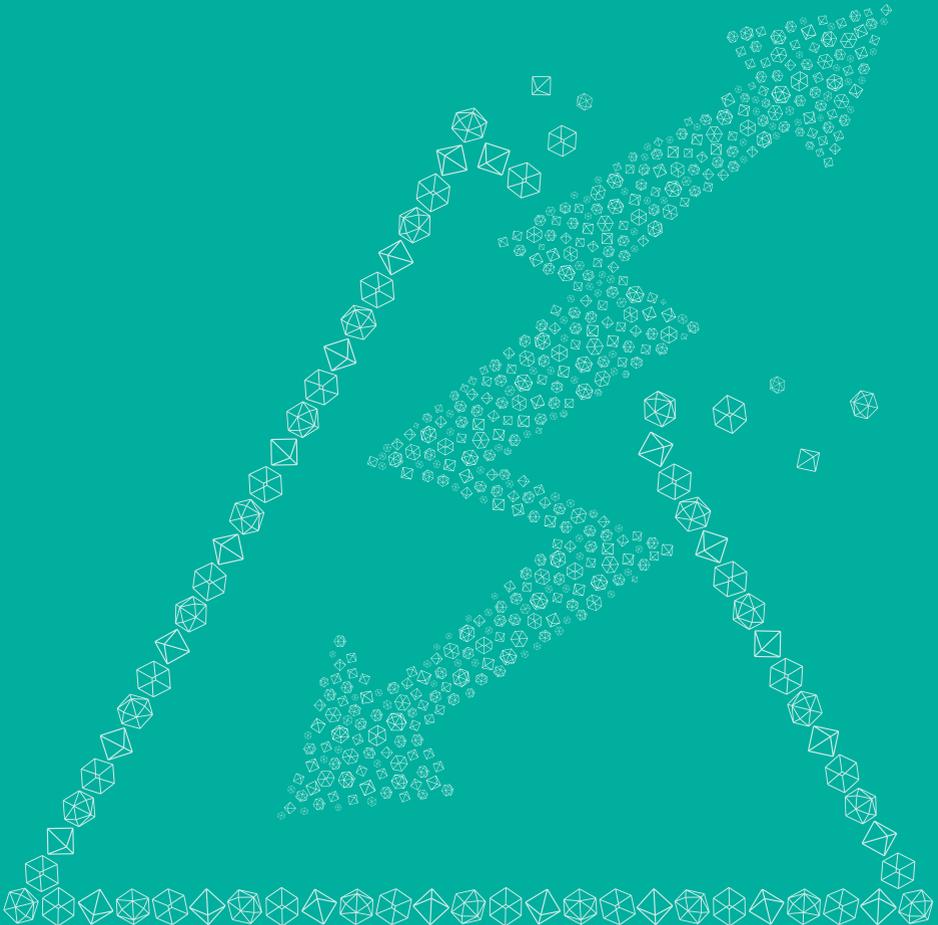


# Danger and opportunity

## Crisis and the new social economy

By Robin Murray



This essay was written while the author was a Visiting Fellow at NESTA and forms part of a larger project on methods of social innovation being undertaken by the Young Foundation with the support of NESTA.

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# Part 1: The argument

## The rise of the new social economy

**This pamphlet argues that the early years of the 21<sup>st</sup> century are witnessing the emergence of a new kind of economy that has profound implications for the future of public services as well as for the daily life of citizens. This emerging economy can be seen in many fields, including the environment, care, education, welfare, food and energy. It combines some old elements and many new ones. I describe it as a ‘social economy’ because it melds features which are very different from economies based on the production and consumption of commodities. Its key features include:**

- The intensive use of distributed networks to sustain and manage relationships, helped by broadband, mobile and other means of communication.
- Blurred boundaries between production and consumption.
- An emphasis on collaboration and on repeated interactions, care and maintenance rather than one-off consumption.
- A strong role for values and missions.

This economy can be found in parts of the public sector, the non-profit world as well as commercial markets, though it thrives

most in the spaces where the sectors overlap. It is already helping to address some of the most intractable problems facing modern societies, including adaptation to climate change, ageing, inequality, and spreading learning.

However, this emerging economy still lacks adequate capital, methods and skills. There are major gaps on the side of demand, as the great majority of public and private money is still locked up in older models, providing services to essentially passive consumers.

There are, too, major gaps on the side of supply. Although there are thousands of promising initiatives, few have grown to scale, and there is a dearth of support to turn good ideas into big impacts. This last gap was one of the prompts for the ‘mapping methods’ project – of which this paper forms a part – that aims to map, understand and recast some of the many hundreds of methods being used worldwide to develop new social solutions.

## From Keynes to Schumpeter

The current economic crisis has added urgency to these developments. The immediate responses to the downturn emphasised the monetary dimension of the crisis – restoring flows of credit and finance. But the current crisis is not simply one of the banking system, and the destabilisation of the macro

economy that has followed from it. It is a crisis of the real economy, of an old form of production and consumption, of its sources of energy and its means of transportation. Longer-term changes in technology are the context for the financial crisis, and pose a whole set of questions for the possibility and character of any recovery.

The current crisis, like that of the 1930s, is the hinge between an old world and a new. Such crises, as the Austrian economist Joseph Schumpeter pointed out, are periods of creation and destruction. In these circumstances, monetary and fiscal measures are unlikely to restore growth by themselves. What is needed is a programme of more profound structural change, of a radical transformation of infrastructures and institutions that will be the precondition for a new, qualitatively different period of growth. Anything less is an appeasement of the past.

In this transformation environmental and social innovation will have a central place. The need for radical environmental policy is now widely recognised. It is strong political leadership that is now required to set it in place. This pamphlet argues that social innovation is similarly important, and will also play a key role in generating environmental change.

There are some positive signs on the policy front. President Obama has created an office for social innovation in the White House. Here in Europe, President Barroso has signalled its importance for the future of Europe. In many countries

around the world, practical action is underway to develop the field, with more solid evidence, methods, capacity – for everything from the diagnosis of problems to the design of solutions, prototyping, testing, sustaining and diffusing. There is an economy of social innovation which has been expanding rapidly in the past five years.

In the UK it looked at first as if the crisis might marginalise this movement of social innovation. Instead conditions are emerging that require its acceleration. The impending squeeze on public spending in the face of growing social pressures makes incremental changes and efficiency measures in public services no longer plausible. Radical social innovation is needed to respond to these pressures. In many cases it will require systemic innovation – changing the way in which whole systems of production and service are conceived and delivered or the need for them avoided. Many of these changes do not require new resources, but rather radical new ways in which existing resources are used, in which regulations are framed and incentives provided. Where support is required is in seed funding this innovation, inside and outside the public sphere.

## Part 2: The context of crisis

**The first great economic crisis of the 21<sup>st</sup> century has been met with the economic theory and instruments of the 20<sup>th</sup> century. The crisis has been analysed largely in terms of problems in the financial system – of complex, unregulated financial instruments, of bankers’ bonuses, and irresponsible borrowing. Familiar debates have taken place within this framework – fiscal versus monetary policy, strong versus light regulation and, coming to the fore now, deficit financing versus budgetary discipline. But there has been broad agreement about the tasks. Governments must help the banks to get back on their feet. They need to revive demand; regulations need to be tightened to guard against some of the abuses of the past. In other words, after the typhoon, the ship must be repaired so that it can return to sail on its former course.**

In this essay I suggest that this framework is inadequate to understanding the crisis and to resolving it. There are deeper structural issues which lie behind the storms of the financial markets and which require a more far reaching economic programme to address them than the repair of the financial ship.

My starting point is not the financial world of monetary aggregates but the material world of production and distribution, of Cisco and Microsoft, of Tesco and the oil wells of the Middle East.

This is a world with its own hurricanes and trade winds. It is a world of technical revolutions and seismic social and political shifts, of shortage and plenty, of destruction and creation. And it is in understanding the dynamics of this real economy and its connection to finance, that Schumpeter is a more compelling guide than Keynes.

Schumpeter, as an Austrian, had witnessed first hand the hyperinflation of the early 1920s, the expansion of large scale German industry, and the full economic and political consequences of the Great Depression. He analysed the way in which bursts of technological change connected to business cycles, and this analysis has been deepened and extended into theories of long waves of economic activity, notably by the British economist Christopher Freeman, and by the Venezuelan economist Carlota Perez.<sup>1</sup> They developed an explanation of the causes and timing of major economic storms, which Perez has applied to the current crisis.

### Long waves and sharp crises

Carlota Perez is one of the few economists to have foreseen the course of the financial bubble and its crash in the current decade. She argues that such moments are critical turning points in technological revolutions.<sup>2</sup> They come after 20-30 years of the installation of a new technological and organisational

paradigm, first through its initial period of irruption, followed by a finance-led frenzy. Prior to the frenzy, financial capital faces declining yields from the mature industries of the previous paradigm. The emerging paradigm offers fresh, extravagant hope, and finance rushes to back the prospects and infrastructures of the new. This period of financial frenzy invariably ends in a bubble and a crash.

The crash leads to a brief period of capital devaluation, and institutional recomposition that opens up the possibilities of a golden age. Perez refers to these post-crash years as the period of deployment. It is a phase when the emergent technology, and the new forms of organisation and regulation that allow the technology to flourish, spread to all industries, activities and institutions. Finance is bruised but available. It is a period of intense private and social innovation.

Whether these possibilities are fully realised depends on whether the powerful industries and organisations of the previous paradigm use the new technologies to re-enforce their entrenched position, or whether the new forces can re-shape the institutions, spread the gains from the new technologies more widely and reach a new social settlement.<sup>3</sup>

### **The current crisis**

This explanation of the systemic crises which have occurred at regular periods of capitalist development since the industrial revolution (there were bubbles of this

kind in 1797, 1847, 1893, and 1929) suggests the following symptomatic reading of the current crisis.

Its roots are in the loss of dynamism of the mass production paradigm in the early 1970s, which was reflected in a marked fall in profitability. This was offset by three factors:

- International liberalisation that opened up new markets and exposed old ones.
- The diffusion of flexible production systems linked to just-in-time retailing that refreshed Ford's industrial model.
- A long-term shift in the functional distribution of income from wages to profits, both nationally and internationally as the mass production industries moved to areas of low cost labour. In the OECD countries the share of earnings in national income fell from 3/4 in the mid 1970s to 2/3 in 2005, with the decline being notably severe in the US, where the share of wages fell to its lowest level since 1929.<sup>4</sup>

These factors extended the life of the mass production paradigm without resolving its limitations. In particular the falling share of wages created a problem of final demand, exacerbated in those countries such as the US and UK where there were increasing inequalities of pay and bonuses among wage earners. The consequences of the resulting structural imbalance between demand and supply were deferred by consumer credit which corporations and banks were only too ready to extend and which consumers

were only too ready to receive. The same applied internationally where export-surplus countries with restricted domestic demand provided credit, in particular to the increasingly indebted United States.

Set against this picture of a faltering mass production model, was an emergent new paradigm centred on information and communication technology. Starting in the 1970s, and gathering pace in the 1980s it offered the promise of a major upsurge of profitability and was the basis of the financial frenzy of the 1990s where hope ran ahead of itself and ended when the bubble burst in 2000. On this occasion the IT crash did not develop into a generalised depression because finance, helped by low interest rates in the US, tracked back to create a new bubble in housing and consumer credit. Whereas the bursting of the IT bubble deferred the future, the eventual bursting of the consumer bubble in 2007/2008 was a reckoning of the past.

On this reading a systemic crash is the hinge between the period of financial frenzy and the period of deployment. It is a moment of uncertainty, when the key question is how to refashion institutions and reach new social settlements which will allow the new paradigm to become generalised. The poet Matthew Arnold at just such a moment after the crash of 1847 wrote of “wandering between worlds. One dead, the other powerless to be born” and there is a similar atmosphere now. There is a sense that there is no going back to the old order, that the old industries, lifestyles and international institutions cannot continue in their

current form, and that major change is required.

But what does the new economic landscape look like? What are the new ways of doing things, the new sources of energy, raw materials and communications that in past cycles have provided the infrastructure for the emerging industrial paradigm? What kind of new institutions are needed to allow the paradigm to diffuse throughout the economy? With hindsight we can see how these innovations came about during the deployment period of previous technological revolutions. But with foresight?

# Part 3: The emerging economic landscape

## Distributed systems

**To chart the contours of a future deployment period, Perez encourages us to look to the leading sectors and regions of the new technologies. Currently this means the information and communication sectors. It means Silicon Valley rather than Detroit; Cambridge, England rather than Dagenham; Finland rather than Poland. From that vantage point we can see the break up of the old model of centralised command and control that developed in the period of mass production and in its place the emergence of distributed organisation, in which initiative and innovation are widely dispersed, and connected by networks. It is a model of small units and large systems.**

The writer William Gibson says that we cannot Google the future, but it is clear that one part of the future is Google, and the gold rush of activity enabled by the web. Peer-to-peer, disintermediation, wikis, platforms, collaboratives, open source, indeed open everything – this is the new lexicon of distributed systems. Wikipedia and Linux prefigure the future as once did Stephenson's Rocket and Ford's Model T.

