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## Social enterprises and non-market capitals: a path to degrowth?

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## ABSTRACT

The aim of this paper is to look at alternatives to the classic for-profit shareholding enterprise and to suggest how such alternatives might be supported within the current economic system. Another aim is to link the social enterprise and degrowth discourses. We first re-define the economy as including non-monetised sectors (the core economy and the economy of nature) and discuss the liminal zone of not-for-profit and not-only-for profit organisations. We then look at social enterprise definitions from a degrowth perspective and explain why the dimensions of scale, place, environment and provisioning patterns need more space in the social enterprise discourse. After that, we define non-market capitals as capitals taken out of the market and placed under local/member/democratic control and explain their importance in a degrowth economy. We give examples of non-market capitals and suggest a model involving mutual support between primary and secondary social enterprises. Finally, we suggest areas where more research is needed in this emerging field of inquiry.

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## 1. Introduction

Sustainable degrowth, a key goal of the European degrowth/décroissance movement, builds on a confluence of several respected and robust streams of thinking (Schneider et al., 2010).<sup>1</sup> It has been defined as “an equitable downscaling of production and consumption that increases human well-being and enhances ecological conditions at the local and global level” (Schneider et al., 2010). An underlying assumption is that the current mainstream economic paradigm, with its emphasis on economic growth as a major policy goal, is outdated and destructive. Various reasons have been given for this view (van den Bergh, 2009;

Fournier, 2008). A crucial one involves the fact that economic growth correlates with growth of energy and material throughput (Jackson, 2009), which are unsustainable in the long-term and are reaching their limits today (e.g. global warming, peak oil). While the term remains contested and ambiguous (van den Bergh, 2011; Kallis, 2011), we tend to agree with Kallis that degrowth (or “sustainable” degrowth, which in our perspective are synonyms) should not be reduced to the vision of an economy with a declining GDP. While degrowth approaches probably will result in a GDP decline, the concept itself can be more usefully seen as an “umbrella keyword, a multi-faceted framework that gives purpose and connects different policies and citizens’ initiatives” (Kallis, 2011: 874).

Having said that, it is also important to acknowledge that the institutions and mechanisms fuelling GDP growth itself are deeply ingrained in the current economic system. Kennedy (1995), Hoogendijk (1991), Douthwaite (1999: chapter 1), Harvey (2007) and others have discussed its ramified consequences, fuelled by a structural and deepening dependence on debt, which include a pressure to grow regardless of the consequences. This pressure is sometimes dubbed “the growth imperative”.

The prevailing actor in the current economic system, the shareholder-owned profit-led company, is induced to grow by these external pressures, exacerbated by the neoliberal

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<sup>1</sup> These include, according to Schneider et al. (2010): culturalist critiques of development (e.g. Polanyi, Norberg-Hodge), the quest for democracy (e.g. Illich), environmentalism and ecology (e.g. Odum), voluntary simplicity (e.g. Thoreau) and bioeconomics/ecological economics (e.g. Georgescu-Roegen and many others). With a grain of salt, we might add to this lineage the classical economists (Smith, Ricardo, Malthus and J.S. Mill) who did not expect economic growth to go on forever. Only one of them, however, J.S. Mill, believed that the ensuing steady-state economy would improve the “art of living” and foster a fairer distribution of wealth and income (Zweig, 1979).

deregulation of the last decades. The system favours large and ever-growing companies,<sup>2</sup> which due to their economic strength and influence are able to evade local standards and taxes and externalise an ever-growing proportion of their costs onto other players, such as their workers, nature and future generations (Korten, 1995; Martinez-Alier, 2002: 10–15). By creating (via advertising) “effective demand” for spurious products, they may miss real and basic needs in communities, especially those unbacked by purchasing power. While superficially such a system is effective, in reality it is deeply ineffective due to its many negative social and environmental externalities (Douthwaite, 2000: 211). Growth thus continues while basic needs go unmet and vulnerable groups are forced into the money economy, fostering calls for more economic growth (Korten, 1995: Chapter 3).

As discussed in Johanisova and Wolf (in press), the typical company limited by shares, which forms the bulk of the larger players in today’s economies, is in addition pressured to grow due both to its explicit goal (maximising financial returns on production) and to more subtle principles inherent in its inner structure. These include factors such as a non-democratic management structure (in the sense that shareholder votes depend on number of shares, the so-called one-euro-one-vote principle), the absence of a ceiling on investments, share transferability and lack of ownership transparency which leads to a concentration of shareholder power and to structural marginalisation of stakeholders (workers, local community, the environment) other than the majority shareholders. This in turn makes it easier for the company to externalise its costs, become more efficient in narrow financial terms and remain competitive on the market, while focussing on profits from (potentially spurious) production and the growth of the scale of this production.

An economy where such companies prevail is obviously not conducive to sustainable degrowth. However, there are no simple remedies because the for-profit share company is part of a system which rewards and reinforces its problematic behaviour. A for-profit company which would not comply with the prevailing model of growth and cost-externalisation would be in danger of being expunged from the system (Harvey, 2007; Parrish, 2007). An economic organisation explicitly aiming for other goals than (only) profit and growth, and thus producing positive externalities which make it less efficient, would be in similar danger.

An important part of the degrowth research agenda is therefore an analysis of both the available alternatives to only-for-profit enterprises and of institutions and mechanisms enabling the functioning of these alternative enterprises in the current economic environment. In this paper we try to link the existing discourse on social enterprise (which we see as a crucial alternative to the for-profit share company) with the degrowth paradigm, and to look at some approaches and support mechanisms which might make it

easier for social enterprises to survive economically in the current economic system without compromising their ethical goals. As social enterprises, embedded in support mechanisms which enable their survival, slowly take root and thrive, they will hopefully start changing the economic system itself from below and slowly build a base for a degrowth economy.

In the following sections, to prepare the ground for this discussion, we first take a closer look at what constitutes “the economy” from a mainstream and then from a more holistic perspective, broadening the concept to include “economies” hitherto largely ignored by mainstream economic textbooks (section 2). In section 3, we pay special attention to the concept of social enterprise and try to look at it from a degrowth perspective. In section 4, we discuss another economic concept, “capital” or “capitals”, and introduce the concept of “non-market capitals” and “primary” and “secondary” social enterprises. Some examples of what we see as non-market capitals are then given, and we suggest a tentative model of an alternative economy, more suited to a degrowth world. Finally in section 5, we briefly look at some ambiguities and dangers inherent in the model in a world where mainstream economic structures predominate and pressure to converge with mainstream business practices remains strong.

