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Nuevas dinámicas mundiales  
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la economía pública, social  
y cooperativa

# Between subsidiarity and complementarity

## Portuguese social economy in perspective

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## Abstract

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The entities of the Portuguese Social Economy cluster around different types: cooperatives, mutual societies, *misericórdias* (mercies), foundations, non-profit associations.

There has been a recent increase of the total number of entities in operation and the corresponding activity has kept in line with the growth of the national economy. Non-profit associations and *misericórdias* are the clusters whose gross value added is primarily non-mercantile and embodied in public and club goods. Cooperatives and mutual associations originate substantial mercantile value through services and goods sold in competitive markets.

Social Economy's management shows scarce use of performance indicators, and its governance is poorly defended from capture by interest groups.

Some entities of the Social Economy can be perceived as a case of subsidiarity to counter market failures. Part of the welfare state safety net rests in social economy as a case of redundancy to counter government failure. The extension of citizenship to encompass multiple dimensions of social life feeds the explosion of associations as a case of complementarity for the achievement of modern citizenship.

Current threats to the Social Economy may also bring new opportunities for playing a larger role in society if innovative ways to address market, government, and civil society many failures are adequately devised.

### Key words

Social economy; value; subsidiarity; complementarity.



## 1. Liberalism's social pillar

### 1.1 Liberalism and the social economy

Portuguese social economy is the offspring of 19th century's liberalism.

Under the *Ancien Régime*, church parishes, religious orders, guilds, and other medieval institutions played a well-known role in Portuguese (and European) societies, acting as *corps intermédiaires* (intermediate bodies) that structured local communities of the rural hinterland and cities in accordance with the overarching hierarchical order. They accumulated important resources through levies, rents, legacies, and donations to fund their activities. Many acted as charities of the Christian “economy of salvation” (CASTEL, 1995), and were granted the status of *misericórdias* (mercies) and foundations.<sup>1</sup> In the aftermath of the liberal victory in the civil war against absolutists (1882-1834), all this started to change.

After 1834, the resources of church parishes were diminished, *dízima* (tithe) on income and product was abolished, religious orders were extinguished, land estates were nationalized and sold by government auction<sup>2</sup>, and guilds were dissolved, thus creating a void in the vertical structure of society.

Liberal political philosophy put forward the idea of a civil society where autonomous individuals could exercise their free will by pure rational choice. But in Western societies strong kinship and neighbourhood interpersonal ties bind together individuals, fashioning their lives and decision-making in a way that favours the formation of *corps intermédiaires*. The abolished traditional *corps* were thus gradually replaced by new ones: political societies, clubs, and popular mutual-aid associations, all making good use of the right to freedom of association

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<sup>1</sup> *Misericórdias* are charities of medieval lineage that were institutionalized by the Portuguese Crown under the Catholic canon law (since the 15<sup>th</sup> century) and were later recognized by the civil law of the liberal regime and afterwards. The designation refers to the Christian works of mercy. Historically, as urban settlements grew, many brotherhoods were created to attribute artificial kinship and thus creating bonds between newcomers who were then denominated as “brothers” and “sisters”. Eventually they would set up charities called *Casas da Misericórdia* (houses of mercy) to provide for basic needs of those in poverty, making use of legacies and other donations. Foundations were originally set up to manage *bens de mão morta* (non-tradable and tax-exempt assets left to convents and religious orders) under the *amortização* regime and were also regulated by Canon Law and later by liberal legislation, which cancelled the non-tradable nature of their assets through the procedure of *desamortização*.

<sup>2</sup> The nationalization and the government auction sale of estates followed the legal procedure of *desamortização* of most Catholic Church's land estates. The name *desamortização* comes from the fact that those land estates in the *Ancien Régime* were under the *amortização* regime, meaning they could not be sold and benefited from tax exemption. The procedure also included large estates under the *morgadio* regime (where land estates were left undivided to the elder sons of the aristocracy) and *capelas* (land legacies left to church parishes and religious orders). *Misericórdias'* land estates also went through the process of *desamortização* but were not nationalized. Instead, there was mandatory sale of these assets to invest the product of sale in government bonds. (AMARAL, 2012)



granted by the liberal constitution. Such entities structured the emerging civil society in accordance with a horizontal order that made it possible for individual initiative to thrive. However, some of the traditional *corps* were preserved as the social assistance they provided proved irreplaceable.

In the liberal age, popular mutual-aid associations and Catholic charities were the embryo of the social economy as we know it, and pragmatic liberal politics accepted them as the true social pillar of the new order.

