



Trans European Policy Studies Association TEPSA Student Paper – 2019

Moving towards a solidarity economy: the importance of an EU framework

Nicole Meilak

*Bachelor's student, University of Malta**

"[Economics] is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. For man's character has been moulded by his every-day work, and the material resources which he thereby procures."¹ (Alfred Marshall, 1890)

The economy can be seen as a reflection of human relations and society. The word itself comes from the Greek word *oikonomia*, meaning "household management". The primary aim of a household is to provide material support for its individuals, but household relations are far more complex. The household is a dynamic environment where each individual plays a vital role in its functioning. Whilst the household supports the individuals, each individual must contribute to the household according to their needs and abilities. In other words, the individual members work together so that the household as a whole can flourish. This idea can very

well be expanded to the broader sense of an economy. An economy should ideally provide all individual members with a sound standard of living, while each individual should recognise their role and duty in shaping the economy.

Solidarity, on the other hand, comes from the French word *solidaire*, meaning "to be combined and interdependent". To live in solidarity implies an understanding of our reliance on one another; that we share common goals that can be achieved through cooperation and mutual respect. If we extend this to our definition of an economy, we arrive at an economic model where people come together, whether as workers, owners, or consumers, in order to achieve common goals and better themselves and their local community.

Nowadays, workers serve corporations through labour while corporations often operate with the

¹ Marshall, A. (1890), *Principles of Economics*, London, New York: Macmillan, p.1

sole aim of generating profit for shareholders. In reality, corporations should aim to improve the societies in which they operate. Corporations are powerful entities with the ability to transform society and influence politics and policy-making; it is important that they use their corporate power to make valuable changes that improve society. This is the crux of what is referred to as the solidarity economy. Firms should operate in a way that puts public needs first, while profits generated are reinvested into the firm or into the local community. This ensures that firms are actively working for the benefit of society and not just for the shareholders at the top. This type of economic system can be highly efficient in addressing poverty and generating sustainable wealth and job security throughout Europe, but an appropriate legal framework and support network is necessary in order to allow social enterprises to compete effectively within the European market.

The European Union takes on a neoliberal approach to the economy, characterised by market liberalisation, privatisation, labour market flexibility and minimal government intervention. The establishment of the European Single Market brought along the famous “four freedoms”: the free movement of goods, services, capital and people. The free movement of goods and services allows for increased competition within the market, and the free movement of people allows for increased labour market flexibility. Within the Eurozone, transaction costs have been heavily reduced while taxes on corporations and capital gains remain within the

hands of the Member States. Government intervention is also restricted; the Stability and Growth Pact asserts that budget deficits should not go beyond 3 % of GDP, and Eurozone members have no autonomy over monetary policy as this remains within the hands of the European Central Bank. The adoption of the Single Market has undoubtedly been beneficial in encouraging economic integration, but a number of concerns remain over the viability of the neoliberal approach and whether austerity is the right way forward in improving the European standard of living.

The restrictions on the sovereign jurisdiction of the Member States’ governments have numerous implications. As markets liberalise and international competition increases, countries strive to appear attractive on the global level, and access to basic services and sufficient public infrastructure is a necessity for this. If the fiscal budget is tight or in persistent deficit, the government may opt to privatise some of these services in order to cut back on expenditure. Privatisation is frequently seen as the best way to increase the efficiency of public service without encumbering public finance, but its negative effects on service provision and working conditions must not be ignored. In an attempt to remain price competitive, the firm may begin eliminating jobs or slashing wages and salaries, and the firm could restrict services if its provision in certain areas becomes unfeasible. The overall maintenance of working conditions may also be overlooked, resulting in numerous health and safety hazards for both workers and customers. For

example, after the privatisation of British Rail, the safety of the services was highly debated following several grievous collisions that injured and killed large numbers of citizens.