## 2. What is the economy?

“The economy” is an ambiguous term notoriously hard to define, mirroring the equally ambiguous subject which mainstream economic science purports to study. While orthodox economics at first sight appears to describe paths to a material provisioning of society, i.e. approaches to the fulfilment of its material needs, the “markets” it postulates involve not only material goods, but also living beings (Schumacher, 1993/1973), services (which can and often do include e.g. healthcare, childcare, education and culture), human work, finance and land (“land” being a shorthand for nature, see also Daly and Cobb, 1990: 97–120). Drawing all these disparate entities into “the market” means subjecting them to the mainstream economic discourse, with its model of perfect market competition and controversial central concepts such as “economic efficiency” (or efficiency of production, defined as the relationship of output and input in money terms, with no place for other less visible inputs and impacts of a transaction). In this discourse, the “economy” expands to include ever-greater portions of our lives and of our world, subsuming them to a market logic and re-defining them as commodities.

However, “the economy” need not be identical with “the market”. Many heterodox economists have grappled with this issue and have tried to define what “the economy” stands for. Karl Polanyi (2001/1944: 49–56), basing his work on ethnological and historical research on non-modern cultures, was one of the first to ascertain that traditionally in human societies most material human needs<sup>3</sup> were met via reciprocity (i.e. mutual gifting), redistribution (those who have share with those who have not) and householding (non-monetised production for own use). The market as we know it today played a marginal role. For Polanyi, the

<sup>2</sup> It can be argued that, on the contrary, it is heavily regulated markets that squeeze out small businesses, as these cannot afford compliance costs. Here however we must specify what type of regulation we have in mind, as the term “regulation” can hide vastly different approaches. The regulatory frameworks which have been removed in the past, legitimated by the neoliberal paradigm, have included restraints on corporate mergers and acquisitions, environmental and labour legislation and international investment regulation (Korten, 1995: 64, Singh, 2007). This has led to the emergence of large players on the economic scene, and, paradoxically, to pressure on a different type of regulation, e.g. to protect the large corporations’ clients or to limit tax evasion. Examples from the Czech Republic and United Kingdom (Johanisova, 2005: Chapter 3.5.) include the introduction of strict hygiene rules which disproportionately affect small rural social enterprises, see also note 22 on European banking regulations which disable the founding of new credit unions and ethical banks. Singh (2007: 46–48) discusses onerous transfer pricing regulations in the United States.

<sup>3</sup> Here we might discuss whether “the economy” is only about satisfying material human needs. According to the human needs matrix of Manfred Max-Neef (1992), we all have nine basic needs (subsistence, protection, affection, understanding, participation, idleness, creation, identity and freedom), which can be satisfied in various ways (e.g. in being and having modes, by material and non-material means). Max-Neef’s list is thus non-hierarchical and there is no strict dichotomy between “material” and “non-material”. However, other authors emphasise the primacy and importance of making sure basic material needs (water, food, clothing and energy) are met on a local level in a world faced by instability and declining resource availability (e.g. Douthwaite, 1996: 47–51, de Rivero, 2001: 186–187).

## Total Productive System of an Industrial Society (Three-Layer Cake with Icing)

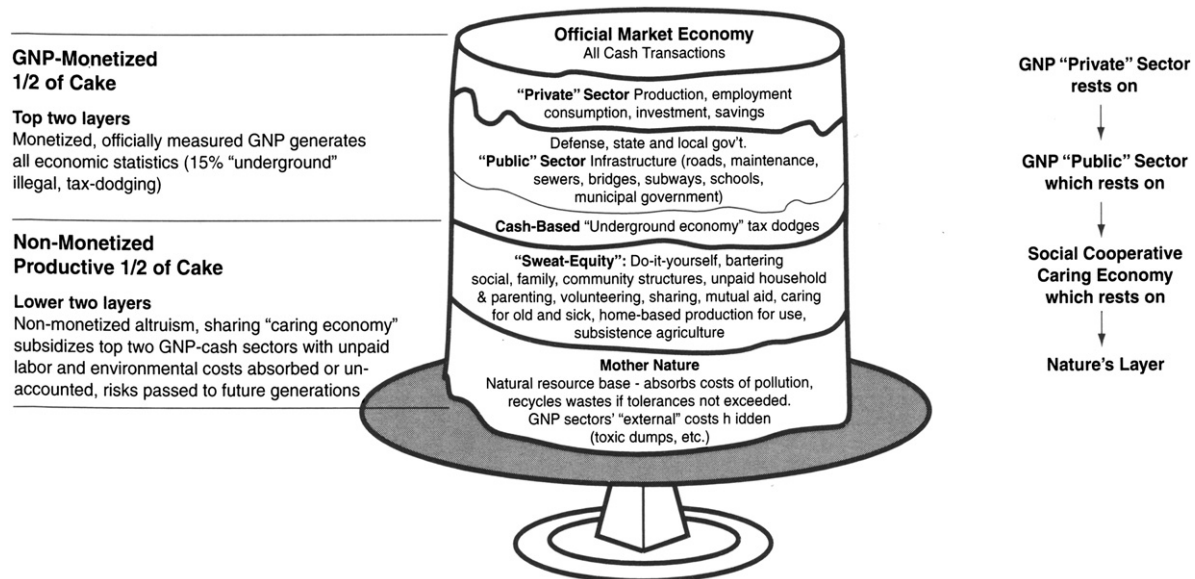


Fig. 1. Hazel Henderson's expanded model of the economy: Three-layer cake with icing (Henderson, 1999: 11).

market continues to be subordinate to society ("embedded" is his often quoted expression) even in modern times, and it is imperative for our survival that it continue to do so. As Joseph Stiglitz makes clear in a foreword to the 2001 edition of Polanyi's *The Great Transformation* (p.xv): "Polanyi saw the market as part of the broader economy, and the broader economy as part of a still broader society".

