

SINGLE MARKET ACT:

A Response from the European Scientific Community

February 2011

This document was drafted by the authors of the open letter to the European Commission titled “From Words to Action: Supporting Cooperative and Social Enterprises to Achieve a More Inclusive, Sustainable and Prosperous Europe.” The letter, signed by over 400 European academics, was officially presented to European Commissioners Michel Barnier and Antonio Tajani on October 13, 2010. On that occasion, Commissioner Barnier asked the authors to comment on the soon to be released Single Market Act, particularly on the issues concerning social economy organizations. The response, presented below, is the result of an inclusive process that gathered input from all the signers of the open letter, and is thus truly representative of the views of a significant part of the European scientific community.

As scholars who have devoted their careers to studying the social economy, we are pleased to see that the Single Market Act (SMA) set forth by the European Commission explicitly recognizes the importance of social economy organizations and proposes (particularly in Proposals 36 and 37) new measures to support them. We particularly appreciate the specific mention of social entrepreneurship as a means to achieve a true social market economy, as the rise of social enterprises can indeed be a positive and significant force in fostering a more inclusive and sustainable economic growth.

We also appreciate the acknowledgment, throughout the document, of the growing importance of services of general interest, including from an economic standpoint. The SMA correctly highlights the need to strengthen the provision of these services, while also acknowledging the challenges involved in integrating them into the single market. This is a key issue that will be discussed in more detail below.

At the same time, there are a few points in the Act that would benefit from greater clarity, and some issues that could be addressed more effectively, as detailed below.

Issues and Observations

The first point we would like to raise has to do with the general framing of the document and the goals it sets out to achieve. While we understand that the SMA should focus on internal market issues, we believe that **it should clearly frame its goals in the context of the ongoing debate on the most appropriate measures of wellbeing**. Projects like “Wikiprogress: Measuring the Progress of Societies”, cosponsored by the European Commission, highlight the need to go beyond the traditional economic indicators of wellbeing, and it would be important for the SMA to clarify where it stands (for instance, if the goal was the maximization of public happiness rather than GDP, how would this affect the proposals set forth in the SMA?).

Beyond this broad framing point, the main issue with the SMA, as currently drafted, is that it fails to recognize that **cooperative and social enterprises are first and foremost economic actors that**

produce goods and services and operate on the market alongside for-profit corporations. Indeed, employee-owned and customer-owned companies should be seen as corporate forms like privately-owned and shareholder-owned companies, as they are part of a range of corporate structures, all of which deliver surpluses - the difference being in ownership, purpose, governance and behaviour, and therefore in what is done with those surpluses. However, rather than recognizing their economic role, the SMA seems to consider these organizations solely based on their social functions (addressed in proposals 36 and 37), while taking the for-profit corporation as the only point of reference for most of the other proposals related to the economic development of our continent. What is missing, then, is the understanding that **one of the key elements that help the European market thrive and create value for European citizens is the diversity of enterprise forms that operate in it:** mutuals, cooperatives, social enterprises, for-profit corporations, etc. all compete and operate on the single market, and all bring to bear different strengths and weaknesses that derive from their structural characteristics. Even in sectors such as research and software development, for instance, with the rise of open source platforms we now witness the coexistence of for-profit and not-for-profit business models.

The lack of recognition of the economic function of social economy organizations partly derives from the fact that **the SMA does not clearly define the concept of social market economy**, and fails to clarify the extent to which the rise of new actors (e.g. social enterprises) changes the traditional view of the social market economy as based solely on the interaction between the market, the public sector and representative organizations such as, unions, trade associations, etc.

In particular, **the document fails to connect these new actors with their primary function – i.e. the provision of services of general interest.** As currently drafted, the proposal concerning the topic of services of general interest (proposal 25) is completely disconnected from the proposal concerning social economy organizations (proposal 36). However, in practice, these organizations are primarily engaged in the provision of services of general interest – indeed, **their innovation capacity in this area (evidenced by the rise of social cooperatives and, later on, social enterprises) is what attracted the attention of policymakers in the first place**, as demonstrated by the passage of new laws in countries such as Belgium and Italy. The role played by these organizations in the provision of services of general interest takes on even greater importance in a context in which governments need to cut public expenditures while the demand for services of general interest keeps rising. The issues related to services of general interest and the issues related to social economy organizations are thus two closely related matters that should be addressed jointly.

Also concerning the services of general interest, the section on this issue (namely **Proposal 25**) **does not seem to take into account some of the key characteristics of these services.** Services of general interest (and particularly ones that have a social nature) are characterized by significant positive externalities, whereby the providers not only tend to not seek profit, but also tend to purposefully redistribute the value they create among the users of the services they provide and the community at large. Moreover, quality control (both by consumers and by public agencies) can be challenging, as the people benefiting from the services and the people paying for them do not necessarily coincide. Due to these characteristics, **these services do not lend themselves to a purely competitive process among for-profit enterprises.** In fact, in investigating this issue, the economic literature has shown how certain characteristics of non-for-profit organizations (such as multi-stakeholder governance and restrictions to profit distribution) make them better suited to the creation of competitive processes in these sectors. Also due to the nature of the services of general interest, the issue of procurement is particularly challenging, as procurement regulations should ensure broad participation in the bidding process, while at the same time enabling local government agencies to select the organizations that provide the services that best meet their needs, both in

terms of social effectiveness and economic sustainability. The SMA hints at this complexity but does not give clear indications for the development of policies that can address the issue.

