

Ethical, solidarity-based citizen involvement in the economy: a prerequisite for social cohesion

Trends in social cohesion, No. 12

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PREFACE

The rise of citizens' commitment in Europe and the emergence of new forms of responsibility in the use of financial resources and consumption contribute socially and politically to social cohesion in ways which the Directorate General of Social Cohesion wishes to highlight by holding the 2004 Forum on "Socially responsible consumption and finance systems: public authorities' and citizens' commitment for social cohesion". The forum is intended to pave the way for more in-depth dialogue between public authorities and grassroots organisations involved in such approaches.

One of our Directorate General's tasks is to understand ongoing changes and their contribution to social cohesion. The challenges we face today make it essential to recognise the responsibility and activities of each of the players in our European societies. In this sense, solidarity is an essential ingredient of the concept and principles of social cohesion as set out in the Strategy for Social Cohesion adopted by the Committee of Ministers of the Council of Europe in May 2004. It is an asset that needs to be enhanced to provide Europe's citizens with a climate of trust in the future.

This volume of "Trends in social cohesion" reviews some of the thinking and preparatory work on the forum which was also discussed at a seminar on citizens' involvement in the economy held in December 2003 thanks to a financial and political contribution from the Government of Wallonia, Belgium.

Alexander Vladychenko

*Acting Director, Directorate General of Social Cohesion
Council of Europe*

FOREWORD

Why is the Council of Europe taking so much interest today in the new forms of economic solidarity and responsibility which European society is setting in place in response to the modern-day challenges of human and environmental vulnerability?

As the “home of democracy and human rights”, the Council of Europe is interested in every effort by citizens to make our society a better place to live in, a place where everyone can live in dignity. In the revised “Strategy for social cohesion”, the concept of shared responsibility is an incentive for governments to take into account the growing concern of their citizens “to develop new forms of economic action capable of contributing to social cohesion. People are using the means of action that are open to them as individuals such as their power as consumers and the way in which they use their savings” (para. 30). The strategy also states that “the challenge is to find ways of ensuring that the market economy contributes to social cohesion and does not function so as to exclude those who are least attractive as consumers” (para. 31).

The concept of social cohesion developed by the Council of Europe combines the organisation of social cohesion (and the links and frameworks involved in preserving it) with individual self-assertion. With the new technologies interconnecting people, single, group-based identity is giving way to a combination of identities. Individuals who assert themselves are thus the bearers of multiple identities and affiliations – rooted in their immediate surroundings but also in the broader context – as opposed to the single identity (territorial or national) founded on specific responsibilities, especially on the part of and vis-à-vis the state.

This raises two broad questions. First, what responsibilities are engendered by individual identities with multiple affiliations?

Individuals with multiple affiliations are clearly more aware of how their own everyday behaviour as consumers, what they do with their money and the functioning of the planet as a whole are interrelated. Finance and consumption are perceived first and foremost as expressions of individual fulfilment. In such a context, can initiatives to promote ethical, solidarity-based finance and responsible consumption help to “qualify”

these relationships by calling upon the societal responsibilities inherent in individual actions?

Ethical initiatives and solidarity in economics seem also to answer a new need for areas of citizen involvement that are quite distinct from the very specific fields of occupational, ideological or religious identification (group formations such as political parties, trade unions, certain associations, etc.).

It thus remains to make the connection between this new individual's relationship with the market and social cohesion. In other words, how can the individual's economic actions and choices incorporate a dimension of societal responsibility?

Ethical, solidarity-based initiatives concern the individual mainly as a sovereign consumer. They do not seek to restrict choice, but rather to widen it by incorporating information that helps people choose products or services knowingly, aware of the repercussions of their choices on others, on the planet and on their own living space.

What information do these sovereign consumers need in order to change their behaviour and stop basing their purchases solely on low prices and on use value – to stop consuming irresponsibly simply because it costs less?

First, they need “qualified” information on production processes and savings investment schemes. This is essentially what ethical and fair trade labelling does, by qualifying products from this point of view. However, in order to extend the impact beyond the enlightened few, further efforts must be made to move past mere appreciation of the “visible” components of quality to an understanding of the “invisible” components: by including standards of fairness, environmental protection, cultural conservation and so on, quality standards can help people choose consumer products or savings schemes on a more socially responsible basis.

Incorporating responsible citizenship in relations between individuals and markets also calls for new rights, such as:

- the right to know about the conditions in which goods are produced and sold (including the effects of “low-price” strategies on workers and small firms);

- the right to know how workers' conditions of employment and returns on shares are related;
- the right to know what use is being made of one's savings;
- the right to set up businesses through collective support;
- the right to know the difference between the price paid to the producer and that paid by the consumer, etc.

These rights all strengthen the principle of freedom of choice. They are also essential in guaranteeing access to credit and the development of economic initiatives in favour of people and families made vulnerable by the system in place. In more general terms, therefore, we are talking about the right of all individuals to become responsible economic actors, be it as consumers, investors or producers. In a law-based society like the one we live in, we are witnessing the birth of a new wave of rights (similar to that of political rights, social rights, etc., in the past).

The second question is why responsible individual choices should be of interest to the public authorities in the Council of Europe's member states.

Keeping the world economy under control is generally becoming an increasingly difficult challenge for a democratic system whose legitimacy is territorial and based on political consensus. The pace of democracy is slow, whereas that of the global economy is fast and furious, so that it is difficult for the one to moderate the other. The economy defies democratic political management. How, then, does one give a new sense of *polis* to the economic act in societies made up of individuals?

Before globalisation, the market was regulated to guarantee competition and individual choice-benefit in the national arena. The state contributed to the fairness of the whole through taxation: the economic act was kept in line by rules laid down by the state and had a role to play in public life in helping to maintain social cohesion.

Today, however, how can global markets and social cohesion be reconciled? The need for responsible individual choice is increasingly urgent. It requires intense and regular dialogue and precise legal frameworks. The Council of Europe's Social Cohesion Development Division, with the support of the European Committee for Social Cohesion (CDCS), has taken an interest in these issues. It is considering setting up a European platform for public-private exchange on the frameworks required for

the common good and social cohesion to be taken into account in people's economic actions.

Some preliminary research initiated two years ago has revealed:

- a multitude of public-private dialogue initiatives – especially at local and regional authority level – aimed at changing individuals' behaviour vis-à-vis the market: less wastage of foodstuff, less waste disposal, with resulting beneficial effects on the environment, development of criteria for critical and responsible consumption, encouragement to view family budgets in the light of criteria such as fairness towards people in other countries, etc.
- a great variety of legal measures taken in Council of Europe member states to acknowledge or support (and also to embark on) initiatives that make consuming and saving socially responsible acts of solidarity.

This volume in the "Trends in social cohesion" series is devoted to considerations that highlight the economic importance of responsible citizenship. It reveals how, as in all social innovation, the processes are under way while questions remain unanswered both in terms of concepts and the real advances made and their impact.

This volume should thus be read without dwelling too long on the explanation of a single concept or reference framework, but rather with this basic question in mind: is it possible to give a "political" meaning (in the sense of *polis*, the common good, or social cohesion) to individual economic choices?

Many of the texts included in this issue were produced for the seminar, "Committed citizenship in the social economy: what future for ethical finance, fair trade and responsible consumption?", which was organised on 4 and 5 December 2003 in Namur (Wallonia, Belgium) with the help of the Ministry of the Walloon Region, Directorate General of Social Action and Health, Social Action and Immigrants Division. The work done on the social economy and its role in promoting social cohesion and consolidating citizen democracy is also backed by the Council of Europe's Integrated Project, "Making democratic institutions work".

Our thanks to all those who here give us the benefit of their specialised knowledge and experience in this field of such vital importance for the future.

Gilda Farrell

*Head of the Social Cohesion Development Division
Council of Europe*

I - A CIVIC COMMITMENT TO THE ECONOMY: HOW CAN SOLIDARITY-BASED FINANCE SYSTEMS AND RESPONSIBLE CONSUMPTION CONTRIBUTE TO SOCIAL COHESION?

By Sabine Urban, Emeritus Professor, Robert Schuman University, Strasbourg

Introduction

The topic the Council of Europe has chosen for this issue of the “Trends in social cohesion” series is a vast and ambitious one, covering as it does a number of important issues that are at the heart of current debate in society. The subject is in a state of flux since analysis suggests the emergence of a new socioeconomic paradigm relating more precisely to relations between governments, the market and civil society in a democratic setting.

The wording of the title focuses on a civic commitment to the economy and on social cohesion. Citizens represent, at the same time, a large number of individuals, who may be considered as political players (in a democracy), and numerous economic operators, who are capable of influencing other socioeconomic players and representative (political) institutions. Hence, it is necessary to establish first of all what exactly is meant by “citizens” and a civic “commitment”; this will be dealt with in the first section.

This civic commitment operates in an economic, political and social environment that is not neutral. There are many forces at work, involving players in positions of power who try to master the rules of the game in society to their advantage or on the basis of their own biased values. In other words, civic commitment is hindered by various mechanisms and authorities that have established a particular framework for life in society. Some of these mechanisms will be covered in the second section.

This raises the question of how mankind can react to these mechanisms. Mankind comprises both individuals and social beings and, beyond that, the political authorities that represent them. Without wishing to be pessimistic or controversial, we can now say that human society is in a state of crisis, probably because of the excessive divide between the economic, social and political spheres. Links need to be established or restored, with due regard for certain fundamental values, such as are upheld by the Council of Europe.

The “solidarity-based economy” is one of the novel approaches emerging, and one that needs to be known, acknowledged and implemented. The third section deals with the need to call the established order into question and the ways in which this is already being done (albeit only partly).

The final section introduces the following chapters of this publication.

1. What is meant by “citizens” and a civic “commitment” in the socioeconomic sphere?

The concepts of “citizen”, “solidarity”, “responsibility” and “social cohesion”, included in the title of this issue of “Trends in social cohesion”, are certainly not new, but they are often understood in diverse ways.

The scope of the term citizen has been extended from membership of the City, which is what it meant in ancient times, to that of the nation state and then of supranational entities (such as the nascent Europe), and finally to membership of an unlimited area – a “citizen of the world” puts the interests of humanity above nationalist interests. This shows that a “civic commitment” can operate on different geographical levels (local, regional, national or international), with varying degrees of freedom and different rights and duties. In any event, citizens are proactive members of society, “actors”, natural persons or legal entities whose concerns are not only material or financial (economic) but also human and social.

“Actors” are by definition influential in so far as they “act” or are capable of doing so. They therefore have power that they can wield. This power endows them with social responsibility, which goes beyond the interests of a natural person or legal entity and extends to those of a group, or indeed society as a whole (though it may be limited to a particular field). Ilya Prigogine, Nobel Prize winner in chemistry in 1977, clearly demonstrated that the “determinist” laws of physics are of little relevance to social sciences. Human society does not evolve in a stable system; it is not linear but is characterised by sudden changes of direction or “bifurcation points” that introduce random elements bringing about structural change. We are experiencing “the end of certainty” and the emergence of “a plurality of futures”. The social sciences “include the unforeseeable, the qualitative, the possible, and the uncertain”.¹ Once

1. Prigogine, I., “Is the future a given?”, in M. Ricciardelli & S. Urban, *Globalization and Multicultural Societies, Some Views from Europe*, University of Notre Dame Press, Notre Dame, 2002, p. 9.

determinism is replaced by mere probability of change, it has to be accepted that each individual is responsible for orienting change. Everyone has the power to act. This means that individuals must take action and that, more than ever before, such action “is not doomed to insignificance”.²

It is not only citizens as individuals who are concerned: citizens live in groups and are administered by private organisations (companies, associations, etc.) and political institutions (state, region, local authority, etc.) still known as “public authorities”, which are often endowed with substantial power and means of action. This brings us to the concept of “shared responsibility” or “co-responsibility”.³ Citizens as individuals, groups or institutions share the capacity to make choices, to express their wishes and to have a strategic vision, in short the capacity to point change in a particular direction and, potentially, to orient it in a coherent, co-ordinated manner (to take an optimistic view!). It should be remembered that social, or socioeconomic reality, is a human construct; everyone bears a share of responsibility for it, even if the different shares are very unequal.

Present-day society is in the process of actively rediscovering the numerous facets of partnership, which has existed in very different forms depending on the time, place and field concerned. Today this trend is closely linked to the globalisation process, which has speeded up interaction and increased interdependency worldwide. Purely individual decisions are therefore less meaningful, which may seem paradoxical in a doctrinal context where huge emphasis is placed on individual interests. The future of the planet’s inhabitants is now linked to the concurrent (contradictory or complementary) decisions of all the players on the world stage. Trade, financial transactions, ideas, ideologies, images, sound, pollution, disease, arms and drug trafficking, corruption, poverty and contempt for human rights now know hardly any frontiers.

Responsibility and partnership led to the acceptance of the principle of solidarity, but the globalisation process and the resulting complexity of the various systems makes it difficult to express the principle of solidarity on a world scale, even though the idea of fair trade between the North (the developed countries) and the South (which is economically less

2. Prigogine, I., *ibid.* p.16.

3. A concept defined by the Council of Europe in its recent work “Methodological guide to the development of social cohesion indicators”, to be published in 2005.

advanced) is making encouraging progress and eliciting growing interest. By and large, it was only in the late nineteenth century that the modern principle of solidarity found political expression in Germany, under Otto von Bismarck, and later on in the twentieth century in the United States, at the instigation of Franklin D. Roosevelt (with the *New Deal*, following the Great Depression in the 1930s) and at the end of the Second World War, in most European countries, which introduced generous welfare state policies.⁴ Solidarity was then expressed through a sort of mutual risk insurance involving collective responsibility for expenditure incurred by the most vulnerable people, who are often less well-off than others, and secondly through shared objectives (encouraging a high birth rate, preventing disease, ensuring a quality education for all and access to minimum resources such as water and information). As a general rule, solidarity is found to be more readily expressed within defined, limited borders (a community or nation) rather than in vast, interconnected regions with no specific, universally accepted form of governance (such as the global world). On the other hand, welcome new examples of solidarity are emerging internationally, and more specifically in the European Union, where numerous active solidarity initiatives are being prepared (structural funds, cohesion funds, European co-operation networks, and so on).

The principle of solidarity is, however, being countered by the principle of solvency, a principle which is now nearly universally accepted: money is desired and sought by a large majority of people and is now the global value *par excellence* (being convertible and accepted everywhere, and providing unfettered access to virtually everything). The prevailing adoption of this principle, as opposed to the principle of solidarity, amounts to providing access to certain resources or cover against certain risks only to those who can afford to pay the prices set by the markets concerned. This raises the burning issue of how monetary resources are generated and, in particular, distributed. Allocation of monetary resources in a liberal society is necessarily unequal, since it is linked to productive contributions – to the provision of goods and services that are evaluated in varying ways, according to more or less “perfect” market mechanisms (a theoretical fiction) or according to the balance of power, which is likewise unequal, as the “strong” have advantages (when it comes to arguing, negotiating and defending their interests) over the “weak”.

4. There is no mention here of the social solidarity policies pursued in the Soviet Union, China and Japan.

Beyond a certain inequality (and resulting unfairness) threshold, social tensions become unbearable, the social fabric unravels and society enters into a state of crisis; it becomes nonsense and violence sets in and spreads in numerous forms. In desperation (for violence ultimately destroys everyone), attempts are made to establish a degree of “social cohesion”, in the sense of a political concept that is fundamental for the purpose of supporting and providing legitimacy for a blueprint for a “modern” society (namely one that is not based on the lifestyle and knowledge models that have gained legitimacy through tradition). Social cohesion may be considered a kind of antidote to violence. The Council of Europe, and more particularly DG III’s Social Cohesion Development Division, proposes the following reference definition, based on the Organisation’s general principles: “the social cohesion of a modern society is defined as all the relations and links that tend to strengthen society’s capacity to ensure the well-being of all its members on a sustainable basis, including equitable access to the resources available, respect for dignity in diversity, personal and collective autonomy and responsible participation.”⁵ Social cohesion is thus both an ideal to be achieved and a form of capital that can be made to work for the common good.

A key aspect of social cohesion is the effective existence of ties, of peaceful relations between individuals, groups and institutions. Such ties are not self-evident. While the principle defined above is bound to be attractive because of the quality of the society it conjures up, it has to be admitted that it is tricky to implement. There are a number of forces, power struggles, poorly-grasped challenges and mechanisms that work against such ideal societal harmony. This makes vigilance and political will all the more important, for there is reason to believe that, in the future, not only peace but also socioeconomically and environmentally sustainable growth and socioeconomic inventiveness will depend on the way in which social cohesion is fostered. The world needs a new organisational set-up or “architecture” (Jürgen Habermas) to promote respect for values that are not exclusively venal. It is interesting to note, in this connection, that there are a growing number of novel initiatives in this area, such as those based on solidarity-based finance and responsible consumption, even though they are still largely unknown. The European institutions also have a great capacity for societal innovation, firstly because they facilitate the comparison of situations and policies in

5. Definition given in the *Methodological guide to the development of social cohesion indicators*, to be published in 2005.

different member states (which makes it possible to identify best practices), secondly because they serve as a think tank, and lastly, of course, because they have the power of influence, initiative and decision and can “leave their mark” (Marina Ricciardelli).

2. Powerful economic and technological mechanisms interfering with society

A society characterised, even approximately, by social cohesion cannot be achieved spontaneously, particularly nowadays, because there are forces and mechanisms at work to thwart its achievement. There is also the dysfunction of regulatory mechanisms, not to mention deviant behaviour (failure to observe the rules, corruption, document forging and so forth). Moreover, there are technological developments that have no moral or ethical dimension and radically affect the workings of society. Only a few such factors will be mentioned here.

The globalisation process is no doubt a major trigger of societal change. It has made the people and regions of the planet largely interdependent. This systemic interdependence is characterised by a multitude of economic, social, political, environmental, cultural, medical, climatic and other relations that are, on the whole, largely unsupervised and difficult to control. The scope of what is possible has expanded enormously, for better or worse. Yet at the same time, in order to try to control this chaotic global development more successfully, sub-groups have developed, bringing about partial integration, with a view to increasing their influence in the world or establishing special areas of socioeconomic protection. To some extent, these sub-groups are subject to constraints and are mutually dependent, which somewhat reduces their room for manoeuvre, or hampers the decision-making freedom of certain major players. European companies, for instance, depend on a competition policy or a monetary policy linked to the Euro; European states are limited in their initiatives and budget choices by common policies or provisions set out in treaties; consumers are subject to decisions by (world) producers of oil or other strategic resources, while investors and savers are bound by interest rates set by international financial markets, and so on. This multitude of links creates a highly complex environment, exacerbating situations of uncertainty and risk and, as a result of tensions, fuelling social unrest, fear, rejection, a mentality induced by identity-related or selfish considerations, and mistrust. These are existing factors that do not stimulate social cohesion, which depends largely on the consistency of mutual trust.

Moreover, the remarkable spread of new information and communication technologies, which is both the driving force for the globalisation process and encouraged by it, has caused new flexible, fragmented production processes to become widespread. As a result, the various stages of the value-added chain are scattered throughout the world: research and development takes place here, the workshops manufacturing components are there, the components are assembled somewhere else, and distribution takes place elsewhere again. The fiscal revenue related to production, the social security contributions related to employment and wages, not to mention profits, “vanish” into diverse (if not mysterious) parts of the world. The expression “value migration” is used in connection with relocation (or “delocalisation”). The fact remains, however, that the resources of local authorities, states, employees and social protection bodies have been undermined and have become uncertain. Instability is taking hold almost everywhere and the benefits of social cohesion are urgently, and even desperately, sought. In fact, technological and economic change is only partially at the service of humankind and its needs, in so far as the changes are taking place at such a pace that the adaptation capacities of people and institutions have difficulty in keeping up with technical and scientific requirements.

These adaptation capacities depend not only on the pace of change but also on the “structural ascendancies” (*emprises de structure*, François Perroux) to which the socioeconomic system has given rise. The market economy is not, as it is often thought to be in theory, an operating framework for the economy in which the players are individual agents (as opposed to groups) who are independent, free, perfectly informed and capable of anonymously and democratically influencing supply and demand. On the contrary, the observable reality reveals numerous inequalities and examples of selfishness among the players, information and power asymmetries, collusion of all kinds and even flagrant breaking of the law. The results of this unequal “game” can only be unequal and unfair, and the endogenous dynamics of the game are likely to exacerbate discrepancies in living conditions and wealth distribution.

The endogenous forces are compounded by the phenomenon of externalities. The idea behind the concept of externality is the recognition that the actions of a given player may affect other players without their having been consulted or compensated for the damaging effects suffered

(negative externalities) or without the beneficiaries having to pay for an advantage they obtain by virtue of those externalities (positive externalities). The most influential players obviously seek to create positive externalities that favour their interests, while the weakest members of society have no option but to suffer the consequences, unless such arbiters as governments decide to intervene in their favour. This is one of the key roles that democratic governments have to play. It should be pointed out that these discrepancies in development levels or capital wealth are not the prerogative of any one system: both the market economy and centrally-planned economies have their advantages and drawbacks in this respect. In the past, the market economy was very efficient in producing goods and services, which were one aspect of well-being, while centrally-planned economies were very effective in distributing resources and ensuring respect for certain facets of the common good. Failings – in particular ethical shortcomings – on both sides, however, prompted the search for new methods of socioeconomic organisation, such as the “Third Way” (A. Giddens)⁶ and the “solidarity-based economy”, both of which combine the market economy with a strong political commitment, although they diverge when it comes to defending a range of fundamental parameters.

On the sociological front, resistance to change is another factor that hinders progress towards shared responsibility designed to ensure the well-being of all and preserve societal values, which entails, *inter alia*, ensuring that the right to be different is a right like any other. The phenomenon of resistance to change, which is often prompted by established rights and privileges, ill-considered habits and unverifiable prejudices (Durkheim), is not confined to individuals: it also applies to public authorities (which jealously guard their powers) and private organisations (which are anxious to preserve their role and power).

3. Calling the established order into question

The established order needs to be called into question, both in order to take account of the new situation that is emerging and to make for a viable modern society in the future. For instance, the emergence of a growing role for civil society (associations, the community, non-governmental

6. Giddens, A., *The Third Way. The Renewal of Social Democracy*, Polity Press, Cambridge, 1999.

organisations, etc.) is calling into question the old post-war societal paradigm symbolised by the “state/market tandem” (B. Lévesque),⁷ which was shored up by the post-war reconstruction context and, more generally, by the modernisation of the economy. This regulatory model succeeded in reconciling on a national scale social progress and economic growth, *inter alia*, by means of a redistribution that consolidated the “effective demand” (Keynes) for nationally-produced goods and services. Along the way, the welfare state model has been criticised for several reasons – in particular on the grounds that it has generated a bureaucracy and social costs deemed excessive if international competitiveness is to be maintained on the sites concerned, and on the grounds that it gives rise to unwanted immigration, fraudulent misuse, chronic budget deficits, business relocation, which increases unemployment (which is precisely one of the things that the system seeks to relieve), and inertia on the part of the members of society (who allegedly lose their ability to react and to take initiatives). In short, the drawbacks are heavy and even quantifiable, whereas the benefits – mainly respect for human dignity, even in adversity, and an opportunity to find a way, or another way, of succeeding – are difficult to evaluate in monetary terms.

“Human capital” is probably invaluable (in the sense that its value cannot be assessed in accounting terms), but the esteem (in the sense of respect) in which society is prepared to hold it is not always explicit or visible. Respect for financial values, on the other hand, is so much simpler! The extreme “monetarisation” of society, however, induces a legitimacy crisis in the financial system (J. Plender),⁸ for it is introducing practices of “legalised theft” and generating a contempt for human and cultural capital, which is inherently intangible and therefore difficult to evaluate and remunerate according to accounting rules designed for another industrial age. Yet this human and societal capital is becoming increasingly important in comparison with tangible assets. Microsoft did not need many machines to prosper but it did need “knowledge workers”. The production system is undergoing a radical transformation. Now that intangible assets are becoming increasingly important in modern society,

7. Lévesque, B., “Fonctions de base et nouveau rôle des pouvoirs publics: vers un nouveau paradigme de l’Etat”, in *Annals of Public and Cooperative Economics*, Vol. 74, No. 4, 2003, pp.489-513.

8. Plender, J., in *Rapport Moral sur l’Argent dans le Monde*, 2003-2004, published by the Association d’économie financière – Caisse des dépôts et consignations, Paris, 2004, pp.67-74.

the logical deduction should be that the current development model, which is extraordinarily wasteful of resources, and particularly of human resources, with their knowledge and creative potential, is no longer relevant.

It is not just a few idealists or isolated thinkers who are pointing out that the current societal model is no longer suitable; perhaps surprisingly, major players in the system seem to have become aware of this, and are making the same point. I shall mention just three examples. Claude Bébéar, a financier and Chair of the Axa Insurance Group Supervisory Board, has had the courage to state quite clearly: "Finance must resist the imperialist temptation. Finance, in particular financial markets, cannot seek to govern all economic relations (and the social relations deriving from them). [...] It is essential that experts, company managers, regulators and the general public bear this in mind".⁹ In the same report, Horst Köhler, who was elected President of the Federal Republic of Germany in May 2004, but was Managing Director of the International Monetary Fund (IMF) at the time, pleads in favour of a "better form of globalisation", one that requires political management and embraces "world ethics" in the form of a fundamental consensus based on cohesive values, absolute standards and personal convictions (as referred to by the philosopher and theologian Hans Küng), noting that "more attention must be paid to the social dimension of globalisation".¹⁰ Thierry Desmarest, Chairman of the Total energy group, has likewise become attentive to these societal concerns, believing that multinational companies bear, and must shoulder, a share of responsibility.¹¹ For its part, Total "has entered into commitments in five fundamental areas", including "careful management of its human resources, as a means of guaranteeing social cohesion" and "its integration into local communities". It is no longer enough for the company "to make an honest profit; it must be involved in solving the world's problems", and this new responsibility entails open co-operation between the business world, the world of politics and civil society.