In her model of the three-layer cake with icing (Fig. 1), Hazel Henderson (1999) echoes Polanyi's claim of embeddedness of the market economy and makes the point that the private sector is actually dependent on the public sector, and this in turn depends on the sweat-equity or core<sup>4</sup> economy. This sphere includes childcare and care for the elderly in the family, housework, food growing, volunteering, mutual aid among friends and neighbours etc.<sup>5</sup> We can see this layer, placed below and supporting the money economy of the market and the state, as a sphere where Polanyi's reciprocity, redistribution and householding have been to a large extent relegated: essential for the functioning of the system, predominantly performed by women, and invisible from a mainstream economic perspective. However, Henderson's three-layer cake with icing model makes the further point that all three: the market, the public and the core economies, are dependent on the economy ("products" and "services") of nature (Mother Nature Layer).<sup>6</sup> Nature satisfies our needs directly (via the core economy) and indirectly (via the state and market economy). This level has become slightly more visible from a mainstream economic perspective in recent decades, but efforts to quantify the economy of nature (and thus to bring its "non-market products" into the orthodox economics field of vision) are meeting with limited

success (see e.g. Kutáček, 2009). It is our contention that efforts at defining the "shadow prices" of processes within the core and natural economies will always be problematic and that orthodox economics, rather than subsuming these areas under its "sphere of influence" via quantification, must explicitly acknowledge their existence, otherness and essential unquantifiability. This will hopefully open the door to a dialogue between orthodox economics and other research/knowledge systems.

Returning to the concept of "the economy", we have now expanded it to include, in addition to the private/market and the public monetised spheres, also the non-monetised layers of the economy of nature and the core economy, and have suggested that the two latter essentially support the former. From this perspective, "the economy" ceases to be identical both with the market and the monetised sphere, and the non-monetised spheres, instead of being aberrations or externalities which need to be internalised, become entities important in their own right. This chimes in with authors like Ivan Illich, who saw the process of commodification (monetisation)<sup>7</sup> of needs satisfaction as a process whereby scarcity, far from being banished, is actually created (or "manufactured") as people lose the means and skills to provide for themselves outside the monetised sphere (Illich, 1973). It also echoes the calls of contemporary Third World authors like Ashish Kothari (2009), who asks that "non-industrial lifestyles and non-human life forms" be given respect and space to flourish.

Henderson's cake model (Fig. 1) equates the monetised layer principally with the private and public sectors, and leads clear dividing lines between the monetised and non-monetised spheres. However, the reality is not so simple and if we disregard nature's economy for a moment, looking only at the constellation of

<sup>4</sup> In the sense of Cahn (2004).

<sup>5</sup> A similar point has been made by Vandana Shiva (1989), Mary Mellor (1997), J. K. Gibson-Graham (2003), and many others, especially those writing from a feminist perspective.

<sup>6</sup> See also the work of Herman Daly, who has linked the insight of the human economy embedded in the ecosystem with the issue of optimum scale of material and energy throughput (e.g. Daly, 1996: 49).

<sup>7</sup> As an example of commodification creating scarcity, Illich (1973: 42–43) gives the example of complex social, legal and economic pressures in Mexico and the USA in the 1960s and 1970s which made self-building of houses by their owners/occupiers much more difficult than previously. As the number of self-build houses fell and dependency on the market sector deepened, scarcity of housing was artificially created.

institutions serving (or not serving, as the case may be) human needs, we might come up, in very broad brush strokes, with the following:

- a. public sphere (state)
- b. public sphere (village/municipality)
- c. for-profit enterprises
- d. household/family/self-provisioning
- e. non-monetised reciprocity/work outside the family/volunteering
- f. not-only-for-profit or not-for-profit organisations (e.g. associations, social enterprises, mutuals, co-operatives)
- g. traditional commons regimes and contemporary land trust structures.

Of the seven items listed above, mainstream economics has tended to emphasise the role of for-profit enterprises, producing goods and services for households.<sup>8</sup>

Researchers writing from feminist, Marxian, post-development and radical ecological perspectives have in the past decades attempted to make visible the core or sweat equity economy (see Fig. 1.), which in the list above we have categorised as d/household/family/self-provisioning and e/non-monetised reciprocity/work outside the family/volunteering (The categories above are adapted according to Williams, 2005: Chapters 3–5 and 12, Trainer, 1995: 96, Robertson, 1990: 35–36).

However, items f/not-only-for-profit or not-for-profit organisations and g/traditional commons regimes and contemporary land trust structures (see list above) have been accorded less attention from these more radical streams of thought. For example, while there is a large literature on the social economy, social enterprise and third sector (see e.g. Borzaga and Defourny, 2001; Borzaga et al., 2008) these are often seen from a mainstream economics perspective as stop-gap measures fixing social problems created by market failure rather than as alternatives to a prevailing unsustainable economic system (see also Johanisova, 2007: 77–87 and 2008). Even texts which do acknowledge this tension (such as Laville et al., 1999) fall short of envisioning a fuller role for not-only-for profit enterprises in a new economy, more attuned to both environmental and social equity concerns.

### 3. Focussing on the liminal zone: social enterprise in a degrowth context

Returning to the Henderson cake model, we might contend that there is a liminal sphere between her monetised and non-monetised zones, identifiable largely with items f/not-only-for-profit or not-for-profit organisations from the list above, but to some extent linked up with all seven. Some of these organisations in a European context, for instance, may be close to the community/voluntary sector (e.g. a village transport system or a local food network based mainly on volunteer work), others may be linked to a government or municipal institution (such as a workshop providing work for people with mental health problems), and still others may be close to the for-profit sector in the sense of being fully professionally staffed and financially self-sustaining (e.g. an ethical bank or large consumer co-operative).<sup>9</sup> In the global South,

other liminal institutions such as commons regimes, village seed banks, burial societies or ROSCAs (Rotating savings and credit associations), continue to exist, even harder to place and still unfortunately at the periphery of research interest.

In Europe and North America, efforts spearheaded by the EMES European Research Network and by the John Hopkins University in Maryland<sup>10</sup> have brought some definitions of this liminal zone, summarised e.g. in Borzaga and Defourny (2001: 1–28) and Borzaga et al. (2008: 15–33). Essentially, they equate the terms “social economy” (originating in Europe) and “third sector” (originating in the U.S.A.) and see them as including both the non-profit sector (which involves legal frameworks such as voluntary associations, charities and associations, foundations and trusts) and the not-only for profit sector (with legal frameworks such as co-operatives, mutual aid societies, and non-profit organisations with trading arms). The term “social enterprise” in this understanding is narrower and is defined (Borzaga et al., 2008: 31–32) as participating to some extent in the market, having a degree of autonomy from public authorities, with a commitment toward job creation, an explicit aim to benefit the community or a specific group of people in its founding documents, decision-making power not based on capital ownership (democratic ownership structure), and exclusion of the profit-maximising principle (e.g. recycling part or all of the surplus/profits back into the organisation rather than paying dividends to members/shareholders). The Pestoff sectoral model (Fig. 2), adapted by Hunčová (2004) and used widely in the European social enterprise literature (e.g. Borzaga et al., 2008: 20) attempts to express in graphic form the liminal zone of not-for-profit and not-only-for-profit enterprises.

