

Research priorities in the fields of social economy and informal sector

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Research Priorities in the Fields of Social Economy and Informal Sector

In the FP5-Key Action "Improving the socio-economic knowledge base" it is necessary to establish a dialogue mechanism between researchers, policy makers and the Commission. This includes formal consultation procedures and continuous interaction between these actors by means of workshops, seminars, as well as an appropriate use of accompanying measures and the dissemination of information. It was, among others, agreed to establish and to build research networks clustering interdisciplinary research and conceptually refocusing the socio-economic knowledge on complex issues in the process of the structural changes taking place in the European society.

This short report summarises a first expert-workshop (held at Königswinter, Germany, 23rd June 1999) bringing together researchers from several countries and social science disciplines to discuss ways and priorities of research in the fields of informal economy and the voluntary sector. This activity is launched by the German Federal Ministry of Education and Research, Bonn.

Recent research efforts by a broad cross-section of social scientists from different member and applicant countries have presented initial evidence of the significant economic weight and social importance of an area generally overlooked in official statistics: the informal sector and the nonprofit or social economy. This area includes a vast set of activities, from voluntary work in charities and community associations to unpaid work in households, and from nonprofit activities at or below cost to non reported pecuniary work in the shadow economy. Despite their differences, these activities have in common that they do not fall neatly in the market versus state framework that underlies official statistical systems, and that drives much of social science research and theorizing.

While there is little doubt about the increased importance of the social economy and informal sector activities, there is, by contrast, much less agreement about the causes behind this growth, their affects for different parts of economy and society, and the policy implications that follow from both. Research has pointed out that the social economy and informal sector seem to gain in importance at a time of greater insecurity in labour markets, tight public budgets, and increasing trends toward globalisation. Yet the exact patterns and processes involved remain

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unclear. The diagnosis social scientists reach about causes, effects and outcomes differ significantly, not only in their conceptual and theoretical approaches but also in terms of policy implications:

Some scholars view the social economy with its vast number of volunteers and thousands of charitable, nonprofit organisations as an additional vehicle for providing public goods and social welfare, thereby substituting, at least partially, for state provision faced by a narrowing tax base and increasing demand. By contrast, others regard nonprofit provision as suboptimal and second-best in terms of economic efficiency, and point to the dangers of fragmentation and the reduced efficacy they associate with private action in the public domain.

Others yet see in the social economy a source of new job growth, and as an instrument to enforce social cohesion and trust by involving otherwise excluded segments of the population (young unemployed, early retirees, handicapped etc) in useful social and economic activities. Critics, however, counter by pointing to the significant public sums that support the social economy, and question the long-term sustainability of activities and organisations that are neither market firms nor state agencies.

Moreover, looking at the informal sector, researchers emphasize the tremendous importance of unpaid work in the household and at community levels, ranging from family work, informal assistance in neighborhoods, self-help groups and support networks, and participation in schools, leisure activities, and local cultural events. These activities, which entail a pronounced gender component, are the "glue" that holds communities together; they contribute to quality of life and enhance social cohesion. Frequently, the informal sector is a testing ground for entrepreneurial talent and the source of innovation.

Increasingly however many informal, family and community-based care activities are under market pressures, and unpaid work and self-help is being substituted by newly emerging markets for home care, do-it-yourself, and commercial providers. In turn, critics point to the shadow economy of unreported economic activities, and forgone tax revenues. Ultimately, the informal sector, seen by its very nature as a free-rider, threatens according to this view the administrative and fiscal system, and thereby local economies. Or, conversely, is it that the informal sector absorbs "surplus labour" at below market wages, thereby supporting high wage sectors and rent-seeking in the formal economy?

These different interpretations lead to strikingly different policy implications. Whereas one position would ease the regulatory and fiscal regime for the social economy in an effort to encourage the private production of public goods, the

other would seek to enhance the primacy of state's role and make sure that social economy institutions are in line with overall public policies. Whereas one position would encourage the public recognition of household and communal work, and devise appropriate forms of compensation for unpaid activities, the other would put a premium on formalization and marketization, with an eye toward capturing otherwise lost tax revenue. Whereas one position would seek to establish stricter regulations and fiscal controls of informal sector activities, the other would place the need for policy intervention on a seemingly over-regulated labour market and over-burdening tax regimes.

The basic problem is that the present knowledge base prevents us from putting these different approaches to test. We lack the empirical information that would go beyond basic contours, and we lack theoretical concepts to deal with nonmarket/nonstate activities. We also require sharper analytical tools for testing the pros and cons associated with the social economy and the informal sector. Importantly, the size, composition, and role as well as the potentials and constraints associated with the informal sector and the social economy differ remarkably across Europe. The different ways of institutional patterns and legal systems of the social economy in European countries and the different cultures of the informal economy affect the single market and EU policies as well.

Not only states and market forces assign life chances, employment, income and wealth. The search for a new European development model has to take into account civil society as well, and the innovative potential of the social and economic arena between state and market. For Europe, these phenomena are especially important in the context of the diverse traditions, cultures and institutional patterns across member states. The enlargement of the EU will give these issues additional importance, given the significant size of the shadow economy and underdeveloped civil society in post-socialist countries.

At the EU level, there are a number of key questions that should receive priority attention for both research and policy-making purposes:

Work and employment: what is the employment contribution in terms of quantity, quality, career opportunities, and sustainability? What is the relation between paid and unpaid work, and what is the potential of new forms of work?

Economic growth and public good provision: what is the contribution to economic growth, social and economic innovation, and tax revenue? What are the relations to the public good, and what are the positive and negative externalities involved?

Social integration, participation and communal trust: what is the contribution to social integration and participation at local, national and EU levels? What segments of the population are included, which ones excluded?

Well-being and quality of life: what is the contribution of the social economy and the informal sector to individual well-being across different segments of the population, and what is the contribution toward quality of life?

Governance, models and practices. What models of governance, tax and accountability regimes exist? What are best practices, to what extent are they transferable across member states, and what policy roles seem appropriate for national governments and the EU?

These questions should be addressed from a multi-disciplinary, as well as cross-cultural perspective that includes basic conceptual, empirical and methodological work. A European effort would be needed to bring the various cultural and country-specific models and practices to the forefront, particularly in the context of welfare systems, state-society relations, communal and family traditions, and the structure of the economy, particularly in the context of the relationship between the formal and the informal sector. Against this background of commonalities and differences, research could then explore actual and potential contribution of the social economy/informal sector for Community purposes.

Precis

While the economic and social importance of the informal sector and the social economy is now generally accepted among researchers and policy makers alike, little agreement exists about the contribution, potential and future role of this set of civil society activities that are located between the market and the state. There is, moreover, no consensus on the causes, effects and outcomes of the significant growth in these parts of the economy, and there is little understanding as to what models and best practices should guide policy makers. Should the social economy be encouraged, and if so, how and to what end? Should the informal sector be more tightly controlled, and if so, how and with what outcome in mind? Is over-regulation of the formal economy the core problem leading to the expansion of informal sector activities?

These and similar fundamental questions form the heart of a research agenda that seeks to enlist European researchers for a concerted effort to examine the structure, role, contribution and potential of the social economy and the informal sector.

Comparative research should look at the conceptual foundations of nonmarkets/nonstate action, explore the theoretical approaches to understand the social and economic genesis of these institutions, improve the methodological tools needed to measure and study this diverse and complex part of European economies and societies, expand the empirical knowledge base in this area, and explore the options available to policy makers at national and EU levels.