

The social economy – a lever for local economic development?

Ann-Mari Sätre Åhlander

Introduction

In Sweden, regional policy has been closely inter-connected with labour market policy, the goal of which has been to combat unemployment and promote human resource development. Increasing difficulties in pursuing effective national economic policies in the context of globalisation and membership of the European Union have however, contributed to a significant revision of this policy. The focus on local economic development has increased, while centrally directed regional measures have declined in importance. We have thus moved, to some extent, from a sector economy with a regional policy built around subsidies and support, to a business development policy in a wider perspective. The attention now paid to local strategies for development implies that the ‘bottom up’ perspective should now increasingly gain in importance at the expense of “top down” approaches. Since Sweden became a member of the European Union, interest in the social economy among policy makers has increased. A working group at the ministerial level has prepared some changes that would allow for the implementation of new approaches in this field. It is believed that the social economy can create jobs (Kulturdepartementet 1999). Research, however, indicates that although in the 1990s the number of cooperatives and local development groups increased, this is not the case if one looks at the number of jobs actually created within these organisations. Nevertheless, many examples show that they have contributed to the creation or saving of jobs as well as to economic development in an indirect way. The intention here is, with the help of economic theory, to analyse when and how the social economy can provide a lever to local economic development.

The transformation of the Swedish welfare state

In Sweden, between the late 1950s and the early 1980s, the public sector gradually became larger and larger until it finally faced a situation where it was difficult to expand further for efficiency reasons. In times of recession public expenditure was used to create employment thus moving unemployed labour from the private to the public sector. One problem with this was that when business booms occurred there was no opposite flow. Labour did not flow back from

the public to the private sector to the same extent. The financial crisis of the early 1990s contributed to an increase in demand for structural change and the down-sizing of the public sector. These cut backs also suggested that the flexibility with respect to the services provided by the public sector were diminishing. In any case, the multiplier effect of public expenditure was acknowledged as less than it used to be. This also implied that it was increasingly difficult to find general “rules” for macro-economic policy.

National regulation of the labour market and a generous social policy contributed to increases in the level of welfare for citizens over many years. As in other Nordic countries, the labour market was seen as an integral part of wider economic and education policy, as well as of the welfare state. Deregulation of the national labour market has, however, changed the situation in some respects. The fusion of welfare and work is closely related to the, by international standards, high female participation rates in the labour market. The high rate of employment among women is a characteristic of the Swedish welfare system, although men and women still work in different segments of the labour market. The high share of female employees in the welfare service sector provides one such example.

The new labour market policies emphasise the creation of jobs in small and medium sized enterprises and within the service sector. The government is also committed to job-creation by supporting micro-firms and new co-operatives (Kulturdepartementet 1999). In line with this policy, in 1997, in order to increase awareness and knowledge of new co-operatives as a complement to other legal forms of enterprise, a national information campaign – “Start a business together” – was initiated. The most recent employment programme also encourages individual entrepreneurship and local initiatives. In Sweden the state, and in particular the municipalities have played a central role in providing social services, but in recent years due to financial problems here private alternatives have become more common.

Even though the situation on the Swedish labour market had improved by the end of the decade, the 1990s were marked by unemployment. According to an official investigation (SOU 2000:87), three factors were considered to be of major importance for the development of the labour market, technical developments, internationalisation and the demographics. Although the first two create new possibilities for employment they also imply that weak groups will face increasing difficulty in the labour market. This implies the risk of a growing gap between the supply and demand of labour. These structural changes imply at least two kinds of developments that reinforce the need for collective solutions based on individual needs. Firstly, the increasing number of people facing problems in gaining a position on the labour market calls for measures of integration, where social co-operatives provides one alternative. In rural areas

village co-operatives might be appropriate, especially if combined with co-operatives of micro-firms and services. Secondly, the demographic situation, in particular relating to the emergence of an ageing population, is likely to imply a shortage of labour in some sectors. The increasing number of pensioners puts growing pressure on the public sector and accentuates the need for other solutions where the co-operative is again one possibility. The structural changes in society and the cut-backs in welfare state provision are reflected in the fact that between 1993 and 1999 the number of employees increased in economic associations by 147 per cent within health and medical care (Höckertin 2001).¹

One could describe the situation as a failure of the traditional institutions or as a need for re-thinking when there are cut backs in employment in both the private and the public sector in most regions except for the big cities (Rifkin 1995). The new European approach based on local strategies places significant emphasis on non-market interdependence. This interdependence exists, or can be created, between individuals and organisations, between firms in the same sector or between firms and their environment. In this process of change social capital becomes increasingly important, that is, it is not only physical assets and individual capacity that are important, but also social, informal networks of various kinds (Putnam 1993).² With membership of the European Union, the centralist regional policy has been exchanged by a regional policy based on local strategies for development, and this will have a significant impact in Sweden. Gradually this is changing the expectations of regional economic policy as well. Rather than “sitting and waiting” for the authorities to come up with solutions such as moving work places from the centre to towns in rural areas, job creation demands and now relies upon participation at the local level.