Civil society is arriving on the scene with a major role to play, further to the failure of both the free market and the state to operate as acceptable

9. *ibid.*, "Pour une finance responsable", p. 65.

10. *ibid.*, "Vers une meilleure mondialisation", pp. 89-199.

11. *ibid.*, "La mise en œuvre des concepts de responsabilité sociétale par le groupe Total", pp.347-352.

economic and social regulators. The respective complementary roles of the market and the state are recognised almost right across the political spectrum, but with different nuances. There are those who propose regulation by the market (the principle whereby services are provided to those who can afford to pay for them: the solvency principle) as a general rule but entrust those who lose out to the care of civil society, which is acknowledged to have the role of “repairing the damage” caused by the current socioeconomic system. Here, civil society mainly takes the form of non-governmental organisations (NGOs), religious or secular charitable self-help associations and various community action groups. Others, taking note of the limits of the state (or other public authorities)/market tandem, which experienced a thirty-year economic boom from 1945 to 1974, seek to back it up with a fully-fledged civil society with real power, even though that power has been obtained without a representative electoral procedure. Here we have the new mixed economy model based on regulation and governance (A. Giddens, see footnote 6), which relies on consultation and co-operation among all the stakeholders in the socioeconomic system. The concept of a solidarity-based economy, as described in this publication, adds a novel, original dimension that improves on this model. It is based on a strong commitment by a civil society that refuses to sit back and accept rules of governance and regulation that it considers unfair.

Benoît Lévesque uses the metaphor of a *ménage à trois* for the relationship between the state, the market and civil society, and describes it as a new paradigm. This goes a stage further than the state/market tandem, which has had its day, and given way not to a return to pure market forces, as the neoliberals advocate, but to a more subtle and delicate three-pronged set-up. That said, this *ménage à trois* is not self-evident because the market, the hierarchy and society use different mechanisms: prices to co-ordinate commercial activities, the observance of rules in the case of public-sector and private-sector hierarchies and voluntary commitment in the case of civil society. This presupposes negotiations to obtain support for a joint strategy, which constantly has to be redefined (see footnote 7). Moreover, the three “partners” have to address highly specific challenges: the market must prevent or watch out for dropouts (players who are excluded and not necessarily replaced by new arrivals); the hierarchy must ensure not only that the rules are observed and are rational, but also that those who devise them enjoy legitimacy, while the governance of civil society must address the issue of solidarity and loyalty. If this *ménage à trois* is to work, active steps must be taken to promote a

public-private partnership, and regular consultation must take place to ensure widespread pooling of efforts (in search of synergy effects) in the context of a plural economy (private capitalism, public-sector and social or solidarity-based economies). In this budding model, social matters would no longer be considered as something left over at the end of an essentially economic process (a residual asset), or simply as a cost or burden, but as a true asset, an intangible form of capital, the return on an investment that improves the overall output of the production system. Moreover, it is only logical that this human capital should be a key element of a new economy founded on knowledge, know-how and skills, available or potential resources. Human capital evolves and is therefore capable of keeping pace with and guiding change, provided it has what it needs to exploit its potential. It is a question of fostering not only individual skills but also those of social groups, given that there is interaction (externalities) among all the players, who should be able to help one another to develop. Development and governance models known as “co-opetition” models were designed in an industrial economy (B. Nalebuff & A. Brandenburger):¹² they combine “co-operation” and “competition” in the context of strategic alliances. There is therefore reason to believe that the acknowledged complementary nature of economic and social considerations, like that of government and market forms of regulation, should also be able to be more widely accepted in the sphere of socioeconomic and political democracy. Admittedly, this societal transformation presupposes a great deal of goodwill and receptiveness to those who are different, and therefore entails behavioural changes, which are usually slow to come about, but it seems clear that the search for greater social cohesion is no longer a utopia but has become a vital, urgent necessity for society, as is borne out by the outbreaks of violence of all kinds currently facing humankind.

4. Introduction to the following chapters

Encouraging signs of change exist and can already be identified. Worthwhile initiatives on the part of civil society, which go well beyond the stage of good intentions, are under way in many countries and in various fields, particularly finance, trade and consumption. The profusion of ideas and projects in this area needs to be channelled, so that they

12. Nalebuff, B., & Brandenburger, A., *Co-opetition*, Doubleday Books, New York, 1996.

acquire greater legitimacy and influence; they also need to be taken into consideration in political circles and by political institutions. It is primarily to the basis for these new arrangements that Roberto Burlando turns his thoughts in Chapter II, entitled “Ethics and economics: towards a solidarity-based economy”. A return to “moral sentiments” (a term used in the title of a famous book published in 1759 by Adam Smith, who is considered one of the founders of the liberal economy) is now being called for by many players in political circles and society generally. Ethical considerations are again at the heart of public debate and are crucial if society is to evolve in the right direction.

It is not enough, however, to proclaim principles, however worthy these may be. One must also be capable of proposing objectives and methods that can serve to prepare government measures that are in keeping with the goal of a solidarity-based economy, assess the results of the action taken and, more generally, objectively measure the changes taking place. This is the tricky but essential task that the Council of Europe has undertaken.¹³ In doing so, it is also seeking to foster truly democratic skills and a “culture of rights” (Norberto Bobbio). Chapter III, entitled “Social cohesion indicators and the contribution of a solidarity-based economy” concerns this approach.

In seeking a more solidarity-based and democratic economy, we also need to be able to make use of tried and tested economic analysis tools that can guide economic and social policy. The key concept here is that of externalities, referred to above. The substance and political impact of this concept is explained by Paul Dembinski in Chapter IV, entitled “The concept of externality and its political dimension”.

In the area of public administration and legislative and fiscal provisions, James Harrison shows that political action in favour of a solidarity-based economy is now definitely possible – and generally advantageous – with due regard for the rules governing the market economy. In Chapter V, he sets out “Proposals for legislative initiatives to promote the social solidarity economy”.

Despite these proposals for the future, there is in fact already a fairly substantial body of legislation in this area. The Council of Europe has carried out a survey on this legislation, and this is described in Chapter VI, entitled

13. *Methodological guide to the development of social cohesion indicators*, to be published in 2005.

“Solidarity-based economy: a summary of the legislation of the European Union and the member states of the Council of Europe” (Esther Petridis). Statutory provisions do, however, need to be put into practice if they are to be effective. The media and public authorities have an important role to play here, particularly through educational programmes.

The European Union is preparing, or has already introduced into EU law, directives on sustainable development and social cohesion, including the tricky problem of access to public contracts, with a view to giving prominence to ethical considerations and not just value for money when it comes to goods and services. The issue is an important one since, on average, public contracts account for about 14% of the European Union’s GDP. A recent Green Paper of the Commission of the European Communities on “Public-Private Partnerships and Community Law on Public Contracts and Concessions” (Brussels, 30 April 2004) highlights their importance.

The remaining chapters are devoted to reports by people on the ground in the areas of finance, trade and consumption. Finance, in other words savings, loans and investment, is more or less the key to social progress generally and, more particularly, to an ambitious social progress model that is based on “sustainable development” (namely one that respects the environment and the shared heritage of future generations) and is “socially responsible” (that is, social cohesion considerations take precedence over the search for profitability at all costs, for profits are shared very unequally and only in the short term). The experiments by ethical banks in Europe are based on solidarity between savers (who accept a lesser return on their deposits) and investors (who abide by the ethics of social responsibility). In Chapter VII, Henri Rouillé d’Orfeuil points the way “Towards a European solidarity finance system”, highlighting the respective roles of members of the public, financial institutions and governments and the obstacles that need to be overcome in order to promote financial systems and companies based on solidarity.

Responsible consumption has likewise gradually become a new force in European countries. The various crises that the food industry has experienced in recent years, in connection with both animals and plants, have probably helped to foster “responsible consumption”, but the phenomenon is much deeper rooted and less cyclical than would appear, as Daniel Vuillon explains in his capacity as a farmer committed to the preservation of small farming in Chapter VIII: An analysis of needs in the fields of land management, natural resources, food and human health.

In Chapter IX, Christophe Dietrich reviews the problem of “Development of social cohesion through development of responsible consumer behaviour” in Europe, taking into account that consumers can affect production patterns, just as producers influence consumer choices.

In short, this publication should be considered not only as a source of information but also as an analytical and action tool that could be used to set up an observatory of good practice in the area of public-private dialogue and enable the Council of Europe to launch a European charter to promote a solidarity-based economy and hence social cohesion. The idea is not so much to highlight key principles for life in society and fundamental values to be respected as to promote a genuine forum for fruitful political dialogue.

II – ETHICS AND ECONOMICS: TOWARDS A SOLIDARITY-BASED ECONOMY

By Roberto Burlando, Professor at the Universities of Turin and Exeter, Vice-president of the Ethical Committee of the Banca Etica, Italy

Introduction: The relationship between ethics and economics

In this troubled period affecting all of Europe, many people are showing an interest in the relationship between ethics and economics, while a good number of leading official figures are pointing to the need for a greater role for ethics in business and indeed in every sphere of life in society. Both these developments are, not surprisingly, often connected with the strong dissatisfaction and fear induced by a number of financial scandals – from Enron to Argentina, and from Cirio to Parmalat, to mention only the better-known ones. Sometimes they are also associated, in a more welcome fashion, with attempts to propose active measures to step up the checks on and punishment of dubious and illegal behaviour or to introduce support for ethical initiatives in the economy and the business world.

Such proposals are designed not just to restore the rule of law in a number of “grey areas” but also to rebuild trust in economic and financial operators and institutions, and indeed in the market. Such trust is a major component of “social capital”, a fundamental aspect of healthy societies, and one that has been badly shaken by the scandals mentioned above, by the evidence of constant misbehaviour on the part of many different economic players (and institutions) but also by the difficulty of finding reliable information, not to mention explanations of what went on and is still going on.

Many people also seem to be disconcerted by the fact that the media, and other components of popular culture, both in individual countries and at European level, seem to provide inconsistent – if not outright contradictory – messages. In some places the contradictions are particularly striking – because of local circumstances and/or history – but to some extent this seems to be a general feature of the current situation. In particular, many leading figures who are now advocating the reintroduction of ethical principles in the workings of the economy were until recently

calling for less regulation and fewer controls, so as to give the market more freedom to do its job and generate wealth for all.

So what should we be doing? Stepping up or lessening controls? Should we aim to let the market operate freely and seek only to increase production and/or profits or should we also take account of other (ethical, environmental and social) considerations when taking economic decisions? How do ethical considerations influence the working of the markets and of the economy?

The relationship between ethics and economics was a long-standing controversy in moral philosophy and theology well before modern economics was born, and it is still relevant to economics, economic psychology, sociology and anthropology.¹ Without going into the various philosophical disputes or discussing the many different approaches, it would seem possible to group them into two main positions (at least in empirical terms).

1. Two opposing views

The first view is that business (and economic activities in general) and ethics are completely separate. Business relates to the really important aspects of life, that is the material ones, constitutes the true reality of the world and is compatible only with rational and efficient decision making; there is therefore no room for ethics. The material aspects of life (production, consumption, profits, etc.) have a common denominator: money. Like it or not, this is the real world and no one can change it, or indeed change human beings, their fundamental selfishness and the fact that the more powerful will always win, regardless of legal, ethical or other considerations. If anyone believes otherwise, he or she is a fool or an idealist or, alternatively, a liar. There is a saying – common to many languages – which sums up this view in a nutshell: “Money does not smell” (or, in Latin, *Pecunia non olet*).

As always, there are many versions of this view, ranging from the more cynical and power-oriented to milder ones, and each uses its premises to

1. To name just a few authors worth quoting in a brief history of the relationship between the two, we need to start with Aristotle and move on to Adam Smith and continue all the way down to such modern authors as G. Myrdal, K. Polany, A. Sen, A. Etzioni and H. Daly.

come up with a different range of proposals for market regulation and controls. The archetypal position here is that entrepreneurs and markets should be left free to pursue their interests without controls and regulations (and indeed without thought for ethical considerations), as the market itself provides all the discipline needed.²

There are two quite different approaches leading to this conclusion: a completely ideological one, without serious grounds of any sort, and the textbook neoclassical economics one, which has proper theoretical foundations but rests on crucial assumptions (this will be the focus of the next section). No serious neoclassical economist will argue that there is generally no need for market regulation and controls, but a good number of them would have trouble including ethical considerations in their economics.

One of the reasons for this is that the market is increasingly considered not only as the main instrument for the allocation of resources but also as a metaphor for the entire world, dictating the blueprint for all relationships and the value of everything, including people. A peculiarity of this approach is that it can cause difficulties for those who for whom religious/spiritual matters are important or who simply have a non-utilitarian stance, since to reduce individuals and relationships to a single “economic” dimension is not acceptable to them. Not surprisingly, the fact that this approach is gaining ground has recently caused economics to be described as “the” new religion (Dussel, Chiavacci & Petrella ; Nelson & Stackhouse).

The easy way out of this conflict is to assume that one’s own interests coincide with the common interest, but unfortunately this is not generally the case (as all the literature on social dilemmas proves), and usually this assumption is seen as a way of avoiding facing up to the contradiction and the conflict of interests between one’s own advantage and a moral stance. A frequent alternative is to maintain that morals and economics have different areas of relevance or “jurisdiction”. According to this view, one can adopt any sort of behaviour, including illegal and criminal behaviour (as long as one can avoid being caught), in business (the definition of which is therefore broader), while at the same time

2. In support of this point of view, people often misquote Adam Smith, claiming that he insisted that the widespread pursuit of strictly individual interests would bring benefits to all. On this point, see Evensky, 1993.

pretending to be a good religious (Christian, Muslim, Jewish, Hindu, etc.) or moral person and trying to save one's soul (or just appease one's conscience) by giving to charity.³ To some extent, this is supported by the mainstream neoclassical economic approach, which tends to consider that the only area in which ethics enters into economics is the distribution of income. The crucial microeconomic questions (what is produced, how it is produced and for whom) are answered by the same economic theory and do not raise any ethical questions.

This last point is one of the main targets of criticism by those who take the other view, who agree that nowadays ethics and economics are separate, but consider this a very unfortunate circumstance, and the cause of many of the problems in the current economic and social system.⁴ According to this view, economic players should take into consideration the social and environmental consequences of their actions – this is the core of the notion of social responsibility (which is closely connected to that of an ethical approach) – and also the human and ethical ones.⁵ The social responsibility approach could be accommodated in the neoclassical framework simply by giving extended consideration to the notion of externality, while ethical considerations without social or environmental implications could be included via an appropriate extension of the conditions that economic choices need to satisfy. According to this view, then, both economics and business ought to consider respecting human rights and democratic principles as a necessity (a moral imperative). This seems a quite obvious and perhaps readily acceptable point, but this approach is still far from being applied in the real world.⁶

The debate between the two opposing views is often implicitly seen as a battle between individualistic, selfish and free-rider values on the one hand and those that favour the community and co-operation on the other.

3. This model is not usually considered inconsistent; rather, it is sometimes called the "Californian" approach to capitalism. There are examples of big companies and tycoons that have been or are being prosecuted and yet are well known for donating to charity. A large number of NGOs in Italy have recently launched a campaign entitled, "Less charity and more rights".

4. See Sen, 1987, Daly & Cobb, 1994, Etzioni, 1987, among the better-known authors, but also Gorringer, 1999 and Rossi, 2002.

5. More on this point later, in relation to the notions of personal and political goods and of ethical limitations to the market.

6. See, for instance, Stiglitz, 2001, Amnesty International, 2001 and Gorringer, 1999.

Without introducing any anthropological or cross-cultural considerations at this point, it seems fair to say that, in most European countries, both traditional and modern cultures have significant references to values and ethics (as pointed out, for instance, by both sides in the debate on Europe's Christian roots), and some also include rules and considerations relating to fairness and solidarity⁷ in their morals.

As a leading European politician⁸ wrote recently: "To sustain the primacy of ethics over economic and financial considerations at the beginning of this century may perhaps appear to be an obsolete position [...] However, the widespread theory that profit is the only source of progress, irrespective of the final destination of investment, is much more outrageous. To uphold the role of ethics in the realm of business is therefore simply a question of common sense, as is borne out by the widespread and growing consensus surrounding such initiatives as debt relief and efforts to combat usury, and by the fact that Europe's citizens are attached to a social model based on solidarity and inclusion. [...] While deregulation abolished too many bureaucratic requirements that hindered economic activities, citizens' sensitivity is imposing new obligations relating to the environment, equal opportunities for men and women, respect for the disabled, and steps to combat racial and religious discrimination."

2. Why do we need to introduce ethics into the economy (and into economics)?

Let us start with some of the assumptions of the mainstream, neoclassical approach to economics, which makes a pertinent distinction between different market forms and focuses on a singularly "desirable" type of market, based on "perfect competition".

Perfect competition is the "ideal" market form as it provides all the conditions that allow the mathematical derivation of theorems of the optimality of decentralised and unregulated markets. However, it has a real drawback: it relies on the validity of four crucial assumptions (that are clearly spelled out in all economic textbooks): (a) there are a large number of producers, all quite small in size in comparison with the size

7. This is discussed, with numerous examples, in Frey, 1997.

8. The current President of the European Commission, Romano Prodi, in his Preface to Calvi, 2003 (original in Italian).

of the market in which they operate; (b) all these small producers produce exactly the same product, to the extent that it makes absolutely no difference which producer a buyer purchases from; (c) there is full, perfect and symmetric information on both sides of the market; (d) there are no obstacles to entry to and exit from the market. The first three assumptions ensure that none of the producers has any power at all on the market and that they all have to take the market price set by supply and demand as given. The fourth ensures that there is enough competition to lead – in the long run – (via a reduction in prices) to production at the lowest possible average cost and ensure that the goods are sold at a price equal to this minimum. It is on this condition that consumers will, in theory, pay the lowest possible price for the good; this also implies that no profits are made in the long run (except the small “normal” profit, which means that people have no particular incentive to choose one type of activity over any other). One of the theoretical achievements of the 1970s was to show that it is possible – in purely mathematical terms – for a system based on such assumptions to exist and have a unique and stable equilibrium. The conditions required for the existence (not to mention the uniqueness and stability) of such an equilibrium are nevertheless considered (even by two of the authors of this theory, Arrow and Hahn) to relegate this result to the realm of pure intellectual speculation, useful though that speculation may be.

On the other hand, relaxation of any of the assumptions required for perfect competition leads to a different market form, which does not have the features required for “ideal”, that is perfect, competition and for which no similar optimality can be demonstrated. Where optimality does not exist, the two possible ways of improving the situation are:

- restore the conditions needed for fully-fledged, perfect competition (e.g. by means of strict legislation against monopolies);
- look for a “second-best” solution, which normally by no means results in perfect competition and which usually implies some form of market regulation.

While it is possible – and I shall do so later on – to question the alleged superiority of a model of production and economic and social interaction designed solely to reduce prices and provide a larger quantity of goods, there is no doubt that such a model (perfect competition and a general competitive equilibrium) is the only firm theoretical basis for discussing the optimality of unregulated decentralised private-market mechanisms.

The “free-market ideology” that prevailed in the late 1980s and 1990s – in the media and among a significant proportion of non-experts, to the extent that it became part of a superficial, popular but unscientific culture – is, on the other hand, devoid of any theoretical basis and relies solely on a very superficial view of the workings of the market and of economic incentives in general. It is this false picture that provides the only strong rationale for calling for complete freedom for the players on the market, although this is neither a necessary nor a sufficient condition for the market to operate properly. This approach is, instead, a rather useful means of imposing the interests and dictates of the more powerful players on the market (so much for democracy, and indeed for fair – not to say perfect – competition).

On the contrary, people who really believe that the market and incentives are extremely important economic and social instruments, and that they should be used for the well-being of all, want to pursue a less ideological and more pragmatic analysis of the way in which they operate and also look at the cases in which they do not work properly, in order to address the problems and find practical and transparent solutions.

Besides leading to a lack of democracy in the marketplace, the domination of the most powerful players usually causes many problems (among them corruption) and often leads to mistrust, which, in turn, tends to destroy the market itself.⁹

With this in mind, it seems clear that a basic ethical requirement for the working of the economy is simply honesty, possibly associated with openness and with some degree of fairness. While it is not possible to impose honesty, we have laws to enforce it (and we ought to keep them updated and stringent, and not be quick to relax them for the benefit of vested interests). We can also use proper regulatory mechanisms and controls (as opposed to self-regulation). In the recent past, many controls were considered to have adverse effects on business and were done away with – instead of being updated – and are now acknowledged to be necessary in the wake of various financial scandals.

But that is not all. On closer inspection it is easy to see that markets are not “natural” constructs but social ones: they are made up of sets of rules (e.g. rules that relate behaviour to achievements, as in different

9. This has been proved by mainstream economists such as G. Akerlof (the market for “lemons”) and J. Stiglitz (they were awarded Nobel prizes for their studies in this area) and indeed by a number of examples, often related to financial scandals.

types of auctions, rules about the transmission of information, property rights, different types of contracts, etc.) that one hopes have been agreed upon but may have been taken for granted, or imposed by one player on the other market players. Different sets of rules usually imply different outcomes, both where individuals are concerned and generally, and also different market operation methods. Market experiments carried out in the course of economic research have proved this point on many occasions and provide evidence to add to the economic theory of auctions¹⁰ and to sociological analyses of the “architecture” of markets¹¹ and economic anthropological analyses.¹²

Often, the rules governing the workings of a particular market are not the most efficient ones; frequently they are not properly spelled out, discussed and agreed upon, and often they are not at all ethical. It is unusual for the advantages and disadvantages of different sets of rules to be properly considered and openly discussed in public debate and political circles. Usually they are imposed by powerful players or lobbies at various levels, but sometimes they may simply stem from tradition and old habits, which may have been reasonable in the past but are not any more. Nevertheless, they have very wide-ranging implications in economic, social, political, environmental and ethical terms and should be properly assessed. This, therefore, seems to be a second area in which ethical considerations should be explicitly included in economic analysis.

To go a stage further, while we must recognise that the market is an extremely useful instrument for exchanging (and therefore providing) a large number of goods, we should also be clear about the fact that it is not the best and sometimes not even the “right” instrument for exchanging all goods and services. In particular it is not (and is usually not even considered to be) an appropriate instrument for the provision of certain types of things, known as personal, political (or, for many of us at least, democratic) and common (public) “goods”.

The special nature of a number of “goods” was recognised (and was a criterion for their classification) in public economics until the late 1980s and we are now coming back to this, in a more philosophical form, with the “ethical limitations to the market” approach.¹³

10. See Davies & Holt, 1993, chapters 3, 4 and 5, and Kagel & Roth, 1997.

11. See Fligstein, 2001.

12. As, for instance, in the work of K. Polany.

13. See in particular Anderson, 1990 and 1993.

The main feature of this approach is the recognition that exchanging these goods via the market implies a fundamental change in their nature and often causes complete disruption. Examples of such specific but very important goods are votes exchanged for money in a democratic election, a practice which changes the fundamental nature of democracy (which will no longer reflect the power of the majority but rather the power of the rich), and sex (a personal rather than a political good). Although a number of people buy sexual services on the market, even they seem to see a difference between these goods and similar ones provided on a completely different basis by a spouse or girlfriend or boyfriend. Friendship is another example, and paying for friendship usually makes the buyer suspicious of the quality of that service. In addition, our legislation normally makes market transactions in certain personal goods illegal, as with sex but also body parts (and in many places also blood), though their exchange is permitted if no money changes hands. Lastly, in Europe at least, only a limited number of dealers are allowed to sell weapons and they are supposed to be very careful about whom they sell to.

So “the difficult task for modern societies is to reap the advantages of the market while keeping its activities confined to the goods proper to it” (E. Anderson). This is so because certain goods can satisfy our needs and meet our ideals only if they are produced, distributed or enjoyed in the context of certain social relations. To take this line of reasoning a stage further, the very notion of freedom needs to be carefully considered nowadays. Often the media talk of freedom in general, lumping it together with market freedom and consumer freedom on the market, and many of us have difficulty in distinguishing the different meanings. The notion of freedom prevailing on the market, which depends on context and is the one generally used, “consists in having a large menu of choices in the marketplace and in exclusive power to use and dispose of things and services in the private sphere without having to ask permission from anyone else [...] The market ideal interprets freedom as freedom from ties of obligation to others [...] but we are not free to pursue the goods of deepest significance to human life under these conditions” (E. Anderson). Both the personal sphere and democratic politics offer us another ideal of freedom, and in particular democracy implies the freedom to participate in collective decisions (that is inclusion rather than exclusion).

It might also be said that both human life and the social fabric are multi-dimensional entities and definitely amount to more than can be con-

veyed in mere economic terms. If this is true, economics needs to see itself – and we need to see economics – in the broader context of human values and achievements and in the context of the workings of society, which, as the systemic approach reminds us, is more than just the sum of the individuals of which it is made up. Human values are broader than economic ones, and they imply an ethical stance, as we can see whenever human rights and fundamental values need to be taken into account (that is, almost always). Moreover, one of the reasons why different societies operate in different ways may be that they have different institutional arrangements and social norms, and these often depend on the specific way in which values and ethical considerations interact (as is the case, for instance, in the different religions).

Clearly, the social fabric also comprises specific economic arrangements, while the workings of many economic institutions – including markets – depend heavily on the social context. Sustainable ecological and social development (which implies a new approach to our current development model) is badly needed and there is still much to be done to find viable ways of defining such development more precisely and achieving it in practice.

