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Tentative Book Title: Economic Theory and Community Development

Tentative Second Chapter Title: How Do We Make the Economy Work for the Poor?

The main thesis of this second chapter is that the economy (in a valid sense of the phrase "the economy") normally does *not* work for the poor. The times and places where it has worked for the poor must be explained by deviations from its normal tendency. A secondary thesis is a positive one: that community service for pay is a valid part of a mixed economy.

Overview of the Chapter

1. Comments Prompted by the Chapter Title

The title of this chapter is motivated by a desire to participate in recent discussions in South Africa around the question it repeats, and also by a desire to place the fairly specific issues we will discuss in the context of larger problems. We think it is almost self-evident that a satisfactory answer to the question, "How do we make the economy work for the poor?" would be a key that would open closed doors that block solutions to other crucial practical problems, such as, "How can violent conflicts be transformed into peaceful cooperation?" [1] "How can social problems associated with poverty and inequality be alleviated?"[2] "How can world peace under the rule of law become a reality?" "How can humanity cope with advances in robotics and other technologies that threaten to make current concepts of work obsolete?" and "How can the world become sufficiently governable to make it possible to enforce the environmental laws needed to make human life sustainable."[3]

Had it not been for our desires to echo the name of an ongoing conversation and to claim for our thoughts a central place in today's big picture, another title might have been chosen, since this chapter will not provide an answer to the question how to make the economy work for the poor, but only a starting point for seeking an answer: namely, the economy (defined in a narrow but nevertheless historically and intellectual important way) does not and will not work for the poor. If the "pure" economy defined in our narrow but nevertheless important way be identified with what Adam Smith considered natural, then it is not a Smithian natural harmony that is capable of working for the poor but rather what Gunnar Myrdal called a "created harmony."[4]

Our linguistic decision to work with a concept of economy reflecting a theoretical ideal of free competitive markets and an institutional practice of producing-for-sale-and-selling-for-profit, when coupled our thesis that the economy so conceived does not work for the poor, has an important practical consequence today. It implies inoculation against optimistic beliefs in structural reforms designed to move the really existing economy closer to an ideal of competitive markets. Although qualifications are needed (because, for example, a surge in investment prompted by such structural reforms will generate some benefits for some poor people) after all the qualifications are duly made, the inoculation will still prevent optimism regarding the overall effect of such an overall approach.

It also has an important methodological consequence. It orients research that seeks to explain why at some places and times (for example in Western Europe in the thirty glorious years after the end of World War II; or more recently in India and China[5]) wages have risen and/or inequality has declined. It orients such research away from attributing such benefits for the poor to the normal evolution of Smithian capitalism (as Simon Kuznets[6] tended to do) and toward analysing the deviations from pure economics that produced pro-poor outcomes (as Thomas Piketty recently has done).[7]

2. Economy and Community

Many of our further discussion of the economy thus narrowly conceived, including our further elaboration what we mean by our narrow definition of the economy and why we mean it, and also including sometimes for certain purposes switching to a broader definition of "the economy" closer to empirical reality, will draw on the practical experience of South Africa´s Community Work Programme.[8] It has a mandate from the South African cabinet ¨to use public employment to catalyse community development." Interweaving discussions of theoretical issues in economics with discussions of a programme on-the-ground whose name includes the magic word "community" and whose mandate includes the magic phrase "community development" will give us a golden opportunity to embed theory in history. We find that much of the history of economics can usefully be viewed in a light that illumines interactions of "community" and "economy."[9] It is sometimes useful to think of community as not-economy and economy as not-community; to identify community with reciprocity and redistribution, and to identify economy with buying and selling. It is also sometimes useful to conceptualize the issues in other ways: thinking of modern economic society as one kind of community among others, to think of a market as a community, or to think of a people constituting themselves as a community by adopting a common currency (as the Euro can be thought of as constitutive of the European Community).[10]

Our stance in favour of linguistic flexibility, making choices concerning the use of terms without renouncing the ability to also use them in other ways, is matched by a stance in favour of limitless institutional flexibility in the face of changing problems –limitless, that is, subject to a commitment to work together to solve the problems. This wider approach calling for organizing human cooperation and constantly reorganizing it we call "unbounded organization."[11] While economics is about one way (or several ways) to organize work and exchange, unbounded organization is about all possible ways to align human activity in the service of the goals of the societal enterprise.[12] We are generally sympathetic with earlier calls to integrate economics more completely into the social sciences.[13] We especially sympathize with those who view economics as a way (or ways) of thinking peculiar to a certain historical epoch and to certain cultural forms.[14]

We will now say a few introductory words about the idea of "community."[15] Maurice Blanchot wrote that we live "…at a time when even the ability to understand community seems to have been lost." [16] And then he asks a question, "But isn´t community outside intelligibility?" We answer Blanchot´s question with our question, "If today we find community unintelligible, is it not because we have come to identify the intelligible with the economic?"

The word "community" comes to English via Old French from the Latin *communitas*, which the Oxford English Dictionary tells us was a noun form of the adjective *communis*, meaning "common." The first, and the oldest extant, definition of the English word "community" given by the O.E.D. is: "the quality of appertaining to or being held by all in joint or common ownership."

A German intellectual tradition associated with the names of Ferdinand Tonnies[17] and Georg Simmel[18] builds a science of society around polar concepts of community (*Gemeinschaft*, literally things held in common) and modern economic society (*Gesellschaft*, literally a partnership). Historically *Gemeinschaft* came first. *Gesellschaft* arose in Europe mainly starting in the 16th century but with important antecedents earlier. *Gemeinschaft* was glued together by traditional sources of social cohesion, notably kinship and religion. *Gesellschaft* is built on individualism. *Gemeinschaft* tended to be romanticized as the normal and healthy solidarity typical of the species, and *Gesellschaft* denigrated as a modern (read English) aberration.

Max Weber gave the community/society distinction a methodological twist: In outlining conceptual foundations for a science of society he defined sociology as the study of social relations, and then defined social relations in a way that presupposes community. In his conceptual scheme there are no human social relationships without community in a certain sense of the term: namely, in the sense that human actions depend on mutual expectations. They presuppose social relationships such that people act knowing how others will react to their action. Weber gives the example of bicycle riders who keep to the right when passing each other expecting that others will do the same. Such patterns of mutual expectation Weber calls *Gemeinshandel.* It follows from his conceptual scheme that without community there is no humanity at all. Modern economic society (*Gesellschaft*) is necessarily a particular form of community and not a social form that supersedes community and leaves it behind.

Some economists, including Alfred Marshall and his student John Maynard Keynes, have used the phrase "the community" as a synonym for "the public."[19] Thus it is said that the price of a commodity often[20] rises when "the community" wants more of it and is able and willing to pay more to get it. Perhaps they have meant to suggest –as it would have been in line with Marshall and Keynes´ political sympathies to suggest—that even in a modern highly individualistic market society ideals of social cohesion persist. Perhaps they were dropping a subliminal hint that after all the purpose of the economy is to serve the community.

3. The Economy

Without pretending to have even begun to plumb the unfathomable depths of the meanings of "community," we now return to "economy." We will look at what Adam Smith meant by "natural" and very briefly at what later became known as "pure economics." These two terms "natural" and "pure" will help us explain what we mean by our admittedly narrow definition of "the economy" (the one we say will not work for the poor) and to characterize our definition as naming a great deal (although not all) of what people called "economists" think about. Robert Solow expressed a view that tends to justify the appropriateness of our procedure when he wrote: "Ever since Adam Smith economists have been distinguished from lesser mortals by their understanding of and –I think one has to say their admiration for—the efficiency, anonymity, and subtlety of decentralized competitive markets as instruments for the allocation of resources."[21]

For Adam Smith the landlord naturally extracts from the tenant (Smith has in mind farmers who rent land from landowners) as much money as the tenant can pay. The hard bargain is natural. "Rent, considered as the price paid for the use of land, is naturally the highest the tenant can afford to pay…." Smith admits that as an empirical matter there are some exceptions, but insists that the most the tenant can afford "…may still be considered as the natural rent of land, or the rent that it is naturally meant that land should for the most part be let."[22]

There is also a natural price of a commodity, a natural profit and a natural wage. In all cases the market price gravitates around and over time converges toward the natural price. Competition lowers prices to the costs of production. "When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.[23]" Smith adds, and repeats several times, that although there may be exceptions in practice, this is the necessary result wherever there is "perfect liberty."

Again: "The natural price, or the price of free competition … is the lowest which the sellers can commonly afford to take, and at the same time continue their business."[24]

Thus Smith describes as natural a world of competition in free markets, where efficiency is achieved by driving prices down to the lowest levels producers can endure. It remains to ask: "What is a market? And what is the overall role of markets in the economy?"