While the European social enterprise discourse including the Pestoff model has been successful in legitimising this important sphere of the economy and bringing it to policy-makers’ attention, we might discuss the artificiality of dividing the liminal zone into sectors, and think about what has been left out. For example, there exist liminal institutions without a formal legal structure (e.g. the micro-social enterprises of MacGillivray et al. (2001), or many local currency systems). In addition, the model leaves out links and networks, umbrella groups and the secondary social enterprises as discussed below, and, importantly, does not distinguish between the public sector as state and the public sector as village councils/municipalities.

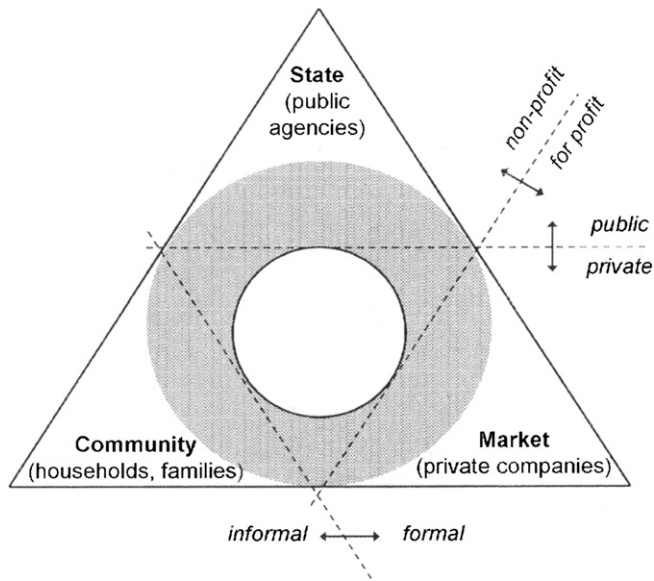
Looking at the social enterprise definition in this section from a degrowth perspective (see section 1), the de-emphasis on profit maximisation (e.g. in the form of limits on investment returns) is obviously valuable, since profit maximisation is intimately linked to economic growth.<sup>11</sup> In addition, since social enterprises explicitly exist to benefit the community, and this community often enjoys control over the organisation thanks to the democratic ownership structure, they are more likely to satisfy real needs (and less likely to externalise their costs), than for-profits. As also discussed in Johanisova and Wolf (in press), when real needs are satisfied, the call for growth is less. These authors go on to describe other aspects which make social enterprises better candidates for a degrowth economy, including the frequent use of equity shares which can be redeemed (if at all) only at their face value, and which are as a rule not tradable. Another important aspect is the democratic governance structure of many social enterprises which may open the

<sup>8</sup> This model of “the economy” is encapsulated in the “two-sector model”, found in most economics textbooks (e.g. Samuelson and Nordhaus, 1991: Chapter 3, Figs. 3–1). It envisions households as obtaining goods and services from, and selling their labour and other capitals to the enterprises. For a critique of the model from a broader degrowth perspective, see Daly (1996: Chapter 2).

<sup>9</sup> See Johanisova (2005, 2007) for further descriptions of various social enterprises with different affinities in Great Britain and the Czech Republic.

<sup>10</sup> Especially Lester Salamon and his colleagues, see e.g. Salamon and Anheier (1997).

<sup>11</sup> In a research of 71 social enterprises in the United Kingdom and the Czech Republic, over one half of those interviewed explicitly stated that they had no wish to grow beyond their current size (which was usually small), some however expressed a wish to be replicated by others (Johanisova, 2005: 84, 2007: 151–152).



**Fig. 2.** Sectoral economic model according to Pestoff, adapted by Hunčová (2004: 104–105), based on Pestoff (1995) and Laville et al. (1999: 7, Table 4), distinguishes a core non-profit sector, indicated by the white circle, and surrounds this with a grey area. The white circle (non-profit groups) and the grey area (“hybrid” groups, including social enterprise) together form the social economy.

decision-making arena to a wider spectrum of stakeholders. These and other aspects (more fully discussed in Johanisova and Wolf, *in press*) discourage a one-sided commitment to growth in social enterprises.<sup>12</sup>

Thinking further about what a social enterprise in a “degrowth world” might look like, we may also think about the dimensions of scale, place, the environment, and provisioning patterns which have been left out in the social enterprise definition discussed above. As regards scale and place: there is a huge difference between a small, locally rooted enterprise, albeit a for-profit one, and a large corporation. A small, locally-rooted enterprise can be seen as producing positive externalities,<sup>13</sup> including stable and long-term employment (Douthwaite, 1996: 35–37). If such a local enterprise satisfies the real and basic needs of a community, and uses - as much as possible - local resources and products, aspiring to localised provisioning patterns, we can see it as being truly efficient: not in the narrow financial sense mentioned in section 2, but, instead, efficient in materials and energy use, an important aspect in a degrowth society. Our emphasis on local basic needs satisfaction in a degrowth economy is also fuelled by a concern that communities provide for themselves in the face of possible energy supply and financial system discontinuities or collapses, which may well occur in the future (Douthwaite, 1996: 47–51). Last but not

least, we believe that the environmental dimension in the social enterprise ethos is just as important as the social aspect. Besides emphasis on local material and energy flows this may take many forms (from organic farming to building insulation, depending on the activities of the enterprise, see also Johanisova, 2008).

For the purposes of this paper, then, we define social enterprises loosely as organisations involved at least to some extent in the market, with a clear social, cultural and/or environmental purpose, rooted in and serving primarily the local community and ideally having a local and/or democratic ownership structure (one-member-one-vote rather than one-euro-one-vote). Where a social enterprise serves another social enterprise rather than serving the needs of the public/customers/clients directly, we suggest the term “secondary social enterprise”. We will return to this concept in the following section.