Many ideas and suggestions made in documents prepared by the Social Cohesion Development Division provide a very useful collection of analyses of the current situation, and are a promising starting point for further progress.

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III – SOCIAL COHESION INDICATORS AND THE CONTRIBUTION OF A SOLIDARITY-BASED ECONOMY

By Samuel Thirion, Social Cohesion Development Division, Council of Europe, Strasbourg

Introduction

Any political action that has an impact on a group or community is regarded as needing methodological benchmarks and indicators both to clarify the targets and measure the results.

Social indicators or indicators measuring the societal impact of a given action are far more difficult to develop than, for example, financial indicators, which deal with readily measurable phenomena and can be expressed in figures by internationally agreed methods. Although even in this field there may be debatable estimates, the meaning – and its translation into monetary terms – of such concepts as profit, return, financial capital and market value of a quoted stock or bond is usually fairly clear. Social indicators, however, refer to fundamental values such as equity, justice, solidarity, participation and respect for the diversity of human dignity, which are not so easily quantified, or to “use values” measured according to individual preferences (for example, each individual has his or her own understanding of what constitutes well-being) or according to collective choices on which will depend the nature and scope of “social bonds” and, going beyond that, the conception of “societal balance”.

The Social Cohesion Development Division of the Council of Europe, with the support of member governments, has set about producing a “Methodological guide to the development of social cohesion indicators.”¹ in order to clarify the Council of Europe “Strategy for social cohesion”, which the Committee of Ministers approved in 2000 and revised in 2004. Defining social cohesion as “the capacity of a society to ensure the welfare of all its members and minimise disparities”, including for future generations, the strategy emphasises that this collective capacity involves everyone in a sharing of responsibility. While during the twentieth century welfare for all was often considered to be primarily the responsibility of the state (in the form of the welfare state), the economic problems of

1. To be published in 2005.

recent decades and the current globalisation of the economy have made it a goal shared by all social players (in the context of a “welfare society”). It follows that shared knowledge of social cohesion needs building up at every level (local, regional, national, European), as a basis for co-operation among all players. This is precisely what the guide is intended to assist, providing a methodological frame of reference.

From the outset, this framework raises a fundamental question: how, in terms of collective capacity to ensure everyone’s well-being, are the roles of the various players to be determined? Once these roles have been identified, the problem then arises of the degree to which each category of player is able to contribute. In other words, leaving aside the state’s contribution, how is the contribution of the individual, whose action obviously has a societal impact, to be assessed? For example, what part do the economic actions of consumption (by the responsible consumer) and saving (by the socially committed investor) play in social cohesion? Clearly the choices made by consumers (as individuals or groups) are linked with societal (environmental and social) values and thus to the idea of collective responsibility. Consumption and saving become “responsible” acts. The solidarity-based economy and social cohesion come together in one proactive view of modern society.

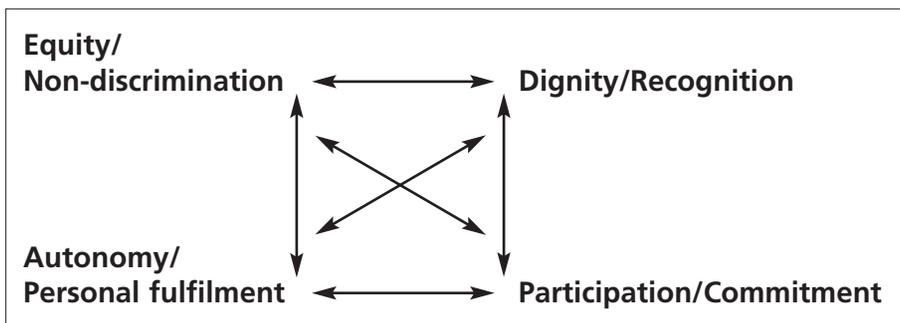
The purpose of this article is, in the light of the aforementioned guide, to define the role the solidarity-based economy plays in social cohesion and to provide benchmarks for measuring its impact. In particular, it will examine whether the solidarity-based economy can be seen as a promoter of a more cohesive society of socially committed consumers and savers. In such a society the individual’s choices will take on a collective dimension and express allegiance, not to a particular community within society, but to a community made up of the whole of society. In an interdependent world, everyone who is economically active has a share of responsibility; they have the power to stimulate some links more than others and therefore to play a part in a society’s orientation.

1. The concepts : negative and positive approaches to social cohesion

The approach to social cohesion in the Council of Europe guide is first and foremost one that generates a political concept central to a blueprint for a society that wants to be legitimate and just.

The concept of social cohesion advanced takes in four aspects of well-being that reflect the many dimensions of human rights: equity and non-discrimination in access to rights; dignity and recognition with acceptance of diversity; autonomy and the personal, family and vocational fulfilment of every individual; individual participation in and commitment to building a “just society”. These four dimensions determine the quality of the bonds between individuals, and between individuals and the community (see Figure 1).

Figure 1 – The four dimensions of well-being



From this point of view, social cohesion is not, as some people maintain, a “nostalgic” concept hankering after some “lost social harmony”² but a dynamic concept combining the features essential to any political project for a modern society based on recognition of rights: sustainability with fairness, coexistence with plurality, and vigilant concern for dignity, autonomy and freedom of decision now and in the future, and individual and collective commitment.

This concept opens the way for a new form of solidarity between individuals. In particular it raises the dual question of the contribution personal choices make to social cohesion, and the impossibility of cohesion if respect for human dignity is absent, the contribution of every individual to cultural and population diversity is unrecognised, autonomy and personal, family and vocational fulfilment are denied to some and individual participation and commitment are lacking. The definition put forward by the Council of Europe has the double merit of being inclusive

2. Alaluf, M., “Demographic trends and the role of social protection: the idea of social cohesion”, Final report for the seminar, Université Libre de Bruxelles, 16-17 September 1999. Available at: www.ulb.ac.be/project/tef/cohsocen.html.

and concerning itself with the connections between individuals, their choices and the mechanisms that knit a society together.

In short, in societies characterised by a plurality of interests and identities, cohesion results above all from the capacity to develop non-violent consensual processes for resolving conflicts, whether about distribution (the allocation of resources and the means of using them autonomously) or identity (recognition of the dignity of all modes of living and traditions in a plural society with equitable access to rights). The solidarity-based economy is naturally a part of this process. It transforms consumption and saving into a means of redistribution and of recognising the dignity of economic players. In this way it restores social meaning to the economy and gives market relations a role in social cohesion that complements institutional and community solidarity.

Social cohesion cannot be regarded as a “natural” situation in modern societies: on the contrary, it results from multiple interconnections between free individuals, institutions (private and public) and markets within a framework of standards and laws that the community recognises as legitimate. Paradoxically, the more individualism is recognised, the greater the interdependency. Social cohesion as a political objective then requires explicit recognition and therefore sources of knowledge as a basis for purposeful action. This ultimately suggests two possible approaches to social cohesion.

Firstly, the negative approach emphasises only the “extremes” or the symptoms of a decline in socially acceptable standards. The indicators chosen are therefore those that warn of insufficient social cohesion in relation to relative thresholds of, for instance, unemployment, poverty, exclusion and imbalances between regions. Systems of “social exclusion” indicators usually come in here. “Alarm” indicators are concerned with identifying symptoms of “societal pathologies” and can be regarded as coming into a similar category.

This early warning and alarm approach requires “targeted” institutional and solidarity-based action and directs thought and action towards groups made vulnerable by current social and economic processes that are therefore in need of “remedial” interventions.

Secondly, there is the positive approach, which aims to ensure not only that no-one is excluded or unemployed, but that society as a whole is capable of avoiding such eventualities by providing all its members with sustained access to a decent, high-quality life. Capability of this sort

requires that a society get beyond the negative, narrow view outlined above – which, furthermore, is concerned only with a fraction of the population, a fraction denied equal opportunity because denied certain rights and resources – and that analysis go to the heart of how that society functions. In particular this means identifying the players in society and examining their motivations, power and means of action, the rules they impose on themselves, how in practice flows are co-ordinated and regulated, and so on. As well as current modes of operation, the very roots of the society need elucidating: what are its explicit, or more implicit, foundations, the shared values and their (to varying degrees) subjective manifestations, such as the feelings of trust between the various players, the degree of latent satisfaction or frustration, the propensity to conflict, the value placed on social bonds, etc.?

The positive approach to social cohesion involves taking into consideration not only the direct social impact of economic activities (in terms of job creation, integration of the unemployed and excluded and reducing disparities in income), but also the impact on the foundations of society in terms of governance through joint responsibility, transparency, social bonds, mutual knowledge, trust and the ability to work together. It thus allows the social value of economic action to be taken into account and assigns responsibility for welfare to all society's acts (including the individual's market choices).

The contribution of the solidarity-based economy to social cohesion will therefore go further than forms of mechanical or communal solidarity (the forms most commonly found), which result from recognition of others' equality and often manifest themselves as reactions to threats, as in the case of trade union solidarity. The solidarity-based economy also expresses the interdependencies between individuals and their responsibility for one another, stemming from choices about saving and consumption.

2. Strategic approach: from the “division of social tasks” to joint responsibility

The joint responsibility on which the Council of Europe's social cohesion policy is based carries within it a conception of governance which places democracy and transparency at the centre of concerns. Joint responsibility is more than “shared responsibility”: in the latter concept, the borders between institutional and personal responsibilities are set and predefined

by law or higher entities, a clearly demarcated type or area of responsibility being given to each player or group of players. In contrast, joint responsibility sees responsibility for emerging social problems in far more collective terms, rejecting the principle of simply passing responsibility on to others. This qualitative leap is expressed in the distinction proposed by Alfredo Gomez-Muller between “answering to others” and “answering for others”.³

The social cohesion strategy therefore highlights an important development in the idea of responsibility. From the “division of social tasks” model current in the twentieth century that clearly separated the state’s responsibility for general welfare – except for the essential role the family and traditional social ties may always play – and the responsibility of enterprises and markets for economic development (and only for that), we have moved to “joint responsibility” of all the players in society, on the basis of rethinking the interactions there should be between public authorities, markets and the private and public spheres of people’s lives. Thus the well-being of all could be seen as the product of successful interaction among different individuals (or groups of individuals) and areas of life; it could also be the result of responsibility exercised jointly by the citizen committed to certain common values and by the official institutions that lay down the legal framework for organic solidarity between free individuals.

The development of joint responsibility does not however mean disengagement of the state. On the contrary: the public authorities continue to be the guarantors of human rights and democracy, and therefore have to clarify and even develop further their cohesion functions and their long-term policy decisions in the face of new social demands. They need to match their responses and their powers and responsibilities to popular demand for a say in the kind of society aimed at. The question of corporate social responsibility also arises here. This has been defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”.⁴ Many companies, large groups and small and

3. Gomez-Muller, A., “Responsibility: from principle to practice”, Proceedings of a seminar organised jointly by the Council of Europe and the European Cultural Centre, Delphi (Greece), 15-17 October 1999.

4. Official definition of the Commission of the European Communities, Brussels COM (2002) 347 final, p. 5 and Green Paper COM (2001) 366 final, p. 7.

medium-sized enterprises are now aware of this responsibility and exercise it in various ways. There are thus new behavioural trends towards a more solidarity-based economy.

This qualitative leap from the division of tasks to joint responsibility opens the way for a new type of market governance. It should be seen as paralleling the difference between the dissociative and associative approaches to human activities generally and therefore also to the economy: the associative approach in individual choices takes the interests of others and the general interest into account whereas in the dissociative approach everyone primarily protects their own interests, the general interest being managed by law or the regulatory authorities. The associative approach may be found in a particular commercial sector, local authority, institution, enterprise and so on.

Clearly citizen involvement in the economy can play a crucial role in the development of joint responsibility. Social commitment in people's everyday behaviour as consumers or savers (in the fields of ethical finance, fair trade and responsible consumption) both profoundly changes satisfaction of individual needs and builds horizontal solidarity to supplement the vertical solidarity organised by governments. So long as there is a policy linking solidarity-based choices and the public sphere, ordinary citizens can redevelop their ability to generate work. There is also a prominent role here for local authorities "in a new type of local development that at the same time guarantees economic efficiency and social balance".⁵ The way is thus opened for deeper-reaching consistency between economic development and social cohesion.

Clearly, too, there may be problems putting in place associative joint responsibility, which requires transparency and compliance with democratic rules. Responsible consumption and solidarity-based saving require transparency upstream (production) and downstream (consumption) of the products and services put on the market. This would seem more difficult to achieve with the present tendency to multiply the intermediaries between producers and consumers and between savers and the beneficiaries of savings.

5. Alcoléa, A.M., "De l'économie solidaire à l'économie solidaire territoriale : quelles figures économiques ?", conference, "Les autres figures de l'économie", 24 June 1999, Faculté des Sciences Économiques et de Gestion, La Varenne.

3. Grid showing the characteristics required for social cohesion

On the basis of the basic thrusts of the Council of Europe Strategy for Social Cohesion,⁶ an interpretation of social cohesion can be put forward that interconnects the following dimensions:

- a description of social reality encompassing three components:
 - individual and group quality of life, with reference to different key areas of well-being;⁷
 - the various areas of life (markets, public and private spheres of life, the voluntary sphere) and the players operating within them;
 - the basic ingredients of life (the “lifeworld”, made up of informal bonds, relations of trust, values, emotions, shared knowledge, etc.);
- a framework of goals and results expected from such a social cohesion strategy, namely:
 - collective and individual well-being, comprising the four dimensions of equity, autonomy, participation and recognition of dignity;
 - joint responsibility of players with respect to interactions between the different areas of life and in terms of all-round commitment to collective well-being;
 - the integrity of the “lifeworld” in relation to all the basic elements of identity and relationships, that is, conflict management by consensus which therefore remains independent of markets (monetary instruments) and public authorities (legal mechanisms).

These considerations further clarify the concept of joint responsibility. It is of course related to such concepts as “the stakeholder society”⁸ and building the individual’s real capacities (A. Sen), but goes further than they do in that it implies taking responsibility in the public sphere for working out a welfare-for-all blueprint that is non-violent, consensual and solidarity based (namely, one that acknowledges responsibility for the lives of others).

6. See the guide mentioned in footnote 1.

7. These key areas in the terms of the “Methodological guide to the development of social cohesion indicators” are employment, income, housing, health, nutrition, information, culture and education. They are areas in which the rights Council of Europe bodies have most often taken a position on are exercised, and obviously key areas for access to welfare.

8. See, for example, Marquand, D., *The Stakeholder Society* (available at: www.netnexus.org/library/papers/marquand.htm) Sikka, P., *Shareholder Capitalism: What happened to the stakeholder society?* (available at: www.visar.csustan.edu/aaba/news15Dec2000.html).

Taking each of these components of social cohesion into account, we can specify the key ingredients of each of them for a modern cohesive society. These ingredients are set out in Table 1. They illustrate the necessary characteristics of social cohesion in “the age of rights” (Norberto Bobbio) as well as the factors that make economic solidarity essential for cohesion-building. The crucial role of economic involvement in relation to each of the ingredients then becomes apparent.

Table 1 – Characteristics required of social cohesion components in “the age of rights”

COMPONENTS (and objectives) OF SOCIAL COHESION		CHARACTERISTICS REQUIRED
QUALITY OF LIFE (well-being for all)	Society level	Non-violent conflict resolution, harmony
	Individual and inter-individual level	Socially committed well-being – equity in the exercise of rights/non-discrimination – dignity/recognition – autonomy/personal development – participation/civic commitment
INTERACTION BETWEEN THE PLAYERS (joint responsibility)	Resource allocation	Regulatory power to ensure fair sharing of resources – joint analysis of social needs – negotiated management of interests and resources with due regard for future generations – co-ordination of areas of action and planning of intervention – transparent joint resource management (resources commensurate with responsibilities) Ability to remedy situations of denial of rights Priority allocation of resources to the most disadvantaged and development of their potential
	Social and institutional practices	Ability with respect to collective learning, capitalisation and transmission – open partnership – open, unrestricted communication between players – sharing of information and knowledge
	Establishment of rules, benchmarks and agreements between the players	Ability to provide the basis for shared responsibility – coherent establishment of shared action priorities – autonomy/responsibility with respect to commitment and follow-up – establishment of shared assessment criteria (cf. total costs, satisfaction of those concerned) – linkage between representative and participative democracy

(contd.)

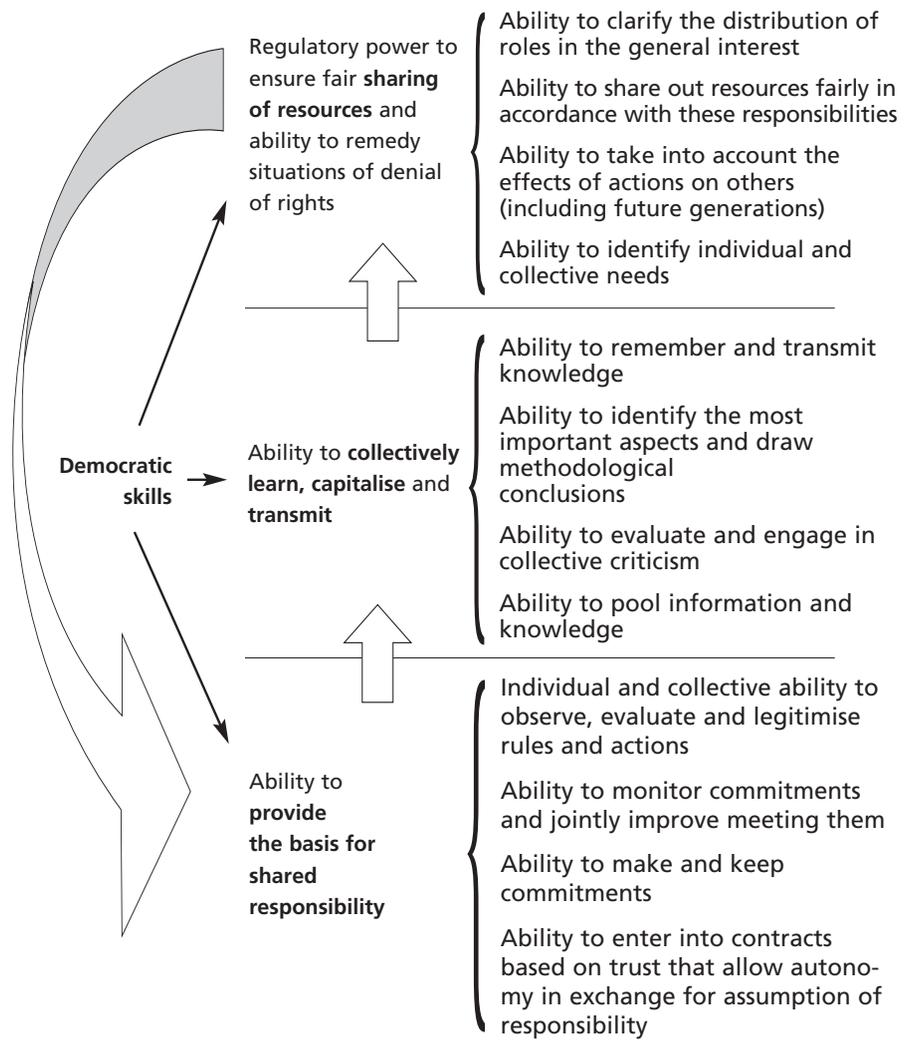
COMPONENTS (and objectives) OF SOCIAL COHESION		CHARACTERISTICS REQUIRED
BASIC COMPONENTS (integrity)	Bonds	Bonds that cut across the bonds rooted in tradition or in economic and institutional systems
	Confidence	Triple dimension of confidence – confidence in oneself and one’s personal relationships – confidence in institutions, NGOs, companies – confidence in the future
	Collective knowledge and sense of belonging	Shared knowledge (of situations, everyone’s roles, etc.) and collective civic awareness , especially a sense of multiple belonging based on rights to a “post-traditional identity” linking difference, interdependence and mutual responsibilities
	Values	Civic values – sense of justice and the common good – sense of solidarity and social responsibility – tolerance/interest in those who are different/openness
	Feelings	Individual satisfaction at leading an autonomous, dignified life and being actively involved in public activities

This table shows clearly what can be expected of the desired joint responsibility and associative approach (objectives and characteristics necessary to the spheres of life and players). If present times are considered “the age of rights”, a continuing shift towards a veritable “culture of rights” can well be imagined. Such a culture is to be found, for example, in a manifest sensitivity to injustice and in the widespread idea of justice as a component of a democratic society reflected, in particular, in struggle against exclusion, poverty and inequality, rejection of oppression, unlawful violence and attacks on human dignity (in the immediate or more distant environment), access for all to decent lives, to rights and to the services to which they are entitled, development of a pluralistic information and communication system and promotion of the associative approach.

In this context players can develop genuine democratic skills, which are the means through which modern society creates a climate conducive to cohesion through joint responsibility. These skills include the ability to accept other people’s points of view (sensitivity to difference), to evaluate and take into account the effects of one’s actions on others (social

responsibility), to assess the fairness and therefore legitimacy of a law, to relate the private domain (one's individual and family situation and situation as a consumer) to the public one (collective, social and environmental frameworks and frameworks for protecting resources, including human resources), to transpose issues in one sphere of life to another, to produce a political agenda relevant to the collective good, and so on (see Figure 2).

Figure 2 – Collective development of democratic skills for the purposes of social cohesion



From the point of view of the solidarity-based economy, these democratic skills are relevant to both public and private choices. Private choices (regarding consumption and saving) are transformed into democratic acts if they incorporate transparency, concern for others' welfare and collective sustainability (environmental and societal), thus avoiding "the harm caused by lack of awareness" and ignorance.

It is thus possible to envisage (still following Bobbio) a "new age of rights" in which recognition of rights ensures exercise of solidarity through market choices. This presupposes guaranteed rights for all to information about production processes, to information, in the employment sphere, about recruitment and conditions, to information about the distribution of value added, to knowledge about alternatives in terms of environmental effects and to availability of solidarity-based finance. These new rights could lead to genuinely socially responsible market choices.

4. Action for social cohesion in the public sphere

The list of characteristics necessary for a cohesive society, as outlined in Figure 2, illustrates the role of socially aware involvement in the economy as an essential component. It also highlights the challenges facing the state, in particular that of enforcing the new rights and ensuring full scope for exercise of democratic skills and joint responsibility.

It should be added that this is not just a question of the legitimacy of players. What is at issue is less public authority itself than management of the public space: in a society based on joint responsibility, management of the public space is a matter for all players (public authorities, markets, the private and public spheres of people's lives). How should their interaction be catered for? The "Methodological guide to the development of social cohesion indicators" identifies four types of public action, namely:

- originating action, which consists in making provision in the constitution and in ordinary law for the various freedoms, civil, social and economic rights and institutionalised industrial relations, and in ensuring that rules governing the functioning of society, including market rules, are applied;
- regulatory action, which guarantees institutional solidarity aimed at better distribution of resources to compensate for and regulate

trends and market imperfections that originating action is unable to prevent. It ensures proper enjoyment of freedoms with the aim of guaranteeing fair distribution of resources and access to services and social protection;

- remedial action, which responds to situations of social decay that regulatory action has not been able to prevent and guarantees collective responsibility towards all the members of society, especially vulnerable groups and the most disadvantaged;
- facilitatory action, which fosters risk-taking and a willingness to contemplate change. It brings the players closer together through recognition of the differences between individuals, regions and localities and by pooling of efforts and establishment of partnerships for achieving shared goals.

5. The contribution of the solidarity-based economy to social cohesion

The interpretative keys we have provided here allow us to be more specific about the contribution the solidarity-based economy makes in terms of the three components of social cohesion, these being:

- people's quality of life in relation to the four dimensions of well-being;
- the areas of life and players in relation to the four types of action outlined above;
- the basic ingredients of life in terms of the characteristics of the cohesive society.

In 2003 the Council of Europe Social Cohesion Development Division conducted a survey of networks in the solidarity-based economy.⁹ The findings point to two forms of individual social commitment in the fields of solidarity-based finance and responsible consumption:

- untargeted commitment, corresponding to a general social choice by citizens who invest their savings or purchase products to make a positive social and environmental impact but who are not interested in knowing who the precise beneficiaries of their commitment are (or

9. The networks that replied to the survey were INAISE and FINANSOL (ethical and solidarity-based finance, based in France), IFAT and NEWS (fair trade) and AEC and the AMAP networks (responsible consumption).

in creating links with them). This type of commitment relies to a great extent on the information and guarantees provided by seals of approval and quality marks;

- targeted commitment, that is, commitment to specific beneficiaries. This is usually within the local community (for example, local contracts between farmers and consumers, such as AMAP in France and Teikei in Japan,¹⁰ or local solidarity-based investment such as the CIGALES networks in France). Commitment here often involves a relationship of trust between the public and producers or beneficiaries, without necessarily using information codified in seals of approval.

In analysing the contribution made by the solidarity-based economy, we therefore need to distinguish between what is general and what is specific to these two forms of commitment.

a. Individual welfare (quality of life)

The basic objective of the solidarity-based economy is individual well-being. Table 2 sets out the main contributions that can be identified in this connection.

