SOCIAL/CIVIL ECONOMY – AND HOW IT IS GRADUALLY TRANSFORMING THE ECONOMIC ENVIRONMENT

Leonardo Becchetti, University of Rome Tor Vergata*

* Background paper prepared for the informal EPSCO meeting of the 17-18 July 2014, Milan.
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Abstract

The crisis we are living is multifaceted as it affects at least five (economic, financial, environmental, currency-related and wellbeing-related) dimensions. As such it requires solutions which address simultaneously the different sides of the problem. The economic system as it has been conceived so far (a sum of purely self-interested actions from individuals and companies which should be transformed into social optimum by the invisible hand of the market and the “visible hand” of benevolent, perfectly informed and not captured institutions) seems unable to solve the problem at stake due to three (anthropological, corporate and value) reductionisms which are at the root of the global financial crisis and erode the social capital which is a fundamental resource for its solution. In this paper we outline how the emergence of the social/civil economy within a corporate “biodiversity” framework may provide a structural solution to it, giving fundamental contribution to the pursuit of sustainable development with high employment levels and social cohesion. The key difference in the new emerging paradigm is the hybridation of corporate and individual (consumer/investor) behavior. In the present paper we document how the shift in paradigm has already started since a significant minority of companies and citizens is progressively internalizing social environmental externalities in their choices, consistently with a mix of standard and longsighted self-interested behaviour and pro-social preferences. In the paper we describe some features of the new actors of social/civil economy (old and new cooperative forms, impact investors, multistakeholder for profit companies, fair trade, SR investment funds and banking, etc.) and outline some key policy issues (tax rules, procurement rules, development of information intermediaries) which will be crucial to fully exploit the potential of the new paradigm.

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1. THE CONCEPT (AND IN WHAT IT IS DIFFERENT FROM THE OLD SYSTEM)

A main feature of the current socioeconomic scenario is the interconnectedness of several (economic, financial, environmental, currency-related and wellbeing-related) crisis dimensions (Figure A). With the risk that partial solutions which can be effective on a single dimension may produce negative externalities on the others.\(^1\) The traditional vision of the economic system on how to tackle the problem is based on the following three ingredients: i) a multiplicity of shortsighted self-interested individuals who maximize their own monetary payoffs; ii) a multiplicity of profit maximizing companies which, consistently with their goal, give priority to shareholders over all the other stakeholders (consumers, workers, local communities, suppliers, etc.); iii) benevolent and fully informed regulatory institutions strong enough not to be captured by the regulated (Figure B).

The system is supposed to work on the following main premises: individuals and companies do not need to be responsible since the invisible hand of the market, trickle down mechanisms by which resources of the rich arrive to the poor and the “visible hands” of the institutions do the job of addressing negative social and environmental externalities, solving market failures in the provision of public goods and reconciling the multiplicity of private interests with social optimum. In essence the invisible hand of the market and the visible hand of benevolent, fully informed institutions, strong enough not to be captured by the regulated, transform the sum of myopically self-interested actions of companies and individuals into societal wellbeing. The moral consequences of this utopian view is the irrelevance of civic virtues (at least for consumers and companies) for the functioning of the system.

The socioeconomic system conceived as such has recently demonstrated in many ways to be extremely fragile (Figure C) for several reasons: i) globalisation weakens the power of institutions which remained domestic and strive to become global vis-à-vis corporations which soon became global. The reduced the bargaining power of the former toward the latter creates conditions for the paradox of “wealth without nations and nations without wealth”; ii) trickle down mechanisms are weakened by global tax arbitrage\(^2\) which produces increasing inequality with growing incomes of

\(^1\) Consuming less may improve the environmental balance however worsening the situation on the side of fight to poverty. Consuming more can tackle the poverty problem however worsening the environmental balance. Creative finance may help to create “virtual” economic value without damage to the environment however with the risk of creating bubbles and financial crises. Creation of economic value “no-matter-how” may have negative consequences on social sustainability and on subjective wellbeing.

\(^2\) According to Joseph Stiglitz "Money that was meant to have trickled down has instead evaporated in the balmy climate of the Cayman Islands."
the top 1% vis-à-vis stagnating incomes of most of the other income percentiles; iii) the financial crisis demonstrated that profit maximizing companies taking excess risk due to a distorted system of incentives for managers and traders weakened the power of regulators. One of the main factors of fragility in this respect lies in the asymmetry of variable incentive mechanisms (bonuses, stock options which make managers and traders residual claimants in good states of nature and golden parachutes which insulate them from losses in bad states of nature) by which traders and managers privatize benefits when financial markets are booming while socializing losses when financial markets are falling. In essence, the visible and invisible hands could not avoid the global financial crisis. The application of the laissez-faire principle to the most important sector of the global economy, the financial sector, has further shown how the market left to itself does not bring naturally to socially optimal equilibria and to competitive outcomes but has on the contrary contributed to the emergence of those too-big-to-fail organisations which created pressure to change the rules to their advantage and maximize their short-term (non risk adjusted) profits bringing the entire global economic system to the brink of bankruptcy.

A further inherent fragility of the so conceived socioeconomic system is its ethical imbalance: the system requires too many civic virtues from institutions and too few from companies and individuals. Its functioning does not stimulate in individual players those virtues and social capital components (such as trust, trustworthiness, integrity, reciprocity, respect of pacts,…) which are essential for the functioning of the same market rules in a framework of asymmetric information and contract incompleteness (when, as it is normal to be, it is not possible to have legal protection for all actions and circumstances in social and economic relationships). Without social capital individuals do not take “social risk” and do not produce those superadditivity gains and economies of scale which are usually generated by trust, trustworthiness, reciprocity and cooperation.

It is difficult to evaluate how much these features contributed in positive and negative terms to the most recent stylized facts of globalization which presents lights and shadows. Even though in the last ten years we welcomed the rising income in emerging economies (approximately 70% growth

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3 High levels of inequality limit the diffusion of benefits from economic growth to the overall population. According to ILO more than ½ of gains in income in the 1988-2008 period went to the top 5% class (ILO, 2012).