Research from Sweden indicates that firms who locate in a region have problems if they do not have good relations with other actors in the particular region (Berggren et.al 1998). This suggests that a positive relation exists between the regional attachment of firms and regional development. In effect this highlights the importance of social capital for regional development based on local policies. It also highlights the need for economic policies focused on the development of local partnerships. In particular, it shows that it might be difficult to influence local development by means of subsidies to firms who set up businesses in rural areas. These examples also show, however, that the existence of social capital might actually prevent the development of businesses that

¹ In Sweden there is no special law regulating the activities of co-operatives or non-profit associations, but there is a law for economic associations. An economic association can, however, in practice be seen as a co-operative, although not all co-operatives are economic associations.

² Social capital is by Putnam defined according to the features of social life, it is the networks, norms, and trust that enable participants to act together more effectively to pursue shared objectives (Putnam 1995, pp. 664-5).

operate on the global market, which are capable of adapting to changes in the macro-economic sphere at the national or international level. As the environment changes and asks for new solutions productive social capital may become non-productive if norms, values and knowledge of previous years dominate. In such an environment newcomers and entrepreneurs may have difficulty in developing entrepreneurial activity and thus essentially in surviving. Some prosperous industrial regions, for example, have been unable to change as society itself changes. The regions that are able to transform according to the new demands of a changing economy would be able to succeed in the future. In effect, this might imply that prosperous regions differ, depending on the current ability to use and create productive social capital.

What is the role of the social economy?

Although the notion of the “social economy” is widespread in France, Spain and Belgium, it has also emerged in other countries. Its potential is often discussed in general terms however, contributing to a broad scepticism towards its inherent possibilities, while there is often a focus on how this sector can be strengthened - as if its expansion is a goal in itself. But in order to choose between different strategies for economic policy it is important to identify what role the social economy can actually play in the development of society. There are many different interests in the social economy. In southern Europe, where the public sector is weak, various social activities are built up within the framework of co-operatives. Rather than taking responsibility to satisfy needs for welfare services on a personal basis by voluntary non-paid work, activity is organised in co-operatives and transferred to paid work. A change in the role of cooperatives from the workers co-operatives that were formed to secure employment on the basis of professional skills and towards geographical proximity can now be noted (Demostier 2000). In effect this means a move from struggles between classes or professions towards competition between regions. The latter explains the increased focus on local development, the main factor uniting people being the wish to live in a certain region.

New strategies based on local initiatives however require that horizontally organised institutions replace traditional hierarchies. The kind of co-operation labelled *partnership* is increasingly used by policy makers as a way of involving policy users in the formation and implementation of policy at the local level. Co-operation between the public sector, private actors and the social economy thus provides an alternative to privatisation when activities that have been built up by public means need to be cut back or sold off to private actors for financial reasons. There are various theories on the social economy and on how its

development is related to the size of the public sector.³ Most of these theories seem to assume that the social economy is a substitute for the public sector.

In Sweden, the social economy may have a role to play in taking over activities from the public sector, especially if they are of no commercial interest to the private sector. While the health care cooperatives for elderly care may provide models for how to transfer activities from the public sector to the co-operative sector or the social economy, the social co-operatives provide models of how to transfer people who are for various reasons outside the labour market into positions of paid work within the social economy. It is then possible that co-operatives of micro-firms and village co-operatives can also provide models for local economic development in a more direct way. In the following, in order to highlight the changing nature of organisations within the social economy this is understood as the “third system” rather than the ‘third sector’ thus reflecting the internal movement from or towards the social economy. These movements are closely linked to the economic, political or social environment at a given time, which obliges or allows the organisations to adopt a specific form of behaviour. By relating – in terms of economic systems rather than economic sectors – the way of functioning is emphasised rather than the organisations as such. This allows us to focus on the dynamics at work inside existing enterprises, as they move away from, or towards, the sphere of the social economy.⁴ The work of local development groups and cooperatives has generated jobs in the private sector (Forsberg 2001, Höckertin 2001). Such movements may be the result of an internal development. Alternatively, they may also be the result of external development, from the sale or purchase of economic units. Such developments may also be a matter of transformation from the informal to formal, from state to market, non-paid work to paid work, from out of work to self-employed, from agriculture or industry to a service economy.

The social economy – a substitute or complement to the public and private sectors?

Salamon and Anheier (1998) review and analyse five economic theories aimed at explaining patterns of non-profit development with the help of empirical data from eight different countries. The five theories are (i) government failure/market failure theory; (ii) trust theories; (iii) welfare state theory; (iv) supply side theory and (v) interdependence theory. In the following an attempt is made to highlight in what respects these theories are relevant in explaining local economic develop-

³ See Salamon and Anheier (1998) Bergmann-Winberg and Enjolras (eds) (2002), Wijkström and Lundström (2002), Wuthnow (ed)(1991), Sivesind et.al (2002) on the relationship between the state and the non-profit sector or social economy.