#### 4. Non-market capitals: beyond capitals as commodities

In section 2, we have tried to broaden the mainstream economic concept of “the economy” to include the non-monetised (core) sphere of human activity (which would comprise items d/, e/and in part also items f/and g/) and the “economy of nature” which we then abstracted from in section 3. However, in reality, as in the Henderson cake model, nature satisfies our material needs directly (via subsistence in the core economy) and indirectly (via the monetised economy). Nature also satisfies many of our non-material needs. Therefore, it is important, from a degrowth economics perspective, to keep all the three layers, the monetised, core and nature economies, continually in mind.

The process called “economic development” in the South, (or “progress” in the West, see Norberg-Hodge, 1991) is in practice often identical with the process of commodification discussed by Ivan Illich (1973), Williams (2005) and others. This process entails the shift of needs satisfaction from the core economy to the monetised/market layer of the cake, and is intimately linked to economic growth (in terms of GDP). For example, when self-build from local materials is made illegal or difficult, as the example in note 8 (taken from Illich) describes, the scale of the core economy dwindles (less houses are built manually by their prospective owners) and the scale of the monetised economy (and thus the GDP) expands (more houses are built in exchange for money by professional builders: they have become commodities). A similar commodification process happens when childcare is delegated to paid childminders, home cooking makes way for professional catering institutions, etc.

In the mainstream economic tradition, the commodification process is taken for granted and linked to specialisation, efficiency, wealth creation and usually viewed as unambiguously positive.<sup>14</sup> Critics such as Illich (1973), Norberg-Hodge (1991) or Williams (2005) are more concerned with its seamy side, involving deskilling, social exclusion, loss of cultural diversity and the artificial creation of scarcity. From the perspective of these critics and of the Henderson cake model, we may see the commodification process as expanding the monetised cake layer but diminishing the core (reciprocity and subsistence) layer and often contributing to a shrinking of the nature economy layer as well. We might contend that the commodification process creates wealth (at least for some)

<sup>12</sup> We are not against growth of social enterprises per se, when the growth enables the enterprise to better fulfil its role. A problem from a degrowth perspective is the systemic pressure to grow, inherent in the strictly for-profit business organisational structure. However, we do feel that growth beyond a certain limit is a risk factor for social enterprises and can lead to dilution of some of its principles or even to reversion to a mainstream model, as discussed in section 5 (see also Johanisova, 2005: 52–53).

<sup>13</sup> “Externality” is a mainstream economic term describing an impact (positive or negative) of an economic transaction on a third party, which/who has not taken part in the transaction. In the neoclassical economic model, “externalities” need to be “internalised”, i.e. their financial value needs to be quantified and the parties to the transaction need to pay (negative externalities) or receive (positive externalities) compensation. This is the logic behind the effort to create “shadow prices” in the spheres of core and natural economies discussed in section 2.

<sup>14</sup> Mainstream economists can take their cue from Adam Smith in his *Wealth of nations*, who thus dismisses the non-specialised work of “a country weaver, who cultivates a small farm”: “...the habit of sauntering and of indolent careless application, which is ...acquired by every country workman who is obliged to change his work and his tools every half an hour ... renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions.” (Heilbroner, 1986: 165).

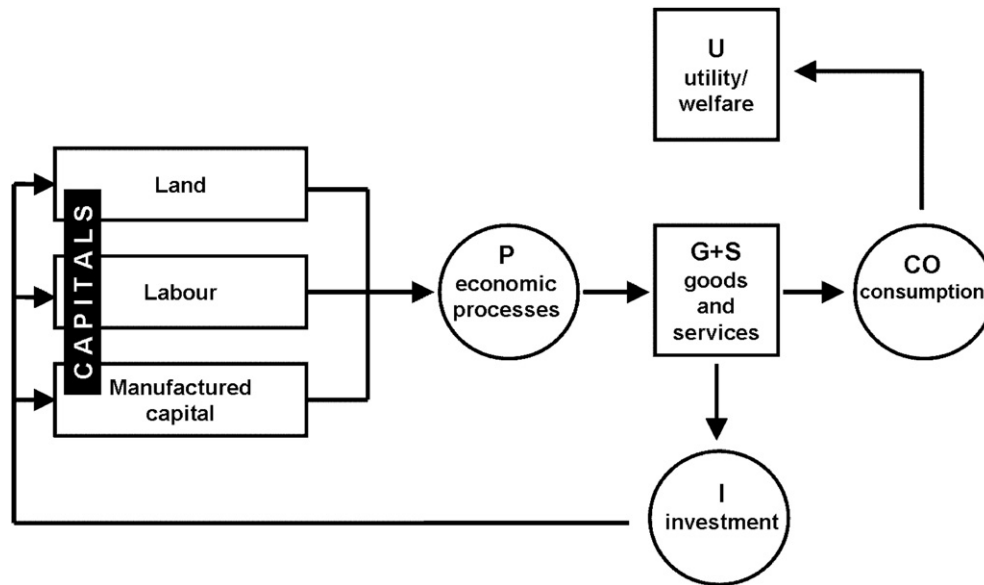


Fig. 3. The “production diagram”, found in most mainstream economic textbooks, features land, labour and capital (manufactured and financial) as independent and interchangeable “factors of production”: means towards the end of production of commodities, whose consumption is seen as the sole source of “utility” (another ambiguous term often equated with satisfaction or happiness).

in the monetised sector (top cake layers) while at the same time fostering poverty in the non-monetised sectors (bottom cake layers).<sup>15</sup> A critical approach towards the commodification process is espoused also by the degrowth movement (Fournier, 2008).

In an important contribution to the commodification discussion, Karl Polanyi (2001/1944: Chapter 6) has criticised the commodification of the factors of production in economic theory and practice: the creation of markets for financial capital, human labour and land. He calls these the fictitious commodities:

...“They could, of course, not really be transformed into commodities, as actually they were not produced for sale on the market. But the fiction of their being so produced became an organising principle of society. Of the three, one stands out: labour is the technical term used for human beings...All along the line, human society has become an accessory of the economic system”. (Polanyi, 2001: 79)

By “economic system” Polanyi obviously means the production process postulated by economic theory and encapsulated in the well-known production model (Fig. 3).