4 A recent IMF working paper (Valencia and Laeven, 2011) calculates that the global financial crisis has produced on average an increase higher than 30 percent of the debt/GDP ratio in Europe with peaks of 70 points in Iceland and Ireland and with more than 20 percent points in Greece, Germany, United Kingdom, Belgium and the Netherlands.

5 The system is also theoretically inconsistent: if, based on anthropological reductionism, all individuals are fully self-interested withhold any pro-social orientation where the civic virtues of institution members (required to make the institution visible hand work) should come from?
for the those in the middle of the global income distribution), the poorest remain locked out of this
growth and their distance from the booming global elite (plus 60% income in the last decade)
widened (Figure D). While this was happening we witnessed the decline of the developed world
middle class (most of it in Europe) which is competing with low wage workers from emerging
countries. All these changes imply that we are moving away from the twin-peaked “camel”
distribution of global income (the rich and the poor) to an unimodal “dromedary” distribution with
an emerging middle class (that is still quite poor with a daily income of USD3 to USD16) and a
growing inequality between the richest and the poorest. This phenomenon is clearly documented by
the shocking facts that the 85 richest individuals have an income equal to that of the poorest 3.5
billion individuals and the richest 1% of the population owns €81,000 billion which is 65 times the
wealth of the poorest half of the planet. The positive news of conditional convergence reducing
distances in average per capita GDP among rich and poor countries is accompanied by an increase
in income inequalities within countries (due to the enhanced role plays by skill wage differentials in
global markets) and, in any case, the automatic adjustment is too slow. The gross exercise of
extrapolating in the future current growth trends tells us that, if the following trend continues, China
and African countries would catch up on average in 60-100 years. Still, there are today 2.7 billion
people living on less than two dollars a day and many of them will not see the adjustment in the
course of their lives. This long transition we are living risk to be particularly painful for high
income countries. This is because profit maximization combined with global workers competition
and weaker pro-employment institutional rules tend to produce a race to the bottom on labour and
environmental conditions with a fall in the wage/GDP ratio, high unemployment poorer working
conditions (working poor)

The increasing inequality and, more specifically, the difficulties of the “bottom million” tell us that
there are groups of "stranded people" not able to tap into the benefits of the market (Milanovic,
2014). The rising tide raises all boats except those with a too short anchor, which, in turn, would be
overwhelmed sinking down. Even though most of the extremely poor are not in the EU countries,
their low wage competition in global labour markets will act as a gravity law dragging to the bottom
labour market conditions in our countries.

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6 ILO reports a decline of around 19 percent in real earnings for the median male in Western
countries, with a fall in 2010 to the average real wage of 1964. As is well known, wage skill
differentials are enhanced by globalization and therefore the situation is worse for low education
workers (earnings for the median man with high school diploma fell by 41 per cent from 1970 to
In this framework lack of harmonization of tax rules at world level generates a “race to the bottom” in fiscal compliance making it hard to generate public resources needed to finance public goods and services. The “growth-no-matter-how”, perhaps by inflating the figures with illegal activities, is not a solution and does not produce true well-being, as it enhances the Easterlin paradox (divide between GDP and wellbeing measures) and endangers social and political consensus for ruling governments.

The lesson from the global financial crisis suggests us that the proper functioning of the institutional visible hand strictly depends on the overall social capital (trust, trustworthiness, civic sense, tax compliance) both of consumers and the production system, without which the system wears out and destroys any good policies. In what follows we outline the three deep philosophical roots of the crisis, document the emergence of a new paradigm (social/civil economy) with its main actors and discuss which rules of the game may create a level playing field which is more supportive to foster social and environmental sustainability.

1.2 THE THREE ROOTS OF THE LIMITS OF THE TRADITIONAL PARADIGM

We identify three main roots for the multifaceted problems described above (three reductionists views) (Figure A):

i) value reductionism by which wellbeing is meant to coincide with “it-doesn’t-matter-how” GDP (and not with broader wellbeing measures). From this point of view the well-known Kennedy 1968 speech to Kansas students\(^7\) is a milestone and a benchmark for the

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\(^7\) “Our Gross National Product, now, is over $800 billion dollars a year, but that Gross National Product - if we judge the United States of America by that - that Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armored cars for the police to fight the riots in our cities. It counts Whitman's rifle and Speck's knife, and the television programs which glorify violence in order to sell toys to our children. Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile. And it can tell us everything about America except why we are proud that we are Americans. If this is true here at home, so it is true elsewhere in world.”
successive creation of indexes bridging the gap between creation of economic value and wellbeing such as the UNDP Human Development Index, the OECD Better Life Index, the Genuine Progress Indicator, the Ecological Footprint the Happy life Planet index, the BES (Benessere Equo e Sostenibile) in Italy;

ii) corporate reductionism by which companies are conceived just as profit maximizing companies (and not multistakeholder companies, social business or impact investors as well). Corporate reductionisms confuses the “cake” (value added creation which is the corporate contribution to aggregate growth and economic wellbeing) with one of its slices (profits) going to a specific class of stakeholders (shareholders). If we assume that in the economy there may be trade-offs between short term profit extraction and investment for long-term value added creation (which may be the case anytime market prices deviate from fundamentals) corporate reductionism may be harmful for growth and employment;

iii) anthropological reductionism by which individuals are conceived as homines economici maximizing their own monetary payoffs (and not as more complex relational human beings with a richer set of preferences including – together with self-interest - inequality aversion, reciprocity, pure and strategic altruism, trust and trustworthiness as widely demonstrated by recent advances and empirical evidence in experimental economics). It is on the contrary today undisputed and demonstrated by experiments in behavioural economics that individuals have pro-social preferences falling into two broad classes of models: those focusing on distributional concerns or models focusing on intention based concerns. More specifically, the literature documents that individual choices are also animated by pure or impure altruism (Andreoni, 1989 and 1990), inequity aversion (Fehr and Schmidt, 1999), betrayal aversion (Bohnet and Zeckhauser, 2004, Bohnet et al., 2008), guilt aversion (for experimental results see Charness and Dufwenberg, 2006) and reciprocity (Fehr and Gächter, 1998). Engel (2012) concludes its meta-experiment on dictator games collecting evidence from 328 different experiments and 20,813 observations all over the world by observing that less than one third of observed individuals behave as homo economicus. As a consequence he argues that “While normally a sizeable fraction of participants does indeed give nothing, as predicted by the payoff maximisation hypothesis, only very rarely this has been the majority choice. It
by now is undisputed that human populations are systematically more benevolent than homo oeconomicus.8

