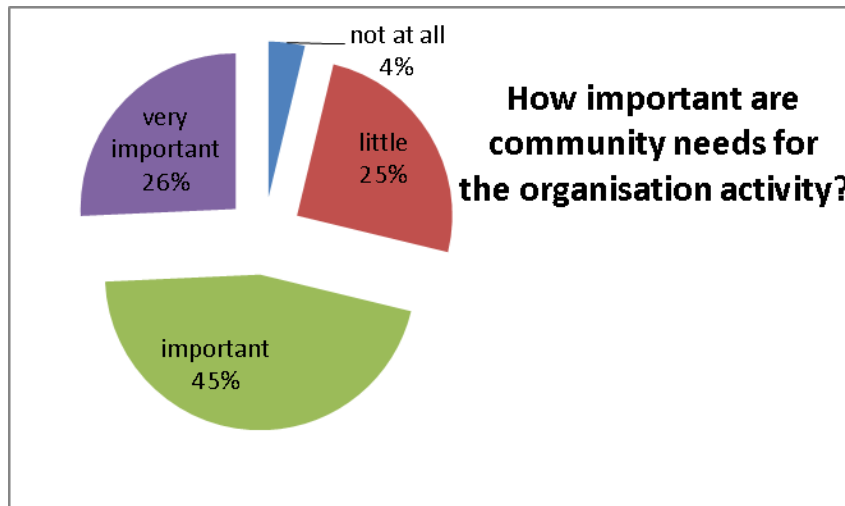
**Figure 3 - Main purpose of the organisation as seen by the leaders of the commons**



Source survey conducted in Prometheus project in 2011 on a representative sample of commons - answered by commons CEO/President results.

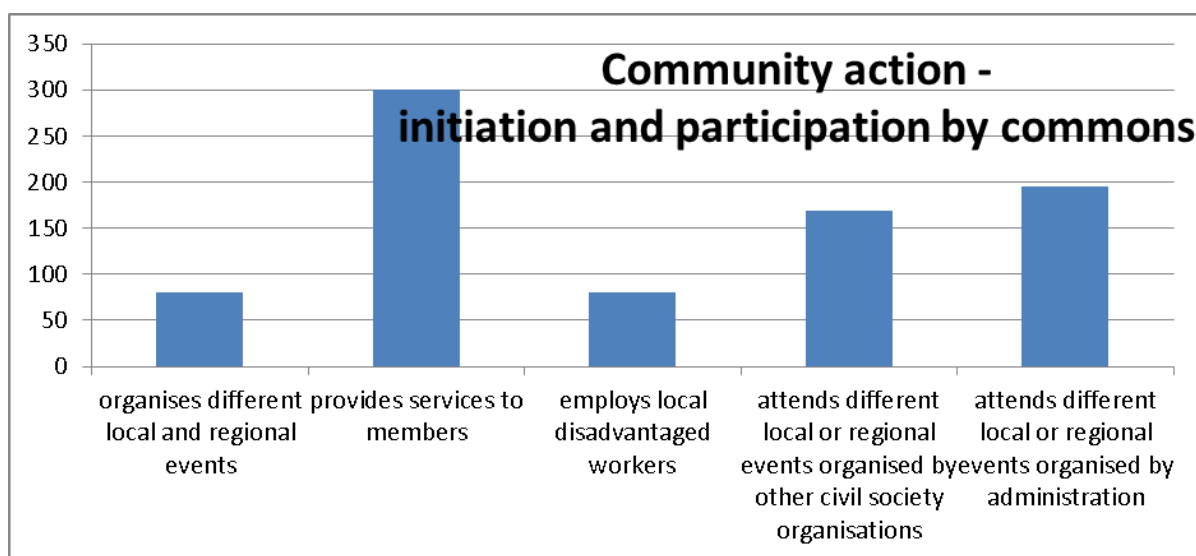
Most of the commons' leaders are aware about their history, although there were respondents who said that the commons did not exist before. To substantiate the community development impact of the commons, their role in meeting the commoners' needs and how the development objectives are balanced with the sustainability concerns; commons seem quite concerned about members and community needs.

**Figure 4 - Importance of community needs for common's activity – survey conducted in Prometheus project in 2011**



Although they have an important community role, commons tend to participate rather than initiate community meetings and events, and keep a focus/orientation on service provision.

**Figure 5 - Prometheus survey 2011 results – initiation and participation in community actions of commons**



Assessing the participatory governance and how it reflects commoners’ needs is not an easy task. The commons are participatory organisations at least formally engaging significant number of members – the 554 commons surveyed have stated a total of 162,554 members, an average of 292 by common. One other aspect measured was the evolution of membership: membership was increasing constantly, this could be due to lack of clarity in files and archives, members still finding out about their ancient rights.

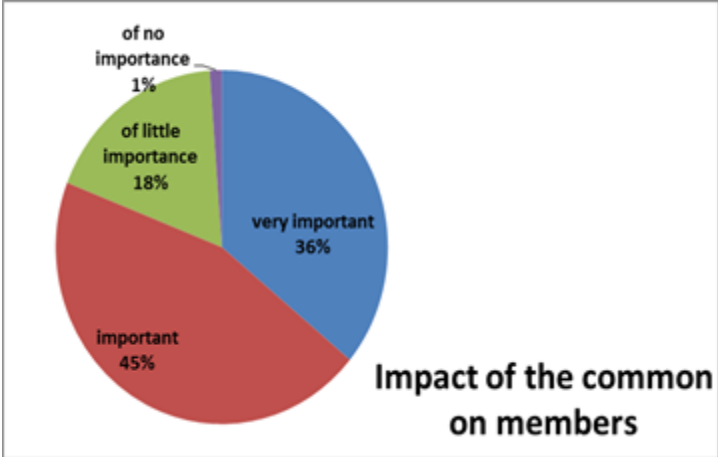
The commons have boards – board membership is of five in 50.9% of cases, in 30% of the cases they have more than 5 members. Boards meet quite often, in 70% of the cases they meet at least as often as 4 times per year, and in 38% of cases they meet at least monthly, or more than 12 times a year.

**Table 9 - Prometheus survey 2011 results - Frequency of board meetings per year**

Frequency of board meetings per year	%
less than 4 times	29.5
4 times	10.6
between 5-11 times	21.6
12 times - monthly	29.9
more than 12 times	8.5

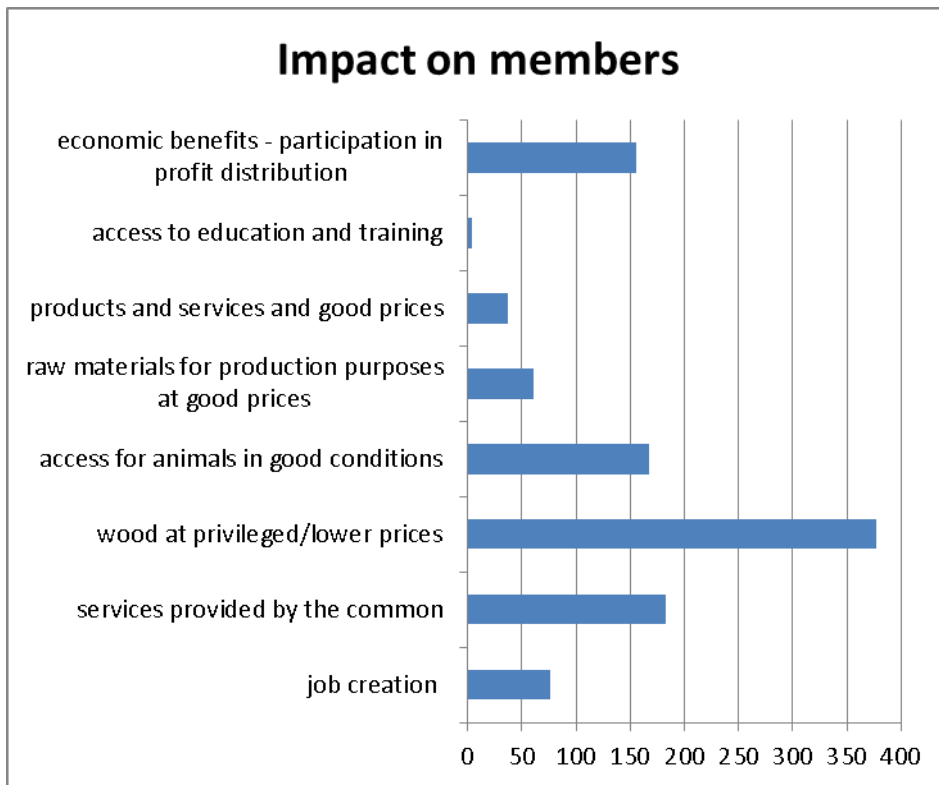
The respondents’ assessment is that the common has made a significant impact on its members. When asked to identify the aspects which contribute to this impact the respondents had the following relative assessment.

**Figure 6 - Prometheus survey 2011 results – Impact of the common on members**



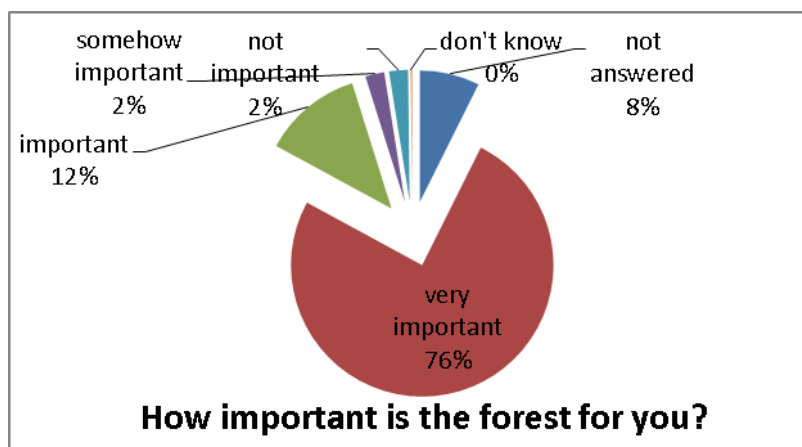


**Figure 7 - Prometheus survey 2011 results – Impact on members**



Another research objective was to identify the production functions and how the resource is used by commoners in meeting personal needs and to measure the extent to which environmental and sustainability concerns and the logic of the general interest and sustainable development are internalised in commons. It resulted that the forest is important and very important to most commoners.

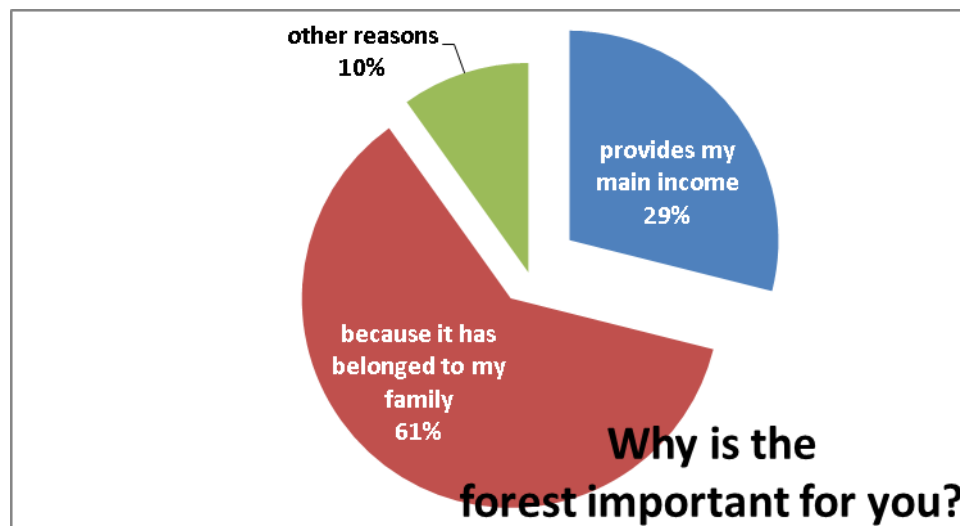
**Figure 8 - Prometheus survey 2001 results – Importance of forest for common's leadership**



When asked why they consider the forest important, the heritage and tradition seem to be the most significant factor. The economic value is also important but only for 30% of the governors of commons questioned. The respondents have also identified

the environmental value of forests, 7% of respondents have considered this as main factor for the importance of the forest to them.

**Figure 9 - Prometheus survey 2011 results – Importance of forest for common's leadership**



We illustrate the issues presented above using some extracts from the *Case Study of Obstea Viisoara (Vrancea county, Romania)* quoted from the report "The social economy in the context of local development", coordinated by Petrescu, C. in 2013. *Obstea Viisoara* is of egalitarian type and owns around 3000 hectares of forest and forested pasture, having members from the village of *Viisoara* and two smaller ones – *Balan* and *Catun*. The business model of *Obstea Viisoara* is not very complex, the main sold product being the wood lodged from the forest owned. The selling process by auction is organised in close collaboration with the forest district that also decides the quantity and the specific trees that should be exploited. Each year *Obstea Viisoara* can exploit around 4500 cube meters of wood, but around 20% of it is kept as a safety margin in order to ensure sustainability (Petrescu, C., 2013, p. 157, 159). In this case, one can observe a dedication of the association and their members to provide goods both for themselves and for the community as a whole. By 2012, the association had the following contributions to its members and community: fire and construction wood distributed each year to the members, according to their rights and also by request for different constructions; repairs of some of the villages' roads and bridges; renovations of the school and church; building a headquarters for the association that has dedicated spaces for a meeting place, events hall, kindergarten, medical office, informatics lab for the youth; acquisitions of three forest machineries; setting up TV cable for the whole community; etc. Considering the relations of the association with the environment, the property of 3000 ha is administrated, according to the Law in force, by two specialised forestry services: 1508 ha by one and 1492 ha by the other one. This kind of administration protects against irrational exploitation of the forest and ensures the sustainability of the exploitation. For the administration services (forest guard, marking of the trees to be cut, hygiene and

phyto-sanitary protection, etc.), the forestry services receive a sum of money in base of the contracts concluded with the association. (Petrescu, C., 2013, pp. 160-161)

## **Conclusions**

In this chapter we have analysed the transition of the management of some of the forests in Romania as commons from government property to group property and what type of opinions shape the collective norms in these new (re-instituted after 50 years) organisations through survey data, considering also the reflection of sustainability concerns in the collective management of these natural goods and production of new goods and services of interest to the community.

The commons in Romania have recovered less of the forests than the surface previously owned. The forest economy in Romania in the period 1990-2014 is marked by changes in property regime and rising economic pressures leading to more intensive exploitation than before. Available data and reports do not show the phenomenon of overexploitation of forests in the case of the commons, these organisations generally appearing to ensure responsible and sustainable management of the forests, working to a higher extent than other types of private owners with specialised forestry services.

The social and economic indicators of commons as SSE organisations starting from balance sheet data show that commons were by far the type of organisations with the highest rate of economic activity from all organisations in social economy sector in Romania in 2000-2012. Having as main economic activities - activities of membership organisation, developing of building projects, mixed farming and support for farming etc., the commons succeed to balance economic performance with impact in community - social and environmentally.

On the basis of preliminary data on ad-hoc sustainability indicators such as illegal logging in public and common forests we have tried to see how commons, these hybrid organisations pursuing common and general-interest missions satisfy commercial, economic pressures. The analyse shows that illegal logging is happening in public forests - owned / controlled by municipalities, and, very important, the proportion of wood being removed from the private forests (including commons) was smaller in Romania compared to EU total.

Finally, we have taken an in-depth view on the sustainability concerns within the governance of these organisations through survey data, using a set of indicators composed by: main purpose and community role, importance of community needs for common's activity, initiation and participation in community actions, governance and commoners' needs, importance of commons on members, importance of forest for common's leadership. Commons, a special type of social economy organisation, an indivisible group property, according to the data from the survey conducted have the disposition to meet the needs of sustainable development, considering its three dimensions: economic, environmental and social.

Therefore, considering the results of the quantitative and qualitative research developed in the Prometheus project analysed above, the reports, official statistics and specific regulations on commons consulted, in our opinion, in Romania, the commons (“obști”, “composesorate”) could be considered a good solution for sustainably managing the common resources.

The story of the Romanian commons is in fact only starting to unfold, and could be an example of how social economy organisations could be the real engines for the sustainable development. An example of how people could find sometimes good local collective answers to their economic and social needs and to old global challenges in the same time. The long-run relationship among the users even interrupted by 50 years of changed property regime – nationalisation – enabled the community to generate self-governing rules among the users that ensure proper care for social and sustainability issues.

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**Redefining the borders between public, social economy  
and for-profit organizations in the provision of public services:  
The case of Japan / Chapter 4**

Shinichi SAITO<sup>\*</sup>, Munenori NOMURA<sup>\*\*</sup>,  
Fumitoshi MIZUTANI<sup>\*\*\*</sup>, Francis RAWLINSON<sup>\*\*\*\*</sup>

**Abstract**

Japan's public services including public utilities have traditionally been provided by the public sector with strong government involvement through regulation or ownership. In this chapter, we look at the current situation and the issues surrounding institutional reform in the field of public services.

Although private participation is a possible option in some cases, the underlying market conditions are a determining factor. Some rural areas are facing major difficulties in maintaining public services and public infrastructure. Are there alternative ways of maintaining services and infrastructure in such areas? We describe options such as restructuring and the foundation of "social businesses".

The options discussed extend the former concept of PPP from the relationship between private operators and the public sector to one involving beneficiaries including local residents as well. Such social enterprises, which are independent both from the private commercial companies involved in service provision and of the public sector, are one means of regenerating local communities. The contribution thus indicates the shifting roles of the public sector from direct service provider towards a supporting intermediary.

**Keywords:** Public Private Partnerships (PPPs); public infrastructure; social enterprises; rural areas

**JEL-Codes:** H54, R48, R51

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<sup>\*</sup> University of Shimane (Japan) ([shi-saito@u-shimane.ac.jp](mailto:shi-saito@u-shimane.ac.jp)).

<sup>\*\*</sup> Kwansei Gakuin University (Japan) ([mune@kwansei.ac.jp](mailto:mune@kwansei.ac.jp)).

<sup>\*\*\*</sup> Kobe University (Japan) ([toshi@kobe-u.ac.jp](mailto:toshi@kobe-u.ac.jp)).

<sup>\*\*\*\*</sup> formerly European Commission and Kwansei Gakuin University (Japan) ([cpd64958@kwansei.ac.jp](mailto:cpd64958@kwansei.ac.jp)).

## Introduction

Public infrastructure services face a number of challenges in present-day Japan. The government invests in public infrastructure because it is necessary for economic activity and growth, and has traditionally used such investment to reduce regional disparities and to stimulate the economy through public spending.

However, the maintenance of such investment is jeopardized not only by the constantly increasing budget constraints facing the government, but also by the problems of decreasing population and an aging society. With continued public financing of infrastructure services in the future no longer guaranteed, increasing expectations are being made of private financing and of the involvement of the private sector in such services.

The concept of public infrastructure is somewhat ambiguous. Based on several sources, Nagamine (2013) defines public infrastructure as the social infrastructure essential for citizens' daily lives and for economic activity, i.e. not only commercial infrastructure such as roads, water, sewerage and waste treatment, ports and airports etc., but also non-commercial public infrastructure such as schools and libraries. The concept of public infrastructure is sometimes extended to include human and institutional capital, the so-called "social capital", as this, too, is often provided by the public sector itself or by public corporations.

Investment in public infrastructure has traditionally been used as a means of stimulating the economy. However, doubts about the potential waste of resources involved in such investment have led to the introduction of private management. PFI / PPP is an extension of this idea. In this case, it is intended not only to introduce the market mechanism and promote competition, but also to source part of the resources for the maintenance and management of services externally.

The first type of PPP introduced in Japan was the "Third Sector" formula. It was intended to add private-sector vitality to public corporations. However, many of these businesses eventually failed due to the ambiguous allocation of management responsibility between the public and private sectors. Later PPPs in which there is a better definition of the roles of the private and public sectors have proved to be an effective way of public service provision without the drawbacks of the earlier formula. More recently, a new framework for public-private partnerships called "social businesses" in which local residents act on their own to solve regional problems has been gaining traction.

The chapter focuses on the types of public infrastructure services that used to be subject to extensive public intervention but have experienced privatization and deregulation. Government intervention in public service provision can be justified by several factors; 1) the services are essential for people's daily lives, 2) the possibility of charging for such services is limited, and 3), especially in the case of public utility

industries, the characteristics of network industries and natural monopolies are present.

The contribution considers the current situation and the issues surrounding certain public infrastructure services in Japan and discusses the significance of PPP for such services. Section 2 summarizes the history of the privatization of public services in Japan, while in Section 3 we consider the introduction of private sector participation as a means of maintaining public services and the growing expectations placed on social enterprises.

## **1. Reforms of public services since the 1980s**

### **1.1. Trends in privatization and the background to this development**

Privatization and deregulation have been a feature of economic policy throughout the world and especially in the UK and the United States since the 1980s. While it is regarded as “natural” for previously state-owned manufacturing industries to be privatized and exposed to market forces, the privatization of network industries providing public services has always been somewhat problematic. Such reforms can have significant effects on the economy and on citizens’ lives owing to changes in the service level and the price of the services. They therefore require careful consideration. Nevertheless, in recent years, the introduction of market forces in network industries has been undertaken even in developing countries as a means of stimulating infrastructure investment.

Network industries typically own their own infrastructure. Public investment in them has been justified by “market failure” and they have been run as “natural monopolies”, subject to necessary government regulation. However, to combat perceived management inefficiencies governments have gradually introduced private management into such industries. New management practices and technological progress, for example in the telecommunications sector, are now further improving the potential for privatization and deregulation of public services.

In Japan, the privatization of public service industries began in the 1980s under the Nakasone administration. The government privatized three large Japanese public corporations, the Japan Tobacco & Salt Corporation, Nippon Telegraph and Telephone Corporation, and Japan National Railways<sup>1</sup>. This was followed by share flotations by other publicly owned companies such as Japan Airlines.

Different decision-making processes mean that major economic changes such as privatization take different forms in different countries. In Japan the privatization of public corporations took longer than in other countries such as the UK. There was a

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<sup>1</sup> Shares in four of the Japanese railway companies, East, Tokai, West, and Kyushu Railway Company have been floated on the stock market, but not those of the other two passenger railway companies or the Japan Freight Railway Company. These have not been publicly listed and their shares are still all held by the Japanese Government.



prior stage before actual privatization in which only the management of the corporations was entrusted to private companies (Table 1).

**Table 1 - History of privatization of significant industrial sectors in Japan**

Year	Existed national company	Established private company	Sector	Approach
1985	Nippon Telegraph and Telephone Public Corporation	Nippon Telegraph and Telephone Corporation	Telecoms	Stock sales (1987)
1985	Japan Tobacco and Salt Public Corporation	Japan Tobacco Inc.	Manufacturing	Stock sales (1994, 1996, 2004)
1987	Japan National Railway Corp.	Japan Railway (7 companies)	Railways	Horizontal separation
1987	Japan Airlines	Japan Airlines	Airlines	Stock sales
1988	Ryukyu Electric Power Corporation	Okinawa Electric Power Company	Electricity	Stock sales
2003	Postal Services Agency	Japan Post Corporation	Postal services	Corporatization
2005	Japan Highway Public Corporation	Nippon Expressway Company (3 companies) and Japan Expressway Holding and Debt Repayment Agency	Toll roads	Vertical separation
2004	Teito Rapid Transit Authority	Tokyo Metro Co., Ltd	Railways	Corporatization (Stock sales expected)
2004	New Tokyo International Airport Authority	Narita International Airport Corporation	Airports	Corporatization (Stock sales expected)
2007	Japan Post Corporation	Japan Post Group (4 companies under the Japan Post Holdings Co., Ltd.)		Reformed into 3 companies under Japan Post Holdings Co., Ltd in 2012. (Publicly listed in 2015)

Source: Ishida and Nomura (2014), *The Reform of Transport Infrastructure Service Provision through the PPP*, Dobunkan Publishing, p. 4 and data retrieved from each company's website.

During the interim period the corporations remained subject to strict government regulation, controlling not only prices but also supply and market demand. By this means the government hoped to obtain the benefits of private sector management rapidly, while allowing time to carry out regulatory reform. Privatization has thus turned out to be a protracted process in many cases. In the electricity sector retail competition for residential customers was finally introduced only in 2016, and in the same year the first public-private partnership arrangement in the airports sector began with the reorganization of Kansai and Osaka International Airports.

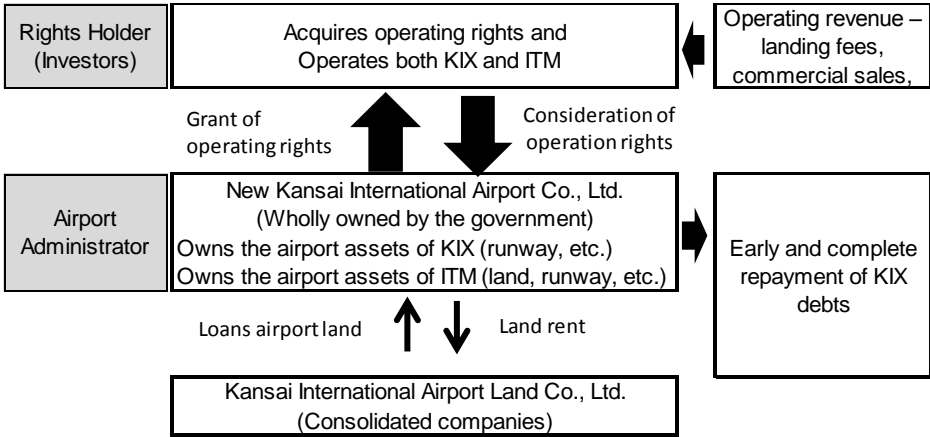
As well as promoting competition, an important purpose of the restructuring is maintenance of unprofitable services. This is the case with many services, but it is argued that they need to be maintained because of their importance for the community and its quality of life.

To keep public services operating it may be necessary to relieve the incumbent service providers of large amounts of accumulated debt owed by them. In this case, newly set up publicly owned entities underwrite the debt to take it off the balance sheet of the service providers.

For example, the Japanese National Railway Settlement Corp (JNRSC) was set up when Japanese National Railways (JNR) were privatized in 1987. The Settlement Corp underwrote the railway company’s long-term debts of 25.5 trillion Yen (USD 169 billion at the 1987 exchange rate of 151 YEN/USD), which it was expected to reimburse through the sale of land and shares in JR companies reserved by the corporation<sup>2</sup>.

In 2016, a concession arrangement was introduced at Kansai and Osaka international airports, the first major of such deal for airport infrastructure in Japan. In advance of the deal, the Kansai Airport Company (NKIAC), which was burdened by 1.3 trillion Yen (USD 20 billion) of long-term debt, was reorganized into the New Kansai International Airport Company owning the land-side assets of both airports, and the Kansai International Airport Land Company, a consolidated company owning the land of the two airports (Figure 1). The concessionaire holds the rights to operate the two airports and is expected to pay remuneration for those rights. The remuneration received by NKIAC is to be used to repay its debts. In this way, the off-loading of debt by means of the restructuring reduces the financial burden on the operator.

**Figure 1 - Concession Scheme of Kansai International Airport**



Source: NKIAC (2014), “FY2013 Results Briefing Presentation Materials”, p. 21.  
 <<http://www.nkiac.co.jp/en/news/2014/260/nkiacy2013resultsbriefing.pdf>>

<sup>2</sup> In the event, the plan was thrown off course by the heavy burden of interest payments, which exceeded the sale of assets, and the debt was transferred to the general government budget and in 1998 the corporation dissolved (Foundation of Transport (2014) p. 169.).

## 1.2. Expectations of private financing

Grigg (2010) roughly classified the different patterns of privatization into the following types: 1) ceding both ownership and management to the private sector, 2) government contracting with private enterprises to manage the company, and 3) building and operating the facilities using private finance and then returning the assets to the government. In principle, private operators must recoup their capital investment from user charges, but in practice there are many projects that cannot be managed without government subsidy.

In Japan, the stretched state of public finances, on the one hand, and the investment risk of the private sector, on the other, made partnerships between the public and private sectors a natural development. With the fast pace of economic growth achieved in Japan from late 1950s leading to growing demand for infrastructure, governments found themselves with insufficient funds to fill the resulting bottlenecks and had to look for ways of attracting private financing to help fill the gap. The government came up with a “Third Sector” formula, a form of PPP peculiar to Japan and used in many sectors (Figure 2).

The Ministry of Internal Affairs and Communications defines the “Third Sector” as a hybrid between an incorporated foundation and a corporate body jointly financed by a municipality. The Private Sector Resources Utilization Law of 1986 envisaged such vehicles as harnessing the expertise of the private sector to promote the development of industrial infrastructure.

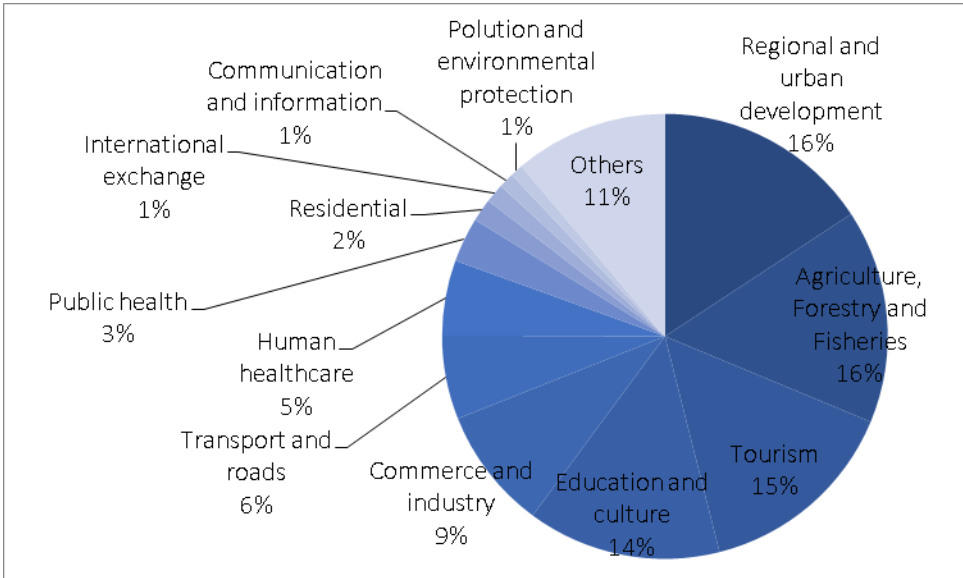
“Third Sector” corporations were based on cooperation between the public and private sectors. Their boards were composed of representatives from both sectors. The expectation was that the involvement of the private sector would enhance the sources of funding and improve the management of the public infrastructure. However, in practice the differing business approaches of the two sides – the public sector defending the public interest and the private sector pursuing profitability – often led to conflict and highlighted the ambiguous nature of the aims of the corporations. Many “Third Sector” corporations eventually went bankrupt. They also received political favors such as interest subsidies and relief from property taxes. This made it questionable how far they were in fact able to benefit from the private management to the extent expected.

Since the 1990s, the increasingly urgent rebuilding of infrastructure is complicated by a sluggish economy and the long-term decrease in population (Table 2). Figure 3, contrasting the decreasing trend of public works expenditure with the steadily increasing expenditure on social security, illustrates this problem.

As a result, in 1999, an alternative funding mechanism, the “PFI Law”, was launched in an attempt to stimulate private sector involvement in infrastructure provision. More recently, in 2013, the Japanese government published the “Japan Revitalization

Strategy”<sup>3</sup>. The strategy sets itself the aim of attracting private investment into the infrastructure sector, in particular air and seaports. These are seen as important sectors in which to promote private financing and management<sup>4</sup>.

**Figure 2 - Business fields of “Third sector” corporations**



Source: Ministry of Internal Affairs and Communications (2016), “Results of the survey of current situations of the “Third sector” corporations”.

<[http://www.soumu.go.jp/main\\_content/000394172.pdf](http://www.soumu.go.jp/main_content/000394172.pdf)>

**Table 2 - Share of infrastructure aged more than 50yrs**

	2012	2022	2032
Road bridges (157,000 facilities)	9%	28%	53%
River control: Flood gates (10,000 facilities)	24%	40%	62%
Sewage system (440,000 Km)	2%	7%	23%
Quay walls (Port) (5,000 facilities)	7%	29%	56%

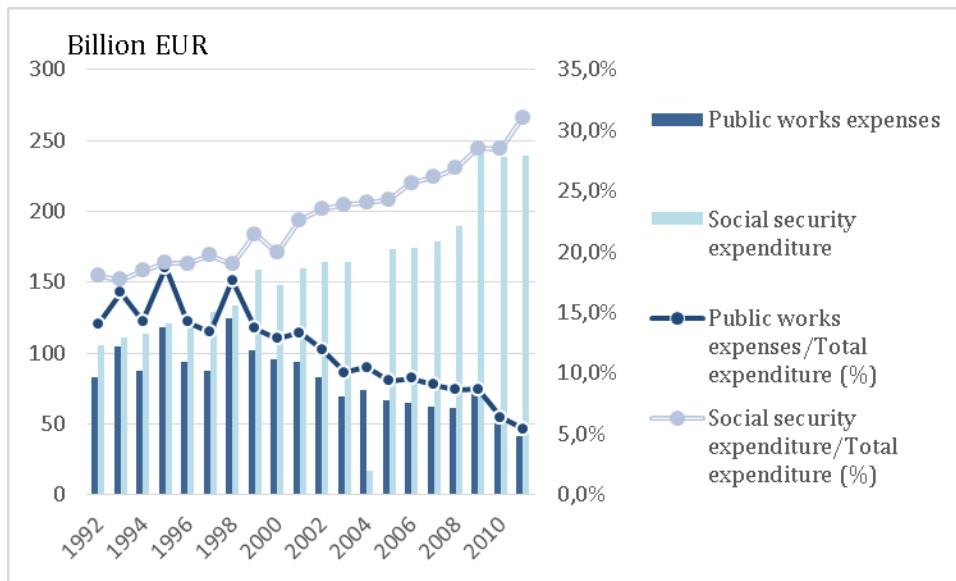
Source: Cabinet Secretariat (2013) Documents prepared for the round table conference for national resilience

<<http://www.cas.go.jp/jp/seisaku/resilience/dai1/siryou7.pdf>>

<sup>3</sup> An updated strategy is now under consideration. A draft sets the ambitious target of promoting PFI investment and growing its market size significantly to 21 trillion Yen (175 billion EUR: 120 YEN/1 EUR).

<sup>4</sup> Kansai and Osaka international airports have been Japan’s first experience in introducing concession schemes in the infrastructure sector. In December 2015 the New Kansai International Airport Company, Ltd concluded a concession contract to manage Kansai and Osaka international airports for 44 years. Sendai airport is to follow the example set by Kansai, and in 2015 it decided on the private airport operator expected to receive a 30-year contract. Talks of similar arrangements are at an advanced stage at other airports and with toll road operators.

**Figure 3 - Japan's "aging society" problem**



Source: Ministry of Internal Affairs and Communications

<<http://www.soumu.go.jp/johotsusintokei/whitepaper/ja/h24/html/nc112120.html>>

## 2. Maintenance of public services in remote areas

### 2.1. Responsibility for investment in infrastructure

The expectations placed on the private sector with regard to infrastructure provision have been growing. Baumol's contestable market theory (Baumol *et al.* (1982)) started this trend, leading to a questioning of the rationality of vertical integration and natural monopoly in network industries. Today, network industries in several countries have been "unbundled" to separate off the previously vertically integrated segments that can be privatized.

The UK's railway industry is one of the best-known examples of this trend. The industry was broken up into train operating companies, rolling stock companies and an infrastructure company (Railtrack). Private ownership was introduced for all three sectors at first. But it soon became clear that the private sector would have difficulty financing the investment needed in the infrastructure. Railtrack was put into bankruptcy in 2001 and renationalized as Network Rail.

The breaking up of previously integrated network industries enables private operators to compete in the segments suitable for privatization<sup>5</sup>. The unbundling of the infrastructure is thought not only to stimulate competition but also to avoid discrimination between the users of the infrastructure and to facilitate charging mechanisms able to finance new investment.

<sup>5</sup> It should be noted that the UK railway privatization did not introduce competition between operators on the same track, but operators competed for a franchise giving them the exclusive right to operate services on the designated line.

However, a disadvantage with unbundling is the loss of internal relationships that are a distinctive feature of infrastructure industries with their strong asset specificity. Difficulties of consensus building and coordination between stakeholders are considered to be one of the reasons for the poor performance of UK railways in the late 1990s<sup>6</sup>.

In the UK's experience of railway privatization, the importance of the market mechanism is widely recognized, but so is the continuing involvement of a publicly oriented third party, the Department for Transport. The public sector is still expected to plan investment and to reduce the risk faced by the private sector. However, it must be said that in the unbundling of network industries there is no one-size-fits-all method, and solutions will vary in different countries.

## **2.2. Maintenance of services**

Development and maintenance of public infrastructure used to be a major part of regional development in Japan. In the 1960s, there was a national regional policy aimed at the "balanced development of national territory" through investment in infrastructure, as a means of redistributing economic development between regions. This policy has now changed and more emphasis is now placed on the autonomy of the region.

The content of regional development varies considerably depending on the situation of the region concerned. In regions facing declining population, increasing visitor numbers may be an important objective of regional development. Infrastructure investment now figures much less prominently, partly due to cuts in central government financing.

Moreover, public investment in local infrastructure is also prone to inefficiencies in the allocation of resources, and even if temporarily effective cannot create a sustainable community in the longer term. Private enterprises are therefore increasingly expected to be involved in supplying such services. As described in Section 2.2, the forms of such arrangements vary, but generally neither do they involve leaving the services entirely to the private sector – which would be unable to provide them alone – nor do they expect the government to do so as part of a regional development role. Instead, both the public and private sectors play a part in these arrangements.

Because of decreasing population, the provision of public services is expected to be more difficult in future in small provincial cities than in big urban centers. The

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<sup>6</sup> Commentators criticized the deterioration of performance caused by poor coordination between the various parts of the industry (Gomez-Ibanez, J. (2003), p. 295). This concern was highlighted by a fatal crash at Hatfield near London, which was followed by the bankruptcy of Railtrack and its reorganization into Network Rail, a state-owned company operated at arms-length from the UK government. See also the UK Government's proposals for improved coordination of track and train operation in: UK Department for Transport, "An innovative, modern, passenger-focused railway network," 6 December 2016.

Japanese Cabinet Office (2013) has reported that many local governments are already struggling under the fiscal burden of maintaining public services and are worried about the burden on local residents growing further in the future.

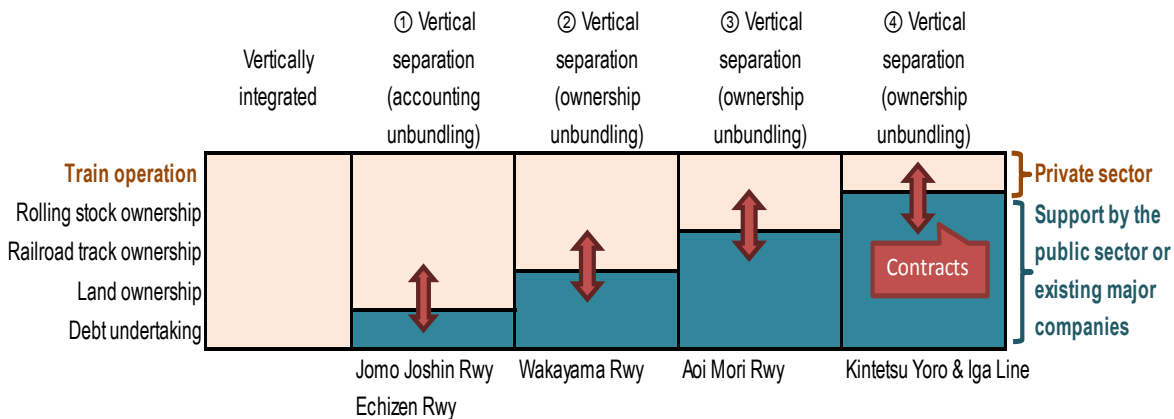
The need for fiscal consolidation is one of the biggest constraints facing local and central government alike. For local government, mergers of local authorities and cutting of some services are thought unavoidable<sup>7</sup>.

In this situation, it is widely accepted that greater participation and investment by the private sector is necessary. Public services do not need to be supplied by the public sector. However, as local public services tend to be less profitable, it cannot be ruled out that the role of the public sector may have to increase again in the future.

The problem is that local governments are expected to take a bigger role at a time when they are facing an unprecedentedly tight financial situation. Uto *et al.* (2013) fear that even currently prosperous local authorities risk losing the financial resources needed to maintain such services in future because of demographic trends<sup>8</sup>.

To tackle this severe situation, some providers of local services are undergoing restructuring involving the vertical separation of infrastructure from operation of services. This type of reorganization has been introduced in the railway sector, the infrastructure entity being publicly supported while operations are left to the private sector.

**Figure 4 - Vertical separation as a solution**



Source: Authors, referenced Nikagi, Y. (2002), "Various vertical separations in the transport sector", *Transport Policy Studies*, Vol. 5 No. 3, p. 64.

<sup>7</sup> Cabinet Office (2013), pp. 354-355.  
<sup>8</sup> Uto *et al.* (2013), pp. 255-257.

### 2.3. The increasing role of PPP and “social enterprises”

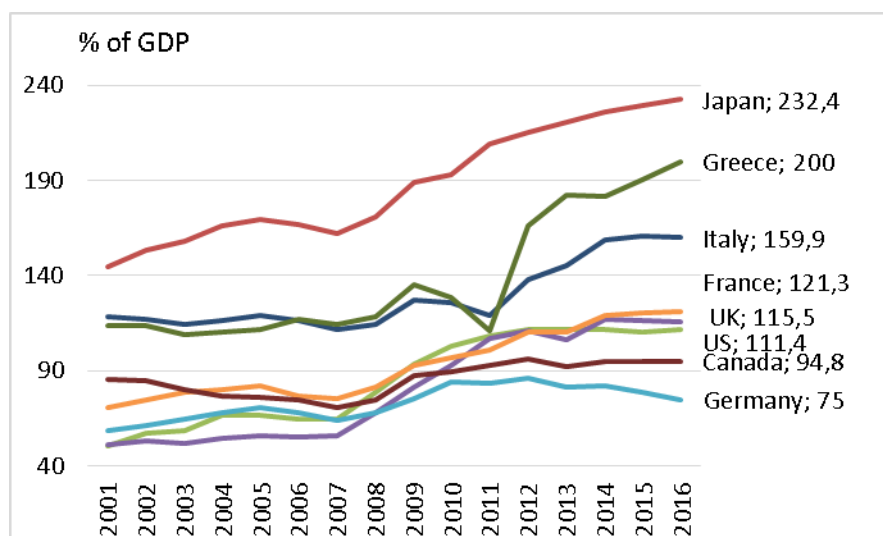
Many public services cannot be delivered by the private sector alone, but some form of cooperation between the public and private sectors must be devised in order to maintain such services.

With the demographic situation rapidly deteriorating, many rural areas are facing the problems of depopulation, declining population and aging society. These phenomena pose a huge problem for public services. In tackling such multiple problems, it is useful to consider them separately. Although the terminology is similar, the concepts underlying these terms are different<sup>9</sup>.

Depopulation is the phenomenon of decreasing population density, not only declining population numbers. Depopulation creates special barriers for people in the region. An aging society, on the other hand, means an increasing share of elderly people in the population and associated changes in the pattern of needs to be provided for. Thus, decreasing population and depopulation involve a quantitative change, while an aging society involves qualitative changes.

As mentioned above, public authorities face linked problems not only of financing investment to develop and maintain infrastructure and but to keep providing public services especially in remote areas. The state of public finances in Japan has seriously deteriorated to the point where public sector borrowing as a % of GDP is well in excess of that of Greece and Italy (Figure 5).

**Figure 5 - Situation of public sector borrowing**



Source: Ministry of Finance website <[http://www.mof.go.jp/tax\\_policy/summary/condition/007.htm](http://www.mof.go.jp/tax_policy/summary/condition/007.htm)>

<sup>9</sup> Tanimoto and Hosoi (eds.) (2012), p. 13.



Thus, private sector involvement in service provision has high priority and the government is promoting PPP as well as private finance initiatives (PFI) in this area. Private sector involvement is sought not only for efficiency reasons, but also to provide alternative sources of funding.

Although PPPs can help solve the problem, they are difficult to apply in many rural areas. Faced with the serious scarcity of human and financial resources in such areas, making better use of those resources is essential. Assuming demographic change is unavoidable, several possible solutions present themselves. These range from promoting cooperation between different entities, to encouragement of local residents to take on second jobs in the service sector as well as their primary jobs.

Some areas are developing self-support systems to provide some public services independently, taking advantage of swift and easy consensus building. Another recent trend is for NPOs and community organizations to assume a greater role in providing essential services and in activities to revitalize the local economy.

The outflow of population and particularly young people from rural areas continues and is leading to an increase in single-person households often consisting only of one elderly person living alone. In some rural areas, private businesses like shops are closing because of the decline in population. When their local shops close, residents face difficulties in supplying their daily needs.

In this situation, the local authority cannot be expected to cope with all the problems of the community. Empirical evidence shows that public spending per capita tends to increase in line with decreasing population density (Figure 6). It also points to the likelihood that certain public services will no longer be available in severely depopulated areas. In addition, patterns of public service provision by municipal authorities, which often focus on equitability and impartiality, do not necessarily suit the needs of local residents.

This is prompting social enterprises like NPOs and local residents' associations to step in to solve the problem. Child and old age care services and town planning are among the commonest fields served by such initiatives. They often have an advantage over the public sector in terms of greater flexibility and ability to respond to local needs.

A typical pattern is for local residents to cooperate with the private and public sectors. This extends the concept of PPP from a relationship between private operators and the public sector to one involving beneficiaries including local residents as well. Social enterprises are now increasingly expected to take over part of the role of the traditional public sector in coping with the new challenges to rural communities.

METI (2008) classifies the entities set up to address social issues of this kind as "social businesses". It conducted a survey of the current status of such businesses. There is no fixed definition of social business, but a common feature is that they combine

commercial interests with catering for public needs. In terms of legal form, the types of organization involved cover a wide range, from joint stock companies (including private companies established by the local government and private investors), to NPOs and mutual organizations (Table 3).

The survey also found that 47% of the organizations have the form of NPOs, while only 20% are for-profit corporations such as joint stock or limited companies. The Ministry estimates the total number of social business organizations at around 8,000 with an estimated total turnover of somewhat over 240 billion yen (about 2 billion USD). The main area in which such organizations were active was regional development (“revitalization”). About 60% of the organizations work in this field, in which they complement local government (Figure 7).

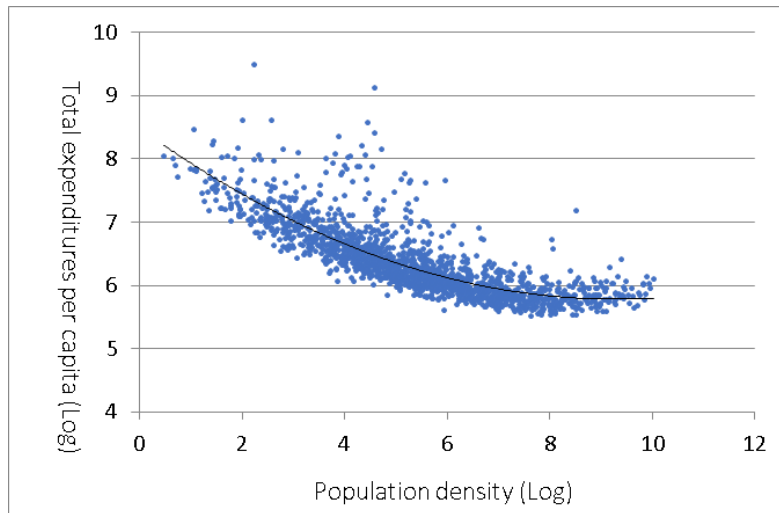
The small size of the organizations is reflected in their sales – with the largest group (26%) having sales income of 10-50 million yen (83-417 thousand USD) – and their number of employees – with over half having less than 10 employees, indicating a low volume of business.

In terms of profitability, while more than 60% of the organizations run their business at a profit or at least break even, 27% are loss making. Many, especially the smallest, are dependent on public subsidies, with only a minority being able to raise their own funds or borrow from financial institutions.

Certain problems with the model should also be noted. First, social awareness and understanding do not guarantee a similar grasp of financing. This means that with their businesses tending to be less profitable, managers have difficulty obtaining funds from financial institutions. The survey found that 24% of respondents thought loan conditions were too severe and made it hard to raise the necessary funds for their operation. It was clear that many found it difficult to demonstrate management capacity and systems that were attractive to financiers and to put forward concrete business plans. In this connection, human resource development in social businesses appears to require attention.

While the government seeks to provide a series of support menus in terms of financing and business consultation through its financing vehicles such as the Japan Finance Corporation, but there is still a shortage of entities dispensing specialized advice to social businesses.

**Figure 6 - Relation between population density and expenditure per capita of local authorities**



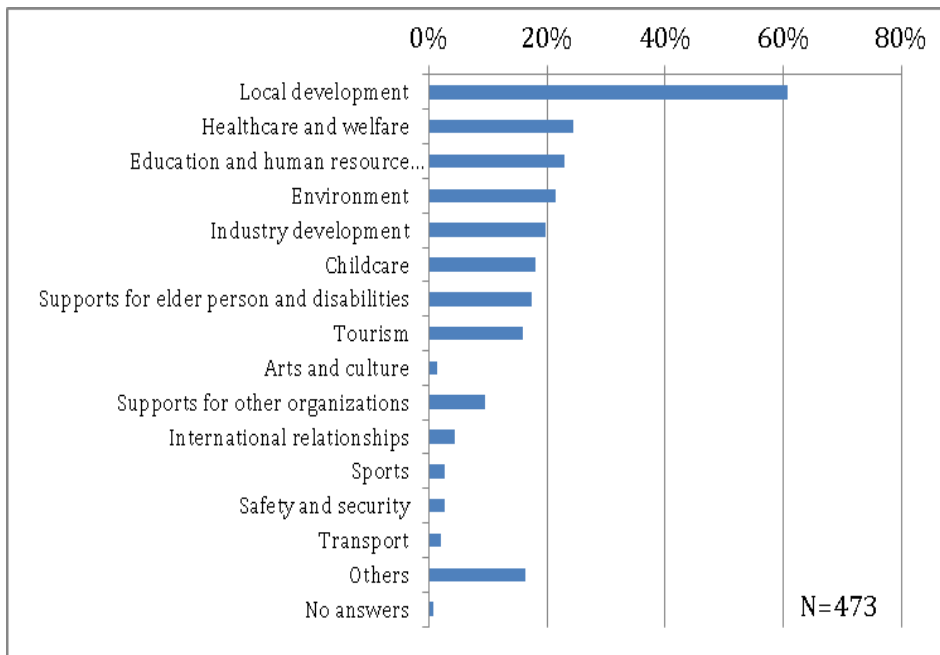
Source: Ministry of Internal Affairs and Communications, *Annual Financial Report of Municipalities 2014*, and *Census Report 2015*.

**Table 3 - Public corporations and public utilities**

Organization	NPO (46.7%) Joint-stock company and limited companies (20.5%) Private companies (10.6%)
Operational income	Less than 5 million Yen (41 thousand USD) (16.3%) 5 – 10 million Yen (41 – 83 thousand USD) (9.3%) 10 – 50 million Yen (83 – 417 thousand USD) (26.4%) More than 50 million Yen (417 thousand USD) (21.8%)
Permanent staff	0-4 (52.6%) 5-9 (19.0%)
Profitability	Surplus (25.3%) Break even (38.1%) Deficit (27.5%)

Source: METI (2008), *Final report by the research task force of “Social Business”*.

**Figure 7 - Fields of operation of social business**



Source: METI (2008), Final report by the research task force of "Social Business".

## Conclusion

Japan's public services including public utilities have traditionally been provided by the public sector with strong government involvement through regulation or ownership. In this chapter, we have looked at the current situation and the issues surrounding institutional reform in the field of public services.

With a decreasing population and an aging society, the debate about how to maintain public services and infrastructure is a major policy issue. In preparation for the 2020 Olympic Games in Tokyo, reducing congestion and reconstructing urban infrastructure have become urgent tasks, especially as many of these facilities were built during the period of high economic growth in the 1960s.

In order to ensure alternative sources of finance, the participation of the private sector is being seen as an unavoidable option. Expectations for the PPP (Public Private Partnership) approach are increasing. For PPP to function effectively, however, the design of the market conditions is crucial. Even in the UK, which has decided to leave the EU, the logic of even greater private participation in infrastructure provision is inescapable.

Despite the privatization and deregulation of the provision of public services, it has become difficult to maintain standardized services across a whole nation. Some rural areas are facing major difficulties in maintaining services. Faced with the serious

scarcity of human and financial resources in those areas, making better use of those resources is essential.

In this contribution we have looked at new mechanisms for maintaining such services, including the restructuring of existing companies and the foundation of “social businesses” which can be considered alternative ways of service provision in rural areas. This extends the former concept of PPP from the relationship of private operators and the public sector to a mutual relationship with beneficiaries including local residents.

It is hoped that the expansion of social enterprises independent of the private commercial companies involved in service provision and of the public sector will help regenerate local communities. In order to meet such expectations, practical action and support by the public sector to help develop human resources and overcome financing challenges are necessary.

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## **Part II.**

**The need of transformation of finance as public good**





## Financial stability as a global public good and relevant systemic regulation as a problem of collective action / Chapter 5

Faruk ÜLGEN\*

### Abstract

Liberalisation-privatisation policies and public-private partnership developments in numerous economies in the last four decades gave rise to a reorganisation of public services through market mechanisms which mainly rested on market prices' movements. Most of rules and actions in markets were shaped and assessed according to economic efficiency criteria that relied on the assumption that free-market mechanisms could achieve a socially optimal situation. This process systematically moved capitalist economies from the post-World-War-II period's state-interventionism-based production/distribution schemes (the so-called Fordist era) to market-friendly and less conservative economic policies. Therefore, the social provisioning process (the production, the financing, the use and the assessment) was reformed under market efficiency criteria. In the wake of the 2007-2008 global crisis, this chapter seeks to assess the consistency of such an evolution through an institutionalist analysis on a peculiar area of the economics, the finance and financial relationships. The path of economic development is closely determined by financial markets' evolution. This makes that public action as well as private strategies are all relying on a given financial framework and on its sustainability as well. This latter is very dependent on the stability of market operations. This chapter then suggests an alternative approach to financial economics by adopting a public service and collective action view of the working of financial markets in a globalised environment. In this aim, it argues that financial stability is a peculiar (global) public good that every member of society needs, but no one can provide at individual level. Financial stability then requires a specific public service organisation that must design and manage the production and maintenance of financial activities (going from the bank credit to enterprises and households to financial intermediation activities, including pure speculative operations) through collective action in order to ensure a socially coherent working of financial markets.

**Keywords:** collective action; financial crisis; financial stability; public goods; regulation policy

**JEL-Codes:** G01, G18, H41

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\* Director of the Department of Distance Learning Programmes and Director of International Relations and Conventions, Grenoble Faculty of Economics, University Grenoble Alpes (France) ([faruk.ulgen@univ-grenoble-alpes.fr](mailto:faruk.ulgen@univ-grenoble-alpes.fr)).

## Introduction

In the last decades, generalised liberalisation-privatisation policies and public-private partnership developments in most market-based economies gave rise to a reorganisation of numerous public services through market-related mechanisms and devices. Those mechanisms mainly rest on market prices' up and down movements to balance private and decentralised decisions-related supply and demand. Most private and public aims, rules and actions are shaped and assessed according to economic efficiency criteria<sup>1</sup> that rely on the assumption that free-market mechanisms could achieve a socially optimal situation. This process systematically moved capitalist economies from the post-World-War-II period's state-interventionism-based production/distribution schemes (the so-called Fordist era) to market-friendly and less restrictive economic policies. Therefore, the social provisioning process (the production, the financing, the use and the assessment of socially required activities/products) is reshaped under market efficiency criteria. The evolution of the production and conservation operations of common resources also followed a similar direction. After several decades of implementation and numerous resulting crises, this ideological movement and subsequent policies pose today a challenge to the economics of public services and social/collective action.

Since the 1980s the implementation of market-friendly policies in major capitalist economies removed restrictive public regulation from the financial markets operations' perimeter and led to generalised financial liberalisation. Financial regulation was therefore mainly regarded as a market process to be developed and implemented through private actors' strategies, the very role of public authorities being limited to the legal incentives that would impose transparency and disclosure on market institutions (such as banks and financial intermediaries). Those incentives are rules and regulations that should aim at ensuring reliable disclosure of financial information and creating standards financial actors must comply with. Market-dependent self-regulation then became the dominant regulatory schema through the Internal Ratings Based (IRB) approach and rating agencies assessment process. The supervision of the soundness of financial positions was then assumed to be guaranteed under the responsibility of the private profit-seeking position-makers themselves. The privatisation of financial supervision can therefore be regarded as a very crucial transformation of modern capitalism in the last four decades. However, the consistency of such a transformation with the characteristics of capitalism has to be called into question in the wake of the systemic global catastrophe of 2007-2008.

This chapter seeks to contribute to this issue by developing an institutionalist analysis on a peculiar area of the economics related to finance and financial relationships. This area is usually not studied as a public and social economy-related issue but rather as a

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<sup>1</sup> From the perspective of methodological individualism this roughly means "getting more gain with less cost". This is assumed to result in a socially optimal situation without restrictive public and collective action in markets.

pure market-relations-originated mechanism. So as this chapter maintains, finance can be seen as a core constituent of a capitalist society which is a monetary economy in essence. It then operates on monetary dynamics and continuously generates financial relationships among actors. Therefore, economic organisation of society is closely related to the organisation of monetary and financial markets and the path of economic development is closely determined by financial markets' evolution. This makes that public action as well as private strategies are all relying on a given financial framework but also on its sustainability. This latter is very dependent on market operations stability.

