

# **Beyond market and state: the 'civic' economy**

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# **PROGRESSIO FOUNDATION**

PROGRESSIO CIVIC ECONOMY SERIES

PUBLICATION 1

ISBN 90-800098-4-9

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PROGRESSIO FOUNDATION  
Rapenburg 42 H  
1011 TZ Amsterdam  
The Netherlands

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## 1 Summary

The division of economic systems into public and private sectors has resulted in serious deficiencies in the production and allocation of goods and services. To remedy these deficiencies and to satisfy some of society's unmet needs, a new domain of human action is taking shape: the '**civic**' **economy**.

Encompassing a diverse variety of organisations such as Community Enterprises, Public-Private-Partnerships, Socially-Responsible Companies, Co-operatives and others, the 'civic' economy is directed towards providing solutions to human needs in innovative ways by addressing the totality of needs, the social and the human as well as the economic and political.

To date these different organisations and activities have been isolated from each other. Current evidence which points to their common role outside the orthodox public/private sectors duopoly as well as to their shared objectives, is tentative proof that they constitute a new area of economic action.

In the present climate of change in socialist and capitalist-based systems, the 'civic' economy could provide some solutions to the hitherto unresolved questions of how to achieve efficiency with equity, growth without environmental destruction, modernization without social disintegration.

At a time of great opportunities in Europe, 'civic' enterprise is a humanistic but effective approach to the problems of scarcity, allocation and change. It could become a distinctive philosophy shared by European corporations, citizens and political forces alike. Abroad, it could become Europe's contribution to peace and prosperity.

*The 'civic' economy could provide some solutions to the unresolved questions of how to achieve efficiency with equity, growth without environmental destruction, modernization without social disintegration.*

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## 2 Beyond the market and state: the 'civic' economy

Economies are typically divided into public and private sectors. The extent of the mix between the two depends on the nature of the society of which they are part. Whether the public or private domain occupies the central role, the dichotomy between the two has resulted in serious deficiencies. In centrally planned economies pervasive bureaucracies have led to scarcity of supplies, inferior quality of products and services, restricted involvement of citizens in public choices and few opportunities for personal growth. Societies in which the private sector occupies the dominant position have not excelled in their socio-economic development, either. In the rigorous pursuit of growth, a high quality of life, a healthy environment, a good education and rich cultural activities are still not available to everyone.

*What the experience of socialist and free-market economies shows is the incapacity of wholly public or private solutions to satisfy some of society's basic needs.*

To achieve this aim and to remedy other deficiencies, a new area of human action has been emerging: the 'civic' economy. A diverse variety of organisations constitute this domain:

- **public-private-partnerships**
- **socially-responsible companies**
- **community enterprises**
- **co-operatives**
- **foundations**
- **charities**
- **voluntary bodies**
- **ethical investment funds, credit unions, community banks**
- **the informal sector (the ethical part)**
- **non-government organisations**

Their aim is to provide self-sustainable solutions to human problems in innovative ways whilst serving the interests of all the stakeholders involved: customers, the local community, the organisation's staff and the providers of capital.

Characteristically, the 'civic' economy transcends both market forces and state planning. It transcends market forces because 'civic' actors rely on the market's superior capacity of allocating resources but aim at overcoming its 'non-selectiveness', amorality and anonymity.

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Participants of the 'civic' economy are selective about their activities and generally confine their action in 'merit goods', i.e. housing, education, health, the arts, etc. or 'community goods'. Their decisions are made to achieve social and non-monetary objectives as well as economic and monetary goals. These non-monetary goals include the protection of the environment, the creation of fairer working and living conditions, the enhancement of personal creativity and life chances, the strengthening of community cohesion and the building of a high-culture society.

The 'civic' economy also transcends state planning since political forces are generally involved in a consultative and participatory mode, not directly or monopolistically.

This article presents evidence of the variety of organisations and activities which we call the 'civic' economy and embarks upon a brief discussion to stimulate debate.

*In the 'civic' economy, the public good is no longer the monopoly of the state, but the result of a discovery process which involves free enterprise, political action, the citizenship and voluntarism.*

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### 3 Economic action of the 'civic' kind

#### Public-Private-Partnerships

*Today the industrialized market economies in Europe have to cope with complex problems of urban renewal, infrastructure building, environmental preservation and human resources development. National and local policy makers and administrators have realized that their capacities and finances are inadequate to solve these problems and to prepare for the new competition of the internal market in the nineties. Traditional bureaucracies lack the flexibility for innovation. There are limits to hierarchy. Private investors and corporations do not enjoy a long term perspective and do not, on their own, have the financial muscle for solving such complex problems without government support. There are limits to private investment.*

One way of solving these dilemmas is by designing public-private-partnerships - PPPs, of which the Greater Baltimore Committee is a notable example. In 1955 an elite group of the chief executive officers of the 100 largest companies founded this committee to support individual 'civic' projects designed by a majority of members. Their pragmatic purpose was to function as a citizens' arm of the government to provide the necessary business and financial expertise. The committee initiated a design to revitalize the inner city. In 1979 it joined forces with the Chamber of Commerce and became the Baltimore Economic Development Corporation with an investment of US \$ 145 million of private capital and 33 million of public capital. It took many years before the public administration and business could create a new organisational design.

*At present, there is everywhere a strong interest in PPPs and projects which can function as a joint-venture between private and public management.*

In each PPP case a detailed analysis of the project and its private and public stakeholders is needed. There is no standard contract for co-operation. This and other findings have been the outcomes of a major study of PPPs in the Netherlands. The analysis of 20 major partners in the PPP process - 8 from private business and 4 from consultants has led to the following conclusions about the success factors of PPPs:

- Risk sharing is the starting point. It is only feasible if the interest from each party is substantial.
- Information sharing where each side needs to understand its own and the other's position is essential and this process might take some time.
- A clear authority structure is needed as a third party which is reliable for the public and private sides.



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- One has to accept that interdependence and sufficient resources are minimum requirements.
  - The nature of the problem must be clear, such as the infrastructure problems of urban renewal, building and revitalization of an area.
  - There must be a clear distinction of responsibilities, such as regulation by public authorities and finance, execution and exploitation by private business.
  - There is no ideal financial structure but an equal distribution of costs, risks and profit in order to prevent failure.
  - There is no ideal legal structure, but different phases of development, execution and exploitation are generally required. The outcome is usually an independent legal entity.
  - The motivations of partners are different: for public authorities, it is legitimacy and public support, for business, it is goodwill and long-term employment.
  - Within partnerships the stakeholders keep their identity but harmonize their interests for a particular objective.
  - Political stability is essential.
  - There must be equivalence in power sharing. This is a delicate balance.

Opportunities for PPPs abound. In the fields of 'merit goods', i.e. health, housing, education, the arts and recreation, the production and provision functions are technically neither wholly public nor private. In all these areas there is a public element to the operations: products and services are for the most part open to the public and their accessibility and availability, price and quality are affected by public interests. The private element is represented by the interests of firms and individuals involved in the production and provision functions. A diverse variety of PPPs - differing in the degree of cooperation and balance of interests between public and private elements - can potentially be organized for each 'merit' good and service.