Let us go back to the beginning of Smith´s *Wealth of Nations*. The purpose of the book is to explain the nature and the causes of wealth. It begins with an extended invidious distinction: the savages do not practice the division of labour, and they do not have wealth. The civilized practice the division of labour to an ever-increasing degree and they do have wealth. Smith maintains that the division of labour is the first and primary cause of wealth. But the division of labour in turn supposes exchange; it supposes buying and selling, a practice "…common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts."[25] But exchange on a large scale can only take place when there is general acceptance of the rules of the game being played. The civilization that makes possible the division of labour, and therefore wealth, turns out to depend on the security of contracts and of property rights.[26]

Later Smith complements his claim that the division of labour causes wealth with the claim that the accumulation of capital also causes wealth.[27] Similar consequences follow.

Nobody has described more succinctly than Karl Marx the legal and ethical rules that constitute markets. Although his style is mocking and his intention is critique, Marx can be read as an accurate reporter describing natural justice as Smith and other early economists conceived it:

"The sphere of circulation, or of exchange of commodities, within which labour power is bought and sold, is in fact a true Eden of the natural rights of man. There reign only freedom, equality, property, and Bentham. Freedom! Because the buyer and seller of a commodity, say labour power for example, are not moved by anything but their own wills. They make a contract, as free persons, equal in rights. The contract is the form in which they give to a joint legal expression to their common will Equality! Because they relate to each other as owners of commodities, and they exchange equivalent for equivalent. Property! Because each disposes only of his own. Bentham! Because each is concerned only with his own self-interest.[28] The only force that brings them together and defines their relationship is their selfishness, their own advantage, their private interests. And just because each is concerned only with himself and neither has concern for the other, due to the pre-established harmony of things, or under the guidance of a most cunning providence, all work for the sake of each other's advantage, for the common good, for the general interest."[29]

4. The Dependence of the Economy on the Confidence of Investors and Entrepreneurs

We turn again to Marx, simplifying diagrams he uses in the second volume of *Capital* to drive home the dependence of the economy on the confidence of investors and entrepreneurs. Again there is nothing particularly Marxist about the underlying idea. A similar diagram could be drawn illustrating basic presuppositions of Adam Smith, John Maynard Keynes, or Milton Friedman. Marx provides a convenient picture for showing something everybody already knows: namely, to the extent that the institutions regarded by Smith and his followers as natural prevail, production is for sale and sale is for profit; therefore production is for profit; therefore when investors and entrepreneurs are not confident that they can expect profits, production slows down or stops.[30]

Gogo Karlina Mvhendana is 91 years old and lives in Belfast, South Africa. She has been blind since 2004 and has no one to take care of her. CWP participants built her a one-room home with donations from people in the area. They helped her get groceries and also linked her to an eye specialist in nearby Hazyview. After a cataract operation she has regained sight in one eye. "God has sent the CWP to assist me. I am so happy. I sometimes feel that I can walk to the river and go for a swim," she says.

M > C > ……..P ………… > C´ > M´

The diagram represents that the investor or entrepreneur begins with M, Money.

With the money M the capitalist buys the commodities C necessary for production, buying most notably the peculiar commodity that is the labour power of workers.

(Marx's German word translated as C "commodities" is *Waren,* a cognate of the English "wares" i.e. things made to be bought and sold. The word "wares" was famously employed by the innocent Simple Simon who said to the pie man "Let me taste your wares," unaware that in a mercantile economy the possession of money is a prerequisite to eating—a point later developed in greater detail by Amartya Sen in his study of famines.[31])

Next in the diagram the owner of the commodities purchased sets in motion the process of production: ……P…….

At the end of Production the same owner has become the owner of other wares. Now they have become commodities with a greater value, designated as C´

Finally comes the sale of C´ resulting in M´. The quantity of Money M´ earned by the sale of the commodities produced is greater than M, the quantity of Money initially invested.

This graphic representation[32] of the economy implies staggering consequences.[33] We recommend keeping the dependence of the economy on the confidence of investors in mind permanently and constantly.[34] We briefly mention a few staggering consequences now. It should be borne in mind that they only follow to the extent that ¨the economy¨ (natural and pure) accurately represents human practices and institutions.

Phumi Bombo is a teacher at the Gobelha primary school in Umthwalume in the South African province of KwaZulu-Natal. "Since we've had teacher assistants from CWP there is yet to be a fatal accident that involves a child from our school. The change is visible and the learners are taken care of. When I am late or cannot come to school for whatever reason, I do so with the knowledge and confidence that I have left my learners with somebody who is capable of holding the reigns until I can take over.

Money is advanced for the purpose of producing some good or service to sell at a profit.[35] If money-seeking-profit is not advanced, nothing happens.[36] The aim of the game is to make the difference M' minus M as large as possible. For that to happen the difference C' minus C must be as large as possible; in other words the aim is to maximize the difference between the selling price of the goods and the cost of making them. Costs must be kept down. Wages are a cost; therefore the wage bill must be kept down, both by limiting hires and by limiting salaries. If costs rise to the point where the spread C' minus C shrinks toward zero, causing the spread M' minus M to shrink toward zero, then no money-seeking-profit will be advanced. In that case there will be no employment and no production, and consequently (since nothing will be produced) no consumption.

Looking again at Marx's diagram, notice that both the left-hand side (the beginning) and the right-hand side (the end) consist of sales. (Remember that we said earlier that is sometimes useful to think of economy as about sales, and of community as about reciprocity and redistribution.) In the beginning the capitalist *buys* the labour-power and other inputs needed to set in motion the production process. In the end the capitalist *sells* the products. The legal rules that constitute exchange in markets must be in force or the process will not work.[37] The most important of these are expressed in the Latin legal maxims *suum cuique* (to each his own) and *pacta sunt servanda* (contracts are to be honoured). It follows that social change projects must be thought through very carefully because any measures that shake confidence in these basic legal principles will (other things being equal) slow or stop production. There also follows the conclusion, or at least the suggestion, that one way to work toward a more governable and more equitable society, one with a better mix of institutions, less supinely dependent on one institution, is to do community development.

5. Pure Economics

Nearly a century after Smith published the *Wealth of Nations* and nearly a decade after Marx published the first volume of *Capital*, Leon Walras laid the foundations of what has become known as pure economics or general equilibrium analysis. We will discuss his ideas in detail later as they relate to proposals to evaluate the Community Work Programme with techniques derived from Walrasian and Paretian principles. Here we simply note that Walrasian pure economy is the same as Smithian natural economy with the difference that Walras makes no pretence of doing empirical work to discover the facts of the world. Smith says his results would obtain if there were perfect liberty. Walras demonstrates that Smith was right by calculating what would happen under conditions of perfect liberty. Walras conducts a purely mathematical exercise.[38] He concludes that if self-interested actors engage in free competition the end result (provided certain other conditions are met) will be market-clearing sales (by definition this is equilibrium), efficient allocation of all factors of production, full employment, maximum welfare[39] (i.e. what would come to be called after Walras' successor in the chair of political economy at Lausanne Wilfredo Pareto a Pareto optimum[40]) and (a key point for further discussion later) no profit (in Walras' French business would be conducted *sans perte ni benefice*).[41] To the extent that empirical reality does not conform to his mathematical demonstration of the way to maximize welfare he frankly advocates changing empirical reality. [42]

6. The economy does not work for the poor: low wages

Marx agrees with Smith, in the sense that when the two look at commodity exchange in an economy they see the same practices governed by the same norms; Smith also agrees with Marx, in the sense that Smith also finds that a consequence of market exchange is, by and large, the misery of the wage-earner.[43] That wages will be low follows from Smith's principle that prices in general, including wages (i.e. the price of labour) gravitate around and tend to converge to the natural price.[44] The natural price is the cost of production. Competition in free markets tends to lower the prices sellers can charge buyers down toward the cost of production of the item sold.

Smith and other classical economists taught that in the case of skilled and educated workers, the cost of production of a worker included the cost of acquiring skills and education. But in the case of 18th and early 19th century European ordinary workers (the kind of worker most observed and most discussed by the classical economists ---Smith, Ricardo, Malthus, and Marx, and even more so by their French contemporaries and predecessors-- the principal component of the cost of production of a worker was the cost of food. Smith wrote, "…the demand for men, like that for any commodity, necessarily regulates the production of men; quickens it when it advances too slowly and stops it when it advances too fast. It is this demand which regulates and determines the state of propagation in all the different countries of the world...."[45] Lack of market demand for labour "stops" its production because children die, or are never born, and sometimes adults die, because wages do not suffice to buy sufficient food. David Ricardo makes a similar point with more explicit language: "Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution."[46]

Notice carefully the reason why wages are low: It is that free competitive markets drive down the price of labour to its cost of production; that is to say first and foremost to the price of food. When supply exceeds demand production stops. It stops because working class families cannot sell more labour power to buy more food. Unemployed workers cannot exist for long because lack of employment means lack of money which means lack of food which means life cannot continue. When we summarize a main result of pure free markets with the two words "low wages," we refer also to Ricardo´s expectation that poor people whose services could not be sold in the labour market would cease to exist. This is an expectation that translates in twenty first century terms (since today the poor do not cease to exist but somehow go on living) into teeming masses that get by on government grants, charity, and/or crime.