## 1.2 Early days

Under the liberal regime, individuals with common aspirational socioeconomic goals and needs gathered in popular associations inspired by the principle of mutual aid or mutuality.

Mutual aid organizations provided local responses to the needs of specific groups where market responses were inexistent or failed. They focused on mitigating deficits of purchasing power of low-income classes by means of cooperatives, mutual credit institutions and savings banks. They also sought to provide basic coverage for social risks, and relief to those in extreme poverty. The targeted groups were composed of industry workers (exposed to contingencies leading to the loss of wages), small business owners operating in trade and services (exposed to recurrent economic fluctuations), and state employees earning low wages (frequently paid by IOUs too difficult to discount).

Liberal pundits applauded the growth of such mutual-aid initiatives, and one leading politician wrote at the time:

“The development of associations based on the principle of mutuality has been fast in recent years (...). These associations are powerful means to improve the situation of those who live off work, in workshops, in factories and in the fields; they are a constant incentive to the economy, and as such a driver of wealth, and furthermore of the moral improvement of the people. As industries have been transformed by inventions and the applications of science, and their activity has increased at an astonishing pace driven by the growing demand of consumption and the expansion of markets, the working population has grown and became more concentrated, and thus the contingencies of dangerous crises and deplorable disasters became more frequent. The dangers resulting from modern industrial life made room for a force powerful enough to counter them, or at least to alleviate their shady influence. This force is association: a force to create and not to destroy; that is strengthened by freedom, justice, and respect for the fundamental principles of social economy and public morality.”<sup>3</sup>

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<sup>3</sup> ANDRADE CORVO (1867) on the parliamentary presentation of the law to regulate cooperatives (translated from parliamentary proceedings). In this text appears one of the earliest registered uses in the country of the expression “social economy”.



By the end of the 19th century several production cooperatives were in operation, while others specialized in personal credit and consumption. Mutual societies and savings banks also proliferated.

*Misericórdias* and charity foundations also thrived within the new liberal order and became a specific strand of the liberal social economy. One of 19<sup>th</sup> century leading social publicists even described the former as a "story of miracles".<sup>4</sup>

Early social economy provided very basic social and health services and care that markets failed to deliver. It generated jobs for some of the unemployed and provided modest pensions and other meagre benefits for the impoverished elderly, the disabled, and their households. It tried to secure vulnerable people against abuse, indifference, and extreme individualism, albeit civil society's persistent failure to address poverty, beggary, and work avoidance by able individuals called for action by the government.

Throughout the 20th century, the number of entities of the social economy continued to expand in line with the growth of the population, even if under Salazar's authoritarian regime (1933-1974) the creation of autonomous *corps intermédiaires* was slowed down for political reasons, as corporatist institutions designed by the regime as more obliging *corps intermédiaires* were expected to replace them.

### 1.3. Welfare and the social economy

After the overthrow of the dictatorship (1974), the total number of entities of the social economy increased sharply, as democracy and the rule of law became enshrined in Portuguese polity, and the state made people's welfare its prime concern.

The Portuguese welfare state took-off during the early 1980's, following developed countries with a thirty-year delay. After the creation of the national health service (1979) and the enactment of the "framework" law for social security (1984), population ageing and its impact on the state's budget became conspicuous. Consequently, sharing key social policy roles with social economy's players made a faster progress than otherwise, as it eased the mounting pressure upon state finances.

By mid-1990's, targeted social policies, social inclusion mechanisms, active labour measures and the concept of active ageing were being widely discussed. A new generation of social policies soon followed: the guaranteed minimum income was enacted under conditionality (beneficiaries should finish mandatory schooling, or attend training courses, or accept

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<sup>4</sup> "And he further emphasized: "(...) all these institutes rise, without having in their foundation another capital but hope! The doors of an asylum are opened to shelter little children, (...) and to instruct them to later enter the great struggle of life. (...) And as by charm donations follow, dedication appears, and the modest hostel gradually enlarges its sphere, until it becomes a grand monument." (GOODOLPHIM, 1897:12)



employment offers, or go into rehab as appropriate); later, long term-care for the elderly and the disabled was prioritized.

This new generation of social policies has been implemented through the close collaboration of the state with an important segment of the social economy denominated IPSS - *Instituições Particulares de Solidariedade Social* (private institutions for social solidarity).<sup>5</sup> Because of their proximity to policy targets, these entities have a thorough knowledge about the behaviour of people at risk of social exclusion, helping to prevent targeting mistakes and the misuse of public resources. For this reason, their role has been crucial to implement social policies, acting upon the rationale of subsidiarity.