The reductionism problem is not just a philosophical problem. It is indeed an inefficient view of human being, corporation and values which not just reduces our wellbeing but limits the potential contribution of human beings and companies to their own life flourishing and societal wellbeing. This is because most of social and economic relationships are typically “social dilemmas” (such as prisoner’s dilemmas, trust games, weakest link games, stag hunt, etc.) where the myopically self interested homo economicus strategies produce suboptimal economic results vis-à-vis the cooperative behavior. In this sense it is possible to say that self-interested myopic rationality is an inferior form of rationality. Beyond the ample theoretical and experimental literature on social dilemmas the best intuitive description of the inferior rationality of the anthropological reductionism is provided by Hume “Your corn is ripe to-day; mine will be so tomorrow. It is profitable for us both, that I should labour with you to-day, and that you should aid me to-morrow. I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains upon your account; and should I labour with you upon my own account, in expectation of a return, I know I should be disappointed, and that I should in vain depend upon your gratitude. Here then I leave you to labour alone: You treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security. .” (Hume, Treatise on Human Nature, 1740, book III).

2. THE NEW EMERGING PARADIGM WHICH INCLUDES SOCIAL ECONOMY

In essence, the distinctive feature of the new emerging paradigm of social/civil economy is the presence of two additional hands coming from multistakeholder companies “retailing public goods” (Besley and Ghatak, 2001) and responsible citizens “voting with their wallets” (Becchetti, 2012) which overcome the three above mentioned reductionisms and complement and reinforce the action of institutions (Figure E).

8 The typical experiments used to test for the existence of other regarding preferences are Dictator Games (Andreoni and Miller 2002), Ultimatum games (Güth, Schmittberger and Schwarze, 1982, Camerer and Thaler 1995), Gift Exchange Games (Fehr, Kirchsteiger and Reidl, 1993, Fehr, Kirchler, Weichbold and Gächter 1998), Trust Games (Berg, Dickhaut and McCabe 1995, Ben-Nere Putterman 2006) and Public Good Games (Fischbacher, Gächter and Fehr 2001, Sonnemans, Schram and Offerman 1999, Fehr and Gächter 2000).
In the new system a minority of responsible citizens learned to “vote with the wallet” understanding that their long-sighted self-interest is to reward companies which are at vanguard in “three-sided efficiency” (creation of economic value in a socially and environmentally responsible way and not just profit maximisation). The interesting feature of the new system is that it does not require unrealistic levels of other-regarding preferences. Consumers and investors vote with the wallet because they progressively come to understand that choosing products coming from more environmentally responsible value chains is good for their health. And that choosing products coming from more socially responsible value chains helps companies which are more efficient at reconciling value creation with workers’ satisfaction to win the market race (to the benefit of their own future as workers). The power of long-sighted self interest progressively discovered by increasingly aware citizens is probably the main rationale of the growing share of social/civil economy and vote with the wallet (as we will document in section 2).

For multistakeholder companies (the second additional hand) we refer, among others, to (workers, bank, consumer, agricultural, social) cooperatives, mutual firms, ethical (ESG) investment funds, for profit companies adopting CSR standards, impact investors, foundations, non profit maximizing microfinance institutions, social cooperatives, NGOs, etc (see section 2). This various and multifaceted group of companies may be classified in general terms as social business. According to what declared in the EU social business initiative platform one out of four new businesses in Europe (one out of three in Finland, France and Belgium) are social business.  

Why the new paradigm works better

The advantage of the new paradigm is that it produces not just value (goods and services) but also values, that is social capital (essential for the solution of the social dilemmas indicated above) and fully exploits the social and economic potential of individuals and companies thereby making easier the task of institutions. This is because social business, responsible consumption and savings strengthen civic values and stimulate voluntary work and workers intrinsic motivations. Social capital include trust, trustworthiness, civic sense reciprocal attitudes which generate cooperation and superadditive productivity results in economic activity.\(^9\)


\(^{10}\) This is because empirical evidence widely document that preferences are not invariant and are shaped by life activities. Several experimental papers support this view by documenting that individuals playing more cooperative games or job activities develop more cooperative attitudes (Heinrich et al. 2011, Becchetti et al..2013).
Social/civil economy creates economic value in a socially and environmentally responsible way using a more efficient approach than the standard two-step procedure in which the firm maximizes profits, "no-matter-how" thus producing negative social and environmental externalities which must be addressed by institutions at very high social and public costs by benevolent institutions or benevolent no profit organisations of the civil society.

The vote with the wallet of concerned consumers is a high impact action. It produces contagion since the optimal reaction of profit maximizing companies is partial imitation (Becchetti, 2012). Relevant examples are cases of imitation and partial adoption of fair trade practices by many multinationals (Ciquita’s Rainforest Alliance,11 Tesco and Sainsbury, Ferrero, etc.) and of ethical finance by many financial intermediaries and investment funds.

Why the new system may be convenient for productive organisations? Satisfaction of a wider range of stakeholders in CSR entails certain costs which may however be compensated by potential benefits. Among the latter we mention minimization of conflicts with stakeholders (Minor, 2009), higher workers productivity due to efficiency wage (Shapiro and Stiglitz, 1984), turnover and intrinsic motivation mechanisms (Deci, 1975), innovation in waste/emission management which anticipates more restrictive regulation and creates technological leadership, consumer surplus extraction due to the willingness to pay for social and environmental responsibility of concerned consumers.12 This contributes to explain the move to CSR of many multinational companies (see point 2.2 below).