⁴ See further Sätre Åhlander (2001b), section 3 for a more thorough analysis.

ment. We notice that the focus in Salamon and Anheier (1998) is on the non-profit sector. The definition of this concept in many ways resembles the criteria used in Vivet and Thiry (2000) to describe the social economy.⁵ One important difference, however, is that the user perspective is lacking in the definition of the non-profit sector. Another aspect is that while social economy enterprises are perceived as enterprises that take economic risks and need to make profits, non-profit organisations are presumed not to run entrepreneurial activities. In practice, however, there seems to be no clear borderline between the two. While the non-profit concept is generally used in the Anglo-Saxon framework, the social economy concept has gained recognition in the European context.

Demand side theories

The starting point for the government failure/market failure theory is the inherent limitation in the market's inability to supply public goods. According to this theory, public supply tends to reflect the preferences of the median voter, and unsatisfied demand will therefore persist. Hence, such failure is most likely, the more heterogeneous the population. The more homogenous the population, the smaller the social economy. In sparsely populated areas population is spread out and it is harder to provide services such as schools, child care, elderly care, health care within the framework of the public sector, implying that the social economy would be relatively larger in rural areas than in more densely populated areas.⁶ In this respect social economy solutions that provide the social services required to enable people to stay in rural areas indirectly provide levers for local economic development. The theory thus sees the social economy as a substitute to the public and private sectors.

While the heterogeneity argument highlights the possible need for the social economy as a substitute for the public sector, it contributes less to the understanding of why the social economy might provide an alternative to the private sector. A second line of theoretical analysis finds the source of social economy activities in the failure of contracts. According to this theory, the scale of the social economy would vary inversely with the level of trust in the business sector in the economy. The greater the level of trust in the private sector, the more confident people will be to secure the services they need at the market and therefore the less they need to find solutions in the social economy. Because the

⁵ According to CIRIEC, the generally accepted criteria for describing the social economy are (a) the object of providing a service to members (common or mutual interest) or the community (general interest), (b) the primacy of people over capital, (c) democratic functioning and (d) a management system which is independent of the public authorities (Vivet and Thiry 2000, p. 11).

⁶ Swedish empirical data supports this assumption. The number of cooperatives in relation to the population is higher in rural regions such as Jämtland, Gotland and Värmland (Höckertin 2001, pp. 101 and 106). The same applies to local development groups (Forsberg 2001).

services secured through the social economy sector according to this theory would likely be purchased from the business sector if sufficient trust were present, it follows that the financing of these services through the social economy is likely to take a more commercial form as well.⁷ This suggests that the trust would be associated with a social economy sector able to secure a larger share of its income from fees and service charges. Entrepreneurs within the framework of the social economy carry out entrepreneurial activities such as running food stores filling up an empty space due to the lack of a viable private sector. The aim would thus be to collaborate to secure some sort of supply that would not be provided otherwise. The cost of production is kept down by non-paid work.⁸ The theory thus supports the hypothesis that the social economy is likely to develop in rural areas, or any area where the private sector is weak and it treats the social economy as a substitute for the private sector.

The welfare state theory assumes that the market and the state develop hand in hand. In this line of thinking the expansion of the state is a by-product of economic development. According to the welfare state theory, the higher the level of income *per capita*, the smaller the social economy sector in a country. According to this line of thought, the cut backs in the public sector in Sweden could be seen as a response to the fact that the public sector was allowed to grow too large relative to the expansion of the private sector. There may, according to this line of thought, be a relationship between the weak economic development in Sweden in the 1990s and the growing number of cooperatives and local development groups that emerged during the same time period.⁹ As the economy goes down and as the public sector provision is also cut back for economic reasons, the social economy expands to compensate for this. The social economy would thus have a stabilising function, reducing through various activities the effect of downward trends in the economy. If this hypothesis is transposed into a regional framework, the social economy would be relatively smaller in richer than in poorer regions. This theory also supports the assumption that the social economy would be relatively more likely to develop in sparsely populated regions. According to this theory the social economy is a substitute for both the private and the public sectors. To sum up, all three theories provide demand initiated developments of the social economy where there is some sort of empty space or need for goods or services that otherwise would not be met.

⁷ Salamon and Anheier (1998), p 223.

⁸ There are relatively more cooperatives that run shops, cafés and tourism activities in rural areas due to difficulties to survive under ordinary market conditions.

⁹ In Sweden, the number of economic associations has increased by 18 per cent between 1991 and 1999 (Höckertin 2001). The number of registered local development groups increased from around 3,500 in 1997 to 4,000 in 2001, that is by 14 per cent (Forsberg 2001).