Another popular economic liberalisation policy is that of increased labour market flexibility, which is said to increase levels of employment. Such policies can be advantageous to firms; ease of hiring and firing allows unproductive workers to be readily replaced by productive ones, and a high labour turnover can enrich a firm's pool of ideas. Nonetheless, this can have a negative impact on worker-employer relationships. Easier hiring and firing can increase opportunistic behaviour and moral hazard in an effort for the worker to protect their job prospects. On the other hand, a high labour turnover can have a negative impact on the returns to job-specific training. The longer a person works for a firm, the longer that firm will be able to enjoy the returns on that human capital investment. If a job requires specialised training and the firm has a high labour turnover rate, the firm would have little time to fully reap the benefits from that worker's job-specific training. This results in inefficient use of resources and unsatisfactory returns on training investment. Firms thus have little incentive to invest in human capital, and workers feel less secure in their work.

These critiques are nothing new. After the 2008 financial crisis, there has been a surge in debates

over the future of capitalism and the role of the State in society. The idea of deregulated neoliberal markets has been heavily criticised and numerous models have been proposed. One popular alternative is the "doughnut model" proposed by Kate Raworth.² The model consists of environmental boundaries that should not be overshoot and a social foundation that encompasses food, healthcare and other life essentials. The area between these boundaries is defined as an ecologically safe and socially just space where an economy can provide a social foundation to everyone without having to sacrifice the planetary boundaries. This model merges economics with ecology in order to move away from the goal of endless growth and focus on the ability to meet the needs of everyone without exceeding the means of the planet.

Complexity economics is another increasingly popular alternative which seeks to observe the economy as a system in constant flux. According to William Brian Arthur (2013)³, complexity economics sees the economy as a system in disequilibrium, with the role of the economist being to understand emerging patterns from within it. In complexity economics, the focus is less about market allocation and more on market formation and how the economy changes over time. Economists are starting to take on an interdisciplinary approach to economics, merging it with the natural sciences to find innovative ways of solving economic proposals.

² Raworth, K. (2017), *Doughnut Economics: Seven Ways to Think Like a 21st Century Economist*, New York: Random House

³ Brian Arthur, W (2013), *Complexity economics: a different framework for economic thought*, Oxford University Press

This indicates a shifting paradigm where people want to combat modern problems through sustainable and realistic methods.

This is ultimately the aim of the solidarity economy: to move away from the single-minded focus on economic growth and to place the planet and its human and natural ecologies at the heart of economic thought and policy. Instead of having the worker serve the firm, the solidarity economy seeks to reverse these roles so that the firm benefits the workers without compromising the planet. Work is already an integral part of the average person's life. As Alfred Marshall describes, man is moulded by his work and what he creates.⁴ A solidarity economy allows workers to feel more connected to their work by taking on a more active role in the firm; they share responsibility and engage in the decision-making of the firm, thus cultivating the values of democracy and solidarity.

Worker cooperatives are a good example of a democratic business model. In these cooperatives, the firm is owned and governed by its workers. Each worker has an equal say in the functioning of the firm, with decisions carried out on a "one person one vote" basis. This organisational structure has been highly successful; a study carried out by the British Columbia Cooperative Association in 2011 has shown that the corporate survival rate of worker cooperatives within British Columbia is significantly

higher than those of capitalist businesses.⁵ The benefits of the solidarity economy go beyond worker-employer relations. The common ethos of the solidarity model is that the welfare of the people and planet comes before profits and blind growth. This includes adopting sustainable initiatives in order to reduce waste and decrease the firm's carbon footprint. For example, British cosmetics retailer Lush are known advocates for recycling schemes, with 89 % of their packaging consisting of recycled content. In addition to this, they have been formulating numerous products that require no packaging whatsoever so as to further reduce their waste.

Economic changes of this kind require a shift in mentality, which in turn requires a number of incentives that allow firms to move to non-profit business structures. Unlike the social economy, which sees social enterprise as a third and tangible sector, the solidarity economy refers to a way of carrying out all economic activity. This involves different ways for firms to tackle management issues and properly invest in the firm and in society. Suma, a wholefood collective based in the UK, initially started off as a one-person business. However, as the firm expanded, it had to reorganise to meet daily needs. Part of this reorganisation was the creation of an elected committee that would meet weekly and carry out business activities on behalf of workers.