## 2. The Social Economy as we speak

### 2.1. Entities of the Social Economy

In 2013, the Parliament unanimously passed the “framework” law of the social economy (LBES). The law adopted an umbrella concept of the “Social Economy”<sup>6</sup> defined as the set of economic and social activities freely carried out by entities complying with the following principles: (a) primacy of people and social objectives; b) free and voluntary membership and participation; (c) democratic control of their bodies by their members; (d) conciliation of the interests of members, users or beneficiaries and general interest; (e) respect for the values of solidarity, equality and non-discrimination, social cohesion, justice and equity, transparency, shared individual and social responsibility, and subsidiarity; (f) autonomous management and independence from public authorities and any other entities outside the social economy; (g) allocation of surpluses to carry out the goals of the social economy in accordance with general interest but respecting the specificity of different entities regarding the distribution of surpluses.

(Such principles are obviously inspired by the 2002 *Charter of Principles of Social Economy Europe*.)

Entities of the Social Economy belong to different historical lineages and have specific legal, economic, and organizational features. They are usually clustered in the following distinctive

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<sup>5</sup> Entities of the social economy complying with specified legal criteria are granted the special status of IPSS that enables them to act as policy partners of government providing social assistance and delivering health and long-term care for less advantaged individuals. In 2016, the number of IPSS totaled 5,622 entities (8% of the total), whereas their contribution to value added amounts to 44% of the gross value added by the whole social economy. In the 2022 State Budget, 7% of the total current expenditure of social security is channeled through IPSS to deliver long term care, and other social responses supporting various targeted social groups.

<sup>6</sup> The expression *Social Economy* (first letters capitalized) will be used from now on to refer to the legal universe of the social economy in Portugal as defined by LBES and quantified by INE (National Statistical Office) in the Satellite Accounts for the Social Economy.



groups (which will be analysed in sections 2.3-2.7): (1) cooperatives, (2) mutual associations, (3) *misericórdias*, (4) foundations, and (5) non-profit associations.<sup>7</sup>

The total number of entities has risen fast in the 20<sup>th</sup> century as shown in Table 1:<sup>8</sup>

- The global increase was leveraged by non-profit associations that boomed in democracy and are now the biggest (even if quite heterogenous) group within the Social Economy, reaching almost 700 units *per* 100,000 inhabitants.
- The number of cooperatives had an important increase before 1981 followed by a small decrease afterwards. There are now slightly over two thousand units, averaging 23 *per* 100,000 people.
- After 2010, foundations rose to approximately six hundred, averaging 6 *per* 100,000 residents.
- *Misericórdias* increased at a moderate pace, and are now close to four hundred, averaging 4 *per* 100,000 inhabitants.
- Mutual associations have been countercyclical: they have slowly but steadily declined to less than one hundred, and average now less than 1 *per* 100,000 residents.

**Table 1 – Entities of the Social Economy in Portugal (1911-2016)**

Year	Population (thousands)	Clusters of entities of the Social Economy					
		Total	Cooperatives	Mutual associations	<i>Misericórdias</i>	Foundations	Non-profit associations
1911	5,960.0	886	75	539	240	n.a.	32
1981	9,852.8	19,337	3,917	120	300	n.a.	15,000
2010	10,557.6	55,383	2,260	119	381	537	52,086
2016	10,309.6	71,885	2,343	97	387	619	69,058

(n.a. – not available)

Sources: NAMORADO (2013); GARRIDO and Pereira (2018); INE, *Satellite Accounts for the entities of the Social Economy*, 2010-2016.

The global activity of these entities has kept pace with the growth of the national economy: the Social Economy produced 3% of the national gross value added in 2016, which compares with 2.8% in 2010; and secured 6.1% of the nationwide full-time equivalent employment, slightly up from 5.5% in 2010.

<sup>7</sup> There is a very residual group of under the long heading of “community and socially owned enterprises supervised by workers' councils and constitutionally integrated in the cooperative and social sector” that was originated by the political turmoil following the 1974 Revolution, and which will not be singled out for analysis.

<sup>8</sup> INE, *Satellite Accounts for the Social Economy* 2010, 2013 and 2016. Unless stated otherwise, all quantitative data in this paper comes from this source.



