Towards a social economy
– trading for a social purpose

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The authors would like to thank Peter Gray of the Tunbridge Wells Equitable Friendly Society, and Marcel Hipszma of the Délégation à l'Economie Sociale for their help in the preparation of this pamphlet.
Introduction – France

‘économie sociale’

Despite France’s geographical proximity and the links forged through common membership of the European Union, ideas from across the Channel are often received with suspicion in Britain. Whatever the merits of French wine, cheese and kissing, Gallic thinking can seem too theoretical and visionary for pragmatic British taste.

This suspicion often leads the British to miss interesting French ideas. One such is l’économie sociale – the social economy. In France, the term is used to embrace organisations such as co-operatives, mutuals and associations. These are organisations which the French take to share some common characteristics and basic principles.

L’économie sociale is represented by the ‘Comité National de Liaison des Activités Mutualistes, Cooperatives et Associatives’ (CNLAMCA). CNLAMCA, set up in 1970, is an apex organisation which brings together the organisations representing each sub-sector of the social economy. It is the official voice of the social economy sector at national and, increasingly, at regional and European level.

The Charte de l’économie sociale, a formal declaration signed in 1980 by the founding members of CNLAMCA, specified the basic principles underlying the sector. These include:

- personal and voluntary participation by members;
- solidarity among members; (The concept of solidarity implies interdependence, participation and collective support. In many French non-profit organisations, members either play the same flat fee for different types of services or pay according to income.)
- democratic management on the basis of ‘one member, one vote’ rather than ‘one share, one vote’;
- independence from government;
- volunteer board of directors; (Directors may receive no compensation other than expenses.)
- profit for the purpose of remunerating capital is not the aim of the organisation;
- capital cannot be shared. (In the event of dissolution, assets must be transferred to another non-profit organisation.)

The sector is recognized by France's public authorities. In 1981, the French government set up the *Délegation à l'Economie Sociale*, a high-level policy-making body. The Delegation has as its objective the promotion and support of the social economy sector. During the 1980s, the Socialist government supported the emergence of the sector as an important tool for its policy of decentralisation. Basic to this policy was the use of *économie sociale* organisations as vehicles for the delivery of government welfare and employment programmes.

**Britain's missing social economy**

This is no more than a brief sketch of France's *économie sociale*. It gives enough of a flavour of the French scene however to bring out the important contrast with Britain. Compared with France, Britain has little sense of a social economy sector, let alone a national organisation and government unit dedicated to supporting its development.

The argument put forward in this pamphlet is that Britain has much to learn from its neighbour. The proposal is not that Britain should seek to replicate the sector exactly as it exists in France. This would hardly be practical given the cultural and historical differences between the two countries. Rather, the proposal is that Britain should use the French idea as a catalyst to open up and reconceptualise its stagnant economic thinking.

British economic thinking is imprisoned by the distinction between the public and private sectors. The two sectors are instinctively treated as exhausting the main options for the delivery of services. There is perhaps a small and peripheral space for the voluntary or charitable sector but little or no room for a wider social economy.

What the social economy offers is the idea of organisations which trade for a social purpose. Such organisations combine what are normally seen as conflicting characteristics. They are run commercially and are subject to the disciplines of the market. At the same time, they are run to serve their users or members rather than to earn a return for shareholders.

The idea of trading for a social purpose is a powerful tool. It helps to lever open the distinction between public and private and to provide fresh insight on the way it frames and confines economic thinking. In doing so, it creates
the opportunity for radical and imaginative thinking on the Left about the way in which services can be delivered.

The first part of the pamphlet outlines the organising principles of the social economy. It draws out the main points of contrast between organisations which trade for a social purpose and those which are run for the benefit of shareholders.

While Britain may lack any contemporary sense of a social economy, it has a rich tradition of mutual aid organisations. However, the building societies and mutual life offices which ought to belong at the heart of the British social economy are increasingly identified with the private sector. The reasons for this perception are considered.

In the light of this analysis, the future of mutual organisations is then considered. Many mutuals have become complex hybrids and face a choice between full conversion to private company status or a return to genuine mutual status. This raises the issue of how mutuality can be made to work in a modern competitive environment.