This is one territory for expansion in a post-crash period – extending the movement of distributed production to sectors that have become ever more

centralised – like energy, or finance, or the commanding heights of food.

## A green industrial revolution

A second related area is the emerging green industrial revolution. Every long wave of industrial development brings its own innovations in materials and energy. Cotton, iron, steel, oil-based plastics and chemicals were the leading materials of previous long waves. Water, coal, steam, electricity and oil were respectively the leading energy sources. The current wave has its own parallel innovations that could come to the fore in a period of deployment. Scientific advance has led to new composite and 'designed' materials. The chemical industry is re-orienting itself from oil-based to plant-based plastics. Wind, solar, wave, and geothermal all promise to be major new sources of power.

But what is striking about the current period is that the pressure is for less not more. Not only is there a concern about the pressure on resources and the peaking of oil, but climate change has added a new and over-riding imperative to the course of the current technological revolution. As far as materials and energy are concerned, the goal is to dematerialise and detoxify, to cut energy use, and to conserve what is used through recycling and re-use. It is to avoid production rather than expand it, throwing the resource

expansive impulses of the economy into reverse.

This calls for transformation in every part of the economy, from design and processing, to distribution and consumption. It involves innovation not just in how we retrofit old buildings, but how we build new ones, not just in how we deal with our waste, but what materials and processes we use in the first place. In many of these areas the prototypes are now up and running. The necessary technological innovations – in batteries, bio-plastics, and solar power for example – are advancing at pace. The issue is how to accelerate one of the deep structural changes that will be central to a future period of growth.

### **A new social economy**

There is a third frontier for change, closely related to the first two, that has received less attention and which is the subject of this pamphlet. It is a transformation in the significance and organisation of the social economy. By social economy I mean all those areas of the economy which are not geared to private profitability. It includes the state but also a 'civil economy' of a philanthropic third sector, social enterprises and co-operatives operating in the market, and the many strands of the reciprocal household economy – households themselves, social networks, informal associations as well as social movements.

This 'associative' civil economy was strong in the second half of the 19<sup>th</sup> century, but the expansion of the state in the 20<sup>th</sup>

century relegated it to a back seat role. In the past 30 years, the trend has reversed and there has been a resurgence of the 'civil economy', for three main reasons.

### **i) The user as producer**

First, digital technology, the core of the new technological paradigm, has provided the infrastructure – or more accurately the inter-structure – that has transformed the relations of consumers to markets and of citizens among themselves. More than this, it is opening up the possibility of reconfiguring the production process around the user. In many sectors there is a gradual incorporation of users into the process of production. Householders are becoming producers of their own products using programmable machinery (printing, music and video have been pioneering sectors here). Consumers are being drawn into design. Toyota's housing company invites its customers to be involved in the design and decoration of their new houses, based on Lego-type modules. Lego itself encourages users to propose new models, and offers to produce these inventions.<sup>5</sup>

Lego indeed exemplifies the new production. Whereas Ford produced standardised cars with specialised parts, Lego produces standardised parts which can be combined into any number of models by the users themselves. Production is no longer a linear process with the consumer as the end point. Rather it is re-organised around the consumer in the manner of the machine shop rather than the flow line. This is as

profound a change as Ford's development of mass production.

Households become their own designers, processors and assemblers, and their houses mini offices. We get a glimpse of what this could mean for environmental services through technologies which offer the prospect of each house becoming its own power station (through mini combined heat and power boilers and micro renewables), and each car its own energy store (through electric cars). There has been a striking growth of urban agriculture, and the development of domestic water processing.

In this reconfiguration of the economic process, the consumer morphs into the producer-consumer, or 'prosumer' in Toffler's phrase.<sup>6</sup> What becomes critical for the prosumer is an array of support to help him or her carry out the task rather than being a passive recipient of generalised services or commodities. The support economy takes over from the commodity economy as the organising principle.<sup>7</sup>

Commodities and specialist services may form part of that support, with some retailers turning their shops into educational and support centres (Apple's new stores offer a continuous schedule of free training modules, a genius bar for Apple users with problems, a repair counter and a multiplicity of skilled advisers circulating through the shop). Alongside these are many other types of informal help and flows of information. The key intermediaries are those that have the knowledge and trust to bring

together the relevant packages of support. They are the assemblers of the knowledge economy.

The institutional implications are profound. Systems are being reconfigured around households. They are not isolated but connected in a multiplicity of new forms – virtual and real – rather than being concentrated in centralised institutions. The spread of mutual interest and support groups has been a feature of the past 30 years – connected via the web, or meeting at events and weekend schools. Groups are forming to take over micro breweries, pubs, farms and even – in the remarkable case of Ebbsfleet United in Kent – combining via the web to buy and run a professional football club.<sup>8</sup> Such forms are not new, of course. But the internet has greatly extended their range – of the 32,500 members of the Ebbsfleet United co-op, over 3,000 are from America, and nearly 1,000 from Australia.<sup>9</sup>

This is a long way from the passive consumer and deskilled worker of the 20<sup>th</sup> century. It repositions households individually and collaboratively as 'living centres' in distributed systems – the vitality of the whole depending on the vitality of its innumerable nodes.<sup>10</sup> It raises a wide range of questions about the conditions that permit households to take part, questions of digital access and house design, of skills and working time, of credit and tax relief, and so on. It is incompatible with a wage regime of long hours and low pay, and an educational system that is not geared to imparting life skills.

## ii) Increasing social imperatives

Second, there have been increasing pressures on state services delivered on the basis of a producer-driven, mass service model of provision.

### Intractable social issues

One set of pressures comes from the sheer scale and growth of the demands on these services. In the UK as in other industrial countries there are dramatic upward trends in obesity, chronic disease, and demographic ageing, each of which has been described as a time bomb waiting to go off.<sup>11</sup> Diabetes is now talked of as the epidemic of the 21<sup>st</sup> century, and parallels the worldwide explosion of heart disease. In terms of ageing, the ratio of those of working age to those over 65 is set to fall from 4:1 to 2:1 in OECD countries within 40 years (in the UK within 25 years), posing a radical challenge to two of the principal strands of the 20<sup>th</sup> century welfare settlement, pensions and care for the elderly. If the 30-year trend of increasing inequality is not reversed, it will exacerbate these problems, given the close correlation that has now been established between inequality and ill health.<sup>12</sup>

These trends pose a double challenge to existing structures. First, there is a growing mismatch between traditional services and new needs – health services for example were originally designed to deal with acute rather than chronic disease, whereas it is chronic disease which is expanding. Second, it has proved difficult to offset the growth in service need by equivalent reductions in cost.

Schools, prisons, care homes and hospitals have cost structures with heavy overheads that are difficult to offset in labour-intensive services.

As a result these sectors command an ever growing share of national resources. In the UK, care is already approaching 4–5 per cent of GDP, education is edging up to 10 per cent. If radical policies cannot stem the increase in chronic disease, health services are forecast to grow to 12 per cent of GDP in the UK and to 20 per cent in the US by the early 2020s. As a result, on current trajectories, the biggest sectors (both by value and employment) of Western economies in 2020 and beyond will not be cars, ships, steel, computer manufacturing or personal finance but rather health, education, and care.

The social, like the environmental sectors, will no longer be supplementary tributaries to the main commodity-producing sectors. They will be central to employment and the macro economy as a whole. And this poses a major financing issue. The Stern Review called for an investment of 1 per cent of GDP (later revised to 2 per cent) to forestall the danger of a 20 per cent reduction of world GDP as the result of climate change. The forecasted increases in health, education, pensions and care expenditures dwarf this figure, and threaten to swamp public budgets (and in the case of pensions and health care in the US, private budgets as well).

There have been two principal responses to these mounting pressures. The still-

predominant policy approach has been to promote technical solutions that upgrade old models of production. In health, for example, industrial methods once associated with Henry Ford and more recently with Toyota have been adapted to improve the flow of patients through hospitals. Costs have been cut through outsourcing, and repeated efficiency drives. Hospitals have become larger and more specialised. Prices have been applied to what was once free, and quasi-markets established to inject a market discipline. But the pressures have continued to rise inexorably. With health as with other social and environmental issues the most effective policies are preventative, but these have been notoriously hard to establish through states and markets as they stand.

There has been a second approach, still exploratory, but of growing significance. In the past ten years there have been a range of attempts to engage citizens and civil society as partners in public services. Ministers have championed the community sector in areas of health and social care. They have sought parent involvement in schools, and patient representation in the governance of hospitals. From Sure Start to tenant management, and from the New Deal for Communities to personal budgets, the drive has been for user participation and the co-creation of services.

Both professions and politicians have become only too well aware of the evident disconnect between established social institutions and many of the concerns and needs of the users as

producers. They recognise that active households are central to many of the major social issues. For those with chronic diseases, householders and their networks of support are self evidently the primary producers of services. In diabetes, for example, 98 per cent of care is provided in the household, and the support that is needed can only partially be supplied through a system still geared to the treatment of acute disease. Much the same can be said of the care of young children and of the sick and elderly.

In these cases citizens are active agents not passive consumers, who need resources and skills and a whole range of support and connections that existing services are not geared to provide. This and the pressure on costs are the factors behind experiments in co-designed public services, and the recognition of the role of third sector organisations as innovators in the shaping of new services.<sup>13</sup>

### **Insistent voices**

While governments have tried to engage citizens, citizens themselves have radically changed their views. It was the celebrated Stanford Research Institute report in 1978 that alerted a wider public to a profound sociological shift. The report calmed the fears of major corporations that the post '68 generation were turning away from commodity consumption. It heralded instead the rise of what became known as the postmodern citizen – consumer, producer, traveller – concerned with identity, meaning and self improvement rather than the consumption of standardised products.<sup>14</sup> The great French social analyst André Gorz referred to it

as a new subjectivity, no longer moulded round the demands of the economy.<sup>15</sup> For the 'individuated' citizen, life becomes a process of formation, in which careers give way to projects, and the picaresque becomes as important as the plan.

Post Fordist production was in part a response to these changes. An industrial revolution in itself, it enabled firms to manage multiple complex supply chains that allowed them to respond to widely differentiated and unpredictable demand. By the end of the century the postmodern consumer had got used to an economy of variety, of consumer oriented production, of fast food and fast fashion.

This shift marks a change from an economy dominated by commodities to one centred on services, information and communication – what has come to be referred to as 'cognitive capitalism'. The means of production become subordinate to codes of communication. It is a world where images, symbols, culture, ideology and values take pride of place. The production and circulation of these codes, centred largely in cities, involve quite different types of production culture and labour demand.<sup>16</sup> The move to personalise public services is also a reflection of these trends, as is the shift in cultural policy from the delivery of cultural objects to the enabling of expressive lives.<sup>17</sup>

This is the cultural economics of the personal. But there is another, marked collaborative feature. The disjunction between the contemporary sensibility of the active citizen and the institutions formed in a previous age – corporations,

public bureaucracies, mass parties, and the church – has led to the multiplication of social movements and of citizens taking matters into their own hands. In many areas they have been the leading social innovators of the past 30 years.<sup>18</sup>

Take for example four of the great social movements of the 1970s – feminism, the black movement, the movements for gay rights and for those with disabilities. These are often seen as cultural phenomena. But where culture is so closely linked with the economic, they have had a major impact throughout the economy – on what is produced for the market, on how the state shapes and delivers its services, as well as on the terms of employment and on housework. The movement for disabled rights, for example, has achieved remarkable successes in legislation, in new policy tools (such as personal budgets), new technologies and changed attitudes.

These changes are not merely influences on the 'rules of the game' within which the state and the private market operate. They have opened up the game itself to new social initiatives, to a more active role of the citizens on the field of play, and to new value-based imperatives. The growth of fair trade has been a case in point where a social movement has found a way of addressing the marginalisation of small primary producers not via inter-state aid, but through a different kind of market.

As movements they gather support from diverse parts of society, from those outside the state, and then from sympathisers within. All start voluntarily,

and may remain so. Many engage staff paid for by donations and grants, or start their own initiatives in the market economy, setting up a solar company for example, or an organic farm.

Just as the Reformation distributed religious authority from the cathedral of the Catholic church to the bazaar of individuals and their innumerable movements, so the last 30 years has seen the emergence of a social and economic reformation, one in which individuals, singly and together, are taking social and political responsibility into their own hands.

