

Chapter Eight

Book title:

Economic Theory and Community Development

Chapter title:

How to Pay for Social Programmes

The immediate problem or presenting symptom: With revenues declining and deficits growing, governments around the world are hard-pressed to keep funding their social programmes, let alone expand them. South Africa will be hard-pressed to expand the Community Work Programme and the other components of the Expanded Public Works programme to make them into a true employment guarantee.

The title of this chapter: The title speaks of this chapter's point of departure. When we get to its end we will be able to rename the chapter, "How to Recycle the Surplus".

Chapter Overview

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1. Remarks of Sr. Alberto Arenas, Minister of Finance, Republic of Chile

This chapter begins at Santiago with a summary of a report by the minister of finance to the general public on how well the country is doing. The purpose of boring the reader in this way is to create evidence that this is the sort of discourse that economists and the financial press practice incessantly. The minister assumes (perhaps correctly) that what the public most wants to know is how much GDP is increasing.

Chile is among the many countries similar to South Africa in the respect that slow growth is perceived as clouding the future of social programmes. Worldwide we see what might be called a Bachelet/Piketty Paradox. In 2011 the International Labour Office supported by the World Health Organization published the report of a commission chaired by President Bachelet of Chile detailing worldwide efforts to establish social safety nets, including but not limited to public employment programmes like India's NREGA and South Africa's EPWP and CWP¹. The report explicitly assumes that there are parallel worldwide efforts to stimulate economic growth. The cost of any given social programme is expressed as a percentage of Gross Domestic Product; for example Rwanda could fund a universal old age pension at a cost between .5 and 1% of its GDP.² The conceptual link between funding social programmes and GDP could not be tighter. Two years later in 2013 Thomas Piketty published his impressively documented study providing weighty reasons for projecting slow GDP growth in the 21st century.³ Hence the paradox: big needs, small resources.

In this national and international context Alberto Arenas as minister of finance published a short report on the Chilean economy in 2014 and its prospects for 2015 in

¹ Michelle Bachelet et al, *Social Protection Floor for a Fair and Inclusive Globalization*. Geneva: International Labour Organization, 2011. Bachelet chaired the commission during the interim between her two terms as President of Chile, while she was working for the United Nations. (http://ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_165750/lang--en/index.htm - accessed March 2015).

² Id. p. 44. The figure for Rwanda presumably refers to what the report calls a "horizontal" old age pension including every old person at a low amount like the 80,000 peso [about 800 ZAR] solidarity pension for every senior Chilean who needs it promulgated by Bachelet herself, leaving pending the "vertical" challenge of raising the amount.

³ Thomas Piketty, *Capital in the Twenty-First Century*. Cambridge MA: Harvard University Press, 2014. Op cit. (original French edition 2013)

Chile's leading newspaper *El Mercurio* on February 8, 2015. He disregarded at least for the moment the question how to make social programmes more effective with fewer resources, and the question how to capture more of the social surplus (however measured) to transfer it to meeting social needs. He devoted himself entirely to the question how to accelerate Chile's decelerating growth.⁴

In summary Arenas reported that tThe Chilean economy decelerated more than expected in 2014 in a context where the Latin American region as a whole turned in a poor performance (a *bajo desempeño*). Looking on the bright side, December of 2014 saw a GDP upsurge to the rate of 2.9% growth, which lifted GDP growth for the year to 1.8%.

Much of the (relative) dynamism of the last three months of 2014 was due to government spending. (Notice that all the key terms –accelerate, decelerate, performance, growth, dynamism etc.—are different ways to talk about how much buying and selling is happening.) Public spending grew 10% in the last trimester, completing 2014 with total 6.5% higher than the previous year. Separating out from all public spending the money spent on capital investments (infrastructure) there was a rate of increase for the last three months of 22.7%, and for 2014 as a whole of 7.4%.

The minister encourages his fellow citizens to look on the bright side. There is more than capital investments by the public sector to justify projecting a better year in 2015. In view of the fall in the price of copper, Chile's largest export, Chile is re-assigning resources to other products saleable in world markets. It is favoured by a fall of 15% in the value of the Chilean peso against the dollar. That makes Chilean exports more competitive in manufacturing and in agriculture.

The unemployment variable has remained low, and that is a good thing because we can expect consumer purchases to recover their dynamism. Recovery is aided by another falling variable: lower energy costs due to the fall in the price of oil. Since Chile imports

⁴ Arenas cites figures from Chile's own measure of growth the [IMACEC](#) (Indicador Mensual de Actividad Economica en Chile) calculated monthly. It is "harmonized" with GDP and we treat it as equivalent to GDP. See the methodological note, economic study 48 on the web page of the [Chilean Central Bank](#). Let nothing in these pages be taken as criticism of Sr. Arenas or as implying that he is not doing a good job as finance minister. It must be mentioned that he went to jail four times for protesting the Pinochet dictatorship and that he spearheaded a pension reform that made a minimal solidarity pension universal in Chile.

95% of its fuels, a fall in energy costs translates directly into more money in the pockets of Chilean consumers, which contributes to stronger sales.

Inflation has remained low, which makes it possible for the Central Bank to continue its low interest rate policy, which in turn favours investment.

The minister concludes that to project a good year in 2015 we must not let up (*aflojar* – get lazy) either in private investment or in public investment. “And, above all we must nurture confidence, for confidence is the best ally of investment, employment, and consumption”.⁵

The concluding sentence and indeed the whole report evoke now-familiar dynamics: Production depends on the confidence of investors. Investor confidence, in turn, depends on the confidence of consumers that leads them to spend. Their spending regularly tends to be insufficient. When all goes well –when consumers spend and investors invest — then and only then will there be employment.

2. A Digression on the Philosophy of Social Science

The story minister Arenas tells in *El Mercurio* is a story about variables from beginning to end, beginning with the variable GDP and ending with the variables investment, employment, and consumption.⁶ Similarly, Sir Isaac Newton’s *Principia Mathematica* is a story about *vis* (force) from beginning to end. The impact of an independent variable on a dependent variable in economics is an analogue of a force in mechanics (as in Newton’s formula [force= massXacceleration](#)). However, in mechanics a formula like $f=ma$ yields an exact prediction, once friction, intervening variables, and measurement error are accounted for. This is somewhat different, although not generically different, from correlations and regressions in the social sciences. In the social sciences

⁵ *Y, por sobre todo, tenemos que cuidar las expectativas, que son las mejores aliadas de la inversión, el empleo, y el consumo.*

⁶ Irving Fisher: “The economic system contains innumerable variables –quantities of ‘goods’ (physical wealth, property rights, and services), the prices of these goods, and their values (the quantities multiplied by their prices). Changes in any or all of this vast array of variables may be due to many causes. Only in imagination can all of these variables remain constant and be kept in equilibrium by the balanced forces of human desires, as manifested through ‘supply and demand. [The Debt Deflation Theory of Great Depressions](#). Kindle Edition position 20. Important Books, 2012 (1933) (<https://fraser.stlouisfed.org/docs/meltzer/fisdeb33.pdf> - accessed March 2015). This is the first of 49 “conclusions” stated at the beginning of the book.

there is typically at base an equation, but there are more error terms measuring the difference between the observed data points and the trend line described by the equation. The metaphysical⁷ assumption in both cases –more plausible in mechanics, more dubious in economics—is that there are out there in the world measurable regularities of the form $y = f(x)$ (the dependent variable is a function of the independent variable) waiting for scientists to measure them. Economists regularly find themselves constructing models to explain data, where the models are formally rigorous because the inferences from the numbers going in to the numbers coming out are tautologies, where the data are mainly social statistics, where the social statistics are mainly defined from accounting categories, where the accountants’ numbers are mainly drawn from source documents, and where the source documents mainly record sales, and where the sales are governed by the constitutive rules of markets. Seated in offices high in buildings and looking at numbers economists may be only dimly aware of the normative framework of the buying and selling going on in the streets below where the numbers come from. Yet they may also be painfully aware of a brooding mushiness infecting their models like that evoked by Ludwig Wittgenstein in his image of a machine whose motions are supposed to be predictable from its diagram but in reality are unpredictable because the machine’s parts melt, break, and bend.⁸

Drawing on the contemporary movement in the philosophy of science known as critical realism, on John Searle⁹, Charles Taylor,¹⁰ Wittgenstein and Heidegger, we take as

⁷ The metaphysics of positivism that is still with us in many forms today began at positivism’s birth in the writings of its founder Auguste Comte. Comte’s slogan was a now-familiar one in the history of philosophy, “Away with metaphysics!”. Immediately after proclaiming the end of metaphysics he declared that its replacement would be science. Science would be built exclusively from observed facts. In the next breath, however, he unwittingly retracted his denunciation of metaphysics by announcing a metaphysical faith of his own: observing the facts would lead to the discovery of the regular laws governing both nature and society. In other writings he called for a “religion of humanity” in which scientific sociology would provide new and better principles of authority to replace the authority of the monarchy and the church that had been swept away by the French Revolution. Thus positivism became what other metaphysics are: a synthesis of ontology and ethics, declaring what is (law-like regularity) and what ought to be (technocracy).

⁸ Ludwig Wittgenstein, *Philosophical Investigations*. Oxford: Basil Blackwell, 1958. Paragraph 193. (<http://gormendizer.co.za/wp-content/uploads/2010/06/Ludwig.Wittgenstein.-.Philosophical.Investigations.pdf> accessed March 2015).

⁹ John Searle explains constitutive rules in several works, including *The Construction of Social Reality*. London: Penguin Press, 1995. (http://philoscience.unibe.ch/documents/kursarchiv/SS06/searle_engl_ch1.pdf - accessed March 2015).

¹⁰ Charles Taylor begins his seminal essay *Interpretation and the Sciences of Man* *The Review of Metaphysics*. Volume 25 (1971) pp. 3-51 (<http://goodliffe.byu.edu/301/protect/taylorinterp.pdf> - accessed March 2015) and often reprinted by asking how interpretation (Heidegger’s *seeing as*) is essential to causal explanation in the human sciences. Later he contrasts the constitutive rules of our “bargaining society” with those of a

our *Leitfaden* (guide, thread running through the fabric) for understanding capitalism its constitutive rules. Adam Smith called them “natural liberty”. Our two Staggering Facts (the dependence of production on capital accumulation and the chronic insufficiency of effective demand) are generated by those rules.

Instead of assuming that the world out there consists of variables waiting to be measured and to be regressed on each other until the observed functions match the functions postulated in models, our realist alternative takes culture to be the ecological niche of the human species. Starting from the constitutive rules of the culture organizing the modern world-system, we are better prepared to understand the world and to change it.¹¹

3. Remarks of Ms. Marissa Moore, Department of National Treasury, Republic of South Africa

The scene shifts from Santiago to the Union Buildings in Pretoria where a committee of the South African parliament is reviewing the Community Work Programme. Those who can sniff out its tell-tale signs detect liberal economic thinking filling the air of the room. The difficulty of funding CWP when growth is lagging far behind National Development Plan targets makes an explicit appearance in the laconic phrase “fiscal constraints.”

On February 12, 2014, an appropriations committee of the South African Parliament met to review funding for the Community Work Programme.¹²

The meeting was confusing.

traditional Japanese peasant society. Karl Polanyi and many others have researched many material practices with constitutive rules other than those of the market, perhaps most notably those of reciprocity and redistribution (now included alongside market exchange as principles of a plural economy in the Constitution of Ecuador thanks in part to the prominence in Ecuadoran politics of professional anthropologists familiar with Polanyi). Redistribution is the principle of the transfers advocated by the Bachelet Commission to fund social safety nets.

¹¹ We believe our view fits within the general category of critical realism, whose leading proponent is Roy Bhaskar. It derives also from the work of the philosopher of science Rom Harre, who can be regarded as a precursor of critical realism. See especially Rom Harre and Paul Secord, *The Explanation of Social Behaviour*. Totowa NJ: Rowman and Littlefield, 1972.

¹² [Department of Cooperative Governance and National Treasury on funding model for Community Works Program briefing](http://pmg.org.za/committee-meeting/16915/) (/pmg.org.za/committee-meeting/16915/ - accessed March 2015). The committee made no decisions.

Before the discussion began there were two power-point presentations. One was by Tozi Faba of the Department of Cooperative Governance (which is known by the acronym [CoGTA](#)). CoGTA administers CWP. The other was by Marissa Moore of the Department of the Treasury. Treasury pays for CWP.

According to Tozi Faba of CoGTA:

1. In the fiscal year ending March 31, 2013 CWP provided work for 204,494 participants.
2. Targets for the current (2013-14) ending March 2014 have already been surpassed, with work for 206,166 compared to a target of 172,000.
3. The budget for the current year provides for a total cost of 1, 592, 268.¹³
4. The target for 2014-2015 is 332,500 participants at a cost of 2,257,480.
5. The target for 2015-16 is 487,500 participants at a cost of 2,505,413.
6. The target for 2016-17 is 1,030,000 participants at a cost of 3,710,368.

The CoGTA projections for CWP fit in with the ideas behind the National Development Plan considered in Chapter One, and with the failure of those ideas to bear fruit as expected. As the private sector continues to fail to provide the employment projected by the plan, public employment is called upon to provide the jobs that the plan promised to the people –and in the light of which the plan called on the people to resist the siren songs of populism.

According to Marissa Moore of Treasury:

1. In the fiscal year ending March 31, 2013 CWP provided work for 205,494 participants.
2. The estimated number of participants for 2013-2014 is 172,000.
3. The current (2013-14) budget is 1,731, 326. (This is 139,058 more than CoGTA's figure, being adjusted for actual expenditures.)
4. Unlike CoGTA, Treasury goes back to look at costs in the prior years 2010-2011, 2011-12, and 2012-13. The year-by-year cost increases were 39%, 107%, and 34%.

¹³ The cost numbers are in thousands of rands. They can be roughly converted to thousands of US dollars by dividing by ten, that is to say by moving the decimal point one space to the left. From dollars they can easily be converted to any currency.

5. Regarding future years Ms. Moore does not give cost numbers or target numbers of participants, but says expenditures are expected to grow at an annual rate of 28.9%
6. Using words without numbers she concludes: “Fiscal constraints require CWP to meet employment targets within the current budget allocations, thus emphasis needs to be placed on efficiencies and cost savings”.

The phrase “current budget allocations” here might refer to the current year budget, or it might refer to annual increments no greater than 28.9%. It cannot refer to the budget COGTA projects to reach 1,030,000 participants, which calls for a budget increase in 2016-17 of 67%.

Ms. Moore further appears to suggest that additional participants and new sites might be financed by private sector funding in these words: “As the CWP expands, it can make use of the NGOs involved in the non-state sector to run new sites”.

Marissa Moore’s suggestion to rely on NGOs might be read as an entering wedge for introducing the concept of Unbounded Organization. Necessity may be moving policy in that direction. If one logic and dynamic, that of a private-sector-producing-for-sale-for-profit, is unable to generate sufficient livelihoods due to what Keynes called “a drag on prosperity caused by an insufficiency of effective demand”; and if a second logic and dynamic, that of what Schumpeter called “the tax state” cannot fully take up the slack due to fiscal constraints; then necessity is tilting thought slightly forward in the direction of unbounded material practices aligned for the common good, beginning with a third logic and dynamic, that of giving-meaning-to-your-life-through-service-to-others embodied in NGOs. Three is a number smaller than infinity, but it is larger than two.

In the ensuing discussion with members of parliament Ms. Moore clarified the Treasury’s view that CWP must meet employment targets within current budget allocations. The CWP budget is expected to grow 28.9% per year in the medium term, but this is not sustainable. Its ballooning expenses must be scaled down. Currently spending is split 65-35 between wages paid to participants and operational costs, but treasury would like to see an even larger portion go to the wages of participants, in order to create more job opportunities for less money. (Let it be noted here, as it was not noted in the appropriations committee meeting, that more than half of the 35% is due to CWP, unlike NREGA,

providing training and proper tools and safety equipment for its workers and to CWP putting a greater emphasis on doing really useful work. CWP learned from NREGA to avoid the situations that have led some NREGA participants to complain that their work is useless and demeaning. They complain, as noted in chapter four, that they are required to do useless punishing manual labour to perform tasks that any reasonable person would perform with proper equipment).

Grant Snell MP representing East London said that the participants were doing low-skilled work now, but that a way must be found to train them with skills that would enable them to move on to formal jobs. For example, they could be trained to recycle waste.

Leonard Ramatlakane MP from Cape Town asked why the number of participants had decreased when the budget had increased. He was referring to the Treasury figure of 172,000 participants for 2013-2014 in spite of the increased budget. There were other questions concerning gaps and inconsistencies in the numbers provided to the parliamentarians.

MP Aline Mfulu, spoke from her wheelchair in a different voice. She wanted more involvement by the Department of Social Development. She said participants should be empowered, not merely trained.

Apart from Ms. Mfulu's intervention there were no indications in the report that the committee knew anything about the thinking that went into the initiation of the Community Work Programme recounted in chapters two and three, or about the proliferation of its activities on the ground and its alignment with other actors illustrated in chapter seven and in the short quotes from participants interspersed in all our chapters. Nobody seemed to know that CWP has a mandate from parliament to use public employment to catalyse community development. There seemed to be no awareness that the founders of CWP had anticipated in 2007 the basic problem that confronted the appropriations committee on February 12, 2014: the impossibility of government singlehandedly solving social problems by taxing-and-spending, and the consequent necessity of aligning across sectors for the common good.