Finally, the relationship between the social economy and the delivery of public services is considered. The social economy idea gives the Left a fresh and radical perspective on how the characteristics of commercial organisations can be incorporated into the delivery of public services.
Trading for a social purpose

The private sector and the market economy are often treated as identical. This is unfortunate for, while the two overlap, they are not the same thing. Competitive markets are largely made up of private companies. But there are both private sector monopolies and organisations other than private companies competing in important markets.

Detaching ownership from competition

The basis of the distinction between public and private is ownership. Organisations in the private sector are owned by private individuals; organisations in the public sector are owned by the public as a whole. Markets, on the other hand, are characterised by the existence of competing suppliers. Those suppliers do not have to be privately owned.

The issue of where to draw the limits on private ownership arouses strong political passions. The Left has traditionally held that certain services should be provided by organisations which are subject to public ownership. At the same time, the idea that trading organisations should be subject, so far as possible, to the disciplines of competition commands support across the political spectrum. It checks the potential abuse of monopoly power, exerts downward pressure on prices, encourages innovation and efficiency and stimulates customer service. What is particularly attractive about the social economy model is that it helps to detach the issue of ownership from the widely accepted merits and disciplines of competitive markets.

Social economy organisations are subject to the disciplines of competition in the same way as private companies. What distinguishes them from private companies is their capital structure. The owners of companies are economically and legally distinct from their customers, even if their customers happen to be shareholders. In comparison, social economy organisations have members, who combine some of the characteristics of shareholders and customers. The kinds of organisations which belong in the social economy are societies, clubs, associations and unions. These are organisations to which people belong rather than organisations in which people have an equity stake.
Even with organisations closest to the private sector, such as building societies, mutual insurers and motoring associations, they are not owned in the sense that companies are owned. Some say that a building society is owned by its savers and borrowers, or a mutual insurance company is owned by its policyholders. But what does this really mean? It ought to mean that such organisations are run for the benefit of their members and ultimately accountable to their members. Given the absence of shareholders' equity however, there is a case for saying that, in an important sense, they are not owned at all.

The following comparison of building societies and private companies (taken from Stephen Clifford's article, ‘Who owns a building society?’ in the Mortgage Finance Gazette, April 1992) is helpful in this regard:

"Building societies and limited companies have in common the fact they are both bodies corporate, which is to say that they are legal bodies separate from their members. However, the differences between societies and companies are fundamental. A limited company has, at any one time, a fixed number of shares, while those of a building society are, in theory at least, not subject to any limit. The shares of a limited company are transferable but cannot be withdrawn, while building society shares are generally withdrawable but are rarely transferred.

A company's capital is usually comprised largely of shares, which are liabilities of the company to its members. They provide the company with its risk capital, expecting or hoping for a share in the profits in the form of dividends. The same cannot be said in the case of societies. An investor in a society expects to receive a return based on interest rates, not on the society's profitability. It may be argued, therefore, that the concept of ownership of a company is more real than that of a society."

The role of profits

In the long term, all businesses, mutual or proprietary, must trade at a profit in order to survive. However, profits play a different role in private companies and social economy organisations.

Companies aim to maximise shareholder value through maximising their profitability. Shares are frequently, if not normally, valued on the anticipated stream of future dividends which will be paid from profits to their owners.

Compare this with the use of profits in a building society. A society does not distribute profits to its members as dividends (though in some circumstances it may pay a bonus). All of a society’s profits after tax are normally retained in the business. In some respects, therefore, societies are akin to a zero-dividend company. Profits automatically grow a society’s capital base and increase its borrowing and lending capacity. In mutual terms, this might be interpreted as its capacity to take on new borrowing and lending members.

Thus, while a company which maximises its profits is acting in the best
interests of its shareholders, a building society which maximises its profits may not be acting in the best interests of its members.

Take as an extreme example two societies which earn the same return on their reserves (the benchmark measure of building society profitability) but where the first society charges more for its mortgages and pays less on its members’ deposits. Although it would not be apparent from profitability comparisons, there is a case for saying that the first society’s performance is poorer than that of the second.

The family of membership organisations has a number of distinctive offshoots. Mutualities such as provident associations are not able to distribute financial surpluses to members, as a mutual building society might do in the form of discretionary interest rates or mutual life offices might do through bonuses to policyholders. Co-operatives may go even further and pay dividends to their members. Nevertheless, there is an identifiable group of organisations which, while subject to the disciplines of competitive markets, are in business to add value for their members, not to generate a return for their shareholders.