The production model, which has been with us since at least Adam Smith, describes the process of commodity production. To produce a commodity, the producer needs access to land and natural resources, to human labour and to capital (usually subsuming manufactured or fixed capital - machines, buildings, etc. and financial capital: money). These have been called factors of production and, more recently, they have been dubbed capitals.<sup>16</sup>

<sup>15</sup> This would lead to a discussion on what is wealth and poverty, which is beyond the scope of this article, but see Johanisova (2007): 178–184.

<sup>16</sup> The term capital itself has different meanings in different disciplines and discourses. In classical and neoclassical economics, as mentioned in the text, capital has traditionally been equated with finance needed to start or expand an enterprise and with the premises and tools needed to produce products and services. Ekins (1992: 48–61) has reframed the traditional factors of production as ecological capital, human capital, manufactured capital and social/organisational capital, emphasised their intrinsic (as opposed to purely instrumental) value and the fact that all of them need continuous (monetised and non-monetised) investment to keep them viable. In our paper, we are in agreement with this approach but take a more empirical, if restricted view of “capitals” as any resources needed for human needs satisfaction in the monetised and liminal zones (see sections 2 and 3).

Polanyi’s point is that, while there is a certain logic in designating a manufactured product as a commodity, the mainstream economic discourse postulates markets not only for manufactured products, but also for labour, finance and land.<sup>17</sup> However, he emphasises that labour cannot be divided from the human being, and land from nature, and since we cannot manufacture either, it is neither moral nor in practice possible to reduce them to commodities tradable in a deregulated market. Similarly money cannot be left to a deregulated market without grave dangers to business enterprises and to society. Polanyi’s views on capitals not being true commodities was shared in a sense by Gandhi (Parekh, 1991) who, drawing on the Hindu spiritual tradition, was essentially against private ownership of capital assets and land, because they had been handed down to us from the past, as a gift born of co-operation, sharing, mutual concern and self-sacrifice.<sup>18</sup> Conversely, for Gandhi the principle of private property of capitals stressed selfishness, exclusive ownership and narrow individualism (Johanisova, 2007: 46). Thus, for Gandhi, it was more appropriate to view land and other capital assets as being held in trust for future generations and to develop their ownership structures accordingly.

Polanyi’s and Gandhi’s thinking forms a theoretical framework for a useful concept, the non-market capital, which we would like to introduce in this paper. The idea of non-market capitals has been pioneered by Bruyn (1992), who was influenced by Polanyi’s thinking. He sees them as “restoring the economic base of the community and returning economic controls into the hands of the local people” and defines them as capitals “taken out of the market and placed under democratic control”. Rather than top-down state control, however, the capitals (such as land, finance, workspace or housing, physical equipment, knowledge, etc.) are to be controlled democratically on a non-profit basis, ideally by the local community. By “taken out of the market” Bruyn does not necessarily mean

<sup>17</sup> The existence of markets for factors of production is in fact one of the assumptions of the perfect competition model in neoclassical economics.

<sup>18</sup> This view of capitals as handed-down gifts rather than resources ties in with the traditional economic relationship of reciprocity, or mutual gift-giving, identified by Polanyi and mentioned in section 2. If we look at our economic relationship with nature in this perspective, we might ask what we are giving back.

that the capitals are accessible to enterprises (or to people) without any cost. However, the costs are withdrawn from the dominance of the market logic of profit maximisation and from an exclusive focus on the monetised sphere. They are subjected instead to local needs as defined by the local community and determined on the basis of a holistic approach, i.e. taking into account social equity and environmental sustainability as well as the whole economy as depicted by the Henderson cake model (Fig. 1).

The concept of non-market capitals can be useful on both a theoretical and practical level in the degrowth-social enterprise discourse. On a theoretical level, it can serve as an umbrella term conflating, illuminating and arguably legitimating many forms of support which social enterprises access in practice and which, in the mainstream economic perspective, can appear as subsidies which give them an unfair advantage over other enterprises. All producers, it is implied in the mainstream discourse, should compete on a level playing field, otherwise deformations of the market will result, leading to inefficiency and malfunctioning of the market mechanism. However, the perfect competition model of the economy which fuels this discourse, like the current emphasis on economic growth, is problematic (Beinhocker, 2006). As mentioned above, an “efficient” enterprise can in fact be very inefficient if we take its externalities into account. Conversely, a social enterprise may not be as “efficient” in this narrow financial sense, because it produces positive externalities. Without some form of non-market support it may not be able to survive economically. The concept of non-market capitals legitimises this perspective on “the economy” and operationalises it in the sense of acknowledging a “non-market” sphere, thus drawing the non-monetised and liminal zones of the economy into the picture.

On a more practical level, the concept of the non-market capital is useful because it applies Polanyi’s and Gandhi’s assertion that capitals cannot, with impunity, be conceptualised as commodities, to the real world. It enables us to see that, both in the past and today, many ingenious ways have been devised by local communities to protect, safeguard and enhance capitals, and to make them available for provisioning processes in the non-monetised and liminal economic spheres, which escape the doubtful market logic of financial efficiency. In the following paragraphs, we give several examples of currently existing institutional structures which either have been defined, or can be re-defined, as safeguarding and distributing non-market capitals.

As Bruyn (1992) has pointed out, land (or premises) can become a non-market capital via a type of institution pioneered in the United States and called a community land trust.<sup>19</sup> Essentially, community land trusts (in the United Kingdom sometimes designated as community property trusts or development trusts) are democratically governed, locally owned non-profit institutions which have in their ownership land to be used for public benefit. Often this land is used to build affordable housing for local citizens.<sup>20</sup> In other cases, the land is affordably rented to an organic farm to provide food security for the community, or the trust owns workspace which it rents to a social enterprise.<sup>21</sup> A similar

approach has been used in the village of Hostetin in Moravia in the Czech Republic, where a foundation (the Veronica Foundation) owns the land and premises of a small fruit-juice plant, built to utilise genetically valuable landraces of fruit in the region (Johanisova, 2005, 2008). In a wider sense, in countries like the Czech Republic, where local authorities even in small villages retain some ownership of land and buildings, such local authorities can (and in some cases to a limited extent do) support local traders, farms, renewable energy and food processing units, pubs, farmers’ markets, community groups etc. through renting workspace and land on a non-market basis, e.g. at prices lower than market prices, designated in some cases to cover maintenance only. From a degrowth perspective, the land-and-assets as non-market capitals can facilitate localised production and consumption, the existence of small-scale enterprises and the satisfaction of real and basic needs. It must be emphasised however that communal ownership of assets for the common good, especially of land and natural resources, is a very old approach which has been practiced for millennia the world over (see e.g. *The Ecologist*, 1992; Neeson, 1993; Sarukhán and Larson, 2001; Ostrom, 1990). The non-market capital approach can in this light also be seen as a modern incarnation and extension of this traditional type of communal ownership, known as the commons (Johanisova, 2004).