Supply side theory

Supply-side theories focus on the necessary presence of social entrepreneurs, the harder the competition between entrepreneurs is, perhaps driven by ideological (or i.e. religious factors), the larger the social economy will be.¹⁰ It is not enough that the private and public sectors are weak; someone has also to do something about it. The theory can possibly contribute to explaining variations in local economic development and, for example highlight why some places flourish while others with seemingly similar potentials die, that is, where inside regions, local development groups and co-operatives develop, why one particular school survives while another is closed down etc. The theory highlights the actor's importance for local development, both with respect to the entrepreneur as an individual in addition to what this person actually does (what strategy, what tools the person has access to etc.) as well as in what environment entrepreneurship is best developed.

Interdependence theory

Salamon and Anheier (1998) find that all of the above mentioned theories, that focus on either demand or supply take as a given that the relationship between the social economy and the state is one of conflict and competition. Such a perception seems to be more relevant in the Anglo-American context however, where non-profit associations gradually developed a collective identity partly in opposition to the state, than in Sweden where associations did not share a common self-understanding as constituting a sector of its own.¹¹ An alternative approach, which seems to be more relevant in the Swedish context, is then to see it as a matter of neglect. Neither the state, nor the private sector consider the social economy to be a potential partner, but rather the social economy is either seen as a substitute, or it is completely neglected. Salamon and Anheier develop their own theory based on the assumption that the non-profit sector and the state are dependent on each other. They argue that non-profit organisations are often active in a field before government can be mobilised to respond. They would therefore be likely to develop expertise, structures and experience that governments can make use of. In addition, they would be good at mobilising state support for their activities.¹² "Voluntary failure" would however, constrain the ability of non-profit organisations to respond to public problems. According to

¹⁰ Salamon and Anheier (1998), p 222.

¹¹ See further Boli (1991) and Wijkström & Lundström (2002).

¹² Although the theory focuses on how state responsibility for welfare grew partly due to initiatives by non-profit associations in the past, it also highlights how the relationship between the social economy and the public sector is characterised by interdependence and partnership when the public sector is cut back which is presently the case in a general context in Sweden.

this theory, the greater the government's social welfare spending, the larger the non-profit sector and, the greater the government's social welfare spending, the higher the government share of non-profit health and social service sub-sector income. This kind of reasoning seems relevant for Sweden as long as there is an expressed aim to maintain general access to certain welfare services, such as child care, elderly care and health care, for ideological reasons although the economy is not strong enough. Close cooperative relationships can be forged between the social economy and the state in addressing public issues. One possible problem, however, is that the borderline between participation and bureaucratisation is not always clear. Public measures to support local initiatives might involve two sorts of risks. There is a risk that the particular support that the public sector provides is cut down in the case of financial deficits. Second, there is a danger of the bureaucratisation of local work, implying that people lose the feeling of being responsible for what they have actually created themselves (see further Almås, 1995).

Interdependence theory can explain when the social economy can work as a complement to the public sector, and Salamon and Anheier (1998) specify the circumstances under which such a mutual relationship is likely to emerge. This does not however explain how and when the social economy can work as a complement to the private sector, which is of interest here as a focus is on local economic development. To sum up, both demand and supply side theories highlight how social economy activities start as substitutes for the public or private sector. As these activities have gradually gained support from the public sector they have become compliments in rural areas in recent years. The state responsibility for welfare in some fields grew partly due to the initiatives of non-profit organisations. Local development groups have acted as pioneers by making problems visible and initiating institutional arrangements that were taken over by the public sector. In rural areas, local forces have also initiated the formation of cooperatives for social services such as childcare and elderly care with support from the authorities.

Social capital and local economic development

The focus in the present article is on when the social economy can provide a lever to local economic development. The common goal is important in the effort of combining different solutions, where the best in the functioning of the different sectors is utilised. Both the market and bureaucracy are institutional forms, which eliminate direct interaction among human beings. On the contrary, it is the mutuality or close connection between producers and users that is the critical factor for activities carried out in the social economy. In the social economy it is the lack of a direct relation between the service provider and the end user that

inhibits production. In effect this means that there is a human constraint and that it is the lack of social capital that puts a limit on development.¹³ It is the co-ordination of demand and supply that put a limit on production, that is the lack of channels and/or meeting points that make demand and supply to not meet. This gives the activity a strong territorial characteristic as well as a high propensity to create activities at the local level.

According to this theoretical approach, it is the combination of two factors that promote local economic development; that economic decisions are taken at the local level by those who are concerned and secondly, the relatively strong emphasis on social capital in the form of reciprocal social networks between individuals, organisations, firms and society as a whole. Actors at the local level would thus, it can be argued, together with municipalities actually be able to create social capital. This means that it is only if municipalities perceive that local initiatives can provide a complement to the private sector and thus support these that they actually become a complement and can strengthen a community's possibility to compete. According to this analysis economic development is promoted by an increased amount of social capital. While Putnam (1993) highlights how social capital is created by processes at the local level, others connect the creation of social capital to trust in the authorities.¹⁴ Applied to the Swedish context, the increased amount of new co-operatives and local development groups that emerged in the 1990s implies economic development based on the creation of new firms, what is called a new form of network-based capitalism.¹⁵