## 2.2. Value and its avatars

Entities of the Social Economy (ESEs) produce statements that introduce their brand to the public, telling people what they stand for, how they operate, and why they deserve their affiliation and/or support. These statements express each entity's value proposition and refer to a specific avatar of the economic value: the "collective" non-mercantile value that each entity promises to deliver to people that somehow benefit from, participate in, or support its activity.<sup>9</sup>

All ESEs share this core characteristic that comes from the prime role of the non-mercantile value *vis a vis* the mercantile value of services and goods delivered.

ESEs create collective value that manifests itself as "community" value embodied in services that are the bottom-line for affiliation in mutual-aid associations: extra-market opportunities of employment, social benefits based on risk pooling, mutual credit, collective practices in sports and culture, and advocacy. Philanthropic donations also originate community value for both benefactors and beneficiaries.

Another avatar of collective value originated by ESEs is the "public" value originated by activities of public utility accomplished by IPSS through collaborative partnerships with the state at national, regional, and local level.<sup>10</sup>

The quantification of the collective value created by the Social Economy is difficult to achieve. Value-added metrics of the national accounts is widely used to approach non-mercantile value through the "satellite" accounts for the social economy. These apply relevant market prices to value non-mercantile inputs and outputs, whenever possible (CIRIEC, 2006; UN, 2018). Accounting for ESEs' total output or production should include: (1) their mercantile production; (2) the goods and services retained for final consumption or capital formation by each unit; and (3) the non-mercantile output supplied free of charge (or sold at economically insignificant

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<sup>9</sup> The mainstream concept of economic (mercantile) value is of utilitarian inspiration. It is anchored in the pursuit of satisfaction by individual consumers and can only be achieved through market exchanges. In their market operations, firms operate under the guidance of mercantile value to achieve profit subject to the consumers' will. But there is non-mercantile value that goes way beyond such narrow concept. Non-mercantile value can be denominated "collective" value (MAZZUCATO and Collins, 2019), and is created through governmental policies and actions. In other words, it is "public" value (MOORE, 1995) defined as an appraisal of what is created and sustained by government on behalf of the public. Public value signals the way in which policy managers get the best results for the community from choices on how to develop and implement policies, according to a normative approach that defines who should benefit and how policies should be implemented. Another source of non-mercantile value is the activity of entities of the Social Economy that create what can be named "community" value for beneficiaries achieved by collective philanthropic and mutual-aid endeavour providing mutual security, relief and the advancement of special groups' interest.

<sup>10</sup> It should be noted that large private firms with socially responsible practices also create both public and community value avatars labelled "shared" value (PORTER and other, 2012) that is part (along with market exchange value) of their businesses value propositions.



prices to beneficiaries). To determine ESEs' value added, the intermediate consumption of goods and services in the production process must be subtracted from output.

**Table 2** – Main indicators for the Social Economy, by entities (2016)

Clusters of the Social Economy	Entities		Gross value added		Wages		Total employment (full-time equivalent)	
	Number	% Total	10 <sup>6</sup> euros	%	10 <sup>6</sup> euros	%	Number	%
Cooperatives	2,343	3.26	604.2	12.54	572.2	13.24	24,940	10.55
Mutual associations	97	0.13	388.0	8.05	212.1	4.91	4,842	2.05
<i>Misericórdias</i>	387	0.54	596.6	12.38	555.3	12.85	39,452	16.70
Foundations	619	0.86	332.3	6.90	304.3	7.04	14,151	5.99
Non-profit associations	68,439	95.21	2898.1	60.14	2677.7	61.96	152903	64.71
Total	71,885	100.00	4,819.2	100.00	4321.6	100.00	236,288	100.00
ESEs as % of the Portuguese Economy	-	-	-	2.97	-	5.28	-	5.35

The statistical estimates of the Social Economy's gross value added elaborated by INE's Satellite Accounts for the Social Economy include both mercantile and non-mercantile value created by ESEs (Table 2). But the latter is imperfectly accounted for because important information about non-monetized rewards retained by members is missing; social and environmental externalities are also missing from these estimates, which can only be approximated by the social and environmental impact of activities (their outcomes) in terms of welfare, cash and in-kind benefits effectively delivered, and jobs created.<sup>11</sup>

### 2.3. Cooperatives

Cooperatives have a hybrid nature of mutual-aid association and enterprise (NAMORADO, 2013). Besides non-mercantile value, they deliver substantial mercantile value to their members through wages, distributed operational surplus, and goods and services sold below market prices.