This chapter then suggests an alternative approach to financial economics by adopting a public service and collective action view of the working of financial markets in a globalised environment. It considers finance as a public utility and financial stability as a specific public good, and assesses the possibility and capacity of public structures to shape and supervise financial regulation in a way that would lead to a more stable and viable society. Therefore, in order to grasp the very nature of financial regulation, some minimal characteristics of public goods are identified at the international level as global public goods. This identification leads to regard financial stability (and global financial stability as well) as a (global) public good and relevant financial regulation as a collective action problem. Financial stability then requires a specific public service organisation that must design and manage the production and maintenance of financial activities through collective action in order to ensure a socially coherent working of markets.

The first part of the analysis maintains that financialised capitalism and self-regulation-based financial markets do not fit for economic viability and societal development since deregulated finance fuels speculative activities at the expense of productive ones and results in degenerated market mechanisms. The second part draws upon the core characteristics of a monetary capitalist economy to suggest that financial stability must be treated as a public good which should be managed and supervised by non-market-dependent public regulation and supervision to keep markets within the limits of common welfare objectives. The third part points to some alternative regulatory principles – seen as a collective action problem – that could make financial markets' work in a consistent way with regard to systemic stability. The last part concludes.

## **1. Liberalised finance and self-regulation as sources of instability**

Structural changes in financial markets started in the late 1970s and contributed to the modification of the traditional banking and financial activities. Change came from both the liability side (for instance, money market mutual funds), and the asset side (public capital markets) of bank balance sheets. The financial engineering on securitisation and associated derivative instruments were generalised and structurally changed the financial sector. Regulators were behind this change since they initiated the process through specific institutional choices - the roots of the new

liberal era - that shaped economic policies for decades. Indeed, liberalisation was promoted by regulators all around the world and especially in advanced economies. From 1987, the US Federal Reserve allowed banks to intervene in securities market including derivatives and asset-backed securities. Some years later, the Gramm-Leach-Bliley Act in November 1999 repealed the Glass-Steagall Act of 1934 that had separated commercial banks and investment banks and prevented operations on securities in the aftermath of the Great Collapse of 1929. The Commodity Futures Modernisation Act of 2000 partially put derivatives out of the supervision mechanisms since it was asserted that without regulatory interference, market actors could design effective diversification against risks and reduce the cost of financing of economic activities (Quinn, 2009). Similar institutional and legal changes started to be implemented in major advanced and emerging economies from the mid-1980s, confirming the worldwide liberalisation/deregulation of financial markets. It was argued that regulatory constraints-free markets would be more innovative and able to conceive relevant self-adjustment processes and means against market risks.<sup>2</sup> The argument behind was that widened activities would allow banks to diversify and then to reduce their risks (Barth *et al.*, 2000). Enlarged market strategies of rational agents were considered as the most effective means of allocation of resources in the economy. Obviously, banks' innovations changed economic conditions and developed various forms of product and process innovations. This led banks, financial intermediaries and their clients to undertake micro-efficiency and individual-profitability based strategies without restrictive public constraint and systemic-coherence control. Most of monetary and financial innovations increased the elasticity of finance affecting the functioning of the economic engine. This process has been generalised thanks to the opening up and liberalisation of financial markets led under market-friendly regulatory reforms. In such an environment, expected to generate enlarged innovations and then to improve the conditions of financing of the real economy, banks and financial institutions but also real sector corporations were engaged into high-return promising speculative strategies. Investment and management aims, means and practices were changed in favour of short-term huge speculative gains and resulted in a black hole between real economic activities and financial markets. Most economic decisions were directed towards speculative short-sighted strategies under the incentives of free and innovative financial markets without necessarily being connected to the long-term expectations about the evolution of the productive system.

Financial markets and innovations allowed agents to speculate easily on expected further speculative rents through the use of several financial products.<sup>3</sup> Mainly relying

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<sup>2</sup> After all, as it was stated –and formally proved- by Arrow and Debreu (1954) and by Arrow and Hahn (1971), in a perfectly competitive Walrasian world, market prices are sufficient to achieve a socially (Pareto) optimal solution through individuals' demand and supply.

<sup>3</sup> Adrian and Shin (2010: 2-3) document that before the liberalisation period of the 1980s the traditional banking was dominant as banks and savings institutions were the major holders of home mortgages. But with the emergence of securitisation, banks entered in an innovation process creating or working with some institutions to which they sold their mortgage assets which were financed by issuing mortgage-backed

on speculative financial returns, financial markets fed a consumer-debt supported financial growth more than productive, income-based/demand-supported real economic growth. Crotty (2009) points to new financial products and processes - such as the CDOs - as the practical operating devices of such a growth. Those latter offered high returns and also carried top ratings that permitted buyers to have access to credit cheaply. This gave rise to what is now usually called the financialisation of the economy which can be defined as the transformation of the traditional long-term financing and technical advice activity of banks and financial intermediaries -that were aiming at supporting productive entrepreneurial engagements-, into (usually) very short-sighted (speculative) portfolio operations. The entire economy passed from long-term bank/financial engagements-based system to a short-term rapid profitability-seeking market-based system. Hence, financialisation sustained a new speculative regime: a speculative rent economy without real growth since the financial efficiency criteria (the realisation of rapid and high returns on investment that was totally decoupled from long-term productive perspectives) overcame other objectives such as sustainable long-term growth, employment and better distribution of revenues to strengthen demand on markets. Such a transformation resulted in a “financier dominated finance” that generated several flaws such as recurrent systemic instabilities, short-sighted market strategies at the expense of long-term productive activities and increasing inequalities that undermined the achievement of social goals in the real economy (Epstein *et al.*, 2009).

Financialised economy rests on the adjustment mechanisms of micro-rationality models. Systemic stability is assumed to be satisfied by decentralised procedures of self-regulation which should be established on market incentives, supported by market-friendly legal institutions. Opposed to the prudential regulation, this model pleads for self-control of the soundness of banks’ market activities and assumes that private agents have the capacity and rationale for managing and checking by themselves the appropriateness of the riskiness of their market engagements.<sup>4</sup> It also assumes that self-regulation can make compatible market efficiency and systemic stability since the market mechanisms could offer better financial soundness control compared with other alternative public mechanisms of regulation and then be able to achieve financial stability. The only condition for this framework is the establishment of an appropriate legal frame that should set up “good institutions” so that the mechanisms of spontaneous regulation do work perfectly and insure the resilience of economies against exogenous shocks: “This institutional structure is a schema of incentives that rely on rules of transparent management that must improve the disclosure of information about the characteristics of products and involved establishments. In this way, the various parties would be incited to bigger responsibility to prevent market sanctions. In search of a reputation, private actors,

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securities (MBSs) by those intermediaries. In 2007, those market-based assets (more than 16 trillion dollars) became larger than the total assets on banks’ balance sheets (less than 17 trillion at that time).

<sup>4</sup> It is indeed assumed that free markets (and then market prices) would allow self-regulation mechanisms to produce necessary and sufficient information and effectively direct behaviour of decentralised actors towards equilibrium decisions.

who also become “controllers” of and for the market, would produce reliable information for investors, reducing the need for a (extra-market) public regulation” (Ülgen, 2015a: 376).<sup>5</sup>

The self-regulation model has also developed on the principles-based regulatory framework, for instance, in the UK financial system where the Financial Services Authority (FSA) established its supervision in order to give firms increased flexibility to decide more often for themselves what business processes and controls they should operate. This consisted of letting market actors undertake their activities without suffering from restrictive rules and bans arguing that such a regulatory model would enhance market’s innovative dynamics: “Continuous innovation and new product development are important ways in which the financial services industry generates benefits for consumers and markets. It is important that regulation can respond rapidly to the pace of change in markets and so allow them to continue to develop for the benefit of their users. We believe regulation that focuses on outcomes rather than prescription is more likely to support this development and innovation. Any set of prescriptive rules is unable to address changing market circumstances and practices at all times, and it inevitably delays, and in some instances prevents, innovation.” (FSA, 2007: 6)

Elaborated on a very confused efficiency criterion resting on the quick and high return of funds invested in financial markets, financialised accumulation regime - very short-termist and highly sensitive to market reversals - revealed to be highly unsustainable. Although liberalised financial markets and related innovations could give some positive results for some institutions and individuals such as better *individual* risk coverage, further portfolio diversification possibilities, new ways and means to engage in high-profit seeking financial positions, etc., they do not result in a stable and sustainable macroeconomic situation. In line with this assertion, Ülgen (2017a: 227) states that “one could assert that financial markets were really efficient during the financialisation process-led boom of the 2000s in their capacity to ‘enrich’ financiers and speculators without any concern regarding economic development (but only till 2007). This criterion has prevailed ever since over every economic and social decision and has determined the conditions of financing private as well as public spending. But such efficiency seems also to pervert productive economic structures by preventing agents from long-term engagements and inciting them to look for speculative opportunities. Relevant at individuals’ micro level, free market incentives turn out to be harmful, if not catastrophic, at macro-systemic level.”

Self-regulation-based financial systems display some crucial paradoxes that prevent them from achieving a stable economic growth process. In a market-dependent regulatory framework, market activities of self-interested actors are evaluated by the actors themselves. Rating agencies, for instance, play two conflictual roles since they

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<sup>5</sup> Even if sometimes public interventions might be needed, they should remain emergency-last-resort measures. Such an assertion lies in the belief that financial crises are stochastic phenomena, some unpredictable accidents, and do not require regular public oversight.

must check the soundness of market activities of banks whereas they also advise banks in the conception and marketing of new products whose riskiness should be assessed by the same agencies! Consequently, banks and financial intermediaries are both clients and partners of the assessors, the rating agencies. The regulatory role of rating agencies is then melted down “into their economic interests as advisors and also as rent-seeking partners of banks. Self-regulation then makes regulators and regulated agents match in an utter confusion and puts the regulatory system out of the domain of systemic stability” Ülgen (2017a: 232). Such a liberal model of regulation removes the necessary separation between the assessor and the assessed assuming that stability can be self-assessed and self-maintained. This means that stability does not matter since markets are always seen as self-adjusting magic. In such an environment, strategies of banks and rating agencies lie in pro-cyclical behaviour encouraging financial growth during boom periods and sharply stopping it when distress is felt in the way well documented by Minsky (1986).

The regulatory game between public authorities and market actors seems to be a perpetual cycle of opportunistic bargaining balancing between euphoric growth periods and systemic catastrophes: “At work it is what academics call a “two-period game.” In period one, large financial institutions demand deregulation. Then, in period two, they demand government bailouts, saying that otherwise the real economy will be taken down along with the financial institutions on which the economy depends. That is called mitigation of loss, and it means in period one that people take too much risk, if they think they have the political power in period two to induce society to mitigate their losses. This too-big-to-fail structure means, in the absence of systemic change, we are likely to have more crises like the recent one” (Corporation 20/20, 2009: 7).

So, the stabilisation of the economy requires a more relevant analysis of the characteristics of money/finance-based capitalist structures and calls for alternative approaches to financial regulation.

## **2. Monetary economy and financial stability as a specific public good**

Monetary and financial relations are at the core of market-based capitalist economies since every economic transaction involves the use of money and occasions various financial operations. A very specific feature a monetary economy lies in the financing process of decentralised private economic decisions that rests on debt-creation-circulation-repayment cycle. In this “endogenous money” environment (Wray, 2007), two major constraints frame the economic activities: financing constraint<sup>6</sup> and the repayment constraint.<sup>7</sup> This leads to the use of financial products/processes in markets to make actors able to undertake activities in a continuous way through the future positions notwithstanding their current asset/liability position). Those

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<sup>6</sup> That is, the need to finance economic actors’ plans, leading to credit/debt relations, mainly between banks and spending units (mainly, entrepreneurs).

<sup>7</sup> Following the first constraint, debts created to finance activities must be repaid.



constraints are society-wide and are mainly organised through profit-seeking markets. In this picture, money is the name of the payment system which is a set of rules and mechanisms that govern the creation, circulation and repayment conditions of private debts mainly generated through the financing of entrepreneurial expectations. Those debts flow through the entire economy and are used as money.<sup>8</sup> Consequently, money has some specific characteristics. First, it is ambivalent such that it is a private decisions-related, individual and decentralised action system. At the same time, it is accepted and used as the general means of payment and settlement within entire society and hence it must stand as a public system of account, payment and repayment. It must then rest on a non-market reference to keep its economy wide validity though created in a private way. That is why the payment system is hierarchised under the supervision of a public anchor for all market transactions -the central bank- that ultimately centralises bank accounts (then private debts to be repaid) as the social settlement process. Money is also transversal since everything and everyone are everywhere directly/indirectly involved in monetary (debt) relations without necessarily taking directly part in the monetary and financial operations through which the economy does usually evolve. Monetary and financial relations have then a peculiar nature since they concern the whole society and its viability conditions. Every member of a given economic society is a part of those relations even though she/he is not plainly involved in related economic relations. Directly or indirectly everyone uses money and contributes to financial operations and is under the burden of the systemic consequences of market operations (but also of the related policy decisions). Credit-Debt relations involve every one within society. Although related to private decisions and interests, money and subsequent financial relations have societal consequences. From this perspective, money and finance may be seen as public utilities the provision of which often requires specific policies and intervention of the public power that must play the role of referee and stand outside of the private and decentralised market relations in order to organise, supervise and regulate the production, the use and the evolution of the monetary/financial system.

Paradoxically, the liberalisation of financial markets increases the need for public oversight since it results in a system wide financialisation with continuous and permanent effects on the economy: “In a market-based financial system, banking and capital market developments are inseparable, and fluctuations in financial conditions have a far-reaching impact on the workings of the real economy” (Adrian & Shin, 2010: 5). Therefore, financial system’s stability appears to be a general concern that should be regarded at macro level. Could it then be held as a public good whose provision would call for extra-market public management?

The analyses and debates on the public goods are closely related to the theories developed on government interventions within the economy. It is assumed that when a good is public, it cannot be efficiently (in a sufficient quantity and quality to satisfy

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<sup>8</sup> That is, as general means of payment and settlement.

needs related to its availability at the society level) produced by private market mechanisms through decentralised maximum profit-seeking rational individual decisions. Even though one could assume that in a competitive market *à la Arrow-Debreu*, market incentives would suffice to let private economic agents produce (private) goods and services in an efficient way (at lower costs-prices and higher quantities, maximising consumers' satisfaction), Samuelson (1954: 388) maintained that "decentralised spontaneous solution" does not exist to provide public goods in a socially efficient way: "no decentralised price pricing system can serve to determine optimally these levels of collective consumption". However, there is no common agreement within the economics profession and some analyses argue that the publicness of a good is not a sufficient condition to maintain that this good must be produced by the public sector to ensure the efficiency of its production (Holcombe, 1997).

In his seminal article of 1954, Samuelson identifies public goods as collective consumption goods that all enjoy in common "in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good. (p. 387)." Samuelson (Ibid: 389) points to "the *jointness of demand* intrinsic to the very concept of collective goods" such that once produced for some consumers, the public good can be consumed by additional consumers at no additional cost. He then argues that no decentralised pricing system can serve to determine the optimum values of collective consumption.

Musgrave (1959) suggests another simple criterion, the exclusion, in order to identify publicness of a good, that is, whether or not someone can be excluded from benefiting once the good is produced. This could give, for Musgrave, a clear division of society into private and public goods. Beyond the exclusion, the general definition given by Musgrave (1959: 44) brings forth an essential issue: a public good is a good the *inherent quality of which requires public production*. From this perspective, the inherent quality (or features) of financial stability rests on its macro/systemic nature which cannot be provided solely through micro safety mechanisms. First, the information and perspective required for thinking of macro-stability are not available at individual's level. Secondly, individuals cannot undertake decentralised and partial micro operations to make stability sure at systemic level.

Public goods are conceived as crucial to the community but for the most part they cannot be adequately addressed by separate private individuals' optimisation plans. In the line with those works and in an eclectic way, the literature usually identifies public goods through two characteristics that would distinguish them from (normal) private goods such that one cannot expect an appropriate provision of those goods through the market mechanisms. Public goods are non-excludable and non-rival (Cornes & Sandler, 1994). Non-excludable because once provided to one individual, they remain available to all. Non-rival because their consumption by one individual will not reduce the quantity or the quality available to other individuals. However, Kaul *et al.* (2003: 80) maintain that since society can modify the (non)rivalry and

(non)excludability of a good's benefits, "Goods often become private or public as a result of deliberate policy choices". From this point of view, the criteria used to identify public goods must only be regarded as some possible definition elements. The ultimate position of an activity within a given economy as a public or a private good will depend on the characteristics of the good with regard to the characteristics (aims and values) of society within which its production is expected or required. Viability, sustainability, welfare and wellbeing of citizens, ideological and political constraints, etc., interfere and affect the appropriate definition of a good as a public or private good. For example, Malkin and Aaron (1991) argue that the boundary between private and public goods is socially constructed. Marmolo (1999) maintains that the publicness of a good depends on utility interdependencies across demanders, shifting the analysis from non-excludability and joint consumption to utility interdependence. However, Cornes and Sandler (1994) note that the social construction of the concept does not prevent the specific characteristics of the goods such as (non)rivalry and (non)excludability and that those characteristics are the determinants in the identification process of the nature of a given good. Drawing upon Olson's analysis of the problems of provision of public goods (Olson, 1965), Ostrom (1990, 2003) argues that the debate on the public-private distinction of goods is ultimately related to "collective action problems" such that whereas individuals would all benefit from the provision of a good or an activity, they cannot realise it alone at their individual level given the costs associated to such a good or action. The solution relies then on the possibility of collective provision-collective action of the good or activity but raises the question of how to do it in a relevant manner to give members of the action the expected results.

Usually, researches on public goods are related to environmental concerns or security issues. It is also usually admitted in the economics profession that market is able to price everything in an efficient way but in some "residual" cases (the contingencies) it may fail to provide goods. Those cases are often called market failures and would justify State (or public) intervention within the economy. But to date (globally) enlarged financial markets and recurrent financial instabilities that threaten regularly the smooth working of market-based economies all around the world make that regulation of financial markets and the design of financial stability become a collective concern that does not seem to be adequately produced by decentralised market actions thanks to self-regulatory practices. Ülgen (2017b) documents that market-dependent self-regulation -as a core liberal finance rule- reveals to be unable to deal financial instability which must be handled at a systemic level as a public good. This would require public regulation and action mechanisms to maintain society within some viability limits and ensure a smooth working of the economy.

Once common rules and socially optimal design are established by some collective action-public decision mechanisms, they are available to each actor as every individual and institution can get benefit from without suffering its huge and locally uncertain production costs. Therefore consumption (or use) of the stability by one individual/institution in no way reduces its qualitative and quantitative availability to

others. It is obvious that the collective action problems of public goods apply to global public goods to an even larger extent: “Even if there is general agreement that the potential gains from international concerted action are great, there is no supranational government authority to devise and impose solutions as the norm at the national level (e.g. taxation, regulation, market creation)” (Sagasti & Bezanson, 2001: iv). At the global level, the problem is of the same nature but the difficulty of resolution might be slightly intensified and augmented as the interconnectedness and interdependence among different countries, different financial markets, and numerous economic and political national, regional and international problems gained ground. Nordhaus (2005) defines global public goods as goods whose impacts are indivisibly spread around the entire globe and points to international interdependence issue that underlines the problem of international coordination: “Many critical issues facing humanity today - global warming and ozone depletion, banking crises (...) are ones whose effects are global and resist the control of both markets and national governments. (...) Global public goods differ from other economic issues because there is no workable mechanism for resolving these issues efficiently and effectively. (...) If problems arise for global public goods, such as global warming or nuclear proliferation, there is no market or government mechanism that contains both political means and appropriate incentives to implement an efficient outcome. Markets can work wonders, but they routinely fail to solve the problems caused by global public goods.” (Nordhaus, 2010: 1)

Shirakawa (2012) defines public goods as the goods markets depend on and which are not provided spontaneously by markets and global public goods as those needed for the global economy to function properly. The global public good in this case would be the avoidance of financial crisis, as it has significant non-excludability and non-rivalrous characteristics and considerable crossborder spill-overs. (Sagasti & Bezanson, 2001)

From this perspective, the international monetary and financial system’s (IMFS) stability can be seen as a genuine international/global public good. Indeed, the IMFS is a set of rules and practices that govern the way(s) debts could be honoured and paid among nations with different currencies in the aim of ensuring the viability of international economic relations. When the system works well (in a smooth and stable way), all countries get gain from international flows of products and capital. But when it breaks down, nations become unable to sustain high levels of trade and investment. Therefore, all have an interest in reforms that would improve the system for the global public benefit but not many people care for or are prepared to pay for. Camdessus (1999) states that the IMFS as a global public good is essentially the same system for everyone: “If it works well, all countries have the opportunity to benefit; if it works badly, all are likely to suffer. Hence, all have an interest in reforms that will improve the system for the global public benefit. And, as is so frequently true for public goods, not many people care for, and even fewer are prepared to pay for, its improvement even if many comment about it.”

Ülgen (2017a: 222) thus maintain: “The crucial core role of financial stability in the capitalist economy has once more been emphasised by the disastrous consequences of the 2007-08 crisis. This crisis has also shown that with an increasing number of transnational financial institutions and banks around the world, financial stability should be thought of in terms of various links and interconnectedness among institutions and countries (...) Hence, financial stability must be regarded as a public good and assessed at a global level, since it does not stop at individual or national borders. The change of perspective then arises a specific collective action problem with regard to the design and implementation of relevant (and global) regulation and supervision mechanisms.

### **3. A common regulatory framework for public goods**

The public goods approach upon which this chapter draws assumes that the public agency/government in charge acts in the public interest (the benevolent public regulator/welfare state) in the provision of such goods.<sup>9</sup>

Financial stability is a public good to be produced by a public-organised mechanism with regard to two objectives: allowing markets to adopt system-coherent behaviour and ensuring a smooth working of the economy in order to give private economic agents a stable horizon to undertake decentralised activities. The creed is therefore: “Macro (systemic) financial stability is a prerequisite for stable and durable micro-efficient market behaviour”.<sup>10</sup> Ülgen (2017a: 233) argues, in a Minskyian way, that financial system’s stability relies on a consistent financial regulation which is not only private-incentives producing regulation but must also be a macro-consistency seeking framework because: “If there is no macro-stability, there cannot be micro-initiatives able to push economies toward a growth path.”

The problem is how to organise a relevant regulatory framework to make the provision of such a good (financial stability) possible and consistent with the characteristics of monetary market-based economies. Some specific constraints related to the globalization of the world economies affect possible reform proposals. Helleiner (2009: 7-8) notes in this regard that: “In the early 1940s, the focus was entirely on enabling states to regulate the international movement of financial capital at their borders with capital controls if they so wished. International financial regulation, in other words, was a synonym for curtailing the international capital mobility. Today, the phrase has a different meaning. Over the past few decades, financial markets around the world have become more and more integrated, driven by the liberalization of capital controls and various technological and market innovations.”

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<sup>9</sup> I adopt this hypothesis also in order to avoid the temporal inconsistency problem which remains beyond the scope of this article at its present stage.

<sup>10</sup> Mullineux (2013: 87) maintains, from a corporate governance perspective, that well governed financial firms are more likely to serve the common good “in the sense that general conditions are achieved that are to everyone's advantage and they thus benefit society as a whole, or ‘the public good’.”

To date, the aim of public supervision is not to curtail international capital mobility but to ensure that it will be directed towards socially efficient uses. However, in a market-based and mainly private decision-guided economy, to be socially acceptable, trustworthy and able to keep monetary and financial system in trust for society, the regulatory system must remain external to market relations and actors, and should not be designed to ensure that no individual institution/firm ever fails (Bank of England, 2014). It should aim at protecting the integrity and the survival of the financial system and the economy when some individual institutions/firms fail, that is, to guarantee that these failures will not bring the entire system in their wake (Ülgen, 2017a). Given the general constraint of systemic and global financial stability, the objection of Hardin (1968) related to the “Tragedy of the Commons” such that “common goods availability plummets mainly because of the public management of such goods”, does not hold. The under-provision (or the lack of) financial stability comes, on the contrary, from the lack of publicly organised and supervised regulation in financialised economies. That is, financial turmoil rests on flawed institutional framework that let private actors organise market soundness through the use of decentralised (and privatised) self-adjustment mechanisms. This flaw holds at national and international levels. At a national level, it is related to the liberalisation of markets and privatisation of financial regulation/supervision; at the international level, it rests on the absence of effective multilateral financial cooperation and coordination. Regular meetings of “GXX” look like much more diplomatic holiday trips than meetings aiming at reforming regulatory rules and systems in order to reduce the propensity of the capitalist finance to provoke global systemic catastrophes and to improve the capacity and ability of financial markets to finance job and innovation creating economic activities.

Provided that money and finance are essential elements of capitalist economies and must support productive activities in a long-term perspective and provided that their continuous and stable functioning (availability, transparency, reproducibility) is required to ensure a viable economy, and that liberalised and self-regulated financial markets are not able to fulfil such conditions, it becomes obvious that a regulatory-supervisory framework must be designed at the (macro) systemic level and without the burden of vested interests in order to guarantee the production of public utilities (finance and financing of the economy) and of public goods (financial system’s stability). Such goods are produced by a common/public process, financial regulation, which must deal with collective action problem. Successful advocacy involves producing collective global responses and promoting the worldwide production of financial stability as a global public good.

Foundations of contemporary regulatory frameworks lie in the problem of individual incentives-compatible mechanism design that would seek at pushing individuals to reveal their true preferences with regard to the provision of a public good and its financing by everyone. So, if the state can exert enough authority and pressure on market actors, it can constraint public to participate in the financing of the good and then free the issue from the individuals incentive constraints. With regard to this

problem, Bierbrauer and Hellwig (2015: 1-2) argue that in a large economy, the problem of finding an individually incentive-compatible mechanism for public-good provision is trivial. Because no one person individually is able to affect the level of public-good provision, no one person is ever “pivotal” (as it is in a small economy – F. Ü). For individual incentive compatibility, it therefore suffices to have payments that are independent of what people say. If the preferences that a person expresses neither have an effect on the public-good provision level nor on the payments that the person has to make, she may as well report her preferences truthfully.” Indeed, in such a system of public good provision, the individual’s payment is independent of what she/he declares and what individual declares is deemed to have no effect whatsoever, individual may tell her/his true preference. To put in force this kind of institutional mechanism, a specific system of coercion and supervision might be required to incite market actors to adopt collectively expected strategies and to check their effective behaviour comparing it with the values of the system. On this issue Olson (1965: 2) argues that “unless the number of individuals is quite small or unless there is coercion or some special device to make individuals act in their common interest, *rational, self-interested individuals will not act to achieve their common or group interests.*” In this same way, Hardin (1968: 1247) points to the role of coercive rules in the relationship between responsibility and engagements: “social arrangements that produce responsibility are arrangements that create coercion (...).”

Hence putting a halt to the system-harming process of privatisation of financial control and supervision is a necessary direction to cure recurrent economic/financial instabilities. This calls for alternative collective regulation mechanisms that should seek societal-stability and economic viability in the aim of attaining a society-wide consistent level of economic activity. In this vein, Velasquez (1992) states that in the absence of an international enforcement agency, multinational corporations operating in a competitive international environment cannot be said to have a moral obligation to contribute to the international common good, provided that interactions are non-repetitive and provided effective signals of agent reliability are not possible. Pointing out that the conclusion that multinationals have no moral obligations in these areas is deplorable, the author urges the establishment of an international enforcement agency. The prerequisite for a sustainable provision of financial stability as a global public good is the organisation of a super-national body of regulation and supervision in accordance with the national supervision authorities to be gathered around a new financial framework that should redesign markets, determine subsequent incentives and control mechanisms advocating constructive freedom of actors against speculative folly of ideologies.

## Conclusion

This chapter sought to find some relevant answers to one of the major issues that arose in the wake of the 2007-2008 global catastrophe: how to redesign financial markets (actors, strategies, aims, rules) and what regulatory system should and could be framed in order to improve and secure the working of markets. Therefore, the chapter developed a specific analytic stance from the perspective of global public goods and argued that financial stability must be seen as a public good whose production and maintenance should mainly rely on extra-market public mechanisms in order to ensure the viability of international economic relations without suffering recurrent financial crises.

It appears that, after a decade of debates and analyses, things do not seem to structurally change, old oppositions dominating a recessive world economy. Required system-recovery measures, beyond some quantitative easing policies and standardised monetarist inflation-targeting discourses to tame Keynesian spending policies, relies on a necessary theoretical change that must put forth the monetary characteristics of market-based economies and point to the crucial role and high fragility of financial operations within the economic development process. Therefore, the consistent organisation of financial markets calls for a public utility-public good approach to financial regulation and financial stability. Reforms should lead to assess the societal consistency of a financial system regarding its capacity to prevent crisis-prone speculative banking/finance and to serve job-creating productive needs. An alternative societal efficiency paradigm should then be substituted to the consensual market (economic) efficiency criterion, and help to reshape alternative rules, policies and incentives according to society's common (economic and human) development objectives.

In the production of this peculiar public good, a peculiar public service, the regulation-supervision of financial markets that must take the form of collective action irrespective of the private actors' interests, is required. Consequently, macro-prudential regulation-based principles must be substituted for micro-regulation schemas at a global level aiming at preventing short-sighted speculative activities and must regard financial stability as a whole since micro-regulatory frameworks cannot address the systemic instability issues and take into account counter-cyclical and systemic needs to stabilise the whole economy. But the design, establishment and implementation of the rule of constrained financial (non-market-dependent) regulation and tight and regular public supervision mechanisms -as major financial global public utilities- require a stronger super-national coordination/cooperation agency which must aim at strengthening -in a transparent and durable way- the conditions of provisioning of a peculiar global public good, financial stability, essential for economic and social sustainability. From this point of view, financialised economies pose huge theoretical and practical challenges to the economics of public services and collective action. In this vein, Epstein *et al.* (2009: 144) maintain that: "Thus it will be crucial to develop *social governance structures* to prevent "finance



without financiers" from becoming "finance FOR financiers". These social governance structures will need to have several components, including democratic governance by those effected by the financial institutions' actions, strong financial regulation over-all to prevent massive gaps in practices between publicly oriented financial firms and the market, and compensation and/or tax schemes which reduce the benefits in the system for destructive financial practices."

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## Understanding financialization and its impacts on Social Economy / Chapter 6

Manuel BELO MOREIRA\*

### **Abstract**

Following a political economy perspective about financialization and its impacts on social economy, it seems important to understand the role of the neoliberal ideological hegemony and the ways in which, it not only influences academic thinking, but it goes well beyond, by shaping the “common sense” and therefore reinforcing its dominance.

Describing the essential features of the financialization process brings to light the driving forces and the mechanisms that were put into practice and, finally, explains why, in spite of its negative effects which could provoke a rejection by the majority, the ideology is nonetheless reinforced.

The text seeks to establish a framework concerning the impacts of financialization on the social economy sector, by reflecting what the main differences are between the different branches of social economy and how they can be affected by neoliberal ideology and policies. It seems particularly important to separate the institutions of social economy that do not compete with profit firms from the institutions that by competing on the market could function as an alternative to capitalist enterprises.

**Keywords:** financialization; social economy; neoliberal ideology

**JEL-Codes:** L31, J54, O35

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\* Prof. Universidade de Lisboa, Instituto Superior de Agronomia; member of CIRIEC-Portugal (Portugal) ([mbelomoreira@isa.utl.pt](mailto:mbelomoreira@isa.utl.pt)).

## Introduction

If we accept that the Great Recession is nothing else than the result of what is called the financialization of the economy, that brought about the global financial crisis initiated in 2007/8, provoking the sovereign debt crisis in Europe, it would appear that reflection on this theme, following a political economic approach, is particularly important to social economy (SE)<sup>1</sup>.

The enormous amount of literature about financialization calls for a short synthesis of what financialization means as well as its recognized impacts (Moreira, 2017). However, most of the literature does not pay enough attention to the driving forces that help to understand and explain the scale and scope of this process. One needs to examine the ideological ingredients that paved the way to the hegemony of the neoliberal ideology and hence the political will that led to the financialization. When the global crisis emerged, neoliberal ideology successfully worked to “Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown” as the title of Mirowsky’s (2013) work perfectly illustrates.

Many authors have already called the attention to the role of the ideology, but my preferred quote comes from Keynes:

“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. ... But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.”<sup>2</sup>

My argument is that only when the history of the emergence and consolidation of the hegemony of the neoliberal ideology and its effects (not only within the academic, economic, social and political realm, but also on popular culture) is clearly assessed and understood, it will be possible to present a coherent logical explanation to the financialization process and its impacts on the role of social economy on the economies and societies of the second decade of the XXI century.

The aim of the next section is to provide a short explanation of the emergence and consolidation of the hegemonic status of the neoliberal ideology which, in general terms, still prevails giving particular emphasis to how common sense is being shaped and how it contributes to the reinforcement of the power of the neoliberal ideology.

Section two deals with the main aspects of the globalization process and in particular with the main consequences of what is meant by financialization.

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<sup>1</sup> The social economy is still a controversial concept. Many confuse social economy with non-profit institutions. However, for many others, it seems that it must go beyond non-profit: implying the democratic rule; that members receive at most limited compensation on capital subscribed and no private appropriation of the surplus realized and/or patrimonial plus values are allowed, apart from other items such as the ones referred to by the International Cooperative Alliance. In this text the concept proposed by Social Economy Europe at <http://www.socialeconomy.eu.org/social-economy> will be used.

<sup>2</sup> [https://en.wikiquote.org/wiki/John\\_Maynard\\_Keynes](https://en.wikiquote.org/wiki/John_Maynard_Keynes).

Sections three and four deal with the focus of this inquiry that is the direct and indirect effects that result from the hegemony of the neoliberal ideology and the resulting practical outcome of the globalization/financialization process on social economy. Finally, a very short section will be reserved in order to draw some conclusive remarks.

## 1. The hegemony of the neoliberal ideology: a short appraisal

The historical process of the hegemony of the neoliberal ideology is now well known involving not only the ideological combat – between Keynes and Kalesky and the neoliberal members of the *Société du Mont Pélerin* just before the WWII – but also the conditions and contexts that allowed the emergency and posterior consolidation of the neoliberal rule (Denord, 2002 & Mirowsky, 2013).

The main features of the changing context are: an effective union activism throughout the developed world gained impact struggling for a higher share of the national wealth and putting pressure on corporations and on the conservative camp; the inflation brought about among other causes by the Vietnam War, the end of the Bretton Woods gold-US dollar standard and the 1973 oil shock that caused a new type of crisis termed as **stagflation** which the usual Keynesian instruments did not successfully deal with.

The combination of these several phenomena lead to the erosion of the hegemony of Keynesian ideology and consequently opened up avenues for the neoliberal counter attack. Under the leadership of the members of the *Société du Mont Pélerin* and other conservative think tanks in the US and in the UK, financed by some millionaires, the neoliberal agenda became increasingly accepted by influential pundits, media editorialists and other opinion makers. As a result of the consolidation of the neoliberal hegemony, many of its ideas became incorporated into the political agenda of conservative and not so conservative people, such as French socialist technocrats, US liberals who supported global free financial movements, as well as Blair's "Third Way" (Rodrik, 2016).

This ideologically-driven paradigm shift was legitimized by many influential people of the academic mainstream, mainly the so called "fresh water" school based in Chicago and an important number of Nobel laureates such as: Becker, Fama, Friedman, Hayek, Lucas, Prescott and Stigler. The "fresh water" school made full use of its academic power to prevent theoretical dissidence not only by restraining the access to top economic journals, but also by defining what should be investigated<sup>3</sup>. As Romer (2016) put it, dissidence could be considered as "... an extremely serious violation of some honor code for anyone to criticize openly a revered authority

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<sup>3</sup> The argument for the refusal of Akerlof's seminal article "The Market for Lemons..." on the basis that if the author was correct then Economics would be very different! (Cassidy, 2009), or Rodrik (2016a) stating that many orthodox economists when facing criticisms about globalization do not dare to state publicly their agreement with his cautions about trade because they do not want to give "ammunition for the barbarians".

figure". This hegemony of this anti-keynesian paradigm shift has been powerful enough to ensure the persistence of a number of myths associated with the neoliberal ideal of market functioning (Stiglitz, 2017). Myths such as: the assumption that unemployment does not truly exist, but is voluntary, that it is the result of stubborn workers refusing to accept the going wage; the idea that market power does not need to be addressed, which ignores the role of the asymmetry of information and the importance of dealing with different degrees of market power that this fact implies. And last but not least, that economic agents are rational, markets are efficient and should be self-regulated and the system is stable<sup>4</sup>!

Only recently those myths started to be debated among the economic mainstream<sup>5</sup>.

The central message of the neoliberal hegemony is that a self-regulated market and careful management of the money supply by independent central banks are the sole recipes for a sustainable state of affairs. Therefore, State power should be severely diminished through privatization and by using budget restraint, a move known as "starving the beast". This neoliberal agenda was reinforced and spread worldwide by international organisms such as the IMF, the World Bank and the OECD based on an interpretation of the Williamson's Washington Consensus, which particularly focused on privatizing, liberalizing and deregulating, while ignoring other items that the author supported (Rodrik, 2006)<sup>6</sup>.

### ***The neoliberal ideology and common sense***

Probably, the most important feature of the neoliberal ideology is the struggle to spread an ideal based on the rejection of State intervention, along with a diffuse rejection of the traditional trade union movement. Putting it in another way, it involves the recurrent efforts to reject class theories.

Neoliberal ideology gives legitimacy to refuse what has been called the Welfare State and its redistributive policies, and indirectly accepts that personal taxation is evil, even for the wealthiest, on the grounds that their personal incomes are nothing but the result of personal success stories and, consequently, taxing them is nothing more than an illegitimate confiscation mechanism.

The role of media (Martin & Yurukoglu, 2017) was (and still is) of paramount relevance in shaping popular common sense to accept neoliberal ideology.

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<sup>4</sup> See Fama and Lucas' quotes just before the crisis.

<https://www.brainyquote.com/quotes/quotes/e/eugenefama582058.html> and "Mortgages and Monetary Policy", *The Wall Street Journal*, September 19, 2007 at

[https://en.wikiquote.org/wiki/Robert\\_Lucas\\_Jr.](https://en.wikiquote.org/wiki/Robert_Lucas_Jr.)

<sup>5</sup> Among many others, see: IMF (2013) and Wren-Lewis (2017).

<sup>6</sup> Note the failed attempts made by Stiglitz, at the World Bank, to change the neoliberal rule (Stiglitz, 2002).

It is certain that these neoliberal ideals are not fully accepted and the majority of people still praise most of the Welfare State characteristics, as many polls recurrently show. However, there are always wastes, mismanagements and stupid bureaucracies involved in welfare policies that are motives to be exploited by the media to spread the idea that the problem does not involve particular cases, but is in fact a generic failure.

It seems logical that one of the main reasons explaining the acceptance of the neoliberal ideology comes from the confluence between individualism and what we can consider as generic common sense, which means that it becomes acceptable to follow this common sense when promoting and enforcing policies and, therefore, looking with distrust at anything that is contrary to that view. There are a multitude of examples such as the widespread wrong idea that confuses State finances with households, therefore giving ammunition against State intervention, even when it is most needed, as happened with the pro austerity field during the last crisis.

This acceptance is also linked to the idea of the American Dream – so attractive to migrants and people in general – proclaiming that enough hard work and personal skills will take you to the top of the social ladder. This probably explains the dubious attitudes toward taxation and redistributive policies during this large period of increasing inequality, which represents, in practice, the denial of the American Dream (Manza & Brooks, 2014). It is dubious because recurrent polls state that American people do not know the true extension of the inequality and if they did, they would not like it. While the situation in Europe is different, also considering that such a thing as the American Dream does not exist, one should not dismiss the power of attraction of an ideology dominating at the hegemon and the influence of the message transmitted by the media: a sign of this is the importance given by the media to Tax Freedom Day.

In short, the international news agencies and the popular media have succeeded in globally spreading these views and, nowadays, we can assume that many of its components have been pervasive in most occidental societies and cultures, which means that they have started to be considered as normal by the common sense.

Furthermore and particularly concerning SE, this generalized common sense influences the public perception of what is in fact social economy, accepting a number of myths that could harm the existence of SE institutions. In particular, the idea that all institutions should share an “enterprise type” of management, either capitalist, public enterprises and/or SE institutions, which reinforces the ignorance about what a SE institution means and induces even specialized economic journalists to identify members of a mutuality as shareholders and the rule one man one vote as representing the capital of the institution (<https://shar.es/1Qec1Q>)!

Indeed, since the main substratum that shape the common sense is highly formatted by the neoliberal view, it is not strange that business values such as the short-termism dependence on quarterly results, the overvaluation of the action of the so



called “business genius” and the consequent outrageous self-awarded rewards, are considered “natural” and therefore can be solely regulated by the market.

Consequently, simple distrust of the State, opportunism or concordance with the neoliberal views, make dodging taxes a pervasive behavior. A large number, if not the majority of people of the so called western civilization are very far from the point underlined by Herbert Simon quoted by Dillow (2016) “that we westerners owe our fortunes not so much to our own efforts but to the good luck of living in societies which enable us to prosper - which have peace, the rule of law and material and intellectual resources.”

Another example comes from the neoliberal cathedral: quoting Zingales (2012) “Experimental evidence suggests that the teaching of economics does have an effect on student’s behavior; It makes them more selfish and less concerned about the common good. This is not intentional. Most teachers are not aware of what they are doing.” Also Kwak (2016) referring to the Foundation for Economic Education and the non-profit Council of Economic Education’s efforts to improve economic literacy using simple models implying that “... trade is always good for all parties, taxes and regulations (like rent ceilings) are always bad, and competition is always good for consumers.”

After this short overview of the process that is behind the rise and consolidation of the neoliberal ideology and its resilience after the shock of the Great Recession, it is justified to observe some of the main aspects of globalization/financialization and its impacts on public economy and on social economy.

## **2. From globalization to financialization: highlighting some impacts**

Financialization is a relatively new concept used to underline perhaps the main characteristic of globalization, here understood as the current phase of capitalist development (Moreira, 2017). As many authors have demonstrated, the global reach of the phenomenon, its intensity and the increased velocity of propagation of the financial flows and its impacts, are different from previous periods of capitalist development.

Liberalization, privatization and deregulation, the three main characteristics of the neoliberal interpretation of the Washington Consensus gave origin to a new period of a global economy based increasingly on foreign trade and investment and to a surge of worldwide capital movements, almost without control. That is, taking advantage of a number of technological innovations – information technologies, cheap transportation, containerization, and others – intermediary activities, such as the big global distribution and retail chains, the information platforms (Google, Yahoo, Facebook, Airbnb, Uber etc.) as well as the more or less speculative financial intermediaries like the hedge funds and the particularly disturbing “vulture funds”, global corporations have been able to change the ways of doing business while reinforcing their monopoly power (Kurz, 2017).

Knowing that the overwhelming daily global finance movements are made within the virtual world, it makes sense to distinguish it from the real economy that deals with real business involving trade of goods and services. Furthermore, one needs to be aware not only of the multiple perverse effects of this financialization, namely the instability provoked by the succession of bubbles and crises (Krugman, 2013), but also of the increasing chances of the collapse of the system, such as the menace provoked by high-frequency trading (Lowenstein, 2012). The virtual economy fueled by financial innovations not only favored the emergence of the Casino economy, but also served to give importance and political influence to financial interests to a point that, nowadays, they are much more able to capture the entities created to regulate them as well as other State institutions, either from the legislative, executive or judicial sphere.

These movements at the core of the globalization/financialization process, provoked a fundamental change in the balance of power between capital and labor (Harvey, 2011), increased economic and social inequality and contributed to the erosion of the income of the majority of working people in the developed world, except for the outrageous remunerations of top managers, while capital gains reached levels never attained since the period prior to the Great Depression of the thirties (Johnson, 2009: 1).

Interestingly, all the above-mentioned changes occurred under the rhetoric of the minimum State, but neoliberalism is performative as Dillow (2012) put it and has been able to use State power to impose politics with worldwide impact and without any democratic accountability that served to increase the power of oligopolistic transnational corporations, namely finance, technological and goods distribution and retail. Standards (Busch, 2017), patent recognition and respective enforcement along with trade agreements (WTO), financial liberalization and privatization, fostered foreign investment, while giving outrageous guarantees to investors to the detriment of democratic nation-state decisions.

Simultaneously, the heterogeneity of fiscal laws, accepted when not supported by the hegemons (the US and the EU) favored the multiplication of fiscal havens (Palan, 2009). Fiscal havens that have become one of the main instruments used for the capture of the State, which became the target and the subject of financial blackmail, through the menace of delocalization and capital flight, counting on the assistance of the main rating agencies, non-accountable and democratically irresponsible institutions that gained the power to impose neoliberal policies by blackmailing democratic governments.

That is to say, many of the economic mainstream look at the economy and particularly at the financial system from a simplistic technocratic point of view, not paying attention to the question of power relations involved in the rise of oligopolies and in capital concentration. This results on a general acceptance of the policies as

well as judicial decisions that restrain collective bargaining power of labor and therefore are a strong inequality-driving factor (Scocco, 2016).

Moreover, until quite recently, the economic mainstream shows little or no concern for those impacts on ordinary people, therefore ignoring the negative effects that a self-regulated financial system and financial innovations can provoke. When confronted with this reality, they dismiss the issue by stating the losers will eventually be aided by the winners, which does not happen at all<sup>7</sup>. In fact, existing opposition to the neoliberal hegemony still does not reach the decisive political realm.

In brief, a global financial system that not only gave rise to institutions too big-to-fail, but was also very efficient in preparing ways to allow the emergence of institutions too big-to-tax, which substantially contributed to the increase of State debt and to the emergence of the sovereign debt crisis.

It should be noticed that these mechanisms seem strong enough to: assure the capture of the governments by financial interests while ignoring whistleblowers (Kimball, 2013); influence national legislative and judiciary bodies; diminish the capacity of the State to tax the wealthy and the corporations and, at least until the last crisis, promoted the substitution of State regulation for business self regulation. In short, it results in the empowerment of capital in detriment of labor.

Highlighting the perverse effects of finance capitalism is not new so it is of interest to synthetically enumerate some of the main issues that financialization has brought about.

Epstein (2001) referring that central banks' obsession with inflation control has been particularly beneficial **to rentier** capitalism<sup>8</sup>. Orhangazi (2006) called attention to the crowding out of real investment due to financial investments and profits corroborated by Moreira (2017), who drew attention to the crowding out of private investment within Portuguese agriculture. Thomas Palley (2007) enumerated the principal impacts of financialization: "(1) elevate the significance of the financial sector relative to the real sector; (2) transfer income from the real sector to the financial sector; and (3) increase income inequality and contribute to wage stagnation." Premonitory warnings suggest that there are reasons to believe that financialization may render the economy prone to risk of debt-deflation and prolonged recession. Stockhammer (2010) highlighted:

"(1) changes in household behavior, in particular with regards to household debt, (2) changes in the behavior of non-financial business, such as shareholder value orientation and increased financial activity and (3) changes in the financial sector, in particular the emergence of the (hardly regulated) shadow banking sector, a shift towards household credit (rather than business credit) and a shift to investment banking/fee generating business".

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<sup>7</sup> See the panel interventions at the IMF (2013) conference "Rethinking Macro Policy II", namely Romer and Stiglitz inputs.

<sup>8</sup> "Deflation is hell for workers and business owners, but it's heaven for creditors" Krugman (2011).

Among the many dimensions by which financialization can be approached, the ones related to investment seem particularly relevant to productive activities, to local development and to social economy.

That is the widespread incentives to use all the financial instruments available to the consumer or to provide leverage to capitalist ventures contributed to the mismanagement of bank credit (Bezemer & Hudson, 2016).

On the other hand, the profits of the financial sector make it very attractive to capital owners and attract the better students to choose careers in the financial sector instead of looking for research or technological development.

Firms have also been induced to change their behavior, particularly when the business management orthodoxy started to put the creation of value for the shareholder as its top preference, if not its only goal.

Management theories and corporate strategic decisions changed the priorities of corporate behavior that legitimate a short-term business vision that requires quick returns from the invested capitals. It is also important to acknowledge the costs of abandonment of an investment in the real economy compared with the substantially inferior risks of financial investments, particularly when, as was happening up to the current crisis, the financial sector was considered safe for investors.

As Economics is a discipline that puts incentives as its core concern, it is ironic that only a few economists showed some concerns about the perverse incentives induced by financialization prior to the Great Recession!

Furthermore, seeing the profits and the potential increase of management compensation provided by financial activity, many corporations formerly involved in production gave new goals to their financial branches to enter into financial activities, which for many, prior to the Great Recession, already provided the larger share of their profits.

In brief, it is now clear that self-regulated markets have been the most desirable gift for businesses in general, but particularly to the ones involved in intermediary actions such as financial business, not to mention those that operate on the brink of legality or commit fraudulent acts (Dyck, Morse & Zingale, 2013) without concern for the effects that their actions might provoke to individuals, to society and to the environment.

### **3. Social Economy in the neoliberal age**

Drawing on the above-mentioned general background one should look at the direct and indirect influence on social economy (SE) of neoliberal ideology and governance.

Broadly, we can take for granted that neoliberal market fundamentalism always prefers SE institutions to direct State intervention. However, this general

consideration needs to be qualified, since neoliberal pragmatism can show two distinct pathways toward SE: when SE is not only accepted but is warmly welcomed and when SE is, at most, tolerated when not clearly discouraged.

### **3.1. Welcomed SE institutions**

In general, neoliberalism welcomes SE institutions when they act in economic territories and activities that are not attractive to profit-driven ventures. In those situations all SE initiatives can be seen as the best ways to restrain State activity, being from the neoliberal point of view, the “**perfect substitute**” for State intervention.

I am referring to SE philanthropic initiatives, a disguised form of charity that grants to the donors tax rebates and a good media image. Initiatives involving services and aid to the poor, mainly the elderly and or handicapped, as well as those providing help and shelter to refugees, aid to minorities and development of poor countries.

Last but not least, the role of some foundations is welcomed as a means to preserve patrimonies with a privileged use granted to the owners and their descendants, which for many of them, in reality, is nothing more than an institutional legal device to avoid taxation, that is, a neoliberal win-win solution that provides tax breaks to the wealthy without any concern about the perpetuation or aggravation of the inequalities.

But one has to ask the vexatious question: is it really the “perfect” solution? Can SE institutions alone, without State assistance, achieve the proposed goals?

It is clear that, when an activity is not attractive to private businesses, one should think about two possibilities: either they are very risky, either they cannot provide enough results to be economically sustainable.

Therefore, if those initiatives are designed to address issues that are necessary to provide public goods or to satisfy the needs of a community, they need the State and have total legitimacy to ask for it. However, neoliberals demonizing direct State interventions only accept one form of State action, that is, through subsidization of SE initiatives viewed as social civil initiatives (very often religiously based). This is a politically winning position, since political support is obtained not only from the direct beneficiaries, but also from the high number of volunteers involved, not to mention the media goodwill. It should be noted that, seeking this wider political support, neoliberals do not bother to favor more expensive solutions, as we will see below.

By consequence, although these cases can be considered the “perfect” solution from the neoliberal point of view, one must question the problems that such a solution can bring with it.

In general, those SE institutions and activities, which are an expression of the action of civil society, do not raise any objection from a broad range of political positions

from the left to the right. However, one must be aware that this general consensus can be broken and for good reasons: this refers particularly to those cases where SE activity is understood to be a means to impede State solutions provided for anyone, while SE institutions would provide only parceled solutions.

This is particularly the case of SE institutions having activities that seek to produce solutions that could hamper a universal health system turning it into a weaker dual system, a rich one for the ones who can pay and a poorer State system aimed primarily for the dispossessed.

Concluding, from a neoliberal point of view and for these types of cases, SE institutions and actions either serve a direct political purpose of giving disguised tax breaks to the wealthy, either they serve a more indirect but welcome effect of avoiding “unnecessary” State lead solutions or, what is even more damaging, can contribute to eroding State action only on the ground that, from the neoliberal or libertarian perspective, it is ideologically illegitimate.

### **3.2. Tolerated SE**

There are many cases which neoliberalism only tolerates, when they do not discourage SE institutions. However, cooperatives and mutualities, that successfully compete in the market and therefore could hamper the development of capitalist ventures, are discouraged.

In short, giving that the ultimate goal of neoliberalism seeks to expand for-profit markets to every realm of social and individual life, it only welcomes SE initiatives that do not compete in pro-profit markets, while trying to restrain the scale and the scope of the non-profit and non-capitalist ventures in those markets.

In fact, it is an extremely smart strategy that involves several lines of action: within the national realm, it acts on the ideological and managerial realm to discredit the SE able to compete in the market, on the grounds that it is not efficient and/or is not able to obtain the necessary capital to develop its activities. This move is further reinforced by some ignorant business media<sup>9</sup>. It also acts on the regulation and legislative realm, by designing specific laws that could pervert the founding values of SE and pushing for their enforcement, even though these are protected by the Portuguese Constitution. Finally, it takes advantage of the ignorance and/or malfeasance of some bureaucrats, placed in relevant nodes of the decision making process.

But also, at the EU level, the acceptance of the label “social”, such as the “social enterprise” that in fact could be a disguise for pro-profit ventures.

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<sup>9</sup> That is, applying the rhetoric that it is necessary to explore all means of financing, attracted SE management boards are enticed to break with SE values and principles.

This helps to explain why, in several fora, from the neoliberal think tanks and media, to Parliaments and to Governments and regulation boards<sup>10</sup>, there are plenty of examples of attempts to hamper cooperative solutions, as well as mischaracterizing mutualism and cooperative principles. A particularly relevant case concerns the 2011 decision of the European Commission attempting to restrain the scope of SE in the fight against poverty and social exclusion (Monzón, 2016).

#### **4. Financialization and Social Economy**

Financialization and its impacts on SE involves different forms of looking at reality, namely identifying the specific impacts of financialization on the different types of SE institutions, understanding its role involved on access to financial resources that any institution needs to develop any kind of activity and, last but not least, clarifying the role of the State on the development of the neoliberal agenda towards SE.

As it has been stated above, neoliberal ideology looks at SE institutions in accordance with their role and type of activity, therefore it seems logical that neoliberal-driven policies will impact SE differently.

In general, SE institutions that do not compete with capitalist business are to be favored, but not on a universal basis. They will certainly count on State support if their activity could substitute direct State intervention but, when that is not the case, State support will only be granted after choices involving pragmatic political decisions. In fact, choice means favoring constituencies and groups of interest with political power and ignoring others; this explains why many SE institutions, located in less favored zones without political power to demand State support, are mostly unsuccessful in receiving it, even when not competing with capitalist business.

On the contrary, SE competing with capitalist ventures can count on an array of political measures, directly or indirectly ideologically-driven, that could hamper their action. It is from this perspective that one can understand the number of direct measures and indirect ways used by neoliberal power, with the connivance of the media, to mischaracterize social economy perverting basic democratic values and founding principles.

Particular attention must be given to the attempts to circumvent the rule of one man one vote by granting voting rights to capital, or by allowing private appropriation of profits or plus values obtained by collective action, particularly in the absence of clear rules to prevent it in the case of dissolution.

All these issues involve direct political measures, such as laws that point to the demutualization and/or the mischaracterization of cooperatives as well as the political innovations that involve the support granted to a “perverse” idea of social economy

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<sup>10</sup> Such as the decision of the Portuguese competition regulation board preventing a dairy cooperative merger, while accepting an identical result but under a private form of business – LACTOGAL S.A - totally owned by the cooperatives.

such as the “social enterprises” that not only involve private capitalists but ensure that they will be able to obtain profits and/or plus values.

#### **4.1. Financing SE and the neoliberal State intervention**

Financing SE involves two main sources of financing resources: through direct or indirect State intervention and/or by bank and/or financial markets.

As it has been mentioned above, from a strictly ideological point of view we can have: a) neoliberal governments welcoming the SE; b) neoliberal governments dealing with a SE competing with capitalist businesses.

Starting with a) we can find different situations. When the purpose is obtaining the means to ensure the safeguard of patrimony, cultural and/or charity, the neoliberal rule tends to be benevolent and, accordingly, it does not refuse giving support in a variety of ways. These range from tax exemptions or rebates, to subsidies, and making partnerships where the State can give subsidies or when not providing direct financial support serves to assure risk protection. Foundations usually rely on private resources and therefore State intervention means essentially receiving indirect support policies, but other SE institutions such as the Portuguese IPSS (*Instituições Particulares de Solidariedade Social* – Private Institutions for Social Solidarity) could not subsist solely on donations and only subsist through State subsidies. Finally, other associative SE institutions, such as many NGOs, can imply different sources of financing, ranging from donations and aid directly granted by the State or partnerships between the State and the SE institution with the State being the financing partner.

In short, for these types of SE institutions the amount of financing obtained directly or indirectly from the State depends on the resources available, as well as on the political purposes involved, either domestic or geopolitical.

In fact, direct and indirect financial support needs to comply with budgetary limits, particularly in the Eurozone context, due to the boundaries fixed by budgetary treaties.

However, those limits do not only depend on State resources, but also depend on an ideologically-driven political pragmatism, regardless of its democratic legitimacy. The following Portuguese example will help to enlighten this issue referring to social policy developed by the neoliberal government during the Troika period (2011-2015), when social policy underwent a great change. It was a period when unemployment skyrocketed resulting in a strongly increasing demand for handouts, but in accordance with the neoliberal ideology the subsidies for the unemployed were strongly reduced, from 78,6% of the number of unemployed receiving subsidies in 2009 to only 51,9% in 2015; also the value of pensions was reduced and their access was severely restrained; access to the National health system became more difficult by increasing the so called moderating taxes and, finally, the access to the minimum



income guarantee (MIG) was strongly restricted, from more than 526 thousand beneficiaries in 2010 to less than 296 thousand in 2015<sup>11</sup>. All these reductions were announced as a need to comply with the lack of State resources due to the sovereign debt crisis that brought the Troika supervision. The political choice was crystal clear, at the same time that the MIG, pensions and unemployment subsidies diminished and their access was severely restricted and all this at a time of skyrocket unemployment, State subsidies to charity substantially increased, namely to provide food for the poor. Ironically, it is interesting to note the subsidies granted to IPSS for social canteens was fixed on a basis of 600 Euros/month for each person served, which is substantially higher than the average amount conceded as MIG. This is politically understandable when we know that this option involved the proliferation of partnerships between the State and the IPSS, most of them connected to the Catholic Church, which is dominant in Portugal.