The ideas of Smith and Ricardo help us understand much of what we see on the streets of crowded cities and in depressed rural areas in our own times. They are also ideas that still echo in academic economics. Milton Friedman, for example, calls for “price flexibility in correcting unemployment,”[47] i.e. for low wages. But our main point is not that today´s neoliberals use basically the same ideas long ago used by Smith and Ricardo. Our main point is that such ideas are valid whoever uses them. They are made valid by the constitutive rules of the institutional framework.[48] To the extent that pure competitive markets prevail, and in the absence of countervailing factors, life for the poor really will be precarious and wages really will be low.

Phindile Ntshangase is the Njoko community garden supervisor in Nongoma. She is an orphan looking after four siblings. “When my mom died in 2008 I thought it was finished for my family. I felt helpless. I am really happy now that I am able to care for my siblings and myself. This has brought hope into my life. Every month I am saving R200 because I want to continue my nursing studies. As long as I am employed I will not be helpless.”

7. The Economy does not work for the poor: dissolving community

We have been discussing the poor and the economy. Let us now turn to saying something about the poor and the community. We want to suggest not only that the economy does not work for the poor in the sense that in the absence of countervailing factors wages fall to low levels. We also want to suggest that economic society as a form of society undermines traditional forms of security associated with the word “community.”

Michel Aglietta writes that capitalism is “…radically opposed to the unification of so many traditional societies by way of myth, custom, and a tight network of interpersonal obligations, by a solidarity of community and neighbourhood. It is because capitalism does not simply utilize in its production workers who still continue to live according to the rules of a traditional community, but penetrates into their whole mode of life, that it necessarily breaks up civil society and recombines it according to the logic of abstract classification and stratification.”[49]

We will now go back again to Smith to discuss some issues regarding traditional ideals of community as they relate to the beginnings of economic theory.

Consider this famous passage from *The Wealth of Nations*: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity, but to their self-love and never talk to them of our own necessities but of their advantages."[50]

Here and elsewhere Smith is plainly aware that economic ideology has competitors. The competitors do address humanity. They do talk of necessities. As Karl Polanyi showed a little less than two centuries later societies with non-economic ideologies tend to be organized by norms of reciprocity and redistribution.

Smith feels a need to make arguments to discredit traditional notions like *ubuntu* and love of neighbour. He takes the trouble to answer people who believe in old community norms that make the members of communities responsible for meeting each other´s needs. In his earlier *Theory of the Moral Sentiments* (1759) Smith went to great pains to show that contrary to the teachings of most religions we are not after all our brother´s (or sister´s) keeper, but rather ordained by divine providence to pursue our own self-interest. The idea that one person´s necessity implies a duty to aid binding upon other members of her or his clan or tribe; and the idea that food security, security in old age, and other kinds of security can be achieved by reciprocity and redistribution are old and wise ideas.[51] They do not die easily. They make a comeback in the twentieth century in the welfare state.

We will return to these issues. Now, for the sake of brevity, instead of a long argument we will offer only a short thought-exercise. For the sake of simplicity we will indulge in romanticism. Although we do not mention them any negatives in this imaginary exercise, we are well aware that some of the facts would have to be reckoned on the debit side the ledger if one were to do an evaluation of a real traditional community.

Here is the thought-exercise:

Imagine. Imagine we are having a beer in a tuck shop[52] in Alex.[53] Now imagine that we are at exactly the same location on the surface of the earth four hundred years earlier. We notice that now (in our new now, the one four hundred years prior to the time we conventionally call now) the human population is quite small; it seems lost and insignificant in the vast immensity of the natural landscape. Money plays a small role in our lives if we use it at all. Although food consumption in terms of calories per day is comparable to what it will be for the poor people four hundred years later, the future-people (not just any future-people but specifically the poor ones in the tuck shop in Alex) will have lost many food-producing and food-gathering skills; they will spend more hours a day on the whole trying to eke out a living by hook or by crook and will enjoy less leisure.[54] The future-people will have lost their traditional culture and identity.[55] They will no longer live securely in extended families and clans where "children of the same homestead will share even the head of a locust." [56] They will see wealth but will not touch it. Humiliation will be the daily diet of their souls.[57] Drinking, fighting, and promiscuity will be their constant temptations. The future people will live far from the lands of their ancestors, for they will have left their ancestral lands to move to the city to look for work, and many of them will not have found it. That is a strange concept, they say, "looking for work and not finding it." "We cannot understand it. How can one not find work when all of nature invites us to do something useful for ourselves and our kin? We cannot grasp the concept, but no doubt the future-people who will have personal experience of it in daily life will know what it means."

8. Summary and Repetition

For the sake of emphasis we summarize and repeat some of the same ideas.

We have been implying that the phrase "the economy" is appropriately glossed as human practice governed by the constitutive rules[58] of commodity exchange, namely[59] freedom, formal equality, property, contract, and self-interest. These were called principles of natural liberty by Smith. They were assumed as givens of pure economics by Walras. [60] These rules of the game make it inevitable, or nearly so, that the logic guiding the system and the dynamic driving the system will be profit, in other words capital accumulation.[61] Notice that this does not imply that there should be no profit or no capital accumulation. It simply says that the system is what it is.

Assuming with Adam Smith that natural liberty is inseparable from free competitive markets, these rules of the game make it inevitable, or nearly so, that wages will be low. The economy so structured is not likely to work for the poor.

The objective of working for the poor or any social or ecological objective --- indeed any objective whatever --is likely to clash with the economy's overriding imperative. The economy's overriding imperative is to keep alive the expectation of profits, because the expectation of profits is what drives it and makes it move. (Its overriding imperative, expectation of profits, was named "confidence" by John Maynard Keynes.[62])

Nongenisolo Madlokazi lives in the rural village of Upper Mnyameni in Keiskammahoek in Eastern Cape. She is the elected CWP supervisor for her village. Of seven people in her household, only one is working. "The CWP has helped to chase away the hunger. In my house there was no furniture and now I have furniture and there is food in the house. It has also warmed my heart because I have got respect in the village because of this project."

It would follow that when in history there have been economies that have reliably worked for the poor (and that if there are to be in the future economies that reliably work for the poor) there must have been (and in a happy future there must be) *other causes at work*. Those other causes might include monopoly and oligopoly. They might include minimum wage laws and labour unions. They might include full employment produced by the government acting as employer of last resort. We will discuss in detail such social-democratic possibilities in a later chapter on The Swedish Model.

For now, the point we most want to make is that ways to make the economy work for the poor might well consist of taking measures precisely contrary to those Smith recommends. Companies might be able to pay high wages (and, to briefly mention another dimension of the *problematique*, able to do research and development on green technologies) precisely because they are *not* competing in the free markets that Adam Smith thought were natural. Minimum wages and labour unions might raise wages precisely because *unlike* Ricardo they *do not* treat labour as a commodity bought and sold like any other commodity.

Our "unbounded" approach is basically very simple: Do not set any *a priori* limits to social imagination. Do what works. But although basically simple there is a guiding ideal: align with the common good. Work together across sectors to solve the problems, doing whatever it takes. And there is a methodological implication that is perhaps not at first obvious, but which might lead to disqualifying the majority of articles published in professional economics journals: Do not limit yourself to making models to fit the data, ignoring the larger question what rules constitute the institutions. Consider what would be possible if the rules were different. Consider what would happen if there were more community and less economy. Positively, "We now use the term 'unbounded organisation' to refer to inter-sectoral collaboration, individuals linking between their 'own' organisations, coalition-building, cross-cultural activities and involvement by all segments of society."[63]

Our initial answer to the question how to make the economy work for the poor is a negative one. "The economy," in a historically and intellectually important sense of the term, is *not* going to work for the poor. As Amartya Sen has wisely written capitalism can generate mean streets and stunted lives unless it is restrained and complemented by other institutions-- in many cases by nonmarket institutions.[64]

Not surprisingly, as a matter of intellectual history, thinkers who have advocated pure free markets have also advocated severe punishments for theft. Since pure free markets do not work for the poor, it is necessary to keep the poor down by force.[65]

9. Separate the Right to Live from the Duty to Sell

Having already presented some reasons for believing our negative thesis that the economy normally does *not* work for the poor, we turn now to making a small introductory argument for our positive proposal. Our positive proposal is to employ the concept of unbounded organization generally in thinking about how to adjust culture (i.e. socially created reality) to its physical functions, and specifically in thinking about how to make the economy work for the poor. We will make our introductory pitch by illustrating the general idea of unbounded organization with a more specific idea that exemplifies it. The more specific idea is: Separate the right to live from the necessity to sell.

We have been using some terminology from economics. Now we shall shift to the somewhat different terminology of human rights.[66] We will bring together these different realms of discourse with a proposition about the kind of economy needed to honour commitments to human rights: It cannot be "the economy" in the narrow and "pure" meaning of the phrase we have been critiquing. It must be an economy where it is not necessary to sell something (labour-power or something else) in order to enjoy the right to live.