This method of expansion favours reliance on local resources and local networking and it refers to a process that effects and reshapes old patterns. It explains local economic development as a result of citizen mobilisation. But local economic development is also the result of a state enacted policy to meet

¹³ It was the Hungarian economist Janos Kornai who initially introduced the idea that the functioning of the economic system would depend on the constraint hit most often by the production of the enterprise. While in capitalist economies this is the demand constraint, Kornai observes that in the traditional socialist economy (the centrally planned economy/ an economy where resources are allocated by bureaucracies), it is usually the supply constraint that is binding. In a supply constrained economy a lack of inputs will begin to limit production before the demand for the products of the enterprise has been exhausted. This refers to a market situation where buyers are looking for sellers, while the latter rarely experience any difficulty in selling what they can produce. It is the physical resources, the physical constraint that restricts further development. Consequently in the capitalist market economy it is the demand constraint that is binding. The corresponding market situation would be characterised by sellers looking for buyers, where buyers usually can buy what they want given their available monetary resources. In this case it is the capital in the form of budgetary resources that puts a limit to development.

¹⁴ See, for example Rotstein (2000). In the present context trust in authorities is not just a matter of a general trust in the working of institutions but also a belief that authorities will actually provide social and financial support to local economic development.

¹⁵ See Deforny (ed)(1999) for a more thorough analysis of social enterprises.

new challenges. It may then be argued that the change in macro-economic policy towards increasing emphasis on local strategies, implying decentralisation and privatisation, has opened up the possibility of citizen mobilisation and participation in new forms of service provision by organisations that are partly financed by public subsidies, that rely partly on the market and partly on voluntary resources and that are controlled by the main stakeholders themselves, i.e. the users.

Village and micro-firm cooperatives

There are examples of local development processes in rural areas around village and micro-firm cooperatives. One such example of how a cooperative started a local development process is that of the community based co-operative “Byssbon”, owned by the inhabitants of the three villages Ollsta, Fagerland and Högarna.¹⁶ The members of the village co-operative all want to be able to remain in the village. The inhabitants of the village formed the village co-operative to satisfy common needs such as maintaining the village shop, keeping the school, organising child care, building new houses to enable people to move into the village, some of which are “returnees”. In some respects the village co-operative has taken over community tasks normally taken care of within the public sector, but they have also organised new market-based activities. For instance, as the village co-operative entered new areas, this has implied that some smaller co-operatives have been started in the village as well, one example of which is a “data cottage”. The Tele Cottage in Högarna has become an independent business enterprise, which in 2002 consisted of four partners. The good and bad experiences of the village co-operative are documented and spread via the Internet to other villages in Sweden.

A second example from Jämtland is the Huså village community founded in 1993. Thirteen different organisations have been started around this village co-operative, connected to, for example, a theatre project, the mansion, childcare, local tourism (ski lift and a restaurant), the restoration of an old ship and alternative housing for young people. A third example of a village co-operative is “Tullingsås”, situated 95 kilometres north of Östersund. The motives behind this co-operative are to enable people to support themselves in the area by creating job opportunities in social services as well as promoting small-scale enterprise. It runs a hostel, a café and some recreational activities, and it owns apartments for the elderly. The co-operative, which began in 1994, had 65 members only a few years later, as well as three employees.

In rural areas there are also examples of how new micro-firms have been created as a result of the work of local development groups. In some of these

¹⁶ See Westerdahl (2001) for a thorough description and analysis of the development of this particular village cooperative.

cases individual entrepreneurs collaborate within the framework of a co-operative. One such co-operative of micro-firms, “Drivknuten”, which in 1996, when it started, consisted of six small firms with one or in some cases, two persons in each. By forming a co-operative the individual firms can buy certain services together, they can collaborate in order to strengthen their individual firms, find solutions to common needs and prevent each other from being isolated. This particular cooperative, which was formed in a village some 110 kilometres north of the sole town in Jämtland, has probably stimulated some other potential small businesses that would not have started without this cooperative taking the initial step. By 2001 this co-operative had grown to twelve firms that together employed more than 60 persons. The businesses are all different, producing goods or services of various kinds, for instance in trade, handicraft, farming, multimedia, the mechanical industry and commercial services. One thing that they all have in common is that they all want to support themselves in order to be able to stay in the rural area. For instance, they share the overhead costs of office and work places, accounting, computer services, telephones, advertisement and education.