From an institutional point of view growth of social business is welfare improving because: i) government welfare budgets are shirking and less public resources are available to provide public goods and services; ii) the subsidiarity principle tells that local not for profit organisations may do better the job by exploiting intrinsic motivations of their employees with lower price/higher quality provision of services; iii) much of life is spent in productive organizations, and even if governance rules and markets were perfect, people would aspire to a better life in which their own ideal motivations are more aligned with those of the companies they operate in. The new system of social business may make us progress by large in what should become our ambitious goal beyond value reductionism: the maximization of eudaimonic life and job satisfaction (ie. share of people who find meaningful their life and their job); iv) we need to contrast the inevitable tendency to higher

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11 http://www.rainforest-alliance.org/agriculture/crops/fruits/bananas
12 Just to quote an example Starbucks has recently decided to pay Arizona State Online university fees to their workers anticipating that this will improve its reputation, select better personnel and increase workers’ intrinsic motivations. http://www.bloomberg.com/news/2014-06-16/starbucks-to-pay-part-of-college-tab-for-u-s-workers.html
unemployment or, at best, jobless growth when profit maximization combined with global workers competition and weaker pro-employment institutional rules tend to produce a race to the bottom on labour and environmental conditions with a fall in the wage/GDP ratio

2. CIVIL ECONOMY IS ALREADY BUT NOT YET: DATA AND ACHIEVEMENTS

Examples of violations of corporate and anthropological reductionisms are multifold and document that social economy is already at work (violations of corporate reductionism) and has potentially a fertile ground for its further development (violations of anthropological reductionism). We mention some of them

2.1 CONSUMERS’ WILLINGNESS TO PAY
The Nielsen multicountry survey on the “Globally Conscious Consumer” (2010) (28,000 interviews in 56 countries) identifies an average share of 46 percent respondents willing to pay more for social and environmental characteristics of the products. Even though the contingent evaluation literature tells us that figures of virtual willingness to pay are upward biased (Carson et al., 2001) observed market shares of ethically responsible products (fair trade or ethical investment funds) tell us that the actual share (around one third) is nonetheless quite relevant.13 In a recent inquiry Boston Consulting Group concludes that “Responsible consumption” (RC) products now account for at least 15% of all grocery sales—or a $400bn global market.14

2.2 CORPORATE SOCIAL RESPONSIBILITY OF FOR PROFIT COMPANIES
KPMG International Survey of Corporate Responsibility Reporting documents that CSR reporting was adopted by 90 percent of Japanese companies, 71 percent of UK companies and 32 percent of US companies in 2005, up to involve 95 percent of the 250 largest companies in the world in 2011

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13 Beyond standard willingness to pay surveys, experimental evidence documents that consumers vote with the wallet in their everyday life. In their natural experiment Hiscox and Smyth (2010) find that a sign conveying information on the socially responsible stance of a candle seller in the ABC Carpet and Home store in New York, visited by more than 22,000 consumers every week, produces an increase in market share sales between 20 to 40 percent vis-à-vis the competitor selling just in front of him. The rise in market share persisted in a second step when the price of the socially responsible product was risen by 15 percent. Hiscox, Broukhim, Litwin and Volosky (2011) find that a similar treatment (information on the CSR stance of the seller) produces a 45 percent premium on polo shirts on eBay sales. This implies that the treatment significantly increased the willingness to pay of the participants with the highest reservation price.

14 http://us5.campaign-archive2.com/?u=a102a1f840f67f04e25a7fc97&id=b8f2d07db0
(KPMG Global Sustainability Services, 2005 and 2011, both available at the KPMG website at http://www.kpmg.com). The Corporate Social Responsibility Report (ICCA, 2010) documents that a separate CSR department was created by 31 percent of the top 500 Fortune companies.

2.3 SOCIALLY RESPONSIBLE INVESTING
The Report on Socially Responsible Investing Trends in the United States documents that 2.71 trillion dollars were invested in SRFs in 2010, corresponding to a share of around 11 per cent of total assets under management in the US. In 2011 the amount rose to 3.74 trillion dollars (the combined value of GDP of Brazil and Canada). The growth of ethical investment funds in the last year continue to be impressive. Last data from the Global Sustainable Investment Review 2012 document that ESG (environmental, social, governance) investing reached 13.6 trillions worldwide in 2012 gaining a 21.8 percent at world level. Most of it adopts negative/exclusionary screening, integration or corporate engagement/shareholder action.

Becchetti et al., (2014) calculate the performance of Socially Responsible Funds (SRFs) versus Conventional Funds (CFs) according to Morningstar classification in different market segments during the 1992-2012 period. From an unbalanced sample of more than 22,000 funds, they define a matched sample using a beta-distance measure to match any SRF with the nearest neighbor" CF in terms of risk factors. Using this novel matching approach and a recursive analysis, they identify several switch points in the lead/lag relationship between the two investment styles over time in different market segments (geographical area and size). A relevant finding in this analysis is that there is no significant difference in performance between the two investment styles (hence no ethical sacrifice or extra cost in ethical investing) and that SRFs played an “insurance role” outperforming CFs during the 2007 global financial crisis. Other empirical papers in the literature largely confirm these findings (Varma and Nofsinger, 2013).

2.4 SOCIAL IMPACT BONDS
One of the major international banks, J.P. Morgan, estimates that over USD $8 billion is already being invested for positive impact and the potential market over the next decade ranges from USD $400 billion to $1 trillion, focusing on the more than 4 billion people living on less than $8 per day.

2.5 ETHICAL BANKING
Ethical or alternative banks are not for profit banks who are born with the explicit goal to finance economically sustainable investment with high environmental and social impact. Data provided by the Global Alliance for Banking on Values (GABV) document that ethical or alternative banks were more concentrated on traditional lending than systemic banks in the last ten years (see Figure F). They had on average deposit/assets loan/asset ratios around 70% against 40% of systemic banks. This is the logic consequence of the profit maximization approach of traditional systemic banks: systemic banks have often preferred in the past higher return trading activities to low returns of lending which is a low profit activity in a highly competitive market. An apparent paradox in Table x is that ethical banks are more capitalized than systemic banks. This is because, even though not giving priority to shareholder interests over other stakeholder needs, they ended up with higher tier one ratios since they lost less equity in the financial crisis and they have the tradition of reinvesting profits in bank capital. Another relevant point is that ethical banks which traditionally lend to social business make tend to make lower type I and II lending errors (they have a lower share of non performing loans and serve many borrowers which are rationed by traditional banks).