An interesting and important opportunity for a public-private-partnership is provided by public schools. In the USA, public schools remain an almost classic public-service model: a governmentally provided service, financed partly by the local district, produced in the local district by a school administration with strong centralizing tendencies developed over the years, and actually delivered in local schools by professional teachers working for the district on salary. This system has been highly resistant to change. In recent years, however, pressures for change have grown. A form of PPP could be adopted for public schools whereby a contractual relationship is set up with its district under which it is given funds to carry out the educational objectives of the district but left free to

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*Public-Private-Partnerships are not a magic formula, but an opportunity for public authorities to achieve market-oriented outcomes and positive financial returns, and to obtain first-class competences despite their retrenched budgets.*

decide how to organize itself. A host of operational solutions come to mind: contract out certain functions to the private sector, such as the provision of support services, employ a professional manager as director, or the teaching staff as partners who share in the responsibility for its success. Incentives and opportunities would thereby be created to use enough administration but not too much, to differentiate staff, and to substitute technology for labour wherever that improved efficiency, because savings would accrue to the partnership of teachers that the school has become.

For private businesses, PPPs help to deal with the long-term negative effects of their industrial activities as well as to generate opportunities for their expansion. The process of networking between private and public authorities is often highly political, but pragmatically rather than ideologically rational. Because of these characteristics, public-private linkages in all their forms reflect the mood of present Europe: no grand master plan but pragmatic piecemeal answers to complex social and economic problems.

The present macro-economic and political scenario with the expectations of the single European market and new growth opportunities in Eastern Europe will increase public-private cooperation in its many forms. Local authorities will be obliged to offer European-wide public tenders, whereas the present practice frequently relies on private arrangements with local contractors. The new Euroregio project in the south of the Netherlands offers an interesting example of German, Belgian and Dutch PPP. Imagination will be needed to select organisational structures which fit the particular purpose, expertise and financial constraints of each PPP project.

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## Socially-responsible companies

‘We have responsibility to our shareholders, our employees and to our customers on whom we depend for sales. We have a complementary duty to participate actively in the communities in which we operate. It is our policy to invest 1% of our profits in community initiatives’. (Sir Hector Laing, United Biscuits, England).

These quotations testify to the new involvement of corporations in social developments. On both sides of the Atlantic, particularly in the USA and Britain the last few years have seen a growth of socially-responsible companies who are prepared to actively support community initiatives. Following the American example of the Per Cent Club, a number of leading corporations have set up an equivalent organisation in London whose members have committed themselves to invest 1% or more of their profits for social causes. Most of the top companies from IBM to Citibank, Glaxo to Barclays Bank have joined.

Another successful initiative of this kind is Business in the Community (BiC). Set up in 1981 to act as a focus and catalyst for the greater involvement of business in social economic development and regeneration, it is a partnership of nearly 300 major companies working with government, local authorities, voluntary sector and trades unions throughout Britain. One of their major projects is ‘Business in the Inner Cities’. To revive a number of inner city areas, companies have become involved through:

- location and investment
- employment and training
- local purchasing policy
- public affairs
- local partnerships
- community and charitable support

Although their endeavours were matched by government funding, the contribution they made has been widely recognized as unique and innovative.

Corporate involvement acted to stimulate local initiatives which had been stifled during past attempts by a detached and bureaucratic central government. In addition, the range of skills, expertise and resources which the private sector applied was unavailable at the political level. The partnership approach between free enterprise, citizens, voluntary and political forces has begun to show results where all else had failed.

*‘.....profitable organisations do well to recognize a secondary obligation to be a good citizen by earmarking a proportion of profits for community projects, such as charitable giving, artistic and sporting sponsorship and the enhancement of the environment. ....we have decided to support the concept of the Per Cent Club’. (Sir James Ball, Legal and General, London).*

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Recently, BiC and UK 2000 - a partnership of voluntary organisations, companies, local authorities and government - set up a new organisation 'Business in the Environment' to persuade companies to give greater priority to protection of the environment in their decision making. The new team comprising companies such as IBM, Costain, TSB, ICI, Tesco, Johnson Wax and British Telecom will attempt to promote a better understanding and application of sustainable development and clarify the economic thinking on which environmental priorities will have to be based.

In the USA, under President Reagan an organisation similar to BiC was created in 1981, Private Sector Initiatives (PSI). PSI participants have been leading corporations who typically initiate, develop and help fund and carry out projects to meet community needs - such as drug abuse counselling, literacy campaigns, job training, programs for the handicapped, child care and youth activities. Seven broad areas in which the creative energies of organisations and private individuals could make contributions to community life:

- Cash contributions
- Donations of land and property
- Volunteering
- In-kind resource donations
- Investment Programs
- Help with business decisions through management secondment
- Public-private partnership approach

Over a period of six years (1981-1988), PSI initiatives had reached thousands of communities across America. A variety of different projects have been initiated. The Adopt-a-school program, part of the Partnerships in Education program which had identified some 50,000 opportunities for the improvement of junior education, helped strengthen and ameliorate school curricula by creating a climate of understanding among community leaders and school administrators. Most important, they involve the community in improving its own economic outlook by lifting the horizons and quality of education for the young people who will be its future leaders. The Broadcast Opportunity Partnership (Broadcap) is a unique venture capital organisation established to provide direct and indirect financing, management and technical assistance to minority entrepreneurs who seek to offer major broadcasting services to communities with special needs and interests that are not served by existing broadcasting entities and help improve the quality of life in those communities. Operation Care and Share was designed as a year-round program that brings together the numerous resources of a

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variety of organisations to help meet the food and clothing needs of those without.

As a result of the publicity and interest generated by these private sector initiative, other countries have now become involved. At an international conference in Paris in 1986, more than 200 cabinet-level government officials and corporate chief executives from Belgium, France, Italy, Switzerland, the United Kingdom and West Germany focused on how to import this American experience into their own countries. Their commitment was translated into action in 1987 at the Italian-American Conference on Private Sector Initiatives where the Italian business community formalized its intent to expand its private sector effort on a national scale.

In 1988, the British-American Conference on Private Sector Initiatives took place. Leading business and political personalities attended and committed themselves to a growth in socially-responsible activities over the next years.

Despite these encouraging initiatives, the social contribution of many firms is more a reflection of the personal interests of the managing director or the decision of the public relations officer than any genuine assessment of corporate interests. The most common type of corporate social action imposes very little in the way of managerial requirements. A few companies - not so many - carry the concept of corporate interest in social problems a long step forward by recognizing that certain social ills are the result of basic structural weaknesses in the economy that not only impair the well-being of large numbers of people but hurt particular businesses as well. For these firms, moving purposefully to correct structural economic weakness requires considerably more management ingenuity and attention. *If management's purpose is not simply to deal with symptoms, as charities often do, but to be intimately involved in correcting the conditions that are causing the problem, the corporation must play a proactive, initiatory role. To achieve this objective, high orders of creativity are needed, and much of this must be provided by management.*

*'This is a vision that today's corporate leaders do business with a sense of responsibility that something must always be put back into communities for the next generation. This is a vision that business success can be shared with inner city communities, a vision that ordinary people can be enabled, through business skills, to influence the destiny of their neighbourhoods (HRH Prince Charles).*

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## Community Enterprises

*Beyond market and state there are is also community enterprise. It generally aims at social development or at solving specific problems of society, such as those involving disabled children, the poor, the unemployed, the inner city, drug addicts and the sick.*

Community is an important public value, and its loss due to shifts in economic activity is as serious a 'negative externality' of economic growth as environmental pollution or industrial accident or illness. In our enthusiasm for economic efficiency we cannot overlook the fact that 'community' remains a powerful value even in modern industrial societies, especially among the less educated, who are also the less mobile.

As a reaction to structural changes which have left many towns with pockets of poverty, community enterprise has flourished. In many countries can examples of community enterprise be found. In Britain, for instance, in the Strathclyde region of Scotland there are now 45 community businesses, 20 credit unions and 14 food co-operatives - as well as 54 community-based housing associations and 23 housing co-operatives. These 'community enterprises' are a diverse group in terms of their objectives and activities:

- some produce goods
- some provide services to meet local needs
- some are concerned with training people in new skills
- some provide workspaces to enable people to go into business
- some promote creative activities without a direct focus on providing employment.