(Despite these differences, ‘mutuals’ is used on occasions in the remainder of the paper as a convenient generic term to cover organisations which embody the social economy criterion of trading for a social purpose.)
PLCs in all but name

However persuasive this formulation, it soon runs up against the hard reality of consumer perception. Despite a rich tradition of mutual aid organisations which ought to belong at the heart of a British social economy, the idea has little meaning in practice for most people.

The lack of any perception of a social economy is testimony to the way the distinction between public and private shapes economic thinking. Organisations such as building societies, mutual life assurance societies and health provident associations are now seen as largely indistinguishable from private companies.

Perceived privatisation

To many, they have become PLCs in all but name. How many building society customers see themselves as members of their society? How many attend Annual General Meetings? Only about 10% of the Halifax building society's 5.5m voting members took part in its decisions at last year's annual general meeting. How many of the Abbey National's customers still think of it as a building society, despite the healthy profits it now earns for its shareholders?

Another graphic example is the so-called 'private' healthcare industry. The three largest players – BUPA, PPP and WPA – are all provident associations not private companies. BUPA for example stands for British United Provident Association, WPA stands for Western Provident Association. Most people simply know each organisation by its acronym, with little idea of what it stands for.

This process might be called 'perceived privatisation'. For most practical purposes, customers see the organisations as they would proprietary companies. It is important to grasp what lies behind this perception. Why, for example, do customers now see building societies as largely indistinguishable from banks? A number of factors help to explain this perception.

Size

First, there is the simple effect of size. The larger the organisation, the more difficult it becomes to sustain a culture of membership and participation.
Large building societies, mutual insurance companies, health providents and motoring associations, for example, are now national organisations with thousands of members.

This distancing of members from the organisation may be compounded by the fact that regular payments such as pension premiums and health insurance subscriptions are often paid through employer or corporate schemes.

**Competing against proprietary companies**

Secondly, there is the effect of fighting for business against proprietary companies in highly competitive markets. Proprietary companies sell products to customers rather than recruit new members. In doing so, they employ the panoply of modern marketing methods – advertising, direct mail, incentives and the like. In order to compete, mutuals are forced to adopt similar methods. Few emphasise their mutual status in competing for business. It is significant that in the troubled life assurance industry, for example, mutuals have battled indiscriminately (with one or two noticeable exceptions) with proprietary companies in the commission-driven chase for new business.

The effect is that new members see their relationship with most mutual suppliers as they would with proprietary companies. In the words of the Chief Executive of the Abbey National: "When people go into a building society, they do so because the goods are attractive, rather than to become members" (Financial Times, 10 March 1994). Ironically, one effect of Lloyds Bank’s recently announced bid for Cheltenham & Gloucester Building Society has been to make many customers of mutuals suddenly aware of their membership rights. In the absence of any prior emphasis on the long-term benefits of mutuality, however, the danger is that such rights are treated as a windfall donation of shares to be sold to the highest bidder.

**Use of the capital markets**

Thirdly, there is the effect of the growing use of the capital markets by mutuals. In order to prevent a competitive disadvantage against proprietary companies, regulators have allowed mutuals to raise secondary capital, such as subordinated debt, and wholesale funds on the money markets.

Building societies, for example, now have some £3bn worth of issued capital and £50bn of wholesale funds on their balance sheets. The main driving force behind the current review of the 1986 Building Societies Act is the proposal that the limit on societies’ wholesale funding should be raised from 40% to 50% of societies’ total funding. The EU’s Third Life Directive now allows mutual insurance companies to raise capital through bond issues.

To reduce the cost of such capital, mutuals need to convince investors and credit rating agencies of their profitability and financial strength. A greater attention to the bottom line becomes inevitable. Surpluses are turned into
profits. The financial results of mutuals are reported in the same way as those of proprietary companies.

**An accountability vacuum**

Mutual aid organisations have a long and honourable tradition in Britain. On market share measures, they continue to dominate the savings and 'private' healthcare industries. They are central to any development of the social economy idea in Britain.

However, many have become complex and perhaps unsustainable hybrids. They combine a mutual constitution with the characteristics and persona of private companies. A membership unaware of its rights and obligations can lead to a vacuum in accountability. Despite their notional accountability to members, many mutuals frequently behave like companies without shareholders. The senior management appears accountable either to no-one but itself or, if to anyone, to the financial markets from which a growing proportion of funds are now raised.
The future of mutuality

Is there an inevitability to this process of tacit demutualisation? Is the idea that Britain’s mutual aid tradition provides the basis for a British social economy anything more than nostalgia? How, and where, can mutuality (in its broadest sense) be made to work in the modern business environment?