With regard to SE competing in the market, it is obvious that direct State support will only be granted in particularly politically sensitive cases and indirect support, such as tax exemptions, will only be granted if there are constitutional rights or there is very strong public support that would make any cut impossible or very difficult to assume politically. For instance, the Portuguese constitutional right, determining positive discrimination that should be granted to cooperatives, has different interpretations, ranging from examples of goodwill to a number of bureaucratic practices that, by ignorance or malfeasance, not only ignore this constitutional right but also hamper the economic performance of cooperatives. It is well known that it is particularly difficult to conciliate competition rules with this constitutional right particularly when bureaucrats and politicians ignore what is at stake.

Finally, when looking at the process to obtain resources through State intervention, what have been stated above does not only refer to neoliberal governments since, as has happened in recent UE policies, even governments opposed to the neoliberal rule are forced to comply with neoliberal rules, as Greece and Portugal know by direct experience.

#### **4.2. Access to the bank or financial markets**

The differences between the above mentioned SE institutions are also visible. First of all, among SE institutions that do not compete in the market, the situation is quite different if the financial resources needed to develop their activity are mainly obtained through donors, as well as many charities and NGOs, which implies that bank credit will only be used to comply with treasury needs, but does not imply investment and/or financing potentially risky activities.

Foundations could easily find bank credit or financial resources, which is only limited by the value of their patrimony that serves as collateral.

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<sup>11</sup> Following UK and Australia's guidelines so well described by the Ken Loach film "I Daniel Blake". The figures mentioned were obtained at the PORDATA data base accessible at <http://www.pordata.pt>.

Much more complicated is the situation of SE institutions that compete on the market, both the product and the service market. The following applies particularly to cooperatives.

The characteristics and rules of cooperatives pose some restrictions when accessing banking and financial markets.

When we consider banking access for investment, the need to have enough collateral to obtain finance from banking sources should be noted. When the existing collateral is not enough for the amounts required for investment, SE institutions face a dilemma: not invest and therefore lose opportunities to develop and to compete in the market, or try to invest using short-term credit to be rolled out as a substitute for a long-term investment loan. This is a managerial error that unfortunately many poorly managed cooperatives made and led many cooperatives to unsustainable pathways and bankruptcy.

This panorama is a powerful argument to seek alternative forms of financing for SE activities. However, seeking alternatives to bank credit can signify substantial differences: a) alternatives that comply with SE founding values and b) alternatives that more or less pervert those values.

The first solution requires SE to have financial nerve and use it, such as the example of Mondragon that since its inception considered that a financial branch was vital. For other cooperatives that do not have these group financing alternatives, the possibilities to access financing are more restrained, making them hostages of the commercial banks, which means that financing depends mostly on the level of collateral they possess. Furthermore, if in many countries SE banking institutions do exist and have substantial nerve, such as in Canada with the Group Desjardins, in Portugal, these were forbidden during the 48 years period of dictatorship that ended in 1974. And, after that, the political power and the banking regulators in general were not particularly happy with the emergence of a SE banking sector as the difficulties involving the formation of the agricultural *Caixas de Crédito Agrícola Mutuo* and its central body illustrate.

However, it could be possible in many cases to circumvent financing difficulties, but this would require good levels of trust and goodwill between the members of the cooperative and the cooperative leadership being able to share their views.

Directing a study to rescue some dairy cooperatives in difficulties, we found that the majority of members would accept to make direct loans to the cooperative by agreeing to receive a smaller amount of money for each liter of milk delivered. The difference from the ordinary price would constitute a personal account of loans to the cooperative that would get the exact amount of interest that the member could get on a banking account. By using this process the cooperative could satisfy many of their financial needs by paying substantially reduced interest and without need of

collateral. Unfortunately, cooperative leadership did not show any particular enthusiasm and the trial did not take place.

Another possibility of obtaining financial resources, without harming cooperative principles, implies making feasible the use of socially responsible bonds aimed specifically at financing SE institutions. Nevertheless, to achieve this, a number of collective actions are needed not only involving SE institutions needing financing, but also involving SE institutions involved in banking and insurance areas to give support to the issue of these bonds. Finally, assurance is necessary from the State institutions and bank and insurances regulators that, even if they do not facilitate those instruments, at least they will avoid hampering them.

Any request from the SE institutions needing finance involves the preparation of good projects. That is, projects that are not only necessary for the existence of the institution and for the communities involved, but also that could be viewed as necessary and deserving of funds from the point of view of an investor.

From the point of view of the State and from the point of view of the regulators such bonds should merit positive discrimination, not only because they will involve investments in the real economy with many of them aimed at producing common goods, therefore contributing to the well being of society, but also because they could contribute to a less volatile financial market.

However, a note of caution needs to be made. As will be referred below, we are considering only social investment bonds that could be compatible with SE values and cooperative principles, since solutions that do not care about the SE values and principles are, in fact, what is most favored and actively proposed by the neoliberal rule!

These options require that SE representatives will accept capitalists' rights to vote according to the amounts of capital invested. The worst case is when, in the absence of strong opposition, surplus or plus values obtained by patrimony alienation could be privately appropriated, thus contradicting the founding cooperative principles.

A situation of particular concern results from presenting these options as the sole means of escaping financial difficulties, which signify that, when the alternative is financial collapse, the obvious escape would be to comply with the creditors' requests.

Nevertheless, what is probably more problematic is the insidious luring process that employs many different ways to lead cooperative members to forget cooperative values or when existing cooperatives do not comply with their duties to teach cooperative values and therefore pave the way to a non-critical acceptance of common sense. For instance: the ideological bombardment labeling collective action as a disaster, ignoring Elinor Ostrom's demonstration that the "tragedy of the commons" is not a fatal pathway but, on the contrary, that collective action is not

only a winning bet, but a necessity; or ignoring successful cases but highlighting examples of poor cooperative leadership and management, therefore giving ground to the claim for an “enterprise type” of management that in fact does not take into account cooperative values and principles; and the direct and indirect pressure made by financial or competing interests to overcome cooperative values in order to ensure that good and competitive cooperatives can be involved in schemes such as mergers and/or partnerships with capitalist ventures, namely by granting them access to cooperative’s facilities. Not to mention the lack of principle in accepting behavior by dishonest people who wish to appropriate private profits by privatizing what was previously a collective venture.

Another recent and fast growing development refers to the “new logics of social investment” (Ferreira, 2016) involving the issue of “social investment bonds” or “social impact bonds” aimed at attracting capitalists to invest in social projects or policies.

This new logic, adopted by investors connected with large financial groups<sup>12</sup> as well as by the European Commission, is quite different from the logic of the socially responsible bonds referred to above. It should be understood as another piece of the neoliberal project of fostering “social entrepreneurship” and “social enterprises” and, consequently, is aimed at expanding the pro-profit market to areas and policies that, until now, were dependent on State initiatives or true social economy institutions.

## **Conclusive remarks**

Highlighting the importance of the neoliberal ideology in formatting the vision of the hegemonic political spectrum that rules, almost unchallenged, in Western democracies, constitutes the relevant background used in this text to better understand the impacts of financialization on social economy.

In fact, it was the neoliberal ideology that, with the support of the mainstream media, succeeded in establishing as conventional wisdom this particularly pernicious economic vision of market fundamentalism. The hegemony of the neoliberal ideology owed a lot to the benevolence of the economic mainstream that, by voluntarily ignoring issues, such as the disproportionate power of capital not only in its relations with labor but also on the fundamental question of the capture of the State, contributed to legitimate neoliberal policies.

One particularly important aspect of this process of dominance of market fundamentalism, achieved by liberalization and de-regulation, was the idea that restricting the negotiating power and/or avoiding State controls was not only perfectly natural, but also desirable. Ideas accepted by politicians and the judicial

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<sup>12</sup> GIIN (Global Impact Investing Network), created by Crédit Suisse, Deutsche Bank, Goldman Sachs and UBS (Alix & Baudet, 2015).

corps that contributed to the rising inequality typical of financialization and to the emergence of the Casino economy.

Looking at the impacts of the financialization process over social economy, one must stress the growing importance given by the neoliberal ideologues and politics to the use of SE institutions as a substitute to the State, in a way that would not provoke the same popular opposition as the single cuts of State functions, therefore serving the ultimate neoliberal goal of spreading market relations to every area of human activity.

The interest given by the ruling class to support the idea of “social entrepreneurship” and “social enterprises” by using all the means of the European Commission, as well as the practical examples used in Portugal by the government when the Troika was supervising the use of the budget are proof enough. Moreover, when the conventional wisdom of the neoliberal vision consolidates, it becomes a powerful device to mischaracterize SE institutions in order to accept pro-profit capital as a legitimate means to fulfill their purposes.

In consideration of these issues, a framework has been established to evaluate what the issues are and which one should be considered by each particular type of SE institution, when dealing with access to finance, particularly underlining the pernicious effects that could result from the lack of attention to the founding values of social economy.

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# Finance as a 'commons' understood as ideal-type for emancipation<sup>1</sup> / Chapter 7

Bernard PARANQUE\*

## **Abstract**

We use an ideal-type approach to analyse 'interstices' in which emancipation could appear. The question is how use value can escape from the domination of exchange value, and how could we promote another kind of private property freed from capital. In particular we critique the assimilation of the firm to the company. We refer to the research based on the 'commons' to open new proposals, in particular one concerning finance as a commons.

**Keywords:** use value; exchange value; private property; commons; finance; reciprocity

**JEL-Codes:** B51, L33, P13

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\* Kedge Business School, AG2R LA MONDIALE 'Finance Reconsidered' Chair (France)  
([bernard.paranque@kedgebs.com](mailto:bernard.paranque@kedgebs.com)).

## 1. Introduction: on neoliberal assumptions

In 2001, Jensen strongly reaffirmed the principle that maximising value, particularly share value, is the only way to achieve collective well-being. Although Jensen specifies that this applies over the long term, it necessarily leads to questions about the implicit assumptions being made or imposed. This question is all the more necessary than in other times and places, and some have proposed another way: « ... dans les contrats civils et humains, la raison finale est le bien commun de tous, l'équité dans la fixation des prix a été et doit être mesurée en fonction du bien commun » (“... in civil and human contracts, the final reason is the common good of all, fairness in setting prices has been and must be measured according to the common good”) (Olivi, 2012: 111). And it is the definition of this ‘common good’, shared values giving coherence to the group, that must be questioned by making the underlying hypotheses explicit. This ‘common good’ is a social construct whose conditions of emergence can be made explicit in terms of organised collective action around the common management of resources, both tangible and intangible.

Among the assumptions underlying the conveyed shareholder paradigm, three such implicit assumptions will serve as my jumping-off point to draw a contrast with my own ideas. The first of these implicit assumptions is that the principle of individual maximisation directs our behaviour, even though all anthropological studies and a large corpus of historical research show the contrary, going against the behavioural assumptions considered by neo-classical theory in establishing its model (Descola, 2005; Ostrom, 2005; Meiksins-Wood, 2013, 2014; Testart, 2007; Servet, 2012; Graeber, 2013). The second assumption is derived from the first. It is that the collective well-being results from this maximisation driven by the shareholder, who thus sets the standard for maximisation and ensures the proper conducting of maximisation. The third, more subtle, is the way companies are held hostage when they become the property of shareholders, even though shareholders do not typically come from within the corporation (Segrestin & Hatchuel, 2011; Veldman & Willmott, 2013; Chassagnon & Hollandts, 2014; Chaigneau, 2014).

From there, we propose a critique of this paradigm, based on these three assumptions. My critique follows a Marxist approach characterising capital as a social relationship called capitalism<sup>2</sup>, and not as a thing, built on the wage-labor relationship and private ownership of the means of production (relationship between men and man’s relationship with nature) which qualifies a Society through a diversity of

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<sup>2</sup> That Ellen Meiksins-Wood (2009: 57) characterises by « *les impératifs de la concurrence, ceux de la maximisation des profits, de même que l’obligation de réinvestir les surplus et enfin, le besoin systématique, inexorable, d’améliorer la productivité du travail, puis d’accroître les forces productives* » (“the imperatives of completion and profit-maximization, the compulsion to reinvest surpluses, and the relentless need to improve labour-productivity and develop productive forces”), to which we can add, for the current period, the need for distribution and capitalisation of securities on markets that may work against productive investment (Plihon, 2002). Aglietta explains another cornerstone alongside that of « *la séparation du travail et du capital par l’appropriation privée des moyens de production* » (“the separation of work and capital by the private appropriation of the means of production”) (2016: 62), which is that of a ‘monetary economy’ (idem: 61).

concrete forms of existence (Batifoulier *et al.*, 2016; Amable, 2005; Boyer, 2004; Labica-Bensussan, 1999)<sup>3</sup>. It begins with the necessary distinction between use value and exchange value, and the subordination of the former to the latter.

“The result of the capitalist production process is neither a simple product (use value) nor good, i.e. a use value that has a set exchange value. The result, the product, is the creation of surplus value for capital and therefore the actual transformation of money or goods into capital...” (Marx, 1974a: 467-468/1863, Addenda to part 1, 12d.).

I follow Marx since he made a distinction between use value and exchange value, not on sole empirical approach but on theoretical dimension, in particular he offers a strong argument to Testart distinction between different kinds of circulation of goods. In clear he defines capitalism as social relationship and not by the use of capital. This chapter offers an analysis of ownership based on the development of use value and of a ‘positive’ form of collective appropriation of the means of production (section 1). Next, the firm as a productive organisation is studied from two aspects: limited companies and cooperatives (section 2). This leads to the proposal of considering collective action within cooperatives as a cultural commons appearing in the various forms of product circulation, establishing an ethical framework (section 3). We can then add to the debate the idea of the emergence of conditions for emancipation of use value from exchange value, thus potentially bringing an end to the formalised ‘kingdom of necessity’, using an ideal-typical approach as proposed by Weber (1965) (section 4). The presentation of three configurations laying out the spheres and modalities for an emancipation/emergence leads to, according to Giraud (2012), the examination of an appropriation of finance as a ‘commons’ (section 5).

## **2. A positive form of appropriation**

Capitalism, for better or for worse, has resulted in unprecedented growth in economic activity (Meiksins-Wood, 2014) and in both technological and organisational innovations (Fontaine, 2014; Graeber, 2013; Hillenkamp & Servet, 2015). Among these innovations, there is the invention of the joint-stock company, which Marx considers to be a collective form of appropriation of production means, but within the framework of capitalism. At the same time that capitalism was developing, from the 17th to the 19th centuries, a political and economic battle was won by those who imposed a conception of ownership based on the primacy of economic value over commons and customary rights (Meiksins-Wood, 2014: 563; Carré, 1998; Comby, 1998). With this, a certain conception of individual private

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<sup>3</sup> “the capitalist process of production is a historically determined form of the social process of production in general. The latter is as much a production process of material conditions of human life as a process taking place under specific historical and economic production relations, producing and reproducing these production relations themselves, and thereby also the bearers of this process, their material conditions of existence and their mutual relations, i.e., their particular socio-economic form. For the aggregate of these relations, in which the agents of this production stand with respect to Nature and to one another, and in which they produce, is precisely society, considered from the standpoint of its economic structure...” (Marx, 1974b: 197; 1894: 570).

ownership was established, as well as a mode of subordination because « *la propriété, exprime, condense la contradiction du monde humain ; elle naît du travail, et l'inégalité des propriétés, précisément parce qu'elle est fondée originellement sur la différence des capacités de travail, est fondée sur une inégalité de forces* » (“ownership expresses and condenses the contradiction of the human world; it proceeds from work, and inequality of ownership is based on inequality of strengths, precisely because it is based inherently on the difference of working capacities”) (Manent, 1987: 167).

However, the victory in that battle was never a total one, and starting in the 19th century, collective forms of organisation (re)emerged or were maintained (Hiez, 2013; Hiez & Lavillunière, 2013). This was such that Marx wrote that “The capitalist stock companies, as much as the **co-operative stock factories**, should be considered as transitional forms from the capitalist mode of production to the associated one, with the only distinction that the antagonism is resolved negatively in one and **positively in the other**” (Marx, 1978: 105-106/Marx, 1894: 317; author’s emphasis).

So what could he mean by ‘positively’, which is not in any way prescriptive, but indicates particular conditions for a possible ‘disalienation’? Indeed, we believe that ‘positively’ refers to the fact that the cooperative form allows stakeholders, first and foremost including employees, to effectively re-appropriate the conditions under which production activity is conducted and thus to no longer see capital as an independent, alienating and opposing force, but rather it once again becomes a means to procure their freedom (Sève, 2012). If capitalism is characterised as a system based on the creation of value for the sake of creating value, that is to say, the growth of value as such from capital, then “In fact the rule of the capitalists over the workers is only the rule over the workers themselves of the conditions of labour it, their independence, in the independent position they have taken on *vis-à-vis* the workers” (Marx, 2010: 130/1864: sec. 466; author's emphasis). How, then, can one enable the re-appropriation of working conditions by stakeholders? Part of the answer can be found in analysing forms of property in that, “It is presupposed [by the need to grow capital] that [the worker] works as a non-owner and that the conditions of his labour confront him as alien property” (Marx, 2010: 154/1864: sec. 469a; author’s emphasis).

In this context, use value, which supports exchange value, is dominated by exchange value. Thus, there is a dual issue that can be summarised in a question: how can one invert the relationship so that use value becomes the objective in and of itself and dominates exchange value? This dual issue inevitably goes back to a social construct that brings into play the objectives of the organisation producing goods and services. For use value to be central, it must be affirmed as such by producers, which includes setting an objective other than growing the value of capital and thus a social objective outside of the process of capital production. That implies that the collective organisation is ‘at the service of’ a collective undertaking that transcends the

organisation and in which the organisation involves itself. In other words, for use value to express itself, the people involved in the collective undertaking must affirm it in terms of collective well-being and of mobilising resources to achieve that well-being, putting in place finances that are consistent with it.

### 3. Property and government

The form of private ownership of the means of production is generally called the 'firm'. However, while the use of the term 'firm' to describe productive organisations simplifies the idea, it also reinforces the ambiguity of the idea. Indeed, we have the terms 'firm', 'corporation', and even 'for-profit organisation'. Yet, the term 'firm' does not legally exist. Because of this, speaking of a 'firm' can lead one to believe that the question of ownership is obvious in regard to companies, but this is not the case. Furthermore, using the term 'corporation' is not enough to resolve the issue. Indeed, a corporation is in and of itself a legal entity and can belong to no one, including its shareholders, contrary to popular belief (Gomez, 2009; Segrestin & Hatchuel, 2011; Roger, 2011; Hiez, 2013; Veldman & Willmott, 2013; Chaigneau, 2014; Chassagnon & Hollandts, 2014). Whether the shareholders are employees or investors does nothing to change this fact. As a result, the question of ownership of production means is to be understood less in purely legal terms than in terms of power, that is, in terms of capacity for coordinated and organised action. For this reason, forms of government<sup>4</sup> and organisation for the development of decision making and implementation of decisions must be emphasised.

Sole proprietorships, single-person companies, or limited partnerships do not have their own legal personhood, contrary to limited companies. The means of production used are thus private in the sense that they are the personal property of the entrepreneurs. Going from a sole proprietorship to a corporation changes the

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<sup>4</sup> The term 'government' is preferred over 'governance', on the one hand, to add to the civic debate issues raised by companies of management and coordination of collective action and, on the other hand, to free oneself from the term 'governance', which has been reduced to the principles and rules for relations between managers and shareholders alone, in particular in terms of how the board of directors functions. « *Dans l'ordre du gouvernement, le néolibéralisme met l'accent sur la régulation négative, c'est-à-dire celle qui consiste à définir des règles techniques et juridiques assurant le libre déploiement de la logique du marché. Elle réduit à sa portion congrue toute régulation positive visant le développement de politiques sociales ou culturelles. (...) Il s'agit plus ou moins de substituer à l'idée de gouvernement celle de gouvernance, provoquant ainsi une « neutralisation » du premier terme, un évitement de son contenu proprement politique. La gouvernance est une technique d'administration avant d'être démocratique, même si tardivement on a tenté d'y introduire l'idée d'une nouvelle forme de participation démocratique.* » ("In terms of government, neoliberalism emphasises negative regulation, meaning that it involves setting technical and legal rules ensuring the free operation of market logic. It reduces all positive regulation for the development of social or cultural policies to insufficient proportions. (...) This more or less means substituting the idea of governance for government, thus neutralising the idea of government, emptying it of its strictly political meanings. Governance is a technique more administrative than democratic, even if there was a late attempt to introduce the idea of a new form of democratic participation into governance") (Duchastel, 2004: 7). It may be possible to use the term 'governance' in its 14th to 15th century meaning in that, « *il connote la capacité d'administration, d'organisation et d'autorégulation d'un collectif en charge de la gestion de l'espace et de ses ressources* » ("it connotes the capacity for administration, organisation, and self-regulation of a collective in charge of managing a space and its resources") (Le Roy, 1998: 26).

relationship of ownership in two ways. Firstly, it creates a distinct legal entity; secondly, it changes the relationship of those contributing capital to this new structure. They are no longer owners of material, immaterial, and financial means of production, but rather of a security that gives them a right to participate in decision making in general shareholder meetings and to receive a dividend under certain conditions. However, they are not owners of the corporation, and even less so of the firm. At the same time, these securities are actually in the public sphere, via securities markets, and thus there is a form of collective appropriation of these securities, which are no longer in the private sphere of a few families.

With this in mind, one can understand what Marx meant when he said that, in the case of a public limited company, 'disputes are resolved negatively', because while there is indeed public distribution of securities, access to those securities is reserved to those who possess the financial means to acquire them. Additionally, only holders of securities can give their opinion on the management of the corporation in the framework of general shareholder meetings<sup>5</sup>, and, furthermore, the appropriation of surplus value produced remains private and limited to only those who have contributed capital, be they individuals or legal entities, targeting value for the sake of value.

In the case of cooperatives, disputes are resolved 'positively' according to the Marx quote given above<sup>6</sup>, because workers are both shareholders and, in more recent times, under conditions established in law that lay out how surplus value is to be divided and how securities are to be transferred, decision-makers: intervention in management is not dependent upon the contribution of capital and its size ('one person, one vote', and no longer 'one share, one vote'). Additionally, participation in the management of the firm is not conditioned on contribution of capital or the amount of such a contribution. This 'positive resolution', however, has some downsides. What about the place and role of employees that do not hold shares? If capital is a social relationship, is wage-labor then freed, given that it is a constituent of that social relationship? These questions are not simple, as one can see from debates within the Basque cooperative Mondragon (Durance, 2011) or within the John Lewis Partnership in the United Kingdom (Cathcart, 2013; Paranque & Willmott, 2014). All employees being shareholders or partners would render labour unions obsolete, as if the status of work and its application were resolved by the holding of capital. Conversely, such a position condones the domination of capital, as a social relationship, over work, even if only through the interactions of market, customer, supplier, and capital-contributor forces.

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<sup>5</sup> Note however that since 1945 in France, then 1981 (Auroux laws), employee representatives must be consulted, without however having any decision-making power, and that boards of directors have been open, under certain conditions, to employee representatives.

<sup>6</sup> The word 'positively' must be considered dialectically, i.e. getting over the contradiction between the private ownership of the means of production and the separation of workers from their control, that is a form of repossession, and not in a normative sense.

These limits of 'positive resolution' show that one cannot separate the question of ownership from that of government and even that the former must be constructed by the latter. Furthermore, one cannot reduce the question of ownership to the contribution of capital.

To articulate the ideas of ownership and government, and thus define the conditions for a collective appropriation of the means of production, the firm must be considered not only as the place where material and human resources are put into action, but also as the expression of a common purpose, transforming the political objectives of people mobilised in a given space, that is, a territory<sup>7</sup>. This is a space for action and life to be coordinated within an overarching system that defines the framework of constraints that must be borne in mind but which may be broken through innovation. This implies that said people determine a particular purpose for their actions and the means to be mobilised materially, organisationally, and functionally.

According to Jacot (1998), the firm is thus based on three principles. The first of these recalls that the firm is a 'system of work' that covers "the dual dimension necessarily linked by division and coordination" (Jacot, 1998: 438). However, it is also a 'centre of business', meaning an organisation that manages relations with markets (customers, suppliers, employees, and contributors of capital) whose performance is evaluated/sanctioned by the markets in that « *le marché est (...) en définitive, un procédé d'équivalence de travaux initialement effectués de manière privée mais qui sont tous nécessairement les éléments d'un même travail social* » ("the market is (...) in fact a method of equivalence of work initially done privately, but which inevitably forms the components of a single social action") (idem: 440), i.e. the production of goods and services to be sold on the market. But, to articulate these two 'figures', one must recognize this production as a 'social institution' under the condition that it is instituted "as the interaction between actors with different, or even contradictory, objectives..." (idem: 441).

#### **4. The entrepreneurial undertaking as a "cultural commons"**

The discussion above enables us to propose that the entrepreneurial undertaking is constructed as a 'cultural commons': a "constructed cultural commons", as we use it, refers to environments for developing and distributing cultural and scientific knowledge through institutions that support pooling and sharing that knowledge in a managed way (...)" (Madison *et al.*, 2010: 659). The way to achieve this is to put use value at the heart of the undertaking as a response to the daily needs of the

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<sup>7</sup> Understood as a space considered and recognised by economic agents as being pertinent to their actions. It must be commonly recognised. These are not just spaces created by the improvement of transport conditions, but rather a space produced by the possibilities for growth of exchanges that are not just market-based, enabled by rapid growth in technology. That thus involves, first off, identifying 'socio-economic' spaces in which economic and social initiatives can be organised. Such a space can be a country, a local productive system, or a region (not necessarily in the administrative meaning of the term), but also larger cooperative spaces.



population in question. For this use value to make sense, it must be inscribed within a collective perspective that calls on specific uses that help the undertaking materialise, making it tangible.

This involves studying how a collective and therefore cultural action can be engaged, publicised by a productive organisation, in order to create wealth, understood as use values in and of themselves (and not exchange values), by determining the principles of government necessary for project sustainability<sup>8</sup>. Two levels of analysis are then required: the conditions for construction of this collective action and its objectives; and the coordination of the productive action that responds to these objectives (Cefaï, 2007).

The suggested method is that which begins with the various modes of circulation of goods to identify the 'interstices' that may offer spaces for actions of solidarity based on use value.

To identify these first 'interstices', Testart (2007: 128) is referred to, as he describes the five relations that characterise circulation within or between communities<sup>9</sup>:

- gift,
- reciprocity,
- non-market-based exchange – which is an exchange in which “considerations of price or value are not enough to cause exchange” (ibid: 44) –
- and market-based exchange, which can be subdivided in order to define a specific relationship that is capitalist market-based exchange, according to which “[...] the exchanger seeks the use value of the good provided in exchange or its exchange value” (ibid: 156).

This corresponds to three orders of links in action:

- gift, for which there is neither obligation nor right and remains unilateral (ibid: 221)<sup>10</sup>;
- reciprocity, which involves neither synchronicity nor obligation in the dual movement that it implies;
- and lastly, exchange, which carries with it a causal relationship and an obligation.

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<sup>8</sup> The term 'sustainability' is similar to the term of 'viability' proposed by Kartensy (Le Roy *et al.*, 1996: 2011 et seq.). The plurality of solutions, the possible choices in a dynamic approach to the management of the projects concerned, must be taken into account. There is no search for an optimum or balance, but a search for the viable management forms for the resources concerned by the players themselves, which was assessed by Ostrom on the establishment of common-pool resources (Ostrom, 2010: 79, note 1 in particular).

<sup>9</sup> See Descola on 'relational schemata' (2005: 425), which characterises gift as a relationship without a counterpart. Contrary to Descola, I do not adhere to the idea of predation, meaning taking something without a counterpart in that our idea regards cooperation no more than protection and transmission, which abound in the context of this chapter. See page 426 et seq., as well as 535 et seq. It is true however that situations/relationships of dominance can be characterised by predation, the forced gift, as within social relationships of capitalist production, either in the work process or in the relationship with nature.

<sup>10</sup> This can nevertheless be disputed as seen in the definition of gift given by Caillé (2007) and in what is said in Bourdieu 1994: 178.

This differentiation reminds us that “exchange is just a particular, very particular, case among all forms of circulation” (ibid: 69) and that there is not only one exchange system (Mauss, 2012: 65; Rehn, 2014). This circulation is situated within a society as it is defined by Mauss and used again by Caillé, that is, « *un groupe d’hommes suffisamment permanent et suffisamment grand pour rassembler d’assez nombreux sous-groupes et d’assez nombreuses générations vivant – d’ordinaire – sur un territoire déterminé... autour d’une constitution indépendante (généralement) et toujours déterminée* » (“a group of people that is sufficiently permanent and sufficiently large to gather numerous sub-groups and generations living – usually – in a given territory... around a constitution that is generally independent and always determined”) (2007: 217).

**Table 1 - The forms of circulation**

Relationship level	
<b>Gift</b>	Gift is considered disinterested and timeless. It implies neither obligation nor right, whether for the donor or the beneficiary. It remains unilateral.
<b>Reciprocity</b>	Reciprocity involves neither synchronicity nor obligation in the dual movement that it implies.
<b>Exchanges</b>	Exchanges imply a causal relationship and an obligation.
Non-market-based exchange	Considerations of price or value are insufficient to encourage exchange.
Non-capitalist market-based exchange	The exchanger seeks the use value of the good provided in return.
Capitalist market-based exchange	The exchanger seeks the exchange value of the good provided in return.

This being said, the vector of capitalist market-based exchanges enabling the realisation of value to be validated, is the currency inscribed in time, i.e. in a financial system that carries the expectations of wealth creation. Currency is therefore « *un rapport d’appartenance des membres d’un groupe social au groupe entier* » (“a relationship of belonging of the members of a social group to the whole group”) (Aglietta, 2016: 44) or more precisely « *la monnaie est ce par quoi la société rend à chacun de ses membres ce qu’elle juge qu’ils lui ont donné* » (“currency is that through which society gives to each of its members that which it judges they have given to it”) (idem). It is the vector that enables the *mediation* of debts (Aglietta, 2016: 81), not only those resulting from social activity but also those resulting from kinship, such as intergenerational relationships. If one wishes to institute another register of circulation, it must be constructed, i.e. establishing the social link that we want. If one wishes to loosen the grip of the capitalist market-based exchange, and the race for productivity that goes with it, one must encourage exchanges for which the criteria of price and cost are not the only considerations in justifying entry into relations. This is the case with fair trade, for example. What is then in play is the nature of the social link constructed, to be reconstructed, or to be maintained (Servet, 2012, 2013; Meiksins-Wood, 2009, 2013, 2014; Graeber, 2013). It is thus necessary to determine the ends pursued. One must then add the production of use value back into the objectives, describing the environmental challenges. In

fact, this means formalising the expectations of the collective responsible for the entrepreneurial undertaking. This simply means responding to the question, ‘what is social well-being and how can one attain it?’.

The construction of the rupture with the dominant, not to mention hegemonic, mode of circulation of products (understood as goods and services for the remainder of the text) relies on two prior conditions. Firstly, one must identify what can be considered a ‘commons’ among citizens. Next, we must reappropriate our ‘constituent capacity’, meaning our legitimacy in organising the modalities of our collective action, because *« s’il est vrai que la liberté ne peut pas s’organiser, les conditions matérielles, techniques (et peut-être intellectuelles) de la liberté exigent une organisation »* (“while it is true that freedom cannot be organised, the material, technical, and perhaps intellectual conditions for freedom require organisation”) (Marcuse, 1971: 202). That means that one must determine the conditions of existence of the mobilised collective, the rules of coordination, the modalities for revision of said rules, the sanctions regime, but also the regime for sharing benefits and losses, the distribution of ownership rights supporting practices, and how the collective functions (Ostrom, 2010; Ostrom & Basurto, 2013; Dardot & Laval, 2014)<sup>11</sup>. In short, one must formalise the ‘why’ and the ‘how’ of the collective and of cooperation.

Giraud reminds us that the ‘standard of reciprocity’ (2012: 165) that one can wish or consider to be necessary is, as all standards and rules, a social construct. If one wishes to go from a system of capitalist market-based exchanges to one that may or may not include market-based exchanges, or even a system of reciprocity<sup>12</sup>, one must construct the underlying standard. This standard relates to the organisation of relations between people based on uses that they may develop or abandon. This can be summarised in what Willmott calls the ‘ethico-political complex’ (2010) which differentiates between the collective and that which is in the public sphere. The ‘ethico-political complex’ “underscores how, as value is more or less explicitly placed upon “this” (e.g. “exchange”) rather than “that” (e.g. “use”), the construction of social reality is an endemically ethical undertaking” (Willmott, 2010: 518)<sup>13</sup>.

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<sup>11</sup> On the concepts of standards and regulations, see Ostrom (2005: 16 et seq) and Ostrom & Basurto (2013).

<sup>12</sup> This can also be used to define the ‘social and solidarity economy’ outside of the criteria of status or of industries, as Sahakian and Servet highlight when they link the social and solidarity economy “with the notion of reciprocity, understood as a type of transaction that goes beyond “giving and receiving” (...) to the notion of reciprocity as a form of interdependence, binding people together in solidarity, (...) [including] being invested with the potential of solidarity, consciously interdependent on the others (...)” (Sahakian & Servet, 2015: 5).

<sup>13</sup> It is also undoubtedly necessary to look at Islamic finance, which, even though it is intended to control finance (and not to (re)define it), highlights that ethical principles can be placed first (without being taken in by their possible circumvention): social values determine the conditions and “legitimate” space for financial action (Erragragui, 2013), in both senses of the word, both a financial security and taking action.

**Table 2 - Ethico-political complex**

	<i>Collective</i>	<---->	<i>Public (in the public)</i>
<i>nature of value, or value in the process of production</i>	use value		exchange value
<i>kind of resources and property rights</i>	commons	<b>nature of appropriation</b>	private
<i>ethic of governance</i>	one person one vote	<b>of the means of production</b>	one share one vote
<i>nature of the performance</i>	ethic		shareholder value maximisation

This being said, it underscores the contradiction raised by Marx concerning the limited company whose securities are in the public sphere, making it a public corporation, without as such having ‘positive’ collective appropriation. Still, it allows us to draw a contrast with the cooperative rather than the State as an alternative form, on condition of properly characterising and highlighting the points that still should be questioned, such as the issue of non-shareholding employees, customers, and suppliers, that is to say, the question of the collective involved in this productive organisation.

To answer these questions, it is important to define the regimes of ownership that are at work in the management of these common resources constituted by the territory and the participants (Schlager & Ostrom, 1992). It seems to me that an approach in terms of ‘common resources’, as developed by Elinor Ostrom (2010), can be very useful in guiding collective action<sup>14</sup>. It is important to understand ‘commons’ not as a good or a resource, material or otherwise, but as « *un système de règles régissant des actions collectives, des modes d’existence et d’activités de communautés* » (“a system of rules governing collective actions, methods of existence and community activities”) (Giraud, 2012: 142). It is a specific ownership regime with a distribution of usage rights; for each system of resources, there is a corresponding system of ownership rights, each with its own system of government (Chanteau *et al.*, 2013; Coriat, 2015; Bollier, 2014). More precisely, a commons is the conjunction of six dimensions/requirements: a collective, an undertaking, a resource, including the unit for extracting said resource (e.g. a tree, a fish, a code, a flow), distributed ownership rights, and a system of government that ensures the sustainability of the undertaking. Thus, this means thinking of the ‘commons’ as Dardot and Laval invite us to do, that is, as ‘people’s activity in practice’ (2014: 49). This commons, which can be a firm considered as a common cultural resource (Madison *et al.*, 2010) and a source of revenue, relies on “the perceptibility of the actions of each member” (Ostrom, 2010: 19) and thus on trust between the members (Carré, 1998)<sup>15</sup>.

<sup>14</sup> For a field-based approach to these concepts, see Lavigne-Delville (1998) on the case of Africa, and among others, Constantin (1998), Chauveau J.-P. and Mathieu (1998) and P. Vincent (1998) as well as the Third Part; and Le Roy, Kartensy & Bertrand (1996), particularly with regard to the discussion on common property.

<sup>15</sup> See also Hess and Ostrom (2011) on the immaterial ‘commons’, including knowledge.

Use of the term ‘coordinated private ownership’ instead of the term ‘collective ownership’ to qualify this appropriation can avoid implying that the initial or final bearer of the undertaking is an undifferentiated collective while in fact the collective results from the coordinated collective action of people. It can also help create the link with capitalist private ownership dominating ‘personal’<sup>16</sup> private ownership, since the very emergence of liberalism and its historical and social conditions under which it was asserted (Saint Victor (de), 2014). The first, by separating the worker from the means of production, seeks by accumulation not the improvement of the relationship with nature, but rather value for the sake of value: “the pressure for capital to escape from the confines of production goes beyond the potential disruptions arising from the class struggle, it comes from the inter nature of capital, the contradiction between value in exchange and value in use.” (Weeks, 2010: 141; see also Marx, 2010: 208, 219, 238/ 1864: sec. 472, ad 2), sec. 489 for example). The second, personal private ownership, is based on the results of the work of the worker, possessing the means of production, and the benefits that must be guaranteed to the worker (Marx, 1978: 203-205/1894: 574-575). As Marcuse very nicely states, « *La liberté personnelle que la société bourgeoise a effectivement développée (...) est l’expression de la libre concurrence des producteurs de marchandises* » (“The personal freedom that the bourgeois society has effectively developed (...) is the expression of free competition between producers of merchandise”) (1971: 139). Since then, ‘coordinated private ownership’ enables two central issues to be emphasised, the relationship between ‘personal’ private ownership and the organisation of a coordinated collective undertaking.

The challenge is to go from a logic of ‘having’ to a logic of constructing ‘commons’<sup>17</sup> or, as Caillé would put it, “from the necessary subordination (...) of **the interests of “having”** to the **interests of “being”**” (2007: 101-102; author’s emphasis), either as a result of the production activity or as an effect of collective action as a mode of appropriation “of the entire world of culture and civilisation” (Fischbach, 2009: 234). This then means contributing to determining the major aspects “of an alternative conception of ownership as benefiting from the active expression of oneself” (idem: 238). In this context, Fichte, cited by Fischbach, defines this conception “in an exclusive right to a given free activity” (idem: 244). The challenge then resides in the recognition (and the response) that « *la véritable opposition (...) n’est pas entre propriété privée et propriété collective, mais entre usage privé ou privatif et usage commun* » (“the true opposition (...) is not between private ownership and collective ownership, but rather between private or exclusive use and common use”) (idem: 249); the challenge is also to propose the construction of « *un*

<sup>16</sup> By way of this opposition, I would like to use, under a different form, what Marx considers, respectively, (capitalist) private ownership, which is private ownership of the means of production and exchange, and “ownership that is truly human and social” (1972: 68/1959: 34), which I consider ‘personal’, the first giving “power over even the smallest amount of the work of others” (1976: 227/1932: ch03d.htm#c.1.6.2, individuality and property). For a critical reading of this interpretation, see Dardot and Laval (2012: 641 et seq.; 2014: 233 et seq.). For a historical study, see Meiksins-Wood (2013, 2014).

<sup>17</sup> See Fischbach (2009: 233 et seq.) and Marx (1972: 90-91/1959: 45). See Ben Nasser (1998) for a perspective on this concept in Islamic law.

**usage commun des biens et des richesses, contre leur consommation privée et privative qui prévaut aujourd'hui** » (“a **common use** of goods and wealth, versus their **private and exclusive consumption** prevailing today”) (idem: 262; author’s emphasis).

This text submits for discussion the hypothesis that the development of communication techniques, not just in their technological dimension but also in their management dimension, and the acceleration of and deep modifications to the accumulation regimes, beyond the recurring crises that they bring, also create emancipating perspectives corresponding to the end of the ‘realm of necessity’ (Marx, 1974b: 198-199/1894: 571). This is however only possible if beforehand, people are capable of building/proposing a social project within which the coordinated entrepreneurial project can be implemented: why act together? For what ‘commons’? This ‘commons’ is not an object, nor a list of general principles, but « *le lieu d’une dynamique productrice de rapports sociaux, comme le ressort de la production de la vie sociale elle-même* » (“the place of a dynamic producer of social relations, the source of production of social life itself”) (Fischbach, 2015: 71). In this way, from the outset of the project, he calls for the project’s social objectives to be made explicit, for which coordinated action is required. As Fischbach says: « *la question est donc de savoir comment s’effectue et par quoi est rendu possible ce saut qualitatif qui fait passer des comportements associatifs aux formes proprement humaines de l’association, c’est-à-dire au domaine de l’action en commun* » (“the question is thus to know how to implement this leap in quality, which transforms associative behaviour into truly human forms of association, that it to say in the field of common action”) (idem: 182).

## 5. An ‘ideal-typical’ approach to circulation

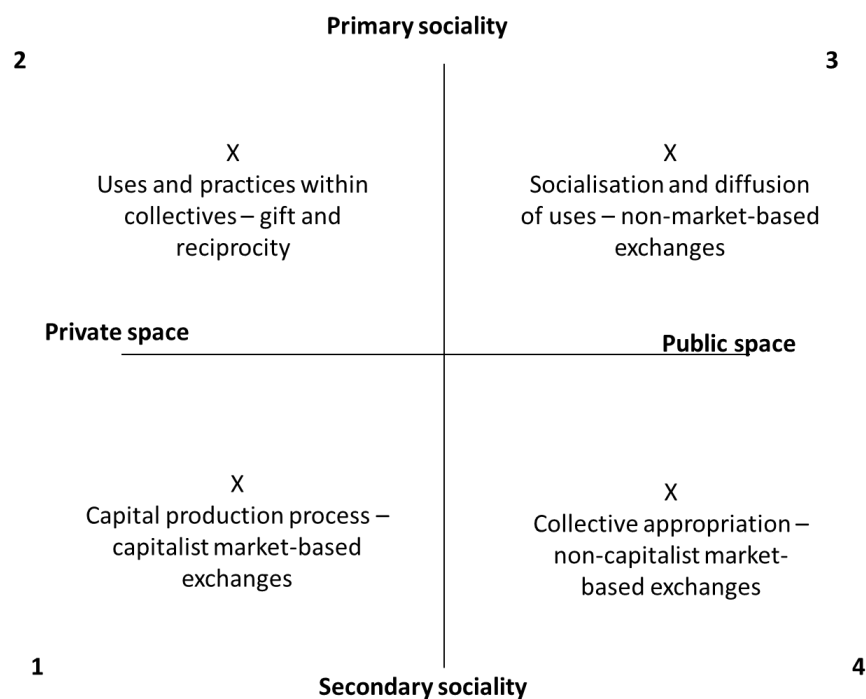
To implement this move from association to coordinated common action (the ‘social’, as Fischbach would say), we are employing a method based on the construction of an ideal type as defined by Weber (1965) facilitating the search for facts and the analysis of situations, with the objective of solving problems and taking decisions. Based on this objective, potential ‘interstices’ of emancipation are characterised. This does not mean considering that each ideal type describes reality in a precise and exhaustive manner, but rather, the ideal type allows us to extract from the dynamic observed “general traits whose assembly enables the construction of a real typology” (Defalvard, 2015: 174). This means, then, accentuating, « *par la pensée des éléments déterminés de la réalité (...). En ce qui concerne la recherche, le concept idéaltypique se propose de former le jugement d’imputation : il n’est pas par lui-même une ‘hypothèse’, mais il cherche à guider l’élaboration des hypothèses. D’un autre côté, il n’est pas un exposé du réel, mais se propose de donner l’exposé de moyens d’expressions univoques* » (“by thought, specific elements of reality (...). As for research, the ideal-typical concept can form the judgement of attribution: it is not in and of itself a ‘hypothesis’, but it seeks to guide the development of hypotheses. On

the other hand, it is not an exposition of reality, but rather serves as giving an exposition of means for unequivocal expression”) (Weber, 1965: 180)<sup>18</sup>.

This means taking this characterisation as ‘theoretical constructions that use empirical evidence as examples’ (idem: 200). It is then essentially an intellectual construction for ‘systematically characterising individual relationships’ (idem: 195).

These ‘ideal types’ are constructed from works by Cova and Paranque (2013, 2016) on brand communities, developed using an interpretation guide based on non-utilitarian socio-economics (Caillé, 2007).

**Figure 1 - Four ideal types of production and circulation**

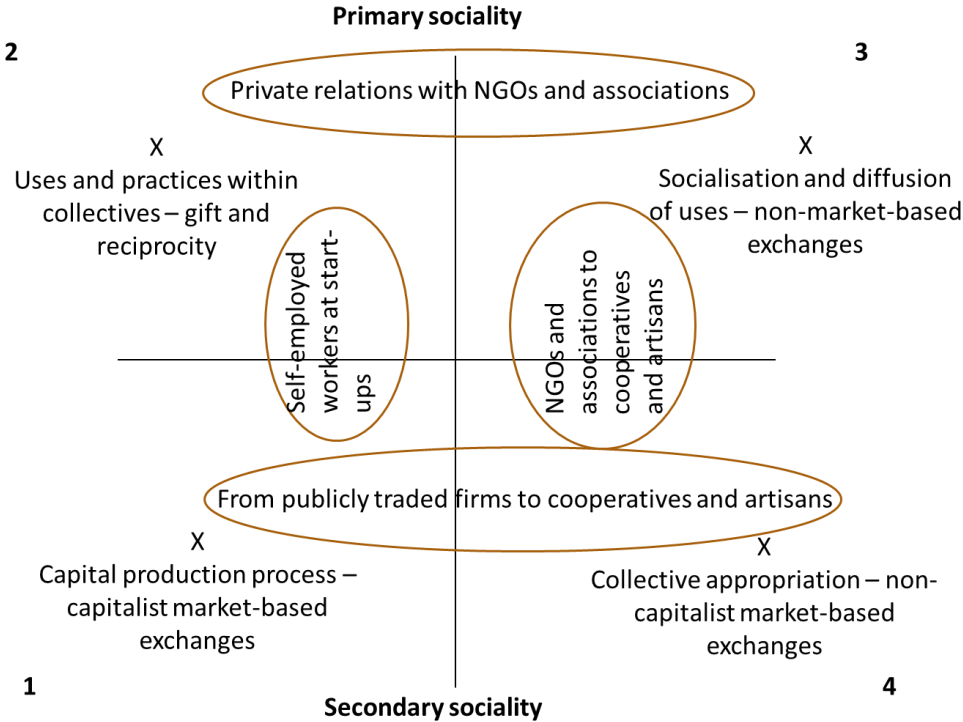


As a first approximation, this interpretation guide (Figure 1) shows a number of possible trajectories/combinations between public and private spheres and between primary and secondary sociality. « *Nos distinctions et nos typologies seront assurément plus claires si nous ne les fondons pas seulement sur l’opposition entre le primaire et le secondaire, mais sur un croisement entre cette opposition avec celle du privé et du public. Il est ainsi facile, au sein de la socialité secondaire, de distinguer entre un secondaire privé (l’entreprise, le marché) et un secondaire public (l’État, l’administration). De même et symétriquement s’impose tout naturellement à l’esprit la distinction entre un primaire privé (la famille, la domesticité) et un primaire public (l’associatif, les corporations, les confréries, l’espace public d’interconnaissances)* »

<sup>18</sup> In the introduction to the book, Julien Freund specifies that this thus involves “teleologically rational constructions for facilitating empirically valid interpretation, in that they enable the measurement of the gap between reality and teleological rationality (...)” (Weber, 1965: 69).

(“Our distinctions and our typologies will certainly be clearer if they are based not only on the opposition between primary and secondary, but on a cross-reference between this opposition and that of private and public. It is therefore easy, within secondary sociality, to distinguish between secondary private (firm, market) and secondary public (State, authorities). Similarly and symmetrically, the distinction between primary private (family, domesticity) and primary public (associations, corporations, guilds, the public space of inter-relationships) is naturally apparent”) (Caillé, 2007: 135). The analysis guide thus established (first axis: primary sociality – secondary sociality; second axis: private sphere – public sphere) enables a delimitation of uses, spheres, and their rules, and of more or less organised and formalised collective action. This does not mean an obligatory interaction between the quadrants, but rather the possibilities of emerging opportunities, market-based or otherwise, through a space capable of generating hybrid forms, such as mutual funds, cooperatives, or social security, a private entity that socialises a collectively managed need outside of the capitalist market (which does not mean independently, without being subjected to/confronted with its influence and demands). The term ‘public’, then, expresses the collective coordination within and by the public in question. This representation identifies, as a first approximation, social spheres enabling a collective action.

**Figure 2 - The ‘interstices’ of alternative organisations to collective action**



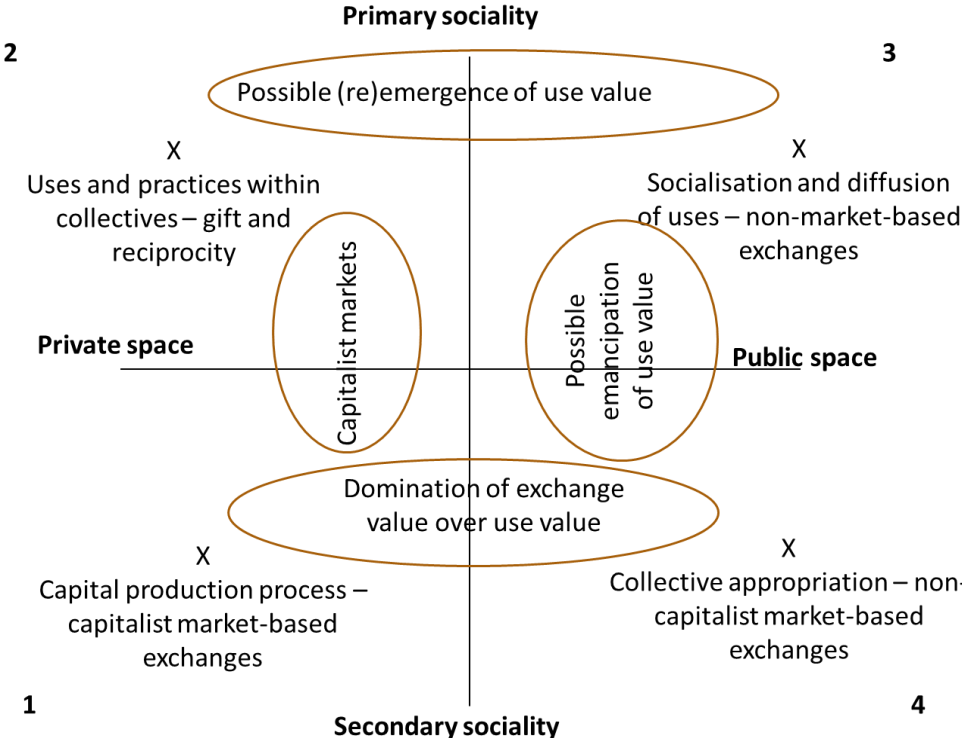
Based on Figure 2, one can propose that quadrants 2 through 4 may constitute appropriate spheres for collective management of a commons. Based on a common undertaking, and starting with a use community, it is possible to envision various



forms of distribution based on ‘cooperation’ (Hiez, 2013), from the non-market-based (management of a forest by the local population) to the market-based (valuing of activities that generate revenue from the management of a resource), including in its relationships with ‘capitalist market-based aspects’ that the companies exist in particular economic and social environments (Weinstein, 2010).

The cooperative can be (which also means that it may not be) an organisation capable of valuing the responsibility around uses just as it values practices that promote shortcuts, in that the cooperative responds to human development on condition of explicitly offering the vision of the associated members and any employees they may have (Baretto, 2011). Indeed, the usual indicators of performance are those of the society, centred around the evaluation of exchange value, meaning ultimately the shares value maximisation<sup>19</sup>. The interests of the stakeholders must be made explicit so that the creation of surplus necessary for continuation of the undertaking responds to uses (needs) and not to (exchange) value, and is not in fact conducted implicitly by the rules of creating share value. This implies the creation of other behavioural rules and therefore other ways of assessing project performance, as Rambaud proposes (Rambaud, 2015). In this respect, the societal evaluation of the undertaking using the proposed interpretation guide with the axes of sociality and ownership can help in understanding and sharing said undertaking.

**Figure 3 - The ‘interstices’ for an emancipated use value**



<sup>19</sup> For a review of literature about cooperative banks see Butzbach and von Mettenheim (2015).

In the case of an emancipated use value (Figure 3), experiments and recent developments aimed at supporting emancipation must be made evident, and one must construct renewed solidarity via, for example, fair trade, shortcuts, or a local currency that serves a territory, as in the case of the Banco de Palma (Hudon & Meyer, 2016). It is possible to find this dynamic in other domains, such as brand communities constructed around a shared passion, as in the case of Ducati, Alfa-Romeo and Nutella (Cova & Paranque, 2013, 2016). However, this social construct also exists in the domain of the immaterial, with for example the open-source, copy-left, and blockchain communities (Bollier, 2014). The diversity of these practices and undertakings highlights that it is possible to produce and cause goods and services to circulate under principles and rules that are non-capitalist (in the sense of the social relations of production). Still, this diversity also raises questions about the emerging forms and modalities of financing required, as seen in the success of crowdfunding, crowdlending, and other forms of crowd-sourced financing. As such, these emerging forms of finance do nothing to emancipate in the sense that they can also be (and are) market-based opportunities for innovation and for traditional corporations to gain market share. This community-based financing is well-known, with groups such as Les Cigales and other investor groups, including angel investors. What can change is the possibility of actively developing associations by allowing investors and those proposing projects to express themselves on their own terms. Besides being a form of democratic disintermediation of the financing relationship, this also involves building trust and a shared meaning that is made possible. Here, the term ‘building’ assumes its full meaning because it involves having methods and tools and discussing them in order to co-create a ‘commons’<sup>20</sup>.

## **6. Finance as a ‘commons’**

If currency is a commons as explained by Aglietta (2016), it can also be a ‘commons’ as shown by local currencies. Indeed, we can identify a resource, which is the unit of account, and the unit of collection, which is the price paid for a transaction. It obeys rules of governance under a system of ownership that defines who can do what. But currency is strictly linked to time, specifically for our purpose, anticipated future wealth forming the basis for investment decisions, and thus the ultimate validation of transactions undertaken, but the payment of goods and services produced and then sold. This link in time is the social project on which anticipations are based, not only on the production of goods and services but also relationships with our fellow man in the future. Finance as a ‘commons’ would thus correspond to finance backed by currency expressing a common belonging, enabling us to plan for the future based on co-developed and co-driven expectations.

In Figure 1, quadrants 2 and 3 are the ‘interstices’ in which ‘finance as a commons’ could be developed or, at least, experimented with.

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<sup>20</sup> In this regard, see Callon, Lascoumes, Barthe (2001).

Two functions of finance are key to ensuring the inter- and intra-generational link through economic activity: liquidity, that is the power to pay debts, and access to credit, that is the power to take on expectations (Giraud, 2012; Aglietta, 2016).

Finance as a commons could be organised based on these two qualities:

- one enables freedom from debt or to make a purchase at will,
- and the other allows one to plan for the future or to deal with random circumstances when liquidity is lacking.

The two qualities expected of this finance respond to three functions, but are not on the same level. Thus, one must distinguish between:

- spending of revenues, consumption that generally includes local currencies<sup>21</sup>;
- the transfer of capital, investment, for which credit/debt corresponds to an anticipation, an opportunity;
- the need to deal with unforeseen circumstances.

This means, then, characterising the institution of ‘finance as a commons’ in a dual dimension supporting uses and bringing new practices:

- ownership rights corresponding to this management and serving as the basis for this institution, including its relations with other actors in financing;
- and the constituent principles of such an institution, which raises the issue of relations with the banking system in connection with the nature of the currency to the social project.

This is well shown in works on engagement regimes for the economy of conventions (Rivaud-Danset & Salais, 1992). Two types of relationships are possible when the financing relationship is managed purely as risk, meaning as a calculation of probability of default and thus based on price (1), or as a long-term social construct based on a number of common commitments (2), and thus with collective management of information, to respond to uncertainty:

1. “The ‘procedure-based’ banking model excludes any personalised understanding in favour of standardised information on the client in terms of calculation of probability.” (Rivaud-Danset & Salais, 1992: 91).
2. “The ‘commitment-based’ banking model sacrifices opportunism and reversibility in favour of a relationship of trust (...)” (idem: 89).

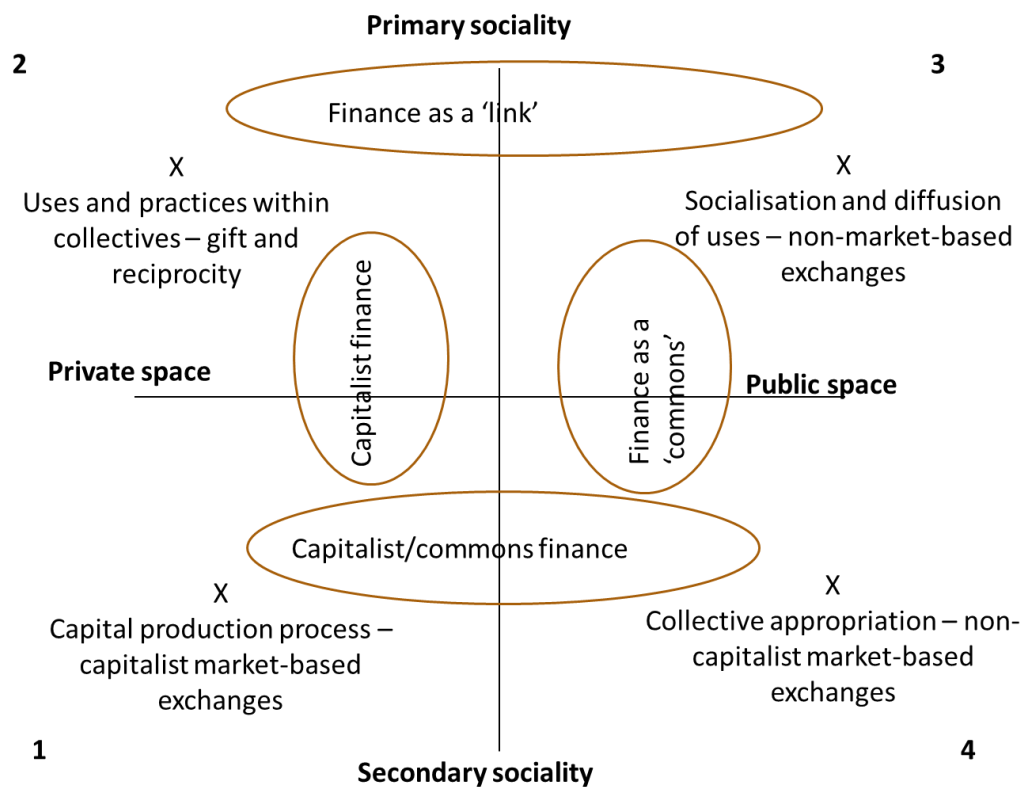
In other words, in a purely market-based exchange relationship (1) with the bank, or the lenders in a more general sense, if only the criteria of price and cost come into the exchange decision, which can only reinforce a short-term and, moreover, opportunistic relationship. On the other hand, if one wishes to ensure access to credit over time, and thus also future liquidity, the exchange must be supported by criteria other than price (2). That means, for the parties, being capable of creating a

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<sup>21</sup> See Aglietta (2016).

relationship of commitment (Rivaud-Danset, 1995, 1996; Rivaud-Danset & Salais, 1992).