Table 2 – Contribution of the solidarity-based economy to individual well-being

	General	Untargeted commitment	Targeted commitment
Equitable access/ social justice	Increased income for the most disadvantaged; Greater equity in the distribution of opportunities and incomes	Fosters decent employment; Reduces imbalances through transparency and access to information	Access to financial resources on the basis of solidarity criteria; Fair prices; Consumer access to products whose quality is doubly guaranteed by personal dealing
Dignity/ recognition	Recognition of the dignity of all in consumer, producer and financial relationships	Raising consumer awareness of forms of justice	Support for people with projects and for producers excluded from conventional financing systems

(continued)

10. See Chapter IX on responsible consumption.

	General	Untargeted commitment	Targeted commitment
Autonomy/ personal, family and vocational development	Autonomy and personal, family and vocational development for the most vulnerable through market relations	Consumer information about criteria of justice; Developing social responsibility in consumption and saving	Equality of opportunity and initiative for the excluded; Personal, family and vocational development of producers; Consumer autonomy and education about criteria other than "the lowest price"
Participation/ commitment	Socially responsible commitment in market relationships	Awareness of the ethical values that need building into market relationships	Long-term solidarity-based approach gradually fitted into consumer habits

To sum up, the contribution of the solidarity-based economy is essentially to be found in two fundamental matters:

- firstly, opening up new ways of integrating those who are denied well-being by the present production system and current finance and consumption arrangements;
- secondly, awareness of societal values that need building into consumption and saving and of how every individual can help foster social cohesion simply by changes of attitude and behaviour in daily life.

b. Joint responsibility (players' roles in the public sphere)

In terms of the four types of public action outlined above, the contribution of the solidarity-based economy may be seen at several levels:

- originating action: the results achieved by the social economy impel exploration of new concepts, reference frameworks and ethical standards that allow people to build social responsibility into their consuming and saving;
- regulatory action: the solidarity-based economy has the following repercussions:
 - income stabilisation and improvement for the most vulnerable and opportunities to access financial resources;

- creation of jobs and self-employment opportunities, enabling some players to cope better with change and achieve economic development;
- progress in protecting the environment, in particular with the emphasis on sustainable consumption and on the business community's social, environmental and local responsibilities;
- better-functioning democracy, in particular because of more effective linkage of representative and participatory democracy;
- remedial action: integration assistance to persons in difficulty, recognition of more vulnerable groups' entrepreneurial initiatives and conversion of polluting enterprises are just some of the areas in which the solidarity-based economy can be considered to make a contribution;
- facilitatory action: the solidarity-based economy turns markets and production processes into opportunities for socially responsible citizenship, develops transparency of information and encourages new kinds of social contract.

Table 3 summarises these various contributions.

Table 3 – Contribution of the solidarity-based economy to management of the public sphere

	Fields	State action	Benefits of socially responsible approaches to the economy		
			General	Untargeted commitment	Targeted commitment
Originating action	All fields	Production of legal frameworks, frames of reference, standards, seals of approval, etc.	Creation of ethical, solidarity-based concepts, frames of reference, standards and seals of approval and promoting them among institutions and the public; more quality-oriented consumption	Promotion of ethical standards, sustainable consumption and social solidarity	Promotion of principles and methods for fair apportionment of resources and opportunities
Regulatory action	Income regulation	Management of taxation and social measures	Redistribution through direct support that respects the abilities of the most vulnerable	Responsible, equitable consumption; Inclusiveness	Solidarity-based financing and fair prices

(continued)

	Fields	State action	Benefits of socially responsible approaches to the economy		
			General	Untargeted commitment	Targeted commitment
Regulatory action	Market and employment regulation	Employment policies	Viable employment and self-employment for the vulnerable; Promoting jobs that respect human dignity and the environment	Pressure to bring jobs into line with labour standards (ILO standards); Creation of jobs for vulnerable groups (the disabled, the long-term unemployed)	Support for jobs as part of a welfare perspective; Job creation through collective action by socially responsible consumers
	Consumption and economic development	Incentives for consumption and growth	Promotion of sustainable, critical consumption	Promotion of responsible consumption	Promotion of diversity, quality that includes ethics, new modes of consumption and economic relationships
	Environmental regulation that also favours enterprise	Incentives (tax incentives, subsidies)	Support for creation of responsible enterprises, in socially important sectors and by the most vulnerable	Steering enterprises towards social and environmental responsibility	Guiding enterprises towards concern for general (including worker) well-being and identity-related heritage
	Regulation of power apportionment and democracy	Institutional functioning and participatory democracy	Incentives to increase forms of participation; Transparency of information	Reducing disparities of access to information	New forms of collective organisation/management by small producers
Remedial action	The vulnerable	Social assistance	Confidence in the abilities of persons in difficulty: financial and commercial support for project development		Helping the excluded to find a way forward
	Environmentally damaged parts of the country	Measures to convert enterprises and repair the environment	Conversion of polluting enterprises (in agriculture)		

(continued)

	Fields	State action	Benefits of socially responsible approaches to the economy		
			General	Untargeted commitment	Targeted commitment
Facilitatory action		Decentralisation; public-private partnerships	Informing the public and firms about the societal value of economic action; Learning in networks	Individual commitment to the welfare of society	New social contracts between consumers and producers and between banks, savers and those receiving credits

c. The basic ingredients of life (and their integrity)

Lastly, the various forms of socially responsible involvement in the economy have a particularly significant part to play vis-à-vis the basic ingredients of life, as shown in Table 4.

Table 4 – Contribution of the solidarity-based economy to the basic ingredients of life

	General	Untargeted commitment	Targeted commitment
Values	Socially responsible values; Justice highlighted as a fundamental value	Ethical values; Values attached to social and environmental responsibility	Solidarity; Values attached to the voluntary sector
Awareness	Social awareness in dealings with the market; Awareness of poverty, exclusion and environmental problems created by uncritical consumption	Awareness of the existence of common assets; Awareness of irresponsible conduct; Awareness of rights	Awareness of the power of collective commitment
Knowledge		Socially directed knowledge	Mutual consumer-producer, North-South, knowledge
Bonds	Community bonds; Consumer-producer bonds; North-South bonds		Bonds of solidarity: – local – planetary long-term bonds (committed approach)

(continued)

	General	Untargeted commitment	Targeted commitment
Trust	Trust in the abilities of others and of the most vulnerable	Confidence in the future by heeding present problems	
Feelings	Empathy, solidarity, allegiance to a single community	Belief in the effectiveness of individual action for extending well-being to all	Belief in the effectiveness of collective action for extending well-being to all

Conclusions

This chapter has allowed only a brief survey of Council of Europe thinking about social cohesion issues, indicators for measuring social cohesion and the specific contribution of the solidarity-based economy. More detailed documents are available from the Social Cohesion Development Division.

Research so far has provided innovative and practical information about a major challenge for modern societies – socioeconomic development that is sustainable while maintaining a democratic climate respectful of personal welfare and dignity within a society governed by the rule of law.

In particular, in the light of everything we have said, it should be noted that:

- socially committed economic involvement is something that public authorities concerned to restore social cohesion should treat as being of prime importance: it introduces new factors into the citizen's relationship with society, the environment and the world. This underlines the importance of dialogue and collaboration between the public authorities and socially committed grassroots initiatives. Such dialogue entails reassessing the fields in which political, legal and socioeconomic interventions can boost the socially committed initiatives which the solidarity-based economy generates;
- broadening the impact of such initiatives requires development and dissemination mechanisms. Social cohesion policy provides an appropriate framework for this because it creates active linkage between individual (“ethical, solidarity-based, responsible”) action and societal well-being.

Public/private, political and civic dialogue needs conducting within a frame of reference that allows targeted, co-ordinated action and systematic evaluation of what committed action has achieved. The Council of Europe “Methodological guide to the development of social cohesion indicators” provides a general analytical framework that allows all the issues to be assessed. It should now be supplemented by more precise tools for analysing socially committed action and by policy for promoting it and educating the public about it.

IV – THE CONCEPT OF EXTERNALITY AND ITS POLITICAL DIMENSION

By Paul Dembinski, Director of the Observatoire de la Finance, Geneva

This chapter sets out to clarify the scope of the concept of externality, which is central to political economy in both theory and practice, and to highlight its political dimension, with more specific reference to issues relating to the “common good”.

1. External effects in theory and in practice

a. Externality in economic thought

Externality is one of the vaguest, yet also one of the most fundamental concepts in economic theory. “In its various forms – external economies and diseconomies, divergences between marginal private cost or product, spill over or neighbourhood effects, collective or public goods – externality dominates theoretical welfare economics, and, in one sense, the theory of economic policy in general”.¹ The basic premise of externality is the acknowledgement that a given party’s actions affect other parties without the latter being either consulted or necessarily compensated for those effects. This observation, made at an earlier stage by the founding fathers of contemporary economic theory, including Arthur Cecil Pigou, suggests that, left to its own devices, the market is incapable of fulfilling its promise of optimality. Such an observation is sufficient to destabilise the very foundations of the edifice under the neoclassical theory of general equilibrium, since it casts some doubt on the market mechanism’s ability to produce optimum conditions, which in this context are synonymous with happiness.

Once the seeds of doubt have thus been sown, the question naturally arises of the “seriousness” of the objection. Externality is the natural result of the de facto interdependence among economic players, who all have their own

1. Buchanan, J. & Stubblebine, C., “Externality” in *Economica*, Vol. 29, No. 116, Nov. 1962, pp.371-384. This view is shared by authors who have considered the matter more recently; see, *inter alia*, the article “External Economies” by Bohm, P., in the *New Palgrave Dictionary of Economics*, Vol. 2, London, 1989, pp. 261.

systems of preferences, the details of which, moreover, are known only to them. An initial series of externalities is consequently associated with the non-transparent nature (non-revelation, as economists would say) of the preferences of others. It follows that the market is sometimes caught out. This is the case when a bargain-hunter finds an item at a flea market and acquires it very cheaply, thereby completing a set: the satisfaction gained bears no relation to the price paid. For that person, the market price produces a significant positive externality, which is reflected in standard theory by the concept of the "consumer's surplus". Overall, however, the quality of allocation is thereby reduced. This kind of externality stems from the vendor's lack of information about our collector's preferences. On the face of it, simply increasing the amount of high-quality information available in the economy would ensure that there was no longer any basis for such deviations from the optimum. Producers will thus do everything they can to limit positive externalities for the consumer. They will consequently put a great deal of effort into marketing in order to obtain all the necessary information about the aspects and qualities of the product or service in question that particularly appeal to various market segments. On the basis of that information, the producer establishes a range of products or services (segmentation) and applies a pricing policy designed to limit as far as possible the positive externalities from which the consumer may benefit.

b. Social cost and private cost

The standard argument put forward by A. Pigou was more general in scope, transcending the interpersonal situations referred to above, which could be considered to belong to the private sphere. His starting point was that, in some situations and markets, externalities arise as a result of the gulf between the "social" view and the "private" view of the cost or price of certain goods or services. For instance, the "private" cost of producing a cigarette does not take into account the costs (and accompanying adverse effects) engendered by its consumption. The cigarette's social cost is higher than its private cost, which implies that society tolerates a negative externality associated with the production of cigarettes.

As well as identifying situations where externalities exist, attempts have been made to identify the most appropriate methods of "internalisation", meaning the instruments that "society" could use to impose the "social" view on those responsible for producing the external effects. To summarise, such attempts have taken two different directions: the approach previously adopted by Pigou, who sees government intervention as the most appropriate means of correcting externalities; and another approach, closer to

that adopted by the Chicago school, that consists of seeking solutions to market failures within the economic paradigm itself. Attempting to preserve the ability of the market mechanism to resolve all of society's problems on its own, neoclassical economists have put forward three successive arguments for minimising the scope of public goods and, therefore, of "market failures" and externalities, based on: appropriate allocation of property rights, the level of transaction costs and the quality of information.

c. "Economism" and the "humanist objective"

The discussion of market failures and externalities, which appears to remain within the confines of economic theory, in fact conceals a debate over the very essence of the underlying view of society and, ultimately, of humankind. On the one hand, there is the view that might be categorised as "economism", according to which:

- economic transactions are the only human relations worthy of the name, and the social sphere is destined to disappear into the economic sphere;
- human nature comes down to that of a *Homo oeconomicus* who is instinctively destined to maximise his or her satisfaction or usefulness, and is consequently receptive solely to material incentives. *Homo oeconomicus* is incurably self-interested, and incapable of either disinterestedness or altruism;
- social institutions (particularly political and family institutions) all constitute impediments to the expansion of economic rationalism. They will break up or become obsolete under the pressure of developing markets;
- the problem of externalities and other alleged market failures will be resolved through the emergence of new markets able to put a price on effects that had hitherto remained outside the economic sphere.

At the opposite end of the spectrum from "economism" lies a whole range of views that reject the idea that the economic overrides everything, and which could be described as movements with a "humanist objective". Caution is needed, given that the historical effects of some of these movements have been far more totalitarian than have those of economism. These movements with a "humanist objective" differ from economism in two ways:

- their acknowledgement of the complexity, and in some cases the mystery, of human nature, which cannot, under any circumstances, be reduced to a maximising algorithm;
- the supremacy of the political over the economic sphere, which, according to some, is still at the centre of community life. This perspective on the role of the economic sphere in society justifies

political interference in the operation of the market, particularly in terms of imposing the “social view” of costs and prices on the market.

2. External in relation to what? The political dimension of “externality”

In the crucible of economic thought, the issue of externalities immediately brings us to the risks of inefficiency. The existence of externalities prevents the economy from attaining its optimum level, that is, the situation in which “the public good” is safeguarded most effectively. This view of externality is confined, by definition, to the purely economic sphere. It explicitly ignores the effects and repercussions of economic acts on other areas of community life (the existence of which economism denies). Movements with a “humanist objective” reject this approach, and just as explicitly acknowledge the legitimacy of considering the effects of economic activity on other spheres of community life. Two levels of externality may therefore be identified:

- externality in the conventional, economist sense of the term, which refers to a flawed allocation of costs coupled in monetary terms with a “loss of earnings” or a “loss of production”;
- meta-externality, or the distortion some economic activities impose on other areas of community life. In actual fact, the precise scope of this distinction depends on the delimitation of the specifically economic sphere, that is the part of community life that is monetised, subject to the discipline and sanctions of the market and recorded in accounts. The difficulty of establishing a boundary between the economic sphere and other fields emerges from recent studies of a concept as fundamental as that of wealth. When this term is understood in the narrow, economic sense, it gains in precision but loses in philosophical relevance. The converse is true when an attempt is made to use it as an indicator of “society’s happiness”.²

In order to ascertain the impact of externalities in the economic sense of the term, it is important to have a way of measuring the yield of an activity. As a way of avoiding a technical discussion of the specific limitations of GDP measurement, we shall instead, in order to demonstrate our ideas, use the term “wealth”, following the example of D. Méda and P. Viveret.

2. See Méda, D., *Qu’est-ce que la richesse ?*, Aubier, Paris, 1999, and the report produced by Viveret, P., *Reconsidérer la richesse – Mission «nouveaux facteurs de richesse»* in 2002 at the request of Guy Hascoët, Secretary of State for Economic Solidarity, Paris.

Notwithstanding some conceptual vagueness, one of the dictionaries used most frequently defines wealth as being “a stock of assets held by any economic unit that yields, or has the potential for yielding, income in some form. Wealth can take a multitude of forms: cash, bank deposits, loans or shares are all financial assets. Diamonds, factories and houses are examples of physical assets. To these should be added human wealth, which consists of the earning potential of individuals (human capital). [...] In perfect markets, assets should be priced at the present value of future income they are expected to earn. However, the notion of income is general and would include, for example, the pleasure that owners of a picture would derive from its display.”³

The term “wealth” is used in ordinary speech in a sense similar to this definition. Wealth is seen either as a quantity of “purchasing power”, or as a set of goods able to satisfy the owner’s needs. The main purpose of wealth is thus to ensure the ongoing satisfaction of needs, thereby protecting the owner in the event of changes in his or her environment. This perspective on the function of wealth is consistent with a particular view of human beings and societies in which economic transactions are the only means of satisfying needs.

The conception of society that best reflects this view of wealth is what Karl Popper called the “abstract society”: “We could conceive a society in which men practically never meet face to face – in which all business is conducted by individuals in isolation who communicate by typed letters or by telegrams, and go about in closed motor-cars. Such a fictitious society might be called a ‘completely abstract or depersonalised society’.”⁴ At the opposite end of the spectrum from this abstract society, Popper places the “closed society”, which he finds abhorrent because it “resembles a herd or a tribe in being a semi-organic unit whose members are held together by semi-biological ties – kinship, living together, sharing common efforts, common dangers, common joys and common distress. It is still a concrete group of individuals, related to one another not merely by such abstract relationships as division of labour and exchange of commodities, but by concrete physical relationships such as touch, smell and sight.”⁵

3. Bannock, G., Baxter, R.E. & Davis, E., *Dictionary of Economics*, 5th edition, Penguin, London, 1998, p. 438.

4. Popper, K.R., *The Open Society and its Enemies*, 5th edition, Vol. 1: The Spell of Plato, Routledge, London, 1991, p. 174 (original dates from 1946).

5. *ibid.*, p. 175.

Closer to home, Albert Tevoedjere inverts Popper's view. "The evils of industrial civilisation stem from principles that were originally applied in order to increase production and profit: concentration and specialisation. [...] Such concentration and specialisation are altering societal structures, sometimes dangerously. This growing frustration within industrial societies contrasts with the great wealth of many African and Asian societies in which the family unit brings together several generations of individuals and collateral relatives under the same roof. Lunatics live in the village community, and are accepted and feel acknowledged. Yet as soon as industrialisation 'specialises' individuals, each time the transition takes place from a traditional economy to an exchange economy, the family is reduced to its simplest form. It is true that the accumulation society has an extraordinary capacity for recovery... But does society itself really exist?"⁶

The opposition between a purely transactional, efficient society based on exchange, on the one hand, and a society that is "closed" in all senses of the term, on the other, highlights two ways of looking at the place of the market economy and its role in the satisfaction of the same basic needs. Dominique Méda explains the ambiguous role of exchange with particular clarity: "[...] it may be described in two very different ways, either as a vehicle for modernity and freedom in that it breaks down established ideas – values not based on exchange – or as profoundly destructive, in that it in fact fails to acknowledge any value whatsoever. The very concept of value (other than economic value) does not exist."⁷

This opposition also illustrates the extent to which the concepts of externality and distortion ultimately depend on one's political view of society. It raises two fundamental questions. The first relates to the role of "social ties": are they ties that bind and imprison, or ties without which there can be no life fit for human beings? The second concerns the impact of economic transactions on social ties: do exchange transactions foster social ties, or have a neutral or even destructive impact on them? The answers to these two questions determine the political significance attached to terms such as "distortion" or "externality". The concept of the common good provides the beginnings of an answer.

6. Translated from Tevoedjere, A., *La pauvreté richesse des peuples*, Collection Economie et Humanisme, Les Editions ouvrières, Paris, 1978, p. 33.

7. Translated from Méda, D., p. 290. See footnote 2.

3. The economic and political requirements of the common good

Irrespective of its precise definition and institutional articulation, the concept of the common good expresses the aspiration of a group of people to a happy life. It suggests the possible tension between the two dimensions of the common good: the group and its individual members. From the outset, political philosophy has sketched outlines of the perfect society, yet without offering a definitive solution. Over the centuries, approaches have varied, as Garcia Estebanez indicates: the “traditional method”, he says with reference to Aristotle, Plato and Thomas Aquinas, “proceeded from the idea of a perfect society, defining specific interests on the basis of that idea. The modern method (Habermas, Nozick and Rawls) reverses that approach, basing the perfect society on individual interests. Individuals can present, compare and reconcile those interests by projecting them onto a social model on which they agree.”⁸ Irrespective of the exact definition, authors who have studied the subject agree, at least implicitly, that community life – including both material and non-material aspects – is essential in terms of both physiological needs (protection against poverty) and social needs (protection against solitude). Consequently, community life is already a good in itself, as Hollenbach points out: “One of the key elements in the common good of a community or society, therefore, is the good of being a community or society at all. This shared good is immanent within the relationships that bring this community or society into being.”⁹

Community life, and thus the common good, can have various anchor points. Modern thinkers emphasise the decision-making process enabling members of the community to reach a consensus. With reference to the actual functioning of American society, Hollenbach demonstrates that, in reality, the public arena of discussion and debate has been drained of its substance, giving way to widespread indifference barely concealed by the principle of tolerance. Tolerance is thus the modern, atrophied version of the common good, even jeopardising the very existence of American society. In fact, as Hollenbach goes on to say, tolerance is not an adequate response to contemporary social challenges, particularly those of urban poverty in the United States and of globalisation. This is because at the heart of these

8. Translated from Garcia Estebanez, E., “Le bien commun dans une perspective thomiste” in *Le bien commun : approches philosophiques et politiques*, Book 2, Espaces, Brussels, 1997, p. 24.

9. Hollenbach, D., *The Common Good and Christian Ethics*, New Studies in Christian Ethics, Cambridge University Press, 2002, p. 9.

problems lies an economic and social interdependence developed over several decades. As he says with reference to tolerance: “an ethos whose primary values are independence and autonomy is not adequate to address this new interdependence.”

The common good confined to tolerance alone consequently assumes not only that the rich and socialised “tolerate”, without batting an eyelid, the poverty and solitude of those who are excluded, which is made all the easier by the fact that they do not rub shoulders with one another, but also that those who are excluded “tolerate” the opulence of the rich, on which the media turn their spotlight. Thus, if the common good is founded solely on the institution of tolerance and on procedures that make it workable, community life – and therefore society – is in danger of disintegrating when the tolerance of some becomes intolerable to others. In other words, and given the state of the world today, the approach that secures tolerance alone, however sophisticated it may be, is not an adequate basis for the common good. It needs to be backed up and supplemented in daily life by solidarity. Hollenbach continues: “One of the most important meanings of the concept of common good, therefore, is that it is the good that comes into existence in a community of solidarity among active and equal agents. The common good, understood in this way, is not extrinsic to the relationships that prevail among members and sub-communities of a society. When these relationships form reciprocal ties among equals, solidarity achieved is in itself a good that cannot otherwise exist. [...] When society not only falls short of the level of solidarity it could reasonably aspire to but is shaped by institutions that exclude some members from agency altogether, the resulting interdependence becomes a [...] ‘common bad’ that affects the quality of life of all members, especially of those who are excluded.”¹⁰

The common good consequently calls both for interaction between individuals, which in itself constitutes a value – along the lines of Aristotle’s political friendship – and for a reasonable, practical solidarity, which, moreover, friendship demands. The common good is not, therefore, a specific institutional blueprint, but rather a series of principles for life in society. These principles reflect the two sets of needs of each individual: material needs and relational needs.

The common good requires everyone to be involved, with tolerance and due regard to the freedom of others, in setting up institutions to regulate

10. *ibid.*, p. 189.

community life (contributive justice) according to the principles of justice and solidarity. In societies organised like ours, however, the quest for the common good cannot be confined to simply establishing an institutional architecture able to afford a certain degree of material solidarity through the distribution of wealth (distributive justice), for the common good also demands that the range of interpersonal relationships, including economic ones, encompass mutual friendship and attention to others (commutative justice).

Externalities, which are synonymous with interdependence and interaction, are an essential element of human life. Everything depends on how those externalities are perceived and dealt with by the authorities and by those responsible for, or affected by, the externality. This is precisely the background against which the responsibilities of economic players are debated: are they prepared – if so, on what conditions, and if not, why not – to take account in their decision making of effects that do not relate to the price of the transaction or to a legal obligation, but are likely to have an impact on individuals who are not in a position either to reward or to punish the businessperson?¹¹

11. Translated from Dherse, J-L., *L'éthique ou le chaos ?*, Editions de la Renaissance, Paris, 1998.

V – PROPOSALS FOR LEGISLATIVE INITIATIVES TO PROMOTE THE SOCIAL SOLIDARITY-BASED ECONOMY

By James Harrison, human rights lawyer at the European University Institute, Florence

Introduction

The Council of Europe intends to set up a common European platform for the “social solidarity-based economy” in Europe. This platform aims at strengthening the role of three different forms of citizen commitment in the economy (fair trade, ethical finance and responsible consumption), since this is seen as an important mechanism through which social cohesion, and protection and support for the most vulnerable and disadvantaged individuals and communities can be achieved.

The research conducted by the Council of Europe has shown that there are citizens’ initiatives throughout Europe which can be categorised as falling within the social solidarity-based economy, and three particular categories have been analysed – ethical finance, fair trade and responsible consumption. There are a broad range of initiatives present in a number of European countries for each of these different categories. To a large extent these initiatives have until recently operated within the economy without any special advantages from government, and have developed and expanded as a result of their own efforts. But governmental support has been identified by participants in the working groups of the Council of Europe as an important means for creating further growth and expansion in the social solidarity-based economy.

Over recent years there have been increasing efforts by some governments to take measures to support the social solidarity economy. Governmental support can come in a variety of different forms, and the Council of Europe’s research entitled “Economic solidarity supporting regulations in the member states of the Council of Europe and the European Union”¹ presents the various legislative initiatives that have been taken by individual governments, as well as the European Union, to promote the three sectors.

1. DGIII/DCS (2004) 08, “Economic solidarity supporting regulation in the member states of the Council of Europe and the European Union”, Council of Europe, Strasbourg, 2004.

This research shows that there are a great range of legislative and quasi-legislative mechanisms that are already employed by governments to support and promote the social solidarity economy. For the purposes of legal research, these various legal initiatives can be seen as a kind of laboratory where different experiments have been undertaken. If we wish to promote the social solidarity economy at the pan-European level, and as part of this, suggest ways in which European governments can provide assistance, we need to assess the different “experiments” that have already been undertaken, and try to understand the extent to which individual legislative initiatives have been successful in leading to growth in the sector, in order to make common proposals for legislative initiatives to all European governments.

In undertaking this analysis, there are a number of initial comments that needed to be made regarding the intention of this research. First, it is recognised that the social solidarity economy has grown impressively with little government assistance, and that there are many ways in which participants in the three sectors can take that action to achieve greater expansion for themselves. Governmental support should be seen as only one mechanism by which this sector of the economy can be further enhanced and expanded.