The section dedicated to the social market economy (Proposals 36-38) also presents some issues. In particular, **the phrasing of Proposal 36 belies a lack of understanding of what a European social enterprise actually is and of how social entrepreneurship has evolved over the years.** The rise of social enterprises in Europe is not primarily based on the action of individual entrepreneurs or of large companies, but on the initiative of groups of citizens that gave birth (as volunteers, workers or consumers) to organizations that took on and adapted the legal forms that were available to them (some of which are mentioned in Proposal 37). More importantly, even though at the onset these initiatives were highly innovative (especially when compared to the provision of social services by the public sector), **focusing only on the innovation aspect of social entrepreneurship is highly limiting.** In fact, these organizations can have a real impact on the market only when they become replicable and can be scaled up, regardless of how innovative they actually are. The focus on innovation can thus be misleading, as the real power of social economy organizations lies not primarily in being innovative (though it certainly helps), but in being able to be an important market player and thus to transform the marketplace and its relations.

With respect to Proposal 38, it is **not clear how the attention to corporate governance relates to the issue of helping all enterprises get more involved in the creation of a social market economy.** In particular, it is not clear whether this proposal aims solely at achieving a better enforcement of all existing regulations, or whether it also aims to ensure that all enterprises, regardless of their sector, contribute to addressing social issues.

Proposals for Improvement

In light of the issues raised above, we believe that the Single Market Act would greatly benefit from several changes aimed at achieving greater clarity on a few basic concepts and at addressing the issues related to social economy organizations in a way that is more cognizant of their specificities. In particular:

1. The SMA should better clarify the role of social economy organizations in the context of the European social market economy. One way to accomplish this would be to **recognize the importance of organizational diversity in the single market.** Just like biodiversity enables the environment to thrive, the diversity of organizational forms, characterized by different structures and goals, increases the overall competitiveness and enables the single market to create the most value for European citizens. **The Single Market Act should thus highlight not only small and medium enterprises, but all forms of enterprises, including those that pursue goals other than profit.**
2. The SMA should **redefine the concept of social entrepreneurship based on the European experience.** This entails clearly centring it not just on the initiative of individuals but on the work of existing organizations, which can take on a variety of legal forms in order to pursue social interest goals. Moreover, **the Act should devote more attention to the tools that can enable these organizations to scale up their activities and truly have an impact on the creation of a social market economy,** starting with clarifying their relationship with the public sector. These tools include (but are not limited to) state aid and tax exemptions, procurement rules, and financing mechanisms. The issue of financing mechanisms, in particular, which is crucial to the performance of these organizations, is addressed in detail in the next three points.

3. The SMA should **clarify how state aid regulations apply to social economy organizations, in light of the clear differences that separate these organizations from for-profit enterprises**. In particular, the debate on state aid regulations has not sufficiently taken into account the significant positive externalities that social economy organizations generate (particularly in terms of social cohesion), nor the fact that **their not-for-profit status implies that any aid that these organizations receive is de facto transferred not to their shareholders, but to the consumers that benefit from their services**. In light of these characteristics, providing state aid to these organizations (including, for instance, in the form of tax exemptions) should not be seen as a distortion of market competition; rather, it should be considered as a way to enhance the competitiveness of the internal market by enabling the competition between different types of enterprises that have different goals and incentive structures. The value of this kind of diversity was evident during the recent economic crisis, when worker cooperatives resorted to increased flexibility rather than laying off their employees (unlike many for-profit corporations), and cooperative banks continued to underwrite loans to small and medium enterprises (at a time when most for-profit banks did not) and were far more flexible on housing and business foreclosures than their for profit competitors, offering a variety of solutions to those in economic trouble.
4. The SMA **should identify innovative procurement methods for services of general interest that are more consistent with the characteristics of this sector**, focusing in particular on the quality of the services that are provided, on workers' compensation, on the benefits produced for the community, and on the continuity in service provision. These methods should include a bidding process that focuses on quality rather than price, for instance by setting the price and centring the bidding on the quantity and quality of services provided for that price.
5. The availability of financing instruments is vital to social economy organizations, particularly in the start-up phases, given the challenges that these organizations encounter in accessing mainstream credit markets. To this end, we suggest **expanding Proposal 12 of the SMA (currently targeted only to small and medium enterprises) to all social economy organizations**.
6. Finally, in order to promote greater homogeneity in the regulation of social economy organizations across the EU, **Proposal 37 should mention the specific legal forms that were created in some European countries** (such as Belgium, the United Kingdom and Italy, just to name a few) to enable the creation and growth of social enterprises.

In our open letter, officially presented to Commissioners Barnier and Tajani on October 13, 2010, we encouraged the European Commission to “move from words to action” in order to truly support European social economy organizations. The Single Market Act has the potential to be an important first step in this direction. By reframing the issues concerning social economy organizations and addressing the few key points discussed above, it could not only improve the performance of the single market, but also shepherd a new generation of policies that recognize and build on the strength of diverse forms of enterprise. This, we believe, is the key element that could enable the Act to reach its stated goal of fostering a “highly competitive social market economy”, and ultimately help achieve a more inclusive, sustainable and prosperous Europe.