⁴ Marshall, A. (1890), *Principles of Economics*, London, New York: Macmillan

⁵ Murray, C. (2011), *Cooperative Survival Rates in British Columbia*, British Columbia Co-operative Association

Despite growing in size, the firm managed to adapt whilst still remaining democratic in its actions.

There are numerous ways through which the EU can help promote solidarity economy initiatives. One way is through the setting up of an authority that provides social enterprises with management training and consultancy services. This could give them the edge required to compete within the European Single Market. The EU could also establish laws that prioritise solidarity economy initiatives in public procurement. Doing this would help keep public-private partnerships focused on community goals instead of private interests. On a national level, governments may create fiscal incentives to ease the costs of social enterprises. This could be done by creating investment funds geared towards solidarity corporations or by designing tax breaks that alleviate the financial burden of these firms. Initiatives like this will allow firms to find their commercial footing without compromising the conditions of their workers.

In order to succeed, these policies require a thorough and detailed framework on what the solidarity economy is. The European Commission has already developed its own definition of a social enterprise through the Social Business Initiative launched in 2011, but more work must be done in creating a policy ecosystem that allows social enterprises to reach their maximum impact. Having

proper representation of social corporations at the institutional level is vital for this, and specialised committees could help ensure that social corporations are not left out of policy-making processes. Specific policies on the solidarity economy would help social enterprises receive better legal recognition, while Member States will be better able to set up schemes that provide smaller social enterprises with access to the financial and managerial resources needed to experience economies of scale.

The role of the EU should not be overlooked in promoting the solidarity economy. In his State of the Union address of 2016, Jean-Claude Juncker himself said that “solidarity is the glue that keeps our union together”.⁶ If the EU really wishes to promote solidarity within the union, it is important that such alternatives to the neoliberal model are taken seriously at the institutional level. This would require a major coalition of support between Member States, but we cannot wait until the next financial crisis for this change of heart to happen. Caught between Brexit and the rise of far-right Eurosceptic groups, the future of the EU is at stake, posing a threat to intracontinental prosperity. It is of the utmost importance that the EU starts to place ordinary citizens at the heart of its policies. The solidarity economy is a stepping stone in the right direction as it emphasises the role of the firm as an enterprise having a social responsibility, whilst also

⁶ Juncker, J.C. (2016), State of the Union 2016, European Commission

recognising the importance of putting people and the planet above profit. If EU Member States agree to put business interests aside and place ordinary citizens at the heart of EU policy, trust can once again be built between citizens and EU institutions. This includes having a legal framework that helps define

the solidarity economy and social enterprise, but it must also include an honest and well-informed debate at the institutional level on the viability of the neoliberal model. Doing this will help legitimise the EU as an institution of solidarity and democracy, not neoliberalism and bureaucracy.

References

Brian Arthur, W (2013), *Complexity economics: a different framework for economic thought*, Oxford University Press

Juncker, J.C. (2016), State of the Union 2016, European Commission, <https://publications.europa.eu/en/publication-detail/-/publication/c9ff4ff6-9a81-11e6-9bca-01aa75ed71a1/language-en/format-PDF/source-30945725> (accessed on 11 September 2019)

Marshall, A. (1890), *Principles of Economics*, London, New York: Macmillan

Murray, C. (2011), *Cooperative Survival Rates in British Columbia*, British Columbia Co-operative Association

Raworth, K. (2017), *Doughnut Economics: Seven Ways to Think Like a 21st Century Economist*, New York: Random House



Trans European Policy Studies Association

Rue d'Egmont 11, B-1000
Brussels, Belgium

To know more about TEPSA visit: www.tepsa.eu

Follow TEPSA on:

 [@tepsaeu](https://twitter.com/tepsaeu)

 [@tepsa.eu](https://www.facebook.com/tepsa.eu)

 [TEPSA – Trans European Policy Studies Association](https://www.linkedin.com/company/tepsa-association)

Co-funded by the
Europe for Citizens Programme
of the European Union



The European Commission support for the production of this publication does not constitute an endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.