**Figure 4 - The 'interstices' for finance as a commons**



Finance as a commons enabling access to liquidity and credit in connection with shared coordinated objectives must provide:

- a circulation of goods and services based on non-capitalist market-based exchange, or even just non-market-based exchange<sup>22</sup>, and of which local currencies express certain premises (see Aglietta, 2016, pages 191 et seq).
- a basis of a commitment- or community-based financing (including banking) relationship for which the criteria of price and value are not the only determining factors in the exchange and are thus articulated or submitted to criteria based either on uses (needs to be met) or on the development of links over a territory or between populations sharing the same aspirations and coordination principles, which participatory financing platforms can help carry forward.

Finance as a commons would rely on a shared institution to manage this resource, defining the conditions for collection of savings but also distribution of credit to other 'exterior' financial institutions. It would organise the modalities for withdrawing a

<sup>22</sup> See "Reinventing the currency", Les dossiers d'Alternatives Economiques n°6, May 2016. <http://www.alternatives-economiques.fr/le-temps-ce-n-est-pas-que-de-l-argent- fr art 1439 76191.html>.

unit of the resource in order to finance projects validated by the institutional collective. This institution would be regulated via a competitive mechanism of collective decisions (Ostrom, 2010).

The sustainability of this institution of the 'finance' as 'commons' is the same as that relating to the monetary agreement. It is an ethical imperative specifying accepted guideline, a constraint accepted by those involved within a framework of regulations and standards, and satisfaction of taking action within this framework (Aglietta, 2016: 71 and 392; Ostrom, 2010).

## 7. Conclusion

As a preliminary conclusion, the collective appropriation of means of production involves a clear specification of the terms of the formulation. The 'collective' term cannot be reduced to appropriation by the State, that is nationalisation, of the means of production. At best, that is just a particular case in the context of commitments that exceed the capacities of location-based actors (e.g. railways, aerospace). The 'collective' expresses a shared vision, communally mobilising resources with various legal statuses but deployed in a coordinated, deliberate way (Lavigne-Delville, 1998; Le Roy *et al.*, 1996). The term 'means of production' does not need to be understood in its productivist meaning, nor reduced to its material, tangible dimension alone. It must be understood as the identification, including cultural, of the means necessary for being fully human. As such, finance as a 'commons' is a form of finance that enables this humanity built on a recognition of the debts that we have, not in terms of submission but of recognition of that which has been given to us and that which we can deliver in turn. This is necessary if we wish to respond with solidarity and sustainability to the challenges of development with which we are confronted in order to be "able to help nature give birth to the virtual creations that lie within its bosom" (Benjamin, cited by Fischbach, 2011: 135).

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### **Part III.**

**Identities, behaviours of partners and new forms of cooperation**



## **The development in France of partnerships between public and social economy organizations and the new paradigm of public action / Chapter 8**

Philippe BANCE<sup>\*</sup>, Jean-Philippe MILESY<sup>\*\*</sup>, Christelle ZAGBAYOU

### **Abstract**

The chapter explains why and how the institutional and social transformations that have taken place in France during the last decades with the advent of the new public management are at the origin of new forms of cooperation between social economy organisations provided in the past by public organisations or private companies providing public services and in charge of the missions entrusted to them. Today, public and social economy partnerships are encouraged by public enterprises, public non-market organisations or public authorities, which see it as a means to extend public service delivery in a context of reducing financial resources. These transformations have the advantage of the cooperation of different organisations to maintain or increase public service provisions for the benefit of citizens. However, the future of this emerging model raises three main interrogations: the capacity of social economy organisations to retain their own identity by becoming largely providers of public organisations or authorities; the resilience of the fundamentally centralist conception which permeates the French model and limits the scope of these new partnerships; and last the banalization of social economy organisations as a result of the deployment of new public management and the neoliberal conception that limit the ability to co-construct the general interest with the different partners.

**Keywords:** cooperation; public action; social economy organisations; public organisations; public service provisions; multilevel governance

**JEL-Codes:** H41, L23, L31, L32, L33, L38

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<sup>\*</sup> Normandie Univ, UNIVROUEN, CREAM, 76000 Rouen (France) ([Philippe.Bance@univ-rouen.fr](mailto:Philippe.Bance@univ-rouen.fr)).

<sup>\*\*</sup> Rencontres sociales (France) ([milesy@rencontres-sociales.org](mailto:milesy@rencontres-sociales.org)).

Public-private partnerships (PPP) are often presented, in particular by European authorities, as a future solution for ensuring the development of public action programs. Public-social economy partnerships (PSEP) are less well known, being recent, especially in France. Nevertheless, they are expanding in line with the French process of decentralisation undertaken since the 1980's and they currently benefit from a real institutional recognition from national public authorities. The "Social and Solidarity Economy Act" of July 2014 thus aims to make the social economy (SE) an essential sector in order to respond to unfulfilled social needs and so that new entrepreneurs invest in this area. The purpose of this is thus to change the scale of a sector of the SE which already represents close to 10% of national production.

Today this recognition poses with new acuity the question of the development and the nature of PSEP. This contribution aims to study the transformation of the French model and the prospects it offers to PSEP. The first section is diachronic: it analyses the transformations of the institutional framework in which PSEP are deployed, in order to understand the current dynamic and its effects on the collaboration between public-SE. The second section is a synchronic analysis of PSEP in order to specify their nature. A third section concludes on the possibilities and limitations of the roll-out of this form of partnership in France.

## **1. The institutional changes of the French model, sources of the roll-out of partnerships between public organisations and the SE**

To understand the reasons that led to the recent emergence and development of common measures in France between public organisations and the SE, it is useful to look back to comprehend the characteristics of the French model, and particularly the methods for implementing public action and social action, under the particular auspices of the public service. Starting with the origins of the post-war model, then from its transformations since the 1980's, we can indeed analyse the framework in which the transverse actions between public organisations and the SE occur.

### **1.1. A post-war model of mono-construction of public policies to public regulation leant against "French-style public service", not conducive to cooperation**

Under the influence of Jacobinism, of the body of legal doctrine of the school of Léon Duguit and French economic engineers, public service in France after the second war became a major instrument of public and social action of public powers. The legal doctrine brought under the domain of the public service "all activity of which the accomplishment must be assured, resolved and controlled by the governments because the accomplishment of this activity is indispensable to the realization and development of social interdependence" (Duguit, 1923). The material approach of the public service justifies its existence by the service rendered to individuals and to society by completing duties in the general interest. The public authority positions itself at the centre of a system of representation: this approach returns to an ideology of the general interest, placed in the rousseauist tradition of general willingness and

of Jacobinism (Rangeon, 1986). The general interest transcending the particular interest is embodied by the public authorities that interpret and realise it according to the circumstances by leaning on public service organisations.

This transcendent approach of the general interest is at the origin of a typical model of public action. The public sector is the main “instrument” of state action, responsible for social and territorial cohesion. It benefits from a cultural attachment at the root of a social compromise (Stoffaës, 1995). The social model also rests upon a system of social protection, bismarckien-like, fragmented according to professional structuring, but framed and regulated by public powers. Public action therefore anchors itself to an imaginary, benevolent state that remedies the insufficiencies or abuses of the market and has a shared idea in making public service the vehicle of national solidarities and social progress. The major attachment to this idea of public service finds its basis from the side of employees, of users, as well as of the high administrative state bodies. From the side of employees, the stability of employment, the statutory guarantees make public service a reinforcement of independence for personnel, of social advances and of the spread of social progress in the economy. From the users’ point of view, despite the lack of means for certain activities<sup>1</sup>, public service allows the satisfying of social needs that are not sufficiently taken into account by the market and the social integration of those from disadvantaged categories. It gives the image of being interested in people rather than seeking profit<sup>2</sup>. Furthermore, the action of the high administrative state bodies plays an important role in the legitimisation of “French-style public service” with the population and political decision-makers, according to a unifying and centralist idea.

Based upon Vaillancourt’s classification (2008) of the methods of construction of public policies, the French model can be considered as that of a “mono-construction”: the authorities define the policies, without this meaning the exclusion of the private sector being involved in their implementation, in particular with the aim of making a profit<sup>3</sup>.

Indeed, during this period, France mobilised private companies among the operators of public service. The 19<sup>th</sup> century left the legacy of a model referred to as delegated management, described in other words as public-private partnerships. The state or the local authorities concede the management of a public service to private operators by endowing the latter with the privileges of public power. The definition of public service duties and the allocation of concessions highlight the free choice of public authorities. The distribution of water is a typical example of French-style delegated management, the main part of the activity being principally conceded to three large private groups by the French local authorities.

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<sup>1</sup> A typical example is the weakness of telephone investments up to the beginning of the 1970’s.

<sup>2</sup> This makes the user not only a simple client but a citizen consumer.

<sup>3</sup> We can also refer to the presentation of this typology in the contribution to this work of Combes-Joret, Lethielleux and Reimat.



But the predominant management style of the French public service leans largely on public ownership (local but mainly the state). The main role assigned to public ownership is the opposition raised to oligopolistic behaviour and annuitants of the large groups of delegated management, but also to the theoretical justifications brought by French economic engineers – particularly by Allais’s theorem of maximum social return – to the integrated public monopoly.

If we can from now on refer to Vaillancourt and the mono-construction of public policies, the characteristics of the internal preparation methods in the public arena should be further specified. It concerns a plan in which interact, according to variable methods regarding the period concerned, the guardianship from one side and companies and organisations from the other side. Public organisations are indeed not there as simple implementation instruments of policies defined by a guardian. They are also carriers of their own strategies that reflect autonomy more or less widespread according to the company and the circumstances. This fact has meant that public enterprises could sometimes appear “uniformed” even « les bonnes à tout faire de la politique conjoncturelle » [‘maid of all work’ of cyclical/short-term policy] (Anastassopoulos, 1979). They are also presented as organisations that impose their views on authorities and hijack the regulator. EDF, often presented as a “state within a state” is the emblematic figure of this. The reality is multi-faceted. Public organisations on the one hand register their action in the framework of a model aiming to promote social and territorial cohesion. They make use of their own expert abilities and of their ability to implement innovations to justify their actions and assert their skills. Some managerial innovations such as marginal cost pricing, the social discount rate, the costs of failure, are some illustrations of this. In other terms, public organisations themselves internalise duties of general interest. But they can also be subjected to (all while searching to escape it) strong pressures from the supervising authority to actively engage them in duties of general interest. Public investments, even the large technology programs, such as nuclear, TGV and telephony, undertaken in the 1970’s, are themselves written into in this problem of internalisation of missions in the general interest, which go beyond the framework of simple obligations of public service. This resulted in the existence of “life cycles of public enterprises within regulation” from the post-war period to the 1970’s. They mark the involvement of public enterprises in the framework of proactive public policies, of which the effects are however (in particular in the case of over-instrumentalisation) strong disrupters to the financial health of companies, that which makes necessary the recovery of companies by an everyday acceptance of their behaviour after their roll-out (Bance, 2015).

Beyond this dialectic of public actors, France is, according to the typology of Enjolras (2008), very clearly a model of public governance. The public administrations and organisations are the principal contractors of public policies, and the governance

is characterized as strongly technocratic<sup>4</sup>. Certain decisions taken also appear to be hardly democratic in many ways, due to a lack of consideration of the opinions and aspirations, both upstream and downstream, of civil society<sup>5</sup>. In this model, very little place is finally left for the action of SE organisations.

This type of construction and public governance found itself seriously called into question in the 1980's.

## **1.2. The process of multi-level, neoliberal co-construction of public policies in France and its effects on the establishment of PSEP**

After the worldwide repercussions of the Washington consensus, the new directions taken with the process of European construction and of decentralisation, the French model experienced an institutional bifurcation. Based upon the typologies of Vaillancourt and Enjolras, we can consider that after the 1980's, it falls within a new paradigm of public action, that of neoliberal co-construction of public policies and of competitive governance but, one can say, multi-level in character. We can also ask ourselves if certain forms of resilience of the previous model and the emergence of new implementation terms for public action do not naturally stimulate forms of cooperation between the public economy and the SE, which are carriers of a co-construction of public action.

The transformations experienced by the national model since the 1980's fundamentally stem from the emergence of governance that we can label as multilevel. This is mainly due to the loss of sovereignty of the national state and of the calling into question of the previous way of mono-constructed public governance. We can characterise the regime of multilevel governance by the advent of "non-hierarchical systems of negotiation, of regulation and of administration going beyond the traditional acceptance of the hierarchical and sovereign state as the ultimate decision-making and conflict-resolution arena" (Christiansen, 1996, p. 13). Here public stakeholders interact in the implementation of public policies but according to a scheme marked by a growing influence of competitive logic and according to a neoliberal method of co-construction. A double process explains its roll-out in France: on the one hand the new directions of the European construction; on the other hand decentralisation. This translates by calling into question the sovereignty of the state from both above and below and ultimately by a weakening of "capability"<sup>6</sup> to lead public action (Bance, 2016).

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<sup>4</sup> Here we can again refer this work to the presentation of the typology of Enjolras from Combes-Joret, Lethielleux and Reimat.

<sup>5</sup> EDF is in this respect particularly targeted in the choice of nuclear power that the company has largely valued under guardianship.

<sup>6</sup> Here we refer to the idea of "capability" put forward by Sen who understands by this an accounting for the ability and liberty of individuals to use their goods to choose their own lifestyle, to apply this to the states own collective ability in an international environment.

After the Single Act of 1986, the states' public policy quickly eroded in Europe, in particular in their ability to undertake proactive public action and to mobilise public organisations to this end. The loss of sovereignty reduces their ability to implement industrial, monetary or macroeconomic policies. The phenomenon was fully expressed after the Maastricht Treaty (1993) that led to the establishment of the said policies of stability and growth in the European Union. As underlined by Fitoussi and Saraceno, new "social public norms" are thus in place, which banish the Keynesian or of-demand national policies, without a European alternative and despite a context of sluggish growth (Bance, 2012). These norms are characterised by a "pressure exercised on the European welfare states by the reduction in public spending and the commitment of structural reforms" (Fitoussi & Saraceno, 2009).

The weakening of the capabilities of public action also comes from a loss of flexibility from public authorities regarding public market services within the national network. If the state or the local public authorities keep the ability to define public service duties, the European authorities, whether this concerns the Commission or the Court of Justice, possess since the 1990's, a power of control to judge the proportionality of state aid to the missions of public service companies in the network. This outbreak of a supranational judge and police fits with the logic of European integration, the companies being not only national but also contributing to transnational exchanges. The rupture is, however, radical towards the previous arrangements for governance of public action that allowed the state to fully mobilise their heritage for purposes of economic policy. We then see a phenomenon of normalisation of the behaviour of public enterprises under the effect of nitpicking European controls that are exercised by applying the so-called doctrine of "the private investor in the market economy". The central repository of company behaviours is that of an investor who looks for the return in "normal conditions" in a market economy, that is to say in a competitive market. This teleological idea is going to push for the systematic opening to competition, to eliminate all statutory barriers to entry and to an effective opening to competition in networked public services. This will be the case particularly in the sectors of telecommunications, the post, electricity and railways. The respect of the rules of the game of competition and sustainability of competitive market structures are the responsibility of independent administrative authorities in charge of sectorial regulation. In this way, the sectorial regulator sees themselves assigned far-reaching powers which are then removed from the state: powers of investigation, surveillance, regulation and sanction. The purpose is primarily to ensure that the historic operator does not abuse their dominant position, to protect incomers, to eliminate cross-subsidies and to resolve conflicts between competitors. However, this does not prevent public services being able to practice public service missions in these sectors: after having aroused strong controversy as to their legality<sup>7</sup>, the implementation of public service missions has been tolerated in European law provided they are formalised and clearly defined by the authorities. They can thus find themselves

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<sup>7</sup> It took several years and several rulings (Corbeau in 1993, commune of Almelo in 1993, Altmark Trans in 2003) of the CJCE to declare the legality of it under restrictive conditions.

compensated by the regulator... of which the financial margins are nevertheless very limited by the implementation of stability policy. This encourages public service missions with increasingly limited content.

A normalisation of the behaviour of public enterprises quickly arrived by an alignment with the management criteria of private companies: the objective of developing capital, the payment of dividends to the shareholder, flexibility in managing staff (including removing the status of civil servant). The new demands of public management in a competitive system erode the culture of social action of organisations. This is the situation at La Poste, for example, where today they look to monetise the assistance given to the most deprived users, local services, time available to listen, and where the number of post offices is being reduced across all territories... the non-market foundations of public service logic is also being called into question, otherwise carriers of social and territorial cohesion (Delfau, 1999).

If financial reasons limit the ability of public enterprises to accept extended public service missions (whether written into the law or not formalised in this way), these missions are nevertheless an important source of legitimacy for them. Public organisations are from then on incited to act in unison with other organisations to ensure or maintain sufficiently extended public missions allowing the enhancement of an action that rests fundamentally fixed, in its social representation, on serving the general interest. SE organisations, whose reason for being is not the search for profit but that of non-commercial common interest, which are inherently impregnated with the culture of serving the public and able to provide innovative practices, can from then on contribute to joint actions with public enterprises to more widely internalise general interest missions.

These reasons also apply to the roll-out of cooperation between SE organisations and of the non-commercial public sector. The latter are indeed subjected to, in the new institutional system of developing public policies, criteria based upon the doctrine of New Public Management. Spurred on by the establishment after 2001 of the Organic Act relating to finance laws (OAFI), the new doctrine intends that non-commercial public organisations take their own initiatives and develop innovations for better efficiency in the implementation of public duties (Fournier, 2015). The organisations are evaluated based upon performance indicators aimed to measure the degree to which results have been reached towards set objectives, while simultaneously seeking to limit the increase in public spending. This doctrine thus pushes the roll-out of joint actions with SE organisations: the partnerships can enrich and improve the efficiency of public organisations' action.

Public organisations' openness to SE partnership organisations must not, however, lead to neglecting the existence of an autonomous logic, which leads these organisations to consider that cooperation and partnerships need to be aligned with their own objectives. As these objectives, whether they concern the pressure of covering the costs and the distribution of dividends of public companies, or efficiency

criteria assigned to non-profit public organisations, prove to be increasingly binding for public organisations, and this in a permanent way in the new institutional environment. These organisations are thus led to consider the partnerships as a means to meet formal objectives or where applicable as “additional soul” allowing the enhancement of their image through social actions or socially responsible actions.

To complete this analysis, it is appropriate to specify in what way the individual rationale of public powers is conducive to the development of public partnerships with the SE in the new system of multi-level co-construction of public policies. Indeed, here each level of government (supranational, national or infra-national) can find the way to introduce or re-introduce capabilities according to their idea of the general interest. This approach is placed within a complex game of cooperation between levels of government. Coopetition is characterized by the joint rationale of cooperation and of competition between the stakeholders involved (Brandenburger & Nalebuff, 1996). In the European Union, the interactions of government levels derive from this willingness to both exercise their own options (frequently to the detriment of partners) and the necessity to sign up to a common public action (Bance, 2016). But faced with the loss of public capability and with the difficulties met to finance public action, each level of government can find useful energetic supplements in partnerships with the SE, which contribute to the general interest.

At supranational level, extroversion is a response to the critics concerning the strong weakening of the ability of direct public action resulting from methods of European construction since the Single Act. The European Commission has thus advocated the development of public private partnerships (PPP). Since 1999, “The Commission considers that the use of private investment to realize public infrastructures is a positive factor and one which is important to continue developing” (Com, 2000). Ten years earlier, the Commission drafted a notice (Com, 2009) “concerning the mobilization of private and public investment in view of a relaunch of the economy and a long-term structural transformation”. In accordance with the market logic that drives European policies, it involves bringing the states to open up their markets to competition. One is also trying to remedy the crisis by innovative actions and “combining the abilities of public and private capital”, in particular for large infrastructure projects, notably in the transport and energy sectors<sup>8</sup>. In this regard, the model of delegated management is also perceived as a response to the contemporary stakes in the globalisation of public services<sup>9</sup>. Public partnerships with the social economy can subscribe to a complementary logic of developing major and innovative projects. Thus the social economy is recognised by the Europe Strategy 2020 as a driver of inclusive growth, sustainable and as a provider of employment. Social innovations and social entrepreneurship have the support of

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<sup>8</sup> The BEI created a centre of expertise to reduce the risks for private operators of PPP, a mechanism of technical assistance put in place for the scale of the project and Eurostat developed an accountancy doctrine for the partnerships.

<sup>9</sup> The international expansion of French companies in the water sector seen here as a reference model.

the EU in the framework of the initiative "One Union of innovation" and of the initiative for social entrepreneurship.

At national level, partnerships with SE organisations and the revitalisation of the sector are seen as a source of economic development on which to build in the face of the weakening capability of the state regarding economic policy. Because, beyond the previous analysis concerning the reduced capacity of the state to proactively mobilise its organisations in the European multi-level system, since the 1980's the public market assets has known (and in fact, partially at least, of this weakness) privatisations on a very large scale. The weight of the public enterprise sector across the market economy as a whole excluding the agricultural and financial sectors of the French economy has thus fallen: in the added value of 19,3% in 1985 to a range of 5-5,7% during the period 2005-2013; in the fixed assets from 47,3% in 1985 to 15,5-16,1% from 2008 to 2013 (INSEE, 2016). Therefore, the state intends to focus, beyond PPP that can often prove to be costly and a source of long-term income for private operators (Mardy *et alii*, 2006), on the additional energy that can constitute the development of the SE. The SE is increasing since the beginning of the years 2000 and represents in 2016, according to the Ministry of the Economy and Finance, 10% of the GDP and 12,7% of private employment in France. It concerns, according to the minister Martine Pinville on the site (2016) of the Ministry of the Social Economy, after the adoption in 2014 of the law relating to the Social and Solidarity Economy, "allowing granting full growth to the social and solidarity economy... (to) stimulate an efficient and mobilizing dynamic, and to place this model to create employment and activities across all of our territories". In this perspective, putting into place synergy with public organisations is a tool for development.

Finally, at subnational level, the regional public powers have known, since the Defferre 1981-83 laws of decentralisation, a progressive extension of their competences for exercising and implementing their own public policies: initially in the areas of town planning, professional training and spatial planning; economic development (planning and programming amenities) in the 1990's; heritage protection, ports and airfield development, air quality and nature reserves preservation, since 2002; digital technology, European program management, the arrangement and sustainable development of the territories in the framework of the 2015 law relative to the new territorial organisation of the Republic (NOTRe) by the new regional plan for the arrangement and sustainable development of the territory (SRADDT). These new prerogatives, which also translate the roll-out of real territorial policies replacing territorialised policies (Autès, 2000) are here again carriers of partnerships and opportunities of co-construction of public policies with the SE sector: the territorial proximity, the ground knowledge of SE organisations facilitates collaborations with the regions. The proximity of SE organisations with sub-regional local and regional authorities (departments, metropolis, associations of municipalities, municipalities ...) also contributes to local partnerships. The pressures exerted upon the finances of local and regional authorities due to the transfer of competencies not entirely compensated for by the state does not limit any less the

development of partnerships so great is the dependence of SE organisations towards public funding.

## **2. Multiform cooperations and partnerships initiated with the SE by the public economy in the new institutional system**

If, as has been specified in the first section, institutional changes drive public actors to cooperate with SE organisations, the partnerships implemented take very specific, diverse forms that need to be better identified across practices on the ground. In this regard, one can identify the cooperations implemented under the impetus of various public actors: public companies, the state and finally local and regional authorities.

### **2.1. Partnerships initiated by public enterprises**

Forms of cooperation between public enterprises and the SE are increasingly numerous in France. For reasons of civic and social responsibility, but also with an economic objective (to produce and sell goods and services), certain public enterprises choose to develop partnerships with Social and solidarity economy companies depending on the localities, the needs expressed and the material or financial resources available. Recently undertaken initiatives, under a partnership approach, by the largest French public groups namely La Poste, SNCF, EDF, regarding SE structures, will be presented here, by specifying in particular that, for each, this falls within an approach that is derived from a specific logic but based upon their own culture of social action (CIRIEC-France, 2016; Zagbayou, 2016).

- La Poste

The objective of the collaboration by La Poste group is to unite SE actors under various topics that have been identified as being common to both sectors. According to a working logic, that intends to be based upon mutual trust within a collaborative framework, La Poste wishes to develop innovative solutions and coproduce new value chains, in order to bring satisfactory answers to current social needs.

In their strategic plan « La Poste 2020: conquer the future », <sup>10</sup> various priority programs launched by the group are thus offered, in the framework of commitments made for implementation alongside actors of the SE of the Alliance Dynamique. The goal of this structure is to grow the SE by making the skills of voluntary employees of La Poste available to associations. This commitment officially taken on the 14<sup>th</sup> of October 2014 in the presence of various actors of the SE such as ADIE, APAJH, COORACE, CRESUS, EMMAUS France, Fédération des parcs naturels régionaux de France, Secours populaire français<sup>11</sup>, is also an opportunity for La Poste to identify

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<sup>10</sup> « La Poste 2020: conquer the future » is a project of conquest and development to serve the client, the work <http://legroupe.laposte.fr/profil/la-strategie/a-la-conquete-de-l-avenir>, (consulted on 2017/19/10).

<sup>11</sup> <https://www.alliancedynamique.laposte.fr> .

new leverages of development. The first consultations between partners allowed defining five dynamic, supporting areas for the group:

*Shared spaces:* This area aspires to use the building stock of La Poste as leverage for local development. Resurrecting vacant buildings or sharing the premises occupied by La Poste with actors of the SE are examples of solutions aiming to revitalise territories and create new activities;

*Banking products:* La Banque Postale, which provides a quarter of La Poste group's revenue, plays a leading role in the Alliance Dynamique, which involves offering products tailored to the needs of actors of the SE. La Banque Postale thus displays its vocation to be bank and a citizen, extending its mission of universal, accessible public service to bank accounts through its 'livrets A' type bank books (Bance & Rey, 2015);

*Human resources:* in the framework of l'Alliance, and in line with its commitments favouring the professional development of its collaborators, La Poste accompanies the professional projects of postal workers wishing to evolve towards the SE sector;

*Purchasing:* for several years, purchases are an integral part in CSR policy of the La Poste group. With this area, a willingness to reinforce the purchasing policy towards the actors of the SE is confirmed;

*Energy transition:* identified as one of the common priority projects in La Poste's strategic plan that makes energy transition a major program for the country. This area reaffirms the groups aim to contribute to the emergence of a new French energy model.

These five areas guide the thinking and the work of partners, who mobilise their networks and all of their skills to successfully meet the goals of l'Alliance Dynamique.

- SNCF

The SNCF's partnership approach with the SE sector falls within a tradition to which the public group underlines its attachment: the sense of public service and a high technical and commercial performance. With the purpose of translating these societal commitments and objectives, the societal division of the direction of sustainable development and the direction of purchases, along with various associations of the SE, undertakes various forms of cooperation in the given territories. The action of the SNCF thus falls within a partnership approach with the actors of the SE on one hand in the field of sustainable development, disability and employment and on the other hand, in solidarity purchases.

*The societal centre at the heart of the direction of sustainable development*

SNCF creates action plans in the framework of assistance in returning to work, to ensure that, through its own abilities as a large investor, buyer and service provider in



the territories, it can increase the chances of excluded people to reintegrate themselves into society. In this perspective the group has judged it necessary to implement partnerships in a certain number of sectors of opportunity. There are also partnerships between the SNCF and the national network CHANTIER school, the FNARS, the ministry of justice, the national network of POLES EMPLOI - local missions for young people, with all the services that involve the regulation of the social/relationship with clients, precisely social mediation notably with FRANCE-MEDIATION<sup>12</sup>. It is leverage which allows the creation of jobs, job integration workshops, “green” workshops, the treatment of abandoned railways (named vegetal), the recycling of waste, the exploitation of materials, short cycles, etc.

In addition to these actions, the SNCF works with several associations specialised (PROMEVIL and many others) in subjects such as extreme poverty, loitering in stations, prostitution, and multiple substance abuses. This collaboration aims to improve the services of social regulation and social prevention in trains, thus allowing the reduction of incidents (setting-off alarms, stopping trains...) and serious or annoying incidents.

### *Solidarity purchasing*

Since 2008, the SNCF purchasing directorate has included in its social responsibility strategy, the aim of directing its purchasing towards the SE. The SNCF group aspires in particular to make 33.3 million euros worth of solidarity purchases in 2015 to 50 million euros in 2017<sup>13</sup>.

Solidarity purchases contribute to financing services of protected and adapted sectors<sup>14</sup>, of the sector for inclusion through economic activity (direct or through social inclusion articles in calls for tender) and from fair trade. The establishment of inclusion workshops occurs with specialist associations that allow people outside of employment to work and be trained. The quality of services provided by protected and adapted sectors and of inclusion through economic activity is comparable to those of classic companies, with a global cost supported by public funding (local authorities). These solidarity purchases contribute to the maintenance and development of employment for people with disabilities in accordance with regulation, like that of people outside of employment, in its capacity as a socially responsible company. In 2015, around 13,5 million euros worth of purchases were counted among protected and adapted sectors for 550 employees against

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<sup>12</sup> <http://www.sncf.com/fr/groupe>, (consulted on 2017/19/10).

<sup>13</sup> Direction générale des achats responsables, Groupe SNCF, Livret du Bilan des Achats Responsables Groupe SNCF, 2015, <http://www.sncf.com/fr/fournisseurs/achats-responsables>, (consulted on 2017/19/10).

<sup>14</sup> The objective of these sectors is to offer a professional activity to people with a handicap by ensuring they have a medical, social and educational support. This monitoring aims to give an opportunity for a potential exit from the protected sector (ESAT) towards an adapted company or the ordinary sector.

19 million euros worth of purchases counted among the sector for inclusion for 230 employees<sup>15</sup>.

- EDF

EDF displays, by its partnerships with SE organisations, its implication in the preservation of biodiversity. In particular, the group works with environmental associations in the framework of its “policy of sustainable development” by assessing the environmental risks linked to the use of resources and natural spaces. Thus the group supports the actions for the Ligue pour la Protection des Oiseaux (LPO). The partnership between these two sectors is also evident from conferences, festivals or common programs organised with the view to sensitise people, physically and morally, to the importance of biodiversity and the avifauna. EDF also provides the LPO with access to a group of experts who carry out field studies in order to develop skills and propose solutions for protecting spaces and species. The EDF group’s directorate of Sustainable Development conducts in-depth analysis with services specializing in naturalist studies in four sites of the Ligue pour la Protection des Oiseaux. Furthermore, the EDF Foundation, with its partners which are le Ministère de la Ville, de la Jeunesse et des sports, Pro Bono Lab and Recherches et Solidarités, le Réseau national des maisons des associations, HelloAsso, and Associations Mode d’emploi, organise prize days for the best associations working in categories such as environmental education, the fight against discrimination, health and prevention high risk behaviour, access to culture for young people, the fight against precariousness. The partnerships between the SE sector and the EDF are also working on questions of precarity and energy transition. The group looks to correct, across these different actions, a fundamentally centralist, self-managed image and to remove the criticisms relating to the roll-out of energy production that is principally nuclear in its origin.

## **2.2. Partnerships driven under the aegis of the central state**

Here the support brought by the state to the SE is illustrated from two perspectives: the institutional recognition and legitimisation by the state of the action from SE organisations; the aid brought by the Caisse des dépôts et consignations.

*The recognition by the state of the role of SE organisations to lead actions in the general interest: the example of social housing*

The state has gradually turned towards practices of delegation to associations of actions of general interest. It is particularly the case for the management of public service housing. Here the associations play an essential role in the identification of social needs (reception and dealing with the homeless). The Besson Law of 31<sup>st</sup> May 1990 regarding the right to housing has thus made the non-profit sector an important operator in the framework of the policy of access to housing for deprived

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<sup>15</sup> Direction générale des achats responsables, Groupe SNCF, Livret du Bilan des Achats Responsables Groupe SNCF, 2015, <http://www.sncf.com/fr/fournisseurs/achats-responsables>, (consulted on 2017/19/10).

people. This law gave associations the right to manage actions and services with a social vocation. As such, these associations are able to benefit from the financial aid of the state<sup>16</sup>: PLATS (Prêt locatif aidé très social), ANAH (Agence nationale de l'habitat). The Fédération nationale des associations d'accueil et de réinsertion sociale (FNARS) and l'Union nationale interfédérale des œuvres et organismes privés sanitaires et sociaux (UNIOOSS) are large voluntary networks that thus play a major role in the fight against the exclusion of disadvantaged people. By the recognition and support of the state, these large national associations of solidarity became institutionalised.

*The financial support of the state by the intervention of the group Caisse des Dépôts et Consignations*

The group Caisse de Dépôts et Consignations (CDC) plays an important role in supporting public policies and notably in fulfilling the objective of developing the SE in application of the 2014 law<sup>17</sup>. Under the authority of parliament, CDC is a shareholder of large French companies in charge of the transformation of regulated savings into long-term investments, of the management of private funds protected by the law (funds originating from the ministry of justice, from social security, from institutional clients) and of “pension and solidarity funds” originating from retirement systems of the civil service. In 2015, accompanied by six private partners, CDC launched in this perspective an investment fund of 50 million euros to improve the system of financing the SE and to solve the major problem of lack of funding to which operators of the SE are confronted. The aim of these investment funds is therefore to cover the financial needs of social and solidarity companies, all being eligible: associations, cooperatives, mutuals, foundations and commercial businesses with a predominately sector-specific cover on the social, the medical-social or even energy transition. The associations and young organisations in an accelerated period of growth and bringing innovation are priorities here along with older organisations (in existence for at least 6 years) wishing to transform themselves, change their image or scale, for investments comprised of between 1 million and 5 million euros. As for suppliers of large-scale projects, they are accompanied by fund managers and by a committee of experts (for investments comprised between €100 000 and €500 000 per project).

### **2.3. Partnerships under the aegis of local authorities**

*The interest and dynamic of local and regional authorities*

By loans, grants or by the intervention of calls for projects, local authorities indeed bring financial support to the operators of the SE who follow the actions of territorial interests. They also accompany the latter by the provision of material goods or staff in order to promote and highlight their various activities.

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<sup>16</sup> <http://www.vie-publique.fr/politiques-publiques/hebergement-urgence/etat/>, (consulted on 2017/19/10).

<sup>17</sup> Regarding the support of the state, we can add the Banque Publique d'Investissement (Bpifrance), reserved more than 500 million euros which are reserved for this sector.

The major interest shown recently in the SE by local public decision makers is highlighted by the call (launched in June 2015 by 300 elected persons representing more than 130 regional authorities) supporting the sector. Communities strongly reaffirm their interest in the SE, as well as their willingness to put in place regional policies in support of this sector. In this framework, it involves financing works of research and innovation (for example studies on social impact), the development of platforms promoting access to mobility, town and country planning and transport (allowing integration of social provisions in markets linked to the railway infrastructure).

Regional authorities also include the SE in the production of their sustainable development plans in addition to creating and financing collective experimental approaches (approaches in industrial ecology). There are several partnerships in the area of employment, professional training and learning, education, culture, sport, agriculture and food.

*The example of partnerships in non-commercial public services through the reform of the organisation of the school rhythm in primary schools*

The partnership dynamic of local authorities with the SE is illustrated, in the non-commercial public sector, with the reform of the organisation of the school rhythm in primary schools launched by the state in 2013<sup>18</sup>. The objectives displayed by the state are “to better distribute school hours during the week, to lighten the school day and to program the sequence of teaching to moments where pupils have optimum powers of concentration”<sup>19</sup>. This new organisation raises the question of the care of pupils outside of school time. The regional authorities, and in particular the municipalities who are responsible for the material resources made available for primary school children, must from now on confront the expression of a social demand connected to school time and an extension of extra-curricular time of public-service education (centred upon new sporting, cultural and artistic activities). This also involves the collective care of children up until the end of the afternoon including Wednesdays and to ensure the reform is compatible with the availability of many parents.

Educational projects of regional development (PEDT) give the town a leading role in order to better consider local needs based upon an analysis of the characteristics of state school and to widen the offer of suitable extra-curricular activities. Several municipalities have since turned towards local organisations to better perform and to lower the cost of the new demands of the reform. Multi-year agreements have been adopted with the establishment of local consultation committees that enable the explanation of the social demand and to structure the different school and extra-

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<sup>18</sup> Décret n° 2013-77 du 24 janvier 2013, (consulted on 2017/19/10).

<sup>19</sup> <http://www.education.gouv.fr/cid66696/la-reforme-des-rythmes-a-l-ecole>, (consulted on 2017/19/10).- primaire.html#L%E2%80%99essentiel sur%20la%20r%C3%A9forme%20des%20rythmes%20%C3%A0%20l%E2%80%99%C3%A9cole%20primaire, (consulted on 2017/19/10).

curricular activities<sup>20</sup>. Priority education, cultural and sports organisations have been called upon to reform, along with other partners, the development of extra-curricular activities<sup>21</sup> based upon a shared idea.

An initial evaluation undertaken in 2016 by the French Mayors' Association united in the framework of the association of the principal national towns « France urbaine »<sup>22</sup> remarks on, beyond the particular financial difficulties encountered in the implementation of the reform, the willingness of public authorities to develop partnerships between the various stakeholders and to revitalise the actions of associations.

### **3. Conclusions: establishing complementarity in the public economy - SE, a source of synergies but also interrogations on the ability to co-construct public action**

The establishment of complementarity of public economy organisations and the SE seems to follow, even more so than usual public-private partnerships, an approach based upon a strong philosophical and doctrinal anchor: the original principles of limited profit-making or the absence of a main motive of capital, the primacy of the person over capital, social criteria and the common or general interest are indisputable sources of unification and synergising of the two sectors. Public economy and social economy organisations have thus for their basis to respond to the needs of populations, at local and national level. This places them as key actors in the implementation of an “economy of needs”, which proceeds from Fournier’s analysis (2013) of the satisfaction of all means to ensure human development (such as education, health), everyday life (social protection, housing...) democratic life (justice, police, social links...), economic development (credit, research, innovation).

The complementarity and the proximity of values can therefore lay the foundations in France (belated, it is true, due to the centralism of the initial idea) of a new model which, as demonstrated by the works of Ostrom, can lean on “the capacity of local users to solve problems of the commons” (2010, p. 14). The human is at the heart of all approaches on which decision makers, entrepreneurs, activists, citizens jointly work on. This ensures the strength of a partnership built more upon differentiated logic by actors of the SE and the public economy. These partnerships reunite human resources and in capital allow the roll out new forms of public action in the territories.

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<sup>20</sup> For example, we will refer to the devices put into place by the commune of Créon in Gironde <http://www.caissedesdepotsdesterritoires.fr/cs/ContentServer?pagename=Mairie-conseils/MCEExperience/Experience&cid=1250265991975>, (consulted on 2017/19/10).

<sup>21</sup> Various examples are given in this respect in the report of the committee following the reform of school hours in 2015 <http://www.education.gouv.fr/cid95088/rapport-du-comite-national-de-suivi-de-la-reforme-des-rythmes-educatifs-une-dynamique-favorable-engagee-sur-l-ensemble-du-territoire.html>, (consulted on 2017/19/10).

<sup>22</sup> <http://www.courrierdesmaires.fr/59521/reforme-des-rythmes-scolaires-lheure-de-levaluation-pour-trois-associations-delus/>, (consulted on 2017/19/10).

They are concerned with leading institutions to handle in-house innovative issues in response to shared social objectives.

There are the foundations of a future development in France of partnerships between the organisations of the SE and local authorities or public organisations, of a willingness of stakeholders to collaborate, to commit on both sides to work to meet common objectives of keeping social cohesion and of satisfying the general interest. If in France the realisation of the potential and contribution of the SE to the economy was somewhat tardy, today this is now firmly fixed in an institutional, multi-level framework that leaves more space for territorial development policies.

The partnerships are, in this perspective, potentially bearers of a new model of co-construction of public policies, of an alternative to the traditional very top-down French idea. These opportunities would be all the more real if the partnership logic would instate “new public values” that were more attentive to processes than to results, especially at the local level, leading to break with the dominant conception of the new public management.

The limitations to the development of cooperation between the public economy - SE and the emergence of a new model nonetheless remain important. They have in our view a triple dimension: the transformations required of the SE to fall within the new dynamic; the resilience of the French centralist model; the institutional framework of constructing public policies within which falls the action of stakeholders.

### **3.1. Transformations of SE organisations**

The voluntary world, which for a long time dominated the SE, functioned under largely informal types of management. Today SE companies have experienced profound evolution, arising from a strong need for professionalisation and renewal of skills. The partnerships with local authorities or public organisations often remain, however, difficult to establish due to the slowness of decision making from SE actors, the heaviness of procedures at work, the loss of time at the design stage, the implementation of a project, or still the lack of visibility of SE organisations on numeric platforms (Zagbayou, 2016). The conditions for developing partnerships and their sustainability assume therefore, as considered by many actors and analysts, a strong increase in the level of professionalism of SE organisations and their expert abilities in building partnerships.

However, the integration of more professional types of management by the SE raises the question of the very identity of the organisations in this sector. A strong concern of many SE actors indeed rests on the risk of the banalisation of their organisations: to see organisations restricted to adopting behaviour increasingly closer to that of actors in the market, taking their inspiration directly from private sector management methods. The phenomenon also designated in the literature of institutional isomorphism brings with it a fundamental calling into question in SE organisations' ability to preserve the very values that make them (Enjolras, 1996). The phenomenon

has largely touched the French mutualist sector just as public company sectors and non-market public organisations. The associations are themselves touched by the opening up to competition, as with the example of the domestic aid sector under the effect of “mandatory” rules in the context of restrictions in public finances (Petrella, 2012). They are likely to take a large part of their range out of partnerships that are meant to be based upon ideas and values claiming to be intrinsically different from that of the market economy.

### **3.2. The resilience of the French-style centralist idea**

Although the process of decentralisation has been underway for several decades and French-style public service dominated by large public enterprises has somewhat diminished, the hegemonic idea of public action conceived and driven from above, under the aegis of policy makers and public organisations has not disappeared. Decentralisation very often gives rise to the transfer of the centralist political approach of the national level towards inferior territorial levels. This centralist culture brings the decision makers and the large public organisations to consider SE organisations as real partners, but to want to instrumentalise them. Witnesses of several representatives of the SE<sup>23</sup> thus condemn the tendency of local and regional authorities to want to unilaterally define the rules of the partnerships between the SE and the public sphere. They do this by showing much reluctance in fully involving SE organisations in the decision making process, even though they recognise them as efficient technical operators. With this in mind, the powers or public organisations make associations and SE organisations play the role of simple operators of public policies or to assert the strategies of public organisations (CIRIEC-France, 2016) and reject the logic of the co-construction of public policies.

The phenomenon of coercive instrumentalisation threatens the SE even more so as their organisations are very dependent on public funding and their professionalisation and expert capacity in the implementation of joint projects is weak. The shrinking financial resources of local and regional authorities in the context of the crisis in public finance and the transfer of competencies not matched by the state inevitably pressure them. To fix this, the relationship between the SE and the public economy should henceforth be modified by the establishment of a new culture of public action that radically breaks with current forms of paternalism to build upon the capacities for initiative and innovation unique to the organisations of the SE.

### **3.3. The coercive element of neoliberal co-construction of public policies**

As specified further above, since the 1990's, partnerships between the public economy and the SE follow a new paradigm of neoliberal and multi-level co-construction of public action. This new paradigm is restrictive for the partnerships initiated by the organisations. Indeed it is based upon a teleological construction of a

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<sup>23</sup> P. Frémeaux, The social and solidarity economy looks to find its way, *Alternatives Economiques*, n° 288 - February 2010, 2010.

competitive market and new norms of action for decision makers and the public organisations that have been largely presented in the first section of this study. A commercial approach in the general interest and a restrictive normalisation of public attitudes ensue. In this context, the SE organisations strongly risk being systematically affected in their value system, as has already happened to public organisations. The normalisation of organisations' behaviour as that of an "investor trained in the market economy" particularly pushes the development of public-private partnerships rather than public-SE; the position of the European Commission is revealing in this respect, despite the high cost that could arise with the formula in the long term and the questions that it provokes in France in terms of economic and social efficiency (Mardy *et alii*, 2006).

The types of partnerships to follow will henceforth depend on the perpetuation or the renewal of the standards of public action and of the scale of the missions in the general interest or of the public service that the authorities will heed and be able to promote in the territories. If a strong willingness from public decision makers concerning social action, in particular at national level, can change the paradigm of public action, its transformation could also result in local dynamics and innovative cooperations if it holds the belief at societal level.

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## Cooperation strategies between public and social economy organisations: How to cooperate without losing your “soul” / Chapter 9

Monique COMBES-JORET<sup>\*</sup>, Laëtitia LETHIELLEUX<sup>\*\*</sup>, Anne REIMAT<sup>\*\*\*</sup>

### Abstract

This chapter questions the conditions required for sustainable cooperation between public and social economy organisations. First, it reviews the literature to identify the ideal type of sustainable cooperation, *i.e.* preserving the identity of social economy organisations and allowing a consensus regarding objectives, decisions, and the implementation of public policies. Secondly, we apply this framework to three case studies, the relationships between the French Red Cross and the State; between a social employers' organisation and the local authorities; and finally, between the local authorities and non-profit organisations to which they addressed a call for expression of interest. In the first case, the cooperation, based on a partnership, enables the co-construction of public policy. In the second case, the cooperation also appears founded on a partnership, but is oriented toward complementarity rather than co-construction. In the third case, the cooperation based on contracting, leaves less room for the preservation of the non-profit organisations' identity. The case studies reveal both the difficulties of cooperation, and some conditions for sustainable cooperation. These conditions include the strength of the social economy organisations' identity, and its ability to influence the relationship towards exchange and co-construction.

**Keywords:** sustainable cooperation; strategies; public organisations; nonprofit organisations

**JEL-Codes:** M1, M14

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<sup>\*</sup> Professor of Management Science, Authorised to supervise research, Associate Professor of the URCA Chair in Social Economy ([monique.combes@univ-reims.fr](mailto:monique.combes@univ-reims.fr)).

<sup>\*\*</sup> **Corresponding Author**, Professor of Management Science, Head of the URCA Chair in Social Economy ([laetitia.letthielleux@univ-reims.fr](mailto:laetitia.letthielleux@univ-reims.fr)).

<sup>\*\*\*</sup> Professor of Economics, Authorised to supervise research, Associate Professor of the URCA Chair in Social Economy ([anne.reimat@univ-reims.fr](mailto:anne.reimat@univ-reims.fr)).

University of Reims, Champagne-Ardenne (URCA), REGARDS Laboratory (EA 6292) (France).

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## Introduction

The issue of cooperation between public organisations (PO) and those of the social economy (SEO) has been the subject of numerous empirical and theoretical studies. Such cooperation can take many forms, depending on whether it is at micro or macro level, the type and purpose of the organisations involved, the industry, and the country; and it can also evolve over time. In these studies, the appropriateness of cooperation between PO and SEO is rarely questioned, but some forms of cooperation appear more fruitful, balanced and sustainable than others. In this paper, we discuss the types of cooperation between PO and SEO and their consequences.

Based on a study of SEOs, specifically non-profit organisations (NPO) and public policy, conducted since 2009, we analyse several cases of cooperation strategies observed between these two types of organisation between 2010 and 2016.

We were led to analyse in depth the links between PO and SEO, particularly non-profit organisations, including strains in these links:

- **In the medico-social field:** with the move away from subsidies towards public tendering for precise projects, or even the instrumentalisation of these organisations (often non-profit) by the authorities,
- **In the field of policies in favour of non-profit organisations and social innovation,** particularly through two schemes: the Innov'action scheme, which benefited employers' associations (EA) and the scheme to assist expressions of interest (AEI), which targets the heads of regional NPO networks.

With regard to NPOs our findings are in line with those of other social economy researchers and actors. Two central issues, two stumbling blocks appear in relationships between NPOs and public organisations:

- How to escape from a public order type relationship, which locks SEOs into the role of service providers and deprives them of their innovative nature?
- How to encourage the innovative dimension (social innovation) of the social economy organisations and direct it towards the public interest that public organisations promote?

Our research led us to analyse these relationships in terms of risk:

- **Risk of normalising** the NPO, **of hijacking its project** and of turning it into a **service provider**;
- **Rick of managerialisation** leading to a **loss of meaning** for both volunteers and employees (Combes-Joret & Lethielleux, 2012, 2014, 2016) and **threats to organisational identity**.

However, as witnessed by numerous studies (Laville, 2010), NPOs are not condemned to helplessness and even demonstrate a degree of ability to reshape public action.

The perspective we take in this article is that of the possible mutual influence between social economy and public organisations. Our approach is exploratory, neither normative nor prescriptive, but aimed at understanding complex situations and processes.

We take as our starting point the fact that there are many different types of cooperation between public and social economy organisations, and that some of these forms preserve the identity of the SE organisations better than others. **We hypothesise that it is precisely when they preserve the identity of SE organisations that partnerships can be not only effective (providing optimal benefits to each party) but also sustainable.**

After analysing the different types of cooperation strategies between POs and SEOs (1), we present three cases of cooperation observed between 2010 and 2016 (2) and discuss the conditions that favour effective, sustainable cooperation.

## **1. Strategies for cooperation between public and social economy organisations; the search for sustainable cooperation forms**

The links between public organisations (PO) and social economy organisations (SEO) have given rise to an abundant literature, which adopts different perspectives and concerns different disciplines (Camus, 2014).

These relations are complex and take many forms; they present risks and difficulties but are nonetheless considered strategic with regard to social innovation, particularly in the medical-social field. In this first section, we propose a theoretical frame to identify the conditions that favour sustainable cooperation between public and social economy organisations. Several overlapping criteria define the public organisation (Bartoli, 2005: 51)<sup>1</sup> in this paper we refer to public organisations as actors that act to further public welfare.

### **1.1. Risks involved in cooperation between public and social economy organisations**

Relations between public and social economy organisations seem ambiguous<sup>2</sup>, particularly because they can jeopardise the promotion of innovation by SEOs and thus their objectives and even their identity.

#### *1.1.1. Anti-State Bias*

Many studies of the links between public and social economy organisations suggest, implicitly or explicitly, that when SOEs collaborate with public organisations, they cease to be a force for progress, and lose their *raison d'être* and even their identity. Asad and Key speak of '*anti-state bias*' when describing such relations (2014: 325).

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<sup>1</sup> These include: the existence of a specific **legal status** either for the structure or for its personnel; work on **public interest** missions; **non-commercial** and/or non-competitive activities and non-profit-making aims of the organisation; **ownership** of the capital and/or assets by the State; **control exercised by the State**, which sets particular constraints (Bartoli, 2005: 51 and following).

<sup>2</sup> The difficulties linked to the new institutional framework of the co-construction, associating public and private organisations (both for-profit and non-profit) of public action in France, are explored in the present book in the paper proposed by Bance, Milésy and Zagbayou.

Indeed, social economy organisations often originate in opposition to the established order; take the form of innovative, creative projects; or respond to new needs in the social, economic, cultural or educational field<sup>3</sup>. The very identity of such organisations is based on this ability to produce social change (Ragi, 2000). Their comparative advantage over other actors relies on this identity (Coston, 1998).

For their part, the authorities are tempted to control the vitality of social economy organisations, which are often perceived to be critical of them. The public authorities attempt to control them in different ways, such as regulation, monitoring, finance (subsidies), and sometimes in more devious ways, such as making them compete with other organisations.

Later on, social economy organisations often develop a project, narrow their field of action, become more professional, “institutionalised,” become more willing to develop relations with other actors, particularly public organisations. The quality of the services they deliver improves, but this comes with a price, a degree of “conformity.” They become less promoters of social change, and can even become instruments of regulation and preservation of social order, or even just service providers (Ragi, 2000).

Relations between public and social economy organisations can thus be ambiguous. Public organisations look to cooperate with SOEs for their identity, their skills (their “comparative advantages,” at the origin of partnerships, see below), yet at the same time these relations are likely to challenge this very identity.

#### *1.1.2. Spreading the principles of New Public Management from public to social economy organisations*

The spread of the principles of New Public Management to the social and medical-social sectors affects the values and standards that guide the way actors behave (Merrien, 1999).

Between the reduction of State subsidies on one side, and the imperatives of performance and competition on the other, it becomes difficult for SOEs (large and small) to resist institutional pressures and remain loyal to their original objectives.

The introduction of management terminology and rhetoric (efficacy, performance, indicators, plans to balance the budget, communication plans, etc.), analysed by Dart (2004) as the extension of an entrepreneurial logic, constitutes a first threat to the identity of SEOs. Delalieux (2010) demonstrates that this conversion of NPOs, particularly to management, and the changes that it generates, are neither “natural” nor “anodyne.” The introduction of a performance logic to SEOs leads them to rationalise their activities and operating methods.

Delalieux (2010) demonstrates that putting NPOs in competition with each other affects their internal operations in **four ways** that **threaten their identity**:

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<sup>3</sup> From different case studies observed in Kabylie, Ahmed Zaid points out in the following chapter of the present book how social innovations can be supported by partnerships between OP and OESS.

- Under the rules of competition, the beneficiary (or user) becomes a genuine client, and NPOs find themselves obliged to get rid of less profitable “clients.”
- When activists become more professional (recruitment from private for-profit firms, training in management techniques etc.), governance must be vigilant to avoid the risk of distorting the aims of the NPO by submitting to economic prerogatives.
- The commercialisation of some of the organisation’s activities or structures can lead it to sell off a part of its activities.
- Putting NPOs into competition with each other in calls to tender may reduce the level of solidarity and cooperation between them.

Yet the circumstances in which resources are becoming rare pushes SE organisations to cooperate increasingly closely with POs. Nonetheless, in certain conditions, such cooperation can occur without harming their identity and organisational characteristics.

## 1.2. What forms of governance facilitate sustainable cooperation?

By comparing the different governance systems, we can identify the features that enable the co-construction of sustainable public policies that maintain the identity of the SEO.

### 1.2.1. *The different forms of construction of public policies*

Vaillancourt (2008) distinguishes several forms of construction of public policy, which give different roles to the different potential actors. Of these, democratic co-construction appears to us to provide the best answer to our question: what forms of cooperation guarantee the identity of the SEO?

**Table 1 - The construction of public policies:  
the virtues of democratic co-construction**

<b>Mono-construction of public policy</b>	In such a situation, POs consider that public policy is their responsibility alone. It is compatible with some forms of co-production, whereby the State develops its public policy but “uses” either the for-profit or not-for-profit private sector, to implement it.
<b>Neoliberal co-construction</b>	In this configuration, POs develop public policies in cooperation with the private sector via quasi-markets. New Public Management promotes this type of configuration.
<b>Corporatist co-construction</b>	In this type of situation, public policy is developed together with organisations representing the interests of some groups or stakeholders.
<b>Democratic co-construction</b>	This system is based on solidarity, and is compatible with an attempt to serve the public interest. Such an attempt presents four features. The State remains the dominant partner and takes the final decisions. It promotes a vision of POs in which they can become partners of civil society. It makes it possible to reconcile the best of representative and of participative democracy (Enjolras, 2006). It involves acknowledging stakeholder participation by social economy actors, and partnerships between POs and these stakeholders.

Source: Vaillancourt (2008: 289-295).



The final configuration – democratic co-construction – enables the development of partnerships and cooperation between POs and SEOs and of the co-construction of public policy. **It uses the different stakeholders in a balanced manner, while contributing to promote the public interest:** “In fact, when stakeholders from civil society and the social economy are forgotten or instrumentalised in the relationship with the State, public policy is impoverished, because it reproduces the downside of competitive or bureaucratic regulation” (Vaillancourt, 2008: 27).

### 1.2.2. *Partnership governance*

Democratic co-construction is rooted in the partnership governance logic developed by Enjolras (2008). Enjolras defines governance as the search for alternative action modes for public intervention, which promote the public interest without using coercive public policy instruments (Enjolras, 2008, 2010).

Different institutional arrangements or “systems of governance” are possible. They are defined by the actors involved in achieving public interest objectives, by the economic policy instruments employed (regulatory, informal, and incentive) and the institutional coordination methods. Public governance is a feature of the traditional view of public services in France; meanwhile corporatist governance structured the German social services at the end of the 1990s, competitive governance structure those in the UK, and the Canadian province of Quebec experimented with partnership governance before the market approach came to the fore (Enjolras, 2008).

From this perspective, Marival, Petrella and Richez-Battesti (2015) analysed the impact of current reorganisations on the non-profit landscape, on the French regions of *Provence-Alpes-Côte d’Azur* and *Languedoc Roussillon*, and more particularly on the new or renewed governance systems adopted in partnerships. Contrary to all expectations, **these authors show that the cooperation process can contribute to revitalise and reaffirm the socio-political dimension of NPOs by which they promote institutional change.** This research highlights the fact that PO/SEO partnerships can create an impetus and become the source of different forms of innovation, promoting the public interest in a given area.