They were initially defined as *sociedades cooperativas* (cooperative societies) with unlimited number of *sócios* (stockholders) and variable stock. Its formal status has evolved into a *tertium genus* (LEITE, 2011), clearly differentiated from both *associações* (associations) - the broadest category for non-profit organizations in Portuguese civil law - and *sociedades comerciais* (the

<sup>11</sup> The production of services both by public administrations and non-profit institutions at the service of households (where there is no market and/or the price charged is not a market price) is accounted mainly by their costs consisting mostly of wages.



legal designation for private firms). Therefore, their members are denominated *cooperantes* instead of *sócios*.

Cooperatives deliver “private” goods<sup>12</sup> in market competition with firms, thus creating mercantile value for co-workers and consumers, along with community value for their members (public value being mostly marginal). Their rationale is mutual aid by cooperative endeavour whenever markets fail, distributing earnings and achieving discounts on the market price of consumption goods among *cooperantes*.

*Cooperantes* hold different shares of the stock that funds the setting-up of the cooperatives’ activities while signalling their expected community value. They have an equal voice in cooperative governance (one person, one vote).

Between 2010 and 2016, although there was a small increase of the number of cooperatives, their part in the Social Economy fell from 4.1% to 3.3% of the total number of ESE. Their share in total gross value added also decreased from 17.6% to 12.5% as did their share in employment, falling from 14.1% to 10.4% of the total.

Cooperatives operate in agriculture, agro-industries, other manufacturing industries, wholesaling, retailing, mutual credit banking and other branches of services. The largest ones are in pharmaceutical wholesaling, dairy producing, and mutual credit. A small number of these are even among the largest Portuguese businesses, with annual turnovers of more than one hundred million euros.<sup>13</sup>

## 2.4. Mutual associations

Mutual associations surged during the 19th century, with local scope and under the denomination *montepios* or *caixas de socorros mútuos*. They provided cash benefits in sickness and old-age and survivor's pensions for their members, and some of them created savings banks. In the beginning of the 20<sup>th</sup> century, there were 533 entities with more than half a million associates.

Salazar’s regime tried to integrate mutual associations in state-controlled *Previdência Social* (corporatist social insurance) and the number of associations declined. After 1974, when new legislation on mutualism was enacted (1981) there were 120 mutual associations that totaled 600,000 members, being unable to keep the pace with the Portuguese population growth. At present, most mutual associations have a small number of members and act locally with one

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<sup>12</sup> These are goods that feature both “excludability” - sellers can exclude people from consumption if they are unable to pay -, and “rivalry” - the actual consumption by someone reduces the amount available for consumption by another.

<sup>13</sup> CASES, 2019.



important exception: the association Montepio Geral with more than six hundred thousand members.<sup>14</sup>

Mutual associations have an unlimited number of associates and variable stock. They specialize in complementary schemes of social security and healthcare. Affiliation in mutual associations implies paying periodic fees that signal the community value created. Also, they offer special conditions for their members to purchase tradable services (e.g., health services and life annuities), meaning there are associative “savings” *vis a vis* the market prices otherwise paid, which accrue to the community value created.

Mutual associations are granted IPSS status because they originate public value by offering “public” goods, such as complementary social security long-term benefits (life insurance and pension plans produced under the specific regulation for mutual associations), and “club” goods like social assistance services and healthcare.<sup>15</sup> And they also sell private goods for health and long-term care, plus a variety of financial products and services adding substantial mercantile value for their members.

Between 2010 and 2016, the number of existing mutual associations decreased from 119 to 97. The total number of their members is less than one million (60% of these being members of Montepio Geral), and the contribution of the mutualist cluster to total value added and employment is stabilized around 8% and 2% respectively.

## 2.5. *Misericórdias*

*Misericórdias* are charities run by brotherhoods that qualify as “associations of the faithful”, a category of the Catholic Canon Law. They abide by their *compromisso* (“commitment”), the traditional designation for its statutes, and are fully recognized by civil law. Each brotherhood elects the governing body of the charity, the *mesários* (directors) who act under the supervision of government and submit to ecclesiastical authority.

They benefit from IPSS status and remain selective entities whose leaders work *pro bono* as a rule, and whose activities target specific groups of beneficiaries that are not members of the brotherhood. They do not fully abide by the Social Economy principles, namely that of

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<sup>14</sup> Montepio Geral (MG) is a colossus: it holds a large savings bank among other financial and non-financial corporations, and has become a nation-wide financial player, thus qualifying as a “tail event” in the mutualist universe. After 2014, MG has been under severe financial stress because of previous acquisitions in banking and insurance that have proved unsustainable. This prompted stricter regulation legislation for mutual associations in 2018 and in 2019 led to its leader’s resignation from office after failing fit and proper assessment by the supervising authority. For the time being, the future of the mutualist colossus remains a question mark, and the collateral effects of its prolonged crisis imply that mutualism remains the “sick person” of the Social Economy.