4. Remarks of Peter Heller, Senior Economist, International Monetary Fund

We make a stop in Geneva where the Bachelet Commission is making a report to the International Labour Organization showing that the nations of the earth have found many ways to fund social programmes that do not depend on GDP growth. GDP growth is regarded as a (but not the) objective of good government, but it is not mentioned in a list of ways to create fiscal space for a social safety net. But Geneva is only a stop on the way to Washington DC. In that city on 19th Street near North West H Street we learn that the proposition that the poor must wait until investment turns enough money into enough more money has deep roots in a rigid worldview. In its rigidity it tends to see the constitutive rules of markets (property, contract, autonomy of the juridical subject, absence of a duty of solidarity) as more than particular historically contingent socially created realities – as required by pure reason and by the very idea of morality.

The Bachelet Commission uses the common phrase “fiscal space” to describe finding the wherewithal to pay for a social protection floor. In Ghana debt cancellation provided the fiscal space for its Livelihoods Empowerment Against Poverty Programme.¹⁴ South Africa created fiscal space for social programmes first by giving social spending a special legal status by writing social rights into its Constitution (as Thailand, Costa Rica, and Brazil have also done), and then by re-prioritizing its budgets, cutting defence spending by 48%.¹⁵ The Bachelet Commission suggests that less corruption can create more fiscal space, citing an African Union study estimating that in Sub-Saharan Africa in 2002 losses due to corruption at \$148 billion USD, approximately half of total tax revenue.¹⁶ Bolivia creates the fiscal space for an annual pension paid to every Bolivian citizen over 60 with a tax on hydrocarbons.¹⁷ Fiscal space has been created by taxes on airline tickets.¹⁸ There have been many proposals to tax financial transactions and earmark

¹⁴ Bachelet Commission op. cit. p. 69.

¹⁵ Id. pp. 69-70

¹⁶ Id. p 70

¹⁷ Id. p. 69

¹⁸ The UN has sponsored an airline ticket tax to fund basic health care. The scheme was initially adopted by Brazil, Chile, Norway, France, and the United Kingdom. Ten African countries, Mauritius, and the Republic of Korea later joined. Id. p.74

the proceeds for social spending.¹⁹ In its examples and lists of ways to fund social programmes the Commission does not even mention taking steps to increase GDP growth.

The ideas expressed in the Bachelet Commission's concept of "fiscal space" should rule out of court the argument that improvement in the lot of the poor must wait until there is sufficient growth of the infamous "pie" to pay for it.²⁰ They motivated Peter Heller, then Deputy Director of the Fiscal Affairs Department of the International Monetary Fund to pen a discussion paper defining the concept.²¹

Heller defines fiscal space as follows: "In its broadest sense, fiscal space can be defined as the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position".²² As will be detailed below, this definition (read in the context provided by Heller's paper) ties finding resources to transfer to the poor (implementing Karl Polanyi's redistribution principle²³) to conforming with Heller's view of what constitutes a normal healthy economy. Heller's view is similar to the IMF's view, which is similar to that of mainstream more-or-less-neoliberal economics. What is thus viewed as normal –and often as obligatory—is an economics has been socially constructed inside the constitutive rules of the modern world-system. At its core is a heavy dose of what Léon Walras called "pure economics" as he elaborated in the second half of the 19th century on the beautiful idea of a self-regulating market articulated a century earlier by Adam Smith. As we will discuss below, it was further elaborated in the 1830s by Smith's French admirer Jean-Baptiste Say.

¹⁹ One proposal was made in a Bill Gates' report to the [Cannes G20](#) summit. It called for taxing share and bond transactions on the world's stock exchanges to fund basic social protection. Id. p. 74.

²⁰ On p. 71 of the Bachelet Commission report there is a chart listing ten ways to create fiscal space for social programmes. Economic growth is not on the list. However, economic growth is treated elsewhere in the report as creating possibilities for redistribution –contrary to the implicit argument of O'Connor in [The Fiscal Crisis of the State](#) op. cit. that the pursuit of economic growth often leads to tax competition and to more regressive taxation (the Value Added Tax), effectively de-redistributing wealth from the poor to the rich.

²¹ Peter S. Heller, [Understanding Fiscal Space](#). (<http://www.imf.org/external/pubs/ft/pdp/2005/pdp04.pdf> accessed March 2015). IMF Policy Discussion Paper PDP/05/04. Washington DC: International Monetary Fund, 2005. Heller retired from the IMF in 2006.

²² Id. p. 3

²³ As mentioned earlier Polanyi and many historians and anthropologists of the "substantivist" school find redistribution (as in Exodus the Pharaoh's granaries redistributed grain to the Egyptians) and reciprocity (social obligation) to be at the heart of the practices that met human needs in pre-capitalist times and places.

The issues about whether the questions Heller discusses about finance are about the eternal and universal or about the historically relative and optional, are not merely theoretical issues. Flexibility and creativity are practical necessities. Building diverse plural economies and thriving resilient communities are (we claim) required to make it possible to govern a nation without undue reliance in the first instance on the IMF itself. They are required more broadly to liberate humanity from undue reliance on large-scale private capital accumulation. They are required to make large scale capital accumulation governable.

Heller makes it clear that when he discusses these issues of crucial practical importance he is talking theory softly but carrying a big stick when he writes: “Some of the volatility in external assistance experienced by many countries has arisen from the failure to implement agreed macroeconomic policy programs with the IMF. Delays in satisfactory IMF program reviews or cessation of IMF-supported programs can have an adverse multiplier effect in terms of their impact on other donor assistance. Certainly, countries that manage their macroeconomic policies well have far greater potential for creating additional fiscal space”.²⁴

Let us look at the two key parts of Heller’s definition of fiscal space: (1) the definition allows that there is fiscal space to fund a social programme only when resources are provided “without prejudice to financial sustainability”, and (2) identifies fiscal space with “providing resources for a desired purpose”.

An ordinary human being, innocent of economics, might be forgiven for asking why finding resources to meet the vital necessities of the poor is complicated. Just riding around town on a bicycle observing the surfeit in the posh suburbs and the shortfall in the bosh townships, one would not immediately see any special reason why it would be complicated to recycle the surplus, nor would any such reason be immediately evident if instead of riding a bicycle around the city one were to ride an airplane around the planet. It gets complicated because of “financial sustainability”.

²⁴ Id. pp 11-12.

To be financially sustainable, in the ordinary sense Heller relies on, means to be able to continue to pay one's bills in the future. Heller cautions against committing to even meritorious social programmes, even when funds are available, if there is no assurance that there will be money to pay for them in the future.²⁵

The inevitable question where the government's future income will come from leads to the inevitable answer: it will come from production.²⁶ Increased GDP will lead to increased tax revenue due to "normal buoyancy."²⁷ Fiscal space can also be created by collecting taxes more efficiently. It can be created by raising taxes. Heller believes that developing countries should aspire to a tax-take of at least 15% of GDP. In industrial countries where taxes are already 40 to 45% of GDP he does not think it is possible to raise taxes further because of tax competition. (Tax competition refers to lowering taxes to attract business and wealthy residents to one's territory, luring them away from other places).

He canvasses a number of other ways to create fiscal space, including curbing corruption and attracting funds from foreign donors. Without ruling them out, he calls attention to their limitations. He does rule out creating fiscal space by expanding the money supply. "Printing money to finance additional government spending is not a desirable option. A government's borrowing from the central bank should be driven by monetary policy objectives, viz. the creation of sufficient liquidity to support an economy's real growth, preferably on a relatively noninflationary basis".²⁸ On the whole Heller's view is that for nations as for households the path to having more is to produce more.

²⁵ Heller further develops this thought in Peter S. Heller, "[Are Governments Overextended?](http://www.world-economics-journal.com/Are%20Governments%20Overextended.details?AID=190)" *World Economics*. Volume Five (2004) pp. 1-31. (<http://www.world-economics-journal.com/Are%20Governments%20Overextended.details?AID=190> – accessed March 2015).

²⁶ We have been emphasizing that economic growth measured by GDP is about sales. But the actual definition of GDP is the value of production in a given territory in a given time period, which on one of three equivalent approaches is for the most part measured by sales.

²⁷ Id. p. 5

²⁸ Id. p. 9 Here Heller echoes Milton Friedman, *A Program for Monetary Stability*. New York: Fordham University Press, 1960, and his other monetarist writings. (http://0055d26.netsolhost.com/friedman/pdfs/other_academia/Houghton.1965.pdf - accessed March 2015). The principal empirical findings supporting Friedman's monetarism are in the study of the Great Depression by Milton Friedman and Anna J. Schwartz in their *A Monetary History of the United States 1867-1960*. Princeton: Princeton University Press, 1963. (<http://press.princeton.edu/titles/746.html> – accessed March 2015). Friedman and Schwartz find that a proper management of the United States money supply could have greatly mitigated the Great Depression,

Regarding the second of the two key parts of Heller's definition of fiscal space "providing resources for a desired purpose", Heller often characterizes the "desired purpose" as "meritorious".²⁹ His vocabulary suggests the interpretation that in his view of the world financial sustainability, which translates to being able to pay one's debts as they come due is obligatory, while other objectives, however desirable or meritorious they may be, are optional. This would appear to be the meaning of his definition of fiscal space: "...fiscal space can be defined as the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position". To understand the genesis of a worldwide culture in which a view of the world like Heller's is regarded by many as normal we return again to Adam Smith.

5. Production for Sale as the Source of Value: Adam Smith

We just cannot stop going back to Adam Smith. He is the classical source of so many ideas that rule us today, even though it should be mentioned that his ideas were not original with him. They can be found also in his French and British predecessors and contemporaries. Now we need to go back to Smith to understand "production." At first it seems obviously true that nothing more can be provided for the poor without more production because without production there is nothing to provide for anyone. But since Smith this common-sense view of "production" does not define what the term means in economics. Putting social programmes on hold until there is more production does not mean what it at first seems to mean.

noting especially that the Federal Reserve allowed the money supply to shrink at a time when it should have expanded. Other scholars explain the causes of the Great Depression differently including Irving Fisher op. cit., Michel Aglietta op cit. and Steve Keen, [A Monetary Minsky Model of the Great Moderation and the Great Recession](https://ideas.repec.org/a/eee/jeborg/v86y2013icp_221-235.html), *Journal of Economic Behavior and Organization*. (https://ideas.repec.org/a/eee/jeborg/v86y2013icp_221-235.html - accessed March 2015). Although this Keen article is about the 2008 recession it presents concepts alternative to Friedman's that are applicable to the 1929-1939 depression. We ourselves have a different perspective: When on Friedman and Schwarz's account the money supply shrank but should have grown, it was not because of deliberate action by the Fed but because banks presented fewer notes to the Fed to discount. The banks presented fewer notes because they were lending less money. They lent less money because fewer businesses wanted to borrow. Fewer businesses wanted to borrow because the businesses were not confident that they could sell to enough paying customers at high enough prices to repay the loan and have a profit left over. This brings us back to our point that it is unwise for a society to be overly dependent on what Gandhi in *Hind Swaraj* Cambridge: Cambridge University Press 1997 (1909), op cit, called an *adharmā*, system i.e. on a system which meets human needs if and only if somebody can make a profit meeting them.

²⁹ Heller uses the term "meritorious" at Id. pages 2,4,6,7, and 12.

Let's get ready for Smith by remembering that in CWP people work but do not sell –which is a big reason why we see CWP as a harbinger of a happy future when unbounded organization will be the normal worldview of everybody. Like the concept of “unbounded” itself, the concept of “work without sales” denotes an unlimited set. What is unbounded is everything that is not bounded. Livelihoods without sales are all the livelihoods that do not require willing buyers with money in their pockets in order to achieve a good life for the worker. Since for Adam Smith by definition productive labour is labour that creates a “vendible commodity”,³⁰ livelihoods (or work) without sales are equivalent to what Smith calls “unproductive labour.” Having distinguished use value from exchange value, and having at times appeared to lean toward saying that use value was, after all, the purpose of economic activity, when it comes down to defining “production” Smith frowns on making things for purposes other than sale. Smith makes production-for-sale the definition of “production” *tout court*.

Consistently with his definition Smith counts as unproductive all menial servants, the sovereign and all his officers, the employees of courts of justice, the army and the navy, churchmen, lawyers, physicians, men of letters of all kinds, players, buffoons, musicians, opera-singers, opera-dancers, actors, orators, and whomever else he may have had in mind when he employed the abbreviation “&C”. However honourable their work may be, it is not productive because it does not produce vendible commodities which endure after their labour is over, and which can be exchanged in the market for other commodities. Like the harangue of the orator and the tune of the musician, their labour “perishes in the very instant of its production”.

For the most part Smith's twenty page chapter titled “Of the accumulation of capital, or of productive and unproductive labour” is a polemic against the great lords who spend their incomes hiring servants to staff their palaces, and a song of praise in favour of the undertakers (“undertakers” being a word that has since the time of Smith been replaced

³⁰ Adam Smith (first edition 1776, edition usually reprinted 1789), *An inquiry into the nature and causes of the wealth of nations*. Book II Chapter Three is titled “Of the Accumulation of Capital, or of productive and unproductive labour.” (op cit). The restriction of productive labour to that which produces vendible commodities is found on its first page. Book and chapter are cited instead of page numbers because different editions may have different page numbers. For some historical notes on the development of these ideas prior to Smith see Ellen Meiksins Wood, [Empire of Capital](#). London: Verso, 2005.

in English by its French synonym “entrepreneurs”) Undertakers hire only productive workers. The workers they hire produce vendible commodities that upon sale will provide enough revenue to pay their own wages and to return to their master his capital. Above and beyond keeping his capital intact, the productive workers provide their master with profit.

“I noticed that CWP worked for our community. Because people were doing nothing at all but now CWP collected and employed those people”. -- CWP Participant, Umthwalume³¹

Smith praises undertakers and savers in the same breath. On his account whatever is saved by parsimony is immediately spent on industry. When the products of industry are sold, it will return with profit. He passes in review the cities of Europe -- for example Copenhagen, the Dutch towns, Rouen in France, on the one hand; compared to Rome, Versailles, Madrid, and Vienna on the other. He finds that in cities where parsimony accumulates capital, trade and industry go on to accumulate it more. Opulence follows. But where the principal function of a city is merely to be the seat of a great court, the people are idle and poor. He draws the conclusion that every prodigal is a public enemy, while every frugal man is a public benefactor.

The stakes are high. Smith postulates an indissoluble link between sales and capital accumulation. He postulates an indissoluble link between capital accumulation and prosperity. It follows that there is no cure for poverty that does not prescribe production-for-sale-for-profit. To paraphrase Smith, opulence is a consequence of raising the proportion of society’s revenue spent on productive labour and lowering the proportion of society’s revenue spent on unproductive labour.

His analysis conflates two logically different things: (1) leaving behind some tangible and useful product when the work is done, and (2) sales. The difference can be seen in OWs and in CWP. When, for example, an OW is over and the participants go

³¹ This and the following quotations from CWP participants are translated from Zulu. They are taken from *A qualitative evaluation of the community work programme, Umthwalume CWP* prepared by Thutong Training and Development, dated October 2011, available at [TIPS](http://www.tips.org.za). (www.tips.org.za - accessed December 18, 2013).

home they invariably leave the host community with tangible assets that did not exist before the OW, such as a building for a crèche, or a fence separating grazing land from a residential area; in the final report of an OW the list of tangible assets left behind is usually quite impressive. Although the participants are paid for their work, the products of their labour are gifts. In an OW and in CWP people are paid for doing community service. Smith's (1) is separated from Smith's (2).

If Smith conflates two logically different things in his theory, it is because he finds them to be for the most part inseparable in fact. Only work done for the purpose of profitable sales can be counted on to raise a city or a nation from idleness and poverty to industry and opulence. Smith relies on the self-interest of his butcher, his baker, and his brewer, and not on their benevolence, to provide him with his daily meat, bread, and ale. They sell things for profit, and if they did not Smith would not have (or at least he thinks he would not have) his meat, his bread, and his ale.

Smith does not deny that work without sales exists. He does not deny that it is necessary. He does not deny that even when it is not strictly necessary it is often beneficial. He does, however, count it as consumption, not as production. The king and his retinue, for example, live at the expense of the thrifty, enterprising, and labouring classes. The latter produce, while the former only consume. A decision to spend revenue on consumption instead of production is not always wrong – after all Smith acknowledges that the purpose of commerce, agriculture, and industry is to supply the people with the “necessaries and conveniences of life”.³² But it is always a decision to retard the accumulation of capital.

Those of us who see less orthodox and more innovative livelihoods-without-sales as keys to achieving the goals of the societal enterprise face a challenge, as Heller reminds us when he tends to conflate “desirable” and “meritorious” objectives for which fiscal space can legitimately be carved out with objectives that will eventually pay for themselves. Without categorically rejecting ends-in-themselves, Heller makes it clear that his

³² Smith (1776) in the “Introduction and Plan of the Work” Op cit. preceding Book One Chapter One. Op cit.

preference is for expenditures-that-pay.³³ Smith’s groundwork and Heller’s contemporary discussion paper – and thousands of voices we do not mention -- chime together to challenge us to explain how the social functions of capital accumulation and of profit-making can be made compatible with what we think is necessary to achieve dignity and livelihoods for all. We think it is necessary –even now before the full impact of robotics and information technology is felt – to recycle the surplus in the form of ever more transfer payments to growing numbers of workers Smith and Heller would classify as unproductive.

6. Raising the Social Status of Use Value

Seeing the world with a social worldview, we see a need to create livelihoods for people, especially because work as we know it is in the process of disappearing due to the steady advance of technology that replace human physical and mental labour with ever-more-intelligent machines. The prejudices that only what is sold for money is “produced” and only what is followed by a successful sale is “production” only gets in the way of adjusting culture to reality.

We are chiming in with Jeremy Rifkin, Guy Standing, and others who announce a need to reinvent livelihoods and to recycle the social surplus to pay for it. Rifkin, Standing, we, and others are saying this at a moment in history when many say history is over and capitalism won. There seems to be a total contradiction: some say the world must be rebuilt from the ground up; others say the way the world is already built is going to last indefinitely with no competitors.