The Scottish approach has been highly successful. From the Highlands, the community enterprise movement spread to the Scottish heartlands. By 1987 the concept of a local company engaging in different activities whose profits would be recycled back into the community to meet local needs was widely accepted.

In Ireland community enterprise is flourishing, too. In County Galway, for example, the citizens of Ballinakill set up a community-owned development company in 1971 which began by constructing nine self-catering thatched holiday cottages in which the residents became shareholders. Being owners the inhabitants did not have to pay rent (the majority of housing is let to tenants) and could quickly pay back their mortgage debt and start accumulating capital. From this experience followed the building of a centre for social and cultural events and for training in traditional Irish music, song and dance. By 1978 bigger projects became a reality. A large old

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industrial school was purchased and restored to serve as a base for the development company and provide space for the Farmers Co-op, the credit union, the Fish Farming Co-operative, the doctor's surgery, a sports centre, a public library, office space for local business, etc. A further 31 community organisations followed. These included nine enterprises furthering economic goals such as the Craft Co-operative, the Farmers Co-operative, the Sheepbreeders Association, four sporting groups and a Resource and Education Project with the help of the EEC.

Community development is at the front of social action in Portugal, too. In Lisbon alone, there are over 400 cultural and recreational communities in several districts. They form a remarkably valuable network which mobilizes thousands of volunteers who devote their time to organize all kinds of cultural, sport, recreational and social events, for the benefit of the public.

On the other side of the world, in Los Angeles, local people set up the Watts Labor Community Action Committee and the trading enterprise Greater Watts Development Corporation. Work was started in building and renovating after the 1965 riots, and proceeded with the setting up of a market and shops, the profits from these activities being used to finance others. As confidence grew, they took on bigger projects, building a general store, taking a stake into a large shopping centre and eventually constructing 600 houses for local inhabitants in 1987.

A similar development occurred in Canada, at Cape Breton in Nova Scotia, in 1973. The community residents set up an Association for Co-op Development to help a local handicraft organisation find new premises by buying and renovating a building. This initial effort was followed by the renting of commercial properties owned by the association. By 1979, their newly formed community development corporation owned over \$ 1 million in real estate and by 1985 this figure had reached \$ 10 million.

In Cleveland, Ohio, nine community-based organisations teamed up with each other to form the Cleveland Housing Network to create affordable housing in partnership with the city and the private sector. Throughout the USA and Canada, many community development corporations (CDCs) have been established over the last 20 years. Their role is similar to that of the Irish Community Co-operatives and Scottish Community Businesses.

To succeed, community enterprise requires the following approach:

1. A long-term commitment.

*Essentially, the community development approach emphasizes entrepreneurial action, mutual support, the building up of neighbourhood capacities for problem-solving and self-representation, as well as the promotion of collective action to bring a community's preferences to the attention of political decision makers.*

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2. A genuine partnership between actors.
  3. Community participation.
  4. External resources because inner city or outer area estates have traditionally been neglected by the providers of capital.
  5. Realistic opportunities for private sector involvement should be identified with.
  6. Corporate induction training is required to bring together staff from different agencies and the community, and to enable a common understanding of problems and priorities.
  7. Finding ways of operating within the processes and planning machinery of government.
  8. The identification with a specific area to encourage pride among people.

The variety of activities mentioned here shows that there is certainly more in community enterprise than it is commonly recognized by academics and practitioners alike. However, there are some serious criticisms to the economic role of community enterprise:

- a. They provide a second-best solution to the problem of 'missing markets', not a radical, innovative remedy.
- b. Their major goal is employment, at all costs.
- c. Politics interferes with their operations. They easily degenerate into instruments in the battle for political power.
- d. They generally lack managerial skills.

The challenge faced by community enterprise is to evolve and grow by discovering remedies to the causes of these criticisms.

This section contains excerpts from 'After the Crash', by Guy Dauncey, 1988.



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## Co-operatives

The co-operatives' movement is another pragmatic illustration of the 'community development approach'. It is a deliberate action by local communities and interest groups to:

- a. come together
- b. identify needs and interests
- c. develop confidence in their own capacity to achieve these aims.

Examples of co-operatives in action abound throughout the world. In Spain, for example, in the Basque town of Mondragon, entrepreneurial action of the 'civic' kind has achieved quite remarkable results through the co-operatives' movement. Today, in 1988, nearly 20,000 people work in more than one hundred separate but linked co-operatives which do everything from manufacturing to running a bank, a technical research centre, a college and a social security system, even a co-operative business school, IKASBIDE.

In the UK, there has been a huge upsurge in the number of co-operatives from less than 20 in 1975 to 330 in 1980, 1,400 in 1985, and perhaps as many as 1,600 today. The numbers working in co-operatives have risen from less than 2,000 in 1970 to 10,000 now. Their activities are focused in the service sector, particularly in bookshops, retail outlets, house decoration, printing and record, film, and music-making.

Several other Western European countries have large and vibrant co-operative sectors, in particular Italy, France. The Italian co-operative sector is by far the largest in West, with around 12,000 co-operatives employing some half-a-million people. In their evolution, Italian co-operatives have benefitted from strong central organisations, public works contracts from local authorities, and from combines of co-operatives formed to deal with finance, design, marketing, and so forth. Italian co-operatives are typically large (with an average of over 300 workers in the top 10% of firms), well organized, and supported by municipal authorities and the broader co-operative movement.

The French co-operative sector is rather smaller, with around 40,000 workers in some 1,200 co-operatives, but also well established and with a long tradition of production in printing, construction, and various branches of engineering. In recent years, French co-operatives have also begun to emerge on the British pattern in services and consultancy, with relatively few workers and concerned with social rather than purely commercial objectives.

*The Mondragon co-operatives have been so successful because they have set up a system of mutual support where each co-operative has a responsibility to the welfare of the town according to its most developed skills, be it training, finance, marketing or else. The town's philosophy has become 'Let us make richer communities, rather than richer individuals'.*

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In the French-speaking canton of Vaud in Switzerland, Co-operative Societies are being very successful in developing land and building new homes. Residents-cum-property developers join as members of a Co-op in order to create the living conditions they want, making individual freedom and collective life compatible.

In the USA, there is a long tradition of producer co-operatives, the bulk of which is clustered in plywood manufacture, but there has been a recent upsurge in services paralleling European developments.

One of the key advantages of co-operative membership is the independence it provides to individuals in expressing their opinions and beliefs at the workplace.

*In 'capitalist' enterprises a significant proportion of the work-force experiences dissatisfaction and alienation. Workers feel that they have no say in the major decisions affecting their lives: the production processes used, the pace of manufacture, the noise levels, manning arrangements, the layout of the plant, and the decision to increase or reduce the labour force or even to close the factory. Another major grievance with the traditional capitalist system is the persistence of inequalities in the distribution of income. These in large part arise from the allocation of corporate profits as dividends to a small number of owners, and from the payment of significantly higher wages to people with greater skills, in particular to managers and professional experts.*

In a system of producer co-operatives, on the other hand, individual employees are given an equal vote in determining all aspects of company policy. Non-retained profits are distributed to the work-force. Although inequalities may remain between workers, the replacement of a small owning group by the labour force as a whole will act to equalize the distribution of income.

To prove that these problems can be overcome through the working practices of co-operatives, Prof. James Meade, Nobel prize in Economics, recently wrote a booklet in which he introduces the concept of the 'Partnership Enterprise'. He suggests a Labour-Capital Partnership, as a mechanism which originated in co-operatives, to be adopted by corporations in order to achieve a more participative and compassionate attitude than it is the case at present.