<sup>15</sup> Goods are “public” (as opposed to private) goods if they are both non-excludable and non-rivalrous; “club” goods are excludable but non-rivalrous.



autonomous management and independence from entities outside the social economy.<sup>16</sup> They have been (and remain so up to a point) a means to an end highly coveted by local elites to achieve their political aspirations.<sup>17</sup>

Value created by *misericórdias* is predominantly public, through cooperation agreements with government that fund social and healthcare services provided in each *misericórdia*'s area of activity.

Between 2010 and 2016, their number rose slightly but fell from 0.7% to 0.5% of the total number of ESE. But their share in the Social Economy's gross value added increased slightly from 12.2% to 12.4% as did their share in employment, rising from 14.4% to 16.8% of the total.

## 2.6. Foundations

This strand of the Social Economy differs substantially from other clusters because foundations are originated by the unilateral act of a single legal person who allocates to the new institution a particular asset or a flow of income. This primary donation is managed by its trustees to fund its action. The statement of a social intent is mandatory for being granted the legal status of "public utility".

Foundations do not comply with two of the three main principles of the social economy as free and voluntary membership and democratic control over governing bodies by the members are inherently inapplicable.

Value creation by foundations is almost exclusively non mercantile. They provide services outside market exchange and even when they sell them, they seldom cover production costs, using prices for the rationing of supply.

Recent developments show a slight increase between 2010 and 2016 as the number of foundations went from 537 to 619, and their contribution to the Social Economy's gross value added rose from 4.2 to 4.6%, and employment from 4.7 to 6.0% of the total.

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<sup>16</sup> Catholic bishops claim the power to confirm and exonerate the *mesários* (members of the *mesa* or board of directors) of those *misericórdias* operating in their dioceses, and recently, the Catholic Church used this controversial power over elected *mesários* thus creating considerable unease in many of these entities.

<sup>17</sup> "One of the main reasons that [traditionally] attracted the elites to become directors of *misericórdias* was the possibility of mastering the broad resources that many possessed. Let us think only of the most important ones: credit and the management of hospitals. (...) Therefore their leaders could lend and refuse loans to those they chose, turn a blind eye to the payment of interest also to those they favored, rent farms in the same way, threaten to garnish assets of those they abhorred or even divert cash kept out of account books. All this has happened." (GUIMARÃES SÁ and other, 2008:14).



## 2.7. Non-profit associations

They are referred in official statistics as “associations with an altruistic purpose (or goal)” and belong to the broadest legal category of *associações* stipulated by Portuguese civil law. They can be created by any small number of citizens to develop together activities in recreation, sport, culture, education, social assistance, healthcare, and other areas, under specific legislation.

Recent developments register a strong dynamism of non-profit associations devoted to the advocacy of social, political, cultural, and humanitarian causes, making this heterogeneous group an important instrument of contemporary citizenship in its multiple dimensions. They originate mostly collective value that is embodied in public and club goods leveraging citizenship and promoting recreation, culture, sport, and other community activities.

This major cluster grew in the 1990’s and has stabilized after 2010. It comprises 66,761 entities corresponding to 60% of the gross value added and 65% of employment of the Social Economy (in 2016).

## 3. Management and governance

### 3.1. Benevolent services

ESEs are run using management techniques and methods developed by private firms, but their business has a non-profit nature, follows a specific rationale, and provides its own brand of incentives for participants.

Private firms are focused on the logical relationship between financial bottom-line objectives and the means to generate maximum operational profit (the Weberian formal rationality), taking the market prices of goods the consumers are willing to buy. In the social economy, Weberian substantive rationality is of the essence, and it subordinates the economic relation between the objectives and the means to the overarching goals of protection, justice, and equality.

Thus, ESEs implement “benevolent” business models that pursue non-mercantile overarching goals and prioritize the collective value embodied in specific “benevolent” services. The distribution of ESEs by the domains of the International Classification of Nonprofit and Third Sector Organizations<sup>18</sup> provides a proxy for rendered services that underpin their value propositions (Table 3).