Similar patterns of development can be seen in other villages. The information co-operative “Agendum” which was formed in the early 1990s consisted of four women with complementary skills, while at the same time they had their own profiles. “Agendum” has shown that these women can combine interesting jobs with a life in a rural area near their families. Access to modern technology implies that although situated far away from the centre of happenings more than 1,000 kilometres from the southern border of Sweden, one of their specialities is engagement in various types of EU projects. The childcare centre “Bergstrollet” in the same area is an example of how one co-operative has enabled its members to practice at entrepreneurship in order then to start other co-operatives. The village has been reborn, as a cafe, some tourist activities and an informal cooking team have all been started.¹⁷

¹⁷ There are also many examples in different parts of Sweden in rural areas as well as in cities, of how individuals within the same branch or within the same profession form a co-operative for professional and /or for economic reasons. One example is the pottery ceramics “Drejeriet keramik” an economic association which consists of seven individual entrepreneurs, where each one produces and designs her/his own products. Together they manage a shop and they share some other common expenses. “Jämtspira Getost” is an economic association with seven members, all individual cheese producers. They share an organisation for sales and a cheese stock. “Hjärnkontoret” (“the brain office”) consists of nine independent entrepreneurs with various activities who share an office and the cost for some services. “Gaupa” is a co-operative of seven partners within handicraft. They share the responsibility, economy and work around a common shop. “Åse mediakooperativ” provides an additional example of how single entrepreneurs within the same branch collaborate within a collective framework. “SIBCO” is an economic association in Växjö in southern Sweden where all members are persons with their own consulting businesses. They all have a foreign background and their businesses are directed towards creating business relations between

Three types of interrelationships where economic activities and social links are intertwined in development processes can thus be distinguished. Firstly, voluntary work might lead to economic activities. Secondly, economic activities are developed within the framework of social links, such as in the case of the village co-operative. Thirdly, economic activities create social links. Restaurants, special services to people create social links that may lead to other activities. A common feature in the examples given above is that it is possible to distinguish a pattern of job creation and local economic development where people come together to satisfy local needs or to create local activities. Members of local development groups become unpaid workers and this unpaid work can result in employment opportunities for them and /or for others as economic activities are created. It is possible to find many examples of similar development processes.¹⁸ The question is, however, to what extent such examples reflect a general trend? Empirical data indicates that in order to achieve more than temporary effects, there are at least three factors that are important in local development work. Social and/or financial support from the authorities is needed.¹⁹ Non-paid work has to be transferred into paid work.²⁰ In addition, for local economic development to actually take place, some commercial activities have to be present.

Available empirical evidence indicates, to some extent, a move towards the fulfilment of two of these conditions. Firstly, local groups do get support from the local authorities at municipality level and the flow of EU structural funds has seen money go to local projects.²¹ Secondly, while “voluntary work” in relation to “paid work” shows a minor decrease from 1995 to 1998, local development groups have created long term jobs in the private sector.²² Although these observations support the impression that European economic policy is actually implemented, knowledge about what has happened with EU funds on the aggregate

Swedish firms and businesses in their home countries. They share one employee who takes care of the administration.

¹⁸ See further Lithander in this book for more examples.

¹⁹ Within the context of a project aimed at mapping developments and trends of the social economy in Sweden (published in the form of a book; Westlund (ed) 2001), Forsberg (2001) maps local development groups in Sweden. She finds that, according to the groups, job creation generally required cooperation between different actors, support from authorities and funding, clearly indicating that voluntary, non-paid work was not sufficient. Out of 155 groups in the study, a quarter claimed they used EU grants as a funding source.

²⁰ The expressed need for paid work in Forsberg’s study shows that activities that rely on voluntary work is particularly vulnerable.

²¹ In line with European economic policy local groups in Forsberg’s study seem to get more support from the local authorities at municipality level than from the regional level. In 1998, 42 per cent of the funding came from the European Union (Forsberg; 2001, pp. 157-8).

²² Forsberg (2001), p. 159. On the issue of paid versus unpaid work in the social economy in the European context, see for example Domestier (2000 and 2001). See Wuthnow (ed) for country-specific analyses of voluntary work in a broader perspective. About half of long term jobs created by the groups in Forsberg’s study appeared within the private sector (Forsberg 2001, p. 163).

level and the effects of projects where social or financial funds have been available is inadequate.²³ The substantial amount of EU-funds directed to small projects means that it is particularly unclear what in fact are the results and effects of what.²⁴ It is for instance difficult to exclude that a certain project has not contributed to job creation and new firms.

The development of cooperatives in Sweden follows the trend in the European Union. Although the number of cooperatives has increased, the number of employees has decreased.²⁵ In most rural areas the goals are to simply maintain social services and to prevent decreases in population, as emigration seems to be the general trend. It is possible that local mobilisation is most likely to take place when the situation is severe enough, in order to prevent further crisis.²⁶ The social economy may thus have a stabilising effect and local economic development is affected indirectly if achievements such as maintaining or creating social services prevent people from moving. On occasion such achievements are transformed into the development of commercial activities and perhaps even into the development of firms who later become motors for economic development. A network based economic development is possibly more likely, which means development based on the creation of new firms.

A lever on local economic development

The problems of promoting entrepreneurship in the Swedish welfare system are also relevant in general terms. While institutional rigidities connected to the Swedish welfare model provide obstacles to development from employment to individual entrepreneurship they also impede processes from unemployment to employment. It is not uncommon that people with “safe employment” in the public sector start a small business on the side.²⁷ But, in effect there are little real

²³ It should be noted that some communities have been active before the European policies promoted such a development. See further Svensson (1998) for examples on initiatives from communities in different parts of Sweden.