The question can be broken down into three parts. First, for which activities does mutuality continue to be a viable approach? Secondly, what action is needed from organisations wishing to retain and develop their mutual status? Thirdly, what can government do to help those organisations?

Ironically, given the temptation of a disenfranchised membership simply to ‘take the money and run’, one benefit of Lloyds’ bid for Cheltenham & Gloucester is that it may generate some serious thinking in mutuals about accountability and participation. It has already stimulated the suggestion that societies might begin paying loyalty bonuses or a share of the profits to members to encourage loyalty according to the Financial Times (7 May 1994). Reflection on the contemporary case for mutuality is thus timely.

The marketplace for mutuality

In what circumstances does mutuality work? Historically, mutuels have provided services such as pensions, mortgages and health insurance. These share a number of important characteristics. First, they are all basic services which meet essential needs of their members. Secondly, they often, if not normally, involve a long-term relationship between the individual and the organisation supplying the service. Thirdly, they generally involve a significant financial commitment by the customer. Taking the characteristics together, there is a case for saying that these relationships go beyond straightforward commercial transactions. Indeed, individuals are buying services which supplement those provided by, or would otherwise be provided by, the state.

The mutual model continues to have fundamental advantages for the supply of these basic services. It allows the supplier to focus on the long-term
requirements of its members and removes any scope for conflict between serving customers on the one hand and serving shareholders on the other. It encourages a sense of belonging and commitment on the part of customers.

The advantages of mutuality lessen as organisations diversify into activities for which the idea of membership is less inappropriate. For example, since the 1986 Building Societies Act, some of the larger societies have moved in the direction of fully-fledged providers of retail financial services. Earlier, the retention of profits and accumulation of reserves by a mutual was described as the capacity to take on new members. The purist must question the use of members' reserves as, in effect, equity capital to support expansion into non-mutual activities.

Given the way their businesses have developed, it may be entirely appropriate for certain societies to convert and float. PLC status is in many ways a cleaner form of ownership for a complex multi-product business group supplying a range of services from current accounts and credit cards to general insurance and estate agency.

**Effective mutuality**

These thoughts do no more than begin to map out a viable marketplace for mutual organisations. This marketplace needs effective mutuals to operate within it. It has been suggested that three factors lie behind the perception of mutuals as PLCs in all but name. Each has to be addressed for mutuality to have a viable future.

Even for mutuals which have stuck to their knitting, the way many now market and sell their services was identified as an important reason for their current standing. Organisations which want to retain and develop their mutual status need to adopt commercial strategies which are not only compatible with their distinctive structure but deliberately use it to their competitive advantage. For mutuality to work, customers need to see themselves as members of an organisation and place value on that membership. They need to see the management of the organisation as committed to working for their benefit and be willing to exercise their rights if it fails to do so.

Some organisations continue to use their mutuality in this way with considerable success. For example, the Equitable Life Assurance Society places great emphasis on the fact that policyholders' premiums are not used to pay dividends to shareholders or commission to intermediaries. It stated in its 1992 annual report: "We hold firmly to the mutual concept and everything we do is in the interests of our policyholders." It has an excellent reputation in an industry in which many suppliers, mutual and proprietary, suffer from criticisms of their selling practices.
Accountability

Effective corporate governance in a mutual is the mechanism which supports a thriving membership culture. At the same time, it acts as an antidote to another of the factors cited above – the distancing effect of size.

Effective accountability means an organisation in which members are kept fully informed about its progress and properly able to exercise their membership rights.

It has been proposed under the government’s deregulation initiative, for example, that building societies should be able to ask their members whether they still wish to receive individual notification of arrangements for annual general meetings and copies of summary results. Given member apathy and ignorance, these kinds of changes may save money. But where do they leave accountability? In theory, all building society directors are elected by the members. If the management of building societies wish to run properly functioning mutual organisations, they need to encourage participation – not take advantage of apathy and ignorance.