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<sup>18</sup> It has been developed in the 1990’s within the Johns Hopkins Comparative Nonprofit Sector Project, and it is used by INE’s satellite accounts for the Social Economy.



Half of the Social Economy produce mostly services of culture, communications, and recreation that are not sold at market prices and have a modest economic size (5 % of total gross value added). On the other hand, ESEs that produce mainly nonmarket services of education, health and social assistance generate more than 60% of total gross added value. The few (7%) that are mostly focused on market activities generate 23% of total gross value added.

**Table 3 – ESEs’ services rendered (2016)**

International Classification of Nonprofit and Third Sector Organizations	Number	Gross value added (10 <sup>6</sup> euros)	%
Culture, communication, and recreation activities	33,722	242.0	5.02
Education services	2,594	670.7	13.92
Human health services	2,386	1 186.4	24.62
Social services	6,978	1 169.6	24.27
Environmental protection and animal welfare activities	726	9.9	0.21
Community and economic development, and housing activities	2,106	36,9	0.77
Civic, advocacy, political and international activities	5,912	50.1	1.04
Philanthropic and volunteer brokerage	322	2.8	0.06
Religious congregations and associations	8,533	174.6	3.62
Business, professional, and labor organizations	3,815	152.6	3.17
“Mercantile” activities	4,791	1124.1	23.32
Agriculture, manufacturing, accommodation, catering, and food	-	90.6	1.88
Trade and services	-	116.5	2.42
Financial and insurance services	-	612.7	12.71
Professional, scientific, and administrative services	2,547	303.2	6.29
<b>Total ESEs</b>	<b>71,885</b>	<b>4 819.2</b>	<b>100.00</b>



### 3.2. Management

INE delivered in 2019 a nation-wide survey of the Social Economy (IES 2018), based on a questionnaire on management and governance issues administered to a sample of top managers of ESEs. The survey presents us with a detailed view of their managerial and governance practices.

IES 2018 shows that 64% of ESEs select the "general public" as the number one target, except for *misericórdias*, who mostly select population of 65 years and over as their main target (86%). Children and youth are also targeted by a significant number of *misericórdias*, foundations and non-profit associations.

Most of top managers have college degrees (varying between 49% for cooperatives and 78% for foundations). Many cooperatives, *misericórdias* and foundations are run by elderly leaders, where more than 50% of their top managers are 64 years and over. Leaders are mostly volunteers (more than 70% in foundations and *misericórdias*) and hold professional positions outside the Social Economy.

According to IES 2018, ESEs' members generally elect the executive directors. These draw for the survey a self-congratulatory portrait of wilful leaders driven by ethical incentives alone.

Flattened organizational structures with no more than one or two hierarchical levels are predominant in ESEs, because of the overwhelming weight of non-profit associations that resort mostly to volunteers. Mutual associations and *misericórdias*<sup>19</sup> have more complex structures with three or four hierarchical levels; professional staff in top and intermediate management is the rule.

Close to one third of the labour force are low-skilled minimum wage earners. In *misericórdias*, such proportion rises to 44%.

Regarding the reporting tools and key performance indicators (KPI) to monitor their activity, most ESEs limit themselves to annual planning and budgeting, and barely produce the mandatory reports and accounts for the fiscal year (one third of ESEs do not even elaborate such documents). In 46% of total entities there is no KPI monitoring. Most ESEs simply monitor the number of their members and/or beneficiaries, and the volume of services rendered. However, 80% of *misericórdias* and mutual associations use KPI and more than 20% of them place a great emphasis on the accumulation of assets achieved in their balance sheets.

Traditionally, members provide lump-sum contributions, pay periodic fees, or make philanthropic donations to set up the initial stock and cash-flow for the startup. Recently, their

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<sup>19</sup>According to INE's Satellite Accounts, 60% of the unpaid employment in the entire Social Economy was guaranteed by *misericórdias* in 2016.



benevolent business models grew in sophistication, and increasingly require qualified professionals to implement innovative fund-raising and promote the sale of services (catering, restaurants, and bars) to generate operating cash flow (MENDES, 2017). Loans are frequently contracted. IES 2018 indicates that transfers and subsidies, *i.e.*, non-reimbursable funds of public and private sources amount to 28% of total funding, followed by revenues from services sold (22%) and loans (19%).

### 3.3. Governance

ESEs face specific governance issues, because accountability and transparency within the organization may come under important threats.