This concern about the possibility of organizing individual enterprises on co-operative principles was the subject of the conference by the Italian 'Lega Nazionale delle Cooperative e Mutue' held in Rome in March 1988. The organisers and promoters

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were convinced of the merits of a competitive market economy but were much concerned with the question whether and, if so, in which way principles of compassion, equality, antipoverty, and social responsibility could at the same time be incorporated in the system. In particular, they wanted to discover if the co-operative movement could help to provide the answer.

Despite the encouraging evidence of the co-operative movement's growth, important limitations and problems have persisted in this sector over the years:

- a. Employment restriction. Co-operatives tend to employ fewer people than firms because their primary aim is to protect members' jobs. This factor reduces the co-operatives' ability to grow.
- b. Slow response to market changes. Any organisation's survival depends on its capacity to adapt and respond to market needs. Co-operatives are not very quick in this respect.
- c. Lack of internal financing. Because co-operatives are financed by members and generally do not accept external funding, their potential is often not realized.
- d. Less than optimum investment spending. Again, the primary aim of protecting members stifles investment in capital equipment.
- e. Difficult and expensive to open and close. Their nature and the existing legal system increases the complications and costs of formation and closure.

*In the past co-operatives have often failed because of the absence of incentives which encourage capital formation and reinvestment of profits.*

*The success of some co-operatives demonstrates that it is possible to design a system that combines some of the strengths of private enterprises with the strong attachment to community characteristic of participatory organisations with strong shared political values.*

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## Foundations, charities, voluntary organisations

An impressive number of charities and foundations can be found in many countries. In Britain there exists over 250,000 charities, including self-help and campaigning groups. Charities and foundations have a long history in English-speaking countries. In the words of a leading French expert and foundation executive:

*'In the liberal democracies of the Anglo-Saxon type, people believed that the general interest was not the exclusive concern of the state, but rested also upon the citizens themselves, acting spontaneously either as individuals or collectively. Accordingly, it was perfectly normal for public services, such as education, health or culture, to be taken on, not by the public but by the private sector, to which it was therefore appropriate to give corresponding facilities'.*

*The second half of our century has been characterized by a growing awareness, particularly evident in the current decade, of the incapacity of governments to meet the expectations of many citizens.*

Indeed, foundations and charitable bodies have historically sought to do those things which the state did not do for the good of the people. Over the years, the state has stepped into area after area of public welfare - the relief of poverty, education, care of the elderly or infirm, redress of social 'under-privilege'; in response foundations either moved out, or cultivated the periphery - the hard cases - or conducted pioneering experiments, or the fundamental and speculative research, which government authority is ill-fitted to pursue but in whose wake it may eventually follow. There has been plenty of room. The large-scale substitution of public provision and so-called rights for charitable aid and appeal has shown no sign of abating either the zeal and action of existing foundations or the establishment of new ones. But as the one-world philosophy takes hold, it is being seen that recognized needs are again far outrunning governmental institutions. There is no international government. And there are not enough governmental institutions which can dispose of resources commensurate with the human needs in their particular fields.

This phenomenon is throwing extra responsibility upon the voluntary sector whilst simultaneously putting at risk the financial support the sector receives from national and local governments. *Although the role of charities, foundations and voluntary organisations cannot replace the works of governments, the onus is now on this type of enterprise to meet people's expectations of a more advanced, better and fairer society.*

The last few years have seen a retrenchment of public expenditure the world over, a private sector economic boom and a revival of the role of charities and foundations. In the words of Nicholas Hinton, Director General of Save the Children Fund, "We are now down the

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road to the *charitisation* of many public services. Established charitable organisations are increasingly involved with the provision of educational, recreational and social services. Charitisation is not confined to national affairs. The United Nations High Commission for Refugees, for example, seems to be depending more and more on international non-government organisations to help meet the ever-widening gap between donor government contributions and commitments worldwide.”

A dramatic example of the development of charitable giving has been the immense response to the great famine in the Sahel and north-east Africa in 1984-85. Harrowing pictures on television touched the hearts of millions in better-off countries. While government aid was switched to the area, private money poured in from individuals, foundations and charities. The existence and experience of organisations like Oxfam, Save the Children and others was crucial in ensuring the success of relief aid.

New fields of activities have emerged. Ecology in its many ramifications, from urban pollution to the preservation of jungle wildlife has become an arena for charities like The World Wildlife Fund (WWF), Greenpeace and Friends of the Earth. The WWF, for example, dispensed over 18 million Swiss Francs in conservation causes in 1985.

Increasingly, international cooperation among foundations and grant-making bodies is taking place. The most interesting example has been the burgeoning of Interphil (the International Standing Conference on Philanthropy). In 1984, Interphil, which originated in Britain, revised its constitution to strengthen and further internationalize its structure. As a result, it now has a board of directors of nationalities and an International Advisory Council with members from 32 countries in every continent.

The contribution of the Third Sector to society goes beyond their day-to-day activities. Organisationally, the very features of voluntary and charitable action, i.e., decentralization, participatory management, hands-on approach, are being adopted by business firms the world over to stimulate individual freedom, entrepreneurship and creativity.

However, a number of limiting factors are typical of organisations in this sector:

- The ‘counter culture syndrome’. The people working in voluntary organisations feel that they are marginalised and not fully respected by society at large.

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- Lack of 'professionalism'.
  - Poor accountability. Criticisms of the lax way in which many voluntary organisations are run have been mounting and pose a threat to their image.

As in the case of community enterprise, the challenge for the voluntary sector is to prove the critics wrong, by developing more effectively and efficiently, and reaching parts of society which other organisations cannot reach.

### **Ethical investment funds, credit unions, community banks**

A collective name for the variety of financial activities such as ethical investment funds, credit unions and community banks is *social investment*.

*The practice of social investment is becoming more wide-spread among the public and more organised among fiduciaries in banks, universities, cities, states, churches, mutual funds and multinationals. It shows signs of increasing its momentum as more agencies become interconnected and conscious of a common cause. What appeared as a trend in the 1980s may become a social movement in the 1990s.*

Social investment is beyond the market and the state. Social investors try to escape the limits of market forces and state planning by placing their funds with those organisations which can achieve these objectives simultaneously:

1. Obtain the kind of monetary returns normally associated with the best standards of the private sector.
2. Abide by ethical rules of behaviour with the corporation's staff, customers, suppliers, the local community and further the well-being of all the individuals concerned.
3. Supply a product or service which is beneficial to public welfare and positively not harmful.
4. Preserve the environment.

A host of investment funds are available to meet the needs of the socially-committed investor. The Calvert Social Investment Fund in the USA, for example, was launched in 1982 and has since grown multifold. The total amount of funds invested in socially-related projects has grown from US \$ 40 billion in 1984 to US \$ 400 billion today. The performance of these funds has often been superior to stock market investment. The four funds which have run for 10 years have outperformed the Dow Jones Industrial average. From 1976 - 1986, the US Magazine Good Money's 30-stock average was up 396% in capital gains alone, while the Dow Jones average was up only 89%.

In the UK, Mercury Provident, Friends Provident, Merlin Ecology and other firms provide a variety of investment funds which suit the criteria of social investment. Companies are now analysed not only for share price and profit potential but also for involvement in arms,

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political oppression, gambling, tobacco or the exploitation of animals. Some funds go even further by seeking out businesses that are of long-term benefit to society and the environment. The Merlin Ecology Fund, for example, puts investors' money specifically into companies engaged in pollution control and other environmental protection systems. Other new initiatives such as the Ethical Investment Research and Information Centre (EIRIS) are providing information and services to an increasingly committed public. In February 1989, ethical unit trusts were £ 144 million and the number of trusts available twelve.