Second, it is recognised that social solidarity initiatives in countries around Europe are at different stages of development and have widely varying degrees of entrenchment and growth within individual countries. It is inappropriate (as well as unrealistic) to recommend that the same government assistance be put in place in every country in Europe simultaneously: the process is likely to be incremental. In view of this, the plan for analysis below considers a range of governmental assistance, from that which is appropriate for countries where the sectors under consideration are currently unrecognised by governments and small in scale, to that which is appropriate for countries with more developed and firmly entrenched sectors which already receive a degree of recognition and even support from their governments.

1. Data excluded in the analysis

Even from a brief glance at the research that has been done by the Council of Europe, it is clear that there are many different types of government assistance that could potentially be included within the analysis that is being undertaken. To include all types of regulatory assistance would mean

that the analysis would be so extensive, and there would be so many different types of regulatory frameworks being considered, that, it is suggested, the result would be a lack of focus on the aims of the project itself. A brief summary will therefore be provided of the types of data that will not be included in the analysis as well as justifications for the decisions made.

It is suggested that the focus of the Council of Europe's platform is primarily aimed at assisting enterprises/organisations who utilise systems of trade and investment to achieve social, ethical and environmental goals, as well as responsible consumers and investors seeking those same goals. It is therefore suggested that the analysis should focus on citizen groups whose main aim is to promote those goals rather than mainstream companies who have made more limited social or environmental commitments. In the responses provided by governments, there are a number of legal interventions by governments designed to promote social/environmental aims with regard to what might be termed "mainstream" companies. Often these interventions are aimed at promoting what we might term "corporate social responsibility" (CSR) initiatives. It is suggested that such government action differs fundamentally from the type of initiatives that form the focus of the current project: in the current project, the focus is on citizens' groups who come together with the aim of promoting social justice issues through economic transactions, while in the case of CSR, mainstream companies are encouraged to report on their social or environmental impact, without that being the central concern of the business. So the data provides a number of initiatives concerning the way in which mainstream companies must/should/are given incentives to report on various aspects of their social and environmental impact (see for instance initiatives in Denmark, France and the Netherlands). These initiatives will not be considered in the following analysis because, it is suggested, they relate to another issue distinct from that which is the main focus of the Council of Europe platform.

For similar reasons, the intention is to concentrate on legislative initiatives that particularly promote social solidarity-based economy organisations, rather than more general governmental initiatives relating, for instance, to the creation of sustainable development policies. More general policies will only be considered when they directly relate to promotion of the three sectors that form the focus of this project. Also, the focus should be on policies that, as much as possible, are relevant to all three sectors under consideration in order to bring added coherence to the platform. Therefore we should concentrate on those legislative proposals that are most capable of forming part of a common platform that represents all three sectors.

In addition, consideration will only be given to those forms of initiative that are governmental in origin, that is, they are quasi-legal or legal. Initiatives that come from other sectors will not be considered, as they could essentially be classified as voluntary rather than legal, and do not concern the relationship between governments and the social solidarity economy (e.g. in France – *Label socialement responsable “CIES”* – which is granted by trade unions). Further, this analysis will concentrate on governmental legal initiatives that are actually in place, or, where they are of particular interest, planned governmental legal initiatives. The analysis will not consider campaigns that NGOs, etc. are undertaking to attempt to get governments to adopt measures (e.g. in Italy regarding law on international co-operation, Transfair in Luxembourg) or attempts to enact legislative measures that were not successful (e.g. at the EU level on pensions reform). It is submitted that the latter examples do not have the persuasive power of legal initiatives that have actually been adopted by governments. On a related issue, the analysis will concentrate on regulatory initiatives of national rather than regional or local governments, since the Council of Europe will be launching the platform to governments at national level.

Finally, a number of the legislative initiatives that are listed in the Council of Europe data relate to one specific issue – the regulation of pensions funds, and in particular reporting requirements with regard to social and environmental issues. Much has already been written on this issue, adoption of pensions regulations is becoming more and more widespread, and it is suggested that the Council of Europe’s platform would create more benefit by highlighting some of the less well-known initiatives listed below.

2. Methodology for the analysis

Due to their diverse nature, an initial attempt has been made to categorise the different forms of government assistance which will be included in the analysis from *a* to *f* below. The different categories that are described below are a preliminary set of categorisations based on a brief initial analysis of the data collected by the Council of Europe.² In each category of legal initiatives, some methodological issues are raised,

2. These categorisations, as currently organised, do not directly relate to the categories proposed in a previous paper done by the author for the Council of Europe (see DGIII/DCS (2003) 26, p. 8, Council of Europe, Strasbourg, 2003), but they are very much inspired by that methodology.

several of the most advanced forms of government regulations are suggested for analysis, together with some of the crucial aspects of each legislative initiative that will need to be analysed.

a. Overall government strategy papers, reports and declarations which contain reference to ethical finance, fair trade and responsible consumption

Overall strategies/declarations are important initial actions by governments because they demonstrate a government's ideological commitment to the issues in question, and can pave the way for more concrete support through more specific legislative measures at a later date. In particular, these general strategic documents are important for countries who have not, as yet, undertaken any legislative commitments to promote the social solidarity economy, such as many of those in Eastern Europe.

A number of countries have overall strategies on sustainable development which mention our three sectors (fair trade, ethical finance and responsible consumption) and a number of others have adopted resolutions or declarations that have supported one of the three sectors. It is proposed that an analysis be made of what we might term "government strategy papers" in order to ascertain how often specific mention is made of the three sectors we are considering here, how this relates to overall government strategies on social and environmental issues, and the nature of any specific commitments that are made concerning support for the three sectors. Also important is governmental commitment to further research into the type of governmental support that might be appropriate.

Austria, Belgium, Germany, Italy and the European Union all have overall strategy papers on trade and or sustainable development that mention at least one of the three sectors.

The Working Programme 2003 for the implementation of the Austrian Working Programme mentions ethical finance, while the Belgian National Plan for Sustainable Development (2000-2004) discusses promotion of fair trade and socially responsible production. The Belgian legislation³ has stated that the social economy, in particular fair trade, is a trans-sectoral priority of international co-operation.

3. Law of 25 May 1999 concerning Belgium's international co-operation.

The German Programme of Action 2015 encourages and supports fair trade and ethical finance initiatives,⁴ and appears to have led to some concrete financial support measures.

In Italy there is a proposed resolution concerning support for the ethical finance sector that also recommends a number of concrete measures to promote ethical finance initiatives.

The EU Sustainable Trade Action Plan contains a number of objectives which specifically relate to standards of “sustainable trade”, “fair trade” or “ethical trade”, etc. and how non-governmental initiatives that help achieve those goals might be supported.⁵

A second category of governmental “strategy papers” are those reports that have been commissioned by government that provide more in-depth analysis and comment on one of the three sectors.

For instance, the Belgian legislation mentioned above has led to a policy paper reviewing how further action can be taken to promote the fair trade sector.⁶

The final report of the German Enquete Commission also represents a more extended piece of research.

b. The creation of a legal status for organisations that promote the social solidarity-based economy

The inclusion of organisations that are promoting the social solidarity-based economy within a legal categorisation, separate from mainstream companies, is one way in which governments can promote such organisations. This allows them to be differentiated from other companies that do not primarily pursue social goals, but does not constrain them to act as charitable institutions (e.g. they can still make certain profits, although these are often capped).

A legal categorisation already exists in France for “social enterprises” (defined as undertakings that are not quoted on the stock exchange, where the enterprise ensures that disabled persons, persons receiving the

4. Available at: www.bmz.de/themen/Handlungsfelder/armutsbekaempfung/download/ap2015_elang.pdf, p. 34.

5. Available at: www.eftafairtrade.org/pdf/Commission%20STAP.doc.

6. See *Note stratégique trans-sectorielle: économie sociale*, 14 November 2002.

state minimum income or long-term unemployed comprise at least a third of the employees, and the enterprise is a co-operative, friendly society, association or company whose directors are elected by the employee members or partners and whose wages which are subject to statutory limits). There is also a proposed law on social enterprises in Italy, and proposals for “Community Interest Companies” are currently being finalised by the Department of Trade and Industry in the United Kingdom.⁷

A comparative analysis would need to be undertaken on the definitions that are provided for “social enterprises” or their equivalents: what are the criteria that are used to decide membership (also, who is the decision maker?), and how do these criteria work in relation to the sectors promoted by the Council of Europe project? What are the advantages of obtaining this status (e.g. recognition, status or tax benefits for investors under the French model, see below)?

c. The labelling of products

The creation of labels for products enables consumers and investors to differentiate on the basis of social, ethical and environmental criteria between different products and investments. There are a number of such schemes set up by voluntary organisations in all three sectors. Increasingly, there are government-verified labelling schemes. These have the advantage of ensuring that there are enforceable standards that products/investments have to meet before they are permitted to associate themselves with fair trade or ethical finance. The advantage of a scheme run by government is that it would lend authority to the identification system, rather than being one of several voluntary initiatives. This would allow consumers to distinguish more easily between official environmentally friendly, fair trade and ethical finance products, as opposed to those companies that are merely trying to use “ethical” labelling as a public relations exercise for their products, without adhering to the relevant agreed standards.

This is perhaps the most complex and difficult area of which to conduct a legal analysis of the existing governmental schemes. There are a great number of existing labelling schemes, in particular for products that meet specified environmental standards. There is a potentially difficult relationship between government labelling schemes and those operated on a voluntary basis. Where there are existing principles developed under voluntary

7. See website: www.dti.gov.uk/cics.

8. Such as the FLO International Fairtrade Certification Mark. See website: www.fairtrade.net

initiatives,⁸ how should these be utilised by governments creating their own standards? What are the criteria for a product to be labelled social/environmental, etc. under government sanctioned labels? What body decides who obtains the label? Comments would be particularly welcome here from the three sectors on the advantages of governmental labelling systems over voluntary ones.

Examples that could be considered in the three sectors are as follows: ethical funds can receive the Austrian *Umweltzeichen* label from the Ministry of Environment. For fairly traded products, there is the social label created in Belgium, which sets certain social and environmental standards to be met before a product can receive the social label. There are also EU proposals for a social label which could be considered. As far as environmental labels are concerned, they exist in a great number of European countries including Austria, Denmark, Germany, Finland, Norway and Sweden, and at the EU level. More analysis would need to be done to ascertain the common features of these labels, and to identify the most appropriate models.

An alternative to a direct governmental system of labelling is the system used in Norway by the Consumer Ombudsman who provides guidelines on how companies can use the expression “ethical”, “fair trade” and “environmentally friendly”. Documentary evidence is needed to back up claims to any of these terms.

d. Promotion

The products of fair trade initiatives are often not as well known to consumers as brands from larger producers who have far greater financial muscle to promote their products. Similarly, ethical finance initiatives may be unable to promote themselves to potential investors in the same way that major financial institutions can. From the consumer perspective this may mean that they are not taking up opportunities for responsible consumption because of a lack of knowledge about the existence and characteristics of relevant initiatives.

There is the potential for governments to undertake promotion initiatives in a number of different ways. The first way is through the provision of funds to promote consumer/investor awareness. Both in Germany and at the EU level there are funds provided for the promotion of fair trade products (the author believes funding was also provided by the government in Switzerland for fair trade products, and this was very successful in raising consumer awareness). The second method is by creating special

preferential rates for advertising through the media. In France there is a scheme whereby fair trade organisations are able to obtain a special rate for advertising on French television and radio. A third mechanism that applies particularly to ethical investments is for obligations to be imposed to make investors aware of particular social investment opportunities. In France pension funds managers are obliged to propose to their customers (that is, enterprises preparing pension funds schemes for their employees) the possibility of investing in a fund of solidarity enterprises.

Questions that need to be considered are: do governments promote the products/investments themselves, or provide funding for enterprises to do it themselves? What is the level of funding that needs to be provided for this type of promotion to be successful? What are the restrictions put on its use? Does it fund new, or established products and investment? Is there any evidence of increased take-up as a result of the promotional activity?

e. Financial support – tax incentives and investment funds

Governments can also look to expand the social solidarity-based economy through providing financial support for the sector. Two types of financial support that are identified here are funds that are provided by governments for investment in social projects and tax incentives for private individuals who decide to invest in ethical finance initiatives or fairly traded products. With such tax incentives, social solidarity initiatives should be able to attract more customers to their products/investments rather than relying only on the ethical and social benefit of those products/investments.

For instance, the lesser rates of return on investments for ethical finance initiatives or the greater costs involved in the purchase of fair trade coffee, etc. is a problem in attracting more customers. The ethical nature of the products, and the small size of the producers mean that ethical products are often more expensive than their non-ethical counterparts. In the Netherlands, there has been a tax advantage scheme in operation for green investments since 1995. The tax-free exemption regulation on green investments now has its social-ethical equivalent. This means private investors will have a bonus of about 2,5% above the regular returns on these funds, which is about 2%. This tax advantage scheme has been approved by the European Commission. In France, there is a system whereby investors can obtain tax advantages by investing in legally prescribed social enterprises.⁹ In the UK, there is the Community Interest Tax

9. Law No. 2003-709 (1 August) concerning tax credits for investments in small non-quoted companies.

Relief Scheme which encourages investment in disadvantaged communities by giving tax relief to investors who back businesses in less advantaged areas through Community Development Finance Institutions (CDFIs). As far as funds are concerned, the best example appears to be Belgium, which has a fund of €75 million to provide soft loans and guarantees to companies from the social economy sector in order to finance long-term investments.

In considering the effectiveness of this form of governmental assistance it is necessary to look at the criteria that are used in order to decide who is eligible for this form of funding/tax reduction (e.g. who can apply for the funds, what types of investments are eligible for tax reductions in each of the systems?). Secondly, what is the nature of the body that makes decisions on eligibility? Has the financial support led to increased take-up of investment opportunities? Have there been problems with capacity as a result of increased take-up and how are those dealt with?

f. Procurement law

Government take-up of fair trade products, environmentally friendly products and ethical investments is financially important and acts as an example to the wider community on the importance of social and environmental factors in decision making. Government can take a number of different regulatory actions which enhance the take-up of products produced according to social and environmental criteria.

The primary methods identified in the Council of Europe research involved setting up frameworks where such criteria can be taken into account as part of a bidding process and setting targets concerning the amount of socially and environmentally friendly products that should be procured by governments. Austria, Belgium, Germany and Poland all have governmental guidelines at the national level which state how public authorities can take into account social and environmental criteria in making procurement decisions. These can be compared, taking into account EU regulations and case-law which specify how public procurement decisions can be made with consideration of social and environmental criteria. What regulations are in place to promote public procurement of socially and environmentally responsible products? Are minimum levels of public procurement for such products aimed for?

VI – SOLIDARITY-BASED ECONOMY:¹ A SUMMARY OF THE LEGISLATION OF THE EUROPEAN UNION AND THE MEMBER STATES OF THE COUNCIL OF EUROPE

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Introduction

The emergence of numerous forms of citizen commitment in the economy such as the use of financial means in an ethical manner (ethical finance) or responsible consumption initiatives (fair trade, responsible consumption) have been observed for quite some time.² These various initiatives reflect a different model of society in which actions by citizens form a link between the public action of the state and the activities of the market by incorporating the social and environmental dimension into the economy. They are considered as key factors in the enhancement of democracy, social cohesion and sustainable development at local and global level. As such, they provide not only tools for the social integration of people and areas in difficulty, but also help to create new social bonds in key areas of society such as the relations between producers and consumers, shareholders and workers, inhabitants of cities and rural areas or between citizens of rich and poor countries. Furthermore, they open up possibilities for generating substantial added value and gains in terms of economic performance and job creation.

In addition to the European Union, public authorities at national, regional and local level, especially in western Europe, have recognised these citizen commitments by providing recommendations for the different

1. The term “solidarity economy” refers here in particular to the commitment of citizens in the sectors of ethical finance, fair trade and responsible consumption.

2. The Socially Responsible Investment Movement started in English-speaking countries in the 1970s and spread to other European countries in the 1980s and 1990s. The Fair Trade Movement has operated for over forty years in Europe in relation to developing countries. Community-supported agriculture, one of the many forms of responsible consumption, started in the 1970s in Japan, developed in Europe and spread in the 1980s to North America.

sectors and various legislative supports with the aim of furthering their development.

The following offers a synthesis of the existing legislation³ including that of the European Union, based primarily on the findings of a questionnaire organised by the Council of Europe's Directorate General of Social Cohesion.⁴ The report aims to categorise the numerous legal initiatives and commitments of different public authorities as well as demonstrate the most advanced examples. The legal initiatives are classified on the one hand by geographical unit (local, regional, national, European Union) and on the other hand with regard to the quality of commitment of the public authority concerned. It may be that the sector has been recognised in one or several ways or that different kinds of legal support were provided, sometimes with the commitment of the state itself.

1. Ethical finance legislation

Judging by the findings of the questionnaire, ethical finance initiatives⁵ are available in about 40% of the member states of the Council of

3. The term "legislation" is used in a broad sense also including any expression or communication of public authorities which recognises concerned citizens' commitments. It is also necessary to indicate that this synthesis might not comprise all the existing legislation as it is mainly based on the information which was provided by the different states and organisations.

4. To date twenty-three member states have replied to the questionnaire of the Council of Europe, which was sent out in 2003, namely: Armenia, Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Liechtenstein, Lithuania, Luxembourg, Moldova, the Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland, Turkey and the United Kingdom. Answers were also provided by other organisations such as the different networks of ethical finance, fair trade and responsible consumption.

5. They include, for example, activities of ethical banks offering different ethical financial products, platforms or round tables concerning ethical and ecological funds or microcredits, development of sustainability indexes, sustainable investments of private or institutional investors, labels or certifications for sustainable funds, networking activities, creation of funds to be invested in an ethical way, publications and conferences concerning ethical and ecological investments, church/bank/assurances/pension funds guidelines and codes for ethical financing, position papers concerning standards for ethical investments, (micro)credits with an advantageous rate for certain projects (e.g. creation of small enterprises, agriculture projects, financial assistance for housing, credits for unemployed persons or enterprises with a social purpose), activities of rating agencies and finance monitoring organisations.

Europe.⁶ By contrast, legislation supporting ethical finance exists in about 20% of member states.

The majority of the legal initiatives which can be observed in western European countries⁷ take place at national level. Exceptionally, legal initiatives are regional and local (see 1.c). Throughout the European Union three legal initiatives have been set up (see 1.a) but they have not been finally approved.

Concerning the quality of commitment, the existing ethical finance legislation can be divided into the three main classes developed hereunder:

a. Initiatives which recognise the ethical finance sector

In this class different communications can be found that pick out ethical finance as a central theme, sometimes in declarations of national governments, parliamentary organs⁸ or national parliamentary initiatives,⁹ even if they have not finally been adopted. Often in these documents support is requested for the ethical finance sector and recommendations are given on how to achieve this. The most advanced national example in this category can be found in Italy where in July 2003 the national parliament adopted a resolution which expresses the strong intention to support the ethical finance sector by a law which would give it tax advantages.¹⁰ It further demands the commitment of the government to favour the diffusion of ethical finance as a possible additional means of development, to recognise the importance of ethical finance initiatives in the political frame of social and economic inclusion, to encourage the actions of operators of ethical finance and to raise awareness among the public on the experiences of ethical finance as a means to fight poverty.

6. With regard to all the statistics in this document it should be noted that member states of the Council of Europe which did not complete the questionnaires have been considered to have neither initiatives nor legislation (except where other information was available).

7. Although different ethical finance activities can also be found, for example, in Poland. See following websites: www.bise.pl, www.funduszmikro.com.pl, www.mfc.org.pl, www.skok.pl, www.tise.com.pl.

8. Strategy for sustainable development and its working programme in Austria (2003); Final Report: Enquete Commission of the Bundestag in Germany, available at: www.bundestag.de/gremien/welt/glob_end/downloads.html.

9. Law Proposal of the Parliamentary Group Dei Greing (No. 4864) in Luxembourg (2001); Interpellation No. 01.3057 concerning company pension plans in Switzerland.

10. Resolution concerning ethical finance (7-00275), presented by Alfredo Grandi on 3 July 2003 in the session No. 334.

At European Union level, the European Commission recommended¹¹ the disclosure of environmental issues in annual reports of companies and the Committee on Employment and Social Affairs of the European Parliament proposed that a directive be passed requiring companies to undertake annual social and environmental reports as well as requiring all European private pension funds to state their ethical policy. However, the attempt to introduce pension disclosure regulations¹² through different parliamentary initiatives has been without success. Disclosure regulations support the ethical finance sector indirectly as they facilitate transparency and help therefore to choose “ethical” actors.

b. Regulations which provide legal support for the ethical finance sector

At this level of legislation states have decided to actively support the sector by providing different favourable legal frameworks. Until now regulations can only be found at national level, not at regional or local level, nor throughout the European Union. Legal support is given indirectly, for example through disclosure regulations for pension funds, life assurance and companies¹³ or directly through the provision of tax advantages, “microcredits”¹⁴ or through public labels for green funds.¹⁵

Regulations concerning tax advantages vary with regard to the different kinds of taxes concerned, the amount of tax reduction given, the persons and institutions privileged by the tax incentive and the kinds of investments favoured, for example environmental, social-ethical or cultural.

11. Recommendation of the European Commission (31.5.2001); Working document of the Committee on Employment and Social Affairs of the European Parliament (5.2.2002).

12. Proposal of amendments for the Pension Fund Law in the Committee/Plenum (2003) and for the Transparency Directive in the Committee (February 2004)/Plenum (March 2004).

13. Such disclosure regulations exist, e.g. in Belgium (law for pension funds – 13.3.2003), Denmark, France (Law No. 152 – 19.2.2001; Law No. 624 – 17.7.2001; Law No. 420 – 15.5.2001; Law No. 769 – 12.7.1977; Decree No. 221 – 20.2.2002); Germany (law on private pensions; law on company pension schemes), the Netherlands, Norway (Accounting Act 1999), Spain (under discussion), Sweden (Annual Accounts Act 1999) or in the United Kingdom (Occupational Pension Scheme; Guidelines on corporate environmental reporting). They differ with regard to the question, who has to disclose what, when and how often to whom.

14. Spain has established a Microcredit Concession Fund for basic social development projects in the country and abroad.

15. Ethical funds in Austria can, for example, receive the Austrian “Umweltzeichen” label from the Ministry of Environment, if they fulfil the criteria of the “Guidelines for green funds”.

Other criteria include the money's destination: social enterprises via funds for the social and sustainable economy; different ethical projects or companies.¹⁶ The Netherlands – where large pension funds (ABP, PGGM), trade unions (FNV, CNV), rating agencies, research institutes, NGOs and government agencies are the ethical financing driving forces – can be mentioned as the most advanced country in this class. The Netherlands Green Investment Directive,¹⁷ established in 1995, promotes access to finance for environmentally sound or worthwhile projects, for example wind and solar energy, organic farming, environmental projects and sustainable building projects and it frees returns on such investments from income and dividend taxes up to a certain threshold. In 2002 the tax advantage scheme was extended to projects in developing countries¹⁸ and in central and eastern Europe. Since 2004 tax credits have also been given for investments in the social-ethical area and for investments in cultural projects.¹⁹

So far the European Union has not provided any legal support for the ethical finance sector.

c. Commitment of public authorities to the ethical finance sector

The last class comprises local, regional and national regulations, through which public authorities show that they themselves are engaged in the ethical finance sector. Regulations concern decisions of public authorities to review certain public investments with regard to ethics. Examples include:

- a regional Flemish public authority which screens pension funds for civil servants (Belgium);

16. Regulations with tax advantages for the ethical finance sector can be found in Belgium (Law of 8.3.2003), France (Law No. 152 – 19.2.2001; Law No. 709 – 1.8.2003; Law No. 721 – 1.8.2003), the Netherlands and the United Kingdom (Community Investment Tax Relief). Denmark is said to have offered tax credits for certain projects e.g. wind plants, in the past.

17. DGM/SB/2001137297 (2002).

18. DGM/SB2001137299 (2.1.2002).

19. See *Regeling sociaal-ethische projecten*, Staatscourant No. 44 DJZ/BR/0163-04 (March 2004): investments in authorised social and ethical funds will benefit from a tax reduction of 2,5%, dividends from investments in these microcredit funds will be tax free; *Regeling cultuurprojecten* (2004): dividends from investments in funds participating in cultural projects will be tax free. In Belgium plans for fiscal regulations on green investments like in the Netherlands are under discussion.

- certain local authorities (e.g. Ghent, Belgium) which screen some public investments;
- the Norwegian Parliament, which invests the Environmental Fund (formerly the Petroleum Fund) only in companies with high environmental standards;
- the Swedish Government, which has awarded mandates to two hedge funds under the condition that they do not invest the money of the state pension fund in companies that have broken certain United Nation conventions. The national initiatives in Norway and Sweden can be seen as an advanced paradigm, particularly because of the high amounts which are invested in a responsible way.

Further examples in this class would be certain local authorities in Germany. Neuss is the first local authority in the world to support the ethical finance sector by being a member of an ethical finance institution.²⁰ The town pays 1 cent per inhabitant (in total € 1500) and aims to activate the population of Neuss to also invest in ethical finance institutions. The Council of Munich has, after having considered creating an ethical-ecological Munich fund,²¹ published a manual²² which enables the inhabitants to familiarise themselves with the spectrum of ethical-ecological investment facilities in Munich.

Initiatives of commitment in the ethical finance sector at European Union level are not known.

2. Fair trade legislation

The findings of the questionnaire show that fair trade has a higher application in different countries than ethical finance. Fair trade initiatives are available in 44% of the member states of the Council of Europe, while legislation supporting fair trade exists in 24% of member states.

20. The ethical finance institution "Ökocredit Westdeutscher Förderkreis" gives "fair credits" for companies and cooperatives in poor countries.

21. This initiative was finally not put into practice, because a multitude of investment facilities already exist in Munich.