There is a new assertiveness, an engagement with what is produced and how, a use of their power as citizens, consumers and workers to determine a meaning for themselves. It is a movement from passive to active. And out of this has come a wave of value-based economic initiatives, many in the social sectors, but others finding their own space in the market. As movements, this wave has developed its own forms of networked organisation, its own mixture of paid and unpaid labour, and its own culture. It is the source of an extraordinary range of social innovation centred on those very issues which the state and the private market have found themselves ill-equipped to adequately address.

### **Distributed production and the social economy**

These developments parallel in many ways the distributed systems emerging as a feature of the new technological paradigm. They are not determined by

the new technology – there are many examples that pre-date it – but the new paradigm greatly strengthens and facilitates them. Technology has played a role in supporting and strengthening these trends.

Take the Open University, which exemplifies a distributed system. Its first student applications were in 1970, the year Intel was born, so it pioneered a new form of education using old communications technology. The web has greatly extended the range of its interactions – through forums, chat rooms, peer-to-peer contacts, accessible materials as well as videos. 180,000 students are now interacting with the university from home. There are 16,000 conferences, 2,000 of them moderated by students, with 110,000 participants. Its student guidance websites have 70,000 hits per week. With a turnover of £420 million a year, the OU is an example of a new form of social multinational, operating in 40 countries, with 4,000 full time and 7,000 part time staff. Significantly its new Vice-Chancellor had been one of the top managers of Microsoft's educational products group.

Another variation of this model is the Open College. This was set up to validate learning in a range of adult education institutions, so that those attending these courses could earn credits that could be transferred and counted towards a degree. In this case the College does not run the course or prescribe their contents, but rather gives its imprimatur, like an educational kitemark.

Over the past five years open learning has taken off both in terms of higher education and for specific types of learning such as languages. A website like [livemocha.com](http://livemocha.com) which started as an after school coaching service using Indian graduates, has transformed itself into a free international language laboratory, in which learners school each other in grammar and pronunciation. Within a year it has grown to 2 million registered users.

The School of Everything has similar features, linking up those who want to teach particular subjects with those who want to learn – a virtual dating system applied to learning. There are open source textbooks (strong in California) free open courses (MIT's OpenCourseWare website now carries 1,800 courses online and has students from over 200 regions and countries taking these classes) and open source software packages to help teachers create online learning communities (the Australian Moodle package now serves 2.5 million courses in 49,000 student universities, high schools, community education programmes and corporate training centres, and is used by 28 million students).

These developments do not do away with universities, or schools or colleges, but they reconfigure them as hubs in distributed home learning networks, and transform their functions. By radically reducing costs and extending the range of subject matter and methods of learning, they are developing one of the critical infrastructures of the knowledge economy.<sup>19</sup>

There are parallel developments in other social services where traditional support systems like home helps, meals on wheels and district nursing are being radically extended. Elderpower is a new not-for-profit initiative in Maine which has the aim of reducing the institutionalising of the elderly. It has designed support services around the individual and their family, using a digital infrastructure to connect them to their doctor, nurses, volunteers and others receiving care in the network. The organisers have accessed surplus living space for convalescents rather than building new homes, and provided a programme of home visits and excursions. They have enabled those involved in the scheme to help each other, and to escape from the isolation that so often hastens the move to care homes. The inspiration for the doctor and entrepreneur who developed the scheme has been Facebook, Wikipedia and Obama's campaign. The average cost for elders in the network is \$5,600 as against the \$60,000-\$200,000 per annum costs of traditional institutional options.<sup>20</sup>

This is an example of the support economy and is widely applicable – to childcare, for example, to many aspects of health, of criminal justice, and to preventative practices such as exercise, or cooking and healthy eating, and to the struggle against addiction. It is also beginning to be applied to the professions. The Key is a very successful support service for school head teachers, which provides access to multiple sources of advice and information and is available to answer any query within 24 hours on a 24/7 basis. The company

that provides this service has applied the same principle to a support service for households wishing to reduce their carbon emissions.<sup>21</sup>

It is a feature of these systems that there is a strong element of mutual support. Again this does not depend on new technology (Alcoholics Anonymous for example long predates the internet) but is extended by it. There has been a remarkable growth of support groups among people with particular chronic conditions, for example, as well as initiatives to provide information and advice, and often advocacy on behalf of specific groups. They range from informal associations to micro social movements.

The argument here is twofold. First there are a range of intractable social issues which are commanding an increasing share of national economies, many of which neither the market nor the existing model of public services have been able to solve. Second, that there are an extraordinary number of new initiatives both from within the public sector and from households, co-ops, and voluntary organisations, which have the characteristics of the kind of distributed systems that are a feature of the new technological paradigm.

The social economy is pivotal to these innovations and to the services and active relationships that develop from them. Viewed from the perspective of Perez's deployment period, the social economy, including the redesigning of the systemic role of the state, is the critical player in the extension of the new paradigm to a

section of the economy which has been remarkably insulated from it.<sup>22</sup>

### **iii) The social economy and the green industrial revolution**

The point about intractable social issues applies equally to the environmental ones. The environmental movement exemplifies the practices and new organisational forms of the new social movements and has been a prime example of the resurgent social economy. Those involved have set a 21st century agenda – on energy, food, waste, transport and the whole issue of well-being and lifestyle. In each of these areas citizens' networks have developed their own political economies of protest, production and consumption. They have created a great wave of alternative technologies, of new forms of consumption and distribution, which now constitutes its own international micro economy.<sup>23</sup>

This economy is microbial, scarcely visible even to itself, but in some places it has already become a leading part of the mainstream economy:

- The growth of wind energy in Denmark was the result of a movement of resistance to nuclear power and the emergence of a large network of decentralised wind turbines, two-thirds of them owned by co-ops and small farmers.
- Progressive transport coalitions have provided the inspiration and influence to build cycle ways and walkways (as in Groningen in Holland where 57 per

cent of journeys are made by bike), re-allocate road space (as in Curitiba in Brazil and Bogotá in Columbia), and provided the impetus for the introduction of municipal systems of bike and electric car hire (as now operating in Paris).

- The new waste economy – of reduction, re-use and recycling – grew out of the community sector and has advanced most at the state level in federal states where protests against incineration and landfill gained sufficient political traction to transform policy and produce citizen-centred innovation.
- In middle Italy, there is an integrated chain of food co-ops from farm to table which is not only a central part of the regional economies, but a leading exporter (Parmesan cheese for example is produced by a network of 980 small farmer co-ops in Emilia Romagna).

Many of these innovations are now being taken up and amplified within the market and public economies.<sup>24</sup> The utilities and the major corporations of the old order, as well as traditional public administrations, have found it difficult to graft distributed micro systems onto their structures. But new firms enter the field from outside, often with an electronics or materials background. Silicon Valley is turning its attention to the auto industry. Google is pioneering research into plug-in hybrid cars. The battery sector promises not only to transform cars, but the utility sector, making it much easier to store power from intermittent renewable sources. As one electronics entrepreneur who

is developing new micro water systems once put it to me: “think distributed”; and it is distributed systems, based on micro, semi-autonomous units or networks (some domestic, others local or regional) that are emerging as key to a low carbon future. And that means the social economy will remain an active player – as operators of micro utilities, or domestic recyclers and gardeners, or – like Woking or Freiberg – as local authorities developing low carbon systems for the energy and mobility of their towns.

### **The contours of the deployment period**

These are reasons why the social economy is set to assume a new importance as innovator and participant in a post-crash deployment period. Yet there is nothing inevitable about the economy that will emerge from the current economic crisis. Carlota Perez emphasises the contingency of such moments. In her epilogue she writes:

*As at other turning points, imagination has to look forward, not back, and there are no ready-made recipes...What lies ahead are many social conflicts and confrontations, negotiations, agreements and compromises leading to fundamental decisions on policies and institutions, at all levels and in many areas. The range of the possible is very wide and history has shown that violence, messianic leaders, economic theories and many other social, political and ideological factors can influence the choice. The forces that will engage in those battles are gathering now. Those present on the arena, with viable*

*proposals, will take part in the shaping of the social and economic history of the next two or three decades. A golden age of worldwide expansion is possible.*<sup>25</sup>

If it is possible it is not inevitable. Technology does not determine the outcome, but it does provide one of the principal ingredients for the alternative recipes of the future. The competing systems that emerged from the last great crash in the 1930s – Social Democracy, Soviet planning and Fascism – all shared the ideologies and practices of mass production. As Perez says, no idea is too bold, but “each set of solutions needs to be coherent with the problems to overcome, and with the logic of the techno-economic paradigm, its opportunities and its best practice”.

The social economy is not in itself a solution but it is a necessary part of one because of the remorseless growth of the social and environmental issues which neither the state nor the market in their current forms are able to stem. These issues can no longer be confined within the boundaries of the state economy, but reach back into the way production is organised in the market, and the way production and consumption take place in the home.

The shift to a networked paradigm has the potential to transform the relationship between organisational centres and peripheries. Its distributed systems handle complexity not by standardisation and simplification imposed from the centre, but by distributing complexity to the

margins – to households and service users, and in the workplace to local managers and workers. Those at the margins have what those at the centre can never have – a knowledge of detail – the specificity of time, of place, of particular events, and in the consumer’s and citizen’s case, of need and desire. This is the potential. But to realise it requires new terms of engagement with users, new relations at work, new terms of employment and compensation.

This holds for those operating in the private market. It has even greater significance for those managing the state. At the moment the social economy is split between a hierarchical and centralised state and a multitude of small organisations and informal associations (including households). Yet the new techno-economic paradigm coupled with the emerging social movements allow us to think about this divide in a new way – one that is able to combine the energy and complexity of distributed responsibility, with the integrative capacities of modern system economies, thereby healing the split.

Substantial structural reform and institutional changes will be needed for a social economy of this kind to work effectively. It will require new infrastructures, tools, platforms and means for distributing resources, new forms of organisation, new ways of linking the formal and informal economies. This amounts to a far-reaching programme of social innovation on a scale not witnessed since the second half of the 19<sup>th</sup> century. The current crisis provides

the opportunity for social innovation – for so long marginalised – to take its place on a par with private innovation at the centre of the economic stage.

## Part 4: Can the new social economy respond?

**There is then the opportunity. But is the social economy in a position to respond? It has been a pioneer of new approaches to many social and environmental problems, but its potential role goes beyond this, and it will have to step up several gears and re-orient itself if it is to fully play its part. There will need to be new tax and pension provisions and other rights for different types of paid and voluntary work, new types of property, and new institutions particularly in the field of finance and 'formation' – the French term for the creation of skills and culture.**

### The social economy

The task of re-orienting the social economy has been hampered by the fact that there is too little analysis of how it works as an economy. It is a hybrid. It is made up of four quite different sub-economies: the market, the state, the grant economy and the household. Each has its own means of obtaining resources, its own structures of control and allocation, its own rules and customs for the distribution of its outputs, and its own principles of reciprocity.

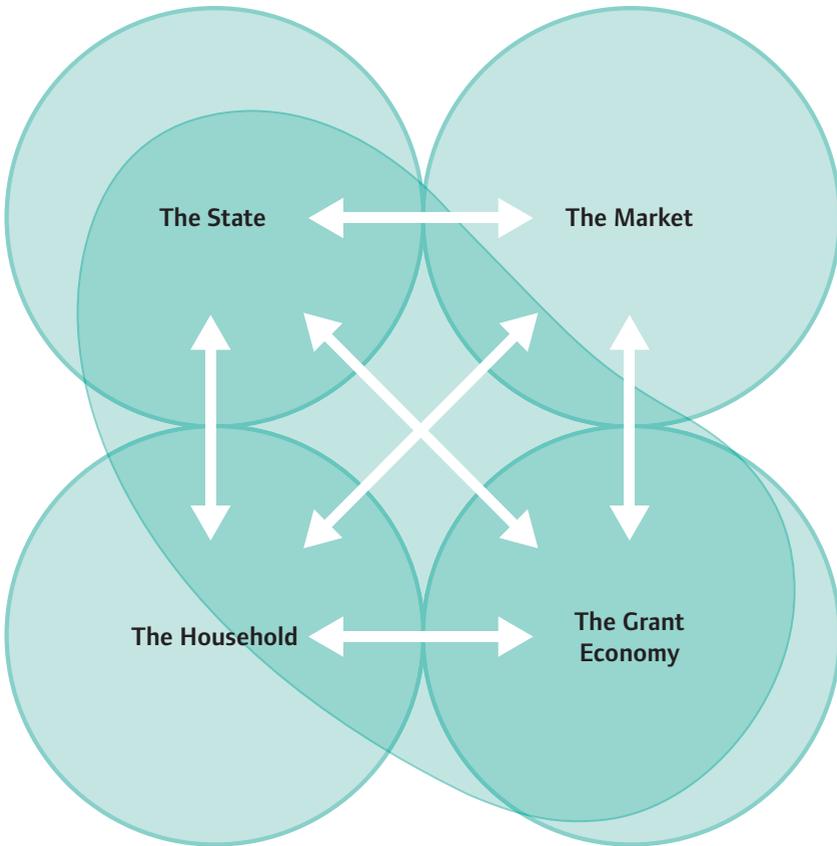
Whereas the private market has its own long-standing intellectual discipline – that of economics – there is no equivalent for the social economy. There is a subset of economics on public finance. But many of the state's mechanisms of distribution and

accountability have been separated off to students of politics, while the grant and household economies are the subjects of sociology and anthropology. They need to be re-unified in theory if they are to find a new unity in practice.