There is an international consensus solemnly expressed in a series of multilateral treaties signed by the authorized representatives of almost all nations [67]affirming that every human being has civil, political, economic, social and cultural rights.[68] Underlying all these rights is the right to live.[69]

In order to live every human being must satisfy certain basic necessities, such as food, water, housing, and health care services.

Since the earliest beginnings of the human species diverse cultures have prescribed that human beings in one form or another have duties to contribute to sustaining the lives of others.[70] Commonly social norms provide that humans have a duty to work. Those excused from the duty to work have generally been an upper class, not a lower class. But there cannot be a duty to sell. A sale always requires the voluntary agreement of a buyer. Because there cannot be a social norm obliging buyers to buy, there cannot be a social norm obliging sellers to sell.

In mercantile societies like our own people usually satisfy their basic necessities by buying what they need with money. They get the money by selling. Often what they sell is their labour-power.

In the individualistic talk typical of our kind of society, it is said that "people should stand on their own two feet." They should not rely on someone else to meet their basic needs. Any move to guarantee meeting human needs is denounced as "collectivism." Collectivism is said to deny people their dignity and independence, to demean them by treating them as wards of the state, or as objects of charity rather than subjects of freedom.

A moment's reflection shows that in such talk "standing on your own two feet" means "getting your own money." "Getting your own money" means selling something. But a sale can never be performed alone. It always requires the participation of at least one other person or organization, namely the buyer. Therefore although there can be a duty to work, there can be no duty to sell.

Thereby hangs a tale of cruelty.[71]

10. A Digression Concerning the Philosophy of the Social Sciences

Notice what we are doing. We are relativizing commodity exchange. We are relativizing the institutional frame[72] of economics. We are, so to speak, stepping out of our culture, moving backward, and seeing it from a distance as one culture among several or among many; as we might in our imagination move to a position in outer space where we could see the planet earth as one among several[73] planets, or move still farther out to see our own galaxy as one of many galaxies.[74] In our minds we are breaking free of the bounds of the modern liberal institutional framework of economic science.

We see this book as part of a transition from bounded social sciences whose categories are derived from liberal institutions,[75] to an unbounded social science whose categories are unlimited. We draw inspiration from the cultural/historical approach to psychology pioneered by Lev Vygotsky.[76] We find ourselves sympathetic with the views of the anthropologist James Boggs. [77]

Boggs works with "culture" somewhat as Weber works with *Gemeinschaft*. We mentioned above that in Weber's methodology there has to be community before there can be any human action at all because by definition human action supposes common understandings. Human action is social. It presupposes expectations about how others will interpret and react. Bicyclists in Weber's Germany passed each other on the right presupposing a conventional norm. We can make the same point using the hard-to-define but indispensable concept of "culture."

In Boggs essay on the concept of culture, he notes that it has for many years been a flagship of anthropology as a discipline. It plays a role in anthropology similar to the role of the theory of evolution in the biological sciences. Culture can be thought of as the ability to transmit innovations better adapted to the environment from one generation to another through upbringing.

Culture gives the human species an evolutionary advantage over species that can only innovate by mutation and natural selection.

In the twenty first century "culture" can be regarded as an overarching theoretical framework for the social sciences replacing the previously hegemonic liberal doctrine of human order inherited from the Enlightenment, typified by Adam Smith's "natural liberty." Expressing Boggs' idea in our terminology: Bounded psychology, bounded economics, bounded politics, and so on, are no longer tenable. The cat is out of the bag. The constitutive rules of commodity exchange are neither necessary for human life nor sufficient nor universal nor always desirable.[78] In Weber's terminology, *Gesellschaft* is a particular kind of *Gemeinschaft*. In Boggs' terminology, liberal economics is part and parcel of a particular culture. In both cases 18th century European thinkers like Smith took to be natural social norms that were conventional.[79]

The scientific success and political consequences of the concept of "culture" help to explain why it is now under attack. It has relativized the established categories of liberal social science. It has challenged the ideologies legitimating the institutions of the global economy. Boggs summarizes and responds to a series of contemporary attacks "from the left" e.g. those that fault the concept for inevitably implying hierarchy, and a series of contemporary attacks "from the right" e.g. those that see the concept of culture as undermining the very possibility of rational science and the very possibility of ethics.

Agnes Moswale is a coordinator of the Bokfontein CWP. "When I started CWP I was a participant and couldn't read or write. I used to sign with an X and I hated it. At our site participants attend ABET[80] classes. I attended the classes and worked hard and was promoted. As a coordinator I must write a weekly report on the work that is done by my participants. I find that I can do this as well as manage my registers. If it wasn't for CWP I would not be where I am now."

<u>11. It is not possible for Selling to be a Duty because there are not enough Buyers (Keynes' Liquidity Preference)</u>

We return now to why full economic and social rights can only be honoured in a society where the right to live is separated from the necessity to find a buyer to buy what one has to sell. We find another reason why selling cannot possibly be a duty adumbrated in John Maynard Keynes' concept of liquidity preference. That concept that implies that because money is withheld from circulation labour-power and other commodities that people want or need to sell often remain unsold. It is one thing to say everyone should do useful work; it is quite another thing to say everyone must find a buyer who can and will pay them money for doing it.

To declare that there is merit and insight in Keynes today is to step into a minefield. The neoliberal world order we now live in is powerfully defended by a vast literature dissecting and refuting the tenets of the Age of Keynes that preceded it. [81] Milton Friedman for example carried out meticulous empirical examinations of hypotheses derived from Keynes' liquidity preference theory and found, for example, that contrary to Keynes' expectations people often save about the same proportion of their incomes as their incomes go up, rather than larger proportions as Keynes had expected.[82]

Elsewhere Friedman writes: "One major strand of Keynesian analysis traces the implications of a particular empirical assumption about the demand for money-that its elasticity with respect to interest rates is very high, approaching infinity (in Keynes' own terms, liquidity preference is, if not absolute, approximately so). Such a situation would have very far-reaching implications: it would greatly limit the effectiveness of price flexibility in correcting unemployment; it would render changes in the quantity of money produced by open market operations impotent to affect economic conditions; it would make the effect of government deficits on income and employment independent of the way in which the deficits are financed. By now, there is wide agreement that conditions of near-absolute liquidity preference, if they occur at all, are very rare, so that this strand of Keynesian analysis has receded to the status of a theoretical curiosity."[83]

Cautiously treading the minefield, we do not defend Keynesian theory as a source of testable hypotheses that can be confirmed in the world as it (unfortunately) is. We do not believe that a rematch of the academic prize fight in which the Right Wing Economist defeated the Centre Left Economist would produce a different result. Raising wages really does cost jobs. Raising taxes on business really does make a nation less competitive in a global economy where capital is highly mobile. Redistribution really does stifle growth. The world (unfortunately) works that way. To raise wages, to establish national and regional democratic sovereignty in the face of global economic power, and to diminish inequality it is necessary to think outside the box. The box image refers simultaneously to the legal framework that constitutes markets and to the intellectual framework patterned after it that constitutes orthodox economic theory.[84]

It is because Keynes helps us to move toward thinking outside the box that we revisit his central concept of liquidity preference.

The liquidity preference is a preference for holding cash (or assets similar to cash) instead of spending the cash to buy something.[85] Keynes gives a list of eight "psychological" reasons why people often prefer having money to spending it. They are:

1. To build up a reserve against unforeseen contingencies.
2. To build up a reserve for foreseen future needs, such as old age, paying for the education of children.
3. To build up funds to enjoy consumption at a later date.
4. To enjoy a gradually increasing expenditure, i.e. instead of taking all one's enjoyment now as.
5. To enjoy a sense of independence.
6. To secure a flexible sum of money for carrying out business projects.
7. To bequeath a fortune.
8. To satisfy pure miserliness. [86]

Keynes drew up additional lists of motives for not spending money that apply to central and local government and to business enterprises.[87]

The fact that people have what Keynes calls liquidity preferences implies (we and others claim) that some goods and services remain unsold (the ones that would have been sold if people had had no liquidity preferences and therefore had spent their money buying them). [88]

Consider a way to look at three time periods.

At Time One the population as a whole has a certain income X. It is the proceeds from everything they have sold.

At Time Two the population as a whole does not spend all of X. Because of liquidity preferences it spends some smaller amount X – Y.

Therefore, at Time Three the income of the population cannot possibly be X again. Once again their income is the proceeds from everything they have sold. But since the total spent is X – Y, the total income derived from sales cannot be more than X – Y.

Therefore, looking at the matter from this viewpoint, there is a problem. Purchasing power at Time Three derived from sales at Time Two must be less than X. Therefore for at least some sellers it must be impossible to sell at Time Three for lack of buyers. Although many solutions have been offered for this problem, our opinion is that none of them are fully satisfactory -- short of the kind of solution the Community Work Programme exemplifies, one that is not market-based at all but instead empowers people to do useful work and earn a livelihood without selling in markets.

Sizwe Nojkile is a participant at the Kagiso CWP. "As for me if I was not a participant in this project I would be in jail for stealing, in particular cell phones. CWP has helped me a lot because come month end, I know I have some money in my bank account that I have worked for, not a hand-out," he says.