Now we take a necessary detour within a necessary detour. We already are on a necessary detour to check out Smith again. Now we take a moment to fast-forward from Smith to consider briefly the widely held opinion that from here on out anti-Smith ideas have no future and Smith will rule.

³³ For example at op. cit. p. 3 Heller writes: “The incentive for creating fiscal space is strengthened where the resulting fiscal outlays would boost medium-term growth and perhaps even pay for itself in terms of future fiscal revenue”. On p. 2 he favours granting fiscal space to health and education when they will pay for themselves in the long run by upgrading human resources.

Let us consider for a moment the most famous among the many celebrators of the definitive triumph of free market capitalism, Francis Fukuyama. At first glance dissolving Smith's distinction between productive and unproductive labour, as we are doing by counting bathing penniless old ladies at Orange Farm and neighbours pitching in to build a community centre at Bokfontein as productive, might appear to be the polar opposite of Fukuyama's capitalist triumphalism. Fukuyama might be taken to say that the verdict of history is in. Smith was right. There is only one social philosophy that today can be regarded as legitimate, and it is liberal capitalism, complemented by democracy to satisfy humanity's yearning for *Anerkennung*.³⁴ In Fukuyama's sense history is over. When history is defined as competition among different social and economic systems, if today the competition is over, then there is no more history.³⁵

Fukuyama might be read as claiming that there is only one solution to society's main problems and we now know what it is; while on an unbounded organization approach there are many different solutions to many different problems, and for the most part we do not really know what they are.³⁶

A closer reading of Fukuyama shows, however, that he is quite aware that the "post-historical" liberal capitalist democracies have failed to solve their main problems. His claims can be scaled down to saying that in the future legitimate problem-solving will be done in the context of political democracy, will acknowledge the need for markets and for many autonomous or semi-autonomous institutions rather than one total institution, and

³⁴ Francis Fukuyama. 1992. *The end of history and the last man*. New York, Macmillan. (op cit <http://www.social-sciences-and-humanities.com/PDF/The-End-of-History-and-the-Last-Man-.pdf> - accessed March 2005). It will be remembered from the previous chapter that Hegel's notion of *Anerkennung* builds an ethics on the human need to be recognized and respected by other persons.

³⁵ Actually Fukuyama distinguishes between the liberal capitalist democracies and the rest of the world. The former are post-historical. The rest of the world is "still in history." History has not ended there yet. See Fukuyama 1992 Chapter 26 starting at page 276.

³⁶ Thus Karl Popper and John Dewey famously argued that what society needs is not so much solutions to its problems as procedures for systematically looking for solutions and evaluating how well prototype and provisional solutions work. Karl Popper, 1945. *The open society and its enemies*. London: Routledge (<https://archive.org/details/opensocietyandit033120mbp> - accessed March 2015); John Dewey, 1927, *The public and its problems*. New York: Henry Holt. ([www.unav.es/gep/Dewey/Opinion Publica Comunicacion.pdf](http://www.unav.es/gep/Dewey/Opinion_Publica_Comunicacion.pdf) - accessed March 2015). Similarly John Maynard Keynes argued that since economic science does not really know the best way to solve the problems of capitalism, nations should be encouraged to experiment with different solutions. Keynes 1933. *National self-sufficiency*. *Yale Review*. Volume 22, pages 755-769. (<https://www.mtholyoke.edu/acad/intrel/interwar/keynes.htm> - accessed March 2015).

will not see Soviet-style central planning as a viable economic alternative. Fukuyama acknowledges that we have not yet learned how to reconcile the productivity of a modern economy with the ethical claims of equality and dignity.³⁷ Although Soviet Communism is no longer on the agenda as an attractive model to follow, Scandinavian social democracy still is.³⁸ Further: “No one has solved the problem of ‘creating culture’ --that is, of regenerating internalized moral values—as a matter of public policy”.³⁹ Life in bourgeois society tends in the end, Fukuyama says, to be *boring*, failing to satisfy some of humanity’s deepest needs.⁴⁰ Liberalism has a corrosive effect on values predating liberalism that are necessary to sustain a community.⁴¹ And so on.⁴²

The recognition of some of the limitations of today’s Smithian dominant ideology by one of its most famous proponents encourages us to believe that the triumph of exchange value is not complete. The social status of use value can be raised. Indeed it is being raised. Smith’s entertainers who merely dance and sing, producing fleeting pleasures that perish in the very instant of their production, are today filling whole stadiums with fans in cities where whole neighbourhoods are living on social grants. Major corporations like Yahoo and Google work with business models where they make a profit while giving away information and services free to anybody. In the past they were costly and available only to a few if they existed at all. Movements like free-cycling and couch-surfing are bypassing markets with collaborative sharing.⁴³ Ideas like using public employment to catalyse community development and separating the right to a livelihood from the necessity to sell have something in common with these examples. Use is achieved without a solid and lasting physical product that can be both touched and sold. These are ideas that violate the principle (or, better, way of seeing the world) that production must or should be for-sale for-profit. They give a different meaning to “productive.” We believe they are ideas whose time has come.

³⁷ Fukuyama 1992. pp. 289 and following.

³⁸ Fukuyama 1992. p. 294.

³⁹ Fukuyama 1992. p. 292.

⁴⁰ Fukuyama 1992, p. 314.

⁴¹ Fukuyama 1992, p. 327.

⁴² See generally parts IV and V of Fukuyama 1992, chapters 20 through 31.

⁴³ These examples are taken from Jeremy Rifkin, *The Zero Marginal Cost Society: the Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism*. New York: Palgrave Macmillan, 2014.(<http://digam.o.free.fr/rifkin14.pdf> accessed March 2015).

*“CWP helped a lot with the crime in our community. There was too much crime in this community but all of those people now are at work”. “There were children who were thieves but CWP took those people to work”.
--CWP participants, Umthwalume*

7. The Categorical and the Hypothetical Imperative: Immanuel Kant

After some necessary detours we go back to Peter Heller’s office at 19th and NW H Street. We go back to his view that social programmes must wait until fiscal space is available, where availability of fiscal space means that there is no doubt that the government will be able to pay its debts in the future. We proceed to show how Heller’s rigidity reflects deep-seated rigidities in modern western culture that have been classically expressed in the philosophy of Immanuel Kant.

A human life should balance flexibility and integrity. When a person’s behaviour is too rigid the person is neurotic. When it is not rigid enough the person is unreliable. We could perhaps also speak of an overly rigid institution as a neurotic institution and of an insufficiently rigid institution as an unreliable institution. In both cases (the person and the institution) it is also possible to fall into unreliability not by failing to continue established practices but by continuing them when they are not working.

The use of the word “neurotic” here can be clarified by quoting part of a report by a clinical psychologist of an interview with a neurotic patient:

“During an initial interview I asked a patient how long he had been married. He answered, ‘Sixteen months, three weeks’. The overly exact quality of his response aroused in me the suspicion that I was dealing with a person whose character was coloured by obsessional thinking and compulsive traits. To confirm my suspicion I asked further, “How long did you know your wife before you married her? ‘ He answered: ‘Two years, three months.’ At this point, inwardly, I made a further set of predictions concerning this individual’s mental traits. I guessed that he would be especially concerned with money, that he would have a passion for accumulating it, keeping meticulous records of his financial transactions, and that he would be most reluctant to spend it. A further set of

*predictions concerned his relationship to cleanliness. ... Questioning confirmed each of these predictions in minute detail”.*⁴⁴

We suggest that there is a tendency toward excessive rigidity –not unlike that manifested clinically in obsession/compulsion neuroses-- in Peter Heller’s discussion paper on fiscal space, in modern western culture generally, and quite likely in all cultures. If a culture is by definition something that persists, then every culture must have a quota of rigidity. A tendency for the rigidity of cultural norms to be excessive is quite likely universal.

Consider again Heller’s definition of fiscal space: “... fiscal space can be defined as the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position”. The definition does *not* call for a pragmatic balance between meeting human needs in the present and preserving capacity to meet them in the future. It does not balance anything with anything. It limits funding for a “desired purpose” to what can be done without *any* prejudice to financial sustainability.

Consider further Heller’s uses of the words “desired” and “meritorious.” They suggest a bright line separating what *must* be done, guaranteeing the government’s capacity to pay its bills, and what *may* be done, whatever is desired or meritorious. Heller’s distinction between a strict requirement not to prejudice the sustainability of the government’s financial position, on the one hand, and the desired purpose, on the other hand, exactly parallels Immanuel Kant’s distinction between categorical and hypothetical imperatives. Heller probably did not consciously have Kant in mind when he wrote. He may have been influenced in his formative years by reading Kant or by reading authors directly or indirectly influenced by Kant –a category that can be stretched to include almost all modern western authors. But it seems most likely that the line of influence runs not so much from Kant to modern western culture to Heller, as it runs from a deep underlying

⁴⁴ Jacob Arlow, “Psychoanalysis as Scientific Method,” in Sidney Hook (ed.) *Psychoanalysis, Scientific Method, and Philosophy*. (http://archive.org/stream/psychoanalysisisc02newy/psychoanalysis_sc02newy_djvu.txt - accessed 2015). New York: New York University Press, 1959. pp. 206-7. pp. 206-07.

sense of the sacred in the *conscience collective* both to Kant in the 18th century and to Heller in the 20th.

Kant set forth his categorical/hypothetical imperative distinction in 1785 in his *Groundwork for the Metaphysics of Morals*.⁴⁵ He begins by saying that he is providing philosophical defence of the difference between right and wrong as it is already known and understood by ordinary people. He gives an example of an act ordinary people already know and understand is wrong: incurring a debt without intending to pay it. He will work with this same initial example throughout this short book; a moral duty to pay a debt will be his paradigm⁴⁶ of a categorical imperative.

Heller tracks Kant. It is wrong to borrow money from the IMF, or from anywhere, or to promise to continue funding social insurance programmes,⁴⁷ without having the ability to pay in the future. Incurring a debt without making provisions to repay it is tantamount to not intending to pay it.

Having used debt-paying as his example throughout, Kant remarks toward the end that he could have made his point even more distinctly with examples drawn from attacks on the freedom and property of others.⁴⁸ Thus Kant assigns the status of categorical imperative to three fundamental features of the constitutive rules of markets: debt-paying (keeping promises, honouring contracts), property rights, and the freedom of the juridical subject who does the buying and selling.

The duties commanded by categorical imperatives are strict duties.⁴⁹ There ought to be no exceptions.⁵⁰

Their strictness emanates from their source in the pure reason of the free human subject who in his freedom is different from all of nature. “Everything in nature works in

⁴⁵ Immanuel Kant, *Groundwork for the Metaphysics of Morals*. New Haven and London: Yale University Press, 2002. (<http://www.earlymoderntexts.com/pdfs/kant1785.pdf> - accessed March 2015). Original German edition *Grundlegung zur Metaphysik der Sitten*. 1785.

⁴⁶ In the sense of “paradigm” specified by Kuhn in the second edition of *The Structure of Scientific Revolutions*, i.e. in the sense of the concrete case as opposed to the rule. In this sense, says Kuhn, science can get by without rules but it cannot get by without paradigms.

⁴⁷ Heller op. cit. p. 5. A reader will notice how often words like “should” and “obligation” appear, for example on page 4.

⁴⁸ Kant, op. cit. p. 48.

⁴⁹ In addition to strict duties to others there are also strict duties to oneself, for example a strict duty not to commit suicide. Kant, op. cit. p 47.

⁵⁰ Although the strict logic of his argument in the *Groundwork* admits no exceptions, in another work *Critique of Practical Reason*, Kant takes up the question when, after all, there can be exceptions.

accordance with laws. Only a rational being has the faculty to act *in accordance with the representation* (Vorstellung) of law, i.e. in accordance with principles, or a *will*".⁵¹

This special status of human beings is the source both of the autonomy of the moral subject which permits and requires the moral subject to give itself its own moral commands, and the respect due to other people who are, like oneself, rational beings and therefore ends-in-themselves. Kant writes: "But suppose there were something *whose existence in itself* had an absolute worth, something that, as *end in itself*, could be a ground of determinate laws; then in it and only in it alone would lie the ground of a possible categorical imperative, i.e., of a practical law".⁵²

A categorical imperative is categorical because it derives from pure reason; it derives from the categories of thought that the mind brings to experience, not from experience. In the cases of the categorical imperatives to keep promises and respect property, Kant points out that the very categories of thought employed –promises and property—would dissolve and become meaningless if we made it the law of our actions to break them and steal them (and as rational beings we are called to exercise our wills, i.e. to give laws⁵³ to our actions). The laws "Always break promises!" and "Always steal!" are nonsense because in them the very concepts of contract and property become meaningless. Putting them into practice cannot be imagined.

In contrast, when an imperative is hypothetical, "...the action is commanded not absolutely but only as a means to another aim".⁵⁴ In the realm of the hypothetical (i.e. not absolute, but only commanded [i.e. required] as means to aims one happens to have) lie what Heller calls "desired purposes" and social programmes that are "meritorious." Kant also uses the word "meritorious". Kant distinguishes between strict (categorical, unremitting) duty and wide (hypothetical, meritorious) duty.⁵⁵ A separation is thus established between two realms, a realm of universal and eternal pure reason, to which categorical imperatives belong; and the local and contingent realm of empirical reality, to

⁵¹ Kant, op. cit. p. 29.

⁵² Kant, op. cit. p. 45

⁵³ For simplicity Kant's distinction between law and maxim is omitted.

⁵⁴ Kant op. cit. p. 33

⁵⁵ Kant op. cit. p. 42

which hypothetical imperatives belong. Finance dwells in the former. Social programmes dwell in the latter.

There is a parallel here to the dunning letters that collection agencies send to delinquent debtors. They invariably call on the debtor to pay “as agreed”. They demand payment even when the ratio of the debtor’s assets to liabilities is one to ten or even one to a hundred and therefore in the world of empirical reality there is no possibility of paying “as agreed”. Cultural norms prescribing promise-keeping are strong enough that it is worth the while of the collection agency to appeal to the conscience of the debtor by writing the phrase “as agreed” even when everyone knows that the phrase does not refer to a possibility. Heller used the phrase, “as agreed”, in lines quoted above referring to nations that do not comply with promises that were conditions for receiving IMF assistance.

Although Kant’s reasoning is unusual and complicated (too much so to fully discuss here) his assignment of more-than-empirical and in a sense sacred status to ethical norms that constitute markets is not surprising. Where the physical existence of a people depends on corn, corn is sacred.⁵⁶ Where the physical existence of a people depends on cows, cows are sacred.⁵⁷ Where the physical existence of a people depends on market exchange, market exchange is sacred.

Instead of continuing to understand how the world looks when seen from the viewpoint of Kant’s ordinary inhabitant of a market economy who may not know anything about philosophy but does know the difference between right and wrong, let us now make four points about how the world looks when seen from our point of view:

1. The system works the way it works, i.e. moved mainly by the dynamic of capital accumulation.
2. It is necessary to keep the system going. Its stability depends on it not only going but growing.

⁵⁶ Dennis Wall and Virgil Masayesva, [People of the Corn: Teachings in Hopi Traditional Agriculture, Spirituality, and Sustainability](http://muse.jhu.edu/login?auth=0&type=summary&url=/journals/american_indian_quarterly/v028/28.3wall.html) *American Indian Quarterly*. Volume 28 (2004) pp. 435-453.(http://muse.jhu.edu/login?auth=0&type=summary&url=/journals/american_indian_quarterly/v028/28.3wall.html - accessed March 2015).

⁵⁷ Marvin Harris, [Cows, Pigs, Wars and Witches](http://detc.ls.urfu.ru/courses/cphilos0021/text/hrest_03_02_06.pdf). New York: Random House, 2011 (1973).(http://detc.ls.urfu.ru/courses/cphilos0021/text/hrest_03_02_06.pdf - accessed March 2015).

3. It tolerates meeting vital human needs (even when from a physical point of view resources for doing so are abundantly available) only within definite limits. Those limits are set by the requirements that must be met to assure its own functioning.
4. The institutional facts that generate these three features of the world we live in are legitimated in mainstream discourse by clothing them in garbs of: (a) Science, (b) Fiscal constraints, and (3) Morality.

We submit that although the words we have quoted from our three expert witnesses, Alberto Arenas, Marissa Moore, and Peter Heller do not make any of these four points, everything they say is consistent with them. Our worldview is consistent with all the facts revealed by their testimony.

The foregoing considerations, enlightening though they may be, do not yet tell us how to secure adequate funding for social programmes. To know how to do that we would have to know how to recycle the social surplus from the zones of surfeit to the zones of shortfall. We would have to know how to move money from the top of the social pyramid to its bottom, while moving to greener pastures the amazing productivities of capitalism and of science, in ways that will enhance –not curtail— their dynamisms. (What capitalism and science do well now they should continue to do -- and do even better -- in a UO world.) And we would have to know how to do all this and at the same time transfer resources to fund livelihoods without condemning anybody to a neo-Roman decadence tempted by all the vices of the body and by all the vices of the soul while living on free bread and free circuses.

8. [Say's Law](#)

Now we have another change of scene, moving to Paris in space and to the first third of the 19th century in time. The reason why this particular scene appears on this particular stage at this particular moment is that we have just stated a problem –how to recycle the surplus to provide livelihoods for the excluded— and announced our intention to work on solving it. But we have to stay in touch with mainstream liberal economics. It runs the world and we don't so we have to pay

attention to it whether or not it pays attention to us. For mainstreamers who believe in Say's Law what we have just defined as a problem is a non-problem. For them we are about to embark on a wild goose chase to solve a problem that was already solved two hundred year ago in Paris.