What is common to these different spheres is that they are driven by social values as a primary imperative rather than private financial appropriation. They are bound together by ethics (a moral economy) with multiple threads of reciprocity (a gift economy), and their production ranges from the micro scale of domestic care in the household to the macro services of a nation state. Although analytically distinct from the private market, it includes social enterprises engaging in the market, as well as some of the activities of private companies that have social rather than financial goals.<sup>26</sup>

The shaded area in Figure 1 represents those parts of the four sub-economies that together constitute the social economy. Figure 1 shows that none of the four sub-economies is wholly concerned with the social economy. The state as an economy delivers services for which the private market is inadequate, and sets the regulations for each of the sub-economies. The market economy is largely private although it does engage in the social economy in the form, for example, of corporate social responsibility or the growth of sustainable forestry or line-caught fish. The grant economy

**Figure 1: The Social Economy**



is predominantly social in so far as it is engaged with the delivery of services as a counterpoint to the private market, while the household is in part purely private, but forms a critical part of the social economy as labour in the household and via its contribution to social production through informal networks, associations and social movements.

There is a distinction between these four sub-economies and the institutions that operate within them. Just as the social economy is a hybrid, so the firms, states, charities and households are also hybrids. They have a primary base in one of the four sub-economies, but also operate across its boundaries. In the market, private firms receive grants from the state for example, and social enterprises attract

all sorts of voluntary support. But for both private and social enterprises the primary discipline is the market. Similarly charities and other grant-based organisations run their own shops and other market enterprises, and many contract services to the state. Yet organisations like Oxfam and Age Concern are still primarily shaped by the grant economy in how they raise their money, how they distribute their services, and in their forms of accountability.

These are the institutions that will have to do the light (and some heavy) lifting. On their shoulders will fall the task of much of the innovation in the social and environmental fields. Are they up to it?

### **Social innovation**

The idea that the social economy as a source of innovation and production could stand on an equal footing with the private market economy goes against prevailing assumptions. The 20<sup>th</sup> century project of the state trying to do so collapsed with the Berlin Wall in 1989. The public sector remains a major player in services which are difficult to commodify, but even here it has been in retreat as quasi-market mechanisms have been introduced into public services.

As for third sector organisations, they are seen as the economic herbivores, providing services for casualties of the market and the state, the disadvantaged, the sick and the dispossessed. This is a different economic realm from the carnivore world of the mainstream market.

There have been many who have wished the social economy to play a more central role – all those who have imagined an economy that is formed around social and environmental values rather than the interplay of private interests in the tradition of Adam Smith. But while there are innumerable examples of small-scale projects that embody these values, only a few have made it into the mainstream.

There is the co-operative movement, for example, which remains strong in some European regions. But for the most part, the 20<sup>th</sup> century consensus holds sway – that production should be left to the market, while the state (or its social partners) focuses on redistribution and those social needs which the market has failed to address. In this reading, innovation and economic growth will come from the market, and the social economy will ensure society's cohesion.

Looked at dynamically, the market is held to have the mechanisms and incentives that drive innovation. In Joseph Schumpeter's formulation, it has the power of 'creative destruction', destroying the old in order to open the way for the new. He refers to a process of industrial mutation "that incessantly revolutionises the economic structure 'from within', incessantly destroying the old one, incessantly creating a new one".<sup>27</sup>

Neither the state nor the grant economy have the structure or incentive to innovate in this way. Their economic calculus is based on costs, and it is argued they lack the mechanisms that allow the best to flourish and the less effective

to wither away.<sup>28</sup> The household on the other hand – that most distributed of economic systems – generates ideas but on its own lacks the capital, surplus time and organisational capacity to develop and embed them. It is striking that the literature on technological innovation is almost entirely devoted to market-led innovation.<sup>29</sup>

The argument of the previous section suggests two main reasons why this Schumpeterian view may no longer hold. First the new social and information technologies provide scope for social collaboration. Small units in the social economy can be wired together to become big systems, capable of competing with the market economy both as innovators and providers. Second, what have been regarded as subordinate areas have now become central – health, education, care and a whole range of environmental services, in all of which the social economy has been the primary innovator.

Yet whether the social economy can respond to the possibilities that are now emerging remains an open question. It requires first an assessment of the extent and type of innovation that is generated in each of the sub-sectors of the social economy, and the limitations they currently face.

### **Public innovation**

Take first the public sphere. There are many structural features of government that inhibit risk taking and innovation. There are major barriers (from cost-based

budgeting and departmental structures, to audit and accountability processes, as well as a lack of career rewards) and few enabling conditions such as the dedicated budgets, teams and processes found in business or science. Yet if we look at the UK state, and given its structures and reputation, it is remarkable how much innovation there has been. State pensions, the BBC, the National Health Service, the Open University – these are only a fraction of the 20<sup>th</sup> century public innovations that shape culture and society in the UK today.

In the past 25 years the pace of UK public innovation has quickened. It has been sustained and radical. It could be said that there has been too much innovation, too many turns, twists and reversals rather than too little. And this leaves a paradox – a public sector structured against innovation, which in recent decades has engaged in hyper-innovation. How do we explain this? And what kind of innovation has been taking place?

The answer is threefold. First, public innovation is institutionalised in the political process. It is the politicians who are expected to come up with new ideas, embody them in election manifestos, and then oversee their realisation through the civil service. The process of formulating the proposed innovations usually draws on multiple sources of ideas – think tanks, policy advisers, particular interests, experiences in local government, the media – and is then fed into the civil service to consider how best they can be implemented. It is a linear top-down

model, with final accountability through the ballot box.

Innovations of this kind have advantages, as with all changes introduced by large organisations. There may be economies of scale – in specialist advice for example, or service design, or the drafting and negotiation of codes of practice. The changes can become system-wide rapidly, and have both the political and administrative backing to overcome resistances – if the leadership is strong.

But they have the disadvantages of all large organisations faced with heterogeneous users, places, and conditions. How can they handle high levels of complexity, without recourse to simplification and standardisation? The new post-industrial paradigm that has developed on the back of the information revolution and environmental pressures offers new ways of embracing this complexity through distributed systems, but these are in tension with the centralised institutions of the mass production age.

The current government has recognised the potential of the new paradigm. It has adopted the principle of personalising public services, and has opened up the NHS, secondary schooling, and social care to more autonomous provision and the possibility of variety. It has sought to promote innovation within the public services. There are moves to institutionalise experimentation and learning more systematically, using past devices like the Collaboratives, and more recent ones like Social Enterprise

Investment Funds, the Department for Work and Pension's Right to Bid, Innovation Funds, and prizes, in combination with a strong emphasis on reshaping commissioning and purchasing to encourage and reward innovation. Yet all these initiatives remain bound by the centralised rules, specifications and targets of the state. Operational autonomy and responsibility may have changed, but within limits laid down at the centre.<sup>30</sup>

Second, many of the radical innovations of the past 25 years have not been to the material way in which public services are delivered, but rather to re-drawing the boundaries of the state – delegating responsibility for operations and innovation to private capital or the third sector, establishing agencies with greater autonomy, or encouraging collaborative working between different sections and levels of government. The underlying institutional principles of the public economy have remained largely intact.

Third, where innovation has taken place, it has too often been working against the grain of these deeper structures. There are innovators – in central government, and local councils, in the NHS and the many public agencies that now exist. But they innovate often in spite of rather than with the support of the machinery of government.

Innovative local councils complain about being criticised by the Audit Commission for innovating beyond the terms specified by central government. They plead for 'safe places' where they can try out

new ways of providing a service. When initiatives from the heart of government to promote innovation are put into practice, the innovations are too often restricted in their scope.<sup>31</sup> Where centrally driven service innovations are introduced, such as the Sure Start programme, their operations are folded back into the iron cage of public finance and accountability.

It is not therefore the lack of innovation in government that is the issue, but the centralised and episodic nature of its innovation process, together with the structural limitations on distributed innovation at the service level. One response to this has been the hollowing out of the state and the dispersion of its activities to the more 'open' third sector and the market. Yet this trend has had its own problems. The state has the potential to be a generative force of distributed social innovation, but if it is to be fully realised, then there are profound structural issues that need to be addressed around how the state raises and allocates its funds, and how it is accountable for them.

### **The grant economy**

The grant economy in the UK is tiny compared to that of the state. In 2006/7 the expenditure of general charities was £31 billion compared to public expenditure of £550 billion. Yet it has been a significant source of social innovation. In almost every social field, third sector organisations have not only provided new kinds of services, but have been strong advocates of change within the public sector. Age Concern and

Help the Aged are examples in the field of elder care. The hospice movement has transformed end-of-life care. In some cases, mental health for example, successful services are adopted by the state. Greenpeace and Friends of the Earth have had a massive impact on public policy.

Looked at as an economy, there is ease of access – a new organisation only needs to convince one of the multiplicity of grant funders to back it. The problem is growth and the reliability of funding sources. In spite of widespread individual contributions to charity, such finance accounts for less than 40 per cent of UK charity income. The bulk of funding is institutional.

Institutional funding has its own risks and limitations. As donors, institutions tend to avoid long-term commitments, and prefer funding start-ups. Grants are cost-based, and do not allow for the generation of internal surpluses that can finance growth. Many grant programmes have a preference for projects and programmes and are reluctant to provide core funding. Grant-aided organisations are often the first to suffer in state budget cuts and economic recessions. Grant programmes throughout the developed world complain of a lack of sustainable grant funding.<sup>32</sup>

One trend for grant-based organisations has been to increasingly rely on earned income, principally via service contracting with the government (over 50 per cent of voluntary sector funding in the UK now comes from earned income).

Another has been for a growth in venture philanthropy which is the application of venture capital approaches to the voluntary sector. Private donors have sought to avoid some of the limitations of traditional grant funding by treating grants more like equity with project involvement, technical support, continuous funding, and the coverage of core costs.<sup>33</sup>

The grant economy is therefore a seed bed of innovation. Studies of its impact on social services suggest that the fact that voluntary organisations are mission-driven means that in addition to delivering contracted services, they seek to expand the coverage (frontiers) of the service, develop new service systems, and become advocates for those with under-recognised needs.<sup>34</sup>

But their economic base remains fragile. Much of it now depends on state grants and contractual income. For the rest they rely on those willing to give resources that are 'other directed' rather than 'self directed'. This gives grant-based organisations a quite different orientation and culture from that of the private market economy. They survive on the strength of their proposition and some evidence of their capability. Yet donors' experience of the impact of their donation is indirect and quantitative assessment is usually difficult. Instead of the immediacy of the commodity (as in the market economy) this sector strives for the immediacy of the need. Instead of the tangibility of the balance sheet it seeks the tangibility of the outcome.

From this perspective the web offers new horizons, in reducing costs and widening connections. Internet donor sites like First Giving and Guidestar dramatically reduce the cost of fundraising (estimated at between 15 per cent and 33 per cent of funds raised in the US). We can expect similar sites to develop features like donor forums, star ratings, Good Giving Guides and Amazon-type links (those who have given to x have also given to y and z). Blogs, video connections and forums will encourage continuing connections between funders and the funded, a form of grant-based Facebook. Sites like Kiva have already been making these connections (in this case for loans rather than grants). This is promising new territory for the gift economy, because these experiments in 'crowd funding' potentially enrich the gift relationship, and democratise the sector's source of finance.

### **Social enterprise**

There is a close relation between the grant economy and social enterprises operating in the market. Just as many grant-based organisations increasingly supplement their income through commercial sales and tendering for public sector contracts, so social enterprises have supplemented their sales income with grants. Many social enterprises also share the grant-based sector's central pre-occupation of how to validate the effects of their work to consumers – how to make these effects tangible.

Unlike charities, social enterprises are structured to earn surpluses and

accumulate. They are 'for-profit' rather than 'not-for-profit' but their growth is focussed on their social goals. In the case of companies limited by guarantee, there are no shareholders, so all profits become reserves for re-investment. With Community Interest Companies there are shareholders but a cap on dividends, and a requirement that the enterprise be oriented towards its social 'beneficiaries'. A significant number of social enterprises are ordinary limited companies, with shareholdings held by other social enterprises, ethical funds and the enterprise's beneficiaries (Divine Chocolate and Liberation Foods for example). Whatever their particular form, all have the structure and incentives that traditional theory suggests makes the private market a driver of innovation.