To see the inherent difficulty in employing everybody in market-based employment still more clearly it is useful to stand in the light of an accounting identity central to Keynes' thought:

Total Sales = Total Purchases

An individual may have more sales than purchases (and accumulate cash) or more purchases than sales (accumulating debt) but if one sums up over a whole society first all of the sales and then all of the purchases, the two totals must be equal.[89] This is true because what is a sale from the seller's point of view is a purchase from the buyer's point of view. It is the same transaction.

As soon as we notice this accounting identity we smell a rat. If the rat could talk it would tell us that a community that relies too much on the logic of commodity exchange to meet the needs of its people is headed for trouble. Switching the terminology slightly (saying "receivables" instead of "sales" and "payables" instead of "purchases") we suddenly see a gaping pit where before we saw only normality: Every business aims to have -- indeed to survive long it must have-- receivables greater than payables. But

Total Receivables = Total Payables

because what is a receivable from the seller's viewpoint is a payable from the buyer's viewpoint. It is the same outstanding obligation. A society composed entirely of successful businesses, where every business regularly takes in more than it pays out, is an impossibility.

At this point the reader may well already have a sense of where we are going. We are going to a plural economy with diverse logics where what is not accomplished by one logic can be accomplished by another. When one set of institutions falters, others take up the slack. The overriding logic calls for a fully nurturant society that does whatever it takes –inventing, pruning, discarding, and reinventing institutions—to meet everyone´s needs in harmony with the natural environment.

Like the consequences the institutional fact that production is for profit, those of Keynes' concept of liquidity preference are staggering. They change everything. They imply that one can no longer repose full confidence in the precept of the Washington Consensus that the best way to help the poor is to improve the quality of what the poor have to sell in the market, i.e. their labour-power, i.e. themselves, by improving health and education. They imply that no amount of education, no amount of skills-training, no amount of encouraging the poor to go entrepreneurial and set up their own enterprises, no amount of advice on how to tap into new markets, in short nothing that makes the poor more capable of producing and marketing goods and services will suffice to end poverty. Let Keynes speak: "The celebrated *optimism* of traditional economic theory, which has led to economists being looked upon as Candides, who, having left this world for the cultivation of their gardens, teach that all is for the best in this best of all possible worlds, provided of course we let well alone, is also to be traced, I think, to their having neglected to take account of the drag on prosperity that can be exercised by an insufficiency of effective demand."[90]

Notice too that Keynes answers a possible objection to our use of the classical concept that prices -- including wages as the prices of labour—are determined fundamentally and in the long run by production costs. It can be objected that production-cost theories of wages and prices are obsolete. Today it is demand-side utility-maximizing theories that rule the roost. Wages are said to be fixed in a free market by marginal productivity, and ultimately by the contribution of the worker to the satisfaction of the consumer, quite apart from how much it may or may not cost the worker´s family to produce and maintain her or him. [91] Keynes shows that the conclusion that the basic pure rules of the game do *not* work for the poor remains even when the emphasis is shifted from supply-side analysis to demand-side analysis.

12. Staggering Consequences of the Scarcity of Buyers

For us Keynes provides a valuable theoretical lens for interpreting what we see every day on the streets. His contribution is not so much providing an accurate theoretical account of how society works. It is more in leading us toward seeing that it often does not work at all. Sales may and not happen. Over-reliance on sales will lead to trouble sooner or later, one way or another, because sales require buyers and there may and may not be enough buyers.

Keynes' contributions lead us toward, but not to, seeing a fundamental problem, as the tip of an iceberg leads us toward, but not to, seeing a much larger mass of ice under the water. The fundamental fact (the mass of ice under the water) limiting what can be accomplished within the bounds of the logic of commodity exchange is that the constitutive rules of our type of society (unlike those of a society organized by kinship or by some other form of reciprocal obligation) leave each individual free to buy or not buy, sell or not sell.

In the words of Michel Aglietta: "But there is no reason why purchases and sales should always interconnect. The metamorphoses of value can be halted by an interruption in buying and selling. Someone who has sold, in fact, and thereby acquired money, is in possession of a general and permanent purchasing power which does not require him to buy immediately. Money can make an exit from commodity circulation and exist as a *store of value.*"[92]

We see no reason to believe that in a society like ours every seller who needs to sell something in order to live will find a buyer.[93] We need to separate the right to live from the duty to sell because even with all the good will in the world not all those who need to sell something to make a living are finding buyers. There is a fundamental difference between an unbounded society devoted to mobilizing resources to meet needs, where institutions are organized and re-organized in an unceasing process of adjustment of culture to physical function, on the one hand; and on the other hand a bounded society with rigid institutions where human needs are met if and only if someone makes a profit by meeting them.

We defer further discussion of objections to Keynes, and of objections to our warning against over-reliance on sales, to a later chapter on Say's Law. Say's Law holds, roughly speaking, contrary to common sense and contrary to Keynes, that under normal circumstances everybody who needs to sell something to make a living will find a buyer to buy what she or he has to sell.

14. <u>Community Service for Pay</u>

Having already concluded that a pure capitalist economy, governed by the rules that Adam Smith called "natural liberty" will not work for the poor, we further conclude that some people who need to sell something to make a living will fail to find buyers in the marketplace. Therefore, an important part of the green harmony that must be created to meet human needs reliably and sustainably is the provision of suitable non-market livelihoods.

The non-market community service for pay of the Community Work Programme is a valid part of the mix in a mixed economy.

But this further conclusion, while it solves certain problems, raises others. It raises the practical difficulties inherent in trying to make non-market livelihoods a living reality. For centuries humanity has relied mainly on sales in markets to validate that labour is socially necessary, and on lack of sales in markets to correct the misallocation of resources. If today we are painfully aware of the limitations of market-based employment and we are more and more supplementing commodified labour with decommodified labour, we must emphasize other ways to distinguish work that is useful from work that is not useful.

We will be discussing later some ways CWP and other public employment programmes deal with the practical difficulties of making non-market livelihoods a living reality. But now we can already affirm that separating the right to live from the necessity of selling in markets is possible. South Africa's Community Work Programme is a fact.[94] Its participants are not only not *required* to sell; they are not *allowed* to sell anything they produce on CWP time or with CWP assets. An official document states: "This approach uses public employment as a catalyst for community development. 'Useful work' is prioritised at the local level, through structures such as ward committees and local development fora. This helps energise such structures, and deepens the mechanisms for local participation in setting development priorities."[95]

CWP and the larger EPWP (Expanded Public Works Programme) of which CWP is a part are well on their way to reaching the goal of providing useful regular paid work for a million participants. This is a fact too big to ignore. It exists. If it exists it must be possible.

Endnotes

[1] The doctrine that there is a close link between socioeconomic development and conflict prevention has been called "the Brazilian doctrine" and identified with that nation's positions on international issues. Giorgio Romano Schutte, "Neo-developmentalism and the Search for a New International Insertion," Austral: Brazilian Journal of Strategy and International Relations. Volume 1 (2012) pp. 59-98. p. 72.

[2] In their book The Spirit Level: Why More Equal Societies Almost Always Do Better London Allan Lane 2009 authors Richard Wilkinson and Kate Pickett provide evidence that more equal societies tend to do better on measures of physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage pregnancies, and child well-being.

[3] That the world economy, and consequently the world, are not now governable and that for this reason the biosphere cannot be protected is argued by Joel Novek and Karen Kampen. "Sustainable or Unsustainable Development: an Analysis of an Environmental Controversy." Canadian Journal of

Sociology. Vol. 17 (1992). pp. 249-273. The authors write at p. 250. "...the relationship between economic expansion and environmental protection remains fundamentally contradictory." This argument is further elaborated by many authors including Michael Redclift, Sustainable Development: Exploring the Contradictions. London: Methuen, 1987.

[4] Gunnar Myrdal, *Beyond the Welfare State.* New Haven: Yale University Press, 1956.

[5] See Jean Dreze and Amartya Sen, *An Uncertain Glory: India and its Contradictions.* Princeton: Princeton University Press, 2013; Amartya Sen and Jean Dreze, *India: Economic Development and Social Opportunity* (This book includes extensive discussions of China) Delhi: Oxford UniversityPress, 1996. Apart from identifying causes of progress against poverty, much depends on how progress is measured, for example whether there is real improvement in quality of life, or only monetization leading to higher scores on some standard economic measures. See the chapter on Manmohan Singh in Howard Richards and Joanna Swanger, *Gandhi and the Future of Economics.* Lake Oswego OR: World Dignity University Press, 2012. Much also depends on how one interprets the New International Division of Labour which has tended to move industry away from high wage countries and to low wage countries. See Jeffrey Winters, *Power in Motion, Capital Mobility and the Indonesian State.* Ithaca: Cornell University Press, 1996; Howard Richards, *Understanding the Global Economy.* Santa Barbara: Peace Education Books, 2004.