In continental Europe, some interesting examples have been realized like TRIODOS Bank in the Netherlands, whose assets are in different areas of social investment. Customers are supplied banking services just like any other investment bank.

Social investors want to learn more about one another's work and to formulate common purposes for their activity. In the USA, they are beginning to pool resources and share different social conditions in a common cause through the following new structures:

- a. The Social Investment Forum incorporated in 1985 as a national professional association. Its members include brokers, bankers, analysts and investors. Their working criteria include concerns such as the environment, renewable energy and labour relations. They favour worker-owned firms, community development corporations, land trusts, credit unions and other structures which link managerial excellence with social responsibility.
- b. The Clearinghouse on Alternative Investments formed in 1985 by 15 Protestant denominations and over 200 Roman Catholic religious communities and dioceses with the assistance of the Interfaith Centre of Corporate Responsibility. Members plan their investment on a selective criterion of avoidance (e.g. military industry and environmental pollutants). They have published a Directory of Organisations which show that, in 1987, religious organisations had over US \$ 22 billion invested in the stock market alone.
- c. The National Council of Institutional Investors formed in 1985 to assert the rights of pension funds and shareholders around issues of corporate change affecting their investment. Over 30 pension funds with more than US \$ 132 billion are represented.

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Social issues such as the role of trade unions in meeting social criteria and ethical corporate governance are already an implicit part of its agenda and seem destined to become more visible.

In addition, an increasing number of support groups and institutional concerns have been created in the last few years, such as the Centre for Corporate Public Involvement, the National Conference on Business Ethics, the Brooklyn Ecumenical Co-operatives and the Interfaith Centre on Corporate Responsibility.

A second example of social investment is provided by credit unions. These organisations are non-profit institutions owned by their members and serving their members' needs, to keep the cost of borrowing low. Credit unions are associations of people who share a common social bond which creates a degree of trust sufficient to serve as a guarantee for a loan. They may be members of a church, a local community, a place of employment or a set of values. Members save in a collective account and lend their accumulated capital out to each other for consumer purchases. In some countries credit unions are highly developed. In Ireland, for example, credit unions serve 800,000 people, 20% of the population. Worldwide, there are 200,000 credit unions and their number is growing rapidly.

The town of Greenock on Clydeside (Scotland) was hit very hard by the closure of the Clyde shipyards. The last local bank closed down 20 years ago. In the Strone/Maukinhill area the local church has been active in building the Greenock East Credit Union. Starting with 11 founder members in July 1984, by February 1988 they had 1,000 members out of a total population of 50,000, and had lent out £ 140,000. The credit union is run by a board of 15 local people, mostly female and unemployed, who collect savings and distribute loans from collection points in hall around the town.

Another approach to the problem of getting capital resources into poor communities is to set up a community bank. Often, the initial investment is provided by the community itself, through personal funds or pension payments. The funds are invested to support the development of local businesses which can give a contribution to the community either through employment or the provision of products and services which are required.

Whatever form it takes, social investment is different from the traditional kind we have come to know.



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Social investment questions the root of capitalist belief as it points towards a new development path within the economy. Social investment also challenges the assumption that state regulation is necessary to maintain a free market system. Instead, it proposes a business system based on self-accountability, self-regulation, profit sharing and social equity. Social investors work with a different model than pure capitalism. Capitalism is a competitive market system in which firms maximize profits in their own self-interest and in which individuals compete to increase their income, status and power within the command management of business. Social investors are instead encouraging the development of an exchange system characterized by cooperation where competition among firms become less significant and takes place within a framework of social justice. This 'theory' questions the belief that the market must be predominantly competitive in order to maintain a system of free enterprise. The process of cooperation appears at least as important as competition in leading the market to operate in the public interest.

*Social investors encourage the development of an exchange system characterized by cooperation where competition among firms become less significant and take place within a framework of social justice.*

The European Community is an interesting test case for extending market returns to the achievement of social justice and social equity. New forms of cooperation between social investors from trade unions, churches, pension funds, business trustfunds and foundations are needed to develop the social dimension of Europe in a spontaneous, non-centralized manner, where creativity is enhanced by the action of diverse 'civic' participants.

A few dangers underlie this development , though:

Firstly, one cannot fall behind the best market practices. Hence, Europe needs to establish its own ethical code and professional standards for 'civic' enterprise.

Secondly, one has to prevent social investment from becoming politicized. This refers not only to traditional politicians who advocate a political ideology but also to the dominance of a particular interest group, be it a bank, a state, a business or a church. In this sense, a European movement for social investment would prevent the dominance of specific interests.

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## The Informal Sector

According to our definition, the informal sector is part of the 'civic' economy since it transcends market forces (Criminal activities are clearly not included). The informal sector is undergoing rapid growth. Two main stimuli tend to foster this shift:

First, because welfare state programmes are financed primarily by payroll and income taxes, the labour costs borne by employers and the self-employed are higher than they would otherwise be. Hence, both the costs of production and the costs of providing services are higher if they occur through a formal market than if they do not. In other words, there is a cost premium for operating within the formal economy. In such a context, producers and consumers stand to gain if informal reimbursements can be arranged.

*In many economies there are very high social and administrative costs for operating a business. This constitutes an inbuilt incentive to save by operating 'informally'.*

There is an incentive to return to a traditional barter system where neighbours help each other save money by operating 'informally'. Furthermore, individuals can achieve the additional objective of satisfying their desire of contributing to the well-being of society.

An example of this development is the "Local Employment and Trade System", or "LETsystem" which was launched in Vancouver Island, Canada and now successfully in operation in the USA, Australia, New Zealand and England. (Guy Dauncey, *After the Crash*). The LETsystem puts barter onto a non-profit, multi-centred, community-restricted basis. It does this by inventing a new kind of local money called the "Green Dollar", which facilitates local trade. Unlike other money, the Green Dollar is invisible. It only exists as information. How does it work ? A number of people who live locally and who want to trade with each other, agree to the LETsystem rules, and give themselves account numbers. Each person then makes out two lists, one of 'wants' and one of 'offers', with prices attached. A joint list is made up and circulated to everyone. Then the members consult the list and start trading by telephone. In this way, the limit of a one-to-one barter are eliminated, as one can trade with the people in the system as a whole.

Second, while benefit reciprocity is often thought to imply non-work, it in fact only implies non-market or other reported work. Handicapped and retired individuals, and those on welfare or social provisions, are readily able to increase their economic well-being if either informal work or do-it-yourself activities can be found. Clearly, the welfare state promotes such substitution. The larger the welfare state, the greater the substitution.

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The size of the sector is difficult to estimate. Haveman suggests it may be anything between 5% to 30% of GNP in the USA and 10% to 20% in the Netherlands. Dr. Fase registered as low a percentage as 7% in Switzerland and as high a percentage as 30% in Italy. At the end of 1988 the NRC Handelsblad, a major Dutch newspaper, invited its readers to write 'black stories' for publication. It was an amazing collection. It showed that there exists an impressive range of informal activities which can be seen as 'civic' activities, especially in the service sector.

This view is reinforced by Hernando de Soto's book 'The Other Path'. De Soto, a Peruvian economist, shows that in many developing countries one must become an 'informal' to survive. By looking at three principal areas - housing, retail trade and transport - he demonstrates that the odds are impossibly stacked against poor individuals ever being legal players in the formal economy. To prove this point, de Soto conducted a famous experiment in 1983 by setting up a fictitious small clothing plant that took the equivalent of 289 days to pass through the spider's web of Peru's bureaucratic and legal system. The numbers of people involved in the informal economy are huge. Peru is credited with the most deep-rooted and broad-based underground economy, with almost 50% of the active labour force in the informal sector. In Brazil, it is thought that as much as US \$ 100 billion of economic activity - equivalent to Argentina's GDP - is ignored by official figures.