²⁴ The situation seems to be similar in Finland (see Mustakangas and Vihinen in this book). For an evaluation of the Finnish territorial employment pacts, see Katajamäki (1998).

²⁵ This partly, however, is explained by formerly established co-operatives having changed their legal form and become stock companies. Another explanation is that the established co-operation, in line with common trends on the labour market in the 1990s, has cut down on employees. The number of employees within wholesale and retail trade has decreased with 22 per cent between 1993 and 1999. The number of firms has decreased substantially in agriculture and forestry as well as in trade. While the number of cooperatives increased by 18 per cent in 1991 to 1999, the number of employees decreased with 32 per cent in the same period. (See further Höckertin 2001).

²⁶ In British Columbia, for example, a long ongoing economic crisis in forestry dependent communities has eliminated options of living-wage employment and put pressure on local businesses and social services (See Haythornthwaite 2002).

²⁷ As long as you do not work more than 10 per cent, you can keep on working full time in the main employment in the public sector.

incentives to grow and employ others. If the full step towards independent entrepreneurship means giving up a stable employment situation, this also means giving up a great deal of security. As it is complicated to employ people, it is also a rather big step to go from self-employed to employ one person, a circumstance that tends to prevent flexible solutions. To employ another person when at least one person is already employed is likely to be easier as the initial step has already been taken. The big challenge, however, seems to be to go from unemployment to employment or from unemployment to running a business.

The examples presented above are from the county of Jämtland, where the number of co-operatives and local development groups in relation to the population is the largest in Sweden. Jämtland is one of the most sparsely populated areas of Sweden. The effect of a contracting public sector is particularly evident when population is low. Similarly, the co-operative seems to be especially relevant when the market is not strong enough for the private firms to grow due to insufficient demand for products and services. By focusing on a region where the private sector is weak, while at the same time the public sector is in decline quite substantially in relative terms the role of the social economy as a lever for local economic development is distinguished. Voluntary work is important in itself as it can contribute to the maintenance of villages, at least in the very short run if voluntary sources are strong enough.²⁸ It seems easy to assume that a negative trend is difficult to brake. The emigration of some people implies a risk that services are subsequently cut back which like a vicious circle promotes the emigration of others. Such a perceived downward spiral in service provision linked to demographic trends can also of course prevent people from moving in, even if there are jobs.²⁹ Although it seems necessary that commercial activities are present for local economic development to occur, it is not sufficient as long as the Swedish sector economy is stronger than the EU economic policy based on local development. It seems particularly unlikely that an economic policy based on local initiatives will be successful as long as national regional policy does not provide a complement to such a policy, but instead contributes to the moving out of state agencies from sparsely populated regions.

The status of work

It can be argued that the established institutions have prevented people outside the ordinary labour market from finding wage-earning employment and thus of the ability to support themselves. The norm governing the Swedish labour market is that individuals in the role as employees carry out paid work. The safety

²⁸ Forsberg's study indicates that unpaid work is necessary as a complement to paid work especially in order to start up processes of local development.

²⁹ Some communities have faced problems of recruiting labour to new businesses in sparsely populated areas in for example Jämtland.

system is built upon this norm and “the loss of income principle”. Unemployment is in the Swedish context generally perceived of as not being employed, but the person who is not employed does not necessarily lack a job. The second form of paid work is having a business of one’s own. There is a special cost of unemployment and underemployment associated with keeping control over all the categories in the labour market statistics. A person who is paid more than one hour per week is considered employed, which means that he or she loses unemployment benefit. The same would happen to an unemployed person that starts to study, as he or she is no longer in the labour force.

The Swedish welfare model guaranteed a comprehensive safety net against unemployment until the recession of the 1990s. Since then voluntary organisations have become more important in making politicians aware of current problems in a post-industrial society. Voluntary organisations are likely to be especially important for citizens with limited resources. But although the voluntary non-profit associations have had a more than marginal role as employers in Sweden, they are not commonly viewed as having an important role in employing long-term unemployed people (Wijkström 1997). Several areas of legislation that hinder non-profit associations from employing people have also been identified (Kulturdepartementet 1999). An increased flexibility in the various security systems has also been deemed desirable. There is, however, resistance, especially in the trade unions, to such an employment policy. There is a fear that this kind of employment policy will mean the development of a new form of low-paid labour on the market.