[6] For example, Simon Kuznets, Quantitative Aspects of the Economic Growth of Nations IV: Distribution of Income by Factor Shares, *Economic Development and Cultural Change.* Volume 7 (1959) pp. 1-100.

[7] Thomas Piketty, *Capital in the Twenty First Century.* Cambridge MA: Belknap Press of Harvard University, 2014. (original French edition 2013)

[8] An introduction to the Community Works Programme can be found on the website of the International Labour Organization, ILO, www.ilo.org accessed 29 January 2013. In the subsection "Features" of the section "ILO Newsroom" an article dated 27 July 2011 is titled, "South Africa and the ILO team up to promote public employment and community work programmes." It begins, "With an official unemployment rate of 25 per cent, the South African government knows that employment creation cannot be left to the private sector alone. There is a huge gap between the jobs that are needed and the jobs that the market can generate. The State has the responsibility to fill that gap."

[9] A preliminary notion of the sort of historical account we have in mind could be expressed by paraphrasing Karl Polanyi to say that in earlier times economy tended to be embedded in community, while in later times economy took on a life of its own disembedded from community. Karl Polanyi, *The Great Transformation.* New York: Farrar and Rinehart, 1944. Further, historical and anthropological studies like those of Polanyi and his followers show us the great variety of human material practices in the past and thereby prepare us to embrace unbounded organization as a suitable philosophy for the future.

[10] Pierre Calame suggests that people define themselves as a community when they adopt a common currency. Pierre Calame, *Essai sur l'oeconomie.* Paris: Editions Charles Leopold Meyer, 2009.

[11] The concept of unbounded organization has previously been developed in Gavin Andersson, Unbounded Organization: Embracing the Societal Enterprise. Pretoria: University of South Africa Press, 2015; Gavin Andersson, "Looking Back to the Future: Conversations on Unbounded Organisation," Dark Roast Occasional Papers Series 12. Cape Town: Islandla Institute, 2003 (available at www.islandla.org.za, accessed 29 January 2013), revised and reprinted as a chapter in E. Pieterse and F. Meintjes (eds.) Voices of the Transition: the Politics, Poetics and Practice of Development. Johannesburg: Heinemann, 2004: Gavin Andersson and Howard Richards, "Bounded and Unbounded Organisation," Africanus Volume 42 (2012) pp. 98-119; Howard Richards and Gavin Andersson, "Neville Alexander, Unbounded Organisation and the Future of Socialism," Education as Change Vol.17 (2013), pp.229-242. Howard Richards, "Unbounded Organization and the Unbounded University Curriculum," in P.Inman and D. Robinson (eds.) University Engagement and Environmental Sustainability Manchester UK: Manchester University Press, 2014. Videotaped discussions of the concept of unbounded organization are available on You Tube and on the websites www.unboundedorganization.org, www.humiliationstudies.org and www.seriti.org.za

[12] We see the relationship of unbounded organization to economics as a leap into abstraction expanding what can be thought. See Gaston Bachelard, The New Scientific Spirit. Boston: Beacon Press, 1985. (French original 1934)

[13] Among many such calls a recent one is contained in Thomas Piketty, Capital in the Twenty-First Century. Cambridge MA: Belknap Press of Harvard University, 2014. Piketty says his work is as much a work of history as it is a work of economics.

[14] See Louis Dumont, From Mandeville to Marx: the Genesis and Triumph of Economic Ideology. Chicago: University of Chicago Press, 1977; Albert Hirschmann, The Passions and the Interests.

Princeton: Princeton University Press, 1977; Robert Heilbroner, The Making of Economic Society. Englewood Cliffs NJ: Prentice-Hall, 1963. Alfred Marshall in his Principles of Economics (8th edition, London, Macmillan, 1920) devotes his first pages to explaining how economics as a science could not come into existence until the institutions it studies came into existence. Marshall´s pupil John Maynard Keynes remarks that his rather pessimistic conclusions are valid only within the presently existing institutional framework, and would not necessarily be valid in a different one. General Theory of Employment, Interest and Money. London: Macmillan, 1936. P. 254.

[15] See David Minar and Scott Greer, *The Concept of Community.* New Brunswick: Transaction Publishers, 1969; Amitai Etzioni, Creating Good Communities and Good Societies.*Contemporary Sociology*, Vol. 29 (2000), pp. 188-195. Etzioni replies to the objection that the meaning of "community" has become so vague that the word is useless.

[16] Maurice Blanchot, *The Unavowable Community.* Barrytown NY: Station Hill Press, 1998. p. 1.

[17] Ferdinand Tonnies, *Community and Society.* New Brunswick: Transaction Publishers, 1988.(original German edition 1887, revised German edition 1912)

[18] David Frisby, *Georg Simmel* London: Routledge, 2002. Simmel is perhaps best known for his "philosophy of money." .

[19] "The community" is the general public in Marshall's standard *Principles of Economics* that went through many editions and formed much of the basis for more recent economics when Paul Samuelson devoted his 1928 doctoral dissertation to rewriting it in mathematical language, and also in Keynes' *General Theory.* Contrast the more normal usage of Milton Friedman and Anna Schwartz in their *Monetary History of the United States 1867-1960* where they wrote "the public" where Marshall and Keynes wrote "the community," for example in discussing how much money the public chooses to hold as currency instead of as bank deposits.

[20] We say often instead of always because sometimes it does not. Although Marshall was the inventor of a way of drawing supply and demand curves which show prices rising as demand increases, he also took large notice of economies of scale that cause unit costs to fall as sales increase. As Marshall noted, this phenomenon has much to do with large firms underselling and thus crowding out small firms leading to oligopoly instead of the competition postulated by pure economics.

[21] Robert M. Solow, On Theories of Unemployment. *The American Economic Review.* Vol. 70 (1980) . pp 1 -11. p. 1.

[22] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations.* (various editions, first edition 1776, but most reprints are based on the 1789 edition). The quotations are from the beginning of Book I, Chapter XI "On the Rent of Land." The phrase "naturally meant" recalls Smith´s earlier work *Theory of the Moral Sentiments* Cambridge UK: Cambridge University Press, 2002 (first edition 1759) where he argued that divine providence had designed humans to act from self-interest. The famous "invisible hand" metaphor is found in part IV chapter 1.

[23] Smith, *Wealth*, at the beginning of Chapter VII of Book I. The natural profit for Smith is that which will just induce the entrepreneur to stay in the business, and not switch to some other trade.

[24] Id. , three pages from the end of the chapter.

[25] Smith, *Wealth*, at the beginning of chapter II of Book I.

[26] Thus Smith remarks at the end of his long digression on silver at the end of Book I that the only encouragement industry requires is some tolerable security that it shall enjoy the fruits of its own labour.

[27] This can be inferred from *Wealth* Chapter VI of Book I.

[28] Here Marx does not refer to Bentham's famous felicific calculus, or to his famous views on the greatest good of the greatest number. He appears to refer to passages where Bentham holds that since people are experts on their own pleasures they should be left free to pursue happiness as they see fit and/or to those where he regards the pursuit of self-interest as natural and inevitable. Although it is clear enough why Marx invokes Bentham' s name here, it could not be said that Bentham was in fact on the whole in favour of each looking out only for himself. His collectivism balanced his individualism. See L.J. Hume, "Jeremy Bentham and the Nineteenth Century Revolution in Government," The Historical Journal. Volume 10 (1967) pp. 361-375.

[29] Karl Marx, Das Kapital. Erstes Buch, 4 Kapitel, section III in the next-to-last paragraph. (our translation)

[30] Marx uses diagrams like this several times in the second volume of Capital, which was edited by Friedrich Engels after his death and first published in German in 1885. It is available in English in a translation by Ben Fowkes published by Penguin classics in London in 1990.

[31] Amartya Sen, Poverty and Famines: an Essay on Entitlement and Deprivation. Oxford: Clarendon Press, 1983. Sen shows in detailed studies that there has been food available in the great famines of recent centuries, but that the poor lacked purchasing power to acquire it.

[32] Max Weber regarded Marx's account of capitalism as an analysis of ideal types. Max Weber, The Methodology of the Social Sciences. New York: Free Press, 1949. p. 103. Louis Althusser and Etienne Balibar in their commentary on Capital emphasize that Marx makes many simplifying assumptions. See their Reading Capital. (abridged English edition) London: New Left Books, 1970. (Complete French edition Lire le Capital. Paris: Francois Maspero, 1968)

[33] The diagram shows the essence of the logic and dynamic of accumulation. Once M has become the larger quantity M', the process can be repeated. M' can become the even larger quantity of money M''. M'' can be reinvested to produce M''', and so the accumulation of money can go on indefinitely.

[34] What we have to say will be only a tiny addition to the huge existing literature on capital accumulation. Marx himself wrote in the first volume of Capital: ""With the accumulation of capital there develops the specifically capitalist mode of production, and with the specifically capitalist form of production there develops the accumulation of capital. … Each accumulation becomes a means for making a new accumulation." Das Kapital Erstes Buch, Kapitel 23, part II, paragraphs 7-8 (our translation). Four basic sources are Rosa Luxemburg, The Accumulation of Capital; London: Routledge and Kegan Paul, 1951 (original German 1913); Patrick Bond, Horman Chitonge and Arndt Hopfmann (editors), The Accumulation of Capital in Southern Africa. Durban: University of KwaZulu-Natal, 2006; Samir Amin, Accumulation on a World Scale. New York: Monthly Review Press, 1974; Maria Mies, Patriarchy and Accumulation on a World Scale. London: Zed Books, 1986.