22. "Geld ethisch-ökologisch anlegen – Vorschläge und Materialien aus der Münchner Agenda 21 "Eine Welt".

The legal initiatives, which up to now exist only in western European countries,²³ take place at national, regional and local level. At European Union level several legal initiatives have been set up in all three legislative categories.

Concerning the quality of commitment, existing fair trade legislation is summarised below.

a. Initiatives which recognise the fair trade sector

In this category different regulations can be found that pick out fair trade as a central theme and express the need for support for the sector. They can be found, for example, in declarations of different public authority organs,²⁴ in fair trade resolutions²⁵ and in legislative proposals.²⁶ Advanced examples for regulations in this category include resolutions in Austria, Belgium and Spain where legislation has been introduced at local, regional and national level. The national Belgian initiative²⁷ sets out concrete, detailed strategies on how to further the sector. In addition to an analysis of the situation of the fair trade sector, the initiative points out

23. Fair trade activities have already started in some eastern and southern European countries such as Albania, Hungary, Poland and Slovenia, but there is no corresponding legislation yet.

24. Austria: concepts for the implementation of a fair local procurement; Belgium: Law of 25 May 1999; Federal, National Plan for Sustainable Development 2000-2004; France: Common Declaration; Germany: Coalition Agreement; Report of an Enquete-Commission; Answers for Parliamentary Requests; the Netherlands: parliamentary request concerning a sustainable purchase policy; Spain: Law on International Development Cooperation 1998; Switzerland: Report of the Commission for Foreign Policies – 18.2.2002; the United Kingdom: strategy for sustainable development; framework for sustainable consumption and production; report on sustainable development in public procurement 2002.

25. Fair trade resolutions of public authorities are available, either at national, regional or local level, in the following countries: Austria, Belgium, France, Germany, Italy, Liechtenstein, Norway (local), Spain, Switzerland and the United Kingdom. Norwegian fair trade organisations have lobbied for a fair trade resolution at national level – until now without success.

26. XIV Legislatura, 14.4.2003, Camera dei Deputati No. 3892: This – not yet adopted – Italian law proposal envisions amongst other advantages (e.g. Art. 7: creation of special funds in favour of fair trade) different fiscal incentives for the fair trade sector (Art. 4: fiscal regime incentives for fair trade; Art. 5: tax reduction for fair trade products; Art. 6: reduction of the turnover tax of fair trade products from 20% to 4%).

27. See *Note Stratégique transsectorielle*, 14.11.2002.

the lessons which can be learned from the past to promote strategies to support the sector and develop a plan of action. The proposed Italian law (mentioned above) could become important as an example for Europe if it comes into force as it covers the fair trade sector as a whole.

The European Union, which stated in the Treaty of the European Community (Article 177) its aim to foster the sustainable and economic and social development of developing countries, has expressed in many other documents the need to support the fair trade sector. These include the development of fair trade labelling initiatives, financial support and promotion of fair trade activities,²⁸ the demand of assistance for fair trade bananas²⁹ and fair trade coffee,³⁰ the plan to set up a working group on fair trade³¹ and the provision of different proposals³² to improve the functioning of the fair trade sector. In the Resolution of 2 July 1998 the European Parliament stated that fair trade is the most efficient way of promoting development. A “Sustainable Trade Action Plan” of the European Commission, which was discussed in a meeting on 2 July 2003, includes further measures to promote sustainable and fair trade. Fair trade also forms part of the considerations of the Commission concerning the Report of the World Commission on the Social Dimension of Globalisation 2004.

b. Regulations which provide legal support for the fair trade sector

At this level of legislation states have decided to actively support the sector. They do this by providing either financial support or supplying different favourable legal frameworks for the sector.

28. Labelling initiatives: Economic and Social Committee on the European fair trade marking movement – CES 538/96 E/as; European Parliament Resolution on social labelling; financial support: Regulation of the European Commission No. 856/1999 – 22.4.1999; promotion: EU’s Partnership Agreement with African, Caribbean and Pacific countries, Cotonou, 23.6.2000; Council Resolution on development education and raising, European public awareness of development co-operation, 8.11.2001; Communication from the Commission to the Council and the EP, Agricultural Commodity Chains, Dependence and Poverty, Proposal for an EU Action Plan, 12.2.2004.

29. Resolution EU-ACP Joint Assembly 1997.

30. European Parliament Resolution on the crisis in the international coffee market, P5-TA-PROV(2003)0189.

31. European Commission: Document on Alternative Trade.

32. European Parliament: Fassa Report 1998, A4-0198/98, PE 225.945.

The financial support comes from local, regional and national public authorities and is primarily directed to the following purposes: awareness-raising, private and public campaigns, supporting fair trade associations, support for fair trade labels, creation of new fair trade labels, support for “fair weeks”, development and market introduction of new fair trade products, support for national and international structures of fair trade, for fair trade conferences, for research (handbooks) or for different fair trade projects.³³ Germany distinguishes itself as exemplary in this class as it is currently investing strongly in the fair trade sector. The Programme of Action 2015 comprises numerous initiatives to give financial support (e.g. € 6,48 million for 2003-2005) to the sector and aims to double fair trade consumption in Germany.

As different favourable legal frameworks the following may be mentioned: communications which help fair trade products to be introduced into public procurement,³⁴ conventions which guarantee the transactions of the fair trade sector,³⁵ special tariffs for fair trade advertisements on television,³⁶ state recognition of fair trade organisations,³⁷ ombudsman consumer guidelines and social label legislation,³⁸ and regulations for

33. Such financial support can be found for example in Austria, Belgium, Finland, France, Germany, Luxembourg, the Netherlands, Norway, Portugal, Spain and Switzerland.

34. Austria: expert opinion concerning the introduction of fair trade products into public procurement; Belgium: law for public procurement (24.12.1993) changed through the law programme of 8.4.2003 (Article 16), which allows, with regard to the tender, to take social, ethical or environmental aspects into consideration; State Secretary Circular letter concerning “responsible procurement” in the form of an internet website : www.guidedesachats-durables.be; Germany: Decision of the Munich Council that certain products have to be tendered with respect to the ILO Convention (2002); Italy: regulations concerning the integration of fair trade products into public procurement in Rome; the United Kingdom: Guidelines of the Office of Government Commerce which show how government procurement offices can source fair trade foods (March 2004).

35. Convention between the Belgian state and the “Coopération Technique Belge”, which sets up a mechanism to guarantee the transactions of fair trade (2003).

36. Letter of the French Prime Minister, which offers a special tariff for advertising fair trade in the public media.

37. In 2003 the French state awarded to the Max Havelaar association the label “campagne d’intérêt général”.

38. The Belgian law for the promotion of socially responsible production (27.2.2002) distinguishes products with a public label, which follow a socially and environmentally responsible production process. The Consumer Guidelines of the Norwegian Ombudsman state when companies can use the expression “ethical” and “fair trade” (2003).

social enterprises and non-lucrative organisations.³⁹ Belgium may be seen as a leader in this field as it provides many kinds of favourable legal frameworks (public procurement, guarantees, social labels) with high commitment to the fair trade sector. It is followed by France, which offers official state recognition of a fair trade organisation and the privileged promotion of fair trade on television.

The European Union has until now basically supported the fair trade sector by providing financial means for awareness-raising campaigns, for research or for the improvement of the structure of networks.⁴⁰ If the Sustainable Trade Action Plan of 2003 is put into practice other support will also be available such as: the establishment of a European Union-level system of accreditation/recognition of sustainable, fair and ethical trade labels, the promotion of sustainable and fair trade criteria in public procurement in the European Union, and support to increase developing countries' exports of sustainable products.

c. Commitment of public authorities to the fair trade sector

The last class comprises local, regional and national decisions through which different public authorities⁴¹ demonstrate that by consuming fair trade products they are engaged in the sector. The legal initiatives differ with regard to the number of products chosen,⁴² the amount consumed and whether consumption takes place regularly or only at special events. Moreover, some public authorities⁴³ commit themselves to the long-term promotion of fair trade. Belgium and Germany may be mentioned here as their public authorities consume fair trade products at local, regional and national level. Bamberg in Germany buys flowers, from the region if

39. The Italian laws on social enterprises (November 2003), on non-lucrative organisations (Decree 460/1997) and concerning the organisations for voluntary service (1991) privilege among others fair trade organisations, for example with fiscal advantages.

40. A description of the activities of the European Union in support of the fair trade sector can be found in the Communication from the Commission to the Council on fair trade, 29.11.1999, COM(1999)619.

41. Such as the federal chancellor's offices, offices of prime ministers, offices of presidents, ministries, national and regional parliaments, parties of the parliament, federal states, senates, chambers, kings, queens, local municipalities, mayors, general and regional councils, city councils or national universities.

42. The most frequently chosen products are coffee and tea. Other products available include bananas, honey, cacao, sugar, fruit juices, rice or jam.

43. For example, many local authorities in the United Kingdom.

possible, otherwise it buys from “fair” production. The United Kingdom stands out in having around 1000 local councils consuming fair trade products.⁴⁴

The European Union adopted a resolution in 1991 on coffee consumption and the introduction of this coffee within the community institutions as a means of active support for small Third World coffee producers.

3. Legislation concerning responsible consumption

While it is easy to clarify and isolate the typical forms of initiatives for the ethical finance and the fair trade sector, it is more difficult for the area of responsible consumption as there are numerous ways to view this vast field. This analysis will focus on commitments which include the involvement of citizens in responsible consumption or on important state initiatives touching responsible consumption, for example concerning the environment or public procurement. State support for Corporate Social Responsibility (CSR) initiatives of enterprises will be mentioned in passing as they provide only the preconditions for responsible consumption. Due to the wide scope of application the responsible consumption sector occupies the highest percentage of the results from the questionnaire. Responsible consumption initiatives⁴⁵ are available in about 72% of the member states of the Council of Europe, while supporting regulations for this sector exist in 48% of the member states.

Legal initiatives can be observed in western European countries as well as in eastern and southern European countries⁴⁶ to a lesser extent. They take

44. JO C 280, p.33, 51991IPO228 -28.10.1991.

45. They comprise for example contracts of consumer groups with “responsible” farmers, responsible tourism, public consumer schools, public “responsible” labels (e.g. social, environmental) for products or companies, organic, ecological agriculture initiatives, actions against misleading advertising, CSR of enterprises, establishment of different organs for sustainable consumption or the development of sustainable policies, consumer activities against genetically modified products, introduction of “ethical principles” into public procurement or the promotion of sustainable consumption practices within the general public.

46. For example in Bulgaria, Croatia, the Czech Republic or Poland. Croatia: public environmentally friendly label; the Czech Republic: law concerning the support of the development of sales and the utilisation of ecological products; Poland: Act on Public Procurement supplies and works, Act on ecological, organic farming.

place at national, regional and local level. At European Union level many legal initiatives have also been carried out.

The quality of commitment of the existing legislation for responsible consumption is described below.

a. Initiatives which recognise the sector of responsible consumption

In this category different communications are available that pick out responsible consumption as a central theme and express the need to support the sector. They can be found in declarations and initiatives of different public authority organs⁴⁷ or legislative proposals,⁴⁸ mostly at national level. The British Government's Organic Action Plan encourages public procurement of locally-produced organic food. The Federal Plan for Sustainable Development 2000-2004 in Belgium sets out concrete, detailed aims with targets to achieve within a certain time to further the sector. Thus in 2003 the purchase of nutrition by public administrations was scheduled to account for 4% of the market for organic products and 4% for products which have been produced in a "socially responsible" way.

The European Union has expressed in many different documents the need to support and develop the sector of responsible consumption, most recently in the Consumer Policy Strategy 2002-2006.⁴⁹

47. Austria: National Strategy on Sustainable Development; Belgium: Federal Plan for Sustainable Development 2000-2004; Germany: Report of an Enquete-Commission on responsible consumption; the Netherlands: parliamentary request concerning a sustainable purchase policy; Spain: strategic plan for consumer protection; Strategy of Sustainable Development; Switzerland: Motion No. 02.3519 for an ethical certificate for enterprises; the United Kingdom: strategy for sustainable development; framework for sustainable consumption and production.

48. Examples: the Draft Agro-Ecological Programme in Bulgaria, which designs different financial advantages for agriculture producers in order to encourage them to keep applying agricultural practices aiming at the preservation of the environment; law proposal concerning the prohibition of GMO in the Canton Tessin in Geneva in Switzerland; the law project concerning the prohibition of misleading advertising with regard to social conditions of production in Belgium.

49. Consumer Policy Strategy 2002-2006 – Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, COM(2002) 208 final; documents which welcome the different social labelling initiatives or point out the possibility of adopting a social label at European level (EP); Green Paper of the European Commission (2001) which proposed with trade unions and NGOs the introduction of a label for the social responsibility of enterprises; Proposal for an EU Action Plan, 12.2.2004: promotes measures for sustainability (also for public procurement).

b. Regulations which provide legal support for the responsible consumption sector

At this level of legislation states have decided to actively support the sector. They do this by providing fiscal advantages, “responsible” labels, favourable legal frameworks for “sustainable” public procurement or by providing financial or other support for the sector.

Fiscal advantages exist, for example at national level in the Netherlands, where organic farmers and producers of organic products, who obtain at least 70% of their turnover selling organic products, can deduct up to € 10,227 from their income taxes. Furthermore, many states have established at national and regional level different public “responsible” labels to further the sector. They concern to a large extent the environment,⁵⁰ but also different social conditions.⁵¹

Legal frameworks which favour “sustainable public procurement” exist, for example, at local, regional or national level in Austria, Belgium, Germany,⁵² Poland, Switzerland and the United Kingdom. Most of the laws take into account social, ecological, environmental or socio-political aspects in one way or another. Belgium provides a website⁵³ for public authorities to help them choose sustainable products and to advise them how to formulate the tender. The new public procurement law of Poland promotes ethical and fair solutions. Switzerland is known for advanced initiatives for green procurement.⁵⁴ The first annual report (2002) of a cross-government sustainable procurement group in the United Kingdom has recently recommended some positive changes to support sustainable

50. For example labels for ecologically produced products, for products and services which are less damaging to the environment or for environmentally sound tourism or for environmentally sound clothing (Austria, Croatia, the Czech Republic, Germany, Luxembourg, the Netherlands, Poland, Scandinavia [Finland, Norway, Sweden], Switzerland or the United Kingdom).

51. Belgium Social Label, the Danish Social Index, Ireland with its label for human resource development or the Italian “lavoro etico” social quality label.

52. The Ministerialblatt for the Federal State Nordrhein-Westfalen, No. 31 (9.5.1985) furthers for example the observance of products with environmental labels in the public procurement process. Regulations for green public procurement can be found also in the law for the promotion of recycling management and safeguard of environmentally friendly waste disposal. Many German towns and cities have their own guidelines and criteria for environmentally friendly procurement.

53. See website: www.guidedesachatsdurables.be.

54. See website: www.buwal.ch.

procurement. This includes an explicit policy commitment to pursue sustainable procurement or guidelines to government departments making clear the approach of value for money within sustainable procurement. Germany may be seen as advanced as it provides initiatives at local, regional and national levels. Furthermore, it provides public authorities with a handbook on green public procurement and a website⁵⁵ to promote sustainable procurement.

Financial support comes from local, regional and national public authorities and is directed, amongst others, to the following purposes: subsidies at national, regional and local level for the organisational and structural development of CSAs and AMAPs,⁵⁶ for example in the Provence region in France, in Belgium, Denmark, Germany and the United Kingdom; support for the promotion of local and organic food at regional and national level;⁵⁷ national grants for campaigns on fair tourism or the Clean Clothes Campaign;⁵⁸ support for organic farmers or for the conversion to organic production;⁵⁹ support for CSR initiatives or the promotion of labour and social standards;⁶⁰ support for the development and promotion of voluntary labels in Switzerland or the promotion of consumer schools in, for example, Belgium.

Other support includes providing training for farmers who want to adopt the CSA model or state organised conferences on CSR (both in Belgium); the establishment of working groups for sustainable consumption or a

55. See website: www.beschaffung-info.de.

56. Community Supported Agriculture (CSA) and Association pour le Maintien de l'Agriculture Paysanne (AMAP) stand for the promotion of contracts between consumer groups and farmers.

57. The region of Toscana (legge regionale No. 11/2002) promotes the consumption of agricultural, biological products in canteens and messes of public schools, universities and hospitals to further health. The United Kingdom (Scotland) has funded (63,5 million pounds sterling) a programme of school meal reform which is targeted to provide local organic food.

58. Liechtenstein has provided grants for the NGO "Arbeitskreis Tourismus und Entwicklung"; an intermediate monitoring project of the Clean Clothes Campaign is supported and co-financed by the Swiss State Secretariat for Economic Affairs.

59. In Switzerland organic farming is promoted with direct payments to Swiss farmers and marketing contributions for the promotion of organic products on the Swiss market. In the Netherlands the "Regeling stimulerend biologische productiemethode" provides financial support during the conversion transition period of two years.

60. Development of an CSR Index in the Netherlands; grants by regional public authorities for businesses willing to implement CSR; Switzerland funds projects which help firms to adapt their labour conditions to internationally accepted ILO labour and social standards.

council for sustainable development (the Czech Republic, Germany); the documentation of ethical labour practices of businesses (Denmark); an initiative which promotes sustainable consumption practices among the general public;⁶¹ a legislative project for the promotion of sustainable agriculture⁶² and a law concerning land-use regulation⁶³ which reserves a certain surface of land for agriculture (both in Switzerland).

European Union support for the sector can also be found in different legal initiatives such as European labels,⁶⁴ directives which forbid misleading advertising,⁶⁵ and communications which promote core labour standards and social governance.⁶⁶ Furthermore, the European Union provides financial support for awareness-raising campaigns, for research and for the improvement of the structure of networks. Some legislation and European Court decisions⁶⁷ allow better integration of environmental and social aspects into public procurement procedures.

c. Commitment of public authorities to the sector of responsible consumption

The last class comprises local and national decisions through which different public authorities show that they are engaged in the sector of responsible consumption. Below are some examples of this.

61. See website: www.nachhaltigkeitsrat.de/projects/sustainable_goods/index.html.

62. Regulation of the Grand Conseil of the Republic and the canton of Geneva, PL 9122, M 1474-A, which favours sustainable agriculture taking into account, for example, social and environmental aspects, biodiversity (in force: 1.1.2005).

63. Law concerning land-use regulation, 22.6.1979, FF 1996 FIII, 485, RS 700, RO 2000 2042; Decree concerning land use-regulation (27.6.2000, 700.1).

64. The EU environmental label, symbolised by a flower, for 21 different categories (e.g. washing machines, textiles, tourist accommodation): Council Regulation EEC 880/92, and the EU-Oeko-Regulation for ecologically produced products – 2092/1991 and 1804/1999.

65. Council Directive 84/450/EEC (10.9.1984).

66. Com (2001) 416.

67. Directive Public Procurement, EP 2.12.2003, Commission May 2000 (IP/00/461); allows national authorities to use appropriate and objective environmental and social criteria transparently for the public good without creating scope for arbitrary and unfair contract awards based on issues unconnected with the works or services to be provided; directive on the coordination of procedures for the award of public works contracts, public supply and service contracts 2004/18/EC; EC COM(2001)274 "green procurement"; European Court Decision C-513/99; European Court Decision c-225/98 (26/9/2000).

Germany's commitment includes not only environmental but also social aspects for public procurement. Thus the Munich City Council decided⁶⁸ that certain products, for example orange juice and carpets, should be tendered for with respect to the ILO Convention 182 against child labour. Since 2002 the City Council of Düsseldorf only buys service clothing for the fire department which has been produced under conditions which respect international labour law standards. Germany's Federal Environmental Agency (Umweltbundesamt) was the first public institution which was certified according to the EU Eco-Management and Audit Scheme (EMAS II), enabling an evaluation of their environmental performance. A commitment of public authorities to responsible consumption can be also seen in the organisation of international conferences for the training of public authorities for sustainable consumption. An example of this was an international meeting for mayors on renewable energies that was held in May 2004 in Germany. Likewise, the European Congress for Local Authority Environmental Officers, held in July 2004 in Germany, helped to increase the commitment of local authorities to responsible consumption.

At European level, the involvement of eighteen European local authorities⁶⁹ can be found in the Procura+ initiative which aims to establish a united campaign for fair and environmentally sound public procurement. The European Union recently committed itself by participating in EMAS⁷⁰ which provides a management tool to evaluate its environmental performance.

Conclusions

The percentage of supporting legislation relating to existing ethical finance initiatives (20%) is lower than those for the fair trade sector (24%) and for the sector of responsible consumption (48%). Legal initiatives exist mainly at national level and mainly in western European countries. At European Union level there is no direct support or commitment available apart from several proposals to support the ethical finance sector

68. Resolution of the Munich Council administration and staff board (17.7.2002).

69. Amongst them the town of Ravensburg in Germany; see website: www.procuraplus.org.

70. Since 2001 EMAS has been open to all economic sectors including public and private services (Regulation [EC] No. 761/2001 of the European Parliament and of the Council of 19 March 2001).

indirectly by reporting obligations of companies. It would be desirable to further ethical finance support legislation not only at national level but also at local and regional level and also in central and eastern European countries. A commitment of the European Union to provide a favourable framework for the sector and to invest the financial means of the European Union in an ethical manner would be desirable.

The fair trade sector could be furthered if more countries, especially eastern, central and southern European countries, introduced resolutions for the fair trade sector. Concerning the second level of legislation it would be helpful if, in addition to direct financial support, public authorities including the European Union would provide more favourable legal frameworks concerning, for example, public procurement, state recognition of fair trade organisations and financial advantages. A law which covers all the privileges for the sector as a whole, such as the proposal in Italy, would also be desirable in other countries and even at European Union level. Public authorities can commit themselves more to the sector by consuming more fair trade products – more in quantity, more regularly and not only at special events.

As mentioned above, the percentage of responsible consumption supporting legislation is the highest (48%) of the three sectors addressed in this chapter. Nonetheless, improvement is necessary. Areas for improvement include the promotion of legal initiatives in eastern, central and southern European countries; harmonisation of “responsible” labels at European Union level, for example social labels; the introduction of advanced initiatives in other member states of the Council of Europe, especially in the area of public procurement which offer public authorities the opportunity to demonstrate how they can act in a sustainable manner. Austria, Belgium, Germany and Switzerland, to mention just some countries addressing these issues, offer good practice examples by providing websites for “sustainable” public authorities.

VII – TOWARDS A EUROPEAN SOLIDARITY FINANCE SYSTEM

By Henri Rouillé d'Orfeuil, former President of Finansol, Paris

Introduction

In the context already described, members of the public, usually within formally or informally constituted voluntary sector organisations, have responded to situations involving very real social or environmental disaster by attempting to create or redirect economic activity. Half of humanity makes a living from economic activity on the margins of the global – or simply formal – economy. Economic initiative is apparent in every part of the world. Economic enterprise on the part of people excluded from the economic system is the necessary starting point for solidarity finance aimed at opening up the formal economy or creating a new economy. In Africa, Latin America and Asia, as well as in North America and Europe, economic initiative backed by social investment agencies has given birth to experiments, then to networks of experiments and even movements which have in some cases become large and proved remarkably dynamic. Some of the key players at the Porto Alegre World Social Forum (WSF) have argued that it is now time to lay the foundations for international co-operation among these large numbers of initiatives and movements, as part of the larger ambition of building a worldwide solidarity finance system. At WSF III in January 2003 the agencies present proposed making regional solidarity finance systems – which for us means a European solidarity finance system – the priority for 2003 and 2004. The European solidarity finance system project found favour with the Council of Europe Directorate General of Social Cohesion, which decided to support the initiative, relay it to European governments and use it as a basis for fostering co-operation between governmental and non-governmental agencies in eastern and western Europe.

1. European ethical and solidarity finance

In order to explain what ethical and solidarity finance is and present its roles – encouraging community involvement in the economy as an upstream measure and subsequently backing the implementation of social economic activity – we shall look at the question from four angles

and on that basis make recommendations to the various agencies involved.

a. *The three forms of ethical and solidarity finance*

First a brief typology of alternative financing:

- *Ethical finance*: this concerns itself with the kind of policies pursued by companies quoted on the stock exchange. Savers and investors – and, on their behalf, fund managers – want to buy into companies with “responsible” social and environmental policies. Conversely, they want out of companies with policies they regard as socially or environmentally bad or having adverse effects in any other fields they consider important. Specialist agencies award points to quoted companies for each aspect of sustainable development. Managers are therefore able to select companies with high scores and eliminate those that score badly. This approach to finance is known as socially responsible investment. Ethical finance and socially responsible investment have grown significantly in Europe in recent years. In France, a hundred or so savings products have attracted almost € 2 billion, five times the amount in 1999, not least because ethical products tend to outperform conventional ones.
- *Shared-return solidarity finance*: this redistributes all or part of the return on conventional or ethical financial products, together in some cases with all or part of the fund-management charges, in the form of donations to associations. The investor gives away a proportion of the income from the investment, and the fund manager sometimes reciprocates by relinquishing a proportion of the management charges. The donation helps the beneficiary association or entity but does not alter the financial system itself.
- *Solidarity investment finance*: this operates directly in different forms (capital investment, credits, guarantees) by channelling all or part of sums received into “social” enterprises. Unlike the other two forms of finance mentioned, this type is involved in the construction of new financial systems and its savings and investment products foster the setting up or the further development of companies or economic activity with positive social or environmental outcomes.