**Democratic co-construction makes social innovation possible during the development and implementation of public policy.** Indeed, the SEO, both new and old, promote new projects, social criticism, creativity, which finally support the construction of public policies. An approach oriented towards co-construction between partners encourages the adaptation of public policy to emerging needs and social reality (Fontan, 2006), and brings several actors together to forward the public interest (Pestoff, 2006).

We complete this general framework, presenting different forms of cooperation, by identifying the conditions for sustainable cooperation, which we use to analyse several typical cases of PO/SEO cooperation.

### 1.3. Towards a sustainable cooperation strategy

Here we examine the conditions that need to be assembled to make PO/SEO cooperation sustainable (that is, balanced and lasting), and the processes that guarantee such sustainability.

With this in mind, Camus (2014) identifies several different approaches to PO/SEO relations. In this article, **we favour two complementary approaches**: collaboration and partnership; and interaction styles.

**The collaboration and partnership approach** considers PO/SEO relations as an example of cooperation between actors in different institutional sectors, and research in this area analyses why cooperation is desirable and beneficial for the different parties. **The interaction styles approach** analyses PO/SEO relations as configurations, arrangements, and interactions, and builds typologies of these relations based on different dimensions. The Collaboration/partnership is a micro-level approach (at organisational level). Interaction style approaches focus on both sectoral and organisational levels.

#### 1.3.1. An analytical grid for PO/SEO relations

The Coston-Brinkerhoff (1998) typology, which uses both the interaction styles and collaboration/partnership approaches (Camus, 2014), is appropriate for our research due to the different dimensions it proposes, which we detail in Table 2 below.

**Table 2 - PO/SEO relations**

<b>Contracting</b>	Public organisations contract (formally) with Social economy organisations for the provision of social services. This engenders a degree of risk for the SEO: risk of insufficient funding, or on the contrary the risk of competing with commercial organisations if the funding permits it, and the risk that the State will decide to provide the service itself.
<b>Third-party</b>	Public organisations collect resources and determine the social priorities, while SEOs or for-profit organisations organise service provision (formal contracting). This allows for diversity in service provision.
<b>Cooperation – Coexistence</b>	Resources and information are shared (free flow of information between PO and SEO, each party informing the other of its respective operations), SEOs follow the rules dictated by the government, and the government has a neutral policy with regard to SEOs. POs and SEOs coexist, even if this can result in overlapping (cooperation: informal relations). These relations can be observed in a given sector but not in others.
<b>Complementarity</b>	Several types of complementarity can be identified. In philanthropic complementarity, the government allows SEOs to manage resources at local level and to work directly with local institutions. Intermediation complementarity gives SEOs a more institutionalised role; the government gives them the power to conduct certain governmental functions. In “assisted autonomy” complementarity, SEOs act as catalysts for local initiatives; they help local actors to define their needs and formulate appropriate strategies to answer them. Apart from these three standard types of complementarity, other more specialised types can appear, depending on the context, the sector, etc.

	<p>Every form of complementarity is based on comparative advantages, the legitimate role of the PO, and a substantial degree of autonomy for SEOs. This complementarity is relatively informal and can be limited to certain social economy organisations or sectors (governments and social economy organisations rarely admit to being complementary in every circumstance).</p> <p>The greatest <b>difference between complementarity and collaboration</b> lies in the <b>degree of formalism</b>. Collaboration implies more formalism (joint action requires a formalisation process, and this is generally a collaborative rather than a complementary relationship).</p>
<b>Co-construction (collaboration)</b>	<p>These relations imply information and resource sharing, and joint action. They are similar to <b>coproduction</b> processes, that is, the PO shares responsibilities and operations with other actors (commercial organisations and SEOs). Collaborative relations <b>respect the identity</b> of the participating organisations.</p> <p>In the three last types of relations identified by Coston, SEOs and POs thus act together. But the co-construction of public policy (at macro level) requires the parties to go beyond joint action.</p> <p><b>Co-construction requires SEOs to take part in the development of public policy, not just in their implementation (Vaillancourt, 2009).</b></p>

Source: adapted from the Coston-Brinkerhoff model (1998: 363).

The Coston-Brinkerhoff scale gives detailed insights into the processes at play in the two fields studied in this article (medical-social and promotion of social innovation). It is particularly often used in the Canadian context (Gauvreau, Savard, Tremblay, Diadiou, 2009; Proulx & Savard, 2012), more specifically in the home care sector, even if initially it dealt more with relations between States and non-governmental organisations (NGOs).

Proulx, Bourque & Savard (2005) and Savard, Robichaud & Tremblay (2009) take up this typology describing in detail the type of relations that develop between the public and third sectors (Table 3).

**Table 3 - Typology of relations between public establishments and community organisations adapted by Proulx, Bourque & Savard (2005)**

Dimensions	Relation models			Social-community model	
	Social-state model	Third party	Coexistence (cooperation)	Supplementarity (complementarity)	Co-construction (collaboration)
Openness to institutional pluralism	Low	Moderate	Moderate	High	High
Intensity of relations	Low	Low	Moderate	High	High
Symmetry of power relations	Moderate	Moderate	Low	Moderate	High
Formalism of relations	High	High	Low	Moderate	High

Source: Savard S., Robichaud S., Tremblay S. (2009: 251).

We consider this typology appropriate for identifying sustainable PO/SEO cooperation relationships that maintain the identity of both SEOs and POs, and promote the public interest. We explore the actual conditions in which they are implemented below.

### *1.3.2. Conditions for sustainable cooperation ...*

The ideal-type of partnership as defined by Brinkerhoff (2002) and by Brinkerhoff & Brinkerhoff (2011) provide us with a scale to assess how cooperation is implemented.

According to Brinkerhoff (2002: 21), an ideal-typical partnership is characterised by “a dynamic relationship among diverse actors, based on mutually agreed objectives, pursued through a shared understanding of the most rational division of labour based on the respective comparative advantages of each partner. Partnership encompasses mutual influence, with a careful balance between synergy and respective autonomy, which incorporates mutual respect, equal participation in decision making, mutual accountability and transparency”.

**This ideal-typical definition highlights six conditions to be fulfilled when setting up partnerships:**

- Jointly determined objectives;
- Decisions taken collectively and by a consensus;
- Horizontal rather than hierarchical structures and processes;
- Formal or informal relations based on trust;
- Synergetic interactions between partners;
- Shared attribution or responsibility for effects and results.

**From an analytical perspective, two key dimensions characterise such partnerships: reciprocity (mutuality) and organisational identity.**

Reciprocity, or mutual dependence, implies rights and responsibilities for each actor. There is strong mutual commitment to the partnership’s objectives and goals, as well as shared objectives, consistent with those of the other partner. Reciprocity implies interdependence and interaction.

The identity of an organisation reflects the missions, values and identified constituents to which this organisation is accountable and for which it is responsible (Albert, Whetten, 1985). One motive behind partnerships can indeed be to gain access to resources to attain objectives and maintain organisational identity.

These two dimensions, shared decision making and consideration of the identity of the SEO, enable four types of relations to be identified: partnership (strong mutuality and organisational identity), contractual (weak mutuality, strong organisational identity), extension (weak mutuality and organisational identity), co-optation or absorption (strong mutuality, weak organisational identity) (cf. Table 4).

**Table 4 - Typology of partnerships, Brinkerhoff (2002)**

<i>Mutuality</i> <i>Identity</i>	<b>STRONG</b>	<b>WEAK</b>
<b>STRONG</b>	<p><i>Partnership</i></p> <p>Reciprocity and identity are optimised. The partners are mutually dependent. Reciprocity is acknowledged in recognised, shared objectives.</p>	<p><i>Contractual</i></p> <p>Situation where the PO seeks the characteristics and identity of the SEO to achieve certain aims using certain means.</p>
<b>WEAK</b>	<p><i>Co-optation or absorption</i></p> <p>The organisations agree on the aims and the means, or one organisation is convinced that it is in its interest to follow the path of the dominant organisation. By joining the partnership, the organisation compromises its identity (organisations often lose their identity via processes of compromise and adaptation).</p>	<p><i>Extension</i></p> <p>The organisation itself has little identity (e.g., organisation set up by the government to undertake certain tasks). The SEO has little independence or identity, it acts as the contractor for plans made by the government.</p>

Source: Brinkerhoff, 2002:22.

This representation interests us especially in that it provides insights into types of partnership between a large non-profit organisation with a strong (yet destabilised) identity and the State, as we will see in the case of the French Red Cross.

1.3.3. ... that preserves the valuable features of social economy organisations

In our discussion of the conditions for sustainable cooperation, **the intra-organisational dimension also deserves attention**. The social economy organisation's internal governance structure also affects its founding values and principles (its praiseworthy characteristics).

With this in mind, and faced with the risk that SEOs and the non-profit sector in particular will become just another sector, several collectives and studies have proposed avenues for the development of a non-profit governance structure capable of facing up to the competition (La Tribune Fonda, 2007: 97).

In these proposals three dimensions appear to be central, and to apply to many organisations:

- The division/balance of power between governance and management;
- Risk assessment and prevention;
- Transparency and responsibility.

Recent developments in neo-institutionalist theory provide interesting insights that help us understand how organisations can struggle against the three forms of isomorphism (coercive, mimetic and normative) and release their creative forces. These developments reconsider the role of the actors, particularly those in a so-called dominant position, liable to contribute to the creation of operating rules in their sector (Garud *et al.*, 2002; Demil, Leca & Naccache, 2001; Tellier, 2003).

To summarise, **partnerships and cooperation are most productive when they are based on maintaining the identity of the organisations, on reciprocity, and on**

**commitment to a governance structure** that links the different actors working for the public interest.

## **2. Our research method: analysis of 3 cases of PO/SEO cooperation**

In this second section, we present three cases of PO/SEO cooperation, using data collected between 2010 and 2016 for three different research projects:

- With the **French Red Cross** between 2010 and 2013;
- With the French Grand Est Region, for the Social Innovation and Employer Groups programme (Innovation Sociale et Groupements d’Employeurs - ISGE) between 2015 and 2017;
- With the State and the Region for the Call for Expressions of Interest scheme (Appel à Manifestation d’Intérêt - **AMI**) (study covering the period 2010-2013).

To facilitate the analysis of these three cases of cooperation, we present each case in a similar way, beginning with the context of the cooperation, followed by our observations of the actual effects of the cooperation, and finally the lessons to be learnt from each case in terms of conditions for sustainability.

### **2.1. The French Red Cross (FRC): partnership cooperation**

#### *2.1.1. Presentation of the FRC case*

The French Red Cross (FRC) was set up in 1864 and given the status of “public interest association” in 1945. The French Red Cross is now a leading “non-profit enterprise” in France (“*entreprise associative*” Tchernonog & Hély, 2003), in terms of the diversity of its operations in the social, medical-social, health and humanitarian fields in France and abroad, and by the density of its territorial network (56 000 volunteers and 18 000 staff divided between 800 units and 600 establishments).

It supports the public authorities in the humanitarian field, which makes it a major actor at times of natural disasters and exceptional situations. **It also has a special relationship with the State with regard to the implementation of public policy in the areas of health and social action.**

#### *2.1.2. Effects of the cooperation*

The size and prominence of the FRC (as well-known all over the world as Coca-Cola, according to one of its regional leaders) make it an institutional entrepreneur (DiMaggio, 1988 & Suckman, 1995), with the ability to influence public policy. An institutional entrepreneur is an actor with sufficient resources to contribute to the construction of a new environment or to negotiate the redefinition of the existing institutional environment (DiMaggio, 1988).

A feature of the institutional entrepreneur is its ability to exert influence: it is able to formulate a problem and use it to plead for its own cause and interests, and to develop legitimate, justifiable arguments for the dominant actors in the institutional field. It also has the ability to bring others on board, to construct coalitions in support of its institutional project.

Our analysis of the data collected on the FRC highlights this institutional entrepreneur aspect, at different levels.

It appears first through the reasons why certain FRC employees chose to work there: “I didn’t come to the FRC just by chance, but because of its values and because I thought it was strong enough to stand up for those values and maintain them. Particularly with regard to the States demand for technical competence and the risk of losing their amateur dimension” (employee, 40 years old, manager of an asylum seekers host centre - Centre d’Accueil des Demandeurs d’Asile, CADA). **In the face of outside pressure, particularly from the State, the FRC appears strong enough to maintain its independence and its non-profit project to “humanise life.”**

The institutional entrepreneur dimension also appears in the examples given by people we met (both volunteers and employees) of **experimental projects encouraged and supported (financially and institutionally) by the FRC**, such as projects developed in response to new needs (launch of an Alzheimer respite care centre, end-of-life care homes), or for specific groups (maintaining contact with prisoners, creation of a reception area in a prison for families waiting to meet prisoners). **All these projects, which go beyond the FRC’s immediate responsibilities, demonstrate this desire to innovate and push back the boundaries.**

Finally, this dimension appears clearly in the new position adopted by J. F. Mattei, President of the FRC from 2005 to 2013, founded on advocacy, the new expression of the FRC’s principle of neutrality: “never attack anyone, but on the contrary, defend those in need of help, and so develop a policy of advocacy, but advocacy for, not advocacy against” (Mattei, 2011: 29). This public statement, to politicians and citizens, in defence of the most vulnerable was an urgent desire of both employees and volunteers. The lack of engagement on the grounds of neutrality was increasingly difficult for the members to accept.

### *2.1.3. Analysis of the type of cooperation observed: partnership and co-construction*

In Brinkerhoff’s (2002) typology, **the nature of the relations** between the FRC and the different public organisations (central government, regional councils, local heads of police, etc.) **is clearly that of a partnership**. The declared identity of the FRC and the strong mutuality (reciprocity) of its relations with the State and its local representatives makes this type of cooperation sustainable (with regard to the unique identity of the FRC) and lasting (since 1864).

The FRC, like other structures, is not totally immune from the pitfalls associated with the spread of the principles of New Public Management. It even faces a triple isomorphism: coercive, through the reduction of public funding; normative, through the presence in its senior management team of managers coming from sectors other than the social economy; and finally, mimetic, through the spread of the performance logic. Yet it has managed to retain its ability to defend its founding values. It holds sufficient resources to modify its institutional environment and preserve its original model. Whether by its size and prominence, its political roots, its strategy of advocacy or its ability to lead social initiatives, it contributes to shape the institutional

environment and is in a position of balanced power relations with public organisations.

In Coston's (1998) typology, adapted by Proulx, Bourque and Savard (2005), the relations between the FRC and the State are embedded in a **socio-communitarian model, characterised by strong, balanced relations taking the form of complementarity or even co-construction in certain cases.**

Finally, the reciprocity and mutual dependence between the State and the FRC give each national and local actor in this cooperation (FRC head office in Paris, presidents of local and regional FRC delegations, directors of establishments) its own rights and responsibilities. **The strong mutual commitment to shared objectives consistent with the identity of each partner (PO and SEO) guarantees the sustainability and durability of their cooperation.**

## **2.2. The Social Innovation and Employer Groups programme (ISGE): partnership cooperation**

### *2.2.1. Presentation of the case: ISGE*

This project is part of a regional scheme, Innov'Action, funded by the *Grand Est* regional council over two years (2015-2017). The interest of this scheme is that it brings together actors on the ground and researchers for an action-research project. The project aims to support employer groups (EG), which are non-profit organisations supporting short or long-term fulltime job creation. The employees are employed fulltime by the EG and work for part of the week in different companies. The research project is led by two EG, one multisector group for profit-making firms and a non-profit oriented EG supporting non-profit organisations. A multidisciplinary team of six researchers (a legal expert, 3 management experts and 2 sociologists from the University of Reims and NEOMA BS) supports them in their work of co-constructing an EG network, initially in the *Champagne-Ardenne* region, and then after local reorganisation, in the *Grand Est* region.

### *2.2.2. Effects of the cooperation*

The cooperation between the EGs (SEOs) and the POs takes place at two levels. **At regional level**, the *Grand Est* region funds a research programme to help the region's EGs to cooperate together through an improved organisation. But can we state with certainty that without the funding the reorganisation would not have taken place? This is actually a case where a facilitator has been introduced to help EGs invest resources in this inter-EG cooperation project in a given area, a type of project that currently does not exist in any other region.

**At national level**, employer groups were established by law in 1985, but even after 30 years' existence, they are struggling to obtain public recognition, and remain largely unknown in the temporary work sector. The 18 governmental measures of 9 June 2015, co-constructed with organisations representing EGs in France, perhaps represent the beginning of the end of institutional invisibility.



### 2.2.3. *Analysis of the cooperation observed: complementarity and partnership*

The cooperation studied between employer groups and the Grand Est region as part of the Innov'Action scheme is close to a relationship of “complementarity” (or supplementarity) in the typology proposed by Coston (1998). It can also be analysed with regard to the typology of partnerships proposed subsequently by Coston-Brinkerhoff (2002). In this second typology, the cooperation studied is based more on a partnership logic (strongly characterised by identity and mutuality). Two reasons lead us to conclude that this is the type of cooperation taking place, the fact that the public organisation agrees to fund a project leader organising local action to promote employment (a major concern in France), and the fact that it allows the project to contribute to the development of public policies and programmes (the national federations were invited by the Ministry of Labour to make proposals, as illustrated by the measures announced on 9 June 2015 by the French Prime Minister, M. Valls).

## **2.3. The call for expressions of interest scheme (Appel à Manifestation d'Intérêt - AMI): contractual cooperation**

### 2.3.1. *Presentation of the Case*

In 2014, the University of Reims' Chair in Social Economy was invited to conduct a study of the use and effects of the call for expressions of interest scheme (Appel à Manifestation d'Intérêt - AMI) proposed in the Champagne-Ardenne region since 2010 (this region has now become part of the Grand Est region). This scheme, targeting heads of regional non-profit networks, “aims to help federations to support non-profit organisations in anticipating change. It aims to support the definition and implementation of local development projects by federations in their network or by several federations in the local interest.” (AMI, 2016: 3). For example, the 2016 State-Region AMI is organised around two topics: support for joint-NPO action and federal activity.

The scheme aims to set up a partnership relationship between the State-Region and SEOs in a given local area.

The research team analysed 25 applications made as part of the AMI scheme between 2010 and 2013 for this project. Table 5 provides an overview of the topics covered by these file.

**Table 5 - Summary of the main topics proposed in the AMI scheme  
in connection with SEO/PO cooperation**

Topics	Subjects developed
<b>Reinventing the non-profit model in the region</b>	<ul style="list-style-type: none"> <li>▪ place of NPOs in the region to help with the implementation of a partnership logic between NPOs and local policy (refusal of the “micro-territory”).</li> <li>▪ collaborative tools - transmission of NPO knowledge - dialogue between authorities and NPOs.</li> <li>▪ obstacles and levers of inter-NPO cooperation.</li> <li>▪ avoiding the <b>risk of instrumentalisation</b> by authorities (e.g., creation of action to respond to calls for projects). Network heads stress the importance of re-appropriation of actions by the local population in a given area (co-construction/serving the population).</li> </ul>
<b>Working to improve visibility of the added value/social utility contributed by NPOs in the region</b>	<p>The idea is to think about ways of promoting different projects and increasing recognition of their social utility.</p> <ul style="list-style-type: none"> <li>➔ helping citizens <b>develop their ability to act on society and proposing spaces for reflection... the NPO movement must think about ways of creating new citizens.</b></li> <li>➔ <b>choice of indicators</b> to assess and promote achievements.</li> </ul>

The dominant topic for work is that covering the construction of an NPO network and the issue of tomorrow’s model. NPO actors clearly express their desire to “influence current evolutions and consolidate their position (...).”

The note presenting the scheme in 2014 mentions two key points on funding and the weight of the State in this partnership:

- State and regional funding may not exceed 50% of the total budget planned for the project;
- Total public assistance cannot exceed 80% of the total cost of the project.

Generally, all the projects fall within (towards the top of) this range. For some projects the funding allocation is a very important part of the budget... making the scheme crucial to deal with certain problems in the SE sector.

### *2.3.2. Effects of the cooperation*

The dynamics of the AMI scheme (AMI, 2016: 7) can be summarised in two topics.

**Topic 1 aims to provide time for reflection with regard to NPO innovations.** The support of the Champagne-Ardenne regional council and the regional youth and sports department (DRJSCS) since 2011 have made it possible to encourage experimentation by NPOs and to launch a joint scheme for heads of regional NPO networks.

Without this aid, it seems obvious that NPO organisations would not have been able to invest human and financial resources in a reflection on the study of NPO innovation, which is essential if they are to ensure effective change. The scheme is part of the State-sponsored local Fund for NPO Development in the Champagne-

Ardenne region and of the Champagne-Ardenne regional council's policy to support NPOs.

**Topic 2 covers the encouragement of collaboration between NPOs.** The AMI creates an environment that encourages collaboration between NPOs, as demonstrated by the number of multiple-partnership projects (even if they remain a small proportion of the total number of projects – only 12% between 2010 and 2013). This dynamic is a source of discussions with regard to best practice, and contributes to unite the networks.

To these two topics we may add the fact that the scheme contributes to the development of a **database available** to heads of networks via access to different studies, the vulgarisation of knowledge and issues concerning NPOs. More generally, it makes projects conducted by NPOs **more visible and better recognised** by internal and outside actors. Nonetheless most of the reports highlight the fact that the duration is too short to develop relations with researchers to facilitate an objective approach.

The different reports studied reveal that the AMI scheme enabled network heads to:

- **Work on a regional identity** (particularly by facilitating multi-partnerships and collaborative work “to identify the levers of inter-NPO cooperation”);
- **“take time”** to think about their strategic orientations in the face of transformation in the sector (“anticipate the future/prospective procedures”);
- **Develop work with outside institutions** (e.g. universities);
- **Overcome problems linked to geographical distance** in the region thanks to the payment of travel expenses;
- **Develop spinoffs** (funding of a network head provides spinoffs at local level);
- **Formalise the “NPO life”** of network heads.

All these different remarks lead us to two conclusions: **funding for network is insufficient** – without the AMI scheme, the great majority of the projects conducted would not have seen the light of day in the current economic crisis – and the trend for NPOs to join together in **federations**.

Our analysis also reveals that the time allocated (on average between 12 and 15 months) to accomplish the projects remains insufficient with regard to the scope of the topics proposed. The short deadlines also explain the frequency of requests for renewal. Generally, at the time of the first request, organisations are able to draw up a fairly precise analysis of the context and sketch out an action plan (aim of the request for renewal).

### *2.3.3. Analysis of the type of cooperation: third-party and contractual*

The interaction styles approach (Camus, 2014) and more particularly Coston's (1998) typology, provide an appropriate frame to understand the cooperation observed in the AMI scheme between public and social economy organisations. Based on this typology, the relationship is closest to “third-party” cooperation: “here, the public organisation limits itself to establishing orientations and priorities, and delegates to

third sector organisations the responsibility for organising service production, thus limiting its influence on the activities of the organisation and how it uses the funds” (Proulx & Savard, 2012: 13). The characteristics of the four dimensions described by Proulx, Bourque and Savard (2007) align with what we observed at focus group meetings organised during the research project: openness to moderate institutional pluralism, large number of weak relationships (a review meeting is planned), moderately balanced power relations and high degree of formal relationships (production of intermediate reports justifying actions). The Coston-Brinkerhoff typology (2002) also provides interesting insights, allowing us to describe the cooperation as “contractual.” Indeed, the public organisations grant funds to the heads of NPO networks to help them develop their regional organisation. Nonetheless, the fear expressed by the (small) social economy organisations, particularly with regard to maintaining their identity, raises questions as to the classification of this partnership as one of “extension” (allowing NPOs little independence or identity).

This case study also highlights the tensions and ambiguity resulting from this cooperation, in which the network heads raise the issue of maintaining their identity (should we misrepresent the NPO’s aims to attempt to correspond to the call for projects and thus obtain funding enabling us to continue our activity for two years?) and the spectre of instrumentalisation. These concerns are in line with the conclusions of Petrella and Richez-Battesti (2010), who question the effects of a redefinition of public action accompanied by the reinforcement of requirements in terms of efficacy on the governance of private non-profit organisations (including social service organisations). This new perimeter of public action introduces new, quasi-commercial governance methods that weaken the forms of partnership governance that the authorities seek to encourage in French regions.

### **3. Conclusion: the conditions for sustainable cooperation**

The three cases presented provide several clues with regard to the conditions for effective, sustainable PO/SEO cooperation as we defined it in our introduction: cooperation that preserves the organisational identity of the partners (particularly the social economy organisation); which optimises the contribution of each; and which is sustainable over time.

**The case of the French Red Cross** reveals that its size, age and prominence make it an institutional entrepreneur, which can influence public policy and contribute to its construction. In the health and medical-social fields, it is able to develop partnership type relationships with the State and its representatives.

More broadly, the case of the FRC shows that **Coston’s (1998) co-construction relationship is not utopian**, but easier for large SEOs to set up. **The case also confirms our hypothesis that the co-construction of public policy encourages the development and implementation of social innovation.** Examples of this include

respite care provided for those caring for Alzheimer sufferers, the maintenance of contact with the prison population and the defence of asylum seekers.

**The case of the Innov'action programme (ISGE)** underlines the importance of formal or informal relations based on trust and the effects of synergy between the partners. This type of programme is led by local actors (in this case two employer groups) whose project to develop an EG network was approved and funded by the *Grand Est* region as part of the Innov'action programme. This example of cooperation is **not yet at the stage of co-construction, but an intermediate stage**, which can be described as partnership cooperation in the sense that the partners (EGs) have succeeded in proposing a project that fulfils the criteria for social innovation previously defined by the region.

Unlike the two other cases, **the case of the AMI scheme** is an example of formal or informal relations based on trust between different sized NPOs, heads of NPO networks, and public organisations. The scheme remains closely monitored by the authorities, but has the advantage of supporting initiatives that would not have been possible without this aid. However, the public organisations weigh much more heavily in the relationship than the social economy organisations. Here again, we are very far from the "co-construction" model, and closer to that of the third party and contractual cooperation (or even extension cooperation for the smaller SEOs) in the sense of Coston-Brinkerhoff (2002).

In these typical cases, the identity of each type of organisation was preserved, yet reciprocity in contributing to objectives and co-constructing public policy was not always ensured.

In particular, the initiative for the cooperation came mostly from the authorities in cases 2 and 3, and cooperation occurs in one-off actions. In case 1, however, the cooperation project is shared by the two actors and is a long-term initiative.

Yet the three cases highlight the extent to which cooperation encourages social innovation. In case 1, social innovation is initiated by the SE organisation, whilst in cases 2 and 3 it is led by public organisations.

The present chapter provided insights on the conditions for sustainable relationships between public organisations and social economy organisations; it should be extended with additional case studies to refine the analysis of such relationships.

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## **Co-construction of the general interest and social innovations forms in Kabylia: A partnership interaction approach based on three case studies / Chapter 10**

Malika AHMED ZAÏD\*

### **Abstract**

In its theoretical approach, this contribution draws outlines of the conceptual framework of the co-construction of the general interest, and social innovation. It also includes an empirical approach through the results of surveys among concerned social economy associations and public actors in territory of Kabylia (Algeria). It focuses on characterization of social innovation carried by these organizations in relation of public offer, and analysis of its impacts on community and territory.

Then, social innovations' forms of institutionalization were investigated and the institutional predispositions to shared territorial governance that integrates innovations in the economic and social services delivery were identified. Subsequently, we assessed the contributive capacity of the public economy and social economy organizations to the construction of the general interest policies. From there, we were interested in the induced interaction between the various partnerships' forms what we called "public-community", "public-social" and "public-international" observed in three case studies in the investigated territory.

We have characterized social innovation types of the associations that manage community projects in different SSE activities. Their contribution to provide social and economic services for the general interest has been assessed. Finally, we attempted to prove the relevance of forms of governance integrating the co-construction of the general interest in the provision of social services and the forms that the institutionalization of the social innovation takes for the public authorities in the field studied.

**Keywords:** co-construction; social innovation; general interest; social and solidarity economy; partnerships; associations; Kabylia

**JEL-Codes:** B59, D64, L31, L38

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\* Professor, Laboratoire REDYL-Réformes économiques et dynamiques locales, Université Mouloud Mammeri, Tizi Ouzou (Algérie) ([malika-ahmedzaid@ummo.dz](mailto:malika-ahmedzaid@ummo.dz) - [laboredyl@ummo.dz](mailto:laboredyl@ummo.dz)).

The substantial works related to the co-construction of the general interest and the social innovation carried by the SSE (CRISES)<sup>1</sup> deal with their factors of emergence and diffusion, their institutionalization modalities and interest of the State to these innovations. Therefore, the State or public actors in general, have to redefine the construction modalities of the general interest, apart from the classical and neoclassical approach, by moving towards dynamics of governance and partnership (Petrella & Richez-Battesti, 2009). In the same way, a transformation of the State's conception is therefore suggested (i.e.) moving from a traditional welfare State towards a facilitator State and a subsidiary State that favors partners/actors autonomy (Levesque, 2007).

The Algerian context is at the heart of these concerns. Despite the positive social and economic achievements of development policies since independence (1962) and significantly strengthened by several economic and social recovery programs; many economic and social needs remain insufficiently addressed. Thus, we suggest analyzing the interactions and modalities of partnership existing between the different actors in an innovation process in a territory and co-construction of public policies. Hence, our approach relies on the methods of economic anthropology (Mauss, 1912; Polanyi, 1944, 1957) and, because of the interaction between innovation and the territory, on the approach of the local public economy, assuming that "if innovation has an effect on the territory, the territory also has an impact on the ability to carry out innovative approaches or not" (Klein, 2011).

In this contribution, we will be interested to the study of the partnership interaction between different co-construction experiments of the general interest between the State and the social associations in terms of public-community partnership, public-social partnership and public-international partnership perspectives. It will focus on the forms of social innovation of social associations in the field community action and the support of disabled people in institutional settings. It will also deal with the setting up of a support fund to the very-small enterprises (VSE) in the context of a partnership under decentralized cooperation. We will discuss the main questions in relation to its innovations such as difficulties of their institutionalization and their role in the transformation and formulation of the general interest. We propose to analyze them in the evaluation process of social economy and the public policies. It will be a question of characterizing the types of social innovation of associations that manage public community services, medico-psychological centers for disabled people or a support fund to the VSE. In the same context, we will examine their contribution to the provision of economic and social services of general interest. At this level, it is also relevant to know whether there are governance forms that integrate the co-construction of the general interest in offering social services. It will then be a question of examining the forms that the institutionalization of this innovation takes for the public authorities.

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<sup>1</sup> CRISES is the Research Center on Social Innovations, at the University of Quebec (UQAM), in Montreal.

This contribution is first of all theoretical in discussing the conceptual framework of the co-construction of the general interest and the social innovation applied both to the territory object of this study. It also embodies an empirical character through the results of survey among concerned associations and public actors. It will focus on characterization of the social innovations carried out by social economy organizations in relation to the public offer and analysis of the impact of these innovations on the community and the territory. Then we will study the social innovation's institutionalization forms (Bouchard, 2011) in order to identify the institutional predispositions for a shared territorial governance integrating innovations in social services management. In this way, it will focus on the contributive capacity of public economy and social economy organizations to the co-construction of general interest policies in order to identify the interaction induced by the different forms of partnerships as defined above and observed in three case studies in the territory of Kabylia (Algeria).

Our contribution has three main focal points: the first presents the conceptual framework to the notions of co-construction, general interest and social innovation in order to understand their current practices in our field of study. The second aims to enable the territorial social environment diagnosis of Kabylia. The third attempts to demonstrate how forms of organizational innovation led to practices of the co-construction of the general interest. These practices lead to an interaction between associative action, territorial social action and other public actors, that represents various forms of partnerships in Kabylia as stated before.

## **1. The conceptual framework of the co-construction, the general interest and the social innovation**

The foundation of any democratic political system, the general interest, is the core of public action; it is its purpose and the form of a "social contract" that regulates the individual and the collective. It "has long been considered as an answer, it has now become a question" (Allier, 2015). Like any structuring concept, the notion of general interest includes both political operational and strategic dimensions.

While the first two are widely debated, the third is destitute because of its complexity, both in times of crisis and in times of prosperity when the strategic dimension is not perceived as a priority. However, it is inconceivable to ignore it during a period of profound transformation. The concept remains difficult to define because it carries within it the notions of public will, public service, public utility, social utility, and common good (Allier, 2015).

Social innovation is generally defined as a set of "new responses to new or under-satisfied social needs in current market conditions and social policies, involving the participation and cooperation of relevant actors, particularly users-users. These innovations concern the product or service as well as the organization and distribution of fields such as aging people, early childhood, housing, health, poverty

reduction, exclusion, discrimination, etc. They go through a process in several ways: emergence, experimentation, diffusion evaluation (CSESS)<sup>2</sup>". This definition shows complexity of the innovation process and multiplicity of actors involved in it. The sector of the social and solidarity economy is recognized to have a social innovation function (Wintrbert, 2012), because it provides answers to needs and aspirations that are not satisfied both by the market sphere and by the non-market sphere (Bouchard, 2011).

The profusion of terms with the prefix "co" (co-creation, co-construction, co-operation) and their use confers to the projects they define a collective stamp and seals partnership of "working together". Some of these terms fall under pleonasm (co-partnership), others carry a strong symbolic meaning in the way they refer to construction with a moral agreement to work concretely for the project achievement. Co-construction is a neologism used in the non-profit sector with societal commitment. This terminology allows the inclusion of all the actors in a project at the base of its conception<sup>3</sup>.

For Vaillancourt, the concept of co-construction, as understood in public policy, constitutes a typical ideal conceived as an objective that is never completely achieved. He defines three types of co-construction: the neo-liberal co-construction in which economic elites dictate their will to decision-makers; the corporatist co-construction in which certain stakeholders take part in the deliberation and the decision-making process by excluding other groups of actors with less economic and symbolic capital and solidarity co-construction in which all stakeholders participate in the deliberation process and decision-making (Vaillancourt, 2016). He distinguishes co-construction from co-production of public policies (Foudriat, 2016). Indeed, the term co-construction places actors on an equal footing, extracting them from the active-passive and financier-financed relationship, it will give more effectiveness to organizations of the social economy and solidarity enabling complementary and balanced partnerships.

In the sociological approach, co-construction is underpinned by the change that can more or less be resulted explicitly from complex sets of developing process aiming "creative co-operation" that emerges from and between involved actors (Foudriat, 1997). This approach breaks with rationalist and top-down approaches (Foudriat, 2001), it incorporates a paragraph in organizations sociology manual in its first edition (Foudriat, 2011) and then a whole chapter in the third edition (Foudriat, 2013). The approach developed focuses on collective action and mobilization of "civil society" actors. It highlights common issues to debate, such as: problems of framing issues and territories, mobilization-participation strategies debates in a perspective of co-construction of the general interest, learning process of the actors to forms of participative democracy. "The inflationary use of the co-

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<sup>2</sup> Conseil Supérieur de l'Economie Sociale et Solidaire (CSESS) is the Higher Council of the Social and Solidarity Economy in France, <http://www.avise.org/decouvrir/innovation-sociale/de-quoi-parle-ton> .

<sup>3</sup> <http://www.carenews.com/fr/news/3285-dis-flavie-c-est-quoi-la-co-construction> .

construction notion would thus mean that the notions of participation and shared diagnosis have become criticized because they have remained too ambiguous and have been object of abuse and manipulation”.

The term removes all inhibitions: using “co-construction”, both public and SSE organizations are no longer embarrassed to forthrightly intervene in the general interest, their legitimacy being based on the association or structure with which they work. To this end, as advocated by the social entrepreneurs’ movement (MOUVES<sup>4</sup>), tomorrow’s public policies represent a collective challenge, for which social enterprises are ready to co-build with public authorities.

Co-construction brings together State and other stakeholders who share common interest objectives; they thus adopt a more efficient economic model in order to meet the basic needs of the population. As Bason says, co-construction is a “process that generates new ideas, its implementation creates social value for society. It is a continual, dynamic and horizontal dialogue that shakes the administration’s traditional working method, involving citizens, social enterprises and public authorities in defining and shaping public policies; the remaining State making the final decision” (Bason, 2013).

Today, social and solidarity economy (SSE) appears as an optimal model for territorial social development. In theory, the territorial anchoring (Pecqueur, 2009) of organizations in this sector of the economy is the source of innovative experiences thanks to a more adequate care to social needs of the concerned persons than that of public intervention.

The first services usually provided by SSE are providing care for dependent persons on grounds of age or disability. From this perspective came the home services that the SSE currently develops: childcare, assistance to the elderly, meal deliveries, gardening work, etc. The welfare State is not able to create these activities, due to lack of human and financial resources; similarly, for private enterprises, since they are not very profitable. The SSE also contributes to the creation of new forms of social services, because its actors are close to the population; which allows them to put in place original forms of social services.

Social environment analysis in Algeria shows that its economic, sociological and cultural characteristics favor the development of a territorial social action process, based on a partnership between the concerned public authorities and SSE organizations. It is particularly the forms of local solidarity embedded in the society that support this process. These predispositions are expressed in circuits of mutual assistance and common care for the needy. This solidarity, combined with public solidarity at the territorial level, would give rise to organized forms of collective action. For public action, it is an important support for both the collection of information, finance mobilization and the implementation of the action. In this sense

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<sup>4</sup> MOUVES is the Movement of Social Entrepreneurs in France, see: <http://mouves.org/>.

and in our framework of analysis, we therefore note associations of a social character.

Social action is mainly implemented by the Social Action and Solidarity Directorate (SASD) of the *wilaya*<sup>5</sup>, which bring together all the de-concentrated departments responsible of social action. Their main task is supervising social action system implementation in this sub-State territory level. The social welfare services develop and implement any measure likely to frame the activities related to State's social action and the formation of the social nature for the associative movement.

On the one hand, they are responsible for setting up, in liaison with the local authorities, information systems relating to social protection needs assessment and the disadvantaged and the disabled categories identification. On the other hand, their mission relates to the promotion and development of any activity of social and professional integration of disabled people. Finally, they have competence in the field of coordination and evaluation of social protection programs implementation, in particular those relating to assistance for the elderly, the needy, the education and rehabilitation of the disabled, the protection and safeguarding of children deprived of family and young people in a moral danger. They shall also be responsible for the implementation of any measures which promote the expression of national solidarity in the social field, in particular by associative movement developing and encouraging<sup>6</sup>.

That being so, the questions related to innovations that social associations can provide, in terms of social action and with regards to public action and the refunding of the general interest are crucial. What is the contributions' nature, actions and social services offered by these associations? Is their action more specific than those of public action? Is it a particular innovation, both in terms of service quality to the population and in terms of their actions' quality and effectiveness? To what extent and with which partners can economic and social action be co-constructed?

These are all relevant questions to which we will attempt to provide answers through the next two sections related to a diagnosis of the social-territorial environment of the region studied and to the analysis of the data from the surveys undertaken.

## **2. Diagnosis of the social environment territorial in Kabylia: from organizational innovation to a co-construction of the general interest**

The analysis of the social territorial environment in Kabylia can be constructed on Durkheim's thesis, arguing that the evolution from traditional society to modern

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<sup>5</sup> Especially in terms of implementation because design and financing remain the responsibility of the central State, namely the Ministry of Solidarity, of the Family and the Women Condition.

<sup>6</sup> Article 03 of the Executive Decree No. 96-471 of 18/12/1996 laying down the rules of organization and operation of the Wilaya social action services, JORA n° 83 of 25/12/1996, pp. 17-18.

society is marked by the transition from “mechanical” solidarity to “organic” solidarity. In traditional small communities, ties are based on proximity, resemblance, shared history and shared values. While in modern societies, Men are different, numerous and melt into the mass. The links between individuals are based on the division of labor because individuals become dependent on each other and complementary to the specialization of tasks.

In Kabylia, traditional social organization is based on family solidarity based on segmentarity (Masqueray, 1886; Gellner, 1969) as a social ferment. This has far from disappeared with mutations that witnessed the modern society; it even proceeds to a refunding resembling to social innovation being part of organizational innovations expressed mainly through “the village committees” but also the social and territorial roots of certain associations.

### **2.1. “Mechanical” or “Hidden solidarities”**

It is a context of organized private solidarity in structured forms, insufficiently recognized by the public authorities’ legislator. These are common forms (Oström, 2010) of care between individuals sharing the same geographic territory or having social relations that go beyond this geographical area or non-formalized solidarities (Causer, 2007). In Kabylia, they come in two forms:

#### **A. Village solidarity**

The family and village organization of the traditional Kabyle society has always been characterized by a construction of society based on coexistence and the contribution of each to the smooth operation of community affairs. It embodies principles of collective responsibility for collective interests that have not changed even in the presence of public services provided by local representatives of the public authorities. It was and still is, in most cases, more than a form of solidarity, a way of life, a cultural composition that founds and perpetuates the group. This principle of community life was quickly established as a rule of conduct, then in principle of ethics in which the first contours of the concept of citizenship are recognized. This approach recognizes the individual interests, personality and behavior while subjecting it to certain obligations such as respect for others based on the principle of reciprocity, participation in tasks of collective interest, contribution to common expenses and solidarity action for the benefit of the poorest.

In this traditional social organization, there is a family self-organization that is expanding and regrouping the whole village. This organization pattern brings members of a same family and by extension of a same village to take care of each other; thus the people in need are not left behind, using the villagers’ own resources.

The villagers then support the poorest through services and food exchanges on a daily basis or during religious holidays, which are a special moment to demonstrate the power of exchange at the time of collective sacrifice. The rendered services are



materialized by exchange of mutual assistance services and reciprocity, such house building, volunteering and helping a family member during the olive harvesting. All these solidarities give rise to a social action territorial systems resulting from the feeling of private solidarity, which can be a palliative to public action provided if coordinated and well used.

This social dynamic is driven by *tajmaat*, an assembly of representatives of different social organization segments with the exception of women who are represented informally<sup>7</sup>. Besides in collective interest activities, this deliberative and executive body was also responsible for organizing cultural life, ensuring preservation of the common heritage and contributing to values and traditions' transmission (Ahmed Zaid, 2007). Solidarity action has contributed to the community buildings' construction (mosques, schools, roads, etc.) and to ensure a town planning adapted to the needs. It was also responsible for organizing the property and people protection provide certain needs of general consumption and safeguarding the commons (water, education, sanitation). In addition, it helped to facilitate plowing, sowing and harvesting; clean up and the tragedies effects reduction, incidents and accidents that could affect the members of the community. This organizational framework has institutionalized a form of organized volunteering, *tiwizi*, to become the means of recourse of poor and haves. It is the force mobilized in case of necessity, the expression of an accessible altruism to the poorest, the weakest, and a device for more equity. It will be carried by village infrastructures proportionally with the scope of the microcosm of villagers secreting social superstructures in line with the demands expressed by society (Ahmed Zaid, 2007). This form of solidarity organization is a persistent feature in all Algerian regions and even in North Africa (Camps, 1980). It is therefore based on a cohabitation between the rich and the less wealthy; the community assumed its responsibilities to face misery, disease and natural disasters. For this, the unemployment notion has remained unknown as long as reason, work and generosity have dominated.

This territorial solidarity pattern based on the principle of reciprocity is developed by Polanyi. He states that unlike the market, reciprocity assumes that the partners are in a relationship of complementarily and voluntary interdependence (Polanyi, 2001). The pattern is now threatened by changes in social organization dynamics and the rise of individualism that resulted in the need for a social policy to rehabilitate these practices and to extend actions to the care of the elderly, the disabled and the poor.

## **B. Religious solidarity**

The second model of territorial solidarity, practiced in both rural and urban areas, derives from religious practices' rules and principles. This form of solidarity presents analogies with the concept of foundation and the goods that are its object are referred to by the term *habous*. It refers to the law relating to land ownership in Maghreb. Public *habous* are goods considered of general interest intended to

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<sup>7</sup> By her husband, father, or brother, etc.

accommodate hospitals, religious schools or other collective projects, while the *wakf*, property of mortmain, are inalienable goods preserved within a family. When the lineage goes out, these goods are assigned to charitable works and become public *habous*.

Thereby, “the *habous* is a juridical act by which a person stripped himself of one or more of his properties, usually immovable, and puts them out of commerce, by assigning them to perpetuity to charitable or social work, either in an absolutely exclusive manner of any restriction, it is a public *habous*, or reserving the enjoyment of these goods to one or more determined persons, it is *habous* of family” (Cherif Chakib, 2007). At the extinction of the family line, this last becomes public *habous*. The *habous* include real estate, land and agricultural rents such as the fruit of inalienable olive trees. Incomes of these public dwellers are very useful; they assure in small localities functions of collective interest. Thus, the model of this religious solidarity can be considered as an instrument of long-term support and financing of the SSE structures in view of its historical anchoring in the Maghreb societal being, its incarnation of the interest of the community, its management style and its multiple objectives.

There are other major forms of religious solidarity as *zakat* (Boublal, 2014), or almsgiving, the third pillar of Islam. It is a religious obligation required to believers on a yearly basis over financial resources exceeding 85 grams of gold (2.5% acquittal), the livestock, goods, soil extracted resources, fruits, vegetables, cereals. We can also list the *a'shur*, a sort of tithe of the crops and the assets, *zakat-el-fitr* and *sadaqa*. Products of these religious solidarities are redistributed to the poor and the needy in order to ensure a decent life to them. They contribute significantly to the mechanisms for consolidating solidarity and social cohesion.

These traditional and religious practices have played and play an important role at social and economical levels in Algeria. They are materialized in aid to the needy, as well as through an integrated economy respecting the citizen, social and democratic dimensions. These practices respect and maintain the social and human dimensions underpinned by the creation of sustainable jobs and develop adapted responses to meet the needs of citizens on their own territories. This is particularly the case of the institutionalization of *zakat* through the creation of the *Zakat* Fund (Sfihi, 2013).

However, this mechanism of religious essence involves sprains and breaches of the sacrosanct budgetary principles and limits their scope, allowing the run away of collective means of financing that escape the budget channels. Similarly, it will question one of the fundamental attributes of the tax because it can now be constituted by a contribution in kind contrary to the conditions required by modern tax.

## 2.2. “Organic” or “apparent solidarities”

This type of solidarity is characterized as “visible” because it occurs in an organized framework that responds to the appropriate regulatory status. It is a solidarity that is part of the legal and regulatory channels defined by the legislator, in the form of associations, interest groups and organization of the solidarity economy, but which originated from the traditional social system organization, including the *tajmaat* or village committees.

### A. The associations

These organizations have existed since the independence of Algeria, but have only expanded and blossomed with the political opening and the promulgation of Law 90-30, relating to associations. So, the legal framework applied to associations has been considerably lightened in terms of procedures for creation and exercise controls. This law has been replaced by a new one in 2012<sup>8</sup>.

The tolerated associations are generally those that intervene in particular fields as religious, political, sports, cultural, social and consumers’ protection. Behind the choice of public authorities to promote and develop the associative movement, is the objective of creating a link between the public sphere producing public measures and the private sphere, consumer of public services. This relay must respond to the needs of the population that are not supported by public service bodies because of multifaceted failures. The number of associations in Algeria, according to statistics compiled in 2012, is 1,027 national associations and 92,627 local associations<sup>9</sup>. The Wilaya of Tizi-Ouzou ranks third in the country with 4,809 associations.

Social associations have thus known a great development. They are organized mainly around the care of people with disabilities, suffering from chronic diseases and to a lesser degree, the care of the poor. In the field of social relief, public interest associations such as the Algerian Red Crescent and Algerian Muslim Scouts remain mostly involved in this field; their situation is quasi-monopolistic. Otherwise, small associations activate locally, but their activity and their contribution to the community remain limited. This activity is confined to very punctual events during national and religious holidays.

That being so, one cannot ignore the question of interference of public authorities in the functioning of associations and civil society in general and their willingness to co-opt them. Indeed, it can be argued that the associative field also allows the authorities to control society. The various procedures and control mechanisms to which the associations are subject allow the authorities to monitor the activities of their members. Furthermore, the arbitrariness of the administrative practices authorized by the legal uncertainty is a way of managing a social space showing

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<sup>8</sup> Law No. 12-06 of 12 January 2012 on Associations, JORA No. 02 of 15 January 2012, pp. 28-34.

<sup>9</sup> Data source: <http://www.interieur.gov.dz>.

ambitions of autonomy. The emergence of mobilization forms that call upon other mechanisms to strengthen the democratization of society are repressed and struggle to consolidate. Although still a minority, some associations, known to be active in the field of human rights, have managed to stand out from these co-optation strategies. However, this attempt at muzzling the associative movement has also shown its limits, the authorities have to deal with a new phenomenon that is more difficult to control, such as the presence of regional and international organizations and institutions that privilege direct contacts and relations with the associative movement. In addition, through national level networking or thanks to the support of international organizations, some service associations have been able to increase their autonomous intervention capacity, especially in the social, health care sectors and youth. Thus, coordination platforms have been created in recent years and, from Internet portals, have as their main objective Algerian NGOs' initiatives coordination promotion.

Having more financial autonomy, thanks to the support of international donors, other associations such as Children and Women Rights Center for Information and Documentation (CIDDEF) even managed to stimulate public debate and legislative reform projects on the issue of women and work or abandoned children.

Nevertheless, the internationalization of the Algerian associative field is not well perceived by the authorities that see it as a challenge to their effective control over the associative movement. This is why the legal framework limits the possibilities for local associations to establish links with international organizations: they cannot join international associations pursuing the same goal. Only national associations can do this, after prior approval of the Ministry of the Interior.

## **B. The village committees**

It is the new form of legally recognized organization grafted onto a broader form of traditional solidarity embedded in the village socio-political institution "*tajmaat*", introduced in the conceptual framework of section 2. Currently, the latter tends to restructure and to decline in an associative form called "association of the village committee" with less rigidity in the mechanisms of representation which are based rather on a voluntary commitment than on a family anchor. It is an equivalent to the urban structures "neighborhood committees" but whose functions and principles are quite different. Social action and social assistance are regular functions within the village committees; they come in the form of financial assistance to the poor, food aid, clothing, etc. Neighborhood committees in urban spaces do not automatically address these issues. This new context that *tajmaat* knows is due to the institutional recognition that certainly marks a form of organizational innovation. However, it also joins somewhere Desroche conception of the social economy (Desroche, 1991), who distinguishes between an "instituting social economy" based on a project that drives and is the operation engine of the initiatives, and an "instituted social economy", dominated by the organization (Draperi, 2007; 2011). He then considers that in this

established social economy, the organization is a brake on innovation and creativity. Applied to *tajmaat*, there will be a risk of instrumentalization (Demoustier, 2001) or trivialization (Jeantet, 2006) behind its institutionalization. We believe that certain experiences of village committees have led to innovations in the modalities of participation in the social development of communities and the initiation of certain mechanisms related to solidarity finance (Boutrahi, 2013). Thus we join the analysis of Draperi who shows through some renovations made by large organizations of the social economy that “the process of institutionalization and trivialization is neither continuous nor irreversible” (Draperi, 2007). But, a long-term evaluation is advocated to better discuss these hypotheses.

These committees continue to play an important role in villages’ day-to-day life and they are the ones who compensate local public authorities’ shortcomings in providing certain services: road surfacing, electrification of the villages, drinking water supply, and help to the poor. They manage to carry out activities on a voluntary basis and financial contributions advanced by the members of the village (Taïb, 1999). These committees are sometimes consulted by local elected representatives and deconcentrated administrations. They actively participate in local needs expression and Communal Development Plans formulation.

As it is nowadays, the territorial social organization in Kabylia tends to mitigate social bond disintegration effects under impulse of the populations’ urbanization and modernization of the ways of life. The concerned territorial actors start their organizations on the basis of traditional “mechanical” solidarities. This is mainly the case of village committee, considered as an innovative organizational model with a territorial anchorage that appropriately meets the inhabitants’ expectations. In a second step, it is relevant to identify the innovative actions produced by its associations in their two forms: village committees and associations of a social nature.

Finally, one must note that *tajmaat*, as an ancestral institution with high symbolic value, continues to function in many villages, even though it has no official recognition, while the village committee results from the interaction between the villagers’ desire to modernize their village’s management structures in order to improve their living environment and the willingness of the public authorities to have a politically controllable link. In this form of unspoken contract, the committee offers the public authorities a certain right of inspection and a source of peculiar information on the affairs of the villages by developing in particular privileged relations with members of the committee. Sometimes these relationships help to realize some of the useful projects to the villages by their own financial contributions. In fact, these two types of organization cannot coexist in a same village, at the risk of generating conflicts. But, various associations (religious, cultural, social, etc.) can coexist with *tajmaat*, or even have strong ties of cooperation in the sense of promoting the general interest. In its foundations, *tajmaat* is a historically deep and complex socio-institutional construct resulting from a powerful multidimensional synthesis integrating social, cultural, organizational, political and economic referents.

Attempting to equate it today with a simple organizational framework with limited objectives and functioning such as the village committee would be naive and limiting simplification. This last form of organization, rather associative, took shape with the dynamics of the decades 1980, 1990 and 2000. It tends to be inspired by the concept of *tajmaat*, but for different objectives and missions. The main difference is to be found in the way in which the two forms integrate human values, the reference to the family in the mode of representation and the relations to the central power.

### **3. Associative action interaction and territorial social action in Kabylia: Content of the co-construction of the general interest**

In Algeria, the weight of the third sector has always been a poorly studied indicator in the economic analysis (Ahmed Zaid, 2013a). In this contribution we first wanted to identify on a microeconomic scale (territory of Kabylia) the weight of associations in a field of territorial public action, and its weight in social action. The study was not limited solely to a consistence analysis, but also to the innovation approach in associative practices as an objective in itself.

In our context, the construction of the SSE framework is linked to the conventional economy. The three recognized components in the SSE are declined here differently. The first one, on the type of user reports, also takes into account the actors' aspirations in the internal functioning of their organization. The second concerns the relation to the market and its inscription as a third economy in exchanges. It seeks to position itself as a different economy in the plural economy dominated by market and administered economies. The third strand relates to the policy report on public policies initiated which claim to be forms of social innovation, but which produce inefficient responses to unemployment, rural depopulation and local public services management. This report remains unfinished due to the lack of consideration to defining and constructing local public policies process.

To do this, we first recommend to study the action of the village committees in the framework of community development projects, then the action of social associations activating for the benefit of disabled people and finally the study of a special case of the support fund for very small enterprises by the *Touiza-Solidarité Internationale* association, which can easily be likened to social innovation forms of organizational nature.

#### **3.1. Co-construction of the general interest, and community partnership: Community development and village committees action**

The community development and the action of village committees were aimed at co-financing several projects through the public-community partnership in a participative approach. This program is initiated by the public authorities in 1998 as part of a social net support program, entrusted to Social Development Agency services for its financing and to Social Action and Solidarity Directorate at the territorial level for its implementation. It aims to improve the living conditions of poor

people living in disadvantaged areas. The project must, by its very nature, benefit community people in terms of improving their daily well-being as well as temporary or permanent jobs creation.

The project must be sponsored and presented by a local association to the municipality to meet the aspirations of the inhabitants, and the overall amount of the project must not exceed 4,000,000.00 DA. The financial support will be 90% of the project by the Social Development Agency (ADS) and 10% remaining by the beneficiary community.

In this participatory approach, the village committees expressed and showed a community awakening among the population and were able to mobilize necessary co-financing for the projects viability. This enabled the completion of 55 community development projects in the territory of the Wilaya of Tizi Ouzou for a total amount of about 140 Millions DA, corresponding to a Community financing of about 14 Millions DA<sup>10</sup>. The projects mainly concern drinking water supply, sanitation, village roads paving and public lighting. The most innovative action within the framework of the realization of this program consists in building a home for the disabled. This type of project does not figure in the official nomenclature of development community projects proposed by the Social Development Agency. But the population, faced with the lack of support structure for disabled people in its territory, took the project forward and succeeded in its implementing. This action meets the definition that states that a social innovation is “an initiated intervention by social actors, to respond to an aspiration, to meet a need, to provide a solution or to take advantage of an opportunity to take action, to modify social relations, to transform a framework of action or to propose new cultural solutions”<sup>11</sup>.

### **3.2. Co-construction of the general interest, and social partnership: Innovation of social associations for creation and management centers for disabled people**

Actions of social nature associations cannot go unnoticed. The presentation of their consistence, activities and performed actions is outlined through the data on Table 1. The comparative analysis for the years: 2007, 2011 and 2012, shows a number of associations strengthening; while the share of those who remains truly active<sup>12</sup> represent limited proportion. Their activities are mostly oriented to the help to the poor.

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<sup>10</sup> Crosschecks on the “DASS” activity reports based on Community Development Reports.

<sup>11</sup> The definition is from CRISES, taken by Bouchard M-J., in her book *L'économie sociale, vecteur d'innovation*, Ed. PUQ 2011, p. 7.

<sup>12</sup> Active associations are those that carry out regular actions and maintain cooperative relations with the administrative services concerned.

**Table 1 - Evolution of the number of social associations  
and overall orientation of their activities**

Year	Number of certified associations	Subsidy amount in DA	Main activities
<b>2007</b>	140 including 30 in regular activity	Wilaya: 780 000.00 Ministry: 10 048 594.48	<ul style="list-style-type: none"> <li>- Ramadan solidarity</li> <li>- Creation of care center for people in difficulties</li> <li>- Creation of training center</li> <li>- Workshop creation with different activities</li> </ul>
<b>2011</b>	245 including 45 in regular activity		<ul style="list-style-type: none"> <li>- Poor people help</li> <li>- Help for disabled people and children in difficulty</li> <li>- Help for women in difficulty</li> <li>- Assistance to chronic patients</li> </ul>
<b>2013</b>	322 including 62 in regular activity	Wilaya : 17 200 000.00 58 subsidized associations Ministry: 22 300 000.00 5 subsidized associations	<ul style="list-style-type: none"> <li>- Support for people with disabilities</li> <li>- Assistance to Chronic Patients</li> <li>- Help for women in difficulty</li> </ul>

Source: Crosschecks on the Social Action and Solidarity Directorate "DASS" activity reports.