[35] Today in practice the amount of money changing hands every day speculating in what John Maynard Keynes called the "casino economy" dwarfs the sums invested in the real economy producing goods and services. See Susan Strange, Mad Money. Manchester UK: Manchester University Press, 1998. From Marx's perspective this shortcut turning M into M' without P cannot possibly be sustainable because the only way to earn sustainable profits is to hire workers whose cost to the employer is less than the value of what they produce.

[36] In Marx's vocabulary there is no *Bewegung,* no movement. Money advanced is the impetus that sets everything else in motion; without it everything else stands still.

[37] Max Weber is famous for the implausible claim that capitalism began with the protestant ethic of inner-worldly asceticism, but more often he made the more plausible claim that capitalism could only begin after or concurrently with the establishment of a rational legal order of the western Roman type. Without law, he pointed out, economic decisions could not be made because their consequences would not be *kalkulierbar*; in other words without law the future enforcement of property rights and contract compliance would be so uncertain that no investments could be made. See the section of Weber's Economy and Society on "Meaning and Limits of Legal Authority for the Economy."

[38] This should perhaps be qualified because often after his mathematical analysis Walras will write in effect, "And this is what happens in practice in competitive markets." Then he outlines how the *tatonnage* (groping by trial and error) of markets in principle leads to the same result he gets by solving equations.

[39] The claim that free markets lead to a welfare maximum is known today as the first theorem of welfare economics , i.e. the theorem that a competitive market equilibrium constitutes an efficient allocation of resources. Here is one of many proofs that nineteenth century notions of competitive markets tending toward equilibrium are still influential in the twenty first century.

[40] At a Pareto optimum trading stops because there are no more exchanges that would benefit both parties.

[41] No profit for Walras does not mean entrepreneurs get nothing. It means that whatever they get is reckoned as reward for their labour and as rents from resources they control, and not profit per se.

[42] Leon Walras, Elements of Pure Economics London: Routledge, 2003. (French original 1874). *Passim.* For example, "Freedom procures, within certain limits, the maximum of utility, and since the factors that interfere with freedom are obstacles to the attainment of this maximum, they should, without exception, be eliminated as completely as possible." Section 222, page 256. Although Walras eschews any labour theory of value, he agrees with Smith that free competition drives prices down to the cost of production. See for example pages 225, 240, 243, 248, 271.

[43] This point was not lost on Marx, who observed that Smith himself explained why in a free market in negotiations between employer and employee the employer commonly has the stronger bargaining position. Das Kapital Erstes Buch, Kapitel 23, paragraph 6. Smith's general discussion showing why workers are usually the losers is in Chapter VIII of Book One of The Wealth of Nations.

[44] We omit the complications derived from the fact that the classical economists worked with a labour theory of value, while most contemporary economists tend to define the value of a thing as whatever a buyer is willing to pay for it.
[45] Wealth of Nations book 1, chapter 8, at page 88 of the edition cited above.
[46] David Ricardo, On the Principles of Political Economy and Taxation. London: Macmillan, 1951. The lines quoted are the opening paragraph of Chapter Five "On Wages." We are not saying the views of Smith, Ricardo, and Marx (and Thomas Malthus) were identical, but only that they all expected wages to be low, and that this expectation was valid given the bounded institutional structure they studied and the facts they observed. In other texts the same authors qualify their views acknowledging that the cost of production of a worker is not necessarily that of bare subsistence. It also includes a culturally determined minimum that varies from place to place.
[47] Milton Friedman, "Interest Rates and the Demand for Money," *Journal of Law and Economics.* Vol. 9 (1966) pp. 71-85 at p. 71. See also Milton Friedman, *Capitalism and Freedom.* Chicago: University of Chicago Press, 1962 Chapter Eight, where Friedman argues in favour of wages being set by competitive markets and against unions.
[48] The limitations imposed by the constitutive rules of the institutional framework are elaborated in Howard Richards and Joanna Swanger, *Dilemmas of Social Democracies.* Lanham MD: Rowman and Littlefield, 2006. See especially chapter 7, "The Revenge of the Iron Law of Wages."
[49] Michel Aglietta, *A theory of capitalist regulation.* London: Verso, 2000. p. 70.
[50] Smith, *Wealth,* near the beginning of Chapter Two, Book I.
[51] Karl Polanyi et al, *Trade and Market in the Early Empires.* New York: Free Press, 1957; Richard Wilk and Lisa Cliggett, *Economies and Cultures: Foundations of Economic Anthropology.* Boulder CO: Westview Press, 2009; George Dalton, Traditional Production in Primitive African Economies, *The Quarterly Journal of Economics.* Vol. 76 (1962) pp. 360-378; Paul Bohannan and George Dalton, *Markets in Africa.* Evanston: Northwestern University Press, 1965.
[52] A small shop where liquor is sold and served, similar to what would be known in other parts of the English-speaking world as a pub, a bar, a lounge, or a saloon.
[53] Alexandria, a poor district of Johannesburg.
[54] This thought is suggested by Marshall Sahlins, *Stone Age Economics*. Chicago: Aldine, 1967, although he wrote of times still longer ago.
[55] In the language of Emile Durkheim they will suffer *anomie*, normlessness. Durkheim found that *anomie* was a typical consequence of the transition from archaic to modern society. Emile Durkheim, The Division of Labor in Society. New York: Free Press, 1947 (French original 1893); Suicide. New York: Free Press, 1951 (French original 1897). Similarly, Karl Polanyi describes the growth of the modern economy as a "disembedding" of economic relations from social relations; while Louis Dumont construes the rise of modernity as the rise of the isolated individual. Karl Polanyi, The Great Transformation. Boston: Beacon Press, 1944; Louis Dumont, Essays on Individualism. Chicago: University of Chicago Press, 1992.
[56] "*Bana ba motho ba kgaogana tlhogwana ya tsie*." A proverb in the Tswana language.
[57] See Evelin Lindner, The Psychology of Humiliation (Ph.D. dissertation, University of Oslo) and other works by the same author.
[58] The phrase "constitutive rules" is explained and applied in a way similar to the way we apply it here in Charles Taylor, "Interpretation and the Sciences of Man," Review of Metaphysics Vol. 25 (1971) pp. 3-51. This seminal essay has been frequently anthologized and is available on line.
[59] By saying "namely" we do not mean to insist that there is anything irreplaceable about the words we have chosen (following Marx and Smith). There are other legitimate and useful ways to describe how the same set of norms constitutes the same basic social structure; Taylor for example in the essay just cited writes of a "bargaining society."
[60] Earlier we took the precaution of saying Smith and Marx saw the same rules "--provided that we restrict our analysis to the exchange of commodities in what Marx calls the sphere of circulation." The reason for this precaution was that Marx thought profit could not be explained at the level of circulation but only at the level of *Produktionsverhaltnisse* (the production relations found in the …..P….. part of the diagram where C becomes C'). Although we believe "the economy" is appropriately glossed as we have stated, we do not mean to ignore Marx's views on this point and we will come back to them in a later chapter where we will discuss the explanation and the social functions of profit.
[61] See on this point Chapter Four "Law—The Constitution of Modernity" and Chapter Five "Economics—the Operation of Modernity" in Catherine Hoppers and Howard Richards, Rethinking Thinking: Modernity's Other and the Transformation of the University. Pretoria: University of South Africa, 2015.

[62] John Maynard Keynes, A General Theory of Employment, Money, and Interest. London: Macmillan, 1936. Chapter 12. Keynes adds a twist. People invest not only because they expect a firm to be profitable, but also because they think the value of their shares will increase because other people will regard them as a profitable investment. He emphasizes that investment is motivated not by profits but by the *expectation* of profits.

[63] Gavin Andersson, Looking Back to the Future: Conversations on Unbounded Organisation, Dark Roast Occasional Paper Series Number 12. Cape Town: Isandla Institute, 2000. p. 4

[64] Amartya Sen, "Sraffa, Wittgenstein, and Gramsci," Journal of Economic Literature. Vol. 41 (2003) pp. 1240-1255. p 1247.

[65] Bernard E. Harcourt, *The Illusion of Free Markets.* Cambridge MA: Harvard University Press, 2011.

[66] The general notion that in any given society there may be operating different and perhaps incommensurable "languages" comes from the methodology of the sociologist Robert Bellah and his co-authors of Habits of the Heart: Individualism and Commitment in American Life. Berkeley: University of California Press, 1986. They found four pervasive "languages" in mainstream United States culture: the language of business, that of therapy, that of religion, and that of civic life.

[67] As of October 2012 the economic, social, and cultural rights covenant had been signed by 162 nations and ratified by 160.