Balance and vision

More generally, mutuality places particular demands on an organisation’s senior management. In a proprietary company, the creation of shareholder value is the overriding corporate objective. A proprietary company’s return on equity capital is a clean and accurate measure of its success in creating value for shareholders. In comparison, the creation of value for members can be more difficult to pin down. In the words of the building societies’ chief regulator "there are no clearly established benchmarks". The interests of saving members need to be balanced against borrowing members, new members against existing members. This adds an extra dimension to the formation of corporate strategy and objectives. Effective mutuality therefore requires management with the vision and skills to run an organisation in the interests of its members.

Hybrids

This point links back to the third factor lying behind the current perception of many mutual organisations, namely their growing use of the capital markets. It is perhaps inevitable that mutuais have access to capital markets if they are to compete on equal terms with proprietary companies. To say this is not to bemoan the development: secondary capital may allow a mutual to expand efficiently. The use of wholesale funds may allow a building society to offer a better deal to its borrowing members. The challenge for the management of mutuals is to align their use of capital markets with their fundamental obligations to the organisation’s membership.

The comment from the Chairman of the Building Societies Commission on
the lack of benchmarks was taken from a discussion of building societies and profit participation capital instruments. It is worth considering the passage in full:

"As mutual organisations, you operate for the benefit and protection of your members. You have learned, over the years, to balance the interests of borrowing and saving members. You have done it after a fashion and particular decisions could be argued about for there are no clearly established benchmarks. But none the less you have done it. And your success in the marketplace suggests that, taking one thing with another, you have done it well. To add to these interests a class of capital with an interest in the bottom line profits appears to me to add a dimension which belongs to a different galaxy. As businesses you must set yourself objectives. These will become too difficult if there are too many interests. I do not rule it out for all time but until there is a much better account how the various interests will be reconciled I also do not rule it in."

The issue is to map out the limits of capital market use for mutuals in terms of the instruments which are admissible and the proportion of total funds which can be raised through them. Tradeable, interest paying capital instruments introduce an element of hybridity into a mutual's capital structure. The consequences of this hybridity require careful management. To move to capital instruments whose return is related to the bottom line all but obliterates the distinction between mutuals and proprietary companies.

The use of the capital markets by mutuals exemplifies the broader challenge of not 'throwing out the baby with the bathwater'. There continues to be a strong demand for the kinds of services for which mutuality has many attractions as a means of supply. Indeed, the pressure on individuals to take responsibility for services otherwise provided by the state creates the potential for substantial growth. Successful mutuals need to be responsive, flexible, alive to the benefits of modern marketing methods and capital market use. This modernity however needs to be built around their raison d'être of adding value for the membership.

**The role of government**

These comments all apply to the mutual organisations themselves. What role does government have in this process?

There are technical issues to do with regulation of the sector, which is currently split between ownership structure and product structure. Building societies, friendly societies and industrial and provident societies are regulated by the Building Societies Commission / Registry of Friendly Societies. The solvency of mutual and proprietary life insurers is monitored by the Department of Trade and Industry. Mutual and proprietary life insurers are regulated by Lautro and, should it get off the ground, will be regulated by the Personal Investment Authority. It has been suggested that, as part of the
current review of the 1986 Act, regulation of larger building societies should pass to the Bank of England. The main regulatory issue is to achieve a working balance between the regulation of mutuals as a group and the regulation of suppliers of a particular service as a group.

Beyond this are the broader policy issues. Above all, it is the basic attitude of government which is important. It needs to appreciate the value and encourage the development of a thriving mutual, and through it social economy, sector.

In fostering a climate in which the sector can develop, government should not take a sentimental attachment to the idea of trading for a social purpose and prize it above that of trading for private gain. There are no grounds for special privileges for mutuals. The mutual and the proprietary approaches each have a place and there are markets in which both approaches will work. The onus on government is to grasp the idea of trading for a social purpose and consider the services for which it continues to be appropriate and to what use it can put the mutual model.

It may be that a small, high-level policy unit along the lines of France’s Délégation à l’Economie Sociale would help this process in Britain. It would foster the development of imaginative cross-sectoral thinking and allow government to co-ordinate its communication with constituent parts of the British social economy. It would also aid liaison with the European Commission and other members states on EU initiatives such as the proposed European statutes for co-operatives, mutuals and associations.
The social economy and public services

So far, the analysis has concentrated on mapping out a space for the social economy alongside the private sector. However, some of the most exciting areas in which the idea can take hold lie in the public sector. The debate on public sector reform has been couched in the language and counter-language of privatisation. It has lacked a model which demonstrates how socially based economic activity can at the same time be subject to the disciplines of the market. The social economy idea helps to fill this gap. In doing so, it opens up a range of radical opportunities for the Left.