2.6 MICROFINANCE

Microcredit Summit Campaign data at end 2010 calculate that around 3.552 microfinance organisations (MFIs) in the world have reached around 195 million borrowers among which 124 millions among the poorest. Considering average household size of 5 members microfinance reached around 975 million poor. As is well known microfinance includes mechanism broaden credit access to the vast number of uncollateralized poor borrowers with mechanisms ranging from group lending with joint liability, individual progressive loans, notional collaterals, etc. Beyond the huge debate on pros and cons of microfinance it is worth noting that around half microfinance organisations are not for profit.

2.7 MULTISTAKEHOLDER COMPANIES IN ITALY

2012 ISTAT Census counts 301.191 non profit organisations in Italy with a 28 percent growth with respect to 2001 and with 681.000 employees and 4.7 million voluntary workers (6.4 percent of productive units and 3.4 percent of employees). Social cooperatives are around 11.000 (in 2005 there were 7.363 banking cooperatives). In 2011 CENSIS report surveys 79.949 cooperatives with

15 http://www.microfinancegateway.org/p/site/m/template.rc/1.1.18121/
more than 1.3 million workers, corresponding to 7.4 percent of the total labour force (the share rises to 23.7 percent in social services, 49.7 percent in health and social assistance, 24 percent in transportation. The two sets have intersections (social cooperatives are in both). Overall we estimate 10 percent of labour force is in the combined not for profit industry represented by the above mentioned organisations.

2.8 COOPERATIVES

Worldwide more than 1 billion people are members of cooperatives. Co-operatives provide 100 million jobs worldwide, 20% more than multinational enterprises. The economic activity of the largest 300 cooperatives in the world equals the 10th largest national economy. In India and China combined, more than 400 million people are part of cooperatives. In Germany and the United States, one in four people are cooperative members while in Canada that number is four in 10. In Japan, 1 out of every 3 families is a member of a cooperatives. Canadian maple sugar cooperatives produce 35% of the world's maple sugar production. In Poland, dairy cooperatives are responsible for 75% of dairy production. In Germany, 20 million people are members of cooperatives, 1 out of 4 people. In Singapore, 50% of the population (1.6 million people) are members of a cooperative.

2.9 COOPERATIVE BANKING

At world level financial cooperatives reach over 621 million people in the G-20 nations and provide US$3.6 trillion in loans, hold US$4.4 trillion in savings and have US$7.6 trillion in total assets. Within the cooperative family the International Cooperative Bank Association (ICBA) includes all banks taking this form in different countries and, among them, Banche cooperative and Banche popolari in Italy, Building societies and Credit unions in the UK, and Mutual savings and loans and Credit unions in the United States. These are not just small sized banks; the Crédit Agricole, for instance, ranked ninth among the top 50 banks in terms of shareholder equity in 2008, while other institutions such as Rabobank, Caisse d’Epargne, Banque Populaire, Crédit Mutuel) occupied between the twentieth an the fortieth position. The role of cooperative banks is not negligible also in terms of market shares. Bongini and Ferri (2007) document that cooperative banks account for

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16 The first cooperative organisation (a consumer cooperative of textile workers) was founded in 1843 in Rochdale, UK. The origins of worker cooperatives date back to 1831 when the first organization was founded in Paris from a carpenter association. Credit cooperatives were initiated by the pioneering work of Friedrich Willhelm Raiffeisen who founded in 1849 the first rural bank, agricultural cooperatives originated at end ‘800 in Denmark, while the origin of social cooperatives which are object of our scrutiny is much more recent (1963 in Brescia).
about one third of the deposits (33.7 percent) and slightly less in terms of loans (29.5 percent) of the Italian banking industry. Cooperative branch shares in selected EU countries are even higher (60 percent of the total in France, 50 percent in Austria, and about 40 percent in Germany and the Netherlands) with their market share rising from 9 to 15 percent from mid 1990s to 2004 in terms of total assets in the EU according to Hesse and Cihák (2007).

### 2.10 SOCIAL COOPERATIVES

While standard cooperative types fall into the traditional *circular mutuality* principle (a group creates an organisation which is intended to return benefits to those who created it), social cooperatives extend the mutuality principle beyond direct to indirect forms of reciprocity\(^\text{17}\) (a group of citizens create an organisation with the goal of producing benefits to third parties). More specifically, according to the the Italian law 381/1991 which created them, the social cooperative goals are i) work integration of disadvantaged categories, ii) wellbeing of the community and iii) human being promotion. Social cooperatives are of two types. *Type A cooperatives* operate in health and education, while *type B cooperatives* are work integration enterprises whose specific goal is the productive reintegration of workers belonging to disadvantaged categories (disabled, ex prisoners, ex-drug addicted) who must represent not less than 30 percent of the workforce.