[68] The International Convention on Civil and Political Rights was adopted by General Assembly resolution on December 16, 1966. It entered into force on March 23, 1976. The International Covenant on Economic, Social, and Cultural Rights was adopted by General Assembly resolution on the same date and entered into force on January 3, 1976. It includes the right to an adequate standard of living. The Constitution of the Republic of South Africa was approved by the Constitutional Court on 4 December, 1996 and entered into force on 4 February, 1997. Its Chapter Two is a Bill of Rights that includes among others rights to the basic necessities mentioned in the text above, food, water, housing, and health care services.

[69] Like most people we do not think of a right to live as merely a right to remain barely alive, but as a right to live a truly human life. To avoid further complicating an already complicated argument we omit this nuance from the text. Similarly by using the generic phrase "low wages" we omit nuances found in the classical economists concerning the precise level competition drives wages down to.

[70] It has been argued that the most general form of the duty to contribute to the welfare of (at least some) others found in all human cultures is the norm of reciprocity. Alvin Gouldner, "The Norm of Reciprocity: a Preliminary Statement." American Sociological Review Vol. 25 (1960) pp. 161-178. Nancy Tanner has shown that the physical evolution of the human species has been that of an animal evolving to live in groups and to secure its livelihood by cooperation in her On Becoming Human. Cambridge: Cambridge University Press, 1981.

[71] The tale of the inherent cruelty of economics is well told by Viviane Forrester in *L' horreur économique.* Paris: Fayard, 1996.

[72] The institutional frame of economics is discussed by Joseph Schumpeter in his History of Economic Analysis New York: Oxford University Press, 1956 at pp. 544-550. It is the same as the Smithian "natural liberty" and Marxian "true Eden of the rights of man" we have been discussing.

[73] Thus for the historian Karl Polanyi there are not very many types of human economy, as there are not many planets in the solar system. For Polanyi a future that corrects the exaggerations of the present is likely to feature the tried and true principles that worked for many centuries before the rise of capitalism, notably the principle of reciprocal obligation and the principle of redistribution of the surplus. See Karl Polanyi et al. Trade and Markets in the Early Empires:Economies in History and Theory. New York: Free Press, 1957 and other works by the same author.

[74] Our own view is that the human capacity to invent institutions is unlimited. One reason for this view is the anthropologist Victor Turner's opinion that the physiology of the human brain lends itself to creative processes including ritual play that function in the social construction of reality somewhat as mutation and variation function in organic evolution. Victor Turner, "Body, Brain, and Culture," Zygon: Journal of Religion and Science. Vol. 18 (1983) pp. 221-245.

[75] Immanuel Wallerstein periodizes the disciplinary consolidation of economics, political science, anthropology, and sociology in the early 19th century and sees them as part and parcel of the global liberal hegemony established after the defeat of Napoleon. See his Unthinking Social Science. Stanford: Stanford University Press, 1995. Michel Foucault similarly saw the founding of the social sciences as an aspect of the constitution of *notre modernité* dating their rise a bit earlier at the time of the French Revolution. See the latter part of his The Order of Things New York: Random House, 1994 (French original 1966), his books on the origins of psychiatry, medicine, and criminology, and his lectures at the Collège de France where he deals with the origins of political science and economics.

[76] See the extended discussion of Vygotsky and activity theory in Gavin Andersson, Unbounded Organization: Embracing the Societal Enterprise. Pretoria: University of South Africa Press, 2015.
[77] James Boggs, "The Culture Concept as Theory, in Context," Current Anthropology. Volume 45 (2004) pp. 187-209.
[78] In a later chapter we will discuss the views of Friedrich Von Hayek and others who agree that the constitutive rules of commodity exchange are social constructions neither universal nor eternal, but nevertheless argue that they should not be altered. See his The Fatal Conceit: the Errors of Socialism. Chicago: University of Chicago Press, 1988.
[79] Smith was aware that the natural liberty he advocated was not universal. The early drafts of *The Wealth* were concluding parts of his lectures on the history of jurisprudence. Those lectures outlined what was then known about the great variety of institutional frameworks humans have devised to meet their material needs. Adam Smith, *Lectures on jurisprudence.* Oxford: Oxford University Press, 1976.
[80] Adult Basic Education and Training
[81] Much of the history of controversy pro-Keynes, anti-Keynes and post-Keynes is recounted by J.E. King in *The history of post-keynesian economics since 1936.* Cheltenham UK: Edward Elgar, 2003.
[82] Milton Friedman, *A theory of the consumption function.* Princeton NJ: Princeton University Press, 1957. The consumption function and the liquidity preference go together, the former being a measure of how much of income is spent and the latter a measure of how much is not spent.
[83] Milton Friedman, "Interest Rates and the Demand for Money," *Journal of Law and Economics.* Volume 9 (1966) pp. 71-85 at p. 71.
[84] Friedman himself once acknowledged that orthodox economic theory is too narrow. Milton Friedman, "Wesley C. Mitchell as an Economic Theorist," *Journal of Political Economy.* Volume 58 (1950) pp. 465-493 at p. 467.
[85] Keynes further distinguishes a category of money not spent on consumption but not held in liquid form either, but rather held as illiquid assets one cannot immediately spend. John Maynard Keynes, The General Theory of Employment, Interest, and Money. London: Macmillan, p. 166. For our present purpose this distinction can be ignored.
[86] Keynes, General Theory . pp. 107-8.
[87] Keynes, General Theory. pp. 108-9.
[88] We see sellers refraining from buying as a massive fact whose consequences require in the end an unbounded approach like that of CWP. Those who see the economy differently might be divided roughly into three classes: (1) Those who see no problem, reasoning for example that money not spent will be deposited in banks, who will then lend it out again to people who will spend it; (2) those who positively celebrate not spending as saving which will make possible investment and therefore growth; (3) those who see a problem, but who believe that suitable monetary and fiscal macroeconomic policies can cope with it in a more or less acceptable way. Concerning the latter two: "The development of new products for which demand is disproportionate to normal demand will not stop, even if it …breaches ecological norms. Nor will it cease to be necessary to balance society's books. The new products process …and consumers who like to shop with their credit cards will still be necessary to keep employment at acceptable levels. They display the treadmill that ensnares humanity; it is necessary to go forward faster just to stay in place…. Thus it is that caring and aware humans everywhere are asking the questions, How did we get on this treadmill? And how can we get off it?" Howard Richards, Understanding the Global Economy. Santa Barbara CA: Peace Education Books, 2004. p. 68.
[89] This is true in an ideal-typic stripped down bare-bones capitalism. In the real world there are taxes. The buyer pays more than the seller receives.
[90] John Maynard Keynes, General Theory op. cit. p. 33. Paul Krugman has argued that the economic crises of recent decades show that Keynes was right on the precise issue at stake here; namely they show that there really is a chronic weakness of effective demand. Paul Krugman, The Return of Depression Economics. New York: Norton, 2009. There is an unending stream of academic literature attacking, defending, and revising Keynes' ideas. Much of it is summarized in J.E. King, A History of Post-Keynesian Economics since 1936. Cheltenham UK: Edward Elgar, 2002; J.E. King, Post-Keynesian Economics: An Annotated Bibliography. Aldershot UK and Brookfield VT: Edward Elgar, 1995. Some of it will be discussed in later chapters of this book.
[91] Milton Friedman develops the argument that wages are and ought to be determined by the value of the worker's product in *Capitalism and Freedom.* Chicago: University of Chicago Press, 1962. He overlooks the fact that before the value of the product can assume the form of money the product must be sold.
[92] Michel Aglietta, *A Theory of Capitalist Regulation.* London: Verso, 2000. P. 333. Notice that the right to keep money without spending it is a normative principle. It is not a deduction from any quasi-

Newtonian calculation. Howard Richards shows in *Understanding the Global Economy.* Santa Barbara: Peace Education Books, 2004, that in general causal explanations in economics depend on normative premises. The book is available on-line as an e-book.

[93] The contrary view that for every seller there must be a buyer is approximately Say's Law attributed to Jean Baptiste Say (1767-1832). We will discuss it and contemporary views of it in a later chapter. It makes a huge difference for CWP and for any employment guarantee scheme whether the real world is more as Say sees it or more as Keynes and Aglietta see it.

[94] Also alive and well is the Mahatma Gandhi National Rural Employment Guarantee Scheme started in India in 2005, and by 2010 enrolling participants from over 55 million households. Its experience has been a major source of ideas for CWP. It in turn has drawn on the experience of the employment guarantee schemes that have functioned in the Indian state of Maharashtra since 1972-73. Later chapters of this book will review historical experience and theoretical rationales for employment guarantees in Sweden, Argentina, and Ethiopia. It should be noted that although CWP is laying the groundwork for a possible future employment guarantee in South Africa it is not yet an employment guarantee.

[95] These lines are quoted from South Africa's "Second Economy Strategy" composed by Kate Philip and approved by Cabinet in January 2009, available at www.tips.org.za, accessed March 9, 2013. p. 10.