The three types of finance have different characteristics and above all different objectives. Ethical finance works at the heart of the economy and seeks to push major companies into socially, locally or environmentally beneficial behaviour. Shared-return finance seeks to generate financial

resources for the voluntary sector. Solidarity investment finance uses adapted arrangements to finance economic activities that allow marginalised persons, regions or localities to be brought into the economy or into what might be termed local, regional or social economies. All three types of finance play important roles but here we shall primarily be concerned with solidarity investment finance.

b. Solidarity investment finance

We shall merely outline this type of finance here, presenting it as a “solidarity finance system” with an anatomy and physiology which need to work together to make the system dynamic.

First it should be said that a solidarity finance system has to be “machinery” for intermediating between the socially-minded saver and the socially-minded entrepreneur, in other words for channelling finance to the social entrepreneur or business. We shall return later to the solidarity involved.

The machinery consists of an anatomy (organs) and a physiology (channels linking the organs and around which are organised the functions necessary to economic and financial efficiency).

- *Anatomy*: There are two types of financial organ, solidarity-finance institutions (SFIs) and financial institutions (FIs). FIs by definition create and manage financial products and savings products. SFIs, with the militancy of the partners of which they are composed, are more socially committed in their action. When financial channels become extended, FIs and SFIs have to work together, each according to their particular functions.
- *Physiology*: Solidarity finance systems are embodied by solidarity financial products linking savers and entrepreneurs. In order to cater both for entrepreneurs’ various needs (principally capital investment, credits and guarantees) and savers’ preferences and requirements, solidarity finance products have to strike a balance between traditional financial objectives – profitability, security and liquidity – and social, local or environmental objectives such as solidarity, proximity and sustainability. They are inherently diverse and have differing characteristics. There are as many of them as there are managers (FIs and SFIs) interested in developing them.

In order to make solidarity finance work effectively and compensate for a number of handicaps resulting from its social, local and environmental

objectives, certain functions are necessary, three of them crucially so: identifying potential entrepreneurs, loan guaranteeing (to compensate for the greater risks presented by the people and projects financed) and providing assistance to projects. FIs and SFIs, or specialist partner institutions when the various functions are outsourced, thus play a central and major role.

c. Identifying and measuring the “socialness” of finance

The growth of solidarity finance systems, the increasing numbers of agencies involved in them and the desire for supportive treatment by the public authorities mean it is no longer sufficient simply to assert that the particular financial scheme is solidarity-based or to offer a subjective assessment of socialness. The social nature of the finance has to be objectively demonstrable and there has to be some benefit to the community. These features have to be easily identifiable, measurable and checkable without excessive bureaucracy.

The socialness of an operation is recognised where its outcome is that all or part of the money involved goes to finance “social” businesses or solidarity-oriented activity. Thus it is necessary to have criteria or indicators of a business’ or activity’s socialness. In France the Finansol association’s “comité du label” (approval committee) applies the criterion of socially integrating a person or persons in difficulty – a company is recognised as “social” if it has been set up by a “person in difficulty” (as defined in the Anti-Exclusion Act) or if a third of its staff come into that category. Discussion is under way about further criteria to enable other types of businesses in other fields to be treated as social. Four other fields are under discussion: “development of regions in difficulty”, “development of the local economy”, “sustainable development” and “development of international solidarity”.

Recognition of socialness and the award of a social seal of approval are prerequisites for the development of solidarity finance, particularly where it is to operate at national or European level.

d. Towards a European solidarity finance system

Solidarity finance experiments are born of decentralised initiatives. Some such initiatives disappear either because they fail or because the object was simply to solve a few local problems. Others have led to the development of networks or movements, some of which have attained a national dimension, establishing platforms that allow solidarity finance

(institutions, financial products, etc.) to be promoted more effectively and closer interaction with the public and legislative authorities. The European dimension emerged some years ago, initially as a result of exchanges of information about good practices and failures. The European dimension now consists in networks of co-operation-minded agencies, international solidarity financial products and debate on a European seal of approval.

We now have:

- a forum for the exchange of information and experiences, the International Association of Investors in the Social Economy (INAISE), whose functions are to be strengthened. This forum, which at present is seriously under-resourced, should play an important part in familiarising European SFIs with each other, particularly west European ones. The Microfinance Centre (MFC) based in Warsaw could be a forum for eastern and central European countries;
- the European Federation of Ethical and Alternative Banks and Financiers (FEBEA), founded in 2001, has a membership of fifteen financial institutions in eight countries. They have developed three solidarity financial products: an investment fund (*Choix Solidaire*), an investment company (SEFEA) and a mutual guarantee fund (Solidarity Guarantee). The FEBEA is the main organiser of the upstream part of the finance chain, the part concerned with attracting solidarity savings. Other banks, such as the Triodos Bank, which is present in four countries, are also seeking to attract investor interest;
- the European Microfinance Network brings together institutions oriented towards solidarity microcredit.¹ This is a network of SFIs that play a major downstream role in solidarity finance, particularly in assisting people with projects that are in great difficulty.

2. The factors blocking or aiding the development of social businesses

Solidarity-based finance systems have taken very different forms and developed very differently in different European countries. A true change of scale will be impossible without interaction between driving forces

1. The European Union Enterprises DG sets the upper limit of microcredit at €25 000.

within solidarity finance and external backing, first and foremost from public authorities.

a. Three stages in the growth of solidarity finance

Analysis of the situation brings out three stages of development preceding a real national system:

- Stage 0: there are countries in which solidarity finance is still unknown and there are no real initiatives. The aim here is to stimulate the first initiatives or, where experiments have been set up, to support them and enable them to spread. This was the situation in all the countries of central and eastern Europe and the new independent states in the early 1990s. Since then, microcredit has developed as a result of external financing and the number of micro-finance institutions has grown.² Some countries, notably the Russian Federation, Ukraine and Belarus, are still at this stage.
- Stage 1: sometimes countries have quite a large number of experiments but a system that is still rudimentary. This is particularly the case where a single line of solidarity finance has been developed, such as microcredit or shared-return solidarity finance. Here the anatomy and physiology of the solidarity finance system need adding to and development of existing experiments needs assistance. Bringing solidarity finance agencies together in a federation gives them more finance-raising and negotiation muscle, whereas on their own they are often too small to enter into discussion with the authorities.
- Stage 2: the various anatomical and physiological elements of the national system are in place but there is a need to scale up, for example by developing information to the public – to the potential solidarity savers – at the same time as getting a legal and regulatory framework put in place, together with tax incentives and targeted public backing.

b. The optimum scale for the different links in the solidarity finance chain

The question of economies of scale and, more simply, the optimum organisational scale for each of the links, tools or functions is important to achieving both efficiency and financial viability. Addressing these matters also allows the most relevant public partners among European,

2. At the end of 2002 the Microfinance centre for central and eastern Europe and the New Independent States had 69 members.

national and local administrative authorities to be identified. In fact the right scale differs:

- upstream on the finance chain – in the attracting of solidarity savings – only banking institutions are allowed to operate, offering savings products with specified financial (profitability, security and liquidity) and social characteristics;
- downstream on the finance chain – in setting up solidarity credit, which involves identifying and assisting the entrepreneur and checking on their progress – smallness of scale is essential. Because of the type of clientele, familiarity with the people concerned and their backgrounds, plus local support networks, in particular community networks set up by the local authorities, are absolutely essential if the support given to the individual and his or her project is to be successful;
- some solidarity finance initiatives fully exploit the community aspect and shorten the finance chain, enabling savers to participate in local development and provide support to local entrepreneurs. This is often the case with solidarity risk capital and still more with investor clubs that invest directly in the capital of a local business.

c. Developing solidarity investment and socially-oriented businesses

It is not easy to create any business; creating a socially-oriented business is still more difficult because, as well all the usual problems, the person concerned has to surmount all sorts of additional obstacles connected with his or her personal circumstances, the region or locality in which the business is being set up and the size of the project. The socially-oriented business we are interested in here is committed to bringing about positive social, local or environmental outcomes that are not rewarded by the market and are therefore handicaps from an economic standpoint. Solidarity investment (capital investment or credit) hopes to offset those handicaps. The increasing numbers and scale of such businesses depend on doing so and necessitate special provision, in particular in the following four key areas:

- identifying people who start up businesses and providing upgrading support: in addition to the support needed to formulate any business start-up project (technological, legal, commercial and other assistance), a person starting up a socially-oriented business has to make the transition from a situation of exclusion to a process of integration;

- availability of different types of financial support to match the circumstances of the different types of socially-oriented business. This means not only developing solidarity investment but also unlocking public and private funds, which when combined can provide diversified financial solutions appropriate to the specific features and circumstances of the different types of socially-oriented business;
- development of guarantee-providing is also crucial to the development of solidarity investment and to attracting private investment. The necessary funds may be provided by the national authorities, local authorities, economic agencies or solidarity finance agencies.

d. Strengthening solidarity finance institutions

Solidarity finance institutions (SFIs) constitute the real engine of solidarity finance. They have their origins out in the community and are invariably basic to the experiments that become models for everyone else. It is the SFIs that launched the solidarity movement, in many cases without backing, and they are central to all the partnerships that now make a change in scale a real possibility. Developing solidarity finance means first of all helping SFIs to consolidate. What SFIs are looking for is a financial model that will enable them to grow with actual or potential demand. Four possible models are under debate:

- a private, market model in which SFIs' financial services would be financed by interest on loans;
- a public, operational model based on payment for services rendered expressed in terms of the general interest – for example parametric financing per job created, family housed or social service provided. In this approach it would be for the public authorities, on the basis of public policy (on social affairs, environment, planning, etc.), to pay for such services at a negotiated level which would be set somewhere between the real cost of private delivery and what the same service would have cost had it been provided by a public agency;
- a public institutional model with public subsidies and direct payment of certain operating costs;
- a private model based on generosity which, in order to be sustainable and lasting, would require public incentive measures, particularly tax incentives. Examples are (organised) voluntary work, sponsorship and donations by private individuals, particularly through shared-return solidarity finance.

These different models will of course need to be combined but, whatever the combination, the support of the public authorities will be crucial to the development of SFIs, which, it is worth repeating, constitute the main engine of solidarity finance.

e. Developing solidarity saving

Wherever there is banking and a culture of saving – not the case everywhere in the countries of the east and south – attracting solidarity investment does not present any major problem. The mechanisms and means are well known. They do not differ greatly from those used for conventional saving. What is different is the linking of saving to solidarity investment, in other words channelling funds to social businesses and, of course, the social commitment of the savers, who take on a significant proportion of the handicaps connected with solidarity investment. A number of factors are decisive in the development of solidarity saving:

- creating more products to attract savings;
- putting in place a framework which ensures transparent management of financial products so that savers can check that the contract with the fund manager is complied with;
- introducing a credible solidarity seal of approval, as a guarantee for savers that the financial sacrifice they are prepared to make is rewarded by clearly identified social or environmental “profitability”;
- devising and introducing tax incentives for savers;
- information on solidarity savings products for potential savers is a priority once a range of diversified products has been developed and a reliable quality mark has been established. The media are the means by which this reaches the general public;
- interesting the specialised investor audience: a necessary stage between involving the initial promoters and activists and targeting the general public.

f. Incentives and contribution of national authorities

As we saw above, the public authorities play a decisive role in the development of solidarity finance and of socially-oriented businesses and schemes. To recap on the essential features of this role:

- development of the legal, regulatory and tax framework: the issue here is official recognition of solidarity finance agencies and products;
- support for solidarity finance institutions;

- support for or through federations or other collective entities: constructing a national solidarity finance system involves setting up some collective body such as a federation of solidarity finance bodies. A federation would have an important role to play in developing co-operation between its members and dialogue or negotiation with government. It might also play a part in professionalising the sector by managing a “professionalisation fund” which could meet some or all of the costs – this would be another matter for negotiation – of training, communication, information exchange and capitalisation;
- covering the particular risks connected with social-economy ventures. Setting up a national or regional guarantee fund is one of the keys to solidarity finance and its development;
- development of solidarity investment (in particular by ensuring that the same conditions are available to all investors);
- development of solidarity saving (particularly through tax incentives and information campaigns).

g. Towards a partnership contract with the various players in solidarity finance

In action to promote a national solidarity finance system I have emphasised the role of the actual financial agencies and the national political authorities. In fact, a great many other players would also have to be involved, particularly local authorities, banking networks, trade unions, the voluntary sector, consumers’ associations, universities and the academic community generally, each playing a role in promoting solidarity finance and constructing the necessary machinery. I suggest that these various players be parties to a partnership contract whose purpose would be to move ahead via the different stages mentioned. In countries where the various components of a national system are already in place, the purpose would be to scale up – to expand solidarity finance (solidarity saving and investment) by a factor of 10.

A European solidarity finance system is already emerging but there is a need to back it and develop co-operation, including between eastern and western Europe.

In addition to policies to support the European dynamics of solidarity finance and develop co-operation in the solidarity finance field, a basic framework for dialogue with governmental and intergovernmental authorities also needs setting up. This is where the Council of Europe has a major role to play.

VIII – AN ANALYSIS OF NEEDS IN THE FIELDS OF LAND MANAGEMENT, NATURAL RESOURCES, FOOD AND HUMAN HEALTH

By Daniel Vuillon, head of the network of associations for the preservation of small farming (AMAP), Ollioules

Introduction

This chapter sets out a number of ideas, thoughts and suggestions in relation to citizens' commitment in the economy and more specifically to responsible consumption. It covers the following issues:

- an analysis of social and environmental needs, particularly in relation to the management of land (rural and urban), natural resources, food and human health;
- responsible consumption in response to these needs;
- possible ways of establishing partnerships between the authorities and "responsible, committed consumption" schemes (needs and scope);
- links with other sectors of the solidarity economy.

1. An analysis of needs

We are often insufficiently aware of just how urgent the current situation with regard to land management and food production in Europe is: intensive farming, agribusiness and retailers have now attained a totally dominant position in developed countries, at least in western Europe, and are in the process of doing so in central and eastern Europe. In France, for instance, the major retailers have captured 90% of the market, leaving no openings for small farms. Major retailers and agribusiness, which go hand in hand, rely primarily on specialised, intensive agriculture concentrated in a number of specific mass production areas necessitating long-distance transport.

The immediate consequence of this phenomenon has been the disappearance of small farms. It was the countryside which was first to be affected, with the number of farmers halving in ten years, and many rural areas are now human and social deserts. A similar trend is now being observed in the areas around towns and cities, as a result of competition

for building land and the collapse of local markets. Most small farms on the fringes of towns and cities are consequently expected to disappear over the next ten years, whereas at present, to take the example of France, one farmer in two is based around urban areas.

This situation raises very serious problems in respect of human development, welfare, social cohesion and sustainable development:

- firstly, in terms of land management, continuing urbanisation on the fringes of towns and cities at agriculture's expense is resulting in the disappearance of large tracts of the fertile land generally chosen for towns; this land is the product of hundreds, if not thousands of years of maintenance and improvement work by generations of farmers. This type of "urbanisation", based on the expansion of shopping centres and the use of private cars as a means of getting to them, and taking up a great deal of space, leads to the spread of nondescript landscapes, devoid of identity, which are now to be found all around our towns and cities.
- secondly, it raises an issue in terms of food and human health. Without wishing to go into the finer points of an often heated debate, it should be noted that, according to the medical profession, the 300% increase in the number of cancer cases in France since 1998 can be put down to two main causes: air and food. The retail trade, relying on intensive agriculture and agribusiness, is implicated in both, firstly because of the considerable increase in the amount of waste resulting from plastic and similar packaging, the incineration of which pollutes the air, and secondly owing to the widespread use of chemicals such as herbicides and insecticides. Specific studies have demonstrated a correlation between cancer rates and the frequency of birth deformities and the exposure to such chemicals of the individuals and families concerned.
- lastly, the omnipresence of major retailers and intensive agriculture has a negative impact on social cohesion, owing to the loss of social ties that it entails and city dwellers' lack of contact with, or knowledge of, nature and agriculture.

2. Responsible, committed consumption in response to these needs

Faced with this series of problems, growing numbers of citizens have decided to introduce new forms of consumption that not only serve to

curb this tendency, but also reflect a new approach to the economy, encompassing social, environmental and human health objectives. Born of the problems surrounding food and agriculture, these new forms of consumption offer an organisational model that radically changes the situation in terms of personal safety, job security (and, therefore, self-reliance and personal, family and professional development) and social ties by applying a principle that is simple, yet completely at odds with conventional market mechanisms: the principle of guaranteeing sales for producers by means of a long-term, mutual commitment entered into by the producer and a consumer group, on the basis of shared goals (rather than a demand for immediate results) that are subject to regular discussion.

These goals take into account both the public good and the interests of each party in an equitable manner, thereby ensuring a decent income and long-term security for the producer and safe, healthy food for consumers at prices that are altogether affordable and even, in many cases, cheaper than those of the “conventional” capitalist market.

This principle, first introduced in Japan some forty years ago, is now being implemented all over the world, starting with rich countries. In Europe its rate of progress varies from one country to another, but it seems to make rapid headway wherever it has been introduced.

Factors that contribute to the success of such schemes include:

- the system’s economic viability, which relies to a large extent on the absence of middlemen and packaging, advertising and marketing costs (saving farmers up to 50% or more of the time they spend on marketing), thereby making it possible to secure prices that are good for producers and consumers alike;
- the system’s great flexibility, particularly thanks to the direct relationship between producers and consumers, which means risks can be shared and a joint effort made to achieve common goals without the need for immediate results (for example, a gradual transition to organic farming);
- the food safety issues that have arisen in recent years (mad cow disease, dioxins, etc.), which have prompted consumers to seek alternatives and to become involved;
- consumer satisfaction: once urban consumers have been won over, they become ardent proponents of locally-based agriculture;

- the growing interest shown in such schemes by farmers, who face constant pressure in the marketing of their products, particularly in pricing, and often go into debt in order to make the necessary investments.

The system developed for agriculture and food can also be copied in other sectors, as demonstrated by a number of emerging schemes, thereby paving the way for a new approach to the management of job security.

3. Possible ways of establishing public-private partnerships

Thanks to the considerable advantages afforded by such schemes in a wide range of areas (economic, social, environmental, safety, etc.), they are attracting growing interest from the authorities. What is new is the level of interest shown by governments, which had never before equipped small producers to resist market pressures, but now see the consumer-producer relationship as an extremely promising lever for social, health and environmental policies and a more cohesive society.

Avenues worth investigating with a view to establishing partnerships between the authorities and the various schemes through which members of the community make a commitment to the economy include:

a. Acknowledgement

Mere acknowledgement by the authorities of the validity of community-based approaches is a very important initial step, which can itself provide a vital stimulus to the consolidation and development of such schemes. With regard to the pressure on land, for instance, the authorities' position is crucial in tipping the scales one way or the other.

Acknowledging the validity of all forms of community involvement in the economy means, first and foremost, acknowledging that the solidarity economy is a genuine economy, which also contributes to cohesion and social ties: it must not be marginalised, but regarded as an economy in its own right. Responsible consumption, fair trade and ethical financing based on solidarity will consequently gain in standing once they are recognised as viable alternatives containing the seeds of future solutions.

b. Taxation

The taxation system is a key way in which the authorities can support community schemes, since it introduces regulatory mechanisms that can play a crucial role. To take the example of real estate once again, the state

should react to rapid rises in building land prices by taxing such land in order to raise finance for land on which building is not permitted, thereby reducing speculation and improving access to farmland.

c. Information

The information provided to consumers is now the chief impediment to the development of responsible consumption. So it is essential that information about the social and environmental cost of different products be made available systematically, and that every product on the market display an ecological statement of its price in terms of natural resources and its probable effects in terms of pollution or processing/recycling costs. Local markets, the conservation of biodiversity and the preservation of quality of life, particularly landscapes and air quality, can draw on ecological statements, but such statements can be introduced only on the basis of legislative and monitoring measures, which necessitate the involvement of the authorities.

d. Communication

The authorities also have a very important role to play in terms of communication, with a view to rallying citizens against the misuse of commercial activity and promoting more responsible behaviour and commitments. The very recent decision by the French Government to make anti-junk mail letterbox stickers available to citizens from local councils is a particularly good example of a joint effort by the authorities and the community fostering a greater sense of social and environmental responsibility.

e. Support for the establishment of networks

Support for the establishment of networks is another area in which there is scope for partnerships between the authorities and community schemes. Regional council support for the AMAP (Association for the Preservation of Small Farming) network in the Provence-Alpes-Côte d'Azur region of France is a particularly good example, illustrating the way in which such partnerships can provide vital springboards for the development of such schemes and for spreading the idea of responsible consumption.

There are many such areas and measures in which a partnership between the authorities and community schemes can play a crucial role. Although most of these arrangements are still in their infancy, the authorities can at least be expected to take the necessary steps to conserve existing

resources and prevent irreversible developments. Such issues are now being raised all over Europe, particularly in eastern Europe, the numerous traditions and skills of which are an asset that must be preserved.

Lastly, when it comes to support from the authorities, it is important to distinguish between local and regional support, which is very wide-ranging and focuses on practical activities because of its proximity, and support at higher levels (national and European), which has to place greater emphasis on legal frameworks and the establishment of networks.

4. Links with other sectors of the solidarity-based economy

Various types of links should be developed between responsible consumption and other sectors of the solidarity-based economy.

a. Links with solidarity-based financing

Solidarity financing can provide vital support in the area of land management, for instance with a view to assisting young farmers in the starting-up and integration process. Ethical banks should also give thought to other possible forms of support for producers involved in consumer-producer co-operation.

b. Links with fair trade

It is essential that fair trade organisations consider the opportunities opened up by local agreements between producers and consumers. For instance, to what extent should a group of local producers from southern countries that sells its products on the international market via fair trade mechanisms also have as its prime concern food safety for the local communities in which the producers are based? Direct agreements between producers and consumers at the local level open up interesting prospects along these lines.

IX – DEVELOPMENT OF SOCIAL COHESION THROUGH DEVELOPMENT OF RESPONSIBLE CONSUMER BEHAVIOUR

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Introduction

There is nothing new about the broad issue of responsible consumption, taking in various forms of committed, sustainable or critical consumption, fair trade, socially supportive tourism and organic agriculture. It has been with us for over thirty years, viewed from various angles, and most of us would have difficulty saying where ethicality, sustainability, fairness and even responsibility begin and end in relation to one another.

In this article the first requirement is to define the concepts of fair trade, committed, sustainable and critical consumption and socially supportive tourism with reference to the concept of responsibility, seen here as individual responsibility for the welfare of all.¹

It is important to understand the concepts put forward here, but it is also necessary to sketch in the historical background so as to show how these forms of responsible citizenship developed.

After putting the phenomenon of consumption in context we shall look at the economic significance of each of its constituents in order to understand the issues and see what threats there are to promoting social cohesion by developing more responsible consumer attitudes.

Lastly, we shall see how seals of approval and awarding companies grades for ethical soundness assist responsible consumption.

1. Defining the concepts

a. Responsible consumption

Responsible consumption is a vast area, with many underlying concepts. When we try to consume responsibly, we can do so in a committed,

1. This concept of responsibility is based on the Council of Europe definition of social cohesion.

sustainable or critical way. These various concepts basically differ in the method of consumption (the purchasing procedure or choice of lifestyle) and in the level of citizen commitment. Some overlap between these various forms of responsible consumption will be found in each individual's consumption approach, but with a hierarchy of personal commitment to them. Examination and definition of the three concepts are therefore essential in looking at responsible consumption and understanding to what degrees the different concepts are involved. Brief reference to the ethical criteria included in the concept of responsible consumption is also necessary.

Committed consumption

Committed consumption refers to the consumer's behaviour in buying goods and services. The commitment is a matter of the individual's day-to-day choices, based on the social and/or environmental impact of each "act" of consumption.

Consumer choice is based here on producers' ethical, social and environmental "commitments" or on the consumer's perception of the impact the individual purchase will have. For example, the individual may demonstrate consumer commitment by buying local products in order to maintain jobs or farmers' families in the locality or may buy an industrial product that offers certain environmental guarantees. Thus consumer commitment is stimulated by a range of factors and the act of consumption may reflect a great variety of hopes and expectations.

Nevertheless there is one thing that governs committed consumption in all cases, and that is a refusal to consume passively or to be guided by merchandising, and the desire to use purchasing power as a way of exercising influence and expressing a position.

Sustainable consumption

The concept of sustainable consumption is closely linked to that of sustainable development; this form of consumption can be defined on the basis of the definition of sustainable development established by the Brundtland Commission: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".²

2. From the 1987 Brundtland Report published by the World Commission on Environment and Development (WCED).

A definition of sustainable consumption derived from the latter might be: “The use of goods and services that respond to basic needs and bring a better quality of life, while minimising the use of natural resources, toxic materials and emissions of water pollutants over the life-cycle, so as not to jeopardise the needs of future generations”.³

In this definition sustainable consumption covers the economic, social and environmental fields but in more general terms than in the definition of committed consumption, which concerns itself solely with the impact of the consumption act on producer commitment in various areas.

Here, in contrast, the individual applies the concept of sustainability to his or her way of life, and it takes in energy consumption, production and treatment of waste and behaviour in consuming goods and services.

Critical consumption

Critical consumption differs from the other two forms of responsible consumption referred to above in that it is at the collective level, not just the individual or family level.

The basis of critical consumption can be found in a statement by Francesco Gesualdi:⁴ “When you buy a packet of spaghetti at the supermarket you are financing the arms industry without knowing it because the multinational that makes the packet of pasta has a weapons subsidiary. Or when you buy a tin of tomatoes you are helping exploit African labourers because the multinational you are buying from has a pineapple plantation”.

It can be seen from this that the basic idea in critical consumption is to abandon consumer passivity in favour of responsibility. The critical consumption movement in Italy, for instance, seeks to inform consumers about the products they purchase and the multinationals that produce them. A critical consumption guide was published in 1998 which gives large companies gradings for ethical conduct. They and their subsidiaries are marked according to a dozen criteria ranging from transparency to abuse of economic power and support for Third World countries.