2.10 Fair trade organisations (importers, world shops, labelling organisations) are not for profit organisations using consumption and trade in an aim to promote inclusion of poor farmers in global product markets through a package of benefits which include anti-cyclical mark-ups on prices, long-term relationships, credit facilities and business angel consultancy to build producers’ capacity. The 2012-13 report documents the existence of more than 1.3 million farmers and workers in 70 countries being part of 1,149 Fairtrade producer organizations. FT sales were 33 percent higher in Germany, 26 percent in the Netherlands, 28 percent in Sweden, 25 percent in Switzerland and 16 percent in the UK. Excluding the USA, average sales in all other Fairtrade markets increased by over 20 percent compared to 2011. In the UK, sales of Fairtrade products in 2012 reached £1.5 billion – an 18 per cent Year-on-Year Growth. In Italy the growth of Fairtrade certified products was 16% in spite of fall in aggregate consumption due to recession. The action of Fairtrade not for profit pioneers triggered imitation of profit maximizing incumbents. Valuable examples are

\(^{17}\) For the literature on indirect reciprocity see, among others (Stanca, 2010, Nowak and Sigmund, 2005).
Nestlè, Tesco, Sainsbury, Ben & Jerry (Unilever), Starbucks, Mars and Ferrero. The EU commission communication to the European Parliament on May 2009 acknowledge the contagion potential of this side of civil economy by saying that “Fair Trade has played a pioneering role in illuminating issues of responsibility and solidarity, which has impacted other operators and prompted the emergence of other sustainability regimes. Trade-related private sustainability initiatives use various social or environmental auditing standards, which have grown in number and market share.” The EU commission also added that “Further clarity and understanding is needed of the actual impact of the private sustainability schemes on producers in developing countries and also on their environment in a broader sense. Consumers should ideally be offered some element of objective assessment of the impact of schemes. In this area the Commission expects improvements given the work already under way and looks forward to progress which could form the basis for further policy considerations” (European Commission, 2009).

3.POLICIES FOR FURTHER DEVELOPMENT OF CIVIL ECONOMY

What is the roles of institutions and policies in this potential shift of paradigm? What appears essential today is to price negative environmental and social externalities to avoid that corporate labour and tax arbitrage transforms globalization into race to the bottom on social and environmental sustainability. By looking at this more general goal domestic and international institutions will also protect biodiversity. Rules of the playing field are essential from this point of view. There is nothing such institutional neutrality. Fixing the rules of the game is a policy option which affects by far the relative strength of one corporate variety over the others. In what follows we list the crucial dimensions on which policy intervention is and can be structured

3.1 Governments may as well “vote with the wallet” by overcoming the “mono-dimensional price approach” (which often proves to be not only socially and environmentally but also economically unsustainable when lowest price bids are not correlated with reputation and lead to reopen

procurement terms with extra costs for government budgets) in public procurement: i) fixing minimal environmental, social, fiscal responsibility procurement standards below which companies’ participation is not allowed; ii) giving premium points to CSR features;\(^\text{22}\) iii) discussing ex ante CSR criteria for procurement rules with interested companies to affect in an socially and environmentally responsible way the definition of procurement rules. To make an example, if excluding or discriminating some players may be thought as being against competition a public tender for FSC certified paper automatically exclude from the race bidders providing environmentally unsustainable products. Trade-off between promoting sustainability and the principle of free competition is a crucial issue to be addressed here

3.2 Governments may adopt the Oxfam “behind the brand” approach to stimulate tax responsibility against tax dodging which costs around 1000 bl euros in the EU and makes competition between large and small business unfair (as recently acknowledged by OECD)\(^\text{23}\). Proper information on this issue may be created by supporting the OECD Base Erosion Profit Shifting initiative together with the automatic exchange of information of fiscal authorities, the adoption of beneficial ownership rules at EU level plus country by country reporting as it currently occurs in the US mining sector, in the banking industry according to the new Basel III standards and in EU forestry industry. These three important changes may produce a broad information base for ranking companies in terms of their fiscal responsibility. Prizes or penalties may be built around this information. The nudging approach of making publicly available evaluation of corporate fiscal responsibility following the Oxfam “behind the brand” approach may stimulate citizens to express their appreciation/disapproval voting with their mouse without time/monetary costs thereby strengthening corporate reputation incentives to adopt socially responsible policies

3.3 Information on social and environmental responsibility is not an “experience good”, that is, a characteristic for which repeated consumption habits may bridge the informational gap.

\(^{22}\) The opportunity of giving premium points to specific socially responsible value chains (such as Fair Trade) has been challenged in court by the Dutch government claiming that the decision of the North-Holland province to introduce premium points for FairTrade in their procurement rules violated competition principles. The March 2012 sentence of the Court of Justice of the European Union confirmed that Fair Trade criteria can be included in public procurement (http://www.fairtrade-advocacy.org/ftao-publications/press-releases/press-release-2012/390-european-court-confirms-possibility-to-demand-fair-trade-criteria-in-public-procurement#sthash.c9QngZCT.dpuf)

\(^{23}\) http://www.repubblica.it/economia/2013/02/12/news/l_ocse_troppe_tasse_nei_paradisi_fiscali_multinazionali_pagano_meno_di_pmi_e_cittadini-52502197/
Governments may foster and stimulate the growth of the market of intermediaries rating and monitoring information on corporate responsibility (rating agencies such as KLD, Vigeo, Ethibel, labeling companies, etc.) and technological advancements (such as boycotts Apps) to bridge asymmetric information between consumers and sellers on social, environmental and tax responsibility. Since this market is in part already mature the public role could be that of monitoring quality, reputation and performance of sustainability information intermediaries directly or indirectly through the creation of a multistakeholder authority.

3.4 There is a substantial gap between the emerging importance of social economy, its cultural weight and knowledge and awareness of its existence in the general public. To make just an example even though cooperative banks account for a relevant share of bank total assets at world level (14 percent) and a higher share in terms of bank branches, they are far underrepresented in terms of investigation as evidenced by the 0.1 percent share of Econlit entries. Government could provide at zero costs (ie. on public channels) proper communication and information spaces for making the public opinion aware of the potential of social business (thus stimulating the vote with the wallet). Public debate on the social and environmental role of companies should be stimulated to make citizens aware of their political role and, in positive terms, to give greater recognition and to produce stronger economic effects for their CSR choices.

3.5 Governments should structure a system of tax allowances rewarding social and environmental responsibility in value chains. The rationale is that negative externalities should be taxed while positive externalities should be subsidized. The tax/subsidy system is more effective on the consumption than on the production side since in the latter case it may weaken country competitiveness (ie. green consumption taxes are better than production carbon taxes for domestic industry since they do not risk to produce environmental tax arbitrage and race to the bottom).