Why do these figures matter ? Because a vast number of people is forced to waste time and resources in escaping regulations, because of a bureaucratic state subservient to the monopolistic dictates of an elite. In addition, the work carried out by most 'informals' is quite distinct from criminality and involves the building industry, domestic household work and other community activities. Indeed, the motivations which drive these activities are very much those shared by other sectors of the 'civic' economy. If efforts were made to incorporate the 'informals' - by simplifying laws and allowing a greater role to private initiatives within a framework of decentralization and regulation - an increase in human welfare would ensue as well as a positive contribution to the economy given the much higher productivity levels of the informal sector.

The conclusion is that there is not one twilight economy, but various ingenious ways to escape bureaucratic regulations which are not accepted as legitimate or healthy. Indeed, the recent 'Active Citizenship' movement in Anglo-Saxon countries is proof of an attempt to create an alternative social philosophy at the more accessible level of community.

*The growth of the informal sector is a symptom of a personal and ethical problem caused by citizens' loss of trust in the web of state regulations unsupported by a social philosophy.*

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Today we can only speculate whether the growth of 'civic' enterprise will result in a (re)integration of the formal and informal economies. What is certain is that the single European market will lead to a further growth of the sector by increasing incentives and reducing controls to work 'informally'. The major question is whether and how the growth of the informal sector can be controlled. The legitimization of some informal work could be a way of sanitizing the sector and helping a large number of under-worked and under-qualified people.

### **A new approach for developing countries**

The present time offers an opportunity for assessing the many failures of development aid to date.

From a social investment's point of view, the last decades of development aid have shown mixed results. Dutch data shows that only one of every third florin spent in development aid is effective. Equality in wealth has not improved either.

"Modern economic growth is more a disequalizing than an equalizing phenomenon . Not only is international inequality still growing (it has already been doing so for centuries), but also within many nations, especially the developing ones, disparities in income levels are becoming wider.....Equalizing tendencies affect mainly what we may call the middle bracket of income distribution, both internationally and nationally. The adequate participation of the poorest in the benefits of economic growth demands organisational and behavioural changes which seem to run counter to the patterns fostered by modern economic growth itself".

*Self-organisation and sustained development are becoming key concepts rather than anonymous market forces and powerful hierarchies. Small-scale, low-cost projects are proving more effective than large-scale, high-cost prestige projects (Calje, 1989).*

At present, there is a crisis in development aid both in the countries of donors as well as of recipients (Tan, 1988; Bauer). This crisis is not about the need for a substantial transfer from the suprasistence to the subsistence and deprived sectors, but about the process of shared learning from alternative visions and social philosophies.

This development could help to redress the major fallacy of Eurocentrism that there was only one, single privileged axis of development on the basis of Western technological civilization. Socialist planners followed suit with their centralized growth theory. This blindness has given rise to a kind of development aid where the demand side in developing countries had to take account of the definition of the problem as seen by the supply side in the developed world. Hence, turnkey projects such as the bridge, the railroad, the school, the hospital, etc. have become the dominant forms of this development based on the Western - as well as socialist - blueprint of economic growth. Moreover, key officials have for long been

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educated in the developed countries in professional and academic disciplines which reflected the technological-economic orientation of this model rather than the social and cultural structures of their home communities. Officials were taught in the languages of either capitalism or socialism. This has led to a controversial dialogue (J.K. Galbraith and S. Mensjikov, 1988) and to equally controversial practices. The concept of 'civic' enterprise, with its different philosophical and organisational approach might now succeed in occupying the middle ground between the two orthodoxies.

Development aid requires radical reflections on effectiveness and legitimacy under various cultural assumptions. A turnkey project is seen as the responsibility of the donor, where recipients do not feel they share the project's sustainability. Partnerships require some consensus on the requirements of the situation, some sharing of risks, costs and profits even under conditions of economic-technological resource inequality.

Notable examples are surfacing in different countries. In the Netherlands, a profit-making company called the African Management Service Company (AMSCo) was launched in April 1989 in Amsterdam to provide management skills to run African organisations. AMSCo is a partnership between a number of government bodies such as the International Finance Corporation (IFC), the World Bank, the African Development Bank and more than 40 Western private sector companies which enjoys tax-free status since it operates under the umbrella of the United Nations. AMSCo will provide senior managers, usually with experience in Africa, as well as specialist training courses in areas of finance, technology, management.

A second example of the 'civic' approach comes from France, where three volunteer medical organisations are run in a business-like manner on a non-profit basis, their funding being provided by government grants, public appeals and donations: Medecins sans Frontieres, Medecins du Monde and Aide Medicale Internationale. Their aim is to bring medical assistance to troubled and neglected corners of the world. The three groups, including branches in Belgium, Holland, Spain, Switzerland, together despatch some 1,500 doctors, nurses and logistics staff a year to more than 40 countries. Other medical organisations of this kind exist in West Germany, the USA and the UK. In Germany, the Cap Anamur Committee has rescued nearly 10,000 Vietnamese boat people and sent out some 900 doctors and nurses to Uganda, Zaire, Chad, Sudan, Ethiopia, Mozambique and other places. In the USA, the African Medical & Research Foundation, set up in 1957 and funded by government and private contributions from numerous countries,

*The partnership between free enterprise, political forces, active citizenship and voluntarism which is characteristic of the 'civic' economy is an alternative to orthodox development models.*

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is renowned for its Nairobi-based Flying Doctor Service - physicians who fly to remote parts of Kenya, Tanzania and Uganda to provide surgical and general health care in rural communities. Britain's Medical Aid for Palestinians, formed in 1972 and reorganized after the Israeli invasion of Lebanon, has sent more than 70 doctors and nurses and many tons of medical supplies to Palestinian refugee camps in Beirut and southern Lebanon.

Another example is the gloriously-named THEA (Thread of hope for economic advancement) set up in Manila as a non-profit making foundation by Marie de la Soudiere, the French wife of an executive working at the UN High Commission for Refugees. THEA is bringing work and a little opportunity to poor women through the production of fashionable garments designed by de la Soudiere and marketed by the foundation in the rich markets of Paris and Geneva. By supplying training, interest-free loans for sewing machines, cotton and lace, and by applying hard-nosed business practices, she is now challenging some of the more conventional concepts of work-for-the-poor by using strict quality control and some refreshing ideas about product design. In addition to providing work, THEA has set up a community fund to help finance projects like day care centres for children (Richard Gourlay, Financial Times, March 21st, 1989).

The concept of 'civic' enterprise might offer an option - at the institutional level - where fiduciaries and constituents agree on a common problem and cause. For example, let us take the case of humid tropical forests (Hesseling, 1987). Here is a common cause viz. preventing the deforestation of valuable and irreplaceable natural resources, e.g. hardwood, animals, genepools, etc.

*The  
shareholders  
could include  
governments,  
local  
communities,  
commercial  
loggers, trade  
companies,  
furniture and  
building  
industries,  
scientific  
institutions,  
many  
international  
and local  
foundations  
and charities.*

Organisationally, a solution could be provided by Community Development Corporations, a type of partnership among shareholders. These would enable an equilibrium to be achieved between autonomy, viability and creativity with the meeting of market needs, quality standards, local employment, export quotas, local ownership and other desiderata. In such a way, a social investment can be made operational, efficiently and effectively.

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## 4 Discussion

The previous sections show preliminary evidence of substantial economic action outside the strict boundaries of state and market as embodied by the public and private sectors.