In respect to innovation, there is one primary difference between private and social enterprise. Social enterprises are concerned with innovation that will support their social and environmental goals. This may be the development of disruptive environmental technologies or alternative food systems for example. Or it may be an innovation in ownership and the management of the enterprises (as with co-ops), or changing the distribution of the company's gains (through profit sharing as with the John Lewis partnership). It may transform the relations and terms of business of a supply chain (as with fair trade) or employ those facing discrimination in the market. Some, like the Guardian Newspaper, Open Democracy, or Public Service Broadcasting in the US, may be committed to a particular principle

of editorial independence or their innovations may be responding to needs not met by the market. Some private companies contribute to these kinds of social innovations (the old Quaker firms for example) but in the Anglo Saxon tradition at least the financial imperative remains dominant even for those firms recognising the triple bottom line.

The challenge for social enterprise is how to maintain their commercial position in the market, given their social goals and non-proprietary approach to innovation. The bulk of social enterprises remain tiny. They lack economies of scale and of scope. Where their innovations are successful, larger commercial organisations will tend to enter their markets and swamp them (as has been the case with organics, fair trade and recycling). Yet there are many examples where social enterprises have established themselves successfully in the mainstream.

In Spain, the Mondragon group of co-ops is now the third largest industrial group in the country. The co-operatives of the so called Third Italy are leading players in many of Europe's light industries – the Imola Ceramic co-operative for example is the leading ceramic tile producer in Europe.<sup>35</sup> The Japanese consumer co-ops have 13 million members organised around box distribution schemes, an economic model which in some places has outcompeted supermarkets and forced their closure. In each of these cases clusters of enterprises have developed an architecture of co-operation and joint services that has allowed them to achieve

economies of scale and scope while themselves remaining small (or medium) in size.

Of the many examples from the developing world, the Grameen group of companies is particularly relevant to the argument. The rural villages of Bangladesh, where its work is centred, could hardly be farther from Silicon Valley, yet Grameen has many of the characteristics of the new paradigm. Its Bank, which has 7.34 million borrowers, is a highly distributed credit network in 39,000 villages, by far the most extensive in the country. It has developed a method for personalising loans and easing their repayment, and a support structure based on networks of women. As a social enterprise, it is majority owned and governed by its borrowers, 98 per cent of them women. Significantly it calls its lending 'micro' credit and it has grown both by the spread of its model internationally, and through its own diversification in Bangladesh into mobile communications, internet services, education, fish farming, weaving, housing and most recently yoghurt manufacture.<sup>36</sup>

How this is done, and its underlying economic and organisational model, has a significance that extends well beyond the rural poor of Bangladesh. Grameen operates in the market with the same freedoms and disciplines as a private company, but with a social goal – improvement of the incomes and well being of the poorest – coupled with social ownership and a social distribution and re-investment of profits. Muhammad Yunus, its founder, argues that social

enterprises – at times in partnership with private corporations – are the most hopeful forms of social innovation and are often better placed to deliver services than the state or charities. His project is to socialise the market rather than replace it.<sup>37</sup>

We cannot tell how far the current growth of social enterprise will go. There are now an estimated 55,000 social enterprises in the UK, accounting for 1 per cent of GDP.<sup>38</sup> Some are well established, notably the large retail co-ops, mutuals, and housing associations. These three UK groups now have a combined turnover of £42 billion. But by and large this is a small-firm phenomenon, where the structures of mutual support and inter-firm co-operation are rudimentary.

What is important is that there is now an increasing body of experience and successful business models. There are new organisational forms (like Community Interest Companies and Limited Liability Partnerships), supportive public policy and new funding streams (like Futurebuilders and Capacity Builders).<sup>39</sup>

We should also remember that as social innovators their influence extends well beyond their own size. Social and environmental marks and brands (such as those of the Fair Trade Foundation, the Soil Association or the Forestry Stewardship Council) are prompting mainstream firms to change their practices (turnover of products covered by the fair trade label grew by 43 per cent in 2008 to £700 million) and have encouraged the growth of co-ops and farmers'

mutuals in their respective supply chains. These ethical market developments have challenged mainstream businesses on their social and environmental impacts and many have responded through triple bottom line policies, environmental initiatives and the adoption of codes of corporate social responsibility.

But for social enterprises the issue remains of how to move to the next level, and find a distinct way for managing and developing their growth which is in tune with their values. Many of them embody the distributed model of organisation, with spin-offs, networks, and formal collaborations. The fair trade group stemming from Twin Trading, for example, is a network of over 60 primary producer co-ops with a membership of 300,000 farmers, and ten fair trade enterprises in the North. The new web technologies can only strengthen such organisations, as well as greatly extend their links to consumers and investors.<sup>40</sup>

### **The household**

Mass production has automated and commoditised some traditional domestic tasks, and those responsible for them – primarily women – have moved from the informal to the formal economies. But much domestic production remains and is being expanded. Learning, shopping, convalescence, music making, working, and the management of chronic disease, are all examples of the trend to redistribute activities that were previously concentrated in the external economy back into the home. The ways in which these are carried out are

potentially central to a new wave of social innovation.

Households are already responding dramatically, using the internet to connect to institutions of the old in new ways – shopping online and having it delivered to your door, for example, or booking trains or reading newspapers online. But the more profound innovation is the way in which householders are collaborating directly, reconfiguring institutions and inventing new ones.

The iconic example is open source software, developed voluntarily and distributed freely. There are few parts of the industrialised world that do not rely on some form of free software, not just for servers and databases but applications like Open Office which now has some 150 million users worldwide. As I suggested earlier such forms of collaboration are already extending much more widely – to mutual learning, to group formation and discussion around health, to the growing of food and its preparation and consumption, around childbirth and bereavement, as well as contributing to the solution of particular problems (as in science) or to the management of public spaces (like parks and streets). The web has provided a new infrastructure to extend the range and capacity of social movements, including consumer movements, as well as enabling new forms of collaborative purchasing and management.

The questions raised for the household economy by this extraordinary historical development are twofold:

- What institutional forms are developing to enable these new kinds of collaboration to function effectively and economically?
- What are the conditions that allow households to fully engage in this economy?

On the first, those organisations providing the platforms, the protocols and tools that enable the new systems to work are having to develop innovative business models to cover the costs involved. Some are charged for, but many are free, raising their funding from fees for premium services, or from advertising, or like the G10 environmental support service, they are financed by local government or by employers who provide the service as a perk to their employees.<sup>41</sup> For householders, there is a shift in their relationship to all parts of the social and private economies from one based primarily on the receipt of content to one which provides the means and spaces for collaboration.

This kind of collaboration raises all sorts of issues about how such an economy can work – questions of trust and reliability, of confidentiality and acknowledgement, and in some cases of language. In response we can already see institutional contours emerging – protocols and codes of conduct, and formulations about the terms on which the uncommodified information can be used.

Some of these platforms work best with hosts and moderators. Given that there are now 18 million cancer websites for

example, the issue is how to navigate such a wide ocean of information. We look for informed and trusted intermediaries to act as chart makers and guides. There is now a Health Information Accreditation Scheme in the UK which gives kite marks to organisations that produce information and moderate websites and forums.

This is not a purely virtual economy. It is linked to meetings and conferences, to ‘mobbing’ and ‘real world’ production. Some of it leads back into the market and some to the state (for example patients commenting on their NHS experiences through Patient Opinion or on their local public space through FixMyStreet). It leads to greater volunteering – of time and money.

What does it take for households to participate fully in this new world? This is the second question. There are a number of dimensions to the answer – time, resources, skills, physical space, access to information networks, and to support and facilities. For those with time (such as teenagers and the retired), and with resources and skills, and who are connected to the high speed internet, this is less of an issue.

But to spread the benefits of the social economy, we will need to re-think many of the ways in which the household economy relates to the two main sources of finance – the market and the state. Issues such as the distribution of working time, the valorisation of voluntary labour, the content and channels of life skills learning, the role of many of the social and educational services,

the arrangements for retirement and unemployment, the size and location of public service centres such as schools and hospitals, and the organisation of public safety – all these will need radical changes.

### **Circuits and interfaces**

Although these sub-economies have different economic structures and sets of relationships, they are at the same time intimately related. Money and ideas flow between them. Civil organisations have their feet in many camps.

Yet at times it seems as though there are deep moats between them. With four sub-economies there are six interfaces and there is distance and mutual suspicion along each. State versus market. The third sector as unaccountable and a threat to the solidarities of the state. Markets structurally separated from charity. Volunteering as undercutting labour in the formal economy. Personal tax seen as an alien imposition by households. These are common tensions. But if there are moats there are also bridges and it is important for this next phase that innovation has a free flow across the divides, and that the divides themselves are softened.

Relations between governments and third sector organisations, for example, seem at times like oil and water. They have different cultures, horizons, accountabilities and sensitivities to risk. How to connect these two economies productively? The transaction costs and skills demanded by public contracting procedures favour the large over the

small supplier, as do the requirements for track records of experience and the size of contracts. Governments are grappling with how better to procure and contract from the third sector, and third sector organisations in their turn are engaging consultants to support them to meet the requirements of that interface.

But in spite of the commitment of senior and front line public staff and growing third sector experience, there are structural forces which make it difficult for the two to mesh. The kind of joint venturing that characterises the contractual relations between high tech firms in the US, based on the clarity of common purpose and relationships and avoiding the kind of detail that freezes innovation, is still far off in public contracting (which amount to no less than £125 billion in the UK of which £53 billion is procured by local government and the NHS).

Governments are also grappling with their relationship to households – should they allow or encourage volunteering for people on benefits? Should they tax exchange through time banks? Should they introduce personal public bank accounts (as in Denmark) to allow for more creative payment schemes (e.g. for sabbaticals, parental leave and eldercare)?

In the reverse direction there is the question of how the flow of household funds to the state can gain greater public legitimisation, through earmarking and making their use tangible. Or raising local bonds, or even the challenge thrown down to his citizens by the Mayor of

Bogotá in Colombia, for the better off to pay an extra 10 per cent of their tax voluntarily (over 60,000 people did so).

Many of these examples concern the terms on which finance criss-crosses the boundaries between the state, the third sector and households. These too need to be redesigned to reduce the tensions between them. Boundaries are going to have to become more permeable, to allow new ways of doing things to be assembled from each of these sectors as they are needed. This is an area of innovation in itself.

### **Social Schumpeter**

All those living and working in these sectors will have experienced, as I have, an extraordinary spirit of innovation – of imagination made real – that keeps on returning. The drivers have been different from the financial ones of the private market economy, but the commitment to finding new ways of doing things has been as strong. Yet it has been constrained by the way in which finance is raised and circulated in the social economy. There is now a sense of a pressure cooker, with the forces of imaginative practice either shackled by the inherited forms and procedures (and the cultures that accompany them) or by the lack of resources to allow small initiatives to grow.

The answer to the question of whether the social economy is able to be the innovative force required by the next wave of economic development is twofold. First, there is the need for structural

changes in the conditions for innovation in each of the component economies, and second, for a new institutional architecture that allows the distributed points of innovation to be wired together to develop and sustain their innovations in practice.

The primary challenge for the first of these is the reconstitution of the state. The state is still the dominant part of the social economy, in terms of its size, the resources it commands and the terms under which every part of the economy operates. The state has to find ways of opening up its iron cage, finding new structures which have their own force field for innovation and which are able to work fruitfully with other parts of the social economy.

The challenge for the second is to learn from the successful productive networks – both virtual collaborative networks that have developed the human genome and open source software and the established co-operative or Grameen-type networks – to provide the connections between the multiplicity of micro initiatives.

There is a third task for all those working in this economy. It is to understand the process of innovation more fully, from its generation to its generalisation. Parts of this process are similar to the process of private market innovation, but much is distinct. This is one of the central themes of the conceptual and practical work of the Young Foundation.

In many ways we are still at the foothills of applying the ideas and innovations of

the new paradigm to services in the social economy. Imagine a doctor's surgery or a learning centre organised like the Apple Store, or citizens' advice and legal services organised like the Key. But new connections are being made – such as the Social Innovation Camps at which social innovators meet programmers and web designers to work on common problems. This issue now is how to ensure that the resolution of the current economic crisis is undertaken in a way which hastens these changes rather than undercuts them.