This degree of responsible consumption is more than active: it is militant, giving consumption alternatives. Many examples of this kind of

3. Definition put forward by the Norwegian environment ministry in 1994 and adopted by the OECD in its report *Towards Sustainable Household Consumption*, 2002.

4. Gesualdi, F., *Manuale per un consumo responsabile*, Feltrinelli Saggi Universale Economica, 2003.

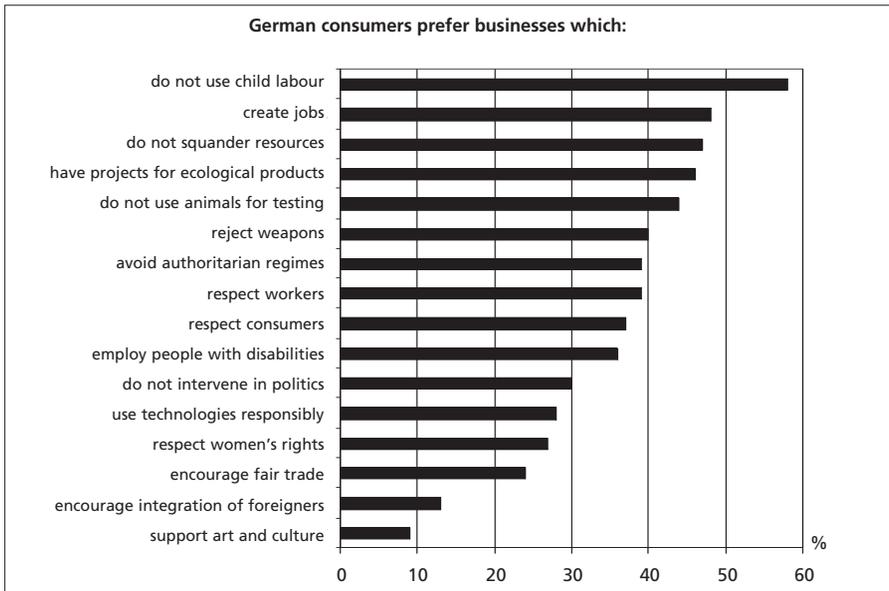
consumption can be found, with movements like Slow Food,⁵ which is critical of the fast food culture. This form of responsible consumption unites consumers and their committed element with organisations and associations openly opposed to unethical practices in a drive to educate the general public. However, it would be wrong to think of the critical consumption movement as being simply anti-multinational: the critical consumption guide also encourages consumption of products made by multinationals that respect ethical criteria.

Ethical criteria

Having seen the various forms of responsible consumption and their inherent concepts, we must examine the common denominator in all these forms of responsible consumption, that is, the ethical criteria.

These often reflect international standards or the views expressed by consumers who are anxious not to lend support to immoral or illegal practices. Figure 1 shows ethical criteria that have the backing of German consumers.

Figure 1 – Ethical criteria of German consumers



Source: IMUG, 1996; taken from Gesualdi, F., *Manual of responsible consumption*, Feltrinelli, 2003.

5. A movement originating in Italy. It has spread to some hundred countries, including many European countries, the United States and Canada. Today it has 80 000 members.

Without doubt the main ethical criterion for Germans – and probably for other European nations according to the information available – is non-use of child labour. Some ethical criteria such as transparency, protection of the environment or respect for employees are also high priorities in many European countries. Other criteria seem to depend more on the national socio-cultural context. For example, not using tax havens is an important ethical criterion only in Italy, and involvement in the local community is regarded as important only in English-speaking countries.⁶

Figure 1 also shows that there is a dual categorisation of ethical criteria: “positive” criteria, for example job creation or support for art and culture, and “negative” or “exclusive” criteria, for example rejection of the arms trade or of authoritarian regimes. Ethical criteria cover several fields: social (job creation, integration of foreigners), environmental (squandering of resources, ecological commitment), legal (respect for women’s rights, non-use of child labour) and moral (respect for consumers).

The dual categorisation of ethical criteria ultimately requires some way of checking compliance with the criteria. One of the most visible checks is seals of approval for products and production/distribution organisations.

Seals of approval

The various seals of approval may be classified according to the approach and the criteria used.

The first category is essentially aimed at guaranteeing the safety of the consumer. The approach includes certain requirements such as absence of GMOs or safety for children.

The second category involves an ethical approach that applies various negative criteria to the manufacturing process, such as non-use of child labour or animal testing.

The third category could be said to be based on a critical approach that insists on systematic compliance with moral and ethical standards, as in environmental matters, and obeying social rules.

6. Gesualdi, F., *Manuale per un consumo responsabile*, Feltrinelli Saggi Universale Economica, 2003.

The fourth category is based on positive environmental, social and moral requirements. By and large it checks on an ethical commercial approach and “product responsibility”.

These four types of seals of approval have one characteristic in common in that they are relatively neutral in terms of social commitment and social cohesion. They guarantee conformity to standards, laws, rules, moral values and requirements of ethicality or responsibility but do not reflect any real commitment to improving conditions for each of the parties to the production chain.

The fifth category of approval marks is based on voluntary-sector commitment to co-operation and development at every link in the chain.

The sixth and last category also takes co-operation and development into account, and the criteria include sustainable development, protection and promotion of the local heritage, guaranteed schooling and a guaranteed reasonable income. The best examples of this type are the fair trade approval marks Fair Trade and Max Havelaar.

Figure 2 – A few environmental, social, ethical and fair trade seals of approval



(1) Organic agriculture, Austria; (2) Ecological products, European Union; (3) Environmentally sound products and services, Germany; (4) Products respecting the environment, Luxembourg; (5) Fair trade, international.

b. Fair trade

Fair trade is also a form of responsible consumption, but with specific features such that it deserves separate treatment.

Fair trade emphasises a difference of product, in relation not to intrinsic quality but to the nature and characteristics of the production process. The whole process from manufacture to final distribution is taken into account. The emphasis on fairness goes a step beyond 1960s “trade not aid” philosophy.

In general fair trade is characterised by:

- a fair wage in the local context;
- promoting work opportunities for all, in particular the most vulnerable;
- opportunities for workers and small farmers to improve their living conditions (children’s schooling, housing, etc);
- environmentally sustainable development;
- transparency;
- a long-term relationship with producers that removes the burden of constant insecurity and lack of prospects;
- working conditions that comply with hygiene and health standards;
- financial and technical assistance to producers as far as possible.

Secondly, fair trade cuts across the various concepts already cited. It ties in with sustainable consumption to push for consumption of products that respect both the environment and human dignity. In addition, it fits in with committed consumption in that producers are brought into line with International Labour Organisation norms and environmental standards. In addition to producer commitment, fair trade standards enable consumers in the industrialised North to engage in economic development co-operation with the less developed South. A minimum income is guaranteed by consumers in the North to producers who, because they supply produce unprocessed, are at the bottom of the ladder of value-added creation.

One can distinguish between two approaches to organising the trading process. The first is the integrated system. Historically it has involved mediation between the producer in the South and the consumer in the North. There are three intermediaries:

- the importer, the first link in the chain of distribution, who negotiates with the producers in the South;

- sales outlets, mainly World Shops which sell to customers in the North;
- national World Shop federations, which target the public with fair trade awareness campaigns.

The second approach is the seal-of-approval system, which emerged in the late 1980s with the creation of the Max Havelaar mark in the Netherlands. This system differs radically from the first, being based on certification of the product, which can then be distributed through any outlet and not just those specialising in fair trade (whereas in the integrated system all the links in the chain specialise in fair trade). The distributor must abide by certain rules in order to sell the approved products, in particular a fair product purchase price and using supply systems approved by the mark.

c. Socially supportive tourism and sustainable tourism

Tourism is a strategic sector of the economy, being the leading industry in the world and the main source of funds (in trading resources) for the developing countries. The principal risk in rapid and badly managed development of tourism is damage to the community's living space, including scenic resources. It is therefore essential to introduce a sustainable and socially responsible tourism approach, especially as tourism is growing very fast in the developing countries (which attract mainly tourists from western countries) and brings with it imbalances in the distribution of resources.

There is no single definition of sustainable tourism. Nevertheless there is a definition derived from the sustainable development concept in the Brundtland Report: "Sustainable tourism is a form of tourism that meets the present needs of tourists, the tourist industry and the receiving community without jeopardising the capacity of future generations to meet their needs".⁷

Another definition based on the same report places even more emphasis on the social responsibility aspect: "development of sustainable tourism meets the needs of tourists and of the regions that receive them, while

7. Definition suggested by David Policarpo in *Definition of an operational concept for sustainable development of tourism*, from his dissertation "Research on indicators for sustainable tourism: a method of choosing and defining indicators for sustainable tourism development in the developing countries". See website: www.saharafragile.org.

organising and improving their potential. It necessitates management of all resources in order simultaneously to meet economic, aesthetic and social needs and to preserve cultural integrity and maintain ecosystems, biodiversity and life-support systems".⁸

In its press pack "Du tourisme à l'échange" (from tourism to exchange), UNAT⁹ offers the following definition: "The tourism project should benefit local societies as a matter of priority, by way of processes which promote their economic autonomy and respect for social equilibrium. Exchange with local people and training are the first stages in tourism projects which are in keeping with a socially supportive approach".

The socially supportive tourism approach rejects passive tourism, where tourists give no thought to their actions, either destroying or paying no heed to local resources and thus helping to damage the environment. The idea is to move towards a system of exchange in which tourists are temporary parties to local development and must behave responsibly during their stay and not damage the setting in which they spend their holiday.

The contribution of concepts of "responsible" consumption (in the broad sense) to social cohesion is valuable because, by definition, they introduce an idea of consumer responsibility, with the consumer playing a "political" part in regulation of the production system. The joint responsibility of all parties is made clear.

2. Past-present, what developments ?

a. From consumerism to responsible consumption

Responsible consumption is a form of alternative consumption, as we saw from the concepts; its history is similar to that of consumption generally.

When trading began, most people consumed only what they needed. This needs-bound consumption did not create the enormous pressures on the environment and the workforce that we see today.

8. Policarpo, D., *Definition of an operational concept for sustainable development of tourism*. See website: www.saharfragile.org.

9. Union Nationale des Associations de Tourisme de plein air, France.

At the beginning of the twentieth century mass production led to mass consumption.¹⁰ This increased with the Fordist system of automation, which led to the world's first overproduction crisis some years later, in 1929.

After the second world war we returned to a mass production and consumption model, with constant growth in product quantity. All households were equipping themselves with modern aids to comfortable living. Since production did not decrease – on the contrary – marketing developed at the rate of production growth in order to ensure that consumption kept pace. This consumerist model set up strong pressures in terms of consumption of natural resources, industrial pollution and production of household waste.

The origins of responsible consumption cannot be precisely dated, but can be linked to the growing aberrations of the consumerist model during the thirty-year economic boom (1945-1974). The need to make consumers aware of their responsibilities has really grown from these increasing pressures on the environment and on human resources.

b. From charity to fair trade

The roots of fair trade are to be found in the many postwar humanitarian and social awareness initiatives. In the 1950s craft products made by underprivileged communities (in countries in crisis, at war, etc.) could be purchased in Europe. Oxfam, a non-governmental organisation based in Britain, developed the idea of selling products made by struggling craft workers in the Third World, guaranteeing them a regular income. The sales outlets and the importers were exclusively charitable and humanitarian. In 1965 Oxfam launched so-called “bridge programmes” aimed at establishing commercial links between producers in the countries of the South and consumers in the North. 1967 saw the creation of the first co-operative for importing Third World products into Holland, in a solidarity initiative mounted by the Flemish catholic church.

The emergence of fair trade in the political sphere is associated with the 1968 United Nations Conference on Trade and Development (UNCTAD). This was the first international recognition of “trade not aid” as the guiding principle in North-South relations. From then onwards the aim was no longer to buy Third World products on compassionate grounds, but to

10. According to J-B. Say's classic theory supply creates its own demand.

do so in order to denounce the power imbalance between people in the South and the dominant forces of international trade.

Development of fair trade in Europe was not uniform. Separate initiatives appeared during the 1970s and 1980s, originating in small activist bodies and not necessarily consistent with each other. In 1988 came the Max Havelaar approval mark, which adopts the UNCTAD principle, replacing charity by economic development brought about by fair trading that protects communities of small producers.

It was only in the 1990s that fair trade players established themselves at transnational level around four international organisations: EFTA, IFAT, FLO and NEWS.¹¹ In 1998 they came together in an informal arrangement called FINE which is committed to mutual information, co-ordination and the establishment of common standards. Between 1999 and 2001 the four organisations adopted a common charter, the FINE Consensus, which is now the authoritative document on the strategy, criteria and principles of fair trade.

c. From discovery tourism to sustainable tourism

The start of sustainable tourism was in the early 1970s. It can be dated more specifically to the 1972 United Nations Stockholm Conference on the Environment. International institutions were the first to stress the need for a new type of tourism, one that was sustainable, had regard to local social and natural potential and concerned itself with long-term development options.

The first wave of mass leisure tourism in Europe came in the late 1930s, with the advent of paid holidays. Thereafter the growth in leisure tourism kept pace with workers' acquisition of social benefits and households' increasing purchasing power. Later, more particularly in the 1960s and 1970s, transnational tourism made its appearance. The wealthiest households began looking for more exotic locations and ever more comprehensive services. Holiday clubs are a good illustration – large leisure complexes built in less-developed countries, by the sea and insulated from the local population, which is merely a source of cheap labour.

The recent emergence of new forms of technology and innovation has given rise to a new area of leisure, discovery of new cultures. In addition,

11. IFAT (International Federation for Alternative Trade) created in 1989; EFTA (European Fair Trade Association) created in 1990; News Network of European World Shops) created in 1994; FLO (Fair Trade Labelling Organisation International) created in 1997.

tourism is an opportunity for economic restructuring in parts of Europe where industrial employment has been badly hit.

From a historical viewpoint, the development of socially supportive tourism is much more recent and relates to countries of the South and the more fragile European areas. In 1992 the European Eco mark for tourist services was introduced, followed by an Austrian mark in 1996 and France's "*Clef Verte*" (Green Key) mark for camp sites in 1999.

For the time being it is difficult to trace the history of socially supportive tourism because it is too recent and large international networks of the many organisations in the sector have yet to develop, though networks are steadily getting under way.

3. Economic situation and sector marks

a. Economic activity from responsible consumption

There are several forms of production linked to the values of responsible consumption and approval-marked as such. This production is mainly in foodstuff, the best-known form of which, at the very forefront of responsible consumption in terms of commitment, is organic agriculture. This is expanding rapidly, with sales growing by over 20% annually. It is relatively conspicuous on account of a number of seals of approval such as the European organic and ecological agriculture mark and several marks, mostly developed in the Rhineland but now found throughout Europe, certifying that the method of agricultural production is organic and preserves the environment.

As is apparent from the following table, the organic market has been booming for ten years.

The table overleaf shows that Germany is the biggest market in Europe in absolute terms, accounting for around a third of the total European market. It is followed by France and Italy, and by a number of other smaller markets. Nevertheless, organic products still account for no more than 1% of the total foodstuff market, though in some countries such as Austria, Denmark, Germany and Switzerland the share is already between 2% and 3%.

Table 1 – Organic foodstuff – turnover and market share (in millions of euros)

Main countries producing organic foodstuff	Sales 1997	Estimate 2000	Annual growth (%)	Market share (%) 2000
Germany	1 363	2 355	10-15	2.5
France	545	1 165	20-25	1
Italy	570	1 041	20	1
Switzerland	265	868	20-25	3
United Kingdom	342	793	25-30	1
Denmark	228	744	25-30	3.2
Netherlands	265	570	15-20	1.5
Austria	171	397	10-15	3.5
Sweden	84	347	25-30	1.2
Belgium	62	149	25-35	1
Total Europe	4 016	8 899	-	
Total world	8 007	18 493	20-25	

Source: ITC (International Trade Center), 2002

We are seeing significant growth everywhere in this type of responsible consumption, between 15% and 30% per year. Analyses of future trends indicate that a few years from now organic products might account for 5% to 10% of the total foodstuff market in the most advanced countries.

Another form of responsible consumption similar to organic agriculture is the short food-distribution system. This is similar to the Japanese "Teikei"¹² concept. One French example is the AMAPs¹³ (*Associations pour le Maintien d'une Agriculture Paysanne*: associations for maintaining

12. A movement going back to the 1960s in which housewives enter into a contract with local producers in order to have quality food products.

13. At the beginning of 2004 the AMAPs had fifty producers, each feeding a hundred families. Total AMAP production is about 2 500 tonnes of fruit and vegetables per year. Turnover is about € 4 million annually, representing about € 80 000 annually per farmer.

small farming), which are groups of consumers committed to a producer who sells them a weekly basket of seasonal vegetables direct. In Japan this food consumption model accounts for about 30% of agricultural production and today America's CSA (Community Supported Agriculture) scheme¹⁴ comprises over a thousand farms, mainly around the major conurbations (New York, and those in California).

As regards general interest in ethical and responsible products, studies in various European countries are in agreement in reporting that over two thirds of consumers are ready to alter their consumption habits on the basis of ethical criteria. According to a recent study¹⁵ at European level 70% of European consumers think that a company's social commitment is an important factor when they make a purchase. It also emerges from this study that in most European countries 40% to 50% of consumers would be prepared to pay more for environmentally friendly and socially responsible products, as against 30% to 40% who would not. In spite of this there are less than 3% who actively practice responsible consumption. So it is difficult to make the transition from ideals to action: consumption based on the lowest price rather than the consequences of the purchase transaction is deep rooted.

b. Fair trade in figures

According to Eurobarometer,¹⁶ 11% of people in the European Union have bought fair trade goods. This mean figure hides substantial differences from one member state to another, with 3% in Portugal and in Greece as against 49% in the Netherlands. According to the survey nearly three quarters (74%) of people in the European Union say that they would be prepared to buy fair trade bananas if they were available in the shops alongside other bananas; 37% also stated that they were willing to pay 10% more for bananas produced to fair trade standards provided the quality was the same. Analysis of the answers also showed that consumers who already have experience of fair trade products are much more likely than others to buy them, even if they have to pay more.

14. The CSAs each employ 2.8 persons on average and the mean gross income is around US\$ 30 000 per farm.

15. Carried out at the request of CSR Europe by MORI (Market and Opinion Research International) at the end of 2000 via interviews with 12 000 consumers in twelve European countries.

16. EB 47: "Attitudes of EU consumers to fair trade in bananas", 1997.

Sales in Europe stagnated between 1997 and 2000 for a given basket of fair trade goods. Overall turnover in fair trade progressed from 200 million to 260 million euros, but this rise was due to development of new product lines. In terms of market share per product, there was a decline in sales over the period. The sector seems to be restructuring: the number of salaried staff, volunteers and specialist shops has fallen by about 10% in Europe. Turnover was nearly 330 million euros in 2002, with some 50 000 outlets across Europe. Fair trade employs about 1000 people and gives work to about 100 000 volunteers Europe-wide. There are eighty or so networks of shops or importers in Europe. In terms of fair trade market penetration, 90% of supermarkets in the Netherlands stock the Max Havelaar label. In the United Kingdom in 2002 the Cafédirect brand, a venture run by a group of coffee importers, ranked seventh in the country. In Germany there are about 700 fair trade shops, 340 of which are grouped within the World Shops platform, Weltladenverband: about 50 000 volunteers work in them, which represents the highest level of voluntary commitment in Europe. Switzerland is also a key market, with a high rate of large and medium-sized retail outlet penetration by the mark-of-approval system. Max Havelaar products (coffee, orange juice, tea and honey) take between 2% and 5% of the market share. The fair trade banana, launched in 1997, has the largest market share for a fair trade product in Europe with a rate of conventional market penetration of the order of 20% in 2000. The total number of sales outlets is large, estimated to be about 7000 shops, which represents between 80% and 90% of Swiss food shops. Lastly, Belgium and Italy are also important European fair trade markets, each with some 500 sales outlets for fair trade products, with heavy involvement of Oxfam in Belgium and FLO in Italy.

For a proper understanding of the economic benefits in terms of development, the following table breaks down the sale price of a packet of fair trade Mexican coffee:¹⁷

17. Producer: the Union of Indigenous Communities in the Istmo Region (UCIRI), Oaxaca, Mexico; retailer: CTM, Italy.

Table 2 – Breakdown of sale price of a packet of fair trade Mexican coffee

Description	Share of sale price
The small farmer	22.6%
The producers' organisation – general expenses	6.4%
The producers' organisation – social project	5.5%
The producers' organisation – organic cultivation	3.4%
Final transport	2.4%
Customs duty	1.7%
Roasting and packaging	18.8%
Retailing and financial costs	5.2%
The shop	12%
The distributor	22%
Sale price before tax	100%
VAT	19%

Source: Gesualdi, F., *Manual of responsible consumption*, Feltrinelli, 2003.

Thus the principal beneficiary from the sale of the coffee is the small farmer, receiving 22.6% of the sale price of the packet of coffee as against about 2% from a packet of coffee of a leading commercial brand.

When all is said and done, recognition of fair trade in Europe is very uneven, with a handful of countries like the Netherlands, Switzerland, Germany and Belgium highly committed to it. Nevertheless demand for fair trade products seems set to develop, with approved products being stocked by major retailers and Fair Trade and Max Havelaar thus gaining in visibility.

c. Socially supportive tourism – the realities

Even though socially supportive tourism has very different intentions from “conventional” tourism, it obeys the same rules and the object is still customer satisfaction.

The main vehicle through which socially supportive tourism can play its part is sale of local consumer products. Supplying fairly priced local products to the socially supportive tourist means that the local producer receives a fair return. This in itself is socially constructive and a guarantee of local development that respects local cultures and products.

The question with this form of tourism is how much commitment to it there is among actual tourists. A French survey published in the weekly *L'Echo Touristique* in October 1999 suggested that 50% of French people are theoretically in favour of socially supportive travel. Nevertheless the great majority of this 50% would rather just pay less for their holidays.

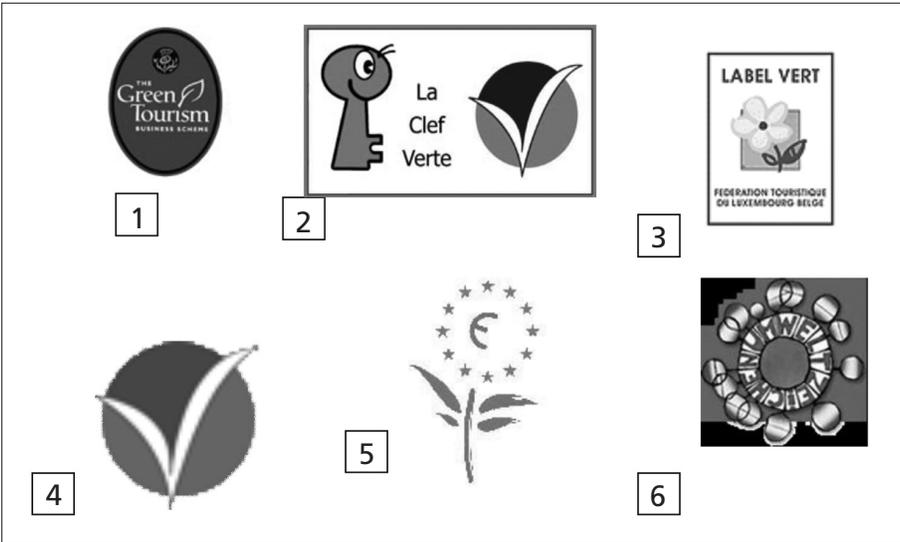
Even though this may make the picture look unencouraging at present, the fact remains that considerations of solidarity and sustainability are playing an increasing part in tourist consumer behaviour. In Britain as many as 78% of people say that social and environmental information is important in the choice of destination and 68% of those questioned stress how important it is for financial profit to go to the local community. A study of a tour operator by the World Tourism Organisation indicated that 42.4% of its customers would choose their destination in future on the basis of environmental criteria and one third would choose a stay with a local development project.

If that became a firm trend in the case of tourist consumption, it is a fair bet that tour operators would include ecotourism, socially supportive tourism and fair trade tourism in their holiday packages.

As for recognition of these forms of tourism, we are now seeing a proliferation of eco tourism approval marks. The Council of Europe has found six ecotourism seals of approval created across Europe in the last ten years, including one by the European Commission.

To give some idea of the potential economic importance of socially supportive tourism, the French *Union Nationale des Associations de Tourisme de Plein Air* (national union of open-air tourism organisations), according to its published figures, has a turnover of over €1 billion per year, has a permanent staff of 12 000 and employs 60 000 seasonal

Figure 3 – European ecotourism approval marks



(1) Scotland, Green Tourism business scheme; (2) France, environmental mark; (3) the Label Vert environmental mark; (4) Denmark, environmental mark; (5) European Union environmental mark; (6) Austria, official environmental mark.

workers. It caters for nearly 6 million holidaymakers, who spend a total of 38 million holiday days at more than 1 500 residential sites.

Conclusion: the potential benefits of responsible consumption for social cohesion

As yet, responsible consumption in the broad sense is not a major economic factor, but is showing strong annual growth. To judge from consumers’ statements of intent, and provided these were acted on, responsible consumption could well become a model for economic and commercial organisation in its own right in the not-too-distant future.

The part that responsible consumption could play in the development of social cohesion is substantial. Citizen commitment to alternative consumption is a move towards joint responsibility in tackling the clear distortions in wealth distribution and use of the planet’s resources. Developing alternative forms of consumption is a real challenge from the

viewpoint of sustainable development, narrowing the North/South divide and reducing social inequalities in European countries.

Responsible consumption, with all its constituents, is consistently in tune with an ambitious social project which, even though it may seem utopian, is nonetheless feasible in the light of the commitment shown by the various players in the sector.