In 2011, the number of associations has increased to 245 social approved associations, including renewal and new associations. Their field of action will also be restricted to the benefit of poor people while significantly reducing their activities to become more confined to the assistantship dedicated activities. The activities related to training and employment support with regards to training and workshop centers which occur among the "core activities" were eliminated (see Table 1). Out of these 245 associations, only 45 have carried out regular activities in partnership with the services of The Social Action and Solidarity Directorate for a total of 20 719 of associative members, while the number of files processed for constitution or renewal of associations' office has been 30. In 2013, the number of associations is also increasing. It should be noted, then, that this number is acceptable for a Wilaya with 67 municipalities, given that the average is between 4 and 5 associations per municipality, based on the number of existing associations. The public cost of supporting these movements is much lower than that of other social action schemes, like the social safety net. This shows importance of private funds into associative social action financing.

One of the major actions and main innovation of the associative movement in the Wilaya of Tizi-Ouzou, concern the creation and management of centers specialized in the integration and training of the disabled and poor, knowing that the institutions of this type are only five in number and geographically concentrated in the chief town.

This geographical concentration gives rise to a territorial inequality in disabled people access to establishments' services. If a disabled person does not reside in the chief town, the distance he has to travel to reach the existing public centers for disabled people is about fifteen to seventy kilometers. This causes him additional costs to bear. Apart from this problem, mention must be made on the capacity of these



establishments, which remains very limited. In 2012, the Wilaya accounts 29,778 disabled people and the public facilities capacity is 558 places. It should be noted that the private sector is absent in this area and that there is no private offer of services for this category of people. The table 2 below shows the number of specialized establishments run by the associative movement.

**Table 2 - Associative movement managed Specialized establishments by the 2007-2011-2013**

2007	2011	2013
Psycho-pedagogical Center for children with mental disorder in Tizi Ouzou Wilaya, managed by the Association of Parents and Friends of Disabled Children of Tizi Ouzou	Psycho-pedagogical center for children with mental disorder, managed by the association of the parents of handicapped children of the wilaya of Tizi Ouzou	Psycho-pedagogical center managed by the association of the parents of Mental handicapped children of the wilaya of Tizi Ouzou
Psycho-pedagogical for children with mental disorder Draa Ben Kheda, run by the association of parents and friends of disabled children of T.O	Psycho-educational center for children with mental disorder, managed by the association of parents of helpers for mentally unsound children in the wilaya of Tizi-Ouzou (Municipality of Draa Ben Khedda)	Psycho-pedagogical center managed by the association of parents for children with mental disorder support children wilaya of Tizi-Ouzou (Draa Ben Khedda)
Psychiatric Center for people with mental disorder in Boghni Daira, managed by the Boghni Daira Mental Abuse Association	Psycho-pedagogical center for children with mental disorder, managed by the association of assistance to children with mental disorder of Daira de Boghni	Psycho-pedagogical center managed by the association of help to the people with mental disorder of Boghni
Training center in sewing and embroidery, managed by the Wilaya Committee of the Algerian Red Crescent	Psycho-pedagogical center for children with mental disorder, managed by the disabled people's association and their friends from the Bouzeguene daira	Psycho-pedagogical center managed by the association of disabled people and their friends, daira of Bouzeguene
Computer workshop, hairdressing and traditional cuisine, managed by the social association "the heart on the hand"	Medical Center, managed by the association of parents and friends of children with mental disorder, Municipality of Larbaa Nath Irathen	Psycho-pedagogical center managed by the association of help and support children with mental disorder, Wilaya of Tizi-Ouzou (the 7 wonders)
Computer and sewing workshop, managed by the cultural association "relationship and promotion of the disabled people"	Medical Center, managed by the social association "Assirem", village Ait Ailem, Ain El Hammam	Psycho-pedagogical center managed by the social association "Assirem" of the village Ait Ailem Commune of Ain El Hammam
Computer Workshop, managed by Youth and Childhood Prevention and Promotion of League	Medico-educational Center, managed by the association of help and support for children with mental disorder, wilaya of Tizi Ouzou	Medico-educational center managed by the association for children with mental disorder of Wilaya of Tizi-Ouzou
Center for the care of children and young people in difficulty: confectionery workshop, managed by the disabled people association, municipality of Assi Youcef		

Source: Crosschecks on 2007, 2011 and 2013 DSAS reports.

It should be noted that apprenticeship and vocational training workshops for disabled people have unfortunately disappeared. The associations that have been able to carry out their actions within the framework of the institutions, since the year 2007 to date are four in number, thus allowing three other municipalities (Boghni, Ain El Hammam and Bouzeguene) outside of the chief town to have this offer of service. In addition to the activities mentioned above, the associations contribute also to social map data updating and in vital needs of the populations' census of the identified sites as pockets of poverty.

If associative social action has made significant progress in the Wilaya of Tizi-Ouzou, deficits are still recorded. We note in particular that the segment of the population which benefits from this action, remains limited for many reasons, particularly relating to the geographical distance from the urban centers, given that most associations activate in the urban environment, close to the chief town of the Wilaya. Those, which activate in the other municipalities, are located in the centers of Dairas or municipalities. They do not easily reach populations in villages that remain particularly isolated.

The activities of associations remain confined in psychological care and integration through training, while they would benefit from developing an integration approach through economic activity. Employment is the key to empowering people with disabilities to ensure successful human development. So, one can conclude that this action called "social development action" has its limits. From the point of view of efficiency, it does not allow a sustainable integration of the targeted people in the social life. In terms of equity, the territorial coverage of this action presents a geographical imbalance which does not allow the access of those concerned to the services provided by the structures intended for them.

### **3.3. Co-construction of the general interest, and international partnership: a particular innovation for the support fund to VSE from the experience of Touiza solidarity project**

The support fund project for VSE was set up by *Touiza-Solidarité Internationale* in partnership with the local social Association for Innovative Youth and the Environment (AJIE)<sup>13</sup> and the Wilaya authorities. It is a part of a sustainable local development pilot project in the Wilaya of Tizi Ouzou. This project focuses on a territory of 19 municipalities located in the catchment area of the new Taksebt dam and it consists in granting micro-credits to young project holders. The targeted population includes those who are looking for a qualified job and are unlikely to access existing formulas in the context of public microcredit and business creation support programs. Sometimes, the size of the projects proposed is unsuited to the conditions of the public devices or the sector requested has reached the stage of saturation. They consist in loans to finance small equipment for sustainable income-generating activities creation. Thus, investments are favored to enable the launch of

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<sup>13</sup> AJIE: *Association pour la Jeunesse Innovatrice et l'Environnement*.

productive activities, in the sectors of agriculture, tourism, environment and crafts. Microcredit is capped at 350,000 DA. The choice of beneficiaries is made after an application files first study by the AJIE Project Manager and a loan committee sponsored by a university researcher<sup>14</sup>. Shortlisted candidates undergo a three-day training course on the creation of VSEs, led by an Algerian trainer to help develop a project (commercial, financial and legal study).

As a result of this training, the beneficiaries are selected by the AJIE project manager and the local trainer with the advice of the Loan Committee. It is a small Committee of 5 people constituted by three members of the Local Initiatives Committee, project governance organ, composed of the Chamber of Crafts and Trades, the Chamber of Commerce and Industry and the Chamber of Agriculture and two public bodies (ANGEM and ANSEJ)<sup>15</sup> recognized for their competences in the field of support for the creation and development of very small enterprises. The granting of loans is formalized by the AJIE as part of an agreement with Touiza-Solidarity International. A notarial act legalizes the granting of the loan. In addition to the financial contribution, an accompanying action was also planned as part of the project. This mission consists in guiding, advising and monitoring all the carriers upstream and downstream of loans granting. Whether it is rural or urban areas, monitoring the financed activity development is essential to maintain good relations with the beneficiaries and respect the established repayment schedules. Support and follow-up occur at different stages of business creation.

Prior to loan granting, assistance in setting up the project through initial training is led by a specialist trainer in business creation and by an exchange with the project manager. The project leader is guided to draw up a work plan that includes the three elements relating primarily to the commercial study of the sector of activity, potential suppliers, competitors, and demand; then to the financial study, that is to say the elaboration of the operating account, the financing plan and the cash flow plan; finally, to the legal study to determine to which legal framework the activity is submitted.

If the case application file is accepted and credit is granted, regular follow-up allow to build a trustful relationship with the project leader who is launching the activity; they also ensure that the funds lent have been allocated to the project and initially planned investment (the equipment and material purchase invoices are checked and collected on this occasion), and evaluate the start of the activity compared to the forecasts made during the study.

A follow-up of the project promoters is ensured by the project manager during the loan repayment period. Additional training sessions are subsequently organized to respond to the project leaders' request. In order to assess the sustainability of the

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<sup>14</sup> This researcher is member of the Research Laboratory on Economic Reforms and Local Dynamics (REDYL) of Mouloud Mammeri University of Tizi Ouzou.

<sup>15</sup> ANGEM is Microcredit Management Agency and ANSEJ is Youth Employment Support Agency.

generated activities, an annual remote follow-up to the funded projects holders is provided.

The project designers initially have as a goal to finance 23 VSEs. A very large mobilization allowed the identification of 163 people interested in the creation of VSE. Each interested project holder has completed a loan application form. After training and selection, the Loan Committee finally granted 43 financings, 20 micro-credits more than the original forecasts. These projects gave rise to two types of loans depending on the rural or urban character, according to the vocations and geographical specificities of involved municipalities. The activities concerned are agriculture, small sheep farming, cow' milk production, fattening of calves and lambs, pottery, traditional dress, Kabyle jewelery, plumbing and appliance repairs.

On the other hand, a cooperatives' constitution workshop was conceived and financed by *Touiza-Solidarité Internationale* and implemented by association AJIE, as part pilot project of local development in the framework of the Wilaya of Tizi-Ouzou. It resulted in setting up a project to create seven cooperatives, through training on the creation and management of cooperatives, as shown in Table 3.

**Table 3 - Cooperatives created and their objectives**

Project	Number of partners	Objective
01 Cooperative manufacturing of Kabyle jewelry	07	<ul style="list-style-type: none"> <li>- Purchase of raw materials and the marketing of final products</li> <li>- Make the activity profitable</li> <li>- Labelization of the local product Maatkas pottery</li> <li>- Information</li> <li>- Marketing and rescuing products in danger</li> <li>- Marketing of the production</li> </ul>
02 Cooperative Assalas potters	07	<ul style="list-style-type: none"> <li>- Grouped purchase</li> <li>- Fighting against counterfeit</li> <li>- Feeding staffs procurement in the production in the livestock</li> </ul>
03 Cooperatives of couscous rollers	04	<ul style="list-style-type: none"> <li>- Improve the productive capacity and quality</li> </ul>
04 Cooperatives of milk producers	08	<ul style="list-style-type: none"> <li>- Improvement of knowhow and work conditions</li> </ul>
05 Cooperatives of sheep breeders	06	<ul style="list-style-type: none"> <li>- Open a new breeding branch production and sale of sheep milk</li> </ul>

Source: Crosschecks on Touiza Solidarité Internationale reports.

Here, innovation does not only concern the introduction of solidarity finance in associative action, which is a new fact in the Algerian context, but it is multi-faceted. Beyond the mode of governance and the ability to mobilize a multiplicity of actors involved in this process, the project is also an important organizational innovation. Finally, the support of project promoters after its launch and the search for territorial cooperation modes between these entrepreneurs, are also an innovative experience

whose main challenge embodies these businesses sustainability, creating wealth and supporting income generation.

From there, we note that the associations surveyed have been the innovations bearers resulting from their territorial anchorage, so from the proximity with social action seekers in all their forms. The innovation achieved is the result of the existence and maintenance of the social link, prevailing at the territorial level with a development perspective, in all its components, for which these organizations aspire to be a palliative to the approach of state handouts borrowed from the public sphere itself.

The relevant questions surrounding these innovations, their institutionalization and their role in the general interest formulation transformation are multiple. We propose, in the evaluation of social economy and public policies, to analyze the following questions:

- What kind of social innovation can be characterized in the SSE' organizations actions and thus what is their contribution in provision of social services of the general interest?
- What are the public-authorities institutionalization forms of these innovations? (Assistance, Assignment, Applications processing, Projects viability, etc.).
- Is there a form of integrated territorial governance in the co-construction of the general interest in the provision of social services and territorial resources development? (Partnership, Recognition of actors, incentive mechanisms and support for social innovation).

## **Conclusion**

The possible perspectives should combine SSE actions and territorial dynamics. From now on, it is a question of considering the part of Social and Solidarity Economy in the local development political construction to arrive gradually to its translation to new territorial collectivities level governance networks (wilaya, municipality, even at the scale of geographically identified regions). That needs identifying sufficiently homogeneous territorial dynamics to give birth to SSE materialization and evolution process in its societal and historical dimensions. In sum, it corresponds to SSE territorial regimes' definition those are specific to each region.

In his paper, *"The SSE territorial regimes: the case of the French Basque country"*, Itçaina shows that this approach amounts to questioning the territorial social capital constitution factors which constitutes as a collective good a production factor in its own right. Then, we see the constitution of the systemic political regulation that is to say the territory governance forms, and finally, the territory public problems construction, or the transformation of social issues into public problems and political problems (Itçaina, 2010).

The opportunity to promote the SSE in Algeria must be seized for the development and implementation of a transversal policy of initiatives and to build strongly structured companies in both statutory and sectoral logics. The emergence of SSE territorial policies must be geared towards an institutional consolidation and renewal which gives a place to the SSE as a legitimate component of the plural economy. This will able the SSE to influence local development logics. The recognition of the cross-cutting nature of the SSE is fundamental to the logic of sectoral or statutory integration, which periodically questions its socio-economic and socio-political specificities (Fraise, 2016a). The field of the SSE is still in gestation phase in Algeria. It manifests itself more by crumbled actions than by logic of actors and organizations that are rooted in societal realities and even less in convergent territorial and economic dynamics. This trend is also corroborated by the absence of an SSE specific legal framework in Algeria as well as in the other Maghreb countries, despite the existence of a legislation governing the various forms of social enterprises, and an institutional framework to support the social economy both at the level of state administration and local authorities.

It is clear that the field of SSE is for the moment largely dominated by the forms and institutional arrangements that provide the bulk of its funding through direct or indirect channels. Foundations are poorly developed and are mostly extensions of NGOs. With a tradition rooted in the country history, co-operatives embrace a variety of activities, but they remain effective and operational only in the field of agriculture.

The assessment of the share of SSE in the Algerian economy is an extremely difficult exercise in a context marked by the absence of specific data and statistics to the field, the difficulties related to the interweaving of the institutional levers with the traditional levers as well as by the dilution of the SSE attributable actions compared to the public devices. However, the hope that the SSE takes off and constructively evolve as in other countries remains possible, given the gradual favorable networks emergence both nationally and in the Maghreb. This momentum of the SSE can be encouraged by the existence of ferments within the Algerian society that offers real predispositions or certain capabilities through its strong resilience, its ability to adapt and integrate exogenous elements, and especially its ability to integrate evolutionary processes. In the same approach, society carries with it strong organization and federation principles, pooling of resources and work force, but also its own resources valorization as modest as they are (territorial resources, human resources) particularly in the commons management. This significant social capital can be exploited and serve as a basis for consolidating and promoting SSE in Algeria (Ahmed Zaid, 2013).

The special logics of rent distribution, which are underway in Algeria, have seen the emergence of new forms of distribution produced by the public devices of social action and solidarity. These are part of the process of reducing social tensions and conflicts, and the instrumentalization of associations (very top-down). Nevertheless, from the point of view of the actors, they integrate the dynamics of self-mobilization

and their implication in the taking care of certain needs, according to frameworks and means identified by the public authorities. Evolving in an environment marked by deculturation and acculturation, they seem to move away from the analysis advocated by Polanyi. These logics appear to embody the principle of “counting on oneself”, because they are part of a global dynamic of “production of society” (Touraine, 1973) and its co-production, taken at a primary stage. They do not seem, in any case, to have sufficiently integrated the universal principles of the SSE. However, we can clearly deduce that this is certainly a form of construction of the social and solidarity economy, which fits well with the territorialized general interest and a limited lucrative dimension, straddling its institutional dimension and its cultural dimension, even voluntarism.

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## The institutional organization of health in Colombia and its disconnection with the common good and mutuality / Chapter 11

Juan Fernando ÁLVAREZ<sup>\*</sup>, Miguel GORDO GRANADOS<sup>\*\*</sup>,  
Hernando ZABALA SALAZAR<sup>\*\*\*</sup>

### Abstract

This chapter analyzes the provision of health services in Colombia, which are constitutionally recognized even if in reality they are far from being guaranteed in terms of gratuity and universal coverage for most of the population. A situation possibly brought about by the market orientation promoted by the legal framework and the effects it has brought in terms of general interest, in exclusion and in the tendency towards the deterioration in the provision of services. Some of the actors in the system, characterized by a common property, offer a real and effective alternative in getting closer to the right to health for all.

In this context, the organizational logic of mutual associations stands out as an instrument to optimize public health policy even if a new institutional dynamic is required, with a new relation between the State and social organizations. A relation in which the concept of common good is an appropriate starting point and finality as a strategy of governing the institutional agreements that improve the relations between the public organisms and the citizens.

**Keywords:** Colombian, health system, competition, optimization, common good, mutual

**JEL-Codes:** P13, P36, P46, I11, I18

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<sup>\*</sup> Doctor in social sciences. Member of the research group UNES of the Institute of Rural Studies of the Pontificia Universidad Javeriana; Member of the Board of Directors of CIRIEC-Colombia ([alvarez\\_juan@javeriana.edu.co](mailto:alvarez_juan@javeriana.edu.co)).

<sup>\*\*</sup> Master in economics. Expert in health and taxation of the Capital District. Member of CIRIEC-Colombia ([miguelgord@gmail.com](mailto:miguelgord@gmail.com)).

<sup>\*\*\*</sup> Specialist in cooperative law. Member of the ECOSOL group of Luis Ámigo University. President of the Board of Directors of CIRIEC-Colombia ([hernando.zabalasa@amigo.edu.co](mailto:hernando.zabalasa@amigo.edu.co)).

## 1. Introduction

In the case of the Colombian health system, the scheme adopted for the provision of services is that of regulated competition, in which operate health promotion entities, hereinafter HPE, public and private, as well as public and private providers. Within this framework, public hospitals, considered as state social enterprises, are responsible for providing health services to the lower income population.

The system of regulated competition sought to break with the welfare vision of offering universal services without control to the population affiliated or not to the subsidized regime. This generated that many people with capacity to pay their access to the health system did not do it in a context of a large shortage of public resources. In addition, this system inherited some patronage and corruption practices which makes the public hospitals fragile to face a competitive market, where the search for profitability rather than guaranteeing the right to health exposes them to budget shortages and to the growth of their liabilities to meet their commitments of spending with their workers, and suppliers of medicines and supplies.

In this context, there is a need to re-signify processes and goals and make the management of the public thing a process that responds to the needs of the community expressed in the common good.

In a recent investigation of the implementation of the GDP (Álvarez, 2016), 923 public entities were consulted in 2011 on the reporting of various topics contained in the Anti-Corruption Statute: publication of goods and services, corruption risk map, measures to mitigate risks, anti-procedural strategies, mechanisms to improve citizen's attention, website space for complaints and complaints, action plan with objectives, strategies, projects, goals, purchase plans, investment projects, budget disaggregation and indicators of management. The answers to this inquiry reveal the absence of supports that demonstrate efficiency in administration.

In those cases where a failure to comply with the regulations was reported, the preponderant arguments raise the lack of technical capacities for compliance, budgetary absences for the achievement of reporting means such as computer equipment and Internet access, and widespread confusion due to the lack of knowledge of which instruments should deal with the extensive requests for reporting systems required from the central government. To this must be added the persistence of gaps in the compliance report between centralized and decentralized agencies.

This allows us to measure the magnitude of the problem of the public thing in a context where citizens demand answers to collective needs and in which there is a dangerous paradox: while public bodies advocate increasing efficiency rates from the technical upgrading of higher goals, they are not able to solve the growing problems

that cause inequality, exclusion and poverty and on the contrary, there is an increasing move away from the preservation of the common good.

In the case of public hospitals, some studies have evaluated their efficiency on the basis of methodologies such as the data envelopment analysis, the relations of equivalence, and the stochastic frontiers. The results are consistent in that the efficiency of these organizations increases with the level of complexity of services. Low-complexity hospitals, which are the majority in Colombia, are less efficient, but many times low efficiency is associated with the lack of transparency in the management of financial and human resources.

For example, in some cases, the investments in technology were done in computers that have not necessarily the function of ensuring the provision of a better medical service. Similarly, certain jobs in the hospitals respond to bureaucratic quotas and do not correspond to the best qualified human resource, mainly giving rise to a high turnover of administrative staff.

In the following sections we will delve into the institutional framework of the Colombian health system and the contradictions which arise between the constitutional considerations and practices that further reveal the disconnection with the common good.

## **2. The role of general interest in defining the public thing**

Article 1 of the Political Constitution of Colombia reads:

*Colombia is a social state under the rule of law, organized in the form of a unitary republic, decentralized, with autonomy of its territorial units, democratic, participatory and pluralistic, based on the respect for human dignity, the work and solidarity of individuals who belong to it and the prevalence of the general interest.*

However, the concept in question is diffuse when applied. Based on some concepts of the Constitutional Court, made mostly in the 1990s, sentences without conceptual uniqueness were developed which, on the one hand, advocate the general interest as a blurred principle and, on the other hand, state it as a vital principle in the definition of public action, finally transferring the responsibility to each judge with attention to each particular context.

Sentence C-546 of 1992 states:

*"The person is an end in itself" therefore: "Social progress cannot be built on the basis of individual prejudice, whether it is a minority or even a person." In this way the protection that should be given to fundamental rights cannot be "subject to the swing of the general interest"*

For its part, Judgment No. T-428/92 states:

*"In case of conflict between the general interest and another constitutionally protected interest the solution must be to find according to the legal elements that provide the concrete case and in the light of constitutional principles and values. This work of interpretation is a primary function of the judge and especially of the constitutional court "...*

The Constitutional Court C-337 of 1993 reproduces the approach of the Treaty of Law Jean Rivero:

*As a social being, man cannot suffice himself: the free play of private initiatives allows him to attend to some of his needs, thanks to the division of labor and exchanges; but there are others, of the most essential, that cannot receive satisfaction in this way, or because being common to all members of the community, they exceed by far the possibilities of any particular - such as the need for national security, either because their satisfaction does not allow, by their nature, to make a profit, so that no one will offer to insure it. These needs, to which the private initiative cannot respond, and which are vital for the entire community and for each of its members, constitute the proper domain of the administration: it is the sphere of public interest (...)*

*It represents a set of human needs-those to which the game of liberties does not adequately serve, and whose satisfaction conditions nevertheless the fulfillment of individual destinies.*

*The motor of administrative action, on the other hand, is essentially disinterested: it is the pursuit of the general interest, or of public utility, or in a more philosophical perspective, of the common good...*

At the same time, it tends to confuse the pursuit for the common good with the interest derived from the average voters; without expressing the pursuit for a supreme good fruit of social cooperation.

In 2001, the Constitutional Court, through Judgment C-053/01:

*It is precisely the abstract and undetermined character of the public interest concept, that led liberal modern constitutions to consider the necessity in harmonizing it with individual rights and with the social value inherent to cultural diversity.*

Thus the common good remains invisible under the ornament of the general interest and this in turn is tinged with ambivalences that allow each entity to define the orientations in an instrumental way.

From the Aristotelian tradition, the common good was incorporated by the Catholic Church through the works of Thomas Aquino to the doctrine of government of the public thing and consequently was assumed by the Western State structure in most of the Constitutions.

In practice, the common good has been understood as a condition for the exercise of life in society by individuals, families and organizations. However, this concept has been the standard bearer of multiple demands from citizenship expressed in associations in a context of marked systemic crisis. In this respect Argandoña (2015, p. 17) contextualizes its current meaning in the following events:

*...Is still in force a generalized sense of insecurity, a mixture of fear and hopelessness towards the future, the awareness that partisan political discourse is exhausted, and the deepest awareness of the difficulty we find in create a framework of ideas and beliefs that allows to identify the good, practice justice, seek the truth and live in freedom and security.*

However, this is permeated by a growing philosophical individualism that is the fruit of a society constituted as the aggregate of interests that are not always coincident. For this reason, speaking of the common good as a citizen aggregate can be an entelechy insofar as the citizen does not act in pursuit of the general interest, but in pursuit of his individual interest. In the midst of such a dilemma, the State and its

organs of power appear as a socially efficient computer, despite the growing evidence of its incapacity.

Argandoña says (2015, p. 17):

*Citizens don't need to be honored: an "invisible hand" will achieve stability and sustainability of society, thanks to democratic, state-directed and democratic procedures, which are conceived as a benevolent and wise arbiter capable of achieving harmony in that society of individuals who only cooperate according to their personal interests.*

This situation places the State and public organs in the unattainable task of articulating the disconnection of citizen preferences and the common good ends up in overlapping in procedures to avoid discontent in the short term (Argandoña, 2015). Thus the institutions of yesteryear end up in bypassing their action with unrelated control measures in which the general interest of some is negotiated, for the general loss of others.

Proposals for regularization based on the common good (proposed by common good theorists) refer to legal persons in their relationship with the community, so the search for entities (and organizations) serves as a means to provide the greatest contribution to the welfare.

Thus, the common good represents a precept that advocates the improvement of conditions for the reproduction of life, in cooperation and reciprocity, aspects closely linked to the management of associative organizations where individuals not only seek to satisfy their interests, but which also manage to understand that it is not possible to seek individual interest if previously the agreements are not generated to act in articulation for the common benefit. Thus, the spirit, values and objectives of our Constitutions would achieve their implementation in the economy in a consistent way as explicitly stated by Felber (2013, p. 18).

The result would tend to harmonize the State's action with specific common goods reflected in the existence of transfers of competences, responsibilities and mechanisms for the organized community to participate in the evaluation of public activities. This will imply the State's obligation to provide material and immaterial conditions to all its centralized and decentralized agencies to facilitate participation and control.

### **3. The General System of Social Security in Health**

In Colombia, the Constitution of 1991, Article 48, established that social security is a mandatory public service and through Law 100 of 1993, the current Social Security System was institutionalized, which includes the obligations of the State and the society to provide the institutions and the resources in order to guarantee the coverage of the health services and those that are complementary. It is pointed out that the State is in charge of the direction, coordination and control of this service

under principles of efficiency, universality and solidarity, and the health services should be organized in a decentralized manner and by levels of attention.

The Political Constitution also establishes a basic principle of gratuitous and obligatory character for all the people, along with the access that they have to the public service of health and of environmental sanitation. However it is to be emphasized that strictly health is not contemplated in the chapter of Fundamental Rights, but is part of social, economic and cultural rights. In compliance with the constitutional order, the State enforces the right to health of its habitants through the General System of Social Security in Health.

According to Law 100 of 1993, the Integral Social Security System in Colombia consists of the pension, health and occupational risk systems, and complementary social services. The provision of services is done through an insurance scheme<sup>1</sup> of two regimes: the subsidized regime for the poor without payment capacity; and secondly, the contributory scheme, for employees, self-employed and persons with ability to pay. A separate group includes the poor non-affiliated population that receives the health services in consideration of the constitutional order that establishes health as a public service to which the entire population has the right.

Those affiliated to the contributory scheme through the health promotion entities (HPE)<sup>2</sup> are persons with a formal job (through some form of employment contract) or persons who work as independents. Individuals with payment capacity also belong to this scheme (employers, public servants, and pensioners, among others). The members of this regime receive a package of health care services called the obligatory health plan (OHP) which must be guaranteed by the affiliated HPE through the health care institutions (HCI). The Plan includes actions for disease prevention and recovery of health, ranging from basic preventive medicine to various specialized treatments.

To receive health services, members of the contributory regime must make a monthly contribution of 12.5% of their base contribution income, of which 8.5% is paid by the employer and 4% by the worker. Independent workers fully assume the contribution, which is calculated on 40% of the value of the contract. These resources are the source of funding for the OHP, disability attention, maternity leave, promotion and prevention programs and also help to finance the subsidized regime.

The contributions are collected by the HPE and transferred to the Solidarity and Guarantee Fund (FOSYGA) which manages the resources of the Social Security System in Health, including those originated in the contributory scheme. These funds are transferred to the Capitation Payment Unit (CPU), which corresponds to the value that the system recognizes to each HPE to guarantee the provision of the services of Health.

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<sup>1</sup> The Ministry of Social Welfare, Social Health Security System 2006.

<sup>2</sup> HPE can be private, public or mixed.

The subsidized health regime is aimed at the poorest population and those with special characteristics such as the indigenous, the displaced, among others, located in rural and urban areas, who receive a package of services similar to those of the contributory regime (OHP), but which are quoted below the value that they must pay if they were in this scheme, due to limited payment capacity of these population groups.

The subsidies granted for this regime come from national, departmental and municipal resources. Much of the resources of the subsidized regime are managed through the mechanism defined in article 31 of Law 1438 of 2011 and operated in the FOSYGA. Resources are settled according to the affiliated population in the name of the territorial entities, which is turned directly to the HPE and the HCI.

In this scheme, it is the responsibility of the territorial entity to identify the poor and vulnerable population and to select the beneficiaries of the subsidized regime, using the Benefit Identification System (SISBEN), which, through a survey, classifies the potential beneficiaries in 6 levels. People classified in levels 1, 2 and 3 are potential beneficiaries of the subsidies granted by different social sector entities including health subsidy.

Persons classified in SISBEN levels 1 and 2 and not affiliated to the contributory regime have the right to be insured, to receive the full health subsidy and have access to the Obligatory Plan of the Subsidized Regime (OHP-S). Likewise, people who are part of special groups such as: demobilized, indigenous, street dwellers, children in protection and displaced, can join this regime.

For those people with an economic situation that do not allow them to be classified in any of these modalities (with no ability to pay or not poor enough to be subsidized), the law provides for a transition regime with access to partial subsidies. This group includes the poor people who have not yet classified SISBEN, the special population not affiliated to the subsidized regime and, finally, the population classified in levels 1, 2 and 3 of SISBEN that are not yet affiliated.

The registered population has the right to receive services to promote and prevent disease, diagnosis, treatment and rehabilitation of the disease in its different levels of complexity, supply of medicines, initial attention in the emergency service, anywhere in the country.

#### **4. Tensions in the postulates of the General System of Social Security in Health**

Law 100 of 1993 was influenced by multilateral organizations such as the World Bank which argued that the regulation and institutional development of an insurance policy would stimulate private capital investment, reduce public spending and promote competition between insurers and providers of services, improving the efficiency and quality of these services (World Bank, 2003). Therefore, existing social



security institutions would have to modify their management model to enter into the logic of market competition, and the public service network should be decentralized to have independence and take advantage of market incentives in resource allocation to compete with private providers of these services (World Bank, 2003).

In the same Law, Article 202 establishes that in order to have access to the provision of the health service in the contributory regime, a sustained linkage must be made in the payment of a quotation. So in practice the service does not fulfill the two conditions of a pure public good: not feasible nor desirable to ration its use.

In summary, although health is considered a public service guaranteed by the State, it is supplied under the scheme of regulated competition, which means that it assumes the characteristics of a private good since the payment of the contribution excludes those individuals with limited capacity of payment that cannot be affiliated to the contributory system and the same good cannot be consumed simultaneously by two individuals.

Theoretically the literature is full of cases where the privatization of public activities generates disproportionate budgets: markets for exchange of pollution quotas, tolls for extraction, cooptation of supervisors, contracting circles among others running parallel to “technical efficiency”.

Taking into account that in a regulated market the relevant variable is the ability to pay, and considering that health is not really a pure public good since it does not meet the double condition of non-rivalry and non-exclusion, how to reconcile a fundamental right such as health, with the benefit of health services through a complex network of public and private providers?

The permanent search to reconcile such situations triggers financial tensions in the system, which end up being covered by the State. Exclusion and rivalry apply to some groups of users, raising access barriers, which are not sufficient to restrict the overuse of services by other groups of users.

This is reflected in the perception that the health system has structural flaws that question its sustainability. The recent intervention and subsequent liquidation of the cooperative health promoter entity Saludcoop has been one of the most recent scandals of bad management practices, surcharges, patronage and others that have affected the image of the provision of health services in Colombia.

The results show that the postulates formulated by the multilateral organisms that promoted the model were not true and the efficiency of the institutional gear created was not fulfilled: hospitals modified their management model but that did not make them sufficiently competitive. Public entities are more independent from local governments, but still in the hands of politicians and networks of corruption, meanwhile the expenditure of the system has continued growing. The search for reconciling such a contradictory model has stressed the public debate about universal

access. It focused the discussion on the results and not on the general interest dimension of health and on the necessary verification of the generation of common good that the operating companies must supply by the nature of the service they provide.

Law 1751 of 2015 was recently issued, known as the Statutory Health Law, which recognizes full rights to all Colombians. It states that the health service has the character of a fundamental social right and its principles emphasize the universality and the equity of the right, as well as a policy aimed at eliminating the “social determinants of health that affect the effective enjoyment of the right to health, promote health improvement, prevent disease and raise the quality of life.” It adopts a collective approach to health promotion and prevention actions for all people (Article 2), as well as the State’s obligations (Article 5). The State must adopt “policies that promote health promotion, prevention and care of the disease and rehabilitation of its sequelae, through collective and individual actions” (article 5, lit. c).

The implementation of this new law will take several years given the short-term impossibility of changing the current system and will substantially increase the financial pressures on the health system, forcing many promoters and providers to leave the system.

## **5. Stylized facts: the vicissitudes of regulated competition**

The analysis developed shows that as of Law 100 of 1993, the Ministry of Health leaves the provision of services as direct provider and creates intermediary entities responsible for offering a compulsory health package by way of insurance contracting with the health provider institutions for the provision of services.

The proposed scheme was based on the approach of regulated competition (Enthoven, 1993). On the one hand, between health promotion entities (HPE) and health care institutions (HCI), where health providers would act according to the amount demanded, insurers would have incentives to contract with those most attractive to the plaintiffs, and they would buy the product or plan benefits for a minimum of one year and according to the results. Users of the services could choose the best alternative to provide the plan. The model would be compatible with copayments and deductibles for specific services that would influence users to rationalize resource use.

Theoretically, in this scheme, the HPE are responsible for buying the health services for the user, among a set of providers. The HCI, on the other hand, compete with each other to obtain the contracts with the HPE and as these receive a fixed amount for each affiliated person (CPU), they try to reduce the costs by contracting with suppliers (HCI), that offer the lowest price, leaving in the background the quality of the services provided. The system allows HPE to have their own HCI, and they can contract with them primarily, although Law 1122 of 2007 established limits to this

vertical integration. The law orders HPE not to contract more than 30% of their health spending with their own HCI, the remaining 70% being contracted with public or private HCI.

The regulatory function was assumed by the State, initially through the Social Security Council in Health (CNSSS), which remained in the period 1994-2007, and later by the Health Regulatory Commission (CRES), whose objective was to guarantee the functioning of the market, with mechanisms such as: the insurance function in private hands, the standardized product design of the system, called the obligatory health plan (OHP) and the determination of the price of said annual plan, known as the capitation payment unit (CPU). The design included the rules for suppliers, health providers, intermediaries and consumers to fit the model.

In addition, an information system was implemented with the purpose of prioritizing the attention to the low-income population, known as the Beneficiary Selection System (SISBEN).

However, demand pressure was concentrated on suppliers to reduce costs, although market-based competition reforms work only if all those who can contribute to the system financing do so. Indeed such a system would not work if all are covered but only some pay, which is nothing other than the presence of “opportunists” and model distortion.

In this perspective, the system is in a situation of permanent financial tensions, which force the national government to formulate rescue strategies for the HPE, to intervene in public hospitals and eventually to close private hospitals because they are not economically viable.

Several hypotheses have been launched to explain the financial crisis of the health system. The Ministry of Health and Social Protection argued that the crisis is due to a situation that cannot be hidden: “The system has spent more than it has and continues to spend more than it has. He has not regained his balance<sup>3</sup> “Although this is an authoritative voice on the subject, there is still a greater explanation on the subject”.

According to statistics compiled by the World Bank on health expenditure by country (Graph 1), Colombia spends 7.2% of GDP in its health system in 2015, very similar to the rest of Latin America, higher than that of the high middle-income countries (6.1% of GDP) and those affected by situations of internal conflict (5.6% of GDP). It should be noted that in a period of three years, between 1996 and 1999, health expenditure reached historical levels of 9% of GDP, then fell below 6% and since 2004 has shown an upward trend.

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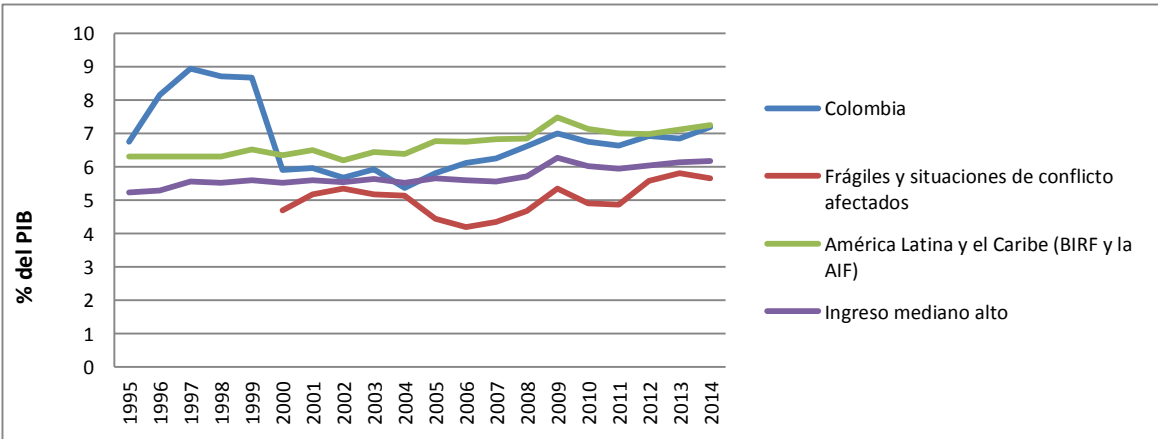
<sup>3</sup> Interview with Alejandro Gaviria, Minister of Health, in the Caracol chain, on October 12, 2016.

The greater availability of financial resources has allowed to extend the coverage of the system. From a coverage of 33% at the beginning of the 1990s<sup>4</sup>, coverage reached 97% in 2015.

However, despite the increase in insurance coverage, access to health services, measured as the percentage of people who used medical services when needed, decreased during the period 1997-2012, according to a study carried out by the Bank of the Republic<sup>5</sup>.

This fact indicates problems of efficiency in the management of organizations that are part of the health system, because although there is more population covered by the system, access to services has been restricted. In an advanced study for a sample of 336 hospitals during the period 2003-2011, it was found that there was a drop in the productivity of Colombian public hospitals, due to the deterioration of technological equipment as a result of a low investment. Moreover, only one over twenty-five hospitals experienced an efficient and productive performance, while one over three showed the opposite. The most inefficient and unproductive hospitals are those located in the Central and Caribbean areas (Orozco, 2014).

**Figure 1 - Health Expenditure as Percentage**



- \_\_\_\_\_ Colombia
- \_\_\_\_\_ Fragile and conflict affected situations.
- \_\_\_\_\_ Latin America and Caribbean (BRIF and AIF)
- \_\_\_\_\_ High Medium Income

Source: (Orozco, 2014).

<sup>4</sup> Fedesarrollo, “La sostenibilidad financiera del sistema de salud colombiano -dinámica del gasto y principales retos de cara al futuro” (Financial sustainability of the Colombian Health System-Dynamics of spenditure and main challenges facing the future) Bogotá, 2012.

<sup>5</sup> Ayala Garcia Jhorland, “La salud en Colombia: más cobertura pero menos acceso”, en documentos de trabajo sobre economía regional (Health in Colombia: greater coverage but less access, working documents on regional economy, July 2014).

For its part, the Office of the Attorney General of the Republic raises another hypothesis, according to which "... the current events are attributed to the inadequate management of the financial resources of the sector, rather than their scarcity. This is evidenced by publicly known corruption, which is the consequence of an inefficient system of inspection, surveillance and control" (García, 2012).

On May 17, 2015, the Minister of Health spoke out against the risk situation in which 955 public hospitals were in the following terms: "The issue of HPE has become for some public hospitals such as the Cuban blockade for Cuba, that is to say, an external problem with which they justify the clashes and the possible defenses" (El Colombiano, 2015).

There is a widespread perception in the country about the impact of corruption on the functioning of the health system, but there is no conclusive evidence, in terms of statistics and analysis that can scale the problem. There are many headlines, but few systematic studies.

Everything seems to indicate that the most notorious corruption is at the end of the chain, with the providers, in particular the public hospitals or also called State Social Enterprises, which primarily provide the health services for the users of the subsidized regime and the population in the transitory regime.

## **6. The optimizing role of social economy enterprises: the mutual organization**

This review of the general system of social security in health in Colombia indicates that there are tensions in a system that constitutionally advocates universality in the provision of the service, but which in practice is far from providing the service in the general interest.

Many signs indicate that this is due to the market orientation of the system, which is based on the perspective of capitalist accumulation and the reproduction of the investment. It generates a classification scheme that depends on the willingness to pay and establishes the link between health promoters, service providers and state social enterprises. Thus, as the general social security system in Colombia has been configured, it has become an alternative capitalist investment, leaving aside the constitutional spirit of social inclusion and welfare. This is one of the reasons why the potential of the social and solidarity economy in this area has been ignored, even though Law 100 of 1993 opens the possibility of providing these services to the population through the forms of legal cooperatives and similar.

Many successful experiences in various countries show that the entities of the social and solidarity economy addressed the provision of service on the basis of the generation of a common good for its members: access to health insurance. Their point of arrival is also measured with the same yardstick: ensuring effective cash or

the provision of services that are a common good (Álvarez, 2011). This is due to the specificity of the solidarity organizations and in particular of the mutual society.

In the following lines, the relationship between the mutual figure and the health insurance system will be explored as a proposal to reorient the nature of the service provision in Colombia, by optimizing the present system and seeking to achieve its sustainability through the escalation of decision power from local politicians to the communities within a territorial framework. It should also link the elements of general interest that keeps a fundamental service such as health with the necessary adaptation of instruments for the measurement of results in terms of generating a common good.

The history of mutualism, especially on the European continent, identifies it as a social movement embodied in many expressions of social organizations that address services related to social security and social protection. The feeling of mutuality, in all cases, does not occur as a consequence of the development of the organization of mutuality, but this is the basis of its genesis, especially in relation to the formation of satisfactory materials to cover the protection needs (Arboleda & Zabala, p. 64). In principle, his actions were related to groups excluded from the social security systems (artisans and workers) that found in the formula of mutual association the best instrument to guarantee health services and protection. By evaluating its historical presence, it can easily be determined that it has been a means of overcoming the predominant welfare systems during the first part of the twentieth century or those prior to the formation of welfare states that established such programs after Second postwar period.

Strictly speaking, mutualist action is directly related to the need for human protection. If one considers the thesis of Manfred Max Neef, one can discover that the second fundamental necessity of human beings is protection. According to Arboleda and Zabala (page 67):

“Beyond the simple struggle for survival, for access to the elementary minimums to stay alive (air, food and roof), human beings must be guaranteed other medium-term satisfactory that make the former sustainable (health, old age pension, assurances and the like). Social protection, then, is not only a program of government or a slogan for the improvement of working conditions; it is primarily a human need that must be satisfied through non-individual social instruments and systems. It is up to the State to guarantee them, as most Constitutions say; it is up to the employers to contribute much of them as a means of replenishing the energies of their employees. When neither one nor the other establishes the means and the norms for the population to access the satisfiers of protection, the latter has to look for the indispensable mechanisms to obtain them, which they find in the establishment of self-managed organizations. Thus, mutual associations are an organizational tool of those excluded from social protection to self-generate the satisfactions that are indispensable to them at this level.”

This is absolutely true according to the historical experience of mutualism in the countries where it has gained greater relevance. However, such an organizational scheme, in Colombia, had not sufficient policies to crowd it among the population, and its normative condition was very scarce.

During the fourth and fifth decades of the twentieth century there was a strong impulse to mutualism in Colombia, understood as organizations that supplied the lack

of social security system. Formal workers, artisans, and the unemployed in growing cities used these associations as alternatives for satisfying social protection; these organizations included direct health care systems and pension savings mechanisms. Later in the second half of the twentieth century, Colombian mutual societies were strengthened by integration processes and joint actions, but their development was slow and soon they were limited almost exclusively to the provision of funeral services.

At the end of the twentieth century, to a certain extent stimulated by the expectations generated by the promulgation of the general social security law, awareness began to be made about the mutualistic potential, with the understanding that they could intervene in many service areas; Thus, many organizations extended their activities to health care, laboratory services, risk forecasting, savings, credit and education; but specifically limited to the informal working population.

Faced with the crisis of the health and social security system that is now experienced in Colombia, it is absolutely necessary to draw attention to the potential of the mutual organization, so that, through it, more efficient mechanisms can be produced for the management of the savings and for guaranteeing the highest universality of the service. This however implies an agreement on the mechanisms of promotion and some positive norms.

A draft Mutualist Law has been submitted to the Congress of the Republic, considering that these organizations, thanks to their tradition, can contribute to change the institutional instruments for access to social security. This requires releasing mutual associations from certain regulatory obstacles, since many activities that are permitted to mutual societies in other countries, in Colombia are absolutely forbidden. For this reason, a norm in this sense, must start from understanding the potentiality of the mutualist action and the mutualistic association to develop activities that are of their nature and tradition. It also means opening up the recognition of such potential, understanding that the mutual action includes: promotion, foresight, prevention and protection. Concepts that should be understood as “services that are intended to cover various risks that may arise (unforeseeably or surely) or meet present and future needs of partners and their family in relation to their life and quality of life” (Zabala, 2011, p. 151).

The explanatory statement justifying the opening of a legislative debate on Colombian mutualism includes the following central elements:

A) The mutualist rule is oriented by a strictly pragmatic criterion, without taking into account - as fundamental starting point - its nature. That is, the rule is based on the historical presence and the economic tradition of mutualism, as it has been manifested in Colombia, but has not deepened in its essence.

B) Mutualism has not been the subject of specific government policies to promote or preserve it as a tradition. The different laws or administrative acts that have touched

on this issue have been limited to anticipate the organizational situations and, to a certain extent, to establish control mechanisms, but they have not identified the potentials of this organizational phenomenon to promote community development, to improve quality of life and even to use them in the purpose of state modernization. It has always been left with marginal functions.

C) The rule must start from considering the recent socioeconomic transformations in which the mutual action plays a great importance, especially in relation with protection, foresight and social promotion. Despite the potential of the mutual organization, the legal opportunities for its development are minimal.

In the post-agreement context with the main Colombian guerrilla, the FARC (*"Fuerzas Armadas Revolucionarias de Colombia"*), it is of prime importance to create mechanisms to offer health coverage to the 15.000 ex-combatants none of which has been in the formal health system. Along with this group it is estimated that over 4,000,000 Colombians (Historical commission of the conflict and its victims, 2015) who live in the vicinity of the areas of reintegration and training<sup>6</sup>, have no access to health programs.

The aforementioned agreement states that the organization for the economic and social reincorporation is done through an economic, social and solidary organization referred to as Social Economies of the Common (ECOMÚN for their Spanish acronym). The main proposal, which has so far been fulfilled, is for this organization to act as an umbrella for a number of solidary base organizations in the different regions in order to support initiatives of production, transformation, eco-tourism, commercialization, and consumption, as well as other actions that develop economic circuits.

Thus, ECOMÚN progressively concentrates the institutional offer in relation to financial means for shared projects, therefore establishing a basic temporary rent for ex-combatants, access to social security and other actions such as the presence in broadcasting services for reconciliation and peaceful coexistence. In order to fulfill the guarantees of the Agreement carrying out promotion actions and governmental support in relation to ECOMÚN are essential.

From such a stand point the National Solidary Economy Discussion Panel (*"la Mesa Nacional de Economía Solidaria"*<sup>7</sup>) currently discusses ways to promote a process that strengthens ECOMÚN as a provider of health in a mutual logic, in partnership of the existing 120 mutual initiatives and with the aim of facilitating the access to the health system of the ex-combatants.

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<sup>6</sup> Regions where FARC ex-combatants are gathered in order to prepare their reintegration to civil life.

<sup>7</sup> Entity made up by State organisms which promote and supervise solidary and social economy organizations, trades and the academy, represented among others by CIRIEC-Colombia.



## Conclusions

The general system of social security in health was designed as a modern management scheme, that could face competition, with health promotion entities (HPE) being modern and efficient, and health care institutions (HCI) acting in conditions of efficiency and providing the most vulnerable population, without the troubles of profit-driven companies. But they were not prepared to get rid of political influence and corruption. The institutions did not take this aspect into account.

These organizations should be managed far from the interests of politicians, closer to the functioning of organizations of the social and solidarity economy such as mutuals, more depending on the users and their workers. This implies that they should have a more autonomous contracting status, the empowerment of their boards, agile and transparent recruitment processes, and efficient and networked information systems.

Using mutualism, more efficient mechanisms for the management of the expected savings can be produced and can guarantee a greater universality of the service. They could also direct the process of ensuring health coverage for ex-combatants and civilians that have been in regions where historically the Colombian state was not present. However, this implies agreeing on mechanisms for promotion and favorable conditions for its performance, by means of a positive norm.

The optimization of the system is possible if it works more in a logic of common goods than in a logic of public goods, because it frees entities from the ties of professional politicians, who in Colombia use public hospitals as their paying stash, by placing their recommended politicians or by helping their financiers to have contracts to build the health infrastructure and to provide the inputs of health services.

The arguments put forward indicate that:

- It is necessary to emphasize the criteria and instruments for evaluation of public management by the citizens
- The concept of the common good is a good point of departure and of arrival as a strategy of governance in the administration of institutional arrangements that optimize the relations between the public organisms and the citizenship that is expressed through the associations.

The distinctive challenge for the public domain derives from the duality of the public thing: the need to allow citizens, in their plurality, to express their contribution to the life of the community and the need to establish a process of collective choice (Ranson & Stewart, 1989) that allows the generation of the general interest to express an explanatory relation for the pursuit of the common good (Álvarez, 2011).

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## **Part IV.**

**The transformations of governance modes in a multi-actors context**



## **Multi-stakeholder governance of the commons, a pragmatic approach / Chapter 12**

Alexandrine LAPOUTTE\*

### **Abstract**

The question of the governance is central for the commons. They have to compose with the different logics of multiple stakeholders within a horizontal governance. The good governance of the commons relies on problem solving devices and discussion settlements. They may be seen as hybrid organizations, a promising way of organizing, yet experiencing intense internal conflicts. This chapter proposes a theoretical contribution that underlines the relevancy of a pragmatist approach to understand the governance of the commons. Stakeholder governance is defined by the literature, yet its theoretical settlements remain plural. Beyond a contractual approach, a pragmatic point of view renews the foundation of stakeholder approach by suggesting to take into account experience and social interaction. After explaining the main features of pragmatism, and especially the concept of inquiry, we highlight the implications of this approach as regards to stakeholder management. The pragmatic shift appears as an interesting approach to keep pace with the shift in paradigm observed in the cooperation between public economy and social economy for the development of commons and public goods.

**Keywords:** commons; stakeholders; pragmatism; governance; inquiry

**JEL-Codes:** L31, J54, O35

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\* Assistant Professor in Management, University of Lyon 2 (France) ([alexandrine.lapoutte@univ-lyon2.fr](mailto:alexandrine.lapoutte@univ-lyon2.fr)).

## Introduction

The common good appears as a recent and emerging concept providing a pathway toward alternative and sustainable development. Commons may be understood as “collective-arrangements to manage resources useful for all members of the community” (Vivero, 2016). They provide reservoirs of biodiversity, collective values, intergenerational sustainability, public goods, participatory democracy and traditional knowledge. This new movement converges with another movement: social and solidarity economy. Both combine multiple actors and multiple logics. Therefore a key point of the common good approach lies in its governance, that will ensure the three main features of the commons: the sharing of the resource, the nature of the rights and obligations linking the participants and, finally, a form of governance allowing participants to ensure respect, over time, of the system of rights and obligations that regulate it (Coriat, 2015). Governance of the commons requires participation and often relies at a local level. The commons are then related to a territorial governance (Leloup, Moyart & Pecqueur, 2005), raising questions about coordination between actors but also about the construction of a territory. Commons, by binding different stakeholders, are likely to express hybridity. Hybrid organizations are characterized by highly incompatible logics that are central to organizational functioning (Besharov & Smith, 2014). They appear as a promising way of organizing, yet they experience intense internal conflicts.

This raises questions about stakeholder management such as how to coordinate stakeholders or which stakeholder has to be associated. We suggest here that a stakeholder approach would be relevant especially if it adopts a pragmatic point of view.

Regarding the originality of our contribution, pragmatism remains a quite confidential inspiration for management field, although it renews it by proposing a settlement different from the contractual and atomistic foundation. It seems promising to understand the governance of hybrid organizations. The existing researches highlight the challenge to make use of instrumentation consistent with this approach, that is organizational disposition and tools that would integrate experience to the decision (Journé & Raulet-Croset, 2012).

This chapter proposes a theoretical contribution that analyzes to what extent a pragmatist approach may help to understand the governance of the commons.

To achieve this goal, we will first briefly characterize the commons in order to understand the stakes risen by their governance. Then we define theoretically the concept of governance, distinguishing shareholder and stakeholder approach. Beyond this traditional distinction, we underline that stakeholder approach may have different theoretical backgrounds. In a third part, we present the main ideas of pragmatism, in order to draw conclusion for its application to the management of the multi-stakeholder organization.

## 1. Commons and Social Economy: convergences for a social contract implying co-governance of resources

Originally the term common comes from English countrysides. It defines itself by three characteristics (Coriat, 2015): a resource on open access; a users' community detaining rights and duties; a structure of governance around this resource, aiming at protecting the resource on the long term and the reproduction of the communities which live on the common. Originally commons concerned land. Forests, fisheries, land, water and food have all been considered as commons throughout European history. Today initiatives such as shared gardens or even Wikipedia may be seen as commons. According to Coriat, this development was allowed under the influence of two factors: the "crisis of the owner ideology", that is the excess of private property and secondly, the possibilities offered by internet. People get organized to take (back) the use and control of these resources, on the basis of their collective action.

### 1.1. Commons and Social Economy: convergence toward a social contract

The European Commons Assembly is building a bottom-up movement to support commons-enforcing policies. It produced a note to be presented to the European Parliament in order to propose different measures. Normative measures converge clearly towards social economy.

#### Box 1: Extract of "Territories of Commons" in Europe (2016) to be presented at European Parliament

NORMATIVE MEASURES (commons-specific):

A.- A **New Social Contract** between European citizens, national authorities and EU institutions based on common resources and commoning governance (rules + institutions) for the commonwealth of the Europeans.

**New moral grounds** (where individualism, profit maximisation, absolute proprietary regimes, consumerism of goods and competition are not the dominant values)

**New narratives** to reach broader constituencies based on inspirational humanism and aspirational goals for the common good, where civil, political, social, economic and cultural rights are not just empty words but binding principles for humans and corporations. From the "Productivist Narrative" to the "Sufficiency Narrative", from "competing individualism" to "collaborative communities".

**New economic model not based on commodification**, absolute proprietary rights, free (but subsidised) markets, profit-maximisation for shareholders, financialisation of means of production, closed IP rights and extractivism of finite natural resources.

**New policies shaped by the new moral grounds and narratives**, where satisfaction of human needs, achievement of sustainable livelihoods, guaranteeing of human rights and transition towards aspirational goals are the hegemonic policy drivers.

**New rights for humans and non-humans (Nature and Corporations)** where the common good is achieved through common sense and collectively-agreed governance mechanisms.



As we can see in Box 1, the social contract proposed by the movement of the commons highlights a new kind of moral foundation, speech, economic model, governance, all which would not be based on individualism and profit-maximization but rather on cooperation and satisfaction of human needs. This corresponds well to the project and practices carried by social economy. Commons and social economy coincide: their vision of the relation between economy and society overlap to a large degree, we could say that they join on their social contract. The task of implementing this social contract belongs to governance.

## **1.2. Commons hybrid logics of multiple actors**

Regarding the governance of the common, it aims at guaranteeing the preservation of the resource on the long run, the reproduction of communities living on the common, and the opening of the common resource. By reference to the definition of Thomé (2016), a common is “the construction of a whole social, economic and environmental. It allows actors of the civil society, associated possibly to public or private institutional actors, to govern together: more or less important territories of vital natural resources, productions which arise from it, the destination of the collective profits, not only financial, but also cultural, environmental, political...”.

Thus, the commons tend to induce some particularities as to the stakeholders involved. It gives an eminent role to the communities of users, remembering the consumer-driven economy described by Ben-Ner and Van Hoomissen (1991). The role of the State changes, beyond its traditional role of regulator, it becomes a partner (Coriat, 2015). The private sector is not absent but in partnership with other stakeholders.

Commons are then marked by partnership and co-governance. It associates multiple stakeholders expressing different interests and logics. It is a convenient place for hybridization of actors and logics in the sense of Evers and Laville (2004), combining the logic of reciprocity by civil society, redistribution by public authorities and market exchange by private actors, representing the three poles of the triangle inspired by Polanyi.

Literature deals with the question of the stakeholders of the commons. Participants in commons, or commoners, have neither all the same rights nor the same interests. Schlager and Ostrom (1992) categorize the members of a fishery according to their rights. Rights, beyond access (the right to enter a defined physical property) and withdrawal (the right to obtain the “products” of a resource (e.g., catch fish, appropriate water, etc.)), are defined as follows (1992: 251):

Management: The right to regulate internal use patterns and transform the resource by making improvements.

Exclusion: The right to determine who will have an access right, and how that right may be transferred.

Alienation: The right to sell or lease either or both of the above collective-choice rights.