As regards money and finance, there are many institutions which can be seen as based on the non-market capital approach. These include ethical banks and communal currency systems. Bruyn (1992) suggests a locally operating credit union (credit co-operative) as the prototype non-market source of capital. Credit unions eschew the mainstream economic credit model of a bank as an enterprise “selling” money (which later however returns to its “seller”, as in fact it was only lent) for profit to a client. Instead, credit unions are built on the model of a group pooling their resources with each having the possibility to borrow from this pool. One benefit of localised credit unions (i.e. operating in a certain region only) is the fact that local savings are re-invested locally (See also Douthwaite, 1996). Another is democratic self-governance and the fact that, with higher reserves and no investment in problematic development projects, credit unions are less involved in the “money must grow” pressure which is one of the principal drivers of economic growth (Hoogendijk, 1991; Douthwaite, 2000).<sup>22</sup>

In addition to credit unions, a wide array of other ethical banking institutions exist. One of the best-known examples of an ethical bank was (we intentionally use the past tense as the Mondragon system has grown in scale and drifted towards the mainstream in recent decades) the Mondragon bank (Caja Laboral) in Mondragon in the Basque country in Spain (see e.g. Douthwaite, 1996: 160–170, 338–341, Mathews, 1999). The bank was owned by local producer co-operatives which together with their staff banked with it. The bank in return supported its member co-operatives in various ways, including extension of seed capital, cheap credit and expert advice when the co-operative was in trouble.

Knowledge as a non-market capital was also prominent within the intricate system of umbrella groups in the Czechoslovakian agricultural co-operative movement (which included thousands of village credit unions) before the 1948 Communist takeover. The umbrella groups, again owned by the member co-operatives, provided access to agricultural expertise for their members and

<sup>19</sup> The first community land trust in the United States was established in 1967 by the civil rights movement (Conaty et al., 2005). In the United States there are in addition land trusts which own land in order to protect its natural value and keep it undeveloped.

<sup>20</sup> While the occupier has a legal claim on the house (and may own it or part of it), the land itself remains the property of the trust. When the occupier wishes to sell the house, in some models he must do so to the community land trust at a below-market price designed to balance the interests of the occupier and the trust (Conaty et al., 2005). Thus the issue of rising land prices is avoided and the house remains affordable.

<sup>21</sup> For more on the burgeoning community land trust movement in the United Kingdom, see [www.communitylandtrust.org.uk](http://www.communitylandtrust.org.uk).

<sup>22</sup> In the European Union today, thanks to onerous banking regulations, new credit unions and ethical banks are very difficult if not impossible to set up. One of the reasons is the very high capital needed at start-up. Countries like the United Kingdom, Ireland and Poland are only able to maintain their small credit unions because of an exemption from the Second EU Banking Directive (Johanisova, 2005).

helped new co-operatives start up (Feierabend, 1952). The system helped small farmers survive, countering the pressure towards land ownership concentration inherent in the capitalist model of agricultural production.

Finally, non-market capital repositories, often unmarked by the mainstream, exist within the core economy in countries of the global South. For instance, in the Bangladeshi Nyakrishi Andolon organic agriculture movement, comprising tens of thousands of households, sophisticated seed-saving knowledge is applied via a three-tiered seed-saving system consisting of households, community seed centres and regional seed-preservation centres. Seeds as capitals very much in the sense of Gandhi (see section 4) go mostly unmarked by mainstream economic thinking, yet their preservation on a non-market basis is crucial for enhancing the independence of traditional communities from the market system (Anonymous, 2006).

We have attempted to introduce the concept of non-market capitals, whereby institutions such as local communities, municipalities, social enterprise umbrella groups, community land trusts and ethical banks take out capitals (such as land, premises, knowledge, seeds, financial capital<sup>23</sup>) from the market and place them under local/member/democratic control to serve the common good and hopefully help satisfy basic needs in a socially equitable and environmentally sustainable manner. While in some cases these institutions serve individuals, households and families (as with most credit unions), in other cases they function on a second-tier level and help support other social enterprises, i.e. those that provide goods and services directly. We might call the latter “primary social enterprises” and the former “secondary social enterprises”. Fig. 4 illustrates in simplified form this tentative model of collaboration (as opposed to the mainstream emphasis on competition) within an emerging degrowth economy.

In this model, primary (local, on-the-ground) social enterprises providing basic goods and services which meet local needs are owners of (or represented on the boards of) secondary social enterprises. These secondary social enterprises provide secondary business services as well as non-market capitals: land/premises/natural resources, manufactured capital, financial capital and knowledge/skills. An important principle here is subsidiarity and democratic governance: the secondary social enterprise does not try to usurp the autonomy of the primary social enterprises, but remains their “servant”. It is also, in an ideal case, financially supported by them: the services of the secondary social enterprise are not free, but are carefully calculated to ensure the financial viability of the secondary enterprise. The primary and secondary social enterprises thus support each other. Essentially, this is a mutual aid (or reciprocity) model, with organisations rather than individuals as the main protagonists (Johanisova, 2007).

Of the examples of institutions providing non-market capitals already discussed, many would qualify as secondary social enterprises. The Mondragon bank supporting its member co-operatives is an obvious example, as were the umbrella groups of the Czech agricultural co-operative movement. A community land trust may qualify as a secondary structure if it supports e.g. local farming enterprises instead of householders. The regional seed preservation centres of the Nyakrishi movement might also qualify as secondary social enterprises, albeit in a predominantly non-monetised setting.