3.6 It is essential to promote and stimulate a culture of impact analysis not just on GDP but also on broader wellbeing indicators of policy measures. Following in this the lead of the private social business and, more specifically, of impact investing where social and environmental impact is crucial to define return to investors.

3.7 Social/civil economy may represent a third relevant alternative in the management of common goods (ie. water) beyond the profit maximizing approach, which risks of neglecting the interests of
strategic stakeholders, and direct governmental management. The regulatory approach where reconciliation of profit drive and public interest is guaranteed by the regulators has its own limits due to the risks of regulatory capture. Creation of multistakeholder not for profit entities may help bottom-up monitoring and satisfaction of interested stakeholders.

3.8 Government and international institutions need to explore the potential of social impact bonds as tools to create three-sided partnerships among governments, financial markets and Ngos to provide public goods and services. Finding ways to reduce current transaction costs and extending such instruments to new typologies of public goods and services (beyond jail recidivism). Important issues to be addressed here are the reduction of current transaction costs of these operations, extension of the capacity of measuring impact and methodologies for a broader definition of government monetary benefits from the provision of a given public good/service.

3.9 Government and international institutions may devise tax allowances for equity capital and loan capital (as in Jeremy programs) for social innovation in the delicate transition between the seed and start-up phase also stimulating the growth of equity crowdfunding. Not to forget the goal envisaged in the Social Business Initiative (35 Oct 2011) of “Setting up a European financial instrument of €90 million to improve social businesses’ access to funding (operational from 2014).”

3.10 Government and international institutions should create the proper tax and regulatory environment for impact investing. Consistently with the non-reductionist anthropological paradigm, a new generation of (impact) entrepreneurs and investors find that their maximum ambition is not just maximizing their own monetary payoffs but the positive impact they have on society (ie. Pierre Amudjar (the founder of E-Bay) ’s story is one of the most interesting stories in this respect but similar are those of Paul Polak, of the Gates foundation, Mohamad Junus and those leading to the birth of the Grameen-Danone joint venture). Tax and regulation must go beyond the dichotomy between profit maximization and philanthropy not penalizing low profit self-sustainable activities with high social impact vis-à-vis unsustainable no profit activities in order to avoid the paradox that a shift from a no profit unsustainable social activity to a low profit and fully sustainable social activity which reconciles creation of economic value with sustainability be prevented by far heavier taxation.
3.11 The recent empirical and theoretical reflection on social economy beyond the three (individual, corporate, value) reductionisms provides interesting policy suggestions for more traditional welfare policies. Empirical evidence in medicine and biology documents in many ways that giving (voluntary work) produces better impact on health and subjective wellbeing than receiving (for a survey of the rich branch of empirical studies on the issue see Post, 2005). Unemployment subsidies and minimum living incomes if any should be related to the recipient production of a public good or service. This would produce at least four positive effects: i) positive impact on the provision of public goods and services; ii) positive impact on health and subjective wellbeing conditions of the recipients (with reduced government health expenditure); iii) reduction of opportunistic exploitation of the public benefit since the requested activity would self-select true beneficiaries and exclude those who actually have a hidden activity in the informal labour market. Due to imperfections in the mean testing procedures this side effect is highly relevant.

4. OPEN ISSUES

The development of the market for corporate responsibility poses some relevant questions: how to stimulate technological innovation in this field? How to evaluate the performance of information intermediaries to minimize social and green washing? How to avoid that certification and rating become high fixed costs which create unfair competition between large players and small and medium enterprises? The effectiveness of the vote with the wallet has three limits: price premium (even though not in finance as demonstrated among others by Becchetti et al. 2014), imperfect information and coordination of efforts of consumers voting with the wallet. As mentioned above SR products may cost more and the SR characteristics of a product are not an experience good where consumption habits may bridge the informational gap on the true SR stance of the company.

How to tackle these issues? The Oxfam “Behind the Brand” campaign is a best practice and a frontier in this respect with its “nudging approach”: 18 months to rank the 10 largest food companies in terms of social environmental responsibility. After more than 400,000 consumer priceless actions (sending messages of approval/disapproval of the company on Twitter and Facebook) in one year, 9 companies out of 10 have changed rules. It is of foremost importance that this best practice is enriched and extended studying how institutions and NGOs can collaborate in this respect.

Provided that the share of responsible consumption and civil economy is growing from niche to a larger market share what its optimal share from a social point of view? Provided that corporate biodiversity is a value since productive organizations with different goals and strategies may increase the resiliency of the system (a crisis may affect some of them but not others) what would be the general equilibrium effects of the growth of civil economy? What is the optimal share of civil economy vs profit maximizing firms? We don’t know at the moment but intuition tells us that the civil economy share is still insufficiently low from a welfare point of view at the moment.

Another interesting open issue relates to the dynamics of pioneer/profit maximizing imitator competition. Profit maximizing imitators are jumping into social business after verifying the success of not for profit pioneers (ie. Ciquita, Tesco, Sainsbury, Ferrero in fair trade) But the motivation of the former is strategic while that of the latter is genuine. While partial imitation of profit maximizing actors is important and produce very relevant effects due to their scale there is a risk is that their social dumping can eliminate from the market pioneers with the consequence of weakening the strategic motivation for social business of the same profit maximizing entities.

5. CONCLUSIONS

At the root of the multifaceted crisis of transition of the socioeconomic system in the era of globalization we find three (anthropological, corporate and value) reductionisms which prevent full exploitation of energies which can reconcile creation of economic value with social and environmental sustainability leading us closer to the goal of creating the best conditions for life flourishing. Beyond value reductionism an ambitious original goal of the new paradigm may be that of maximizing eudaimonic job and life satisfaction (ie. the share of people who find their life and job meaningful). Giving jobs is not enough: if employment rates improve at the cost of lower eudaimonic job and life satisfaction the incumbent government risk of losing consensus at next elections.