# Part 5: Social innovation and the crisis of policy

**I have argued that the current economic crisis is a systemic one. At such moments the task of policy is to be the midwife to the diffusion of the new technological paradigm. The systemic changes required for this to happen should be the framework for a policy of recovery, for they will provide the basis for the re-establishment of long-term sustainable levels of economic activity, and a restoration of the balance between macro economic demand and supply.**

## **Beyond Keynes**

After the collapse of Lehman Brothers in September 2008, the predominant policy approach has been a blend of monetary and fiscal policy – in the spirit of Keynes – to restore the level of demand – as well as the recapitalisation of the banks and measures to restore the flow of credit. This was the policy initially pursued by the UK, France and Spain, but has since been taken up to a greater or lesser degree by other countries (including China) and was underscored by the G20 meeting in London in April 2009. Since then, however, individual governments have been under heavy pressure from the money markets to limit their public debt. The political debate has come to revolve round the timing and amount of cuts in public expenditure rather than its counter-cyclical expansion.

## **Demand**

There are three main problems with this traditional macro economic approach. First there is the problem of restoring the level of demand. The discussion has been oriented towards the restoration of consumer demand, when the first priority is investment in the infrastructure for the diffusion of the new paradigm. That is one problem. Another is that of the insufficiency of mass consumer demand as the result of increases in the inequality of income. Few governments of deficit countries have sought to address this internally. Rather, the pressure has been on the surplus exporting countries, particularly Germany, Japan and China, to raise their level of internal demand, if necessary through structural changes. This is how Richard Koo, the chief economist of Japan's leading investment group Nomura Securities, has posed the issue:

*Nearly everyone in the developed world has access to the basic necessities, so the only way to stimulate domestic consumption is to boost consumption of luxury goods. But for consumers to desire these 'unnecessary' items, they must first have time to enjoy them. Japan has ignored this part of the equation in its long obsession with economic growth and a strong work ethic. Instead it has relied on exports which are now hitting the wall. The simple act of giving people more time*

*to enjoy the fruits of their labour would boost domestic demand.*<sup>42</sup>

The particular measures proposed need not concern us (they include larger houses and expanded leisure time) for they raise a more general issue. Encouraging luxury consumption runs into the headwind of the environmental imperative that requires a greater modesty in what we consume and a change in how we consume it. Economic policy needs to take this on board. It has to ask what kind of consumption it should promote rather than treating it as the undifferentiated aggregate that was suited to the era of mass production. It needs to provide incentives for the 'new demand' – differential rates of VAT for example – since it is the pull of demand that will drive the transition to a low carbon economy as much as the push of incentivised supply.

One element of this 'new demand' is part of contemporary household consumption that is properly considered as investment – expenditure on the tools of a 'prosumer' and the infrastructure of a distributed economy. Some are the traditional tools of the household – from spades, drills and food blenders, to bicycles and cars. Others form part of complex infrastructural systems. Smart domestic energy and water systems for example require investment both in the structure of a home and its pipes, and in the control systems that regulate them.

This is the hardware of domestic investment. There is also the software – the investment in individual and

collaborative skills. The new social economy will require a major programme of investment in the capacity of people. Some of these skills are technical, such as those needed to make full use of digital technology, but many are soft social and organisational skills – for the care of the elderly for example, or for the organisation of social activities, like sports or after school clubs, or mutual support groups. Consumer spending on education, on going to college and evening classes, or on health clubs and keeping fit, should all be seen as forms of investment. We need a new category of prosumption to be distinguished from consumption reflecting the fact that in a distributed model of the economy, a significant part of investment is itself distributed (to both the home and the workplace).

In sum a recovery policy needs to prioritise the new paradigm's infrastructural investment, dampen the consumer culture of excess in favour of presumptive investment and 'resource lite' consumption, and reverse the trends of income inequality to ensure that these new trends in consumption are inclusive.

### **Government spending**

A similar argument applies to government spending. This, too, needs to be directed towards 'transitional investment' – including putting in place the new digital, transport and energy infrastructures, the promotion of green commercial and domestic investment, the speeding up of the design and introduction of 'open' public services, and the consolidation

and upgrading of government back office services.<sup>43</sup>

The main danger currently is that premature public budget cuts will fall first on these necessary innovations, even though it is these which will secure the long-term health of the economy. This is why it is important for governments to set out an integrated 'transition' programme as the determining framework of their recovery programmes.

As far as the UK is concerned there is a strong case for not prematurely cutting back on government spending to give time for these measures to be implemented. The macro economic argument against premature cutting is based on the experience of the long Japanese recession from 1990-2005. I have already noted Richard Koo's sensitivity to the issue of demand, which derived from his work at Nomura and his time as adviser to successive Japanese governments during that long recession (he also worked for the US Federal Reserve Bank during the recession of the early 1980s). He observed that firms in a systemic downswing switch from being profit maximisers to debt minimisers as the value of their assets falls and they seek to restore the health of their balance sheets. Increased liquidity in these periods is used by companies to reduce debt rather than expand investment and growth, and the same goes for households.

As a result there may be a shortage of credit (as banks restore their balance sheets) but there is also a shortage

of demand for finance. Increasing the supply of funds in the economy – for example through quantitative easing – does not feed smoothly through to new investment or private consumption. In these circumstances, with debt being repaid, excess funds build up in the system. He argues that at this stage of what he calls a balance sheet recession, government borrowing and spending of the excess funds is the key instrument to re-stimulate the economy, the public debt to be repaid when balance sheets are restored and private confidence returns. This he notes takes time – he counsels slow policy over quick. Given the lack of financial investment opportunities, the market will continue to buy government debt without having to raise interest rates even if this debt is marked down by credit-rating agencies.

Koo's argument – which emphasises the problem of the demand for funds rather than their supply as an explanation of Keynes' liquidity trap – suggests that there is a short period for the implementation of a transition programme, after which the level of government debt can be reduced. Japan's recovery was interrupted by a premature reduction in government spending. It is important that the same mistake is not made in the UK, with non-financial companies running down their debt, and net mortgage debt and unsecured consumer borrowing now falling for the first time since 1993.<sup>44</sup>

The general point here is that macro economic policy needs to be integrated with rather than split from structural

programmes in the material economy. A set of tests should be applied to every recovery programme and every response to the recession. Is it oriented to the future? Is it promoting innovation in the new services, products, businesses and public services that will be needed as the recovery takes shape? Or, in the case of infrastructure, will it freeze old technologies and service models as the result of inflexible, large-scale capital investment?

### Policy speed

President Obama's administration was one of the few to make investment in the infrastructure of the new technological paradigm an integral part of its recovery programme. His proposals include a major programme of commercial and domestic energy saving, the development of a smart electricity grid, a commitment to introduce new systems of healthcare, to radically expand the information superhighway, to provide all children with computers in their classrooms, and to connect all doctors and hospitals through the internet and advanced information systems. Above all he announced that a radical plan for greenhouse gas emissions throughout the economy would be a major theme of his Presidency.

Obama's plans were originally attacked on the grounds that – home insulation apart – structural investment in reformed health systems, in low carbon sources of energy, and in physical infrastructure, all take time. They represent slow policy when fast

policy is needed.<sup>45</sup> Hence the need for the boosts to generalised consumption.

While some of the necessary infrastructure and transformations will take longer to implement, others could be achieved far more quickly, such as the conversion of empty shops to fast colleges, or fast commissioning such as the US practice of asking all public institutions like hospitals and universities whether they have capital projects for immediate implementation. In a distributed economy there is distributed investment, some of it in households, and as we have seen with the vehicle scrappage schemes, this can be turned on rapidly.

More generally, the long term comprises many short terms, and preparation can start immediately. For example the move to electric and plug-in hybrid vehicles requires an infrastructure of plug-in points and (in some versions) charging and battery change stations. San Francisco has been the first city to move on this, contracting the Israeli company Better Place to develop the necessary infrastructure for a second electrification of the city. London is at the foothills of the same project, with 250 charging points in the process of being installed. This programme could be rapidly speeded up, bringing with it the jobs in the laying of the grid, releasing demand for a new generation of electric and hybrid vehicles.

Similar arguments apply to the smart electricity grid capable of handling multiple sources of supply, to local combined heat and power systems,

to an infrastructure for digesting and composting food waste, and for high speed broadband and wind power. Much can be accomplished therefore in a government-led 3-5 year recovery window.

## A sample of measures

Table 1 illustrates counter-cyclical measures that would contribute to the necessary structural transition of the economy. Those that could be taken immediately are shown in the left hand column, while preparation for the medium-term measures could also begin.

**Table 1:** Counter-cyclical measures that impact the structural transition of the economy

	Short term	Medium and long term
Centralised (public & private)	<ul style="list-style-type: none"> <li>Feed in tariffs</li> <li>Green mortgage conditions</li> <li>100 per cent depreciation on computer-related investment</li> <li>Recycling destinations transparency</li> <li>Group childcare tax reliefs</li> </ul>	<ul style="list-style-type: none"> <li>Electric vehicle infrastructure</li> <li>Smart electricity grid</li> <li>High speed internet</li> <li>Anaerobic digestion and composting infrastructure</li> <li>Working time reforms (such as Dutch Melkert model)</li> </ul>
Distributed	<ul style="list-style-type: none"> <li>Home energy street by street retrofits</li> <li>1 million roofs</li> <li>Commercial &amp; institutional retrofits (including the government estate)</li> <li>10,000 wards and parishes</li> <li>Local food programmes</li> <li>Expansion of repair, re-skinning and remanufacturing facilities (e.g. furniture and white goods restoration)</li> <li>Open source parish mapping</li> <li>Extension of health and fitness coach programmes</li> </ul>	<ul style="list-style-type: none"> <li>Community &amp; domestic CHP</li> <li>Co-operative wind farms</li> <li>Groningen-style mobility</li> <li>Fast colleges</li> <li>Redesigned housing for the aged</li> <li>Green tokens</li> <li>Health in the home &amp; health hubs</li> <li>Social finance institutions (like the Italian consorzi fidi, or the American community development finance institutions)</li> <li>Local land trusts</li> <li>Activity infrastructure (swimming pools, walking and cycling, playing fields, allotments, new park equipment for the elderly, community gyms)</li> </ul>

The short-term examples are of four types:

- i. They involve micro domestic and commercial investment which can be undertaken rapidly (energy and water retrofits, micro generation, increased computing capacity).
- ii. They lead to changes in domestic production that have local multiplier effects (increased recycling rather than disposal, promotion of local food systems).
- iii. They encourage new trends in lifestyle that require support services, cut the financial cost of living, and reduce pressure on social services.
- iv. They encourage small-scale social action that involves formal and informal activity and investment (such as school dinner and school gardening projects).

In addition, the medium and long-term measures exemplify:

- v. The material infrastructure necessary for a distributed social economy.
- vi. The social and regulatory conditions to encourage engagement in such an economy.
- vii. New sources of social finance to fund local initiatives.

Taken together they reflect the general proposition that instead of expanding general consumption, an economic

recovery plan should focus on investments and policy switches that support the new modes of production and consumption.

There are immediate fiscal tools to advance these policies, such as 100 per cent write-offs of new technology and training investment and other tax reliefs. But there are also regulatory measures that will increase the demand for these new investments. For example, the demand for home retrofitting would be immediately expanded by introducing a requirement that all new mortgages are made conditional on the achievement of a given energy efficiency standard. The focus in the downturn should be on specific demand creation of this kind as an instrument of green and social job creation.

### **A policy aesthetic**

The examples given in the table above are illustrative, and only a small sample of what could be included in a transitional recovery programme. They are designed to show ten of the principles of a new policy aesthetic that apply to any of the major spheres of the new social economy:

1. *The parish principle* of distributed geography. In some cases the distribution is to households, in others it is to localities (small wind farms like that at Westmill in Oxfordshire, or local energy systems as in Woking, or local health hubs to replace the existing 450 cottage and community hospitals as in Brampton in Cumbria). Existing structures such as parish councils (of which there are 10,000 in the UK) or

new ones like transition towns, could serve as centres of initiative to invest in low carbon or health generating projects, and to the social mapping of needs, land use and potential (on the model of the remarkable social mapping project in the Indian state of Kerala).<sup>46</sup>

2. *The Grameen principle.* The Grameen bank adopted the policy of lending tiny amounts of money to the poorest (initially rural women and later 100,000 urban beggars) increasing the size of the loans based on the borrowers' reliability. The record of reliability together with the support of their lending circle became the borrowers' effective collateral. A similar approach could be adopted in public policy, with small grants and loans advanced to parishes and their equivalent, with peer assessment and group support, and amounts rising on the basis of performance.
3. *The Park Wood principle.* Public policy has found it difficult to connect with small-scale self-organising groups that sit between the individual household and the formal collective. These self-organising groups are key cells for the social economy. They already exist in many forms – local asthma sufferers who meet with their doctor on a regular basis, informal football teams in the park, local discussion groups of Open University students linked through online forums. There is scope for encouragement of such groups. For example, the existing tax credits for childcare, could be increased for

those applying in groups to encourage the informal provision of childcare. Incentives for home retrofitting could be substantially increased for groups who agree a common programme of measures (and cut costs as a result). On the Park Wood council estate in Maidstone the Design Council developed a prototype with residents and local front line service providers for self-organising groups (or 'mobs' as they came to be called) to increase exercise.<sup>47</sup>

4. *The church spire principle.* The success of Comic Relief illustrates the significance of ambitious collective projects which can be sub-divided into innumerable pockets of activity that are united by purpose. Thus schools, and shops and offices each had their own ways of 'being funny for money' and together with individual donors and a supportive media raised £80 million for Comic Relief in March 2009. Like raising money for repairing the church spire, organising such common endeavours is a creative art in itself. It is one relevant to many of the 'intractable issues'. Car-free days have been introduced in some Canadian towns. Synchronised lights-out periods have darkened homes and cities internationally. The Mayor of Bogotá introduced a women's night out when men were encouraged to stay at home. A recent online survey found there was a willingness to participate in a '1 million roofs' campaign to install photovoltaics on their roof or their equivalent elsewhere in the house (ground source heat

pumps, micro CHP) if others did so.<sup>48</sup> Such campaigns can be sub-divided by municipality, locality, workplace or school using common metrics and a central resource of advice and information.