*The very diversity of 'civic' participants has so far concealed their aggregate significance. Together, they are a highly developed force which may amount to as much as one third of overall economic activity in some Western economies.*

Four major phenomena underlie the development of the 'civic' economy:

### i. The decay of bureaucracy

The experiments with a comprehensive state - particularly in socialist systems - which achieves full employment and 'free' services for basic needs, have been unsuccessful. There are now serious doubts as to whether the welfare state increases welfare. There is increasing belief that exclusive government provision of social services has exacerbated rather than ameliorated the problems.

The system of interrelationships among different aspects of the economy and local communities and neighbourhoods is just too complex to be comprehended by a centralized analytical process alone. Organisationally, public administrations cannot create perfect structures which possess full public support, legitimacy and wide access for claimants.

Furthermore, there is not even agreement on the shape and dimensions of a European state. It is mainly an economic skeleton, but the social, cultural and political dimensions are unclear. The implications for the free exchange of people, services, capital, health, education, environment and welfare in the 1990s are still undefined.

### ii. The revival and evolution of enterprise

Orthodox economic theory relies on the model of 'homo economicus', a selfish, calculating and essentially non-social being. The application of this model has resulted into the theory of 'profit maximisation' which excludes social, human and higher objectives in the conduct of an enterprise. This narrow view has been increasingly questioned by academics and practitioners alike and fails to take account of the evidence to the contrary.

*The state alone is incapable of coping with the complex problems of unemployment, environmental pollution, urban renewal and development.*

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The revival of enterprise during the last decade has led to its evolution into realms where social and human objectives are on par with financial motivations as, for example, in the case of co-operatives or community businesses. In this domain, the issues of altruism, intracommunity and interclan transactions become key factors in regulating conduct. It is just too simplistic to postulate total altruism within and total selfishness outside the family, as many economists assume. Furthermore, the examples given in this article show that many of the activities classified as the 'civic' economy are motivated by a genuine desire to improve the community and involve the production and allocation of 'merit' goods, such as education, health, the environment, etc. This development is an indication of the evolution of enterprise.

### iii. The decline of ideology

The notions of market and state have found their underlying logic in the ideologies of capitalism and socialism respectively. In European socialist countries, the mood is today one of liberation and excitement on the one hand, uncertainty and fear on the other, at the opportunities presented by the break-down of their ideology. Socialists the world over want to preserve the benefits of their systems without fanatically pursuing ideology. Pragmatism rules OK now.

*The decision about the European philosophy of life is not going to be determined by an ideology, but by a pragmatic approach on what specific options can deliver.*

In capitalist countries, at the end of a decade of rapid growth, great doubts are being voiced about its ideology, too. Sceptics abound, particularly in Europe where the excesses of American-style capitalism, such as waste and environmental destruction, the materialistic culture, junk bonds and 'casino-like' stock markets, great inequalities of wealth, are not tolerated lightly. Here, too, the decision about our philosophy of life is not going to be determined by an ideology, but by a pragmatic approach on what specific options can deliver. Party politics as we know it in Western Europe is destined to change radically because of the decline of ideology and the emerging political configuration of the new European state.

### iv. Citizens' participation

The revival of enterprise has been accompanied by the citizenship's increased propensity to be involved in community affairs. Citizens the world over are pressing on the road to democracy demanding rights and participation. To be imposed some notion of the 'public good' by a bureaucrat is no longer very popular, if ever it has been. Organisational forms which had previously been unthinkable, such as the Community Development Corporation, depend on citizens



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assuming the role of shareholders and taking an active role in the management of their community.

A greater role for enterprise in the provision of 'merit' and 'community' goods is not to be equated with the 'free market'. Indeed, regulated or controlled markets can provide more suitable conditions for the operation of free enterprise.

The 'market' has been celebrated in terms of its superior intelligence and flexibility of response on the basis that no planning system can possibly generate, absorb and make appropriate sense of the information about consumption and production.

However, the market is non-selective, anonymous, amoral and particularly weak to develop social cohesion, equity and solidarity. Its functioning can and does lead to serious deficiencies such as structural unemployment, unbalanced growth, maldistribution of rewards, pockets of poverty and squalor. Market forces also lead to an under-provision of 'merit' goods, tends to destroy the environment and place great stress and disruption to the lives of millions.

Free markets, of which financial markets are a classical example, can be created for a variety of activities. Even the educational community can be left to a free market in which schools compete with each other by placing credentials and paradigms for sale. Whether free markets lead to an improvement in the allocation of resources must be judged on a case-by-case basis, according to the industry characteristics, the nature of the product / service, and other criteria.

In this climate of change, the public sector in its role as the instrument of political action must be involved in the creation of alternative solutions because only it has the responsibility and the legitimacy to assess the spillover effects of private and voluntary economic activity as well as to decide what public goods to be provided. The political arena is where citizens' preferences are expressed and translated into a response. Today, there is a real danger that the reduction of state provision will be confined to the smallest common interest rather than extended to the best practices.

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## The role of the 'civic' economy

A main conclusion stems from this brief discussion:

Existing economic systems are in a state of flux and a major reconfiguration of the role of public and private sectors is taking place. The public good, understood as the set of 'merit' goods which are a key part in the quality of life, is no longer the monopoly of the state but, increasingly, it is result of a discovery process which involves all sectors of human activity: free enterprise, political action, the citizenship and voluntarism. This domain is the 'civic' economy.

In the 'civic' economy, because traditional market-state barriers are eradicated, participants' diverse resources, skills, cultures and visions can be united into a common aim. A common aim is the basis of innovative solutions to specific human problems.

*Peter Drucker believes that the economies of the future will consist of three parts: a private sector in which the government will have a minimal regulatory functions, a public sector for justice and defense and a mixed sector where 'civic' organisations will be responsible for meeting society's needs.*

A well-known writer who supports our thesis is Peter Drucker. In his recent book 'The New Realities', he speaks of the Independent Sector of Human Change Organisations as the growth area of the future. He notices what few others have realized. There are thousands of non-profit, non-government organisations and groups of citizens in the USA with over 90 million people, whose aim it is to change society, hence the name Human Change Organisations. Peter Drucker believes that the economies of the future will consist of three parts: a private sector in which the government limits itself to protection against fraud, extreme exploitation, collusion, unsafe working conditions and deprivation of civil rights; a public sector for defence and justice in which the government will both specify the job and do it; a mixed sector where non-profit community organisations, foundations, voluntary groups, socially-responsible companies will be involved in meeting society's needs.

In a European and international context, Peter Drucker's notion of an Independent Sector is expanded by us to incorporate other organisations such as co-operatives, community enterprise, etc. We have named this domain the 'civic' economy because the word '**civic**' implies a duty citizens have, to act as stewards of resources in the interest of the citizenship, the community. In this sense, the '**civic**' **economy** addresses the totality of man's needs, the social and human as well as the economic and political.

The growth of the 'civic' economy will create linkages between the separate sectors of human action. The interrelationships which can result will enable many of the sectors' limitations to be dealt with. In addition, new legal organisational forms, such as the Social Company or the Community Development Organisation, can provide

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the mechanism for growth. A myriad of innovative solutions can arise from the dynamic exchange of information, knowledge, cultures and visions between the variety of activities which is the 'civic' economy.

Some ten years ago Europe discovered the importance of the small business sector with its dynamic growth and capacity for job creation. The Americans and Japanese had been aware of this development many years earlier and acted to stimulate it much before we did the same in Europe. Today, the 'civic' economy is in a similar position to small business ten years ago: it is a very important pillar of the economy and the quality of life but its role is neither widely known nor appreciated. Only by recognizing its role now and taking the required initiatives to foster its development can society benefit from its potential.

### **A limiting factor**

To succeed in furthering our understanding of 'civic' enterprise, we must recognize and deal with an important limiting factor which affects the academic and the professional worlds: the difficulty of exchange between disciplines and professions.