In what described above we document the inherent fragility and weaknesses of the old system and the innovative characteristics of the new system which is growing behind it. The essence of social business is its capacity to overcome the three reductionisms offering ways to exploit the potential that human beings and corporations have to internalize negative social and environmental externalities. In the policy section we outline some crucial policy measures by which institutions may trigger these energies.
An economic system is like a natural environment. It requires diversity to strengthen its resilience. We should therefore foster and welcome the development of the many different corporate forms of social economy (cooperatives, productive not for profit entities, ethical or sustainable banks and businesses, social business, etc.) which contribute to the creation of labour intensive economic value in an environmentally and socially sustainable way. Regulation must not harm this biodiversity and avoid to apply a “one-size-fits-all” approach.

The implicit idea behind social business is that the solutions to the current problems cannot come just from the effort of institutions left to themselves to perform a heroic task by passive and myopic citizens and corporations. Active participation of the citizens in their economic actions and of corporations along the lines of social and environmental responsibility is crucial to tilt the balance and it is in the foremost interest of institutional actors to devise proper rules to stimulate the development of civic and corporate virtues.

Social economics has also to do with the discovery of the immense energy of a third dimension (i.e. it triggers intrinsic motivations of socially motivated stakeholders who positively contribute to corporate productivity). Back to the three famous words of the French revolution the history of political and economic ideas largely explored role and characteristics of freedom (liberalism) and equality (socialism) but the potential of fraternity is almost unexplored. Even though recent theoretical and empirical contributions investigate the role of gift exchange, reciprocity, trust and trustworthiness, a systematic effort to investigate the impact of fraternity on the socioeconomic environment is still missing.

An intuition on the potential of fertility may be provided by the following well known story:

A camel driver who left at his death a will to divide his property among his three sons. The camel driver had eleven camels, and in his bequest he stated to allocate half of his possessions to his first son, a fourth to second son and one-sixth to the third. When the time came to divide the inheritance problems began. The half of eleven camels is five camels and a half, then the eldest son claimed to “round up” the legacy of his father demanding the sixth camel. The other brothers opposed arguing that he has already been too privileged by the will of his father. A bitter conflict began between them when a camel driver by far less rich happened to pass by. He saw the three brothers’ quarrel and decided to donate his one camel to complement the rich father’s bequest. Thanks to this aid was now possible to meet the demands of the three heirs. Six camels (half of twelve) went to the first, three camels (a quarter of twelve) went to the second and the third got two camels (one-sixth of twelve). None of the brothers objected because none of them was claiming more than he should in the new situation. The total now was precisely eleven camels and the poor camel driver could well have back the twelfth camel.

This story is very rich and it lends itself to different interpretations. One of them suggests the fertility of the gift leaving no one who donates with less than what she gives up. Behavioural economics and the studies about the determinants of life satisfaction are telling us that gratuity has
very high “dividends”, higher and longer-lasting than those of many mainstream economic investments. The point here is that a gift has many strong potential effects: it is able to produce goodwill, and then to build richer relationships, but it also has its own fertility by promoting economic and social cooperation and solving disputes in a world in which without cooperation and mutual trust it is impossible to solve the social dilemmas we live every day.

One of the secret of social business is that it is much more able to work in the logic of fraternity (together with that of freedom and justice) than the traditional economic paradigm. What is the potential of this third dimension which has nothing to do with being good but is in itself a form of rationality? Can we apply it to relationships among states as well as individuals?
References


Figure A The multifaceted crisis and its three roots

Figure B

The «ptolemaic» reductionist model

Figure C
Why the reductionist model does not work?

Figure D

Source Milanovic B. (2014)
Figure E

How it should work. The Copernican model of «economia civile»

Figure F

Comparative performance of sustainable banks vs systemic banks (2002-2011)

<table>
<thead>
<tr>
<th></th>
<th>Systemic banks</th>
<th>Sustainable banks (GABV)</th>
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<tbody>
<tr>
<td>Loans/total assets</td>
<td>40.7%</td>
<td>72.4%</td>
</tr>
<tr>
<td>Deposits/total assets</td>
<td>42%</td>
<td>72.5%</td>
</tr>
<tr>
<td>Equity/total assets</td>
<td>5.3%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Tier 1</td>
<td>10%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Loans rate of eq</td>
<td>7.8%</td>
<td>19.7%</td>
</tr>
</tbody>
</table>


http://www.gabv.org/

Table 1 When social/civil economy may be more pro-employment

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<thead>
<tr>
<th></th>
<th>Traditional profit maximizing economy</th>
<th>Social/civil economy</th>
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<tbody>
<tr>
<td><strong>Banks</strong></td>
<td>Finance all projects, use less of their assets for loans and deposits and do not respond to stimuli from central bankers and policymakers since lending activity is a low return activity</td>
<td>Ethical banks (GABV) finance projects with high social and environmental impact, use more of their assets for loans and deposits (see Figure F)</td>
</tr>
<tr>
<td><strong>Corporate decision under financial distress</strong></td>
<td>Higher propensity to close the business, fire workers and save entrepreneurial gains</td>
<td>Attempt to save the company</td>
</tr>
<tr>
<td><strong>Localisation decision between</strong></td>
<td>More likely to choose option ii)</td>
<td>More likely to choose option i)</td>
</tr>
<tr>
<td>i) producing domestically with low profits and higher number of workers ii) closing the local plant and reopening in LDCs to exploit lower labour costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment funds behaviour</strong></td>
<td>Conventional investment funds buy shares of all companies</td>
<td>Ethically responsible investment funds buy shares of companies with ESG standards thereby helping these companies to win the competitive race</td>
</tr>
<tr>
<td><strong>Industrial activity</strong></td>
<td>Profit maximization tends to enhance the value added slice of equity holders at the expenses of workers and other stakeholders</td>
<td>Low profit impact investors operate labour intensive activities having high impact on employment (examples Amudyar, Polak, Grameen-Danone)</td>
</tr>
<tr>
<td><strong>Investment decisions (trade-off between short term shareholders’ gain and long term investment in value added growth)</strong></td>
<td>Higher temptation to extract personal value from the company in the short run</td>
<td>Higher propensity to invest for creation of sustainable long term value added growth</td>
</tr>
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