5. *The support principle.* The role of the tutor, coach, and personal adviser is central to the new economy, as is the support of volunteers. There has been a substantial expansion of health coaches in Germany for example. In the UK health coaching has been growing rapidly in the market economy (and in private health insurance schemes like BUPA) and more slowly in the NHS itself (some Primary Care Trusts such as West Essex have supported small teams of coaches). This will be a key new profession in the future health economy (as in environmental services, and those sectors with a support tradition such as lifelong education and home care).
6. *The Zero Waste principle.* Reducing the use of energy and non renewable resources implies among other things the reduction of waste – both in the production process, in consumption, and in the decommissioning and disposal of products as well as in the use of land. Recycling and reuse are only one segment of an emerging industrial model involving the extension of product life, lowering repair costs through the modularisation of design, the re-skinning of old products, disassembly and the re-use of parts, re-refining of

oils, re-sterilisation (of plastic tubing in hospitals) re-treading of tyres (with higher quality treads), the move to leasing.<sup>49</sup> These principles can be applied to many areas of the social economy – in waste management to begin with, but also the maintenance of public buildings and equipment, the re-use of hospital equipment, the use of consumer durables through collaborative services, and the attention to service processes to eliminate unnecessary tasks (an aspect of Japanese industrial techniques).<sup>50</sup>

7. *The intensity principle.* The intensive use of urban land is one of the principles behind the concept of the compact city and is informing much contemporary urban policy.<sup>51</sup> It involves the redevelopment of brownfield sites, the refurbishment of existing buildings, the use of wasted space – both public and private – and finding multiple uses for existing spaces (through traffic management schemes for example, or solar PV's on roofs, or urban agriculture as in Seattle and Toronto, or the use of school buildings out of hours and in the holidays). There is already an Empty Homes Agency in the UK – an independent charity seeking to reduce the 780,000 currently empty homes, and a rapidly developing movement of 'guerrilla gardeners' replanting railway embankments, wasteland, expanding allotments, and borrowing garden space for food production.<sup>52</sup>
8. *The social property principle.* Legal theorists have argued for a more

differentiated concept of property extending from private to public. They argue that those owning property have some social obligations, that they are to an extent stewards and that the terms of ownership should reflect this.<sup>53</sup> Unused or derelict land could be transferred to public or social use on the model of Coin Street on the South Bank of the Thames. Unused space could be leased to groups offering to use it for the common good. In areas of regeneration, community land trusts in which local communities invest time or money would ensure that the appreciation of property value returns in part to those communities.

9. *The Wörgl principle.* Wörgl was an Austrian town which at the height of the Great Depression in the 1930s established employment projects paid for by a town currency which the municipal council agreed to accept in payment of its fees and taxes. The result was a remarkable expansion of the town's economic activity, and with the advocacy of the celebrated monetary economist Irving Fisher it was replicated in a score of American cities.<sup>54</sup> To promote the informal and formal economies there is scope to issue quasi-monies (such as Green tokens) to be paid to volunteers on environmental projects and which a town council as the issuing authority would agree to accept for a percentage of debts due to it. This would greatly extend schemes like Time Banks and LETS already in existence within the informal economy.

10. *The OurSpace principle.* One of the over-riding features of the new system is that an aggregation of micros makes a macro not just in consumption as in the age of mass production, but in production also. The question is how they are connected. With physical objects there is a grid – for energy, or for broadband and its central servers, or for transport. But in the social world how can the many interact and learn from each other, and co-ordinate their actions around a common purpose? The argument here is that it is platforms that are now the new social infrastructure – the village squares of the virtual economy. It was in 2003 that Silicon Valley realised that the economic logic of the information economy meant that they had to move from content to platforms, so that the users supplied the content, with a greater or lesser role for a moderator. The social networking sites are the early prototypes of such platforms, but they are now multiplying in almost every field, driven both commercially (as with MySpace and Facebook) and socially (as with the Open University). This is a post-industrial revolution in itself, and has transformed the landscape of the social economy.

### **Prospects of advance**

Many of the examples in the table above relate to environmental issues. This is because the environmental imperative is set to drive a major re-orientation of the economy in the early part of the deployment period. There is now a dominant consensus about the problem,

developed over 40 years by the work of the environmental movement. It is reflected in the direction of public policy, in widespread citizen action like the Transition Towns, and is being taken on board by an increasing number of corporations. What has been lacking in UK policy is an ambitious enough approach to speed up the transformation.

The legacy of the previous industrial order has meant that the UK has been a regressive force in the development of EU environmental policy, and has focussed on low cost measures to comply with Directives rather than large carrots and sticks to shock industries into change (as happens in the market economy). There is also a real danger that in order to comply with Directives, UK policy will re-enforce past industrial structures rather than invest in the new. It has favoured large power stations, centralised waste treatment facilities, and large offshore windfarms rather than creating the conditions to drive the growth of distributed systems, as has been the case in many German Länder.

While the primary driver of innovation in environmental policy comes from the pressure of climate change, in social services the principal driver is likely to be a crisis in public finance in the face of expanding and changing social needs. We have already seen an unprecedented period of innovation in health services, education and care. But as argued above, it has been more concerned with shifting the boundaries of ownership and with channels of delivery rather than with the transformation of the services themselves.

There are many exceptions, but because these services are all primarily dependent on public funding, the service experiments have been circumscribed. Over the next decade, however, the possibilities opened up by the new methods of distributed organisation will potentially lead to major changes in these sectors, with the new social economy – including a transformed state sector – playing a central role.

## Conclusions

The successful diffusion of the emergent techno-economic paradigm does not, of course, depend on the social economy alone. There are many areas of the private market economy where the new systems have still to take hold – those mature sectors of a previous era mentioned earlier – autos, the giant energy companies, the producers of commodity chemicals, or the mass food processors. My argument, however, is that during the next phase of the long wave, the state and the rest of the new social economy will need to play a leading role if solutions are to be found to the intractable problems exposed by their imperviousness to commodity solutions. To play this role – to move from an auxiliary function to a lead player in the next wave of innovation – all parts of the social economy must transform themselves institutionally and in their human and technological capacities.

The lesson of Schumpeter and Perez is that massive institutional innovation accompanies the shifts of direction that follow economic crises. Currently the UK lacks the institutions able to adequately support the different

stages of social innovation, let alone to orchestrate systemic innovation. Some of these institutional reconfigurations are needed within public sectors – within departments, and agencies like the NHS. Some need to be part of the public sector, but sufficiently arms length to take risks – like NESTA. Some need to be further removed – like the Big Lottery Fund. And some of the tasks of support need to be taken by wholly independent bodies such as trusts and foundations.

Beyond these there are major institutional gaps. There are a handful of intermediaries to link promising ideas to uses in the social field, but nothing comparable to what exists in the mainstream market economy. The institutions seeking to accelerate global learning (like the Social Innovation Exchange) survive with very modest resources. There is above all a need for institutions that wire together the myriad of small social enterprises so that they can benefit from being part of large systems.

The forms of support also have to adapt. Governments and foundations are used to funding specific projects, programmes or organisations. But some of the most exciting innovations are platforms. Examples include: neighbourhood web media; finance models like In Control; or moderated health platforms like [healthtalkonline.org](http://healthtalkonline.org).

There is finally the need for intensive work to improve the capacity and skills of social innovation. A starting point is a greater awareness of the hundreds of methods already being used to generate

social innovation. Practitioners in the social economy are less aware of these methods than their counterparts in business, medicine or science who tend to be far more familiar with the methods, the track records and the strengths and weaknesses in their fields of work. The Young Foundation's current project on mapping methods is intended to provide a significant step forward, and allow people within one sector of the social economy to learn from methods used in others.

There is an urgency to the task. The public sector and all those depending on it need to prepare for a sharp squeeze in public spending – even if it can be forestalled to allow the market economy to recover without interruption. There is a serious risk that such a squeeze will sideline creativity and innovation. Public bureaucracies will be tempted to impose salami slice cuts. Yet more than ever public agencies will need radical innovations that can deliver improved outcomes with 10-20 per cent fewer resources. That requires immediate engagement with the new 'invest to save' models that are now in place.

The challenges described in this paper are not unique to the UK. But the social economy in the UK has made a distinctive and powerful response. It is imperative that the momentum is stepped up – not merely to counter the recession, but, at this particular moment of transition, and in the spirit of Carlota Perez, to radically engage in the shaping of the social and economic history of the next two or three decades.

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## Weblinks

- In Control - <http://www.in-control.org.uk>
- School of Everything - <http://schoolofeverything.com/>
- Plan My Care - <http://www.planmycare.com/>
- Time Banking UK - <http://www.timebanking.org/>
- Social Innovation Awards - <http://www.socialinnovationawards.com/index.html>
- Patient Opinion - <http://www.patientopinion.org.uk/>
- FixMyStreet - <http://www.fixmystreet.com/>
- Peer to Patent - <http://www.peertopatent.org/>
- Open Democracy - <http://www.opendemocracy.net/>
- Open University - <http://www.open.ac.uk/>
- Twin and Twin Trading - <http://www.twin.org.uk/>
- Live Mocha - <http://www.livemocha.com/>
- Health Talk Online - <http://www.healthtalkonline.org/>
- Participle - <http://www.participle.net/>
- Ten UK - <http://www.tenuk.com/Home.aspx>
- Green Homes - <http://www.greenhomeslondon.co.uk/>