Where democratic participation of members is the rule, internal debate and dissent are more frequent, and the dynamics of “voice or exit” may occur.<sup>20</sup>

The process will generally follow a pattern: complaints are voiced that pave the way for organized groups with special interests, leading to the exit of members who do not identify themselves with such interests, thus allowing the capture of the organization by interest groups pursuing their own agenda while eventually paying lip service to public utility. Some of these groups are natural families while others share aspirational economic or professional goals. They may gain control of the governing bodies thanks to the low participation of members in elections and in general assemblies.

To overcome governance failure, supervision by public regulators and self-regulation are the available antidote to such shortcomings.

## 4. Social Economy at the crossroads

### 4.1 Subsidiarity, redundancy, and complementarity

The liberal state reserved citizenship for a small elite of educated and wealthy men. For most of the population, access to citizenship stayed a remote possibility, only achievable by schooling and hard work as hired labour. Schooling was accepted as the responsibility of the state. In ideal conditions, wages might provide the means to achieve modest welfare and, in the lifespan of a generation or two, to improve workers’ economic situation.

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<sup>20</sup> As Hirschman explained: “there are two main types of activist reactions to discontent with organizations to which one belongs (...): either to *voice* one’s complaints, while continuing as a member (...), in the hope of improving matters; or to *exit* from the organization (...).” (HIRSCHMAN, 2013: 310)



Such ideal was inaccessible to most of the working class, as cyclic economic fluctuations had dire consequences for working families' finances. Protection against social risks leading to loss of income, and poverty relief were left to mutual associations, cooperatives and charities, whose action had limited scope.

Early social economy in Portugal can thus be perceived as a case of subsidiarity, being the only available local means to counter market failures that caused unemployment and poverty. Mutual aid protected against social risks and inspired collective entrepreneurship to compete with private firms. Charities stood as another case of subsidiarity, as they countered family, market, government and mutual aid failures.

In the second half of the 20th century, the gradual extension of political rights to most adults was accompanied by the recognition of the individuals' social rights that supported the new concept of "social citizenship". The welfare state replaced the liberal state, guaranteeing "from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society" (MARSHALL, 1950:11). Early social economy evolved into the Social Economy of today, topping off its earlier role with redundancy to cope with welfare state breakdowns.

Part of the safety net for the most vulnerable remains within the discretion of the Social Economy following the rationale of subsidiarity. Charities (*e.g.*, *misericórdias*) along with popular associations are funded by the state to act as IPSS, which can be perceived both as subsidiarity and redundancy to cope with government failure to uphold social citizenship.

In the 21<sup>st</sup> century, further extensions of the concept of citizenship have been developed, encompassing multiple dimensions of social life. These feed the surge of associations dedicated to cause advocacy to uphold the rights of minorities, intergenerational and environmental sustainability, social responsibility of organizations, cultural pluralism, and the new civil right to free disposal of one's body. The Social Economy becomes a case of complementarity for achieving full multidimensional citizenship.

## 4.2 Threats and opportunities

Threats to the Social Economy have recently surfaced because of structural changes in the economy and the society:

- The entrepreneurial social economy faces an identity challenge as some of the bigger cooperatives and mutual associations get entangled in market competition and may lose sight of their distinctive collective value proposition.
- As the reach of the welfare state expands, it threatens to condemn to irrelevance small local ESEs.



- Cause advocacy eventually contributes to the on-going fragmentation of the concept of citizenship and stimulate the proliferation of divisive identity groups within the Portuguese nation-state.

On the other hand, new social risks have arisen because of the digital, demographic, and green transitions:

- Lowest-skilled workers will be further exposed to poverty and social exclusion.
- Women participation in the workforce made obsolete their traditional role in care provided to households' dependent members.
- The elderly put increasing pressure on social protection systems, as their longevity grows and they are more exposed to chronic disease and disability, thus increasing the aggregate costs of pensions, health and long-term care, and social services.
- The ageing of the population will threaten more and more the financial sustainability of the welfare state.
- Probable surges of new pandemics will add new strain to the sustainability of public finances and will further challenge the organization of work and leisure.

Until now, ESEs have concentrated on the specific areas where bigger opportunities to expand occurred:

- Collective entrepreneurship has been focused on (1) dairies, wine, and vegetable preserves, (2) mutual credit and savings banking, and (3) mutual insurance.
- IPSS provide healthcare and long-term care for the disabled and the elderly.
- Cause advocacy addresses social exclusion in its multiple forms.

The current threats will bring new opportunities for playing a larger role in society if innovative ways to address market, government, and civil society many failures are adequately devised.

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