In the academic world each established discipline prefers the solid evidence, preferably numerical, of a selected category of organisational phenomena. Innovation and speculation outside the established boundaries of one's discipline are frowned upon. It seems better to stick to the canons of acceptable paradigms and official records than to get loose into the twilight of ambivalence and contradictions which characterize the human condition. It seems better to report to the established journals of one's discipline than to escape to new fora of multidisciplinary investigation and journalism.

Reading project proposal and accepted pieces of research in one's field of study there is a string feeling of 'deja vu', of a vicious circle of repetitions about the market being always right, about bureaucracy flourishing wherever there are good intentions and solidarity or shared values dissipating into greedy individualism.

This attitude presents grave dangers, though. The origins of universities with their rituals and codified degrees offers a fascinating view on the organisational fragility of knowledge over time and disciplines. However, degrees are only secondary and one cannot program learning contracts as tangible products in a cycle of research-development-production-implementation and marketing.

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*The real significance of the 'civic' economy can only be brought to the fore by overcoming disciplinary boundaries.*

Civic enterprise is based on an interaction between vision and strategy, courage and risk-taking attitudes on the one hand, and reality or thick description of what happens in reality, and ethics and normative assumptions of a fair society and just business on the other hand. To explore in-depth, we need cross-functional links between disciplines such as economics, business administration, political science, law, anthropology and geography.

To achieve this aim in the light of the European Community's strong market orientation and official detailed regulations, we need innovative centres at European level to study the informal networks of self-starters and 'civic' entrepreneurs within the local economy. Some progress is already being made. At the London School of Economics, there is a centre for the study of voluntary action and at the European level there exists 'Volonteurop' as a documentation centre. The Erasmus Programme among European Universities which stresses the linkage of cross-boundary departments with similar modules and equivalent degree structures is the first step in the right direction, but still a far cry from a new 'Universite de l'Europe' where new ventures between established disciplines can flourish as a network between academics, rather than a physical construct.

In the professional world, the design and implementation of effective 'civic' enterprises require a bridging of the gap between legal reasoning and business calculation, between community interests and market conditions, between engineering and social management. New linkages of another kind have to be made, too: between political parties, national identities, religious groupings and others.

### **A new philosophy for Europe ?**

Within Europe two centuries ago the French revolution had a world-wide appeal - *"les hommes naissent et demeurent libres et egaux en droits"* (Art. Premier, 1789). In 1989 there is a more sober reflection of a European contribution.

The European campaign towards 1992 seems merely a transition to a larger economy of scale for multinationals, a transformation of the first order but only a sterile economic development. What about our responsibility for intellectual traditions, cultural heritage and democracy ? Could 'civic' enterprise become the European ideal for 1992 and beyond ?

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## 5. New professional competences: an agenda

A focus on professional knowledge and expertise to design and implement effective 'civic' enterprises in the European market seems a good way forward to help the 'civic' economy grow.

The first requirement is substantive knowledge of one's field of activities and a generic understanding of social needs. For example, a foundation for retired senior managers - who use their particular experience not for profit but for actually helping job creation programmes or for consultancy in developing countries - can only exist on the strength of its managers' many years of expertise.

The competences managers should have that are relevant to dealing with unmet social needs include: a broad understanding of the origins, character, and dynamics of the general class of problems being addressed, a grasp of major social, economic and political trends at work in society, an appreciation of the importance of the role corporations can play in the resolution of troublesome problems, and a genuine concern for the human aspects of the social malfunctions management is seeking to correct. These requirements are more attitudinal and ethical than technical.

The second requirement is a sense of good industrial relations as well as the ability to function across different domains, i.e. the voluntary sector, industry, banking, etc. Civic enterprise is not an island but has to penetrate an arena of commercial and public interests. In the European market it will be unlikely for new initiatives to be based on a consensus of what the 'civic' priorities are. Hence, the need for negotiation and multidisciplinary skills. For example, Control Data, a US company well-known for its social involvement, finds it necessary to work closely with various agencies of government at national and local levels, churches, foundations, professional societies, a wide variety of social service organisations, local business and neighbourhood groups.

In this realm, the role of business schools as centres of education for managers is very important. Until very recently, business schools throughout the world had narrowed the intellectual scope to calculated risks and rational expectations, with an overemphasis on numbers, analysis and book learning. What they have failed to do, Prof. Leavitt of Stanford Graduate School of Business says, is in helping students learn about leadership, imagination and a sense of duty - the very qualities required in the 'civic' economy. He suggests that to remedy this weakness, business schools must recruit faculty

*Managers have to develop a better grasp of major social, economic and political trends at work in society and new attitudinal, ethical and moral capacities.*

*Prof. Leavitt of Stanford University blames business schools for having failed to teach students about the qualities required in the 'civic' economy.*

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members from previously unimagined disciplines, particularly history, philosophy and the humanities.

However, multidisciplinary is a sensitive area which evokes suspicion of superficiality and participation by second rate academics. Universal minds are rare and in the present specialization era one is ignorant in most (sub) disciplines. One needs a new type of rhetoric as Rinnoy Kan has suggested where the content is the actual debate among various professionals and scientists.

The third requirement for European 'civic' enterprise is the actual mastery of foreign languages. A lingua franca seems unlikely as Latin was in the past. Although English has become a major tool for scientific dissemination, 'civic' enterprise will require detailed knowledge of local situations and stakeholders. For this purpose, speaking foreign languages is the key to a dialogue with local informants and to respecting local traditions.

The fourth requirement is the intent or willingness of the corporate sector to be involved with social causes. Managers must see the objective of their involvement and be prepared to shape their organisations in ways which make them responsive and proactive to issue which have traditionally been of a different domain. To do so the following prerequisites must be created:

1. A positive culture that encourages citizen participation rooted in a practical concern for the community as a whole.
2. A realistic and commonly accepted vision of the community.
3. Effective building-block 'civic' organisations that blend the self-interest of their members with the broader interest of the community and translate the dual interest into action.
4. A network among key groups that encourages communication among leaders of every segment and facilitates the mediation of differences among competing interests.
5. The inclination to nurture 'civic' entrepreneurs, that is, leaders whose knowledge, imagination and energy are directed towards those enterprises which will benefit the community, whether in the public,

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private, voluntary sector, or any combination of these.

The fifth and most important requirement of 'civic' entrepreneurship is a European organisational philosophy. The anchoring concepts of organisation and business have been coined at the end of the last century, well before the start of business schools. The European philosophies of George Simmel, Max Weber, Emile Durkheim and Alfred Marshall are all rooted in the great cultural ferment of the turn of the century, when the industrial revolution became mature. The thought of Frederick Taylor and the introduction of American business school curricula in Europe arrived later. Not everyone followed this last wave of business thinking. In each European country there are managerial and organisational thinkers who resisted the instrumental perspective of neutral business organisations.

Value added rather than market prices motivated the founding fathers of family firms. Who will be the Rowntree's of the future ? Who will own European businesses ? The 'civic' economy is not a magic formula. It requires detailed analysis, project design, patience and experimental courage. In itself it is a major project with many interfaces and unknown complexities. It is a process without a final blueprint.

Finally, 'civic' entrepreneurship is not a particularly new concept. In the old Roman Empire, a 'civic' crown was given to soldiers who had saved the life of a citizen in battle. In the same spirit, European 'civic' entrepreneurship can become a mark of public approbation for successful individuals who save the cultural heritage of independent thought, quality of life, and civil justice in the industrial battle of survival.

*What exactly are the boundaries of business organisations and how does one account for the external effects of unemployment, community disruption and environmental pollution ?*

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