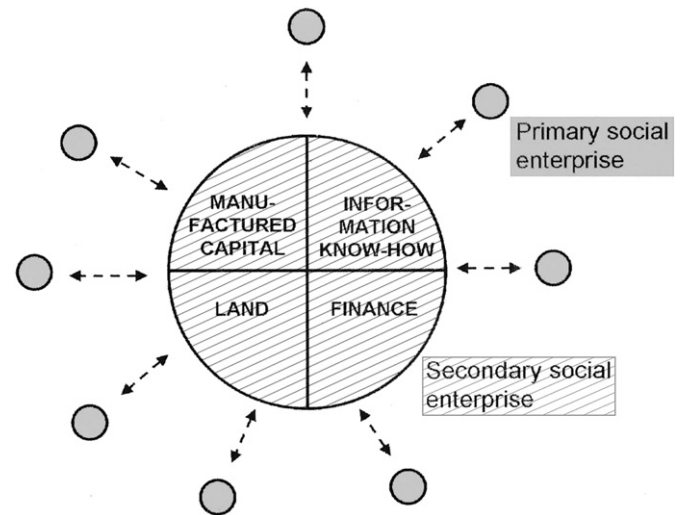


Fig. 4. Reciprocal social enterprise model according to Tim Crabtree. Inspired by the work of Jules Pretty, the Institute of Community Economics (USA), and by the Mondragon Co-operatives (Spain).

As with the concept of non-market capitals, it should be quite clear that the reciprocal social enterprise model is not meant to introduce a new, previously unheard-of institutional structure. On the contrary, it is meant to acknowledge and legitimate already existing relationships of mutual collaboration which exist e.g. within the co-operative movement and which have gone unmarked by the mainstream economic discourse, and thus hopefully enable their further self-reflection, development and refinement. It is also meant to provide one tentative alternative to mainstream economic models, focussed on growth and competition. One weakness of our model is the absence of explicit links to the non-monetised and natural environments (the core economy and nature's economy) which all the enterprises involved depend on. This is partly compensated by our definition of a social enterprise, which assumes an explicit focus on social and/or environmental goals and localised provisioning patterns.

## 5. Some ambiguities and issues for further research

Although we have tried to present our model of a potential degrowth economy in clear lines and bright colours, the reality has its shadows and many ambiguities remain. For example, as Smith and Stenning (2005) have pointed out in their research in post-socialist economies, economic power can deform relationships in informal and non-market economic systems and lead to exploitation, black market, corruption and even mafia practices.

Another difficult issue which needs to be discussed in relation to a potential social enterprise future is the tendency of successful alternative economic structures to revert to a mainstream model. Examples abound. We have mentioned the Mondragon co-operatives, which have been criticised for gradually losing their ethos in the face of international competition (Johanisova, 2007: 70–71). In the United Kingdom, the best known case is that of the British building societies, which emerged in the 18th century as small workers' savings mutuals and ended up large, successful but mainstream and demutualised in the late 20th century.<sup>24</sup> Even enterprises which retain their democratic structure in the face of

<sup>23</sup> Labour is not mentioned here but we might argue that the staff of co-operatively owned social enterprises would constitute non-market labour, as the workers are at the same time owners of the enterprise. Similarly, we might see volunteering as non-market labour, given as a gift.

<sup>24</sup> Northern Rock, one of the financial institutions which went bankrupt during the current financial crisis, was one such (demutualised) building society.



success may still, with time, become profit-making institutions with little regard for the products and services being produced and for the sustainability of the production process. How do explicit social and environmental objectives get written into the objects of an enterprise, and take long-term precedence over simple profit maximisation?

Often the gradual usurpation of power by a secondary social enterprise or umbrella group originally set up by the primary social enterprises is part of the problem. Stampfer (2001) describes such a situation in the German and Austrian credit union movement, which has a history dating back to the nineteenth century. As members have stopped identifying with their local credit union and withdrawn from the decision-making process, the decision-making power of the local entities was eroded and many have lost their autonomy to the powerful federations.

Another issue is that the system of mutual support institutions described in this paper may be accused of unfair economic practice. In the mainstream economic discourse, nurtured by the perfect competition model, there is a pressure to minimise all subsidies (as well as taxes, transfer payments, etc.) in order to mitigate alleged market deformations. Enterprises are expected to compete on a level playing field with the best – i.e. most financially efficient – and to win in this competition by delivering the cheapest products and service to the consumer. From a degrowth perspective, it should again be emphasised that efficiency, as mentioned above, cannot be measured solely in money terms as the relationship between inputs and outputs. Such an approach misses the many positive externalities which a business appearing less efficient may bring, such as stable and local employment, social capital, or food security. Similarly, effective production in financial terms may hide negative externalities, such as worker exploitation, environmental pollution or food miles. In reality, there never has been a level playing field because of varying social and environmental conditions and different scales and aims of the players. The perfect competition model is an abstraction which may be useful but must remain one policy tool among many.

Non-market capitals in the shape of cheaper rent for workspace, a cheap loan, or access to business advice, may, however, be seen as unfair competition not only by market purists, but by enterprises who for some reason do not have access to or are barred from accessing them. Who will benefit and who will not? Here it will be important to explicitly discuss the issues of public interest vs. private interest and develop clear guidelines and transparent organisational structures to ensure that undue benefit is not being gained by primary social enterprises with the ability to access non-market capitals from a second (or third) tier organisation.

## 6. Conclusions

In this paper, we have first tried to provide a framework for discussing the concept of “the economy” from a degrowth perspective. In particular, we have tried to de-link the term from its usual connotations of market and money economy and, building on the previous work of various authors, have expanded it to include the non-monetised layer of the economy of nature and the core economy. Further, we have emphasised the existence of economic sectors in the liminal zone between the monetised and non-monetised economies and have suggested that an analysis of this zone is an important part of the degrowth research agenda. We have focused especially on the concept of social enterprise which has emerged in the last few decades and we contend that the dimensions of scale, place, the environment and provisioning patterns should be accorded more importance in the social enterprise discourse from a degrowth perspective.

Based on the work of Polanyi, Gandhi, Bruyn and others, we have then defined non-market capitals as capitals taken out of the market and placed under democratic local control. These non-market capitals (such as accessible small loans or lower-than-market rent for premises) can be an important survival strategy for both primary and secondary social enterprises, which, due to their production of positive externalities, could not otherwise compete in a globalised market. We suggest that community land trusts, credit unions, co-operative umbrella groups and village seed banks are all instances of institutions safeguarding non-market capital. In a future degrowth economy, primary and secondary social enterprises might mutually support each other, thus gradually changing the economic institutional structure to one more favourable to a degrowth scenario.

To move forward, we need more research on the reasons why many social enterprises, especially secondary social enterprises, have failed in the past, while others have flourished. We also need to clearly define the line between public and private interest in order to develop clear guidelines and transparent organisational structures of future social enterprises.

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