# Endnotes

1. See also the valuable collection of papers by Richard Lipsey et al. (2005) 'Economic Transformations: general purpose technologies and long term economic growth.' Oxford: Oxford University Press.
2. Perez, C. (2002) 'Technological Revolutions and Financial Capital.' Cheltenham: Edward Elgar; see also her article on the economic downturn of 2008–2009, 'After the crisis – creative construction.' Open Democracy. 5 March 2009.
3. There has been renewed interest in the history of financial bubbles after the Lehman crash, but they are discussed largely as monetary phenomena and not linked to longer-term changes in the productive economy.
4. In the US the wage share of national income fell to 51 per cent in 2006. By then the proportion of national income going to the top 10 per cent of the population, which had been one third in the early 1970s, had risen to nearly a half (48.5 per cent). There was a parallel skewing of distribution of income in the UK, with almost all the gains from growth in recent years going to the top 10 per cent of households, while half of all earners saw no growth in their incomes, and one third experienced a fall. As a result the measure of inequality (the Gini coefficient) which had risen sharply in the 1980s and again in the second half of the 1990s rose again as the bubble came to a head. See Irvin, G. (2008) 'Super Rich: The Rise of Inequality in Britain and the United States.' Cambridge: Polity Press; and Glyn, A. (2006) 'Capitalism Unleashed: Finance, Globalisation and Welfare.' Oxford: Oxford University Press; also Irvin, G. (2009) From Profit Squeeze to Wage Squeeze. 'Renewal.' Vol. 17, No. 3, Autumn 2009.
5. One of the most perceptive writers on the new distributed economy and its social implications has been Charles Leadbeater. See Leadbeater, C. (2008) 'We-Think.' London: Profile Books.
6. Toffler, A. (1980) 'The Third Wave.' London: Collins.
7. The principle of the support economy was first put forward by James Maxmin and Shoshana Zuboff in (2002) 'The Support Economy.' New York: Viking Penguin.
8. For these and other examples see Murray, R., Caulier-Grice, J. and Mulgan, G. (2009) 'Social Venturing.' London: NESTA.
9. The nature of communities in the age of mobility and the internet is discussed in Urry, J. (2007) 'Mobilities.' Cambridge: Polity Press. He discusses the processes of connection and cohesion of dispersed groups, including the function of meetings.
10. The term 'living centre' was coined by the architect Christopher Alexander. See Volumes 2 and 3 of his book (2002) 'The Nature of Order.' Berkeley, CA: The Center for Environmental Structure.
11. Ivan Illich used to refer to a second watershed, the point beyond which the advances of industrial society turned on themselves and left growing damage in their wake – and there is something of this when we look at this range of problems and the institutions that have grown up to deal with them.
12. On the relation of inequality and ill health see the work of Richard Wilkinson, most recently his book with Jane Pickett (2009) 'The Spirit Level: Why More Equal Societies Always Do Better.' London: Penguin.
13. One of the pioneers of co-designed public services is Hilary Cottam, formerly head of the RED innovation group at the Design Council, and the founder of the social consultancy Participle. See her pamphlet with Charles Leadbeater, (2004) 'Health: Co-Creating Services.' London: Design Council; and her article Public Service Reform: the individual and the state. In 'Soundings.' No. 42, Summer 2009. Her recent essay 'Beveridge 4.0' can be accessed at [www.participle.net](http://www.participle.net)
14. The Stanford work was led by Arnold Mitchell, the consumer futurist, who developed a Values and Lifestyle (VALS) psychographic methodology for segmenting consumers, distinguishing outer directed consumers moved primarily by external recognition and positioning, and inner directed ones that included narcissistic, experiential and socially conscious consumers. While the former were still two thirds of the population, the latter had grown to 20% and were seen as a development from the outer directed personalities.
15. Gorz has been one of the few authors to explore the relation between this new subjectivity, formal employment, and the creation of a new type of social economy. See his book (1999) 'Reclaiming Work.' Cambridge: Polity Press.
16. See Scott, A.J. (2008) 'Social Economy of the Metropolis: Cognitive-Cultural Capitalism and the Global Resurgence of Cities.' Oxford: OUP.
17. The term expressive lives was first framed by Bill Ivey in his book (2008) 'Arts Inc.' Berkeley, CA: University of California Press. It combined the notion of heritage as that folk element of culture that gives people a sense of belonging, permanence and place, with that of voice that refers to individual creativity. Examples of the shift and the policy that arise from it are given in Jones, S (Ed.) (2009) 'Expressive Lives.' London: Demos.

18. On the connection of the new subjectivity and social movements see the French sociologist Alain Touraine (1995) 'Critique of Modernity.' Oxford: Blackwell; and the Italian sociologist and psychotherapist Alberto Melucci (1989) 'Nomads of the Present.' London: Radius; and (1996) 'Challenging Codes: collective action in the information age.' Cambridge: Cambridge University Press.
19. For an argument on how universities need to reconfigure themselves in this way see Bradwell, P. (2009) 'The Edgeless University.' London: Demos.
20. Zuboff, S. (2009) Our Healthcare System Needs a Bypass. 'Business Week.' January 16th 2009.
21. See <http://www.g-ten.co.uk>
22. The application of new technology within the state has of course many other dimensions. One is the rationalisation of back office services which has been a driver to the concentration and restructuring of the corporate sector. For a discussion of this issue in British government see Dunleavy, P., Margetts, H., Bastow, S. and Tinkler, J. (2005) 'Digital Era Governance: IT Corporations, the State and E-Government.' Oxford: Oxford University Press.
23. The Wiser Earth website lists over 11,000 innovative green projects.
24. For the story of distributed electricity and water systems in rural Brazil see Bornstein, D. (2007) 'How to Change the World.' Oxford: OUP. Chapter 3; and for distributed waste reduction systems see Murray, R. (2002) 'Zero Waste.' London: Greenpeace.
25. Perez, C. Op.cit. pp.170-171.
26. This is a wider definition than the more usual one which refers to the social economy as the third sector – namely NGOs and social enterprises. The definition here includes both the public economy – whose values and goals have much in common with those of the third sector – and the informal economy of the household.
27. Schumpeter, J. (1943) 'Capitalism, Socialism and Democracy.' London: Unwin. p.83. He wrote this in the middle of the Second World War, after a decade of economic depression, when economies were being planned on a war footing, and the Soviet model appeared an advantageous economic alternative.
28. This is the argument of Eric Beinhocker in (2007) 'The Origin of Wealth', New York: Random House. He puts forward an evolutionary model of growth, parallel to that of Darwin, in which the market is the primary mechanism of selection. The parallel between ecological and market economic mechanisms is one reason why many in the environmental movement are attracted to modified markets as the adequate economic form – but this does not deal with those areas of the economy which are difficult to commodify.
29. See for example the major survey by Fagerberg, J., Mowery, D. and Nelson, R. (2005) 'The Oxford Handbook of Innovation.' Oxford: OUP; where the role of the state is discussed almost entirely in terms of policy, basic research and the support it can give to market-led innovation, rather than an autonomous source of innovation in its own services. A rare survey of public innovation is in Albury, D. and Mulgan, G. (2003) 'Innovation in the Public Sector.' Strategy Unit Working Paper 19. London: TSO; and there is now a developing body of research supported by NESTA, the Young Foundation and the National School of Government on the subject. See for example Mulgan, G. (2007) 'Ready or Not: Taking Innovation in the Public Sector Seriously.' London: NESTA; and Maddock, S. et al. (2007) 'Creating the Conditions for Public Innovation.' London: NESTA.
30. Strategies for increasing innovation within government, and many recent examples are given in Mulgan, G. (2009) 'The Art of Public Strategy.' Oxford: OUP.
31. The Power to Innovate, introduced in 2003, allowed schools, colleges and local authorities and trusts to ask the Minister to suspend or modify educational legislation that is holding back innovative approaches to raising standards. In the first five years of the programme, 24 orders were made affecting 199 schools. They were limited to issues such as the timing of school sessions (half of them), changes in school governance, such as the size of the governing body or pupil representation (one third) and the provision of free school meals. They reflect both the degree of detail for schools determined centrally, and the limited scope of the changes granted.
32. Thomson, L. and Caulier-Grice, J. (2007) 'Improving Small Scale Grant Funding for Local, Voluntary and Community Organisations.' London: Young Foundation.
33. John, R. (2006) 'Venture Philanthropy: the evolution of high engagement philanthropy in Europe.' Skoll Centre for Social Entrepreneurship Working Paper. Oxford: Saïd Business School, University of Oxford, Oxford. Available at: [http://www.sbs.ox.ac.uk/NR/rdonlyres/8792299F-F526-4ABE-BE8B-BF7E989A10AC/2079/27200\\_A\\_Venture\\_Philanthropy1.pdf](http://www.sbs.ox.ac.uk/NR/rdonlyres/8792299F-F526-4ABE-BE8B-BF7E989A10AC/2079/27200_A_Venture_Philanthropy1.pdf). For large scale developments in this field see Bishop, M. and Green, M. (2008) 'Philanthrocapitalism.' London: A&C Black.
34. Blackmore, A. (2006) 'How voluntary and community organisations can help transform public services.' London: NCVO.
35. On the extraordinary resilience and record of innovation in the Third Italy see: Belussi, F., Gottardi, G. and Rullani, E. (2003) 'The Technological Evolution of Industrial Districts.' Dordrecht: Kluwer Academic. The industrial districts comprise small and medium firms (some of them co-operatives) which have developed multiple forms of co-operatives or consorzia between

firms, as well as having access to local and regional banks, including co-operative banks. In some sectors the supply chain has co-operatives at each level from primary producers, to processors and retailers.

36. Westall, A. (2007) 'How can innovation in social enterprise be understood, encouraged and enabled?' London: Office of the Third Sector.
37. Muhammad Yunus's economic memoir (2003) 'Banker to the Poor.' London: Aurum Press, has been an inspiration to the new social economy movement. His latest book (2007) 'Creating a World Without Poverty: Social Business and the Future of Capitalism.' New York: PublicAffairs, describes his joint project with the French company Danone to make a yoghurt that would improve nutrition for the rural poor. On the recent development of this project (which has shown the creativity of the Yunus model) see Liam Black (2009) Pots of Gold. 'The Guardian.' 18 February 2009.
38. 2005 Annual Survey of Small Businesses in the UK. Available at: <http://www.berr.gov.uk/files/file38247.pdf>
39. Limited Liability Partnerships were originally introduced for professional service firms like accountants. But they have been used experimentally for environmental and social ventures because of their flexibility and scope for stakeholder involvement.
40. On the organisation, finance, and strategies of social enterprises see Murray, R., Caulier-Grice, J. and Mulgan, G. (2009) 'Social Venturing.' London: NESTA.
41. On the economics of free services in the era of the Web see Anderson, C. (2009) 'Free: The Future of a Radical Price.' New York: Random House; and also Murray, R., Caulier-Grice, J. and Mulgan, G. (2009) Op.cit. Chapter 2.
42. Koo, R. (2009) 'The Holy Grail of Macroeconomics.' Hoboken, NJ: Wiley. p.290; see also Wolf, M. (2009) 'Fixing Global Finance: How to Curb Financial Crises in the 21st Century.' New Haven: Yale University Press.
43. On back offices see Dunleavy, P., Margetts, H., Bastow, H. and Tinkler, J. (2006) 'Digital Era Governance.' Oxford: OUP. For a pioneering example of transforming IT in local government see Wainwright, H. (2009) 'Public Service Reform But Not as We Know it.' Hove: Picnic Publishing. This experience in Newcastle is an example of innovation generated by a trade union, in this case the local branch of Unison.
44. See Koo, R. Op.cit. The UK figures, announced by the Bank of England in September 2009, are for July 2009, and showed company debt repayments of £8.4 billion, and net consumer debt down by £635 million during the month.
45. This was the argument put forward by Clive Crook of the Financial Times when the Obama proposals were first announced; see his article (2008) A Question of First Things First. 'Financial Times.' 8 December 2008.
46. Where parishes do not exist as functioning units (particularly in large cities), electoral wards may be more appropriate (there are over 10,600 electoral wards in the UK), or the organisational units in New Deal for Community areas. All these have some form of local accountability. An immediate economic impact could be achieved by offering small sums (say £5,000) to parishes and/or wards to invest in 90-day carbon saving projects (such as the Transition Towns programme for tree planting and local food production) with a second tranche for those that had completed their projects successfully (on the Grameen principle).
47. For a full description of this work see Design Council (2006) 'RED Notes 1, Kent.' London: Design Council.
48. The survey was conducted in the UK in 2006. In California Governor Schwarzenegger signed legislation for 1 million solar panel roofs in the state by 2018. See <http://gov.ca.gov/index.php?/press-release/3588/>
49. The Zurich-based Product Life Institute and Walter Stahel, its Director, are conceptual and practical pioneers of this new approach to production. See Stahel, W. (2006) 'The Performance Economy.' Basingstoke: Palgrave Macmillan, for the latest version of their work.
50. On collaborative services see Jégou, F. and Manzini, E. (2008) 'Collaborative services: social innovation and design for sustainability.' Milan: Poli.Design. This is an area of rapid expansion. Car clubs for example are growing rapidly, with each club replacing 4-10 private cars depending on the city. In the UK in early 2008 there were 48 car clubs in 41 cities with 36,000 members.
51. Rogers, R. (1998) 'Cities for a Small Planet.' New York: Basic Books.
52. There is also a flourishing Landshare scheme developed by the chef Hugh Fearnley Whittingstall, which prompted the National Trust to create 1,000 allotments on its land. There are 59 City Farms now in the UK and 1,000 community gardens.
53. One of the leading contributors to this re-thinking of property rights is Roberto Mangabeira Unger, formerly Minister of Long Term Planning in Brazil; see for example his (1998) 'Democracy Realized.' London: Verso.
54. See a report in 'The Week.' 17 May 1933; reprinted in Hugh Gaitskell's chapter four Monetary Heretics, in Cole, G.D.H. (1933) (Ed.) 'What Everybody Wants to Know about Money.' London: Gollancz. pp.399-401. For a report of current local currency initiatives in the US – many created by local businesses – see Tom Leonard (2009) Shoppers fight recession in the land of plenty. 'Daily Telegraph.' 9 April 2009.



## **Robin Murray**

Robin Murray is an industrial and environmental economist. His recent work has focused on new waste and energy systems and on projects in the social economy. He was co-founder and later chair of Twin Trading the fair trade company and was closely involved in the companies it spun off, including Cafédirect, Divine Chocolate, Liberation Nuts and Agrofair UK. He has alternated working for innovative economic programmes in local, regional and national governments, with academic teaching and writing. He is currently a visiting Fellow at NESTA and a Fellow at the Young Foundation where he is leading work on methods of social innovation.

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