Detaching availability from provision

Before developing these ideas, an important distinction needs to be drawn between the availability of a service and the way in which it is provided. In the case of services such as education and healthcare and transfer payments such as pensions and social security, the cardinal principle is that access to them is not dependent on an ability to pay for them. Everyone has the right to essential healthcare, a basic pension and decent education for their children regardless of income or wealth.

In order to guarantee access to all, the state may have to raise taxes. It does not follow that the state should be in the business of providing the services through public sector bureaucracies. The roles of the state are twofold. First, to ensure the availability of the services. Secondly, to ensure that the services are provided in the most efficient and effective way by organisations which meet minimum standards of service and integrity. This is its dual duty to its citizens who both consume the services and pay for them through taxation. It
may be that the services can be delivered more efficiently by organisations subject to market disciplines, which in turn may or may not be private companies operating under contract from the public sector.

The cardinal principle of availability needs to be detached and ringfenced from the issue of provision. Unfortunately, the public/private way of seeing things obscures the distinction between availability and provision. The term 'public sector' cuts across the distinction between availability and provision. It embraces the state and public sector service providers. The term 'private sector' only covers certain kinds of service providing organisations. As a consequence, debates about availability frequently get muddled with debates about provision. All too often on the Left, proposals for bringing market disciplines into the provision of so-called 'public' services are wrongly seen as attacks on the cardinal principle of availability for all.

Broadly speaking, public services can be delivered in one of three ways.

- First, the government uses taxes to run or fund a monopoly public sector supplier. The danger in a simple tax-funded system is that the supply of services is not sufficiently driven by the choice and needs of the user. It leaves the government choosing what to supply. The signals and messages which a market automatically generates are missing. And because the services are not purchased, it makes it difficult to do anything other than record the value of inputs. Attention is focused on how much government spends rather than what government gets for its spending.

- An alternative is for government to use taxes to buy services from suppliers. This allows the purchaser to be distinguished from the provider, which has a number of benefits. It creates the opportunity for competition amongst suppliers and allows greater measurement of the effectiveness with which public sector suppliers convert inputs into outputs. However, even in an 'internal market' it is still a public sector bureaucracy doing the buying on behalf of the client or user. The danger in a purchaser/provider/user triangle is that of 'he who pays the piper calls the tune'. The provider is ultimately accountable to the purchaser who pays it rather than the user who consumes the services it supplies.

- The more radical step is for government to use taxes to ensure that everyone has the resources to pay for certain essential services. On this scenario, the government uses taxes to give the client access to the market. The actual choice of supplier is left, so far as possible, with the client or user. The Right has toyed with this approach in their plans for education vouchers. The Left should not as a consequence dismiss this approach out of hand but reconsider it in terms of the empowerment of the individual which it allows.
Choice and accountability

There is a major opportunity for the Left to take the issue of public sector reform and run with it in a way that embraces choice and accountability. We have already noted that the kinds of services which suit a mutual approach are those which would otherwise be provided by the state. Indeed, the state has taken over responsibility for many of the services originally provided by mutual aid organisations such as friendly societies, trade unions, building societies and consumer co-operatives. The social insurance proposals put forward by Beveridge, for example, retained an important role for friendly societies, but this was subsequently rejected by the government in favour of full nationalisation of the administration of the new system.

The third approach outlined above encourages choice by subjecting suppliers to the disciplines of competition. This applies, however, whether the suppliers come from the private or the social economy sector. An opportunity for the Left lies in developing the third approach to service provision by reworking existing mutual suppliers into the provision of public services, or applying mutual principles to existing public service suppliers. The additional benefit of the social economy approach is that the providers of 'public' services are directly accountable to the people that use them. There is no separation of shareholder and customer.

The Left has traditionally held that 'public' services should be provided by organisations subject to public ownership. In part, this stems from a failure to grasp the distinction between availability and provision. There is much discussion at present about the balance of representation on public bodies between elected and appointed representatives and the dangers of a quango culture. Properly applied, the social economy approach encourages the most direct form of accountability, namely the accountability of a society to its membership. Used in this way, the social economy idea becomes a powerful tool of decentralisation. The decision making process is as near to the user as possible.