They identify four types of stakeholders: owner, proprietor, claimant and authorized user (see Table 1). Authorized users have a right of access and withdrawal to the common resource, but “they lack the authority to change the operational rules” (1992: 252). Claimants, beyond access and withdrawal, participate to management. “They possess the same rights as authorized users plus the collective-choice right of management. With the right of management, claimants have the collective-choice authority to devise operational-level rights of withdrawal” (1992: 253). Proprietors may also define exclusions to the resource access, they “authorize who may access resources and how resources may be utilized”. And owners possess the right of alienation by selling their property, for instance “fishers may transfer their rights of management and exclusion over their particular spot to other fishers of Ascension Bay.” (1992: 254).

**Table 1 - Bundles of rights according to positions**

	Owner	Proprietor	Claimant	Authorized users
Access and withdrawal	X	X	X	X
Management	X	X	X	
Exclusion	X	X		
Alienation	X			

Source: Schlager and Ostrom (1992: 252).

An identification of the stakeholders could follow the classic distinction between primary versus secondary (Caroll, 1979). Primary stakeholders are directly implied in the economic process. Following Schlager and Ostrom, primary stakeholders would be authorized users, claimants, proprietors and owners. As already mentioned, they could also include public authorities at different levels, private organizations. Secondary stakeholders belong to the environment and may influence the common but they don't directly participate to the economic process: it might be other institutions, from local to European or international, media, money providers like foundations, other consumers, multiple networks of militants or sympathizers etc.

This plurality of stakeholders gives evidence of the presence of different interests. A dimension of the governance of commons aims at putting in compatibility these interests which are not postulated as identical. As identified by Coriat, this situation suggests consequences upon governance: free riding may happen; and the good governance of common relies on the capacity to solve conflicts, on problem solving devices and discussion settlements (Ostrom, 1990). Commons are characterized by auto-organization and auto-government based on the free discussion of the concerned parts people, as well as on the organization not resting on a hierarchical principle but rather polycentrical.

This stakeholder governance, allowing multiple expressions, may reveal itself difficult in its implementation. Hybrid organizations experience logics that are central to organizational functioning although highly incompatible (Besharov & Smith, 2014). Therefore they produce tensions and even intense internal conflicts. The socio-

economic approach suggests to stabilize organizations by building compromise (Enjolras, 1996). But pragmatism offers an interesting different perspective.

## **2. Governance: toward a pragmatist approach**

Governance is usually deciphered under a shareholder versus stakeholder approach. But stakeholder theory is not unified, it relies on both descriptive and normative perspectives. A normative perspective may find an interesting theoretical basis in pragmatist concepts. This point of view allows to consider interaction and experience in the understanding of governance.

### **2.1. Shareholders versus stakeholders**

“The system of corporate governance recovers all the mechanisms which govern the conduct of the managers and bound their discretionary latitude” (Charreaux, 1997). It refers to questions such as control of the managers, organization of the board of directors, value creation etc. It is traditionally approached according to two different points of view: either shareholders or stakeholders.

From a shareholder point of view, the central problem is how to ensure that managers act in the interest of the stockholder or shareholder. It relies on the agency theory in which the agent (manager) has to act in the principal’s (shareholder) interest. Thus the principal has to control the behavior of their agents to achieve their, rather than the agent’s, interests. The power of agents to act in ways divergent from the interests of principals may be limited by use of incentives or monitoring (Jensen & Meckling, 1976).

Stakeholder approach emerged with the work of Freeman (1984) and calls to enlarge the scope of the partners to take into account when governing an organization. “A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization’s objectives.” (1984: 46). “Stakeholder Management” as a concept, refers to the necessity for an organization to manage the relationships with its specific stakeholder groups in an action-oriented way.” (1984: 52). The challenge is then to identify and manage stakeholders, by creating “shared value” (Charreaux & Desbrières, 1998; Porter & Kramer, 2011).

### **2.2. Recently, pragmatism questions understatements of stakeholder approach**

If we look closer at the stakeholder approach, although it often relies on the “contract nexus” (Jensen & Meckling, 1976) of a contractualist approach, it can also be based on another theoretical ground, that is a pragmatic approach, that presents another prospect not divested of interest. Renou and Renault (2007) offer a new look on the approach to the stakeholders by clocking the inadequacies of a contractual foundation.

There is no uncertainty on the productive process (we can determine who generates the surplus and where it goes) but only on the behaviour of the actors. It is still an “era of the control”, or of a shareholder “enlightened” theory (Jensen, 2001). The question of the link between creation, definition and distribution of wealth is not considered.

The agents are considered as already established, they have stable preferences stemming from an already realized process of individuation. Resting on the postulate of atomic individualism, their behaviour is directed to the calculation. Finally, this approach does not address organizations as historic products or in their collective dimension.

To answer these limitations, the authors present a transactional approach, based on a different theoretical ground, following Dewey’s work on pragmatism (1938). It underlines different points and rather different assumptions when it comes to stakeholder organization (see Table 2): the organization is constructed by socially embedded people, rather than an external data. People maintain personal relations based on trust and dialogue, rather than on incentives. And solving problems occurs in deliberation, through the discussion of rival proposals, instead of the power being connected to the property rights.

**Table 2 - Organization in a contractual versus transactional approach**

	Contractual approach	Transactional approach
Organization’s definition	Contracts nexus	Social relations nexus
Organization	Given	Constructed
Individual	Constituted	In a process of individuation
Relation individual/organization	Impersonal (monetary transactions)	Personal (communicational transactions)
Kind of relation	Incentives	Trust, dialogue
Motives	Exogenous	Endogenous
Source of legitimacy	Property rights	Civic rights
Legitimacy devices	Power related to property	Deliberation
Legitimacy criteria	Profit	Participating evaluation taking into account divergent values of stakeholders

Source: According to Renou and Renault (2007: 73).

Because of this special emphasis on interaction, a pragmatist stakeholder approach seems to be a relevant point of view to study the governance of social economy (Lapoutte & Cadiou, 2014), which is based on economic democracy and gives power to people rather than capital. For the same reasons, we suggest that governance of the commons would gain to be studied through a stakeholder pragmatic lens. As underlined by Bensebaa and Beji-Becheur (2008), it allows to overcome the usual problem of a tension between logics (market vs. social, professional vs. militant, technical vs. political), which often prevail to understand multi-stakeholders organizations, such as social economy, or partnership between social economy and public organizations. Actors have to resolve a problematic situation through a process in which ideas and reality interact until a solution is

found. A pragmatic approach enriches the lens: where management tends to rationalize and disembodify, it introduces living experiences, instead of power and calculation, it focuses on interaction and intersubjectivity.

### **3. Pragmatism: a transactional approach of stakeholder management**

A few elements on pragmatism must be here clarified. We would like to present its settlements and main concepts, although too briefly to appreciate its complexity. The aim is to address consequences on stakeholder management, before dealing with the issue of methodology.

#### **3.1. The specificities of the pragmatic approach**

Pragmatism, that initially stems out of the work of Pierce, James and Dewey (1938) has recently influenced management (Lorino, 2011). It relies on three characteristics (Dumez, 2007): 1) it connects theory with action instead of bringing them into conflict; 2) it puts on the same plan facts and values; 3) it admits only contingent points of departures and not principles.

Its proposition is original about three points that we want to explicit: the status of ideas, the distinction between individual and individuation and the notion of situation.

The first point concerns the manner to understand the link between ideas and actions. Ideology allows or forbids action. Thus ideas have to be understood from the point of view of their practical implications. And the other way around, ideas appear as symbols responding to practical matters.

The notion of individuation is central. Dewey opposes an abstract conception of the individual, who would be a quite made, already constituted and given reality. Similarly, in a contractual view, society is also an extern and given data, that comes to limit and compel individuals. Individual and society stand in opposition that prevents from thinking a relation. Pragmatism criticizes contractualism which corresponds to this ontology of the individual and the society. There comes individuation: it is the movement through which the individual builds himself to become an individuality. Individual builds himself through action, experience, throughout his life, by fitting into a history. Out of action emerge distinctions which make different individualities happen.

The notion of situation has to be clarified for it is at the heart of pragmatism. Journé (in Dumez 2007; 2012) looks into this concept. The indefinite character of the situation brings the doubt which is at the origin of an investigation to establish a coherence deleting the doubt. The situation is “contextual” and “experimented” or “felt” as a whole. It is unique and singular. The process of the inquiry consists in transforming the indefinite situation into structured problem. Via the observation of the stable elements of the situation, the “elements of the problem”. Solution arises

from ideas forming itself gradually during the investigation. Ideas have an operational character, because they influence the later observation. The process involves reasoning and observation. The ideas are articulated in a speech, from then on less vague than the initial idea. The success rests on the capacity to feel the global situation. According to Journé, the situation may be characterized by four dimensions: social (a variable-geometry collective), ecological (immediate physical environment), institutional (macro-structures which weigh on the definition of the situation) and temporal trajectory (triggering event, management of the situation, and outcome).

### **3.2. Consequences on the multi-stakeholders management**

Now that we defined the pragmatic multi-stakeholder organization, we can draw conclusions as regards its stakeholder management. In firms as “discursive spaces”, the stake is to create a common definition of the situation. Governance is then managing the structuration and resolution of a situation. It requires to create the conditions of the investigation. Multi-stakeholder governance comprises in organizing the conditions for a collective inquiry. Stakeholders must be able to interact and adjust through the process.

A key question is who has to be associated to the resolution of the situation. In the social dimension, Journé (2012: 118) defines stakeholders as “a variable-geometry collective”: “the interactions between people who participate in it de facto, because of their position and of their legitimacy. The choice of the actors is then a function of the sense given to the situation by the individual who has the responsibility and constraints which structure the situation”. So the scope of actors can be widened, in a stable or temporary way, according to the progressive construction of the situation. It is underlined that there are two different ways of associating actors: they are either enlisted by the people dealing with the situation, or they choose to intervene on their own initiative. The stake here is to be able to create the conditions of a widened participation. This implies a capability of “peripheral attention”, “heedful interrelations” or “collective mind”. The stake concerns then the “legitimate peripheral participation” (Lave & Wenger, 1990) to a “community of practice” (Wenger, 1998). There is creation of a temporary collective who must be able to share an identity as a “community of inquiry”.

The synthesis Table 3 presents what could be the management of stakeholders on a pragmatic or also called transactional basis.

**Table 3 - Stakeholder management in a contractual versus transactional basis**

	Stakeholder management Contractual approach	Stakeholder management Transactional approach
Goal	Influence / Not to be disturbed by stakeholders influence Satisfy to allow long-standing of business	Create a common definition of a situation
Aim	Instrumental	Ethical
Role of Management	Provide effective or symbolic signs	Organize adjustment process Allow openness, peripheral attention
Relationship with stakeholders	Identification of stakeholders demands and providing responses	Process of co-construction, of common inquiry
Status of stakeholders	Constituted, external	Individuated: build and distinguish themselves through action
Identification of stakeholders	Primary / Secondary	Enlisted / Invite themselves Variable-geometry Inquiry community
Risk	Decoupling	Lack of peripheral attention Complexity
Favorite tool	Power / Interest Matrix	Deliberation

Source: Author.

### 3.3. Elements of methodology

Paying attention to inquiry, process, production of meaning, leads to adopt an action research as appropriate. Lorino *et al.* (2011) suggest a research method based on the pragmatist theory of inquiry, called DMI for “Dialogical mediated inquiry” (see Box 2).

#### Box 2: Dialogical mediated inquiry

“Four characteristics will be mentioned here: DMI is more about *knowing by transforming* than *observing*; from a methodological point of view, the core of the inquiry is the *dialogical meaning-making* process rather than ‘*data*’ processing; the inquiry involves *field actors as co-inquirers rather than informants*; the formation of a *community of inquiry* (Dewey, 1983 [1916]) is a key step in the research process. Given these features, DMI can be classified as an action research method, with two specific characteristics to differentiate it from other action research methods: the pragmatist inquiry is existential rather than cognitive or ethical in essence; mediating artefacts, more than contingent supports to problem-solving, are essential and defining constituents of the inquiry.” (Lorino *et al.*, 2011: 793)

“We suggest that actors continuously reassess their own collective activity through dialogical interactions and semiotic mediations. As a result, the organizing process has three major dimensions: it is collective activity (‘people doing things together’), dialogical sensemaking (‘people interacting to make sense of what they are doing to some respect’) and mediating (‘people actively transforming and recreating the semiotic mediations of their activity’). The organizing process can then be conceptualized as a dialogical mediating inquiry *which builds the story of the collective action in progress.*” (Lorino *et al.* 2011: 797)

Being part of the process, researchers participate into that dialogue, taking part to the community of inquiry, in a developer position.

Dialogical methodology differs from methodological individualism and holism, it goes beyond this dichotomy. In a subjective view, ideas would precede interaction, whereas an objective view would consider that context, organization or technics prevail to generate ideas.

The pragmatic approach relies then on “a non-dualist epistemological framework, the triadic theory of interpretation, first developed by Charles Peirce” making reference to the concepts of semiotic mediation, inquiry and dialogism. This semiotic epistemology is neither positivist, for it considers intention and project, rather than an existing reality. It is neither constructivist, in the sense that actors have to deal with a resistant world they have to interpret several times. Abduction mixes reasoning and intuition. It starts from the definition of a problem, to propose plausible hypothesis.

#### **3.4. Perspectives for public and social economy cooperation**

We mentioned that the success of governance of the commons relied upon problem solving: the pragmatic approach offers a perspective and the dialogical mediated inquiry stands as a device. This approach seems interesting to understand cooperation between public organizations and social economy organizations. Public and social economy may join in collective action and social transformation, both at the heart of their action to promote a project of society. Indeed, they develop a dynamic of co-construction, and sometimes lack the know-how to do. In their cooperation to determine access to resources such as land, water, food etc. they may be seen as co-inquirers of a community of inquiry, in order to handle a situation.

Under the angle of pragmatism, multi-actors cooperation presents specificities able to generate interesting effects at the level of general interest, mainly for two reasons. The resolution of a problematic situation here and now unties the actors of certain ideological postures difficult to reconcile. Secondly and in a complementary way, the consideration of interactions offers a moral foundation to the decisions. Indeed, the definition of a solution by successive interpretations allows to end in an acceptable sense by all the actors. In that perspective, the sense-making dialogical activity may be a fruitful ground to define the social contract between civil society and public institution, by the emergence of new narratives, economic models, policies and rights.

The condition is of course that the collective is opened enough to include all the actors susceptible to be representative of the general interest. From then on, the State, not being anymore the only guarantor of the general interest, could take an active role in guaranteeing the conditions of peripheral attention of the collective.



## Conclusion

Beginning with the problem of the commons, we focused on their governance. Commons are collective-arrangements to manage resources useful for all members of the community. Governance enforces the sustainability of the commons. This governance is characterized by multiple actors and logics existing in hybrid organizations, allowing a stakeholder approach. We brought the idea that, in a stakeholder approach, pragmatism is a relevant settlement to study hybrid organizations. Although well spread, the stakeholder approach nonetheless may rely on distinct theoretical foundations. Dewey's pragmatism brings experience and interaction at the heart of the process between stakeholders. After explaining the main features of pragmatism, and especially the concept of inquiry, we considered more precisely the implications of this inquiry as regards to stakeholders.

This work enriches the current literature on pragmatism in management field. It contributes to renew the foundation for stakeholder theory. It also offers practical perspectives. This work could contribute to understand better the governance of the commons. It could be useful to study questions as who are the stakeholders of a common, how do they interact, how do they lead an inquiry to handle a situation. It offers a base of analysis for multiple cases: food, land, water etc. or common territory itself. Considering the background of pragmatism, it would be appropriate to adopt an abductive epistemology, with movements of back and forth between theories and practices. The methodology could use case study, narration, dialogical mediated inquiry or other qualitative approach allowing to gather data about the process of the action.

For all these reasons, we consider that the pragmatic shift is an interesting approach to keep pace with the shift in paradigm observed in the cooperation between public economy and social economy for the development of commons and public goods.

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## **New hybrid organizations in the social and solidarity economy in France: A new cooperative governance? / Chapter 13**

Jean-Claude BOUAL<sup>\*</sup>, Cathy ZADRA-VEIL<sup>\*\*</sup>

*We want to dedicate this article to Jean Roucou, humanist who died in 2016 and who dedicated his life to the popular education, and to the democracy.*

### **Abstract**

This chapter investigates different new hybrid organizations like the public-private partnership in the social and solidarity economy. Different innovations are shaking the traditional borders between the economic actors, the public, the private, the profit and non-profit sectors. New form of firms emerges with several shareholders and mixed economic structure. A financial mechanism, the Social Impact Bonds, is also supported by French public authorities. New hybrid forms of innovation like Living Labs are defined as user-centered, open innovation ecosystems based on systematic user co-creation approach, where different partners (public, private...) co-create a common solution and common value.

These different forms share as common aim the general interest and better social results. The issue of governance is central to guarantee the general interest and the Commons, namely having rules and actors governing the commons together with democratic and shared participation. Thanks to a clearly shared and collaborative (Ostrom, 1990) governance, these new hybrid forms also allow for a better stimulation of the economic, social and territorial dimensions within the innovation framework.

We define a new cooperative mode of governance, which completes the hybrid arrangements typology of Oliver Williamson (1991). The Living Lab example is in the line of Elinor Ostrom; it allows going beyond the tragedy of the commons. The individual interest hands over to common value. The emerging governance model is based on citizens' involvement and guarantees success and protection of the commons.

**Keywords:** hybrid organizations; governance; Public-Private Partnerships, cooperative firm of collective interest, living lab

**JEL-Codes:** G30, L32, L31, P13, O35

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<sup>\*</sup> Jean-Claude Boual, Associate Researcher at Paris VIII, LED (France) ([jean.claude.boual@wanadoo.fr](mailto:jean.claude.boual@wanadoo.fr))

<sup>\*\*</sup> Cathy Zadra-Veil, ESPI 2R (Groupe de Recherche de l'École Supérieure des Professions Immobilières (ESPI) 2R /Réflexions et Recherches), Paris (France) ([veilcathy@gmail.com](mailto:veilcathy@gmail.com)).

## Introduction

This chapter investigates, in France, different new organizations with hybrid forms (public-private), which emerged in the social and solidarity economy. Different innovations are shaking the traditional borders between the economic actors, the public, the private, the profit and non-profit sectors. In 2001, a new form of firms, not private, not public, is created: the « *Société coopérative d'intérêt collectif* » (SCIC)<sup>1</sup>. Yet, it is presented as a hybrid form, another option to non-profit organizations and to private firms while allowing cooperation between the different economic actors of a country or of a territory. One of these other innovations is the “living labs” (LLs). These are defined as user-centered, open innovation ecosystems based on systematic user co-creation approach, integrating research and innovation processes in real life communities and settings.

Based on experiments, we show to what extent these hybrid forms can contribute to a better stimulation of the economic, social and territorial dimensions within the innovation framework, since governance is clearly shared and collaborative. We identify the limits linked to their governance and to their financing; whereas with a living lab case, we overtake the limits and the tragedy of the commons (Ostrom, 1990) when the governance is cooperative and collective, and when the co-created value cannot be shared. We propose a new governance structure: cooperative-citizens-trust in the line of the transaction costs theory. The implication of the actors is the reason of the success of collective management based on trust.

The governance of companies is an essential stake for the economy of environmental and economic transition in France. For a long time, other forms of companies have existed where people are the central players: mutual and cooperative firms, associations, non-profit organizations. The decisions are taken in common, every partner having a voice, whatever its equity participation (a man or a woman = a voice). These undertakings also evolved to answer new social, technical or economic needs.

In 2001, a new form of firms, not private not public, was created: the « *Société coopérative d'intérêt collectif* » (SCIC). Nowadays in France, there are over 500 SCICs. SCICs are composed of several shareholders aiming at producing or supplying goods or services in the interest of the community and displaying a sign of social usefulness<sup>2</sup>. Although the financial viability often gains the upper hand on the societal aims, the SCICs are presented as a hybrid form, another option to non-profit organizations and to private firms, opening up to different economic players of a country or of a territory. Thus, they have a specific governance, neither that of a conventional firm nor of a NPO (non-profit organization).

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<sup>1</sup> SCIC is the French acronym of « *Société Coopérative d'Intérêt Collectif* », which means cooperative firm of collective interest.

<sup>2</sup> Act n°2001-624, 17th of July 2001.

In 2014, new forms of mixed economic firms (SEMOP (« *Société d'économie mixte à opération unique* »): semi-public companies for only one operation) appeared. Different other innovations emerge shaking the traditional borders between the economic actors, the public, the private, the profit and non-profit sectors. One of these other innovations is the “living labs” (LLs). There are defined as user-centered, open innovation ecosystems based on systematic users co-creation approach, integrating research and innovation processes in real life communities and settings. LLs operate as intermediaries among citizens, research organizations, companies, cities and regions for joint value co-creation, rapid prototyping or validation to scale up innovation and businesses. LLs have common elements but multiple different implementations.

The question put at examination is the following: Did this new frame offered by the new hybrid governance forms respect or affect the aims of the common / general interest?

Based on experiments, we will show to what extent these hybrid forms can contribute to a better stimulation of the economic, social and territorial dimensions within the innovation framework, since governance is clearly shared and collaborative. However, the inherent limits can slowdown or even question the shared goals.

## **1. Social and Solidarity based Economy, new forms of governance and the commons**

### **1.1. Definition of SSE and the commons**

The **Social and Solidarity based Economy (SSE)** in France is defined by the Hamon's Act<sup>3</sup>: “a form of entrepreneurship and of economic development adapted to all fields of human activities supported by private law entities who fulfill the following cumulative conditions:

1. targeted goal other than the sole sharing of benefits;
2. a democratic governance, defined and organized by the statutes, which foresee information and participation, whose expression is not only related to the capital share, of the shareholders, the employees or stakeholders to the fulfillment of the firm;
3. A management respecting the following principles:
  - a. benefits mainly devoted to preserving or developing the activity of the company.
  - b. no distribution of established compulsory reserves.”

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<sup>3</sup> <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000029313296&dateTexte=&categorieLien=id>

The SSE is not only defined by the company statutes (cooperatives, non-profit organizations...), but also by a series of criteria, which allow for the possibility to be an individual firm or a mixed capital company and to meet the global rules of the Act. The governance is the expression of the different actors, between the individual and collective goals, and between the general interest and the commons.

The governance represents the actors' interactions to define common rules and the collective management of the commons, according to the collective interest. The benefits are shared and contribute to ensure the sustainability of the resources in the organizations, such as is the case for the SCICs. They can overcome the propositions of the "tragedy of the commons" (Ostrom, 1990).

"A common is the construction of a social, economic and environmental whole. It allows the shareholders of the civil society potentially associated with public or private institutional actors to govern together: territories of different size with vital, natural resources / production / destination of the collective profits, not only the financial ones but also the cultural, environmental and political ones.... Such an achievement must establish itself not only by defining its own rules of democratic, polycentric or in a network governance, but also be established that is to say with an administrative and legal (deed off property) framework, such as the institutional frameworks offered by the SSE, NPO, Cooperatives" (Thome, 2016).

Indeed, Elinor Ostrom (1990) explains that in order to go beyond the social dilemma, i.e. the existing tensions between the individual and collective interests, the user must create its own system of governance. The users define the needs and create the institutions, and the institutional arrangements give the common sense to the collective action.

The new forms like the SCIC respond to the legal context and the cooperative values, but this firm has different inherent contradictions, which limit its development in the economy.

## **1.2. The « Société coopérative d'intérêt collectif » (SCIC)**

The SCIC (« *Société coopérative d'intérêt collectif* ») corresponds to the principles of the SSE Act and can operate with different public and private actors. The emergence of a new generation of cooperative structures seems to adhere to the idea of social entrepreneurship. The SCIC will develop the cooperative goals. Indeed, it is a hybrid form gathering the worlds of NPOs, businesses and cooperatives. It is defined by a social entity and a collective interest.

From a sector specific point of view, a low dynamism of SCICs is noted in the industries directly linked to social economy<sup>4</sup>: nearly 47% of SCICs are in the service sector, 17,3% in the construction industry, 13,1% in manufacturing and only 8,9% in education, health and social action.

The SCIC economic model is based on economic profitability while having social and societal aims. But social and societal effects are more difficult to value and monetize than economic or financial efficiency. The basis of the SCIC's statute created in 2001 rests upon the cooperative model and multiple shareholders (natural, legal, public, private entities). In order to avoid that a SCIC body takes over the majority, the law

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<sup>4</sup> In the website: <http://www.les-scop.coop/sites/fr/les-chiffres-cles/>

planned the interdiction of one category of associates (“College” in French) to hold the majority within the General Assembly.

In that regard, the cooperative form that sees its employees being shareholders of their firm with the same weight in the decision making, no matter what their capital contribution is, usually undertakes a project going beyond its legal and organizational framework, namely regarding a collective interest, a commons. The SCIC should satisfy the common and social aims of the company. However, in the cooperative form, the implication and risk-taking both focus on the capital investment and personal commitment.

The governance of this form is embedded between the individual and the collective and between general interest and the commons. The definition of property rights may seem essential and the transactions costs are relevant (Coase, 1960) in this hybrid form. Indeed, clearly specified property rights allow to regulate and to establish contracts tending to be complete. These minimize the transaction costs. One of the limits relates to the confusion between the formal and informal, the social and economic dimensions of the actors’ rules in the SCIC and the goals of individuals and society.

### **1.3. Development and delineation of social enterprises**

For the past ten years, the SSE emerged as a concept whose delineation sometimes triggers lively discussion. The 2008 crisis has been a catalyst of the development of the SSE. “The introduction of quasi-market, and public-private partnership are some of the many processes embedded in this collective movement and therefore contributing to put the company at the heart of social production (Petrella & Richez-Battesti, 2015, 2)”.

The development of social entrepreneurship and social enterprise brings about renewed theoretical analysis grids. This change of dimension and broadening of the enterprise’s social object linked to the general interest is both an asset and an obstacle to its own future. The institutions and actors of the SSE are not always able to convince the citizens of their efficiency, since the evaluation remains based on requirements of financial profitability and short-termism.

The cultural obstacles and the lucrative image of the private company remain dominant and make the hybrid forms difficult to grasp: indeed, the widely spread idea is one of a blurry structure advocating profitability while having cooperative and social objectives.

The informal rules, the habits and customs and all the cultural dimensions developed by Douglass North (1990) are important and can sometimes prevent the implementation of a lasting change and even the choices boosted by the institutions. “No institutions are necessary in a world of complete information. With incomplete information, however cooperative solutions will break down unless institutions are created that provide sufficient information for individuals to police deviations (North, 1990, 57)”.

The commons’ realization depends on the construction of a governance system that is a set of rules and of standards governing the relations between actors. Everybody is



involved in the use and/or in the production of a given good, basing on rights and obligations of such actors. Citizens are not used to this new mix and are often very confused about it.

Obstacles can also be linked to the ownership of the social capital of the cooperatives such as the SCICs as well as to the shared power of voting rights and operational and strategic decision-making. The social and solidarity based enterprises are characterized by an internal and democratic governance, a limited profitable aim with a surplus allocation aiming at maintaining and developing the activity and employment. Social and solidarity based enterprises have to reconcile economic efficiency, social progress, sustainable development goals, and, territorial and local development.

Yet, this disrupts sometimes the reading and the analysis of the social project effects in an election context for example. In this case, public actors can privilege the short-term and financial analysis and would not invest in a new SCIC, or could even turn their back to it.

The question of governance and of the shareholders' relationship with respect to capital ownership in these new structures is a curb or even a real hindrance. For some investors, such as institutional or private investors in the SCIC entity, it is a real disadvantage. For example, the French « *Caisse des Dépôts et Consignations* » remains fearful regarding investments in some structures because they do not hold majority voting rights in the decision making. Other investors such as « *La Nef-Finance Ethique* », a financial cooperative, went over those obstacles, including in the evaluation requirements.

This is why some rhetorical interpretations lead us to offer another way of thinking, of being rational to avoid the social washing. This way is to build, co-build the activity within the structure of SSE (Petrella & Richez-Battesti, 2010). The company becomes a place where the social matters and social representations are shared and common, when and once its governance structure is democratic and shared. The question of property rights associated to the commons is left out normally (Orsi, 2015), but the shared power in the decision making determines the rules and the ability to influence the decisions and the strategic and operational orientations.

The issue of the governance is not very often tackled in research when decision comes from an organizational and democratic process in which the power cannot be exercised individually and directly.

#### **1.4. The Social Impact Bonds (SIB): a means to overcome the obstacles of financing the SSE or social enclosure?**

A new form of shares emerges in France, but this is the counter example of the shared governance. A social impact bond is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner. The State's vision searches in this case to overpass a dichotomy in the SSE financing: financial markets and social activities.

If the social outcome improves, the government commissioner repays the investors for their initial investment plus a return for the financial risks they took. If the social outcomes are not achieved, the investors stand to lose their investment.

On 15th March 2016, Mrs Martine Pinville, Secretary of the State in charge of SSE, made public the launch of the first appeal to SIB in French “Contracts of Social Impact” (CIS). They had been invented in the UK and generalized by the G8 in 2013.

Through such a procedure a new type of Public Private Partnerships (PPP) applied to social action thus appears in France. In fact, it is a question for the banks, multinationals firms and the entire financial system, to not only make profitable the financial investment within the social framework, but also to take over the social field (norms and implementation) by a form of enclosure.

The implementation of SIB refers to a whole, to social entrepreneurship crowdfunding, company sponsorship, philanthropy... In these cases, firms try to justify their implication in order to provide answers to the aims of corporate social responsibility, imposed statutorily in France.

A public authority (often advised by investors) would like to start an action in a social field (integration, second offence, school dropout, parenthood...) but is struggling financially or would like to break off with the associations’ subsidies. The public authority thus calls upon an intermediary financial organization (which will then be paying itself off), which collects funds with investors (banks, companies, foundations, small investors) willing to involve themselves in a social field while making profitable investments.

The public authority sets targets to reach. The amount of the final payment to the investors is based on the success of the operation. Those targets will be quantifiable, in others words based on financial and economic criteria.

The intermediary then chooses an “operator” –an association or a private company– which will be in charge of the implementation. An “independent” audit firm is in charge of the assessment, although it is very difficult to assess results in social fields. In the end, according to some results, the investors will have received a double-digit return on investment (up to 13% or even 15% per year, depending on contract) paid by the public authority (and hence by citizen taxes). Increasing the number of intermediaries in order to finance the SSE contributes to raise the global cost of financing. Each intermediary will try to cover itself up and, as in the case of PPPs, it is the taxpayer who pays by default. The reason for resorting to SIB is a context of constrained financing.

This is not shared governance because the investors impose the capital return rate. In certain SIB, the financial director is chosen by the intermediary body of the investors. Governance is not independent anymore and the sense of the social and cooperative commitment completely lost.

On the public side, this mechanism allows to finance some services of general interest without increasing the debt of the territorial authorities, even if the global cost is higher than the cost of resorting to public order as in the case of the PPP (Report to the Senate from the 16th July 2014). The private partner takes over the evaluation of the actions. The public partner feels that it is protected. Poorly designed PPPs and

other blended structures can lead to high returns for the private partner, while the public partner retains all the risks.

According to the authors, the detention of capital and the target of the SSE are contradictory. Indeed, when not being in an altruistic dynamic, it is difficult to give a definition of the quantitative and quantifiable criteria because of their socio-economic dimensions (Zadra-Veil, 2009).

Moreover, the development of SIB raises a certain number of questions, regarding their suitability to the general interest.

In the SCIC the value and the benefits are shared, based on the amount of the initial capital investment and of the unquoted share. The SIB can be a mechanism to finance the social activities but with the financial constraint of the cost effectiveness and uneven shared risks.

## **2. A new organization and governance: the living labs**

The living labs (LL)<sup>5</sup> on its side depicts the case of “immaterial and common construction”, where commons are defined together and where the created value is shared in the LL. The LLs can contribute to the economic, social development and create new ways for social innovations with citizens’ participation. The created value rests within the LL.

### **2.1. A new context**

Before tackling the LL, it is worthwhile to consider the empirical as well as theoretical dimensions of public-private partnerships (PPPs), which define a new form of governance: that is a reduced formalization with cooperation based on trust. In the common features of this hybrid form (Ménard, 2004), one can find: pooling resources of the stakeholders with a shared and legal distribution, resorting to contractual agreement more or less formal, and dispute resolution mechanisms.

Further, looking at a particular form of PPP, the research and innovation PPP, will help to set the frame to better grasp the potential of LL in terms of governance. Research and innovation PPPs are hybrid forms because those research organizations are created together between the European Commission and the different partners to guarantee the respect of the goals and themes of the 7th Framework Program (now called the Horizon 2020 Program). The AAIG (Ad-hoc Industrial Advisory Group) is an *ad hoc* consultative group, which establishes the basis of a new cooperation form. These groups are the relay between the public and the private partners. We can consider them like micro-institutions implementing the goals set by the European Commission: *“a clear definition of the public and private roles, simple and transparent procedures, monitoring of the implementation by independent observers and the long-term stability of the running research PPPs.”* (European Commission, 2011, 15).

Through calls for projects, the ongoing dialogue between different actors is an *ex ante* step to innovate. The number of participants increases over time, together

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<sup>5</sup> See the ENoLL (European Network of Living Labs) website (<http://www.enoll.org/news>) for a definition.

with the number of selected calls of projects. This positively influences the quality of proposals. When the needs are defined *ex ante*, the information asymmetry is reduced. The micro-institutions are the vector and the intermediary actors where the best practices are shared. They limit the opportunistic behavior of economic actors (Williamson, 1994, 70) by an institutional regulation, and not only a contractual regulation (Zadra-Veil, 2010, 189).

The governance of the partnership's relation is often minimized in the PPP, because the partners are connected to the contract, and its execution; whereas these Research and Innovation PPPs bring an essential theoretical contribution to the analysis of new hybrid forms.

The hybrid institutional arrangements are made between European, national institutions and companies. The latter define together common objectives, here in terms of innovation and research, while seeking to minimize the costs of governance and with limited contractual formalization.

The perpetual negotiation process paves the way to possible new opportunistic behaviors. Besides, according to the transaction costs theory, if the hybrid form does not allow for enough flexibility in the relationship between partners, then a form of integration will be favored and substituted by a relationship of subordination. In the case considered, this risk can be set aside. *De facto*, other forms of cooperation are developing and encourage us to think that the obstacles of the SCICs linked to the governance can be overcome in the case of LLs.

Westerlund and Leminen (2011) defined the LL in an extended concept where the link between PPP and LL is formalized. LL are "physical regions or virtual realities, or interaction spaces, in which stakeholders form public-private-people partnerships (4Ps) of companies, public agencies, universities, users, and other stakeholders, all collaborating for creation, prototyping, validating and testing of new technologies, services, products, and systems in real-life contexts".

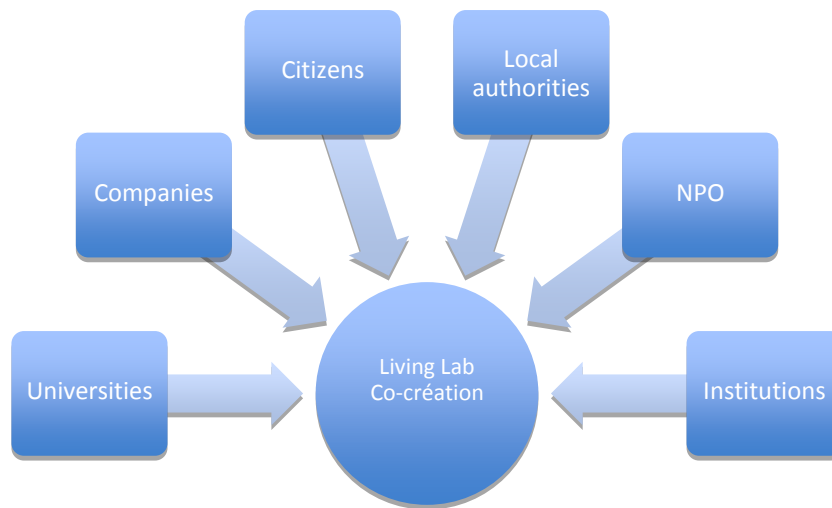
## **2.2. Living Labs (LL)**

The example of European LL disrupts the traditional borders of the market, of the firm and also of the organizational hybrid forms. Their development in different sectors shows that the transaction costs are lower. Their expected benefits exceed the estimated costs. The co-creation overtakes the contractual relation with a collective form of trial and error and with back and forth between the different partners. The members of the LL co-construct a shared basis made of a set of rules and of defined property rights. A specific system of property rights is stabilizing itself in the LL.

The LL allows reconciling the local and the global. Indeed, the local level is set with the territorial integration of the LL while the global dimension embeds the LL in a European and even global network. The economic actors: researchers, manufacturers, local authorities and especially users... meet up to share ideas in fields as varied as the last features of a high-tech product or on the new urban fabric and

frame of a city. The social, public, private, university and research partners are grouped and together co-create and try out new ideas, new uses in a reasoning of “open-innovation”.

**Figure 1 - LL actors**



From the 1990s, the work of William Mitchell shows the features of a LL (Corbineau, 2008):

- Being an ecosystem of open innovation, that is to say of exploration, testing and assessment of new ideas and processes. Their common point is to mobilize the communities of users through scenarios of different products.
- Centered on the user that is to say by co-creating the research and the process of innovation,
- We thus have to add to PPP a fourth “P” for People.

The LL is difficult to define, but we can identify different dimensions (Fasshauer, Zadra-Veil, 2017). LL appeared in Europe in the early 2000s, in relation with the development of “digital cities”. It became clear that they had different specificities than the original concept developed by Mitchell. Instead of recreating a “lab” in its traditional meaning, users were to be studied in their everyday context.

Fasshauer and Zadra-Veil (2017) distinguish generic dimensions and new dimensions with the case study of a rural LL. There is a multiplicity of stakeholders. The user is at the heart of the device, but the LL also includes public or private companies, associations, public authorities... A LL is an open organization. It is easy to enter and exit. The free access and the possibility to leave the LL is a condition to respect the democratic principles of the LL. Actors may participate only to one project, while ignoring the other activities of the organization. There are no boundaries and the work within the LL is interacting with the environment. But the finality is the co-creation of the innovation with all stakeholders. It is a process of collective contribution where the different actors (public, private, citizens...) can contribute to

the process of innovation. LL actors can be described as providers, enablers, utilizers and users (Leminen, 2011). The process is complex and a lot of different LL with different objects and stakeholders in different sectors can be observed. The property rights are not specified, like in commons (Ostrom, 1990), and this is a guarantee against opportunistic behavior in this open relation and co-creation process of innovation. The existence of a real environment context where the innovation will be created and/or tested ensures the adequate response to expressed needs. LLs are open to multi-method approaches. One can add two dimensions to define the LL: the first is a long run relationship among the different members of the LL, and the second is a democratic co-construction.

These five dimensions impact the value creation and the value appropriation, which is shared among the stakeholders, or become commons. The issue of sharing the value created is embedded in the LL governance.

### **3. A new form of governance of the commons: self-governance**

The LLs developed and represent today in Europe over 300 effective members, with a network structuring the relations (ENoLL: European Network of LL). This network is supported by the European Commission through the Horizon 2020 Program, and thus allows to go 'from local to global' when the LLs put in place do not have the means to do it.

This new form of governance of the LL puts the user at the heart of the process, which implies participative and adaptive governance. The analysis of Elinor Ostrom puts back the collective dimension at the center of the process, which allows a better solution, and the most adapted to the common good. Overcoming the tragedy of the commons means avoiding that the known and individual interest of each and everyone takes precedence over the general interest. The general interest of the concerned community is to keep the common resources, which implies a new form of governing. The governance would be decentralized and collaborative with a strong territorial integration.

The common can be a knowledge common derived from information. A knowledge must be defined as "all types of understanding gained through experience or study, whether indigenous, scientific, scholarly, or otherwise nonacademic." (Ostrom, Hess, 2007, 8). They are defined as "human artefacts which can be at the same time tangible and intangible, while being generally non-rival, non-exclusion and renewable goods." (Hess, 2015, 260). The last three characteristics present a major difference with pool commons that are rival and non-renewable. The knowledge commons were really developed only recently in the field of the research, during these last 15 years.

Claude Ménard examines the impact of this approach implementing and following up these alternative and collective forms (Ménard, 2011). The assessment and monitoring are carried out collectively by all stakeholders. The presence of a third party, in this case the citizen, allows to reduce the risk of opportunistic behavior of all actors. This citizen (or third party) fits in a game of actors where the State is both referee and participant.

Therefore, the governance cannot be hierarchical, even in the case of an increased specificity of assets. According to the transaction costs theory, governance is, in principle, hybrid. The contractualization process is low or even non materialized, which raises the question of a new form of governance: neither market nor hierarchical or hybrid, but participative and cooperative.

It is based on trust with a low asymmetry of information or a total transparency. The transaction is not at the heart of the exchange anymore just like for the transaction costs theory, but co-creation becomes the object.

This is also a new form of public crowdsourcing where the created value added is not shared among all participants (Fasshauer, Zadra-Veil, 2017). Public organizations, tenderers, consulting agencies and sourcing agencies working on specific fields set up networks and relationships with all the project shareholders, even when they are not laureates, in order to catch the new changes and trends. In these new forms, the contract is not formally defined.

The purpose is the co-creation of an innovation with all stakeholders, so overtaking the “tragedy of commons” (Hardin, 1968). In this case, the opportunistic behavior is evicted by the implementation of common and shared rules. The actors of LL can have divergent interests but they have to create consensus in the process of co-creation. In the relation, a kind of agreement or contract between the various participants is created. These rules and norms define the relations of the individuals and the rights and obligations of these members. The creation of common is based on the construction of an institutional system and a governance system (Orsi, 2015).

This process may be more developed, since the governance structure is based on the relationships between the different economic actors. Different types of institutional arrangements can be noted:

“An institutional arrangement is an arrangement between economic units that govern the ways in which these units can cooperate and/or compete. The institutional arrangement is probably the closest counterpart of the most popular use of the term “institution”. The arrangement may be either a formal or informal one, and it may be temporary or long-lived. It must however be designed to accomplish at least one of the following goals: to provide a structure within which its members can cooperate to obtain some added income that is not available outside that structure...” (Davis & North, 1971, 7).

Claude Ménard’s definition of hybrid forms is: “Organizational arrangements leading to a meaningful coordination between units and keeping distinct property rights (Ménard, 2003, 4).” In the case of the LL the property rights are specific to each LL. Elinor Ostrom developed the idea that during the construction of a common, sets of rules are created. They delimit the distinct rights through operational rules, rules of collective choices as well as constitutional rules. Each LL creates its own rules and institutional arrangements. Property rights are even shared because here we go beyond the collective dimension, as we get in the dimension of a co-created common good.

Besides, Claude Ménard notices six forms of institutional arrangements: the subcontracting networks, the networks of companies, franchisees, collective brands, partnerships and alliances. They have 3 common dimensions: pooling of resources, contractualization and competition.

Yet, in the case of the LL, the contractualization does not exist or remains limited, neither does competition. The properties of the different governance structures, of the transaction costs theory can be summarized in Table 1 taken from a book written by Stéphane Saussier and Anne Yvrande-Billon (2007, 35) and also a table taken from Oliver Williamson (1991, 281), to which we will add a new structure of governance: Cooperative/Citizens/Trust.

**Table 1 - The properties of different governance structures**

<i>Governance Structure</i>				
<i>Attributes</i>	<i>Market</i>	<i>Hybrid</i>	<i>Hierarchy</i>	<i>Cooperative/ Citizens/Trust</i>
<i>Capacity of autonomous adaptation</i>	++	+	0	++
<i>Capacity of coordinated response</i>	0	+	++	++
<i>Incentive intensity</i>	++	+	0	++
<i>Degree of administrative control</i>	0	+	++	++
<i>Respective contract type</i>	Classical	Neo-classical	Subordinate	Participative

Source: Saussier S., Yvrande-Billon, page 35 for the first 4 columns, while the fifth is an addition by the authors.

Summarizing, the hybrid mode is characterized by semi-strong incentives, an intermediate degree of administrative apparatus, displays semi-strong adaptations of both kinds, and works out of a semi-legalistic contract law regime. The cooperative mode is more open and has a high capacity of adaptation since the players are free, and have a common way to respond but without administrative process. The transactions costs are low. The cooperative governance is characterized by a high capacity of the LL to adapt its co-product to the needs.

If we use the analysis of Elinor Ostrom, the self-governance of the common resources that she studied and which lasted, must go hand in hand with the surveillance and the regulations of the actors' action in order to avoid any 'free-rider' behavior (Ostrom, 1990). The supervision cannot be taken on by the State, according to Elinor Ostrom, but by the actors themselves. The definition of the property rights resources becomes therefore minor (Ostrom, 1990).

The implication of the actors is the reason for the success of the collective management based on trust and the wish to co-build together a new solution, which exceeds all the individual attempts and scale. Institutions can allow to regulate and to avoid the "free rider behavior". The institutions enable to regulate and avoid the dilemma of the commons. "Institutions are rarely either private or public – "the market" or "the State". Many successful CPR (common pool resources) institutions are rich mixtures of "private-like" and "public-like" institutions defying classification in a sterile dichotomy." (Ostrom, 2010, 28).



## Conclusion

The context is more favorable to the SSE since the Hamon's Act. The SSE allows social, territorial and economical cohesion in France as in Europe thanks to regional policies. French public authorities also support the development of hybrid forms of SSE including the SCIC. Normally, it is a guarantee to preserve the general interest. The SCIC is the expression of a new governance model where the public, private actors or citizens respect the cooperative's goals. In this case, the property rights are specified. In the decision-making, the process may be long and the divergent goals of the actors can disturb the economic stability. As we have seen above, this combined economic model does feature obstacles linked to governance, but also to financing through the possession of a social capital without the possibility for the investor to have a decisive influence in the strategy and operation choices of the structure.

The financing cuts regarding services of general interest allowed developing new forms of financing: the SIB. In this case, the governance is not shared nor collaborative. The investors require certain guarantees and profitability from their investments. Besides, the ability of the SIB through the assessing process gives inherent limits and partially or totally questions the aims of the SSE and its action.

The concept of the commons is introduced for cases when governance must be democratic with actors who have divergent targets (time-wise and assessment-wise), the co-creation produces value that actors cannot appropriate. The co-creation and the construction of the common object, in the LL for example, allow going beyond the tragedy of the commons (Ostrom, 1990). The individual interest hands over to common value. At the same time, any relation to the capital is removed and appears an open model answering the social, economical, territorial expectations... The emerging governance model is the one of the cooperative and of citizen governance, allowing to go beyond all those limits.

The citizens' involvement is therefore the basis for success and protection of the commons.

A new type of arrangements is proposed in line with the transaction cost theory, which completes the hybrid arrangements typology of Oliver Williamson. A new form of governance of the Commons is the self-governance with the central involvement of citizens. The LL is a space for new interactions allowing the formation of new proximities, and new relationships with public actors. Including more citizens in a collective action to produce together innovation constitutes a best practice of the participative democracy.

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## **Conditions of convergence between public economy and social economy organisations. From the diversity of models to a successful hybridisation through new governance / Chapter 14**

Pierre BAUBY\*

### **Abstract**

The purpose of this chapter is to take into account, rather from a political science perspective than an economics perspective, two of the models of organisation and operation of social and economic activities – public economy organisations and social economy organisations – to analyse their possible convergences that could allow finding answers to the XXIst century society's needs.

It begins by recalling the basic features of these two categories, their histories and relationships, then it analyses the conditions of a successful hybridisation of their operations, in particular in respect of participative governance.

**Keywords:** public economy organisations; social economy organisations; tensions and conditions of hybridisation; multi-actors participative governance; co-construction

**JEL-Codes:** L31, J54, O35

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\* Researcher in Political Science, RAP-Reconstruire l'Action Publique, Paris (France) ([bauby.pierre@orange.fr](mailto:bauby.pierre@orange.fr)).

During their long history European societies have developed various models of organisation and operation of social and economic activities. These went from organised picking and hunting activities at family or group level to activities operated by big industrial and financial groups under public, private or mixed legal statute. In between these extreme models, some goods and activities had been collectively managed or developed on the basis of social groups' initiatives. The organisational framework of these activities, whether they have been led individually or more or less socialised, has always been marked by the role of a public authority – under very diverse forms – which has organised life in group or society, defined and uphold social and legal rules, as well as often defined the forms of organisation of economic and social activities – market and competition rules, exclusives rights, etc.

While Europe is marked by a common reference to what is called “social market economy” since the end of the 1980s, the diversity of reference “models” for the organisation of economic activities continues to exist: individual enterprise, large, medium and small private companies, associations, public enterprises, etc., as it is shown by this book.

The purpose of this chapter is to take into account, rather from a political science perspective than an economics perspective, two of these models – public economy organisations and social economy organisations<sup>1</sup> – to analyse their possible convergences that could allow finding answers to the XXIst century society's needs.

It begins by recalling the basic features of these two categories, their histories and relationships, then it analyses the conditions of a successful hybridisation of their operations, in particular in respect of participative governance.

## **1. Public and social economy organisations: contrasted histories**

These two categories have very different histories.

Most of public economy organisations have emerged at the end of the XIXth century when it was evident not only that market economy had to be organised and regulated but that it involved a series of polarisations and profound inequalities – “failures”. Public authorities have been progressively led to develop a new form of public action, which involved them directly in economic and social activities through the creation of public economy organisations. The aim was to guarantee the access for each inhabitant to basic goods and services, to organise temporal, generational, territorial, social and economic solidarity, to develop necessary infrastructures for the future (Bauby, 1998). From some of these economic activities emerged the French concept of “commercial and industrial public service” and similar notions in other languages and national cultures.

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<sup>1</sup> We use this concept in its current and broadest meaning, which recovers cooperatives, mutual organisations, not-for-profit associations and all other forms that have been developed more recently.

The organisations of the public economy took various legal forms, such as, in France, the municipal *'régies'* and the national public enterprises. Their creation, organisation and regulation have been always subject to one (or the cooperation of several) public authority(-ies) (Bernier, 2015; Bance, 2016).

For their part, the organisations of the social economy have a very specific history, which is much older than that of public economy organisations; it is almost as old as life in society. Even if the “social economy” concept didn't always exist, inhabitants used to put together their capacities and/or their means to meet social needs and to set up more or less formal structures to this end.

The expression “social economy” dates back to two centuries but the forms of organisation and human activities that pretend combining economic and social purposes have continued to develop and diversify themselves since the beginning of the XIXth century (Gide, 2001).

Today “social economy” sector is officially recognized, promoted and, sometimes, co-financed, both in France and at the European Union level; a specific governmental department has been even created in France. Yet, the creation of “social economy” is not subject to a public authority decision; it is developed by the initiative of what is known under the label of “civil society”. In some cases, doctrine considers this particularity as the main determinant of the “social economy” identity. Furthermore, for some people, any recognition by a public authority is even suspicious of its control and therefore it must be rejected. (Chaves & Demoustier, 2013)

But the aim of both economic organisation categories might also represent their common characteristic: it is not the search for the profit that constitutes the rationale of their creation and existence; their possible common objective is to meet social needs. This refers to one of the two founding principles of public action and public services, the functional one, which rests on their objectives, tasks and aims based on a common interest, the “general interest”, defined by public authorities, and not on the organic conception, which focuses on the public nature of the operator.

## **2. Knowing the tensions to be able to surpass them**

These so different histories have slowed down their hybridisation – both their cooperation and complementarities.

It is equally important that during the XIXth and XXth centuries relationships between public economy organisations and social economy organisations have been marked by the existence of real tensions in Europe, most often with oppositions and rivalries, even conflicts or, at best, mutual ignorance.

Nowadays, trying to find ways of hybridisation and cooperation between these two worlds first involve mapping the main elements, which we present around six important tensions and issues.



## 2.1. For profit versus not for profit

In the history of the humanity, the relationships between human beings had been established on the basis of two reference paradigms, on the one hand on cooperation, complementarities, reciprocity, mutual aid, solidarity, volunteering, donations (Mauss, 1924; Caillé, 2005), on the other hand on rivalry, competition, search for advanced positions, superiority or even predatory behaviour or the exploitation of others.

These two paradigms have manifested through the existence of two models of representation of economic initiatives and relationships: driven either for profit or not for profit. The distinction seems simple, as it is based on the objective of the human activity, that is the search for economic profit or not. In fact, in France, being a “not for profit association” does not prevent from engaging in economic activities but it forbids the redistribution of profits to its members, what companies can do with their shareholders. On the contrary, some representatives of not-for-profit associations consider that their structure can make commercial activities and sale products or services as long as profits are reinvested in the projects of their organisation. In reality, not for profit organisations have to observe specific legal and fiscal obligations, as economic actors do; furthermore, the economic activity of the not for profit organisation has to be explicitly included in its statutes.

## 2.2. Market versus non market

For the supporters of the public economy, social economy organisations that provide social services, whatever their form of organisation is (cooperatives, mutual organisations or associations), are all integrated in the market economy and are characterised by the search for competition, market and profit. They could only have marginal different features but could not be alternative solutions.

Thus, cooperative banks, such as, in France, *Crédit Agricole*, Collective Banks or Loan Associations provide relatively similar activities and attitudes as private banks, as well as *Banque Postale*, whose capital is entirely in public ownership. Some authors discuss about “commercial associations with no purpose” (“*associations lucratives sans buts*”) (Kaltenbach, 1995).

More generally, is there a thick border between market and non market today? Public economy organisations are equally in market and their approaches, even if they could avoid some market rules by making use of tasks they were entrusted with by public authorities. The distinction made by EU institutions between “economic services” and “non economic services” is not only flexible according to sectors and national traditions but limits non economic services to sovereign services of public bodies and to compulsory activities based on solidarity – such as social protection systems –, which does not recover public economy organisations, which are considered as “economic” services.

For some, social and solidarity economy is a means to fight against the liberalism but for others this idea is a big illusion of abuses that favour capitalism (Harribey, 2002). Is 'third sector' completing market and non market sector and places itself between the two? Is it necessary to create a new concept, with the risk of it becoming an appendix with no real effect or should one raise the question regarding the place of the solidarity within the whole economic, social and societal activities?

### **2.3. Market failures versus public sector failures**

The historical roots of public economy organisations are directly linked to the development of, on the one hand, market economy, which spontaneously led to growing economic, social, territorial and generational polarisations, and, on the other hand, public authorities, which have been led to try to remedy such polarisations, by multiple means, going from market regulation to direct economic intervention, based on the necessity to ensure a minimum social balance and cohesion. For some, public economy organisations could foreshadow an alternative to the capitalist system.

In France, social economy has been mainly developed in relationship with the labour movement, in a more spontaneous and pragmatic manner; on the one hand, it developed in reaction to the industrial, non regulated capitalism, which had generated precarious conditions for the worker class; on the other hand, it has emerged in reaction to the coalition offence of the Le Chapelier Act (Gueslin, 1998).

The promoters of the social economy consider it allows surpassing both the negative consequences of the capitalism on the society and the dehumanisation induced by the bureaucratic organisation of the institutions of the Welfare State; it would be a third way between the excesses of the State control and the control by the global financial capitalism. Its different practices would enable workers to become actors of a collective project, far from the domination existing in enterprises under the pressure of the capital and its shareholders.

Since the end of the XIXth century, supporters of capitalistic enterprise have been critical of cooperatives because of their inefficiency due to the lack of interest for profit. For their part, supporters of socialism considered them illusions or crutches of the capitalistic system. Matthieu Hély and Pascale Moulévrier have considered them far from being a third autonomous way but the interface between the State and the enterprises – “social economy [is] the dominated form of a dominant economy” (Hévy & Moulévrier, 2013). Furthermore, it has to be considered that social economy organisations seemed to have been more resilient to the crisis since 2008 (OIT, 2013).

In fact, would it be possible to privilege market failures or public action failures? Undoubtedly, the issue is how to treat them together to build appropriate answers to both.

## **2.4. Top-down versus bottom-up**

As mentioned before, public economy and social economy have been characterised by different, even opposed approaches. Public economy is conceived, defined and organised following the initiative of public authorities, based on a top-down or imposed manner. On the contrary, social economy rests on initiatives from local actors searching for concrete solutions in a pragmatic manner.

The general principles of the social economy (free adherence, democratic management – one adherent, one voice –, autonomy from public authorities, no or limited lucrative activity) are not the same as those of enterprises or public organisations and institutions, even if they are subject to criticisms in respect of their limited development or drift towards more traditional entrepreneurship relationships.

While public economy has been theorised and conceptualised by many economists for a long time, social economy has been late to gain recognition as a specific field of research. Thus, it took 40 years for Elionor Ostrom to receive in 2009 the “Nobel Prize” for economics, which exists since 1969 (Ostrom, 1990).

## **2.5. Small versus big**

For the promoters of the social economy, the distinction between market and non market must be analysed in relation with the size of the organisations concerned. Some consider that social economy is having a hard time to maintain its singularity when the size of organisations is growing (Frémeaux, 2014).

In France, in particular, the evolutions and regroupings of social economy do not readily recognise themselves with big representative or collective organisations of the official social economy. And some put into question the search for a growing size, which generates excesses, such as unbalanced powers between actors and managers or tendencies to ‘forget’ initial aims and values.

Could social economy organisations only flourish as human size structures?

## **2.6. State’s monopoly over general interest versus co-production**

In respect of the public economy, the State has the monopoly of the definition and implementation of general interest and this conception is particularly developed in a country as France, where the State has played an essential role and built the nation.

Yet, important changes of European societies have led both to question the forms of domination of the State and public institutions over society, the development of decentralisation processes, refocusing on the micro-social and local communities, on ambitions of individual and collective control.

For a very long time, the French State has been the main actor to define the general interest, territorial communities having a subordinated position (Bauby, 1998). General interest has been assimilated to the national interest and it had to prevail; if necessary, it had to be imposed by the means of the State. Other interests had to respect it. General interest has been defined by the State, in particular at political level, at the central level of the Government and with a broad consensus even when its content could justify much opposition; its definition has been based on the technical and economic approach defined by the technical and administrative structures of the public service; national interest primacy over other levels of general interest has been imposed (descending interlocking) and the subordination has been accepted, outside explosions and particular interests.