While single entrepreneurship generally means a great deal of flexibility, this flexibility may also lead to the emergence of significant inequality. There is a risk that the benefits of flexibility would only appear in sectors where the competition for customers is not so hard. The co-operative can in principle provide the same kind of flexibility as individual firms, but perhaps some of the disadvantages of flexibility can be avoided. The co-operative would provide an alternative form of entrepreneurship for entrepreneurs who do not want the extreme flexibility of individual work. Collective forms of self-employment are in the Swedish context understood as ways of organising work where the security from collective solutions and the flexibility connected to individual entrepreneurship can be combined. In Sweden there is no special law on self-employment, the law connected to individual entrepreneurship is on the private firm. When it comes to the status of work, members of co-operatives are treated as individual entrepreneurs, and are thus subject to the same work right regulations as these. In order to be considered as unemployed and thus entitled to unemployment benefit personal participation in the co-operative has to have ended. As with the individual entrepreneur, the member of a co-operative is treated as if he or she works full time. This is one reason why it is easier to start a co-operative or an individual

firm for someone who is already employed, than to start up from a situation of unemployment. However, the hesitation associated with the prospect of actually giving up a permanent job might be difficult to combine with flexibility.

Work legislation as the balance of power is different in co-operative and non-profit organisations than in the private or public sector. It has indeed often been argued that the employer's situation would be more difficult and that it may be very costly for employers to keep abreast of the general work legislation (Kulturdepartementet 1999). Employers in a users co-operative or non-profit organisation are not paid, they are not engaged to be employers, but have to take this responsibility on in their spare time and are perhaps not qualified for the task. The need for flexible employment forms is not compatible with the requirements of work legislation subject to, for example employment security, work environment and the participation of employees in decision-making at the work place. For instance, as the activities of co-operatives are often project-based there is usually a need for short-term employment engagements. As an employee in a co-operative or a non-profit organisation is entitled to the same general work and employment situation as employees in the public or private sectors, in order to be entitled to unemployment benefit the person has to be disposable for the labour market. In principle, the employees of a co-operative should have the same kind of relationship with the trade union as employees in the public or private sector. The salaries of teachers and nurses in childcare co-operatives are, for example, regulated so as to coincide with salaries for employees in the same profession in public child care centres. Members of co-operatives, on the other hand, would have the same kind of relations with trade unions as employers or individual entrepreneurs in general.

The management problem within co-operatives or non-profit organisations is also connected to the fact that voluntary un-paid work cannot be used and managed in the same way as paid work. This also implies to the fact that it is very difficult for authorities to implement measures that really get the "right kind" of voluntary work going, that can actually compensate for cut backs in the public sector or create new jobs for those who have difficulty in entering the ordinary labour market. In fact, any organisation relying in some way or another on voluntary work would face problems in achieving continuity, or in getting the necessary work done for similar reasons.

Is the co-operative efficient only at the start or is it sustainable? In order to find answers to such questions one should ask why the co-operative would transform into another enterprise form. There might, for example, be commercial, financial or institutional reasons for so doing. There are a large variety of experiences of collective forms of entrepreneurship in different countries that could be of interest to Sweden. Differences in general frameworks, rules and legislation however sometimes make it difficult to transfer such experiences

between countries. The social economy as a lever for local economic development in Sweden demands some adjustment of and/or new roles governing established state institutions. There is also a risk of unclear public sector commitments, which can imply management problems, and an unclear distribution of responsibility. It may thus be argued that the politico-administrative framework, tradition and culture are not adjusted to the work forms of the social economy.

Conclusions

From a macro-economic perspective the focus on the dynamic process enables us to analyse how society is changing and what role the social economy may have in this process of change. Demand and supply side theories see the cooperative as a substitute for the public or private sectors. These theories all contribute to explaining why cooperatives or local development groups start, and why they seem to be more common in rural areas. If at an early stage the cooperative is treated as a complement to the public sector the situation is likely to become sustainable if their activities (for example welfare services) are financed by public funds. This is generally the case if they are performed on contract with public authorities.

Village and micro-firm co-operatives can contribute to economic development if they help individual entrepreneurs to get businesses started as well as being able to facilitate the survival of the already existing businesses. Perhaps arbitrary circumstances can start a local development process. In the longer perspective however such factors cannot keep the process going. Some kind of cooperation with other actors (public and/or private) seems to be needed for village co-operatives or any local development group to be able to create or maintain economic activities. In many respects however the approach that seeks to solve the problems of previous ineffectual economic policies by simply “hoping” for initiatives at the local level seems to be “too optimistic”, especially if this relies on un-paid work. The expressed importance of specific individuals at the authority level and the circumstances that local groups seem to get more support from the local authorities located at the municipality level, than from the regional level confirms the impression of arbitrariness and that social capital is important for local economic development. It seems likely then that the new economic policy implemented in the 1990s, partly due to the influence of European policy, has contributed to the unbinding of the constraints on social capital and has thus helped create the conditions for the social economy to become a lever for local economic development, partly compensating for cut backs in the public sector, which in a sector economy is likely to affect sparsely populated regions especially hard, as do cut backs in traditional regional policy. However, there appears to be a general lack of knowledge about what has actually happened in the longer

perspective, whether money from the EU structural funds has actually generated more than temporary effects, enabling the survival of activities in the short run.

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