One case where the mutual model would be appropriate is in health care. Many have argued that self-governing NHS Trust hospitals are undemocratic and unaccountable. However, instead of demanding a reversal of the government's reforms, the Left should consider how the mutual model provides an opportunity to build participation and accountability into their operation.

There is nothing wrong with self-governing hospitals per se. Given the centralisation of power that has gone on since 1979, the handing down of power to the lowest level possible ought to be welcomed rather than condemned. The mutual model provides a mechanism for transforming NHS Trusts into democratic bodies, accountable to local people and run for the benefit of patients.

The water and electricity distribution industries are another example of
where ‘mutualisation’ might be more effective than privatisation. While both are natural monopolies and thus not open to the introduction of competition, a mutual approach to their ownership might prevent any exploitation of their monopoly positions. The danger of privatised monopolies is that they are under no competitive pressure to operate efficiently. As a consequence, higher charges to captive customers are used to earn profits for shareholders.

With their customers as members, the suppliers would be wholly accountable to their customers. Direct accountability would give the suppliers extra reason to bear down on costs and run their businesses more efficiently. Profits which would otherwise pay shareholders’ dividends could be returned to customers / members through reduced charges. Profits needed to fund investment projects would have to be justified to members.

Detailed proposals for social economy style provision of ‘public’ services could be the subject of several more pamphlets. An important issue is how government would, in practice, go about subsidising the membership subscriptions of high risk individuals such as the elderly and those on low incomes. However, it is possible to see, in broad outline, how the mutual model offers scope for radical thinking in this area by the Left.
Conclusion

The idea of organisations which trade for a social purpose, an idea gleaned from a brief look at France’s économie sociale, offers a fresh and distinctive approach to the delivery of services. The idea has strong roots in this country but has largely been lost with the effacement of Britain’s mutual aid tradition.

The purpose behind introducing the idea has been to do more than simply make space for a third sector between public and private. The purpose has been to draw out the basis of the distinction between public and private and expose the way it channels and confines British economic thinking.

The danger of asking which services belong in the public, and which in the private sector is that of mixing up two distinct questions. The question ‘What are the ways in which services can be delivered?’ is very different from the question ‘To which services do people have a basic right in a decent society?’. It does not follow that the services to which people have a right should necessarily be delivered by the public sector, even if the state has a central role in guaranteeing certain groups access to those services.

In considering how and where the social economy idea can work, it becomes apparent that there is abundant overlap between the services to which people have a basic right and those which can be delivered effectively by social economy organisations. This gives the Left an opportunity to open up the provision of ‘public’ services to radical ideas which are both market-driven and socially based.
The future

Malcolm Hurlston Corporate Consultancy organised on behalf of Unity Trust Bank plc the first British Forum for the Social Economy in October 1993. The Forum was chaired by Sir Dennis Landau, chairman of Unity Trust Bank and former chief executive of the Co-operative Wholesale Society. Representatives from the French Government and the European Commission spoke at the Forum which attracted delegates from all sections of the British social economy – including the Fabian Society.

A second, larger Forum for the Social Economy is planned for October 1994. With support from a number of organisations including the Charities Aid Foundation, UK Co-operative Council, Unity Trust Bank and several individual friendly societies, Malcolm Hurlston Corporate Consultancy is establishing an Institute for the Social Economy. The Institute will undertake research projects focused on areas of synergy between different parts of the social economy.
Background

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Towards a social economy – trading for a social purpose

Can anything really link building societies, marriage guidance centres, co-operatives, pension companies, private health providers and the Fabian Society?

In Britain, we have no conception of the social economy. Yet the European Commission has a Directorate to oversee it and the French a Delegation at ministerial level. So what is it, and how can we use it?

The authors, who both specialise in the subject, define the social economy as bodies which trade for a social purpose. Organisations, that is, which are neither in the public nor private sectors but which have more in common than their being neither one nor the other.

They argue that not only is it an area deserving of study in itself, but that it is also a useful tool for the Left in escaping from the sterile public/private debate.

The Fabian Society brings together those who wish to relate democratic socialism to practical plans for building a better society in a changing world. It is affiliated to the Labour Party, and anyone who is eligible for membership of the Labour Party can join; others may become associate members. For details of Fabian membership, publications and activities, write to: Glenys Thornton, Acting General Secretary, Fabian Society, 11 Dartmouth St, London SW1H 9BN.