Nowadays, several factors contribute to destabilise the traditional framework of definition of the general interest in France: the nation-State is divided between, on the one hand, the European construction and the internationalisation and, on the other hand, the growing importance of the local level, the decentralisation and the re-focus on the micro-social level; on the one hand, societies and economies are more and more interrelated; on the other hand, local or particular interests do not accept anymore to subordinate to a “superior” interest without having the right to opinion; the technical and economic logic is contested by the existence of other criteria, such as environment protection, ecology, taking into consideration future generations; the urbanisation of the society and the European construction are modifying the territorial balance of the country through the emergence of new regrouping (agglomerations, metropolis, cross-border areas), the growing importance of regions, the creation of a European territory, which led to more and more difference compared to existing institutions (35.000 communes, obsolete counties that have essentially a rural nature); the growing importance of the cultural and informational levels, which favours requests of control, participation, democracy, counter-powers and the taking into account of civil society opinions.

Taking care of general interest that Welfare State has largely guaranteed during the ‘Glorious Thirties’ is progressively leaving room in many fields to, on the one hand, capitalistic enterprises and, on the other hand, to social economy organisations while local communities become more and more important.

General interest is more and more co-produced in a multi-actors and multi-level process, in which public economy organisations, such as social economy organisations, can legitimately participate. A certain interest is general in nature not because a single rationale has defined it as such but because a process has created a framework for a community of institutions to recognise it as being general interest.

## **2.7. Single versus diversified statute**

Since the 2008 crisis, States tend to reduce social programmes and their responsibilities over associations. This led to more fragile and precarious employment and work conditions whose funding rests on the addition of many small grants or financial aids.

Therefore, there is a tendency to implement smaller public services and/or smaller public servants. Social economy organisations risk then to be war machine against public services. Henceforth, not-for-profit organisations would use employees to provide “tasks of the public sector under private conditions.”

As result of these tensions, the frontiers between public economy organisations, enterprises environment and social economy organisations are more and more “porous”, creating the conditions of their complementarities and in particular of cooperation and hybridisations between public and social economy.

## **3. The conditions of a successful hybridisation**

These tensions might also be seen as rich tools allowing them to search together for adapted answers for the XXIst century’s needs.

But given the previous relationships between these two “worlds”, there is a need to clarify the conditions of cooperation between the two forms of organisation, of their possible hybridisation, which:

- involve leaving unproductive oppositions;
- rest on the mutual respect of the diversity of histories, traditions and founding of each others;
- should take into account, admit and respect otherness;
- manifest reciprocal willingness towards convergence and complementarities;
- develop alliance strategies based on the meeting of societal needs;
- look for co-constructions;
- involve rejecting any dominance of one form of organisation over another, all absorption or fusion;
- acknowledge there is no systematic and universal superiority of public or social economy organisations.

Public action and public economy organisations are neither the heaven allowing solving all common life issues nor the hell that would condemn all public initiative to fail. And reciprocal assertion is valid, too: social economy organisations are neither the miraculous receipt to all our problems nor the obscurantist withdrawal on a fanatic personalisation.

To make use of their assets, the combination of their specific advantages and the implementation of their complementarities must be realised on a case by case and challenge by challenge basis.

By tradition, public economy organisations have been rather in charge of “macro” activities, big technical and economic networks and national public services, while social economy organisations have been rather centred on “micro” level, on the proximity and on personal services. This dichotomy is more and more put into question by the development of new technologies, in particular the NTIC, which generates new potential knowledge and interactions. Ancient frontiers or walls are becoming not only outdated but also counterproductive.

A meaning or even ideal example can be observed today in the organisation of electric systems (Bauby, 2016). Technical and economic characteristics of electricity, stakeholders’ interests and the mode of regulation of this sector led to its progressive centralised organisation during a century.

From the beginning of electric use until the dawn of the XXth century, electricity had been first developed as a private and local source of energy: an electric generator in each workshop. Then, the first distribution networks appeared, in particular for public lighting, alternating current superiority and a certain degree of standardisation. From the beginning of the XXth century until the 1920s, networks had been developed at local level: in 1906, in France, a law provided for the public concession regime for electric distribution, conferring distribution monopoly to an operator against some obligations regarding the quality of the service and tariffs; technical progress, the size of electric plants and the development of the average and long distance electricity transport made possible productivity gains; production-transport-distribution systems have developed, electric companies grew through concentrations and looked for exclusive distribution areas; municipalities organised the electric planning of their territory through long term concession contracts sometimes providing for distribution obligations; the State had to intervene to introduce a regulation looking for a balanced share of income between consumers, municipalities and electric operators; electricity was to be seen as a local public service whose regulation required a State control because the territory deserved by electric operators went beyond the territory of municipalities. From the 1920s until the 1950s, integrated systems of production-transport-distribution developed on large areas and an oligopoly of large private enterprises appeared; then public service approach has been applied to electricity sector, which appeared as a collective basic service; therefore, public service obligations have been conferred to electric undertakings to progressively develop the provision and distribution of electricity. During the 1930s, electric companies had been criticised for imposing expensive rates, not making enough investments, not providing electricity in isolated or less dense areas, etc. The State had then reinforced the regulation of the competition in this particular field. On 29th March 1946, the Constituent National Assembly decided the nationalisation of electric companies with a large majority (491 Christian-Democrats votes in favour and 59 votes rejecting the nationalisation). This led to the creation of EDF and a quasi-national monopoly had been conferred to it. The nationalisation represented both a result of a progressive historical process and a break in the context of the *Libération* and of the reconstruction of the country after the Second World War.

At the same time, since the 1990s, the European institutions and EU Member States have developed a process of Europeanisation of the electric industry following a progressive opening of this sector to a regulated competition (Bauby, 2011).

In this context, a series of upturns have emerged:

- electricity consumption, which raised a lot during the “tree glorious decades”, has begun to slow down since the 1970s; nowadays it stagnates and a fall of energy consumption is expected during the next decades;
- the regular lowering of electricity production costs due to the growth of the size of electricity plants, which structured the development of the big integrated and centralised production-transport-distribution systems, has started to be replaced by competitive decentralised production, in particular of renewable energy;
- progressively, “renewable” energy takes precedence over fossil resources.

After a century of progressive centralisation of electric systems, “new” and decarbonised energies are rapidly developing more and more at “micro”, “territorial”, “decentralised” level, even if they are combining themselves with the maintenance – and the redefinition – of interconnected networks, which enable flexibility and continuity of energy production and provision.

Therefore, local actors – municipalities, as well as social economy organisations – can recover competences in respect of the definition, organisation, operation, steering, and adaptation to local specificities... Thus, the French Law of 17th August 2015 on the energy transition to green growth provides for the role of the region in the implementation of the energy transition and the “NOTRe” Law of 2015 for their chief role in the field of climate, air quality and energy and their power to define a Regional Climate-Air-Energy Schema.

Thus, the conditions of a profound reorganisation of electric systems have been created and that might facilitate the convergence and cooperation of social and public economy organisations, which ignored or opposed themselves for a long time.

The key to advance in such a direction would be to implement participative governance in all fields where social and public economy players could find themselves, as well as for each challenge.

#### **4. Multi-actors participative governance, condition of a successful hybridisation**

The “governance” issue was developed and first appeared in the field of the “corporate governance”, or “enterprise governance”, to take into account the relationships between shareholders and managers in the big joint-stock companies. In reality, this separation of functions, which is inherent to the concentration of companies, raises a lot of questions: Who ensures the strategic steering of the company? Who defines the objectives? How to ensure control? etc.

This first conception of the governance was based on the traditional and legal conception of the ownership and led to the definition of mechanisms aiming to constraint managers – which were considered as being agents or representatives of shareholders – to manage according to shareholders interests (general assemblies, board of directors, systems of remuneration of managers, legal and accountable regulation, take-over modalities bid, etc.).

A second conception appeared with the enlargement of the definition of managers' powers and control over the whole creation and distribution value line, which has taken into account not only shareholders but all stakeholders, providers, employees, creditors, clients, etc. contributing to the productive organisation. This issue has been based on a conception of the enterprise seen as integrating organisation involving long term cooperation relationships, which generates organisational annuity; therefore all stakeholders should participate to its distribution and in the governance of the enterprise.

Then, the “governance” issue has then been extended to other modes of operation, steering and control of all institutions, in particular of political institutions.

The term has been promoted in the 1990s to define “the art or the way to govern”, in a context of increasing porosity of frontiers between public and private that required the search for new public action models. It was about promoting under a ‘new’ language a management model of public affairs based on the participation of the civil society and of private economic actors, while insisting on the interactions between trans-national dynamics, national approaches and local initiatives.

The World Bank was the main promoter of the term governance (assimilated to “good governance”) since its report of 1992 (Diara & Plane, 2012). Noting the failure of structural adjustment plans based on the fight against debts and budget deficits in developing countries, it has urged for the search of new management models. This approach of the governance contained a normative content, good governance criteria being linked to market economy rules (privatisation, decentralisation, and deregulation). Therefore, public action efficiency reflected the needed conditions for the appropriate operation of the free competition. If market economy cannot exist without the intervention of the State, this one should complete market action only when the latter would be confronted with proven failures. The State should observe economic efficiency rules, the decentralisation of powers and a new public management.

But there are also other approaches of the “governance”, which reject all normative content and which review the instrumental rationality and the ranking of the different levels of decision to approach it on the basis of analyses in terms of institutional dynamics and process and the conception of modes of coordination. In this approach, the concept of governance enables to study the growing interrelationships between the different areas of intervention, to realize the alignment of different players. Governance involves analysing the public action



complexity that cannot be reduced to “government” and coordination problems resulting in fragmented and uncertain environments. It could be defined as a process of coordination between actors, social groups, and institutions, to meet aims that were collectively discussed and defined.

The concept of governance reflects the complexity of issues, which have territorial dimension (local/regional/national/European/global), economic dimension (public/private/mixed/associative/social and cooperative), social dimension (the expression of users’ rights through their participation) and political dimension (individual-citizen/society). View as an enlarged collective decision-making model, the concept of governance offers a prolific approach to apprehend the growing complexity of issues, as it encompasses the collective action idea, a strategic dimension and power relationships it involves.

Efficient governance requires the organisation of the systematic expression of citizens’ evolving needs, as well as of all social and economic players. By combining the different levels of organisation and by facilitating the democratic debate with all stakeholders, citizens and users, civil society organisations, economic, social and cultural activities, solutions could be found to ensure the meeting of different needs.

The common objective of the public and social economy organisations is to meet social evolving needs. In this respect, the systematic expression of each user’s needs, as well as of all social groups and actors appears to be essential. It should be decentralised as closest as possible to each of them and to different territories.

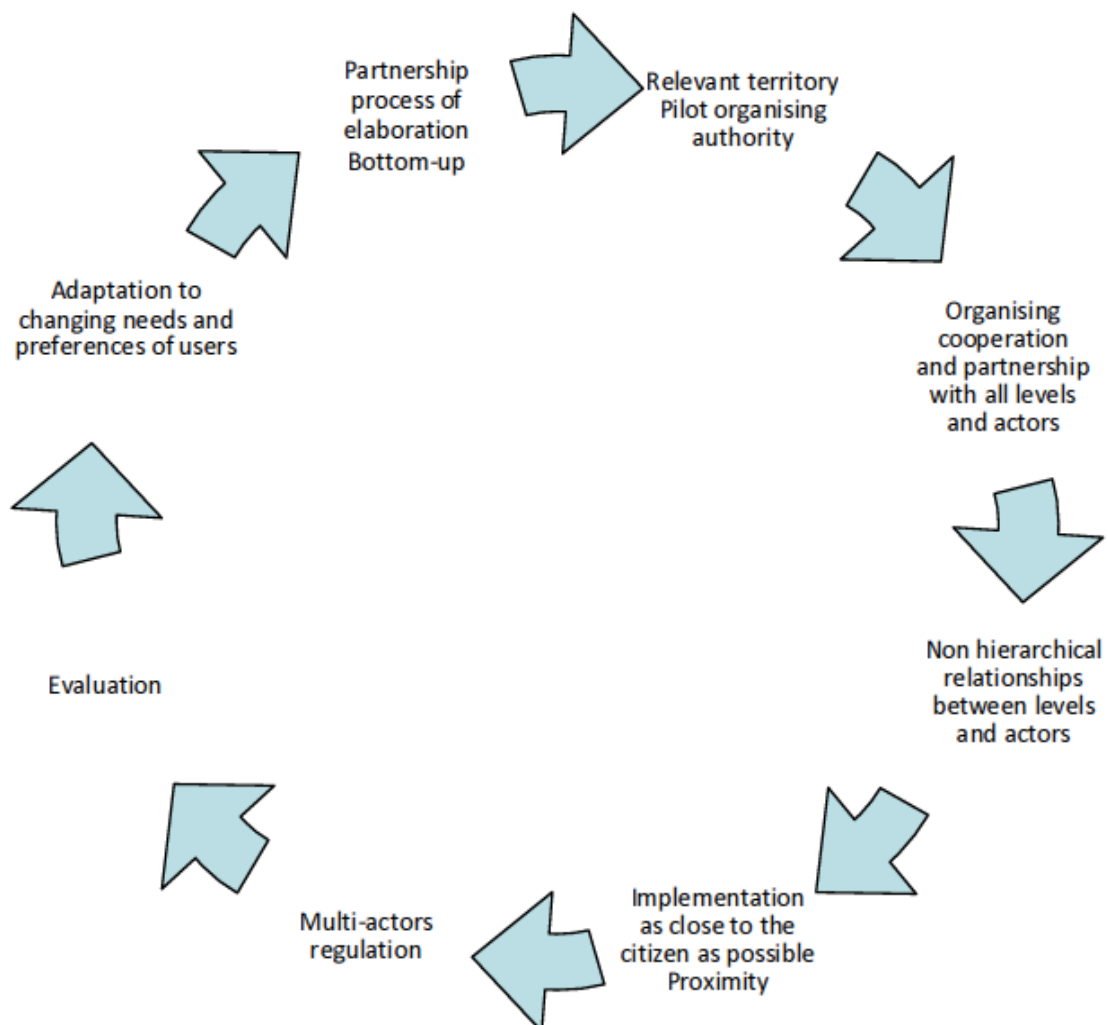
All available means, including consultations and public debates, formal expression of needs, complains handling, the election of users’ committees and digital means should be used to attain this objective. The methods of participation vary from one country to another, and they can take the form of open meetings of local councils, referendums, debates and on line expression, public meetings and public consultations.

The governance aiming to meet social needs is neither linear nor hierarchical; it is rather circular and based on partnership (Bauby & Similie, 2014). It supposes combining (according to the diagram bellow):

- the organisation of the systematic and regular expression of needs of each citizen and stakeholder, of their economic or social organisations, as closest as possible to their territorial realities, to define objectives and tasks through a participative, “bottom-up” process;
- the definition for each issue, activity and sector of the optimal geographical areas and organising authorities responsible for “driving” the governance process on a case by case basis;
- in every case, the implementation of cooperation and partnerships between the organising authority and other levels and players concerned to both define alternative projects (as there is never a single possible option), organise

confrontations and public debates and, on that basis, allow public authorities to take decisions by assuming their responsibilities and co-construct the best adapted answers;

- the implementation of non-hierarchical cooperation relationships between all levels and with all sectors to break specialisations and frontiers inherited from the history;
- the implementation of operations as close as possible to territory and users, according to the principle of proximity, which allows developing interactions that are necessary for the operation and adaptation of each activity;
- the organisation of the regulation and control based on the participation of all stakeholders, out of technocratic and bureaucratic constraints;
- the development of multiple criteria and multi-actor evaluation processes, which allows both to assess the efficacy and efficiency of the public action, its principles and implementation;
- adaptation to evolving users' needs and preferences and democratic choice.



## 5. The lines move

In the recent years, despite traditional divisions between the two ‘worlds’ of public economy and social economy, several indices and events have led to some changes of the previous situation.

Therefore, we saw the development of studies and research on social economy, its history, characteristics and contribution, which surmount previous categories, the excess of which have been presented here before. Social economy tends to become a category that makes sense. The European Parliament set up a “Social Economy Intergroup”, which commissioned a series of studies regarding social economy’s forms in different European countries (see, in particular, *Fostering social innovation in the European Union*, January 2017, and *EU support for social entrepreneurs*, March 2017).

We can also notice the return on the agenda of the common goods issue, which, beyond its interest on its own, allows creating bridges and provoking dialogues to exchange and surpass ancient divisions.

In this respect, at the end of 2014, the European Parliament’s Intergroup “Common goods and public services” was created, as a single entity, while the initial projects had envisaged them distinctive and opposed one to the other. It gathers twice a year, members of the European Parliament coming from different political groups and representatives of the civil society aiming to propose common perspectives to be presented to European institutions.

In October 2015, the author of this paper presented a summary of the main differences between common goods and public services or services of general interest, taking into account their characteristics and histories, as well as their links. While the summary tables presented on that occasion, and reproduced here below, could seem in some way rather condensed, they emphasise what makes unity in their diversity.

**Table 1 - Origins and history**

Common goods	Public services / of general interest
<ul style="list-style-type: none"> <li>• Old origins (Roman Empire, <i>Magna carta</i> of 1215, enclosures, customary law), but tendencies to be marginalised by the economic development and commodification (« <i>La tragédie des communs</i> »)</li> <li>• Recent returns (Ostrom, ...)</li> </ul>	<ul style="list-style-type: none"> <li>• Origins at the end of the XIXth and XXth centuries in Europe</li> <li>• Progressive constructions resulting from civic, social movements demands and political choices</li> </ul>

**Table 2 - Areas, main current bases (and coverings)**

<b>Common goods</b>	<b>Public services / of general interest</b>
<ul style="list-style-type: none"> <li>• A common good is a competitive one (its use by someone restricts anyone else's use), and non exclusive (it is not possible to prevent someone from using it)</li> </ul> <p>In general, it is characterised by:</p> <ul style="list-style-type: none"> <li>• Common property</li> <li>• Common management</li> <li>• Distrust in the State</li> </ul>	<ul style="list-style-type: none"> <li>• Large scope: sovereign services, industrial and commercial; national and local services</li> <li>• Coexistence of 2 notions: organic, which equates public service and public body; functional, which defines the service in the light of its objectives and tasks and not the ownership (EU conception)</li> <li>• Guaranteeing each inhabitant the right of access</li> <li>• Solidarity, social link, economic, social and territorial cohesion</li> <li>• Preparation of the future</li> </ul>
<p>Water example: to distinguish the resource, which should be considered as a common good (local resource and circular economy) and the service of collection, treatment, distribution, whose management mode is subject to the free choice by local organising authorities (subsidiarity principle)</p> <p>Digital example: both common good and service of general interest-universal service</p>	

**Table 3 - EU, SGI and common goods**

<b>Common goods</b>	<b>Public services / of general interest</b>
<ul style="list-style-type: none"> <li>• Not yet mentioned in the texts of reference of the EU</li> </ul>	<ul style="list-style-type: none"> <li>• Precise references in EU treaties (articles 14 and 86 TFEU, Charter of fundamental rights, Protocol 26)</li> <li>• Common values (wide margin of discretion of national, regional and local authorities; differences in the needs and preferences of users; a high level of quality, safety and affordability, equal treatment and the promotion of universal access and of user rights)</li> </ul>

**Table 4 - What convergence?**

<b>Common goods</b>	<b>Public services / of general interest</b>
<ul style="list-style-type: none"> <li>• Overcome differences: democratic governance and subsidiarity, public services as common goods; democratic participation at all levels, co-definition, co-organisation, co-production, co-evaluation...</li> <li>• The EU should recognise and combine them both</li> <li>• Concerting efforts...</li> </ul>	

Source: Pierre Bauby – October 2015

It is also interesting to note that in September 2016 European Commission itself raised the question of the elaboration of a “European Pillar of social rights”, which “is designed as a compass for a renewed process of upward convergence towards better working and living conditions in Europe” (European Commission, [Press Release](#) of 26 April 2017).

The project of pillar that has been presented on 26 April 2017 contains twenty principles and basic rights to “support fair and well-functioning labour markets and welfare systems”. The principles and rights enshrined in the Pillar are structured

around three categories: equal opportunities and access to the labour market, fair working conditions and social protection and inclusion.

This approach, which re-opens the reflections and proposals that had been eluded since the elaboration of the EU Charter of fundamental rights more than ten years ago, embraces two dimensions: the first two parts are dedicated to the access to labour market and work conditions, and the third one to social protection and social inclusion, that is the whole “social” aspects, all those that concerns life conditions in our societies.

The 20th and last principle concerns the “Access to essential services: Everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. Support for access to such services shall be available for those in need”. In accordance with the EU neutrality principle as regards the ownership regime of enterprises and operators (public, private, mixed, social or cooperative economy), the pillar of social rights project leaves Member States (national, regional and local authorities) the decision regarding the way and modes of organisation and implementation of these services: “Member States retain competence in defining, organising, delivering and financing essential services at national, regional or local level. Given that the Union measures embrace the principle that essential services should be available to all, as the core of the European social model, Member States are invited to go beyond these rules in order to give effect to the Principle”.

On a more general level, a book recently published (Barbier, 2017) clearly raises the question of a partnership between the social and solidarity economy and the State, where reciprocal distrust had prevailed for a long time. The author focuses on the perspectives of the renewed modes of elaboration of public policies and the delivery of public services by social and solidarity economy to create new dynamics and reorient public action.

Nevertheless, there remains doubts or delayed manoeuvres that are limiting the sketch of convergence. For instance, after the Elinor Ostrom’s visit in France in 2011, her works have been presented and placed by the coordinators of the book dedicated to that occasion under the title “A third way between the State and the market” (*Une troisième voie entre l’Etat et le marché*) (Antona & Bousquet, 2017). In fact, Elinor Ostrom’s works presented in this book are based on a scientific experimental approach of different manners of organising in common the organisation and management of resources, which is beyond the State and the market. She was never pretending there to develop her contribution as a “third way”.

The issue is not the search of a global alternative to public economy and social economy, to the State and the market, which would risk being marginalized, but to combine them in their diversity to co-construct together the answer to the needs of social life in the XXIst century.

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## Conclusion

### **Public - Social and Solidarity Economy Partnerships (PSSEPs) and collective action paradigm**

Philippe BANCE\*

In the double perspective of the analytical renewals created, one, by the recommendations of the UNDP (United Nations Development Programme), stressing the social utility, of the production of global public goods and, two, by the works of the Ostrom School, demonstrating the benefits of governance by the commons, this work places in sharp relief the leading role played by the public and social-economy organisations. These organisations have indeed an essential role in the production of public goods and commons following a logic of theoretical advocacy but also – a phenomenon seldom analysed in the literature and largely underestimated – basing on the dynamics of partnership between these organisations developing co-production or joint production of commons and public goods. These coproduction and joint production, the convergences of action and the multiplicity of forms of partnership between the public sector and the SSE organisations - which may be called public-social and solidarity economy partnerships (PSSEPs) - are brought to the fore in the various chapters of the work. The illustrations given explain the different facets and operational reach worldwide.

However, this book is not a simple list of the partnerships dynamics between the public sector and the SSE organisations, nor is it an analysis of the opportunities offered by the coproduction or joint production of commons and public goods. It presents the reasons explaining their existence due to the fact of a new collective action paradigm. It underlines the scope of transformations and innovations that may emerge from the cooperation of public and SSE sectors, in terms - among other things - of local and regional initiatives; it also analyses the questions that may be raised around behaviours peculiar to the individual players. It also focuses on the benefits offered by the PSSEP for the co-construction of public or collective action. These analyses culminate in questioning the role of these partnerships in the context of what might be called a process of creative destruction of collective action.

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\* Normandie Univ, UNIVROUEN, CREAM, 76000 Rouen (France).



## 1. A partnership dynamics that fits in a new paradigm of public action

After the Washington Consensus of the 1980s, the ways of initiating public action were upset throughout the world. The New Public Management (NPM) led the public authorities to let do by others, rather than to intervene directly in economic activity, in order to produce notably public goods. It was a matter of placing collective action within a logic of results, for the attainment of quantified objectives, stimulation of innovation, flexibility, reduction of public spending, by introducing management tools and methods largely inspired by the private sector (Grefe, 1999). This NPM, carried by the increasing hegemony in economic theory of neo-liberal currents (theories of incentive, contracts, public choice, property rights ...) also reduced the leeway for the States in an international environment marked by a growing interdependence between nations and the downward pressure of the public debt. This led to massive privatisations since the 1990s (privatizationbarometer, 2015-16) and recourse to the public-private partnership (PPP) to produce public goods. These PPPs were deployed worldwide, despite the theoretical misgivings that they aroused given the fact of asymmetry of information, transaction costs and the incomplete character of the contracts burdened with the vaunted theoretical values (Marty, Trosa and Voisin, 2006). The PPPs were also rolled out, despite their high costs over the long term for public finances, as shown by some recent reports that draw up the balance-sheet of the inefficiency and high degree of complexity of the contractual systems characterising those PPPs (National Audit Office, 2010, 2011; Cour des Comptes, 2017)<sup>1</sup>.

The question of successful internalising public missions at low cost for the local or regional authorities, allowing the creation of infrastructures but, more generally, allowing management of public goods over time, has been raised with exceptional keenness (Bance, 2015)<sup>2</sup>. The PSSEPs are an opportunity, since the coming of the NPM in the 1980s, in particular in the United Kingdom: meeting the needs of economic and social action by relying on the SSE organisations to make arrangement for the assuming of missions that would formerly have been assigned directly to public authorities or public organisations, and would be insufficiently accounted for by them, given, for example, the urge to reduce the costs of collective action. The partnership dynamics thus activated blurs the boundary between public sector, private sector and SSE: activities that once used to fall within the public sphere are now transferred to other sectors. In the context of the concept that inspired the NPM, particularly from its beginnings in the United Kingdom, the move was in fact made squarely in a logic of substitution, of replacement of action by public

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<sup>1</sup> These reports concern in particular the very high long-term costs of PPPs deployed in the United Kingdom and in France. The report from the French State Audit Office (Cour des Comptes) on the Justice sector calls for the discontinuation of the practice of PPPs.

<sup>2</sup> The question of internalising general-interest missions raised in this work with respect to public organisations is thus also raised in a more general way for the organisations of the SSE.

institutions or organisations by that of private enterprises or by the SSE, rather than seeking any complementarity with not-for-profit players.

This work does, however, show that the new paradigm of public action has opened real opportunities for complementarity between organisations in response to the expectations of populations within the territories.

## **2. Various institutional systems allowing the production of public goods and innovation to meet expectations within the territories**

As stated by Xabier Itçaina in the conclusion to the work brought out in association with CIRIEC's Scientific Commission "Social and Cooperative Economy" (Itçaina and Richez-Battesti, 2018), the action of SSE organisations allows a transcendence of traditional, historically dated relations between State and Market. It is part, on a meso-economic scale, of a process designed to adapt to economic and social change in response to socio-cultural aspirations and local development. Here we can also see the emergence of new arrangements, institutionalised under the effect of social interactions at local and regional level (Lévesque, 2016). The part played by the SSE organisations in the roll-out of a territory-based collective action will, in any case, assume various forms in the responses given to the expectations of populations with regard to proximity action. It will therefore be differentiated and nuanced in different ways in this work.

As Shinichi Saito, Munenori Nomura, Fumitoshi Mizutani and Francis Rawlinson say for Japan, this advanced country, concerned by the ageing of its population, has to maintain the provision of socially sustainable public services. Only the public sector is unable to produce sufficiently, by its own resources, public goods or commons the social utility of which is essential in the eyes of populations and public authorities; to do so it must seek support from the SSE and from private enterprises. The chapter by Andrea Salustri and Federica Viganò also shows how, in a country such as Italy, cooperation between non-profit SSE organisations, the public sector and the private sector takes shape via institutional arrangements that allow reduction of social and territorial inequalities. The deployment of PSSEPs is also analysed by Philippe Bance, Jean-Philippe Milésy and Christelle Zagbayou as a many-sided phenomenon of cooperations between public organisations, in particular the public, enterprises, and SSE organisations so as to guarantee the provision of new services. For them, the rise of these PSSEPs means a break with the traditional centralist conception of public action according to the French model.

The benefits of the PSSEPs roll-out are not only those maintaining or preserving the production of public goods. They also allow the expansion of production through the mobilisation of commons. In this respect, Ancuța Vameșu, Cristina Barna and Irina Opincaru show, in the forestry sector in the Romanian context of transition towards the market economy, that the deployment of commons answers some major

issues for collective action: those of sustainable development and the mobilisation of players in this perspective.

However, the mobilisation of commons to recast public action does not necessarily proceed in such a way as to meet the essential social needs expressed within territories. This is particularly the case for Colombia; Juan Fernando Álvarez, Miguel Gordo Granados and Hernando Zabala Salazar call our attention to the underproduction of public goods and commons in the health sector. Intensive recourse to market mechanisms, problems of governance and the absence of institutional recognition of SSE organisations deny disadvantaged populations the benefits of health protection, despite the fact that this could be provided for them in a more satisfactory manner by greater recourse to the commons and to the mutualist sector in particular. The finding of opportunities offered by the SSE but not sufficiently turned to good account in the current forms of expression of collective action is also established for Algeria. In point of fact, Malika Ahmed Zaïd shows that the nascent field of the SSE in the Kabyle country could really take off, could embark upon a constructive upward trend assuring the progressive affirmation of networks throughout the territory and trigger a process allowing the involvement of players in the construction of public policies.

In the different territories explored in this work, the PSSEPs also constitute a vital source of reworking of collective action through the innovations that they carry and in their contribution to the development of territorial ecosystems. Jean-Claude Boual and Cathy Zadra-Veil show that, in France, the *Sociétés coopératives d'intérêt collectif* and the *Living Labs* are emergent organisational forms that, by their hybrid character, bringing together various stakeholders, public and private alike, place their hopes in participative governance to boost innovation and enterprise at local and regional level. Pascal Glémain, for his part, considers the interest of other forms of SSE organisation through their contribution to sustainable local development: enterprises for social integration through employment. They play an important part in the planning and fitting out of the territory by promoting integration through work, again bringing together the players, public and private alike, to dialogue, to learn and to innovate, so providing tools for action in the service of territorial needs.

All so many innovating devices that show, like the works conducted in Quebec (Bouchard, 2013), the opportunities that might be represented for local or national public authorities armed with a real sense of proactive purpose, mobilising the stakeholders and organisations at local level so as to energise the territorial ecosystems. This can sometimes also be done, by the way, as in Europe, jointly with public authorities at local-to-regional level, in what is called multilevel governance<sup>3</sup> (Bance, 2016). This can be considered as a collective organisation model

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<sup>3</sup> Christiansen (1996) defines multilevel governance as “non-hierarchical systems of negotiation, regulation and administration going beyond the traditional acceptance of the hierarchical sovereign State as the final arena for the taking of decisions and resolution of conflicts”.

aimed at meeting the essential needs of the population in the framework of what Jacques Fournier (2013) calls the “economy of needs”.

However, the noticed changes are not without impact on the behaviour of the players.

### **3. Behavioural changes impacting on the PSSEPs, production of public goods and commons**

The changes induced by the new paradigm of collective action have given rise, in recent decades, to analyses about the behaviour of public organisations and the social economy. In the public sphere, beyond the privatisations, seeing the decrease of general-interest or economic policy missions assigned between the end of the war and the 1980s, public enterprises have adopted similar behaviours to those of private enterprises in the pursuit of viability; in other words, they tend to become largely similar (Bance, 1988), a phenomenon also referred to as behavioural trivialisation. This process of the increasing submission of public enterprises to a logic of market efficiency is the cause of a loss of own identity among public enterprises. Its magnitude was all the greater insofar as the national authorities no longer made public enterprises the instruments of public policy, seeking dividends there to add to their budgets; the States saw themselves obliged, as in Europe, to renounce the specificities of public enterprises under the effect of rigorous controls by the authorities of the Union, mindful of economic integration, which, to that end, to avoid distortions of competition, required enterprises (and Member States) to adopt the “behaviour of an informed investor in a market economy”, save in case of derogations in respect of perfectly defined public service missions financed through the public budget.

The standardisation of SSE organisations was also the subject of a number of studies, many of which draw their inspiration from the concept of “institutional isomorphism” introduced by DiMaggio and Powell (1983), which refers to three general factors of levelling-out of organisations: mimetic, coercive and normative. If these three factors are jointly applied to SSE organisations, their strong dependence as regards direct financing or material support of the public sector increases the significance of coercive standardisation. Under the effect of the NPM and the rationing of public spending, the SSE organisations are led – as was earlier the case for the public enterprises, but according to different modes of operation – to adopt new management norms that may be the cause of advanced loss of identity. The methods assessing the “social impact of social enterprises”, driven for instance in the EU by the European Commission and the lobbying by financial institutions, based partially on return-on-investment indicators (Alix and Baudet, 2014), could make an appreciable contribution in this respect.

As pointed out by Monique Combes-Joret, Laëtitia Lethielleux, and Anne Reimat, the process may make the organisations “lose their soul”. The process nevertheless, as things stand, as these authors’ analysis shows, differentiated effects on the capacity of organisations to contribute to the construction of programmes for collective action, given the fact of their greater or lesser scale and own capacities, to sway the attitude of the public authorities in the framework of the relations that they form with them.

However, the behavioural changes of public and SSE organisations do have as a whole profound repercussions for the PSSEPs. The instrumentalisation of organisations by the public authorities is very directly inspired by incentive theory and by the “new public economics”. In this single-centred perspective, based on a top down conception of public action, the State embodies a general interest the frame of reference of which is the market. This conception then leads the public authorities, rather than to seek to co-construct collective action with the partner organisations, to impose on the latter performance criteria largely inspired by private management. On the public enterprises side and, more particularly those with State capital, cooperation with the SSE organisations often also aims to mobilise the partners to guarantee the lowest cost of public service missions whilst meeting the expectations of public responsible authorities eager to increase their budgets through dividends.

The new public action paradigm does not impact only the PSSEPs. It also has considerable repercussions on the conception that the States form of public goods, their production and, consequently, the ways and means of their regulation. As Faruk Ülgen shows for the financial sector, collective action was, and remains, founded on the idea of market efficiency. This was the cause of the crisis of 2008, with resurgence remaining possible with the present form of prudential regulation of financial markets. It would be necessary to eradicate this to place oneself in an extra-commercial perspective that does not position collective action as resulting from the interest of private players on the market but, rather, sets objectives for sustainable economic and human development and sets up public and democratic structures of governance to that end.

As Manuel Belo Moreira explains, however, making the model evolve is an uphill struggle, since the hegemony of the neoliberal ideology and the financialisation of the economy at worldwide level are so far gone that neither the economic crisis of 2008 nor the most unwelcome effects of the model sparked any real questions, any more than did the deployment of for-profit conceptions of the action of commercial public or social-economy organisations.

The PSSEPs nonetheless offer advantages of a kind likely to initiate the reworking of collective action.

#### **4. The benefits of PSSEPs for the co-construction of collective action**

The involvement of SSE organisations in the development of public policies is an area of study that has attracted growing interest for some years now (Barbier, 2017). Judging by the analyses in this work, the PSSEPs appear to be more generally major opportunities for the co-construction of collective action, giving it foundations so that it can break free of centralist, hierarchical conceptions, by permitting a complementarity of contributions.

Inspired by pragmatism, Alexandrine Lapoutte thus considers that the mobilisation of commons and SSE organisations is likely to transform collective action through the specificities of governance that they carry and through the interactions that they trigger between concerned parties. The resultant participative approach is analysed as a promising way of renewal for public policies around an increasing involvement of the concerned parties via production of public goods and commons.

Indeed, here we can see, adopting Bernard Paranque's conception, an ideal type of search for solutions negotiated by the players, a taking into account social aspirations of populations and a cocreation of what he calls a common patrimony. By allowing the stakeholders to find a form of expression of their own, is created a sense of confidence around a shared vision within the framework of deliberating processes. For this to happen, the action requires the mobilisation of adapted methods and tools of governance.

However, care must be taken to avoid the co-construction of collective action being hampered by conflicts between the stakeholders, preventing the development of partnerships and, by extension, the joint production of public goods and commons via the PSSEPs. As Yves Vaillancourt (2008) demonstrates in Quebec, a democratic co-construction would allow the development of partnerships so that collective action could be mobilised in a balanced way among the various stakeholders so as to promote the general interest.

Against this backdrop, Pierre Bauby maps the forms of governance likely to found collective action on the basis of partnership mechanisms. To meet the economic and social needs and expectations of populations, the democratic debate is necessary with all the stakeholders (citizens, users, organisations of the civil society and representatives of economic, social and cultural activities). The co-construction of collective action should therefore follow a logic of confrontation of alternative projects or solutions, set in a democratic framework, whilst pursuing an action that is ascending rather than hierarchical. It is a matter of prerequisites allowing the correct expression of the expectations of populations and satisfaction of the needs that constantly evolve. In his opinion, however, there is no single solution in the matter that can be applied everywhere and in all circumstances. The particular conditions of implementing collective action governance depend on the specific cultures that are those of different territories. The democratic debate takes on highly diverse forms in

apprehending the needs (public consultation and debate, complaints, elections of users' committees, ...). It may proceed according to modes of participation, which are themselves also variable (meetings, referendums, on-line expression, public meetings, ...).

Seen thus, the PSSEPs set up on the scale of the territory are tools for the reconstruction of public action on the basis of democratic debate, and this for several reasons. First of all, they allow the expression of needs by association with the stakeholders and by allowing public authorities, hybrid organisations, public and SSE, to debate their apprehension on these territories. They, therefore, constitute vectors of formalisation of those needs by confronting divergent points of view to lead on to the production of public goods or commons. They offer responses to the expectations of populations by their co-production or joint production, often allowing a guarantee of expansion of provision of public services. These partnerships also place in synergy the players in the territories, as shown in various chapters of this work, by bringing extra energy to the territorial ecosystems through the innovations that they often carry.

These advantages and the involvement of the civil society in the PSSEPs do not exempt them from evaluation to appreciate the relevance of the solutions that they bring to the implementation of collective action. They are, in actual fact, the product of sometimes contradictory interests that may lead to recommendations or to implementations that are, at the end of the day, out of alignment with the social needs. The evaluation methods, inspired by standard economic analysis, for example contingent evaluation, are not to be dismissed out of hand as long as they bring an exterior view based on the criteria of a scientific methodology, but with three main provisos: maintaining a critical distance with regard to the frame of reference of market and monetisation of the advantages that founds those methods; apprehending them only as tools among others that must be crossed with participative and pluralist methods so as to appreciate their real scope (Bance and Chassy, 2017); steering clear of approaches driven by lobbying and a doctrinaire vision of collective action that, in fine, yields to the interests of all-powerful public players or decision-makers.

Finally, we must analyse the role played by the PSSEPs with regard to the transformation of public action.

## **5. The PSSEPs in the process of creative destruction of collective action**

To analyse the role of the PSSEPs it is helpful, following the lead of Joseph Schumpeter (1943), to introduce at this point a new concept: the creative destruction of collective action. This is understood as a process of disappearance and creation over time of forms of intervention by public authorities that might lead to a radical modification of collective action, known as paradigm change. In the light of that

concept, we shall try to describe the situation of the PSSEPs in the current transformations of forms of action in order to specify their place as a component of a collective action paradigm.

Before the 1980s, collective action was dominated by the figure of sovereign States embodying the general will. They had extensive room for manoeuvre to pursue their economic policies, both in terms of monetary, budget and industrial policy and in terms of instruments of direct action to produce public goods and serve as instruments for collective action. Institutional forms may vary from one country to the next, ranging from the Nation State to a multiplicity of institutions exercising the public prerogatives, but the collective action paradigm leaves little room for other organisations to promote the general interest. The SSE organisations, therefore, see themselves eclipsed, not appearing at all as any important vector of collective action, and this quite particularly in the more centralist countries.

The incapacity of States, and their instruments of action, to remedy the economic and social crisis that the advanced economic experienced for several decades, the growing economic interdependence due to the globalisation of markets and the preponderant rule of neoliberalism have proved the undoing of the earlier paradigm. The process of destruction of preexisting forms of collective action and the coming of new forms thereof has birthed the present collective action paradigm worldwide. The transformations under way, however, are not uniform, and national traditions may yet explain the persistence of differences. As shown by Bernard Enjolras, Benoît Lévesque and Bernard Thiry (2008), Yves Vaillancourt (2008), there are systems of governance and modes of construction of public policy that differentiate one country from another. In that respect this takes us back to the wisdom of the theory of the variety of capitalism (Amable, 2005). There are now only two main lines of force that characterise the current world process of the creative destruction of public or collective action.

The most fundamental one is the affirmation of a commercial conception of the general interest that tends, on the worldwide scale, to standardise collective action against the yardstick of markets in connection with their globalisation. This finds expression in a sizeable withdrawal as regards direct public intervention and in the deployment of forms of self-regulation, the market fundamentalism in the finance sector being the most radical form, posing a thorny problem for the regulation of this world public asset after the devastating effects of the crisis of 2008. Mention may also be made in this connection of the falling-back on the PPPs and widespread reliance on patterns of public behaviour standardised by the private sector characterising, in its central corpus, the NPM and the standardisation or levelling-down of organisations mobilised by the public authorities via, among other things, new regulation norms and performance criteria inspired by private management.

The second line of force starts out from the installation of new forms of collective action, completing those of the States, which have lost much in the way of capability.



This dimension now has two essential aspects. The first has to do with creating other levels of collective action, in particular through the agency of supranational or infranational authorities (e.g., the regions), by jointly conducting collective action in connection with the form of governance known as multilevel (Bance, 2016). The second concerns support from the SSE organisations as a form of expression of the general interest on the basis of their own perimeters for implementation. This involves a complex architecture of nesting of various levels of taking account of the general interest within different “perimeters of solidarity” (Monnier and Thiry, 1997). This spurs the development of economies called plural, in which partnership relations are complex and based on the placing of the players in complementarity whilst also following, as explained earlier, a logic of substitution given the fact of the retreat of direct public action.

In this paradigm the PSSEPs allow, as the analyses in this work reveal, the production of public goods and commons, a modulated implementation of collective action in the service of the general interest, drawing support from the expression of variable-geometry social solidarities, bringing innovation at local and regional level to develop territorial ecosystems and trying out the co-construction of collective action. So we might then “mobilise both registers of solidarity by combining redistributive solidarity and a more reciprocal solidarity in order to boost society’s capacity for self-organisation” (Laville, 2004, p. 191).

The first logic of commercial standardisation, which is inherent in the current public or collective action paradigm, does, however, press towards the instrumentalisation of organisations in a near-commercial perspective. It brings about the loss of identity of public or social economy organisations and players. It also tends to sow the seeds of doubt as to the benefits of a collective, pluralist management of public goods or commons and to hamper the roll-out of co-construction of collective action.

The PSSEPs have their seeds too – thanks in particular to experiences with the co-construction of collective action and social innovation in the territories that they carry – to the emergence of a change of collective action paradigm. This latter should then be able to draw on a deep citizen involvement in the development and implementation of public or collective action, finding support in the public and SSE organisations, in order to facilitate the participative expression and specification of social needs in the context of an expanded production of public goods and commons.

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## Presentation of the Authors

**Malika Ahmed Zaïd-Chertouk** is Professor in economics at the Mouloud Mammeri University of Tizi-Ouzou (Algeria) where she directs the Redyl Laboratory (Economic Reforms and Local Dynamics). Trained as Enarque, she is also a visiting Professor in Algerian and foreign universities. She published several works dedicated to the public economy and the social economy, both at the national and international levels. She has conducted academic cooperation programs and she is co-author of the Ipemed study on Social and Solidarity Economy in the Maghreb. Conjunction between her scientific and academic activity and social commitment has earned her honored with numerous awards.

**Juan Fernando Álvarez:** Ph.D. Social Sciences of the Universidade de Lisboa. Professor in Social and Solidarity Economy at the Faculty of Environmental and Rural Studies of the Pontificia Universidad Javeriana, Bogotá-Colombia. Researcher of CIRIEC-Colombia. Author of researches on public policy, local development, evaluation and management of the social economy in Colombia.

**Philippe Bance** is Professor and administrator of the CRÉAM laboratory, at the University of Rouen (Normandy University), as well as President of the International Scientific Council of CIRIEC and Science Adviser at Hcéres (High Council for the Evaluation of Research and Higher Education). He has been Vice-President of the University of Rouen (2007-2010). His main recent publications concern: postal services in the EU (in Florio, ELGAR, 2017); multilevel governance and contingent valuation method, with Angélique Chassy (P&P, 2017; rfe, 2016); APCE special issue on public enterprises (2015); two edited books about the strategic state and internalization of general interest missions by public organizations (PURH, 2016; 2015).

**Cristina Barna** is Social Economy Expert at the Laboratorul de Solidaritate (Romania) since 2014, and also Associate Professor, currently collaborating with different Romanian universities. She holds a Ph.D. in Economics from the Bucharest University of Economic Studies, Romania. She was a member of the GECES, European Commission Group of Experts on Social Entrepreneurship (2012-2014) and also a member of GECES sub-group on social impact measurement (2013-2014), as academic & think-thank. She is a member of CIRIEC's International Scientific Commission "Social and Cooperative Economy". She co-authored scientific papers, research reports and books on various social economy issues. In recent years, she published: *Romanian credit unions - self-organizing for financial education and inclusion (2017)* - paper nominated as one of the three finalists of the European Microfinance Network (EMN) Research Award 2017, *European toolkit for starting up cooperatives and social enterprises in rural areas (2017)*, *Understanding agricultural cooperatives. A start up guide (2017)*, *Financial inclusion through social economy (2015)*, *Atlas of Social Economy. Romania 2014*, *Handbook of social enterprise's manager (2012)*.

**Pierre Bauby**, Ph.D. Political Science, Specialist on Public Action, Public Services – Services of General Interest in Europe, Chairman of Reconstruire l’action publique (RAP), Director of the Observatoire de l’action publique - Fondation Jean-Jaurès, Expert on Services of general interest at the European Parliament and at the European Economic and Social Committee, Member of CIRIEC’s International Scientific Commission “Public Services - Public Enterprises”.

He published, in particular: *L’Etat-stratège du XXI<sup>e</sup> siècle*, [www.actionpublique.eu](http://www.actionpublique.eu), 2017; *Service public, services publics*, La Documentation Française, Paris, second ed., 2016; *L’européanisation des services publics*, Presses de SciencesPo, Paris, 2011; *Mapping of the Public Services in the European Union and the 27 Member States*, Brussels, 2010.

**Manuel Belo Moreira** is Full Professor at the Instituto Superior de Agronomia - University of Lisbon, retired since 2012. Chairman of the Scientific Committee of the 1<sup>st</sup> Portuguese Congress of Cooperatives 1999. Chairman of the Lisbon 2012 World Congress. He participated in several Iberian Colloquies of Rural Studies, being Chairman of the third. Chairman of the 5<sup>th</sup> CIRIEC International Research Conference on Social Economy, Lisbon 2015. Since 2012, he is a member of the Board of the CIRIEC-Portugal. He published several articles in international refereed journals, as well as chapters of edited books on issues related to agricultural policies, globalization and social economy.

**Jean-Claude Boual** was born on October 30, 1945 in France. Engineer in Chief of public works for the French State, expert in European public services (utilities and services of general interest) and in European civil society. In charge of European public services and Social Europe in the Department of Public Equipment, later Department of Ecology and Sustainable Development, from 1991 to 2010. He has been Secretary General of the CGT Federation of Equipment and Environment from 1975 to 1991 and member of the CGT Executive Commission from 1978 to 1992. He has also been the founder in 1993 and Secretary of the European Committee on Services of General Interest (CELSIG). Author of numerous books and articles on services of general interest in the European Union, on civil society, on the European institutions as well as on trade unionism.

**Monique Combes-Joret**, PhD-HDR, is Assistant Professor-Post Doctorate Graduate in Management Science. She is member of the Research Laboratory (REGARDS) and associated Professor of The Social and Solidarity Economy Chair of Reims University. She leads an action research project (2017-2020) “ESAT de Demain” (ESAT for the future), after working at the French Red Cross (2010-2013). Her main research topics are organizational transformations and models of management in social enterprises.

**Pascal Glémain**, PhD-HDR, is Assistant Professor-Post Doctorate Graduate, both in Management Science and in Social and Solidarity Economy, at the University of Rennes. He is the co-director of the Interdisciplinary Research Laboratory in Social Innovations – LiRIS EA 7481 (Rennes 2), and Director of the master degree in social and solidarity economy specialized in solidarity-based finance and social enterprises management (Master ESS-FIGES). His main research topics are: responsible finance (solidarity finance, crowdfunding and ethic finance), work integration social enterprises, not-for-profit accountability, and entrepreneurship in social and solidarity economy.

**Miguel Gordo Granados** is Professor in Public Economics at the Colombian School of Engineering Julio Garavito. He has been Director of the Centre of Research of the Public Administration School – ESAP- Center of thought for the municipal governments. He is a consultant in public finances and health economics. He focuses on critical aspects of the institutional design of public policies.

**Alexandrine Lapoutte** is Assistant Professor in Management at the Université Lumière Lyon 2, France. She is part of the Steering Committee of the postgraduate studies module (Master 2) “Social and Solidarity Economy”. As a regular member of the research center COACTIS (EA-4161), she leads researches on social economy stakeholder governance. She is member of various research associations focused on social economy in France (RIUESS) and at international level (CIRIEC).

**Laëtitia Lethielleux**, Ph.D., Head of the URCA Chair in Social Economy, is Assistant Professor in Management Science at the University of Reims Champagne-Ardenne. Associate Professor of Economics and Management, a lawyer and doctor of Management Science, she is the author of numerous books on law and management. She is Head of the Master 2 Management of Social and Solidarity Economy Enterprises. She is also member of the REGARDS (EA 6292) research laboratory. Her research focuses primarily on issues of governance and support for employees and volunteers in times of organizational change.

**Jean-Philippe Milesy** is an expert on social economy issues. Member of the orientation Council of CIRIEC-France. Member of the team of ESS Master at Paris VIII University. Counsellor for several heads of ESS institutions. Co-founder of the *Rencontres de la Plaine*. Formerly: President of the Collège coopératif (Paris), Counsellor at the interministerial delegation for ESS, co-founder of the monthly *Le Monde Initiatives...*  
Publications: *Economie sociale et mouvement syndical* (Alternatives économiques), *Petit précis d'histoire sociale de l'Economie sociale* (Fondation Gabriel Péri) and articles and chronicles for several publications.

**Fumitoshi Mizutani** is Professor of Public Utility and Transport Economics at Kobe University, where he has worked since obtaining his Ph.D. from Harvard University. His main research has focused on the economic analysis of regulatory and structural changes in transport industries and other public utilities. He has also been involved in international research projects with such organizations as the World Bank, the Dutch Ministry of Transport, and European Railways and Infrastructure Companies (CER). His research has been published in international journals and books such as *Journal of Regulatory Economics*, *Journal of Transport Economics and Policy*, *Transport Policy*, and *Papers in Regional Science*.

**Munenori Nomura** is Professor Dr. in Regulatory Economics at the Kwansai Gakuin University, in Japan. He was Director of the Institute for Industrial Research at Kwansai Gakuin University, from April 2010 to March 2012. He is President of CIRIEC-Japan since December 2015 and Vice-President of the Japan Society of Public Utilities Economics since June 2017. His academic books and research articles concern the privatization and deregulation of public utilities in Europe and Japan. He focuses on electricity market liberalization policies, railway franchising, airline globalization, airport business, and postal services reform.

**Irina Opincaru** is currently active as a researcher at the Institute of Social Economy, part of the Civil Society Development Foundation (<http://www.ies.org.ro>) working on data processing for most of the Institute's and CSDF's publications (e.g. *Atlas of Social Economy. Romania 2014* and *Romania 2017 - The non-governmental sector. Profile, tendencies, challenges*). She is involved in an ample research project regarding the forest and pasture commons in Romania, based at Institute of Sociology, Romanian Academy (<http://romaniacommons.wixsite.com/project>). She is a Ph.D. student at the Doctoral School of Sociology, University of Bucharest with a research proposal regarding the community participation in the management of the common property, a comparative study on the Romania forest and pasture commons.

**Bernard Paranque** is Professor of Finance at KEDGE Business School. He has been Director of the Centre of Expertise "Economy and finance reconsidered - emerging countries" from 2012 to 2017-2018. He has managed the AG2R LA MONDIALE Chair "Finance Reconsidered" from 2008 to 2017. His research focuses on finance and common resources management, and on employee ownership organization. Some of his papers can be consulted online at: [http://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=1633](http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1633). He has co-edited with Pr. Roland Pérez *Finance Reconsidered New Perspectives for a Responsible and Sustainable Finance*, Emerald Group Publishing Limited, Series: Critical Studies on Corporate Responsibility, Governance and Sustainability v.10, 2016.

**Francis Rawlinson** was born in Preston, England, in 1944, studied German at Manchester University before gaining a Ph.D. in German linguistics from Marburg University in Germany, in 1973. In the 1980s, he studied Economics for five years at the British Open University. Career: after three years as a research fellow and lecturer in German studies at the University of North Wales, Bangor (UK), in 1973 entered the service of the European Community (later EU) in Brussels, working for the first 15 years as a translator and the following 20 years as a policy specialist in the European Commission's Competition and Regional Development Departments. After retirement in 2009, taught for five years between 2011 and 2017 about the European Union as a visiting Professor in the Economic Department of Kwansai Gakuin University, Nishinomiya, Japan. Main research interests: EU competition, regional development and industrial policies and, currently, Brexit.

**Anne Reimat** is Maître de conférences - HDR in economics at the University of Reims. She is member of the Research laboratory REGARDS EA 6292 and Associate Professor at the Social and Solidarity Economy Chair. She has been Director of the Master Degree in Health and Social Care Management from 2014 to 2017. Her main research areas are: ageing economics, public economics and social policy.

**Shinichi Saito** is Associate Professor at the University of Shimane, Japan. Previously he was a researcher at a private think tank for transport economics. His main research area concerns strategies and management policies of liberalized utilities. He also acts as an adviser for a municipal steering committee on transport infrastructures.

**Andrea Salustri** (Tor Vergata University Economics Foundation (FUET)) completed in 2011 the Ph.D. program in "Economic Theory and Institutions" at the University of Rome "Tor Vergata". After having obtained a fellowship for a research in macroeconomic and competition analysis, he began an independent research on the linkages between the formal and the informal economy. Since 2013, he has been continuously involved in

teaching activities at Tor Vergata in undergraduate, graduate and post-graduate courses of microeconomics, macroeconomics, statistics and European Economy. His main research topics currently are: Spatial inequalities and migrations, the Social and Solidarity Economy (SSE), the UN Sustainable Development Goals and the Space economy.

**Faruk Ülgen** is an Associate Professor and Head of the Department of Distance Learning Programmes and International Relations at the Faculty of Economics, University Grenoble Alpes, France. His work focuses on financial instability and regulation, on the financial development and growth nexus and on institutional-evolutionary theories. He has authored several books on monetary theory and on the coordination issues in market economies, and two textbooks in industrial economics and organizational approaches. He has contributed with several chapters to books and published numerous articles in academic journals on monetary and financial economics, economic policies and on institutional economics.

**Ancuța Vameșu** is a member of CIRIEC and President of the Laboratorul de Solidaritate, a non-profit independent research organisation conducting experimental projects of social enterprise development, financial inclusion and participatory local economic development, advising the credit union movement, and other social economy organisations, in Romania. Her research activities focus on the non-profit sector and social economy organisations in Romania. In the 1990s, she coordinated Romania's participation in the Johns Hopkins University international comparative research project of the non-profit sector. She has designed and coordinated research projects on various segments of social economy in Romania, on national accounts of social enterprises in Romania in cooperation with the National Institute of Statistics and the Ministry of Labour using the CIRIEC Manual of satellite accounts, and initiated the Atlas of Social Economy in Romania. She has co-authored several papers on social economy and social enterprises in Romania most notably: *Romanian credit unions - self-organizing for financial education and inclusion (2017)* - paper nominated as one of the three finalists of the European Microfinance Network (EMN) Research Award 2017, *Financial Inclusion through Social Economy (2015)*, *The NGO Sector in Romania – trends, profile and challenges 2010*.

**Federica Viganò**, holds a Ph.D. in Philosophy (University of Milan and Freie Universität Berlin). She spent one year as DAAD researcher at the Ludwig Maximilian Universität in Munich (Business Ethics and Corporate Responsibility); she was then appointed for a post-doc from the University of Milan (2000-2004). In 2010, she was granted from the IUAV University in Venice at the Economics' department. Since 2011, she holds a position of researcher at the Free University of Bolzano. Her main fields of interest are: Social responsibility and sustainability; Social and solidarity economy; Well-being and territorial differences (urban-rural). She is currently the principal investigator in a project on the potential of Creative and cultural industries to boost local development in rural areas.

**Hernando Zabala Salazar**: Historian and specialist in Cooperative Law. Professor in Social and Solidarity Economy at the Luis Amigó Catholic University of Medellín, Colombia. President of the Board of Directors of CIRIEC-Colombia. Author of studies in the area of public policies, law and management of solidarity economy organizations in Colombia.



**Cathy Zadra-Veil**, Ph.D., is Researcher at ESPI School, both in Public Services, Economic Science and in Social and Solidarity Economy. Her academic research concerns public-private partnerships, their regulation and their evaluation, public enterprises and Services of General Interest. New hybrid forms of organization develop now a new form of collective innovation: the Living Lab. This implies different possible forms of governance and sharing the created value in Living Labs. This is the new orientation of her research.

**Gima Christelle Zagbayou** born on July 1<sup>st</sup> 1990, developed a strong interest for Economy and international studies, at her young age. After 6 years living in Russia, she graduated with a Bachelor in Economic Sciences from the University of “L’Amitié des Peuples”, Moscow, in 2014. She became then interested in learning another type of economy based on the promotion of general interest. In September 2016, she graduated with honor, with a 2<sup>nd</sup> Master in Applied Economics in Regional Development at the University of Rouen, France. She has also been part of a project from CIRIEC-France, promoting cooperations between Public and Social Economy, and got interested in public finances. She is currently working in the banking sector (customer service) at the “Caisse des dépôts et consignations de France”.





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