Before proposing some ways to respond to the challenge of making dignity for all compatible with the social functions of profit-making and capital accumulation, we will examine Say's Law. We have often mentioned it but we have not yet discussed in detail. If Say's Law were true then it would be easy to achieve dignity for all. There would be no difficulty in reconciling decent livelihoods for everybody with profit-making and capital accumulation. They would already be reconciled. Everybody already would have –what, unfortunately, much of the ideology that pervades today's common sense assumes everybody actually does have -- an easy path to dignity. Namely: get a good job. All anybody would have to do would be to offer their services in the labour market. At most they would need to take a course to get a qualification in a field where employers are standing in line to hire employees. If the devotees of Say's Law are to be believed then there is a simple explanation for the millions of young people out of work, and the millions more with precarious or miserably paid work, in Palestine, in Egypt, in the Dominican Republic, in Germany, in South Africa, in China, in India, in Greece and around the world, namely: the government got in the way and distorted the natural benevolence of the [invisible hand](#).

A simple preliminary formulation of Say's Law would be: For every seller there is a buyer. If this is true then every South African who needs to sell labour-power at a decent price in order to rise out of poverty, will sooner or later find a buyer. If this is false, then government policies limited to trying to end poverty by helping would-be sellers of labour-power to find their buyers and to qualify themselves by acquiring the skills the buyers want to buy are not useless but they are not sufficient to solve the problem either. Public policy should in addition follow Amartya Sen's advice: Supplement capitalism with non- market institutions, like for example the nascent institution reported on in this book: using public

employment to catalyse the building of resilient local communities.⁵⁸ And there is a further important consequence of frankly acknowledging that Say's Law is false and that consequently full-employment-better-called-full-livelihoods (to include the self-employed) created-by-buying-and-selling-in-markets will never happen. It concerns not *whether* there should be relief for the poor but the *design* of the relief. The further consequence is: There is no point in making the work as miserable as it is in NREGA from a morbid fear of crowding out private employment by making public work preferable to private work. There is no point in having millions living on social grants as in South Africa from a morbid fear that if the grantees engaged in useful healthy activity instead of just passively living off the government their social-sector-satisfaction-of-needs would crowd out private employment that would otherwise occur. The neoliberal utopia of everybody earning a living in market-based employment is simply never going to happen. Consequently, the fear that some private jobs would be lost by making livelihoods financed by transfer payments attractive, dignified, and useful should not morph into a Frankenstein's Monster. It should not grow and grow until it turns into an absolute principle requiring that every last livelihood financed by sales-in-markets must be squeezed into the economy before there can be even one livelihood financed by recycling the social surplus.

Let us look now at how the French businessman turned politician Jean-Baptiste Say first articulated the law that bears his name in his [*Traité d'économie politique*](#).⁵⁹ It was published in 1803 and then re-published with revisions during the next several decades. Seen in the light of the multi-millennial history of the organization of human labour as we recommend, Say's work (and Smith's) can be read as an early version of the story (or mythology) of the then rising and now dominant commercial and industrial classes. Since time immemorial human groups have organized themselves with stories.⁶⁰ Say pretty

⁵⁸ Amartya Sen, 2003. Sraffa, Wittgenstein, and Gramsci. *Journal of Economic Literature*. Volume 41, pages 1240-1255. p. 1247. (op cit).

⁵⁹ Jean-Baptiste Say. 1841. [*Traité d'économie politique*](#). Sixth and last edition. Paris, Guillin. (first edition 1803), (<https://archive.org/details/traitedeconomie00saygoog> - accessed March 2015). An early edition of this work was translated into English by Thomas Jefferson, the third president of the United States.

⁶⁰ See for example, Bronislaw Malinowski 1960. [*A scientific theory of culture and other essays*](#). New York, Oxford University Press. (http://monoskop.org/images/f/f5/Malinowski_Bronislaw_A_Scientific_Theory_of_Culture_and_Other_Essays_1961.pdf - accessed March 2015). We have in mind also Martin Heidegger's proposal in *Sein und Zeit* to see human being-in-the-world always as a matter of interpretation and "story-ness" (*Geschichtlichkeit*).

transparently writes a story that makes a sales pitch to the reader claiming it is better than other stories because it is scientific and because it is based on the natural order of things.⁶¹

On Say's account there was no science of political economy before Adam Smith. Smith himself made fundamental mistakes that Say devotes himself to correcting. Nevertheless, even before *The Wealth of Nations* was published in 1776, from 1760 on the opinions of *économistes* dominated the minds of the leading progressive thinkers of France. In spite of their intellectual bungling, Say writes, « *Ce que personne n'a refusé aux économistes, et ce qui suffit pour leur donner des droits à la reconnaissance et à l'estime générales, c'est que leurs écrits ont tous été favorables à la plus sévère morale et à la liberté que chaque homme doit avoir de disposer à son gré de sa personne, de ses talents et de ses biens, liberté sans laquelle le bonheur individuel et la prospérité publique sont des mots vides de sens. Je ne crois pas qu'on puisse compter parmi eux un homme de mauvaise foi ni un mauvais citoyen*». ⁶² (What nobody denies to the economists, and what is sufficient to give them a right to recognition and general esteem, is that all of their writings favour the most severe morality and the liberty that every man should have to dispose at will of his person, his talents, and his property, a liberty without which individual happiness and public prosperity are meaningless words. I do not believe that one could find among them a single man of bad faith or a bad citizen.)

In other words the social mobilization of the leading thinkers of the time in favour of natural liberty came first. The correct elaboration of the science that gave it an intellectual status superior to the mere playing with words of traditional philosophy came second. Given that at bottom Say was more committed to political effect than to intellectual coherence, it is no wonder that a twentieth century scholar like W.J. Baumol finds that that Say's Law is subject to at least eight mutually inconsistent interpretations,⁶³ or that Joseph Schumpeter in his *History of economic analysis* finds that the history of debates about Say's Law has been a history of endless confusion,

⁶¹ Of course the same can be said of all the pioneers who first articulated today's dominant ideologies. See for example, Louis Dumont 1977. *From Mandeville to Marx: the genesis and triumph of economic ideology*. Chicago: University of Chicago Press (op cit); Gideon Freudenthal 1982. [Atom und Individuum im Zeitalter Newtons. Zur Genese der mechanistischen Natur- und Sozialphilosophie](#). Frankfurt, Suhrkamp.

⁶² Say 1841 (1803) in the *Discours préliminaire* that precedes the beginning of Book I. <- not found.

⁶³ William J. Baumol 1999, [Retrospectives: Say's law](#). *Journal of Economic Perspectives*. Volume 13, pages 195-204. (<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.184.9525&rep=rep1&type=pdf> accessed March 2015). Diverse interpretations are also discussed in Steven Kates (Ed.) 2003 [Two hundred years of Say's law: Essays on economic theory's most controversial principle](#). Cheltenham UK: Edward Elgar.

starting with Say himself who according to Schumpeter did not understand his own law.⁶⁴ Say wrote with *parti pris*. He was advocating a social philosophy that pre-dated its scientific rationale.

The full title of Say's three book treatise is *Traité d'économie politique: ou simple exposition de la manière dont se forment, se distribuent ou se consomment les richesses*. (Treatise on political economy, or simple explanation of how wealth is formed, distributed or consumed.) The first book *De la production des richesses* is made of thirty chapters, some of which have long digressions. In the fifteenth chapter he considers the common complaint of entrepreneurs that they often produce goods successfully enough but then they fail to sell them. Many tend to attribute slow sales to a scarcity of money. They could produce more if only they could find more buyers.⁶⁵ Say writes, "The entrepreneurs in the several branches of industry are in the habit of saying that the problem is not in producing but in selling; that one could produce more goods if one could find an outlet for them."⁶⁶ *Say at no point denies that such is in fact the common experience of entrepreneurs.* Nevertheless he proposes to pursue the analysis. "Perhaps we will discover new truths, important truths, suitable for enlightening the desires of industrious men, and for securing the actions of governments eager to protect them".⁶⁷

The background of Chapter Fifteen is, as always for Say, a general effort to persuade the reader that the natural order is the best order. Its foreground is a refutation of the entrepreneurs who attribute lack of sales to lack of money. He describes money as merely the *voiture* (the vehicle) that carries value from buyer to seller.

The conclusion of the refutation of the illusion that a scarcity of money is the cause of gluts in the markets is the beginning of Say's statement of what we shall call his Principle, and which can be taken as one of a number of formulations that can plausibly be called "Say's Law" or "Say's Law of Markets". Say's reasoning: A neighbour becomes a buyer not because he magically comes into funds, but because he (or she, but Say appears to really mean he when he says he) produces something useful that has exchange value. His vendible commodity (in Smith's phrase) gives him

⁶⁴ Joseph Schumpeter 1954, *History of economic analysis*. New York, Oxford University Press. pp, 621-25.(op cit.)

⁶⁵ That more could be produced if there were more buyers is of course true in spades today. Most firms in most industries typically operate at a little over half of their productive capacity. Nevertheless, it is common to acquire *additional* productive capacity, not pursuant to the liberal myth of producing until marginal cost equals marginal revenue, but pursuant to the real-world strategy of erecting barriers to entry to preserve oligopolistic pricing. These matters are elucidated in Yanis Varoufakis et al, *Modern Political Economy: making sense of the post.2008 World*. London: Routledge, 2012. (<http://digamo.free.fr/varouh11.pdf> - accessed March 2015).

⁶⁶ Say 1841 at the beginning of Book One Chapter Fifteen.

⁶⁷ Ibid. Our translation.

access to the *voiture* that will facilitate the exchange of the value of his product for the value of someone else's product. Here is the Principle: From the *instant* (The French and the English word are the same) when he comes to possess a saleable commodity, the value of his product can be exchanged for the value of your product. (Some subsequent scholars formulate Say's Law as "Supply creates its own demand"). Like the transubstantiated host that is the real body of Christ, and not merely a symbol of the body of Christ, the finished goods stored in the warehouse of the manufacturer awaiting sale are already effective demand in the marketplace, and not merely potential effective demand in the marketplace.

Having made every producer into a buyer by definition (by following Smith in counting as a producer only someone who makes something that can be sold, and by defining the possessors of vendible commodities as buyers), Say is in principle challenged to reconcile his Principle with the real-world experience of entrepreneurs for whom "the problem is not in producing but in selling." One might read Say in the balance of the chapter as making a number of sensible observations, which are, however, not always consistent with each other or with his Principle. We propose rather to say that he concedes the facts while in strict logic he does not concede his Principle.

It may be that the merchant cannot sell because the commodity he offers is something people do not want. Thus Say speaks of *demandes diverses, déterminées par les mœurs, les besoins, l'état des capitaux, de l'industrie, des agents naturels du pays*.⁶⁸ There are diverse demands for goods, determined by custom, by needs, the state of development and the natural features of a country. People's motivations for buying are normally determined by causes independent of the need of someone else to sell something to make a living.

Or he may have made something people do want, but which is already sufficiently supplied. Say: *car enfin ce n'est que dans les quantités abstraites qu'il y a des progressions infinies, et dans la pratique la nature des choses met des bornes à tous les excès*. Consumer demand cannot be infinitely expanded. The nature of things places limits on excess. There comes a point when markets are satiated.

He may have the misfortune to live in a backward area where there are no buyers to be found because other people there are not producing vendible commodities that could be exchanged with his. Say: *Que feraient un actif manufacturier, un habile négociant dans*

⁶⁸ These quotations from Say are from Book I Chapter Fifteen. The English words after the French here and following are not meant to be exact translations.

une ville mal peuplée et mal civilisée de certaines portions de l'Espagne ou de la Pologne?

What can an energetic manufacturer or a skilled businessperson do in a town that is under populated and under civilized like certain parts of Spain or Poland? Say advises entrepreneurs to move to places where there are many other entrepreneurs so that they can be buyers of each other's products.

His costs of production may be so high that he cannot sell at a competitive price. Say writes: *Alors on peut bien créer une chose utile, mais son utilité ne vaut pas ce qu'elle coûte, et elle ne remplit pas la condition essentielle d'un produit, qui est d'égaliser tout au moins en valeur ses frais de production.* One may well create something useful, but still the value of its utility is less than its cost, and one does not fulfil the essential condition of making a product, which is that its value must at least equal the cost of producing it.

And so on. Say also discusses other reasons why sales do not happen.

In strict logic Say can maintain his Principle while conceding all the facts cited by people who believe that in a capitalist system there is a chronic weakness of effective demand. Each reason why goods are not sold re-classifies entrepreneurs out of the category of "producers." By definition if one's commodity is not vendible, one is not a producer. By definition every product can be sold because if it cannot be sold it is not a product. Every seller has a buyer because if there is no buyer by definition there is no product, and without a product a seller is not a seller.

Meanwhile, the world goes on as before.

"I also noticed that they like what they do because the cleaning people they made a design with white stones which says CWP. That is good and nice" --- CWP participant, Umthwalume

Say's Law is not a mathematical theorem or an empirical finding. It is a set of rhetorical tactics deployed in a contested and difficult historical process constructing social reality.⁶⁹

⁶⁹ As noted previously Keynes writes at the end of the second chapter of his *General theory* that Say's Law, regarding full employment as normal, and equating the real wage with the marginal disutility of employment

9. Thomas Piketty's Contributions

After our time-machine whizzes us forward two centuries without taking us out of Paris, we take a taxi to the Paris School of Economics, 48 Boulevard Jourdan, Building B, where we meet a young man who puts the problem of recycling the surplus to meet the needs in a new light. It might indeed be possible to make the global economy governable, or at least more governable than it is now, and to redistribute wealth more effectively than it is redistributed now, without causing major damage to the wonderful bread machine that keeps us all alive.

The contemporary French economist Thomas Piketty and his many collaborators have built up a case for higher taxes on people with high incomes and high wealth. Social programmes could be funded in part through recycling the money of those who have money in order to spend it for the benefit of those who do not have money –provided of course that the government is not so corrupt that the money is simply stolen, so inefficient that it is simply wasted, or so uninterested in fraternity and equality that it spends its enhanced tax revenues on monumentality.

Perhaps the most important finding suggested by the exhaustive historical research on the distribution of wealth carried out by Piketty and his colleagues is that over time productive capital tends to become *rentier* capital. What may have started out as active entrepreneurialism becomes in a few generations an accumulated fortune that relieves its owners from the necessity of working. Nevertheless, increasingly today *rentiers* who do not have to work nevertheless do work. Piketty *et al* comment: “...today it may be socially unacceptable to live purely off unearned income”.⁷⁰

are three interconnected assumptions of classical economics that stand or fall together. John Maynard Keynes 1936. *The general theory of employment, interest, and money*. New York, Macmillan. page. 21. (op cit). On his view they fall together, and are replaced by the concept that liquidity preference produces a chronic weakness of effective demand. Keynes' view, much more than Say's, takes the form of a mathematical theorem, but on our view the mathematical argument depends on premises whose ontology is that of cultural norms. See Howard Richards 2004. *Understanding the global economy*. Santa Barbara, Peace Education Books (op cit); Alvin Hansen 1936. [Mr. Keynes on underemployment equilibrium](http://www.jstor.org/stable/1824136?seq=1#page_scan_tab_contents). *Journal of Political Economy*. Volume 44, pages 667-686. (http://www.jstor.org/stable/1824136?seq=1#page_scan_tab_contents – accessed March 2015).

⁷⁰ Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty, and Emmanuel Saez, [The Top 1 Percent in International and Historical Perspective](#) *The Journal of Economic Perspectives*. Volume 27 (2013) pp. 3-20.

Piketty's findings suggest the feasibility of what John Maynard Keynes called the euthanasia of the *rentier* class.⁷¹ They suggest that in principle resources could be recycled from the top of the pyramid to the bottom of the pyramid with little or no effect on production. The dynamic productivity and decentralized decision-making of capitalism could be preserved and *aufgehoben* into governable and equitable social democracies that would achieve the social appropriation of the social product that socialists have always advocated and enlightened capitalists have always attempted to deliver.⁷² Keynes wrote, "I see, therefore, the *rentier* aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its *rentier* aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the *rentier*, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution".⁷³

Piketty shows that the accumulated wealth in the hands of "functionless investors" is quite large, in Europe something on the order of six times Europe's annual national income.⁷⁴ We take the precaution of putting the phrase "functionless investors" in scare quotes for several reasons; two of them are: (1) much accumulated wealth takes the form

p. 18. (<http://eml.berkeley.edu/~saez/alvaredo-atkinson-piketty-saezJEP13top1percent.pdf> - accessed March 2015)

⁷¹ Paul Mattick argues, apparently to the contrary, that Keynesian macroeconomics cannot achieve the necessary transformation of capitalism. We agree with Mattick. We agree with Keynes that there is such a thing as non-functional unearned income. However, our proposed solution is a pragmatic and flexible unbounded approach that calls on management theory, anthropology, and psychology to create solutions not available within any form of economics. See Paul Mattick, *Marx and Keynes; the limits of the mixed economy*. Boston: Porter Sargent, 1969. (<https://www.marxists.org/archive/mattick-paul/1969/marx-keynes/> - accessed March 2015).

⁷² See Ludwig Erhard, *The Economics of Success*. London: Thames and Hudson, 1963. Erhard advocates a social market economy, *soziale Marktwirtschaft* that in principle harnesses efficiency fostered by competition to fund meeting social needs generally and specifically a welfare state. Many other books preach the same message. See Andrew Crane et al (Eds.). *The Oxford handbook of corporate social responsibility*. Oxford: Oxford University Press, 2008. Given a wide consensus on the *soziale* objectives, there is room for many views on how to achieve them, including our view that an unbounded mixed economy aligned toward the common good achieves them better than a pure *Marktwirtschaft*.

⁷³ Keynes, *General Theory*. p. 376.

⁷⁴ Thomas Piketty, *Capital in the Twenty-First Century*. Cambridge MA: Harvard University Press, 2014. (op cit). "The current per capita national income in Britain and France is on the order of 30,000 euros per year, and national capital is about 6 times national income, or roughly 180,000 euros per head." From position 2108 of the Kindle edition.

of intact capital goods (for example a pharmaceutical factory), which is functional in the respect that it cannot be divided and put in the form of consumer goods without grave damage to society; (2) many of the *rentiers* who are collecting unearned income from accumulated wealth are pensioners, hospital endowments, museum endowments, and eleemosynary institutions of all kinds.⁷⁵ When the revenue pie is divided between capital and labour, and when capital over the years accumulates and becomes enormous wealth generating enormous unearned income, not all of capital's share goes to the idle rich Marx satirized as having nothing better to do than to live in luxury while seducing each other's wives. Nevertheless, Piketty's findings show that in most countries the scope for redistributing resources from where they are not needed to where they are needed is quite large.

Recent decades have seen, particularly in the United States and the United Kingdom, tendencies to tax top incomes and the inheritance of wealth *less* and not more. Piketty and his colleagues find that the benefits expected from increased incentives for top income earners have not materialized. Inequality has increased as taxes on the rich have decreased, but there have been no supply-side effects boosting general prosperity. The advanced industrial countries have all grown at approximately the same rates, both those who have drastically increased inequality through (among other policies) tax policy, and those like Germany and Switzerland that have for the most part continued the tax rates of the post-World War II years. "... the regression analysis ... using the complete time-series data since 1960, shows that the absence of correlation between economic growth and top tax rates is quite robust. By and large, the bottom line is that rich countries have all grown at roughly the same rate over the past 40 years - in spite of huge variations in tax policies".⁷⁶ Estimating –granting his critics more than the data entitle them to-- that the large recent pay increases of top executives in some countries are due three fifths to more aggressive bargaining on their part to raise their salaries and two fifths to productive work,

⁷⁵ Piketty estimates that about 7% of private wealth in the countries he studies is held by non-profit foundations. Public wealth is a wash, the total value of all public assets being roughly equivalent to total public debt.

⁷⁶ Alvaredo, Atkinson, Piketty and Saez op. cit. p. 12.

the authors plug these estimates into a model designed to optimize tax rates and conclude that the tax rate on the highest incomes could potentially be set as high as 83%.⁷⁷

Piketty and Saez propose an econometric model for calculating optimum inheritance tax rates. Considering equity-efficiency trade-offs and social preferences for redistribution they conclude: “We find that, for realistic parameters, the optimal inheritance tax rate might be as large as 50%—60%—or even higher for top bequests, in line with historical experience.”⁷⁸

In Part IV of *Capitalism in the Twenty-First Century* Piketty sets out his proposals for funding a social state. The issue of funding dovetails with a broader issue we also have emphasized: “...regaining control over the dynamics of capital accumulation...”⁷⁹

Before World War I the tax share of national income was everywhere low, in the neighbourhood of 7% or 8%, making it impossible to fund a social state. Between 1920 and 1980 the tax share of national income dramatically increased. After 1980 it has stabilized around 25% in South Africa, 30% in the USA, 40% in the UK, 45% in Germany, 50% in France and 55% in Sweden.⁸⁰ Piketty sees some room for income tax increases but he does not see anything on the scale of the 1920-1980 increases happening again.

Spending on education and health consumes 10 to 15% of national income in developed countries today. Other transfer payments⁸¹ consume the same proportion or somewhat more, up to 20%. Spending on these two social categories accounts for most of the now-stabilized 1920-1980 tax increase. In other words, the new taxes went to fund a social state. Piketty regards it as an open question whether anything of the sort will happen in the developing world. On the one hand, the developing world has taken the social states of the developed world as defining the very meaning of “modernization”. On the other hand ideological and economic pressures of a global economy promoted by the developed world itself make it hard to raise the tax share of national income above 10 to 15%, which is insufficient to fund health, education, and pensions on the scale enjoyed in the developed

⁷⁷ Id. p. 11, p. 12

⁷⁸ Thomas Piketty and Emmanuel Saez, [A Theory of Optimal Inheritance Taxation](http://eml.berkeley.edu/~saez/piketty-saezECMA13.pdf) *Econometrica*. Volume 81 (2013) pp. 1851-1886. (<http://eml.berkeley.edu/~saez/piketty-saezECMA13.pdf> - accessed March 2015). The quote is the last sentence of the abstract.

⁷⁹ Piketty. op. cit. Position 8171 in the Kindle Edition. p. 471.

⁸⁰ Piketty op. cit. Position 8254 of Kindle Edition. The South Africa figure is from Wikipedia and is for 2012 and 2013.

⁸¹ Piketty counts as transfer payments family allowances, guaranteed income etc. and as income replacement pensions and unemployment insurance. We lump more than he lumps into the category of transfers.

world. He adds that there is danger that in the developed world itself the pattern of rise followed by stabilization will turn into a pattern of rise followed by stabilization followed by decline: “But progressive taxation today is under serious threat, both intellectually (because its various functions have never been debated) and politically (because tax competition is allowing entire categories of income to gain exemption from the common rules).”⁸² We would add that social benefits have already been reduced in the developed world. The aging of the population and other factors have driven up the numbers of people receiving those reduced benefits. In spite of the cutbacks the total costs and the tax-take needed to pay those costs have so far remained approximately stable because although the benefits are smaller a larger proportion of the population is getting them.

Piketty’s breakthrough proposal is “a progressive annual tax on individual wealth – that is, on the net value of assets each person controls.”⁸³ He imagines a tax rate of 0 percent on fortunes worth less than one million euros, 1 percent between 1 and 5 million, and 2 percent above 5 million.⁸⁴ Although they are riddled with exemptions, some European countries (including France, Switzerland, and Spain) already have progressive taxes on total wealth. Ideally, Piketty’s tax would be global, levied on everyone in the world whose fortune is large enough to be taxed more than 0 percent. He regards such an ideal as worth bearing in mind as an ultimate goal, even though it is not realizable anytime soon.

Piketty’s proposal commands attention because it is advanced by a scholar who with the help of many colleagues has marshalled an enormous quantity of statistical data that demonstrates that most wealth –and an increasing proportion of wealth—is in private hands, and that for the most part it is not in the hands of active entrepreneurs who are themselves engaged in productive activities.

⁸² Piketty op. cit. p. 497.

⁸³ Id. p. 516.

⁸⁴ Ibid. On another page Piketty makes a different but related proposal: a one-time tax on large fortunes at a rate of 15% in order to pay down the national debt to zero. Id. p. 542. He appears to have in mind a typical country where accumulated private wealth held by a few people is equivalent to about six times one year’s national income, and where public wealth is zero because the amount of public debt is equal to the value of all public assets.

Piketty goes on: “*The primary purpose of the capital tax is not to finance the social state but to regulate capitalism.*”⁸⁵ The first step toward regulating global capitalism is transparency. At this point in history global capitalism cannot be regulated because it is “opaque.” The information-gathering systems that would be put in place to collect the wealth tax would be a major step toward making possible effective taxation of financial transactions and income flows (as well as taxation of accumulated wealth itself). It would make regulation in general possible by reducing opacity. One, but not the only, type of opacity occurs in transfer pricing. “Transfer pricing” refers to the numbers that transnational corporations make up to assign a price when they sell things to themselves by having one of their branches in one nation “sell” to another branch in another nation. Transfer prices are routinely manipulated to minimize taxes.⁸⁶ Joseph Stiglitz writes: “Apple has become the prime example of how a clever firm can use its ingenuity to avoid paying its fair share of taxes by attributing profits to corporations that are essentially stateless, existing only in cyberspace, and which pay taxes to no jurisdiction”.⁸⁷

A second purpose is to reverse the process of ever-increasing inequality. If nothing is done to counter it, inequality will tend to be ever-increasing because of an empirical trend Piketty documents and expresses as $r > g$. The rate of growth “ r ” of large fortunes is around 6% to 7% per year, while most of the time for most economies the overall rate of growth “ g ” is around 2% in a typical year and around 5% in a very good year—thus by simple arithmetic leading to increasing inequality.⁸⁸

A third purpose—which is not to be sneezed at—is to pay for social programmes. At the tax rates Piketty imagines (0% under a million, 1% from 1 to 5, 2% on total wealth

⁸⁵ Id. p. 518 (italics added)

⁸⁶ Messauod Mehafdi, [The Ethics of International Transfer Pricing](http://arikamayanti.lecture.ub.ac.id/files/2015/02/The-ethics-of-international-transfer-pricing-Ak-Manjemen.pdf) *Journal of Business Ethics*. Volume 28 (2000) pp. 365-381. (<http://arikamayanti.lecture.ub.ac.id/files/2015/02/The-ethics-of-international-transfer-pricing-Ak-Manjemen.pdf> - accessed March 2015).

⁸⁷ [Reforming Taxation to Promote Growth and Equity](http://rooseveltinstitute.org/sites/all/files/Stiglitz_Reforming_Taxation_White_Paper_Roosevelt_Institute.pdf) (http://rooseveltinstitute.org/sites/all/files/Stiglitz_Reforming_Taxation_White_Paper_Roosevelt_Institute.pdf - accessed March 2015) p. 9.

⁸⁸ Piketty cautions against taking $r > g$ as a general explanation of inequality in his article *About Capital in the Twenty-First Century*. *American Economic Review: Papers and Proceedings*. Volume 105 (2015) pp. 1-6.

exceeding 5 million euros) considering only Europe a tax would be paid by about 2.5% of the population. It would bring in revenues on the order of 2% of Europe's GDP.⁸⁹

Piketty struggles with the reality that without almost inconceivable levels of international cooperation, starting with regional cooperation, significant taxes on wealth will be almost impossible to collect. He gives the example of a failed attempt in Italy. Faced with an exceptionally high level of public debt, and an exceptionally high level of private wealth, Italy in 2012 enacted what was supposed to be a progressive annual tax on individual wealth. For fear that financial wealth would simply flee the country its tax rate was set at 0.1%. Since real estate is harder to move, its rate was 0.8%. Nevertheless the tax could not withstand the political opposition mobilized against it. The attempt was abandoned in 2013.⁹⁰

Piketty concludes reaffirming that a global progressive annual tax on individual wealth would be an ideal solution. There is no technical reason why it would not be in principle possible. But he does not really convince himself, let alone the reader, that it will be in practice possible to move very far very fast toward such an ideal global wealth tax; or toward a regional wealth tax in Europe; or toward an ideal national wealth tax anywhere. On the positive side, in the course of his discussion he points out that some countries already have progressive annual taxes on wealth even though they are studded with too many exemptions. He particularly notes the French ISF *Impôt de Solidarité sur la Fortune* enacted in 1981, repealed in 1986, re-enacted in 1988 and still in force. He also points out that almost all countries already have some form or other of wealth tax –most commonly a property tax on real estate and an inheritance tax. The arguments in his best-selling book – although they may fail for the foreseeable future to pave the way to his ideal-- may well serve to light a fire under the piecemeal reformulation of existing wealth taxes to make them more progressive.

⁸⁹ Id. p. 528

⁹⁰ Ibid. Piketty believes, however, that if bank information were automatically shared internationally and if authorities had accurate information on who owns what, then a single country like Italy could impose such a tax acting on its own. Id. p. 529

10. More on the Philosophy of Social Science

Our conversations in Building B lead us not only to appreciate Piketty's contributions but also to see their limitations. We come to see the need for a more thoroughgoing transformation of worldviews and institutions to bring the dynamics of capital accumulation under human control and to recycle the surplus to make it financially possible to include the excluded.

Piketty's contributions, in his own opinion and in ours, have served to transform discussions of inequality from “debates without data” into “debates with data.” In gathering all *available* information – even sifting through the probate records in public offices in Japan—Piketty and his co-authors have also dramatized how much information about wealth is shielded from public view and *not* available.

Nevertheless, his methods are not adequate to achieve the key objective.

The key objective, as Piketty writes and as we applaud, is regaining democratic governance of the dynamics of capital accumulation. When Piketty uses the word “regaining” he no doubt refers to regaining the relative governability of a recent past when global financial capital was less out of control than it is now. But he would surely agree that although public policies have made a difference (he argues for example that the recent extreme concentration of wealth in the United States has been caused by political choices that could have been otherwise), on the whole during its short history democracy has been at least as much driven by the imperatives of capital accumulation as it has –to use Jurgen Habermas's term—“guided” them.⁹¹ In Marx's terms democracy so far has in spite of its achievements nevertheless still been part of the “prehistory” of humanity.⁹² The epoch when humans will be able to shape their institutions rationally and ethically to align them

⁹¹ In [Legitimation Crisis](http://www.polity.co.uk/book.asp?ref=9780745606095) Habermas attributes to then-contemporary governments the function of “guiding” or “steering” the economy in ways that create a surplus to fund a social state and to fund its own operations. Jurgen Habermas, [Legitimation Crisis](http://www.polity.co.uk/book.asp?ref=9780745606095). Cambridge UK: Polity Press, 1988 (1973). (<http://www.polity.co.uk/book.asp?ref=9780745606095> – accessed March 2015).

⁹² In his Preface to [A Contribution to the Critique of Political Economy](https://www.marxists.org/archive/marx/works/1859/critique-pol-economy/) (1859) (<https://www.marxists.org/archive/marx/works/1859/critique-pol-economy/> - accessed March 2015). Marx describes bourgeois relations of production as antagonistic. Only when they are surpassed will the prehistory of society come to an end and the history of human society properly so called begin. <https://www.marxists.org/archive/marx/works/1859/critique-pol-economy/preface-abs.htm>

in service of the common good --Karl Popper's "open society," John Dewey's "experimental society," our "unbounded organization" – still lies in the future.

We use the word "key" because liberation from excessive dependence on what we call our first Staggering Fact would unlock doors to solving the problem of growing inequality that is Piketty's special concern, and to solving humanity's other main problems, first and foremost its disastrous compulsion to destroy itself by destroying its habitat. Underlying the lawlessness of global capital is a consequence of this Staggering Fact: nobody (or almost nobody) ever dares to bring it to justice because everybody (or almost everybody) is always (or nearly always) begging it for favours –because without its favours economies falter, stagnate, and collapse.

Of course the key objective cannot in fact be attained by any academic research using any methods. Its attainment requires behavioural and institutional change in society. When we say Piketty's methods are inadequate to his objective, we mean they fall short of the science needed to show the world *how* to attain the objective.

Beyond Piketty we propose as contributions to a methodology of liberation: (1) A more *open-eyed* and more *realistic* economics, which in the last analysis will prove to be not so much a better economics as a better organization science and a better psychology; (2) *Philosophy*.

Open-eyed: There is much more in the material practices going on in the world than the same-old same-old investors seeking profits and same-old same-old governments seeking assets to tax, starting with voluntary social responsibility by business organizations,⁹³ and continuing for example with co-creation of shared value,⁹⁴ eco-villages,⁹⁵ social entrepreneurship,⁹⁶ worker-owned enterprises,⁹⁷ neighbourhood

⁹³ See Andrew Crane et al (Eds.) 2008. *The Oxford handbook of corporate social responsibility*. Oxford: Oxford University Press. (op cit).

⁹⁴ See Michael Porter and Mark Kramer 2006. [Creating shared value](http://boost-afrique.weebly.com/uploads/2/5/0/7/2507823/hbr-creating_shared_value-developing_countries-abstract.pdf). *Harvard Business Review*. Volume 89 pages 62-77. (http://boost-afrique.weebly.com/uploads/2/5/0/7/2507823/hbr-creating_shared_value-developing_countries-abstract.pdf - accessed March 2015).

⁹⁵ See Kaspar van Schyndel 2008. [Redefining community in the ecovillage](http://www.humanecologyreview.org/pastissues/her151/kasper.pdf). *Human Ecology Review*. Volume 15 pages 12-24. (<http://www.humanecologyreview.org/pastissues/her151/kasper.pdf> - accessed March 2015).

⁹⁶ See David Bornstein 2007. [How to change the world: social entrepreneurs and the power of new ideas](http://www.coregroup.org/storage/Social_Behavior_Change/Book). New York: Oxford University Press. [http://www.coregroup.org/storage/Social Behavior Change/Book](http://www.coregroup.org/storage/Social_Behavior_Change/Book)

solidarity,⁹⁸ permaculture,⁹⁹ municipal banks lending only to local little people,¹⁰⁰ publically owned resources and enterprises,¹⁰¹ community currencies,¹⁰² public/private partnerships,¹⁰³ a *potpourri* called “solidarity economics,”¹⁰⁴ non-profits,¹⁰⁵ and so on down an infinite list of ways to organize labour for self-realization and the for the common good.

“CWP helped with the road. We were struggling at home with transport to take patients to the clinic but CWP made the road for us and now we don’t struggle anymore”. “The whole community benefited especially the sick people, children at school and children at crèches”. --CWP participants, Umthwalume

Realistic. Here we will “stand von Hayek on his head”, adopting and then inverting his argument that economics is unrealistic when it pretends to be physics and that it begins to be realistic when it starts with the basic social rules that organize modern human behaviour.¹⁰⁶

[Reviews/How to Change the World Social Entrepreneurs and the Power of New Ideas.pdf](#) - accessed March 2015).

⁹⁷ See Frank Adams and Gary Hansen 1993. *Putting democracy to work: a practical guide to starting and managing worker-owned businesses*. San Francisco, Berrett-Koehler.

⁹⁸ [ABC Abastecimiento Básico Comunitario](http://www.inti.gob.ar/abc/) (<http://www.inti.gob.ar/abc/> - accessed March 2015).

⁹⁹ See Bill Mollison 1996. *Permaculture: A designer’s manual*. Tyalgum Australia, Tagari Publications. (https://archive.org/details/PermacultureADesignersManual_306 - accessed March 2015). Mollison’s three basic principles are: Love the earth. Love the people. Share the surplus.

¹⁰⁰ See Howard Richards 2008, *Solidaridad Participación, Transparencia*. Rosario Argentina, Fundación Estévez Boero. (op cit)

¹⁰¹ See Pierre Calame and André Talmant 1997. *L’état au coeur*. Paris, Desclée de Brouwer. (http://www.irenees.net/bdf_fiche-documentation-104_fr.html - accessed March 2015).

¹⁰² See Edgar S. Cahn 2000. *No more throwaway people: The co-production imperative*. Washington DC: Essential Books.

¹⁰³ See Michael Burnett 2007. *Public Private Partnerships (PPP) – A decision maker's guide*. Maastricht, European Institute of Public Administration.,

¹⁰⁴ See José Luís Corragio 2004. *De la emergencia a la estrategia*. Buenos Aires, Espacio Editores. José Luís Corragio 2004. (<http://www.biblioteca.unlpam.edu.ar/pubpdf/huellas/n09a09medus.pdf> - accessed March 2015).

¹⁰⁵ See Michael Worth 2013. *Nonprofit management: Principles and practice*. Thousand Oaks CA, Sage. (<http://freekindlbookdownload.blogspot.co.uk/2013/06/free-download-nonprofit-management.html> - accessed March 2015).

¹⁰⁶ Such arguments are not unique to von Hayek. They are typical of the Austrian school starting with Carl Menger who **did not learn nothing (double negative?)** from his opponents in his *Methodenstreit* with the

Although von Hayek made such arguments in many of his writings, we will track his lecture titled “[The Pretence of Knowledge](#)”, given in Stockholm when he shared the Nobel Memorial Prize in economics with Gunnar Myrdal in 1974.

In his first paragraph von Hayek faults economists for giving bad advice concerning the scourge of inflation. In his second paragraph he asserts: “...this failure of economists to guide policy more successfully is closely connected with their propensity to imitate as closely as possible the procedures of the brilliantly successful physical sciences...” Economists “...happily proceed on the fiction that the factors which they can measure are the only ones which are relevant”.¹⁰⁷

When von Hayek proposes what he regards as a better economic methodology -- one faithful to its social subject matter-- he introduces the idea of “organized complexity.” Here “organized” means that explanation depends not only on the elements of the system, but on the manner in which the elements are connected with each other. For von Hayek this means that causes cannot be deduced from statistical aggregates. We require “full information” about each element. Since such full information is in practice never available, we are wise to settle for “pattern predictions” which tell us what “kind” of results to expect in general. We should refrain from making specific numerical predictions. Von Hayek illustrates his point using a ball game as an example: “If we know the rules of the different games we shall, in watching one, very soon know which game is being played and what kinds of actions we can expect and what kind not. But our capacity to predict will be confined to such general characteristics of the events to be expected and not include the capacity of predicting particular individual events.”

The immediate practical application of von Hayek’s point is that if instead of using quantitative measurements of two variables, aggregate demand and total employment, economists had instead relied on a general theory of economic equilibrium rooted in the rules of the game of capitalism, they would not have been accomplices to the crime of

German historicists. See Carl Menger, *Investigations into the Methods of the Social Sciences*. New York and London: New York University Press, 1985 (1883). (<http://mises.org/library/investigations-method-social-sciences> - accessed March 2015).

¹⁰⁷ [The Pretence of Knowledge](http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1974/hayek-lecture.html) (http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1974/hayek-lecture.html - accessed March 2015).

inflation committed when the government pumped money into the economy to raise demand. Von Hayek's more general view –which is the view of the Austrian school including Menger who taught Bohm-Bawerk who taught von Mises who taught von Hayek—is that as a matter of economic policy society should rely on “spontaneous processes” and eschew “conscious human control.”

If we now inquire what “rules of the game” are produced by “spontaneous processes” (for Menger “organic processes”)¹⁰⁸ and govern the “organic complexity” of economic life, we will find von Hayek's answer in another lecture, one he gave seven years later in 1981. They are the rules of contract and the rules of property.¹⁰⁹ They are the now-familiar rules that organize exchange in markets: Smith's natural liberty; Kant's examples of strict categorical imperatives; Marx's freedom, equality, liberty and Bentham; Taylor's constitutive rules of a bargaining society.¹¹⁰

It is at this point that we invert von Hayek and “stand him on his head”. Our view is that making the economy work for the poor, adjusting to the end of work as we know it brought about by the nascent robotic revolution, saving the biosphere by making the dynamic of accumulation governable, etc. require a pragmatic, pluralist, and flexible “unbounded” *Aufhebung* of the constitutive rules of the market.

Taking leave of our friends in Paris, leaving them to mull over our proposal to stand von Hayek on his head, hoping they will take it seriously and not simply forget it in our absence, we take a direct flight from Paris Orly to San Francisco International, and then a short connecting flight to Portland, Oregon, only to find that we arrived in Portland a half century too late to hear Herbert Marcuse's presidential address to the Pacific Division of the American Philosophical Association on “The Relevance of Reality.” We

¹⁰⁸ Menger op. cit. Appendix VIII. See also in a similar vein Carl Menger, [On the Origins of Money](#) *Economic Journal*. Volume 2 (1892) pp. 239-55.

¹⁰⁹ Friedrich von Hayek, [Los Fundamentos Eticos de una Sociedad Libre](#) *Estudios Publicos*. 1981. (<https://www.google.com/search?q=Los+Fundamentos+Eticos+de+una+Sociedad+Libre+++von+Hayek&ie> – accessed March 2015). The same idea is developed in more detail in Friedrich von Hayek, [The Constitution of Liberty](#). Chicago: University of Chicago Press, 1971. (<http://www.iea.org.uk/sites/default/files/publications/files/Hayek's%20Constitution%20of%20Liberty.pdf> – accessed March 2015).

¹¹⁰ Although Marx counts four rules and von Hayek only two their views can be regarded as equivalent, since the autonomy of the juridical subject (Freedom! For Marx, the principle of all true morality for Kant) and the absence of a duty to give aid to others (Bentham! for Marx, the merely meritorious and not strict for Kant) are implicit in von Hayek's contract and property principles.

console ourselves with the thought that although Professor Marcuse is no longer here to say so, another world is still possible.

Philosophy: Herbert Marcuse has been perhaps the best-known advocate of the view that economic rationality is an irrational rationality¹¹¹, and of the related view that the transformation of capitalism requires not only the methods of social science but also the methods of philosophy. Social science can only study what is and what has been. Social transformation requires a broader and more conceptual approach illuminating *what might be*. In Marcuse's words: "... the way of thought leads away from the immediately given, to that which is 'announced,' in-formed' in the given, as the blocked, distorted potential of the given..."¹¹²

11. What might have been and what might be (Kalecki)

Going yet another few decades back in time, back to the days of John Dewey, we discover a lot of old-fashioned confidence that inequality could be reversed and the excluded included. We take a look at Michael Kalecki's political explanation of why that generation's hopes were dashed, not out of historical curiosity but because we want to learn how to do better this next time around. UO proposes to do better this next time around with a better social psychology.

In the early and middle twentieth century many hoped and expected that the trend of the future would be away from individualistic competition devoted to profit at any price and toward serving what de Morais calls "the societal enterprise".¹¹³ It was widely hoped

¹¹¹ Although what Marcuse and others mean by calling today's dominant rationality irrational is the broad idea that it leads to social and ecological suicide, we note that in a specific sense Marcuse's view has been empirically confirmed by psychological experiments. People who are *not* economically rational come out ahead because they are better at bonding and cooperating. Paul Diesing, *Patterns of Discovery In the Social Sciences*. New York: Aldine, 1971. p. 73.

¹¹² Herbert Marcuse, *The Relevance of Reality*. *Proceedings and Addresses of the American Philosophical Association*. Volume 42 (1968-69) pp. 39-50. pp 41-42. (http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCEQFjAA&url=http%3A%2F%2Fwww.marcuse.org%2Fherbert%2Fpubs%2F60spubs%2F69RelevanceReality.pdf&ei=BK78VOalGYGwUZOVhLgB&usg=AFQjCNEDEXUrHFVTITBQ5_cnNh1OGQoDK3g&sig2=XqUTssmBTV5lumTfcVAh3A&bvm=bv.87611401.d.ZWU – accessed March 2015). See also other works by the same author.

¹¹³ See for example H.S. Foxwell 1917, The nature of the industrial struggle. *The Economic Journal*. Volume 27 pages 315-329 **not found**; Peter Drucker 1956. [Business objectives and survival needs: Notes on a discipline of business enterprise](http://www.jstor.org/). *The Journal of Business*. Volume 31 pages 81-90. <http://www.jstor.org/>

and expected that banking and land-rents would be socialized, making it easier to obtain credit for industry and commerce, harder to avoid the social obligation to do something useful in order to turn money into more money, and easier to finance a welfare state.¹¹⁴ Excess profits not needed to fund or motivate production and revenues from “gifts of nature” not created by anybody’s labour or by anybody’s entrepreneurial creativity could be channelled --as the medieval church channelled rents from lands it owned¹¹⁵—to hospitals and schools. And why not scientific research and the fine arts? John Maynard Keynes looked forward to a time when capital would be so abundant that it would lose its scarcity value, and when government would cooperate with business in the rational planning of investments.¹¹⁶ Marx himself expected that on its way to socialism capitalism would pass through a phase in which the functional requirements of industry would crowd out the speculative gains of rentiers.¹¹⁷

Michael Kalecki suggested a basic reason why the hopes of the 20th century were dashed. On his view, writing in 1943, harnessing the horse of the profit motive to the wagon of the common good -- and in general organizing modern capital-intensive knowledge-intensive industry to make it work for all of us instead of just for some of us was *technically* feasible. There was a consensus among a solid majority of economists that it could be done. Nevertheless, for *political* reasons it could not be done.¹¹⁸ Let us

[discover/10.2307/2350590?sid=21105574510281&uid=70&uid=4&uid=3738032&uid=2129&uid=2](http://www.jstor.org/discover/10.2307/2350590?sid=21105574510281&uid=70&uid=4&uid=3738032&uid=2129&uid=2) – accessed March 2015).

¹¹⁴ See G.D.H. Cole 1931. *The socialisation of banking*. London, Victor Gollancz, John Dewey 1937. The socialization of land rent. In Jo Ann Boydston 1987 (Ed.) *The later works of John Dewey 1925-1953*. Volume II. Carbondale, Southern Illinois University Press.

¹¹⁵ The Knights of St. John for example were endowed with lands for the support of the poor. Timothy Miller 1978. [The knights of St. John and the hospitals of the Latin west](http://www.jstor.org/discover/10.2307/2849782?sid=21105574510281&uid=3738032&uid=4&uid=2129&uid=2&uid=70). *Speculum*. Volume 53 pages 709-733 at p. 718. (<http://www.jstor.org/discover/10.2307/2849782?sid=21105574510281&uid=3738032&uid=4&uid=2129&uid=2&uid=70> – accessed March 2015). See also Balch, Emily Greene 1893. [Public Assistance of the Poor in France](https://archive.org/details/jstor-2485656) *Publications of the american economic association*. Vol. 8 pp. 9-179. pp. 9-21 (<https://archive.org/details/jstor-2485656> - accessed March 2015).

¹¹⁶ John Maynard Keynes, 1936, [General theory of employment, money and interest](https://www.marxists.org/reference/subject/economics/keynes/general-theory/). New York, Macmillan. Chapter twenty four. (<https://www.marxists.org/reference/subject/economics/keynes/general-theory/> - accessed March 2015).

¹¹⁷ See Michael Hudson 2010. [From Marx to Goldman Sachs: The fictions of fictitious capital and the financialization of industry](http://michael-hudson.com/2010/07/from-marx-to-goldman-sachs-the-fictions-of-fictitious-capital1/). *Critique: a Journal of Socialist Theory*. Volume 38, pages 419-444. (<http://michael-hudson.com/2010/07/from-marx-to-goldman-sachs-the-fictions-of-fictitious-capital1/> - accessed March 2015).

¹¹⁸ Michael Kalecki 1943. [Political aspects of full employment](http://www.modernmoneynetwork.org/uploads/1/2/5/3/12534585/political-aspects-of-full-employment.pdf). *Political Quarterly*. Volume 14, pp. 322-331. (<http://www.modernmoneynetwork.org/uploads/1/2/5/3/12534585/political-aspects-of-full-employment.pdf> - accessed March 2015). Milton Friedman and others argue to the contrary that measures like those advocated by Keynes are *not* technically feasible. For them it is the other way around: populism succeeds at

examine a little closely the political obstacles Kalecki saw in 1943 with a view to philosophizing about what might be possible now in the 21st century. He writes: “Under a laissez-faire system the level of employment depends to a great extent on the so-called state of confidence. If this deteriorates, private investment declines, which results in a fall of output and employment (both directly and through the secondary effects of the fall in incomes on consumption and investment). This gives the capitalists *a powerful indirect control over government policy*; everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis”.¹¹⁹ Because the capitalists fear losing control they seek to block politically the economic democracy that is possible technically. Because they are powerful they succeed.

Let us restate Kalecki’s point here somewhat differently in order to suggest what we think is a feasible way to recycle the surplus. What did not work in the 20th century might work in the 21st. On our view it is not quite right to suggest that “the capitalists” regarded as a group of people constrain government policy, ruling out anything that might shake their confidence that investments will be profitable. It is more accurate to say that “the system” works that way whether anybody likes it or not, even if the capitalists themselves do not like it.

“CWP help so much at school because they plant vegetables and take those vegetables and cook them at school. Because there are some children who come to school without having eaten anything at home”. --- CWP participant, Umthwalume

Suppose that “the capitalists” regarded as a group of people were to be convinced that they as well as everyone else would be better off living in a more egalitarian society.¹²⁰ Suppose further they or most of them were also convinced that constraining

a political level because its promises attract votes, but at the level of economic reality populist projects regularly fail. See for example, Friedman’s presidential address to the American Economic Association: Milton Friedman 1968. [The role of monetary policy](https://www.aeaweb.org/aer/top20/58.1.1-17.pdf). *The American Economic Review*. Volume 58, pages 1-17. (<https://www.aeaweb.org/aer/top20/58.1.1-17.pdf> - accessed March 2015).

¹¹⁹ Ibid. Italics added. One can speculate that Kalecki decided to return to his native Poland to work as a planner for a leftist authoritarian regime because he believed that in democracies the indirect control of capitalists over government policy made progress toward socialism politically impossible.

¹²⁰ That it is in fact the case that everyone would be better off in a more egalitarian society is argued by Richard Wilkinson and Kate Pickett 2009. [The spirit level](http://emilkirkegaard). London, Allen Lane. (<http://emilkirkegaard>

government policy by ruling out any measures that might shake the confidence of investors (i.e. cause them to doubt that investment will be profitable) makes it impossible to achieve a sustainable relationship with the biosphere.¹²¹ On these suppositions, “the capitalists” would encounter the same obstacles everyone else faces in trying to overcome the policy constraints Kalecki identifies. The capitalists could align with the other sectors of society to solve society’s problems. Whether they would be motivated to do so would not be a question for politics or for economics but a question for psychology.

This problem, which might be called a fundamental problem of governability, calls for alignment across sectors to solve it. The root of the problem is Staggering Fact one. Production depends on confidence. (We have seen that this does not refer to all production on a commonsense view looking at what is physically made. It refers to production for sale for profit.) Recycling surplus or reducing carbon emissions can be done only subject to the constraint that they do not undermine confidence. Until society becomes more governable they cannot be done on a sufficient scale to include the excluded or to reverse global warming.

The investors themselves cannot solve the fundamental problem. They cannot decide to risk their money (or other people’s money entrusted to them to manage) by going ahead and investing anyway, even when they have no confidence that the investment will pay, or perhaps indeed expect that part or all of the money will be lost.

Governments alone cannot solve the fundamental problem. It cannot be solved simply by electing to office with solid majorities leaders who desire to solve it. However many votes they garner, and however large their majority may be in the legislature, whether the wheels of commerce in fact turn or do not turn will depend not on executive

[.dk/en/wp-content/uploads/The-Spirit-Level-Why-Greater-Equality-Makes-Societies-Stronger-Kate-Pickett-400p_1608193411.pdf](#) - accessed March 2015)

¹²¹ Many argue that this is in fact the case. According to Novek and Kampen that “...the relationship between economic expansion and environmental protection remains fundamentally contradictory”. Joel Novek and Karen Kampen 1992. [Sustainable or unsustainable development: An analysis of an environmental controversy](#) *Canadian Journal of Sociology*, Vol. 17 Pp. 249-273. p. 250. (<http://www.jstor.org/discover/10.2307/3341323?sid=21105579164351&uid=70&uid=2&uid=4&uid=3738032&uid=2129> – accessed March 2015). See also Michael Redclift 1987. [Sustainable development: Exploring the contradictions](#). London, Methuen; Fred Magdoff and John Bellamy Foster 2011. [What every environmentalist should know about capitalism](#). New York: Monthly Review Press. (<http://monthlyreview.org/books/pb2419/> - accessed March 2015).

orders governments might issue or on laws parliaments might pass; It will depend (to the extent that it depends on production for sale for profit) on whether business people small and large, from the sewing lady on the corner who makes a living mending her neighbours' garments to the directors of BP, can be confident that they will be able to sell their products at cost-covering prices leaving them a profit margin decent enough to make it worth their while to stay in business. Here we find useful (but incomplete) Alfred Marshall's idea that a "normal" profit is one large enough to motivate people to do business, i.e. the "supply price" of the business person's efforts. Note, however, that while governments are constrained not to impose taxes (or to do anything else) that destroy business confidence, neither infinite profits nor maximum profits are needed to keep the wheels of industry turning.¹²² What is needed to motivate entrepreneurs is a psychological question. It is not a juridical question answered by the legal rule derived mainly from Roman Law that the profits of industry belong to the owners of the means of production, nor by the equitable rule that managers have a fiduciary duty to serve the interests of owners as if they were trading for their own account. It is not answered by the economic theory that profits will be maximized by continuing to produce until marginal cost equals marginal revenue, or by any economic theory.¹²³ It is not answered by empirical studies like those of Cyert and March that find it illuminating to analyse a large corporation as a political system in which different interest groups (including managers, who often have the upper hand over the shareholders who are nominally the owners) with different power bases and different ideologies compete for shares of revenue.¹²⁴ Remember also Jose Luis Coraggio's point that in the case of the aforesaid sewing lady and of the millions of others who work in the people's economy the motivation is not profit at all but rather earning enough money to get by.

¹²² See Alfred Marshall 1887. The theory of business profits. *The Quarterly Journal of Economics*. Volume 1, pages 477-481. See also the discussions of the normal supply price of business in Chapters Five and Six of Book V of Alfred Marshall, *Principles of Economics*. London: Macmillan, 1895 (third edition). (http://files.libertyfund.org/files/1676/Marshall_0197_EBk_v6.0.pdf -accessed March 2015).

¹²³ Marshall's answer that profits need to be "normal" while useful is incomplete because it begs the question how much it takes to motivate the entrepreneur to keep doing business in a given case. Ricardo's answer that profit has to be the same for all industries similarly begs the same question, and moreover is empirically false. Michael Porter op. cit. has shown that in some industries (e.g. wholesale trade in grains) all the players in the game are profitable, while in others (e.g. tyres) profits are low for all of them. See also the footnote discussing theories of profit in chapter six.

¹²⁴ [Richard Cyert and James March, A Behavioral Theory of the Firm.](https://www.questia.com/library/89106560/a-behavioral-theory-of-the-firm) (<https://www.questia.com/library/89106560/a-behavioral-theory-of-the-firm> -accessed April 2015) Englewood Cliffs New Jersey, Prentice-Hall, 1963.

Working class militancy alone will not solve the problem, even if we suppose it to be joined by renegades from the upper classes who have seen the light and who realize that the working class is the motor of history that will save them as well as everyone else. Even a disciplined labour movement committed to a man and to a woman to die rather than to permit a rollback of the historical conquests of the working classes, or to defend the national honour against exploitation by foreign capitalists, will not be able to put meat in the pot or bread on the table or ale in the glass if the butcher, the baker, and the brewer do not feel motivated to cut, bake, and brew.

We cannot solve the problem just by writing a better theory and persuading people to believe it. Something has to change in practice, not just in thought.

As often happens, the answer can be found by asking the right question. We believe that the right question is to ask how to end the dependence of production (and therefore of the possibility of satisfying the vital needs of the people) on capital accumulation. We have in mind especially large scale private capital accumulation by large businesses and investors intent on maximizing profit at any cost. We consider it a step forward whenever business is small and local. We consider it a step forward whenever an adequate portion of capital accumulation is public or semi-public (e.g. in the hands of eleemosynary institutions, or in public/private partnerships). We consider it a step forward whenever instead of maximizing profit at any cost the leaders of enterprises lead toward social responsibility and the creation of shared value. We consider it a step forward when the mixed motives for accumulating wealth include a desire to do good. In the best case, for example in Andrew Carnegie's case,¹²⁵ wealth is not accumulated as an end in itself but as a means toward contributing to the greater good.¹²⁶ Nevertheless, in the last analysis we believe we need to turn our thinking around. Instead of thinking about how the economic

¹²⁵ Andrew Carnegie, *The Gospel of Wealth and other Timely Essays*. New York: Century Publishing Co. 1901. (<https://archive.org/details/cu31924001214539> - accessed March 2015). Throughout the United States many towns have "Carnegie Public Libraries" built with funds donated by the 19th century tycoon Andrew Carnegie. The Carnegie Foundation is an active peace research organization still today. Carnegie was an advocate of high inheritance taxes.

¹²⁶ For more recent examples of entrepreneurship with a social purpose see Blake Mycoskie, *Start Something that Matters*. New York: Spiegel and Grau, 2011. (<https://docs.google.com/document/d/1kK3DIdfVnpDL5LHk4vEriYs23XXRURsN8HJEUR5UJoA/edit?pli=1> - accessed March 2015). Mycoskie does not want to accumulate wealth at all, but rather to live a happy and meaningful life supported by a business that provides an adequate living for himself and his associates.

machine functions, we need to think about how we can work together to achieve our common goals. Once that turn-around is achieved the answer to the question how to include the excluded or how to reverse global warming becomes “whatever it takes.”

With this background let us look again at Kalecki’s proposals in 1943. Kalecki proposes achieving full employment through government spending, thus taking away the monopoly of the capitalist class on the creation of employment, and with it their veto power over public policy. Our comment is that this objective is best achieved and most likely to be achieved when public employment and government spending are treated as part of the mix, not as in themselves the whole solution. There are many ways to transfer resources from where they are not needed to where they are needed.

The plural and unbounded solution we suggest might be named as “resilience.” Resilience is a word with several related meanings and with a growing following. In the biological sciences “resilience” refers loosely to the ability of a system to maintain its function when faced with novel disturbance.¹²⁷ In psychology “resilience” tends to refer to the ability to maintain socially competent behaviour in spite of stress.¹²⁸ We suggest that the term can usefully be pressed into service to name the ability of a social system to maintain its functions when investor confidence falters. As ecologists find that redundancy in bio-systems where more than one element serves the same function enhances resiliency, and as psychologists find that people are more resilient to stress when they feel some degree of control over their own lives, we suggest that societies with a plurality of logics and dynamics working to meet basic needs and with relatively high self-sufficiency are more resilient. Resilience is majorly about mobilizing a community’s own local resources, starting with the neighbours who take care of the kids when mom is sick, big sister is sicker, big brother is in jail, and dad has to go to work –a very important topic too big to fit into this already full chapter. Resilient nations and towns and neighbourhoods are less

¹²⁷ Colleen T. Webb 2007. [What is the role of ecology in understanding ecosystem resilience?](http://rydberg.biology.colostate.edu/ctwebb/publications/role%20of%20ecology%20in%20ecosystem%20resilience.pdf) *BioScience*. Volume 57 pages 470-472. (<http://rydberg.biology.colostate.edu/ctwebb/publications/role%20of%20ecology%20in%20ecosystem%20resilience.pdf> - accessed March 2015).

¹²⁸ Suniya S. Luthar 1991. [Resilience and Vulnerability: A study of high-risk adolescents.](http://assets.cambridge.org/97805218/07012/frontmatter/9780521807012_frontmatter.pdf) *Child Development*, Volume 62 pages 600-616. (http://assets.cambridge.org/97805218/07012/frontmatter/9780521807012_frontmatter.pdf - accessed March 2015). This and other studies find that people under stress are more resilient when they feel that they have some control over their lives.

constrained by the threat or reality of deterioration of investor confidence identified by Michael Kalecki.

At this point we extend our discussion of how to recycle the surplus to include how to raise wages and improve working conditions. Making the economy work for the poor is not just about social programmes to relieve their misery when they are out of work. It is also about how to increase their happiness and end their poverty when they are at work. These two dimensions are closely related.

Resilience is a key to raising wages and improving working conditions. The best wages are paid in favourable conditions: the firms can afford to pay good wages; the mission of the firm defines collaborators as stakeholders and higher wages as success in achieving a corporate objective (not as failure to minimize costs); the firm is committed (or can be induced by its ownership structure or by public policy) to stay where it is and to contribute to the community where it is and not inclined to roam the globe in search of cheaper labour and higher profits; the rule of law in the workplace has been established by collective bargaining and/or by labour legislation that is not only written on the books but also honoured in practice. Immigration policy does not allow undermining of labour standards by poverty-stricken people flooding in from elsewhere. Workers have alternatives like for example going back to school to study or setting up a small shop for themselves or forming a workers' cooperative to run a large business as employee-owners.

In the above list of conditions favouring higher wages, the bottleneck issue is the first item on the list: No matter how much effort is expended in achieving the other favourable conditions, wages cannot be raised if the firm is simply too poor to pay high wages. According to the theoretical premises of general equilibrium theory, all firms are too poor to pay high wages because all firms are in highly competitive markets where they must cut costs to the bone to survive. However, for good or for ill --and we think it is sometimes for good-- these theoretical premises often do not obtain in flesh-and-blood reality.

The idea of resilience -- along with plurality, recycling surplus, and unbounded organization-- provides a solution for the bottleneck issue. The solution is to simply let the

firms that are too poor to pay decent wages disappear –with proper support enabling their workers, their owners, and their managers to move to more promising fields. This was the solution of the Swedish Model described in chapter five. Rather than run a shoe industry with indecent wages and miserable working conditions, let the Italians make shoes! Sweden will import shoes and export commuter airplanes! Although the Swedish Model ran into trouble and had to be virtually abandoned, as social democracy gets a second wind and breezes past the brick walls that stopped it in its tracks in the twentieth century, high wages too have a second chance. What might be: An infinitely plural economy with infinitely higher productivity fuelled by amazing advances in technology. It will step back from the brink of absolute conflict and it will find good will to align across sectors. It will be perfectly capable of creating dignified slots for all, even though many of the slots cannot be funded by revenues from the sales of products and many of the slots will need to be funded some other way.

Thus we use the idea of “resilience” to reframe and repeat our advocacy of an unbounded approach to liberation from the systemic imperatives of capital accumulation.

Here is an example of resilience: Enrique Martinez, the head of Argentina’s National Institute of Industrial Technology, has launched a programme called ABC (*Abastecimiento Básico Comunitario*, which can be translated as meeting basic needs at a local level).¹²⁹ Part of its background is the successful implementation in the city of Rosario of primary health care clinics at a neighbourhood level.¹³⁰ Martinez’s dream is that in every *barrio* in Argentina the citizens will be assured of primary health care, housing, and food. Then whatever happens in the global economy and whatever happens in the national economy Argentines will be basically secure.

We suggest that if ABC succeeds then in addition to making a difference on the streets and in the houses in every *barrio*, it will put a floor under wages country-wide. It

¹²⁹ *Abastecimiento Básico Comunitario* (<http://www.inti.gob.ar/abc/> accessed December 19, 2013). Our information comes not only from this website but also from conversations with Mr. Martinez in Buenos Aires on dates which unfortunately we do not remember.

¹³⁰ Howard Richards 2008, *Solidaridad Participación, Transparencia*. Rosario Argentina, Fundación Estévez Boero. Chapter Four. (<http://www.psocalista.org/wp-content/uploads/2013/09/2012-socialistas-y-socialismo1.pdf> - accessed March 2015).

will also –if we may be allowed to extend our point even farther beyond the neighbourhood-- make a difference the bargaining power of the nation in the global economy. It will make a difference in the corridors of the Foreign Office and of the Ministry of Economics in Buenos Aires. If ABC succeeds then Argentine policy-makers will have less fear that a door slammed in their faces on Wall Street or in Washington DC will lead to riots of the destitute back home in Argentina. Similarly, if public employment programmes in South Africa succeed in catalysing community development in ways that make South Africa and each part of it more resilient, then South Africa will be able to play poker with the IMF and with multinational investors holding more aces in its hand. Transformation will be underway.

12. Alfred Marshall on Rent

In our final scene we retitile the chapter “How to Recycle the Surplus.” We trek to Marshall House at Cambridge on a chilly, damp, windy day. With the kind permission of his ghost we browse among the books in the old man’s library.

On a scenario we consider psychologically possible, even probable, the problem of making the social functions of profit and capital accumulation compatible with dignity for all will be regarded as a problem everybody wants to solve. It will not be regarded as a battle scene of absolute conflict. Similarly, the related problem how to recycle the surplus will be regarded as a problem everybody wants to solve.

We can advance toward solutions by studying the theory of economic rent found in the works of Keynes’ teacher Alfred Marshall. We believe that Keynes had the theory of rent of his teacher in mind when he advocated the euthanasia of the rentier class. The recycling of rents to fund social programmes can be a centrepiece of a world where everyone is secure –including the children of the now-euthvanized ex-rentier dynasties.

The issues around rent and around the potential of rent as a source of funding for social programmes centre on what Marshall called, “...that vague and perhaps misleading

sentence –Rent does not enter cost of production.”¹³¹ As a first approximation we can describe economic rent as the gravy left over after all costs of production are paid -- *counting normal profit as a cost of production* (because without a profit sufficient to motivate the entrepreneur there would be no production), *and counting a normal return on capital as a cost of production* (because without capital, presumed to be raised in capital markets where one must pay normal rates of return in order to buy its use, there would be no production). Before rent –conceived according to this first approximation— comes into existence, there must already be paid all costs that must be paid to swing production into motion and make it happen.

It follows that if rent is transferred to the government or to eleemosynary institutions to pay for social programmes production will not be impaired. By definition all things needed to supply all the factors of production, including the profit needed to motivate the entrepreneur, survive the transfer. If a government imposes a tax “on rent” and the result is that farms and businesses fade away into stagnation and bankruptcy because the burden of the tax drives their revenues below what they need to continue, what this proves –on this preliminary approximate reasoning—is that what the government thought was “rent” was not in fact rent.¹³² By definition, if it had been rent, the farmers would have continued to farm and the businesspeople would have continued to trade.

Judging that Marshall’s “perhaps misleading sentence” can be –as Marshall also judged—in substance largely vindicated after the necessary qualifications and clarifications are made, Jorge Leiva, who has been Minister of the Economy in Chile and the Chilean representative to the Inter-American Development Bank, has provided a list of reasons why rents should be recycled for public purposes. Although for an international

¹³¹ Alfred Marshall, *On Rent* *The Economic Journal*. Volume 3 (1893) pp. 74-90. p75. (<http://www.jstor.org/discover/10.2307/2223636?sid=21105580141501&uid=4&uid=3738032&uid=2&uid=70&uid=2129> – accessed March 2015).

¹³² This happened in India in the early 19th century when some disciples of David Ricardo (who pioneered the doctrine of rent) imposed a tax on farmers . The tax was intended to transfer to the public purse a surplus the farmers did not need. In fact it suffocated agriculture and had to be repealed. Michelle Burge McAlpin, *Economic Policy and the True Believer* *The Journal of Economic History*. Volume 44 (1984) pp. 421-427. (<http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=4152040> – accessed March 2015).

readership it may have a bit too much local colour relevant specifically to Chile, it has the great merit of being succinct:

1. The private appropriation of rents is the largest source of social inequality in a mining country (*país minero*).
2. Rent-seeking behaviour should be discouraged because it channels resources away from use in the real economy.
3. In the case of rents derived from natural resources, private appropriation of rents diminishes the country's natural capital without making the productive investments needed to prepare the country for the time when the natural resources are exhausted.
4. Financing government with rents is neutral with respect to the efficient allocation of resources and does not affect investment.
5. The public appropriation of rents could finance, among other things, an industrial policy diversifying an economy that is overly specialized.¹³³

The history of the economic concept of rent goes back at least to Adam Smith. Smith's answer to the question how much rent the landlord charges the tenant was that the landlord charges as much as he can get away with. "Rent, considered as the price paid for the use of land, is generally the highest which the tenant can afford to pay".¹³⁴ Rent is, "...naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of land, or to what he can afford to take; but to what the farmer can afford to give".

It should not be forgotten that Smith began to formulate the ideas in *The Wealth of Nations* barely a century after the English Civil War of 1642-48. The levellers had lost the war. The traditional aristocracy had retained its right to live without working by exacting rent for the use of land. In Smith's language the landlords "love to reap where they never

¹³³ Jorge Leiva Lavalle, 'Las rentas del cobre y el desarrollo chileno' in Gonzalo Martner and Jorge Rivera (eds) *Radiografía Crítica del "Modelo Chileno"*. Santiago: LOM/USACH, 2013. pp. 177-204. p. 199. (<http://www.revistas.usach.cl/ojs/index.php/politicas/article/viewFile/1365/1276> - accessed March 2015). We have simplified as well as translated.

¹³⁴ Adam Smith, *Wealth of Nations*, at the beginning of Book I, chapter 11. (op cit).

sowed.”¹³⁵ The new science of political economy was as David Ricardo said a study of the laws which determine the division of produce among the social classes.¹³⁶ The mathematical renaming of social classes as “factors” or “variables” came later.

In the theory of rent the ethical and political question whether some should live in leisure without toil has for more than two centuries been intertwined with the scientific question whether rent enters into the cost of production.

It is sometimes called the theory of Ricardian rent because in 1817 Ricardo gave it its classic formulation.¹³⁷ Ricardo asks us to imagine that exactly the same quantities of capital and labour are devoted to raising food on two different plots of land. If the value yielded by the land (i.e the price times the quantity produced) is greater on one plot than on the other, then the difference of the two values will be rent, not produced by or explained by either capital or labour. If we then further imagine that the first plot of land is so marginal that it barely justifies the labour and capital devoted to cultivating it, then that first plot pays zero rent. For any plot the difference between its yield and the first plot’s yield will be the amount of rent. In Ricardo’s words: “Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil”.¹³⁸

As the population increases and with it the demand for food and the price of food, more and more land of worse and worse quality is pressed into service. The result is that the rent that can be charged for the use of better land goes up and up. In Ricardo’s words the rent the landlord can charge can be calculated as the difference between the fertility of the land the landlord happens to own and the fertility of the “the least productive land in cultivation.”

Ricardo’s advice to government is to tax rents: “A tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of

¹³⁵ Id. chapter 6.

¹³⁶ David Ricardo, letter to Thomas Malthus of October 9, 1920, quoted by Keynes, op cit. p 4.

¹³⁷ David Ricardo, *Principles of Political Economy and Taxation*, Third edition. London: John Murray, 1821 (1817) (<http://socserv.mcmaster.ca/econ/ugcm/3ll3/ricardo/Principles.pdf> - accessed March 2015).

¹³⁸ Id. Chapter Two, first sentence of second paragraph.

consumers”.¹³⁹ It would not affect the wages of the workers, nor would it affect either the profits or the motivations of the farmers.

For Karl Marx, rent is part of the trio rent, profits, and interest which he mocks as the “holy trinity”.¹⁴⁰ The three are distinct portions coming from one original source: surplus value. Surplus value is derived from the exploitation of the labour-power of the workers during the production process. Nevertheless, although he seems to say most of the time that any surplus generated anywhere is due to the exploitation of labour, he begins his 1875 *Critique of the Gotha Programme* with the emphatic words: “Labour is *not the source* of all wealth. *Nature* is just as much the source of use values (and it is surely of such that material wealth consists!) as labour, which itself is only the manifestation of a force of nature, human labour power”.¹⁴¹ Marx did not live long enough to read Joan Robinson’s arguments in favour of counting the private control of capital goods and of natural resources as sources of exchange value.¹⁴² He is not alive today to see human labour replaced by robots while exploitation takes the form of deriving huge rents from financial speculation, from the privatization of water and seeds, and from intellectual property such as patents on information technology, alternative fuels, and pharmaceuticals.¹⁴³ We believe that if Marx were with us now he would agree that while we move toward ever more social appropriation of the social product, we must simultaneously take measures to be sure that the social functions performed by profit and interest continue to be performed. We think Marx would also agree that rents can and should be transferred to social programmes provided that we avoid what Alfred Marshall would call a “violent shock”¹⁴⁴ to the productive processes that satisfy (albeit so far quite imperfectly) the vital needs of the people.

¹³⁹ Ricardo op. cit. First sentence of chapter ten.

¹⁴⁰ Marx develops these ideas in the posthumously published third volume of *Capital*.

¹⁴¹ *Critique of the Gotha Programme* (<https://www.marxists.org/archive/marx/works/1875/gotha/ch01.htm> - accessed March 2015).

¹⁴² Joan Robinson, *An Essay on Marxian Economics*. London: Macmillan, 1942. <http://digamo.free.fr/robimarx.pdf> - accessed March 2015)

¹⁴³ See for example Vandana Shiva, *Water Wars: Privatization, Pollution, and Profit*. (http://books.google.co.uk/books/about/Water_Wars.html?id=Vftlst082acC&redir_esc=y - accessed April 2015) Boston: South End Press, 2002.

¹⁴⁴ Marshall, *On Rent*, op. cit. p. 78.

The most famous attack on Ricardo's theory of rent is the "Exposition and Refutation of the English Theory of Rent" in Lesson 39 of Leon Walras's *Elements of Pure Economics* (first edition 1874).¹⁴⁵ Walras's critique of Ricardo has been highly praised by Milton Friedman¹⁴⁶ as an "excellent example" of using symbolic forms and elementary mathematics to clarify "vague statements".

What Walras' 1874 refutation of Ricardo actually shows is that rent cannot properly be calculated as Ricardo calculated it. The calculation of rent needs to be incorporated into a more complete system of variables, where more quantities are flexible and fewer fixed, and all are related to each other. Walras specifically separates his scientific inquiry from an ethical inquiry into property rights which would consider Smith's point that landlords reap where they have not sown.¹⁴⁷ Walras specifically recognizes that, "...to be sure the English school succeeded in demonstrating that rent does not enter into the cost of production..."¹⁴⁸ We see Walras's contributions and those of others to the debates that followed on Ricardo's proposal to tax rents as prologue to the more sophisticated account of rents provided by Alfred Marshall (1842-1924).

Marshall introduces what he calls situation rent. "It consists of those incomes, or rather those parts of incomes which are the indirect result of the general progress of society rather than the direct result of the investment of capital and labour by individuals for the sake of securing certain gains for themselves". A good location, for example, gives a business an advantage that can be translated into money. If the location itself, considered as a small plot of land, stays the same, while a railroad or a port is built nearby, then the owner will derive a rent because the situation is improved by the general progress of society.

¹⁴⁵ LéonWalras, *Elements of Pure Economics*. London: Routledge, 2003. Pp. 404 et seq. (<http://www.gbv.de/dms/zbw/657540056.pdf> - accessed March 2015). (First French edition 1874) The theory is "English" because it was supported by John Stuart Mill and others.

¹⁴⁶ Milton Friedman, *Léon Walras and his Economic System*. *Journal of Political Economy*. Volume 45 (1955) pp. 900-909. p906. (<http://0055d26.netsolhost.com/friedman/pdfs/aea/AEA-AER.12.01.1955.pdf> - accessed March 2015).

¹⁴⁷ Walras op. cit. Lessons 2, 3, and 4.

¹⁴⁸ Walras op. cit. Lesson 39 p. 417. Walras goes on to say that "this proved to be the rock on which the English school foundered" meaning that their reasoning makes their calculations of the amount of rent incorrect. We do not believe Walras' reasoning denies the point that rents can be transferred from where they are least needed to where they are most needed.

Marshall goes on to say that the so-called rent of a building (economists are aware of the difference between the common use of the word “rent” and “rent” defined in economics in the Ricardian tradition) is commonly composed of two elements. One is the rent of the ground on which the building is built, which is often chiefly a situation rent. If the ground happens to be, for example, in an airport, there is a situation rent because the airport provides a captive clientele for a restaurant or a shop. The other part of the rent of the building includes what Marshall calls a “quasi-rent.”

Ricardo thought primarily of the rent of land, and secondarily of the rent of any natural resource. Marshall coined the term “quasi-rent” to refer to income derived from machines and other man-made sources of income. It refers to income from old investments of capital, as distinct from profits on current investments. Good agricultural land itself—as Ricardo’s critics point out—is rarely just “the original and indestructible power of the soil” and is usually the result of many years of careful cultivation. Here time enters the picture. Improved agricultural land is scarce, both because a major component of its value consists of gifts of nature –which are limited-- and also because of improvements like those John Stuart Mill attributed to “the centuries-long marriage of the peasant and the soil.” Human-made improvements are also limited (hence Ricardo’s concept of rent shades into Marshall’s concept of quasi-rent) even though they are limited less strictly than nature’s gifts. In the course of time the quantity of human-improved land can eventually be expanded –but not quickly. Much the same can be said of a building and a complex machine. They are also scarce. When demand is high their price will be bid up not only because of what it costs to make them but also because supply is inelastic in the short and medium term. If their price ever descends to their cost of production it will not be soon. Hence they fetch a quasi-rent, as a restaurant location that is the only one at an airport fetches a situation rent. Marshall: “Thus our central doctrine is that interest on free capital and quasi-rent on an old investment of capital shade into one another gradually; even the rent of land being not a thing by itself, but the leading species of a large genus”.¹⁴⁹

To briefly summarize what Marshall spells out at length in carefully nuanced detail, we have the rent of land, the rent of natural resources, situation rent, and quasi-rent. In these four

¹⁴⁹ Alfred Marshall, *Principles of Economics*. London: Macmillan, 1893. p85. (op cit).

categories it is often the case that normal profits can be made and a normal return on capital earned (in other words, the opportunity cost of capital can be paid) leaving left over a rent. The rent is a social surplus.

Critics have made other points that do not really affect Jorge Leiva's and our support for ethical and rational recycling of surplus to meet vital needs. It is said, for example, that Ricardo was wrong because he expected rent to become in the future an increasing part of national income, when in fact rents have shrunk as a proportion of total income and wages have become a larger proportion. It is said that Ricardo's practical problem of the high price of grain in Great Britain was solved in practice by free trade making all the land in the world available to satisfy the needs of the British consumer. It is said that Ricardo was wrong because he thought land was unique, while in fact anything whatever might be sold by its owner for more than is necessary to motivate its production (for example a professional athlete who would gladly sell his services as a football player for a million might be paid two million because of lucrative contracts to telecast the games he plays in).¹⁵⁰ None of these points contradicts the principle of paying for social programmes with rents. The last indeed augments it –leading to a definition of rent as a payment that is not needed to motivate production (in this example the production of skilful play by an athlete). Our opinion remains that of Marshall: “However untenable may be the so-called 'Ricardian dogmas', the analysis of which Ricardo was the chief builder, has firm if often unseen foundations”.¹⁵¹

As our hypothetical observer who cruised around Johannesburg on a bicycle saw, there is a surfeit in the posh suburbs and a shortfall in the bosh townships. Now we can say that it is technically feasible to move surplus from where it is not needed to where it is needed. The greater problem indeed is not in finding surplus to recycle, but in making proper use of recycled surplus. There is a growing literature in political science examining

¹⁵⁰ These criticisms of Ricardo are made in George Stigler, [Bernard Shaw, Sidney Webb, and the Theory of Fabian Socialism](#) *Proceedings of the American Philosophical Society*. Volume 103 (1959) pp. 469-475. (<http://www.jstor.org/discover/10.2307/985478?sid=21105580401151&uid=2&uid=2129&uid=4&uid=70&uid=3738032> – accessed March 2015). Stigler nevertheless concedes that there is such a thing as functionless profit. For a view closer to ours see Richard Arnott and Joseph E. Stiglitz, [Aggregate Land Rents, Expenditure on Public Goods and Optimal City Size](#) *Quarterly Journal of Economics*, Volume 93 (1979) pp. 471-500. (<http://academiccommons.columbia.edu/catalog/ac%3A148879> - accessed March 2015).

¹⁵¹ Marshall *On Rent* op. cit. p. 90.

the thesis that governments that collect large rents from natural resource bounties are more likely to fail than to succeed.¹⁵² In particular, the availability of large rents from oil has sometimes been more a curse than a blessing. We return to our theme that in the last analysis the crucial issues lay more in organization theory and in psychology than in economics.

13. Unbounded Community

The spectacle of nations that succeed in capturing rents to fund social programmes and then nevertheless fail to be democracies that respect human dignity and human rights, leads us back not only to organization theory and to psychology but also to the dialogue of economy and community. It leads us back to morals and ethics. It leads us back to Joseph Schumpeter's refrain that institutions are like battleships, they must be both properly designed and properly manned; and to Mahatma Gandhi's reply to his friend Jawaharlal Nehru that when moneyed men do not administer their wealth as they should as trustees for the poor, but instead behave in socially irresponsible ways, then it is not obvious that the solution to the problem is to nationalize their assets because government officials are also quite capable of not behaving as they should and of administering property in socially irresponsible ways.¹⁵³ Having arrived in this chapter at what we believe to be solutions in principle to the fundamental difficulty of capturing the resources needed to provide decent livelihoods for everybody, at the end of this chapter we come up against the even more fundamental difficulty of socializing human beings so that they will be conscientious and responsible. In closing both this chapter and this book we want to call attention to some ways in which the ideas we have developed in earlier chapters suggest better ways to cope with this even more fundamental difficulty.

The problem is to find effective ways to socialize people. Studies in history, anthropology, theology, sociology, and psychology have documented many ways this can be done. If we ask *how* children are socialized we find that traditional societies have

¹⁵² For example, Michael Herb, [No Representation without Taxation? Rents, Development, and Democracy](http://www.jstor.org/stable/20072891?seq=1#page_scan_tab_contents) *Comparative Politics*. Volume 37 (2005) pp. 297-316. (http://www.jstor.org/stable/20072891?seq=1#page_scan_tab_contents – accessed March 2015).

¹⁵³ See the chapter on Nehru in Howard Richards and Joanna Swanger, *Gandhi and the Future of Economics*. Lake Oswego OR: Dignity Press, 2013 (op.cit.); and by the same authors “Gandhi and Nehru: a Simple Misunderstanding or Worlds Apart?” *Social Justice in Context*. Volume 1, pages 35-54.(op.cit.)

tended to rely on ceremonies and stories (also known as ritual and myth, or as rite and metanarrative)¹⁵⁴ and on the younger folks hanging out with the older folks and gradually integrating themselves into their patterns of activity¹⁵⁵. We find, moreover, that children are *born* socialized, crying and fumbling for the breast with their first breaths outside the womb, already with God-shaped holes in their hearts, already palpitating in bodies that were never designed to function on their own. Their bodies were designed by nature to work physically as functioning parts of cultures¹⁵⁶. Modern societies still do ceremony, story, and hanging out, and humans still have bodies, but modern societies also do formal education and now we have a branch of the science of psychology called the science of moral development. If we ask *into what* people are socialized three generic answers are families (including tribes), bureaucracies (including armies), and markets. We have shown in this book that today's market-driven society is incapable of dealing with today's challenges, insofar as it is imprisoned within the four walls of property, contract, the individual juridical subject, and the absence of a duty to serve the common good. It is a non-starter for a tomorrow when technology will make work as we have known it obsolete. We have argued that the sustainability of the species and the biosphere requires deepening our thinking to plumb the depths of culture and ecology. We have called for unbounded thinking about unbounded problems with unbounded solutions.

If we inquire regarding the *presenting symptoms* of a *physically dysfunctional* modern world-system, among them we will find culture wars –some of them military or paramilitary, others for the moment at least fought with softer weapons—in which the traditionalists are quite sure they are morally superior to the “Godless” (“family values”) and the modernists are quite sure they are morally superior to the “fundamentalists” (“rights”)¹⁵⁷. As we have previously recommended pragmatic compromise as an alternative

¹⁵⁴ See [Mircea Eliade, *Aspects du mythe*](http://www.babelio.com/livres/Eliade-Aspects-du-mythe/8074). Paris: Gallimard, 1966 (<http://www.babelio.com/livres/Eliade-Aspects-du-mythe/8074> -accessed April 2015); Bronislaw Malinowski, [Sex, Culture and Myth](https://archive.org/details/sexculturemyth00malirich). New York: Harcourt, 1962. (<https://archive.org/details/sexculturemyth00malirich> - accessed April 2015). We sympathize with Malinowski's thesis that cultures have a functional relationship to meeting needs, and extend it to an ethic: cultures *should* meet needs.

¹⁵⁵ See Lev Vygotsky, [Mind and Society](http://www.adobe.com/support/downloads/detail.jsp?ftpID=4884). Cambridge MA: Harvard University Press, 1978. (<http://www.adobe.com/support/downloads/detail.jsp?ftpID=4884> –accessed April 2015).

¹⁵⁶ Nancy Tanner, [On Becoming Human](http://online.library.wiley.com/doi/10.1002/ajpa.1330580316/abstract). Cambridge: Cambridge University Press, 1981. (<http://online.library.wiley.com/doi/10.1002/ajpa.1330580316/abstract> -accessed April 2015).

¹⁵⁷ Vivienne Jabri analyzes Tony Blair's rationalization of the Iraq war on the basis of the moral superiority of modern theories of rights in her [War and the Transformation of Global Politics](http://www.palgrave.com/us/book/9781405174444). Houndmills UK: Palgrave

to absolute conflict, here we recommend unbounded community as an alternative to culture wars. “Unbounded community” is a way to name effective ways to socialize people that combine the security of living in a traditional community (“a place where people know what to expect from one another” –Max Weber) with the modern open-mindedness of critical realism (“the task of the intellectual is to adjust culture to its physical functions” – Antonio Gramsci).¹⁵⁸

To begin to spell out what we are trying to mean with the seven syllables of “unbounded community,” consider again the organization workshops where the idea of “unbounded organization” was formed, and the Vygotskian cultural-historical activity theory underpinning them. Vygotsky laid foundations for moving psychology *away from* an ethnocentric pseudo-scientific positivism and *toward* the study of human activity mediated by historically-developed technologies and symbols. Word meaning was one of the fulcrums Vygotsky used to leverage psychology *away from* mind-as-processor-of-facts (a view of mind and of science that lends itself to *seeing* modern European culture *as* unique because scientific) *to* mind-as-cultural-historical-construction (a view of mind and science that lends itself to *seeing* modern European culture *as* one culture among many.) Vygotsky writes: “We tried a new approach and replaced analysis into elements [*elementy*] by analysis into units [*ednitsy*]. Units are products of analysis that correspond to specific aspects of the phenomenon under investigation. At the same time, unlike elements, units are capable of retaining and expressing the essence of that whole being analysed. The unit of our analysis will thus contain in the most fundamental and elementary form those properties that belong to verbal thinking as a whole. We found this unit of verbal thought in word meaning. Word meaning is the elementary ‘cell’ that cannot be further analysed and that represents the most elementary form of the unity between thought and word.”¹⁵⁹

Word meaning, obviously enough, comes from culture and from history.

Macmillan, 2007. (<http://www.palgrave.com/page/detail/war-and-the-transformation-of-global-politics-vivienne-jabri/?K=9780230006577> –accessed April 2015).

¹⁵⁸ These are fictitious quotes expressing Weber’s making *Gemeinshandel* a foundational concept for sociology and Gramsci’s views on the role of organic intellectuals in moral and intellectual reform. We are echoing the views of communitarian authors like Amitai Etzioni and Michael Walzer who assert the possibility and necessity of blending the best traditional values with the best modern values.

¹⁵⁹ Lev Vygotsky, [Thought and Language](http://s-f-walker.org.uk/pubsebooks/pdfs/Vygotsky_Thought_and_Language.pdf). Cambridge MA: MIT Press, 1987. (original Russian edition 1934) pages 211-212.(http://s-f-walker.org.uk/pubsebooks/pdfs/Vygotsky_Thought_and_Language.pdf -accessed April 2015).

In what follows we will add to the cultural-historical approach to psychology and the human sciences Vygotsky pioneered some ideas drawn from the psychology of moral development and from recent Marxist philosophy. We will blend the three with points made earlier in this book. We will subtly suggest that the resulting amalgam contributes something to what we have called the even more fundamental difficulty of effectively socializing people. We will suggest even more subtly that it contributes something to defusing the culture wars between the traditionalists and the modernists.

The reader already knows that an organization workshop is a large group socialization process mediated by useful work. People learn to participate responsibly in interdependent activity systems. Early in the lectures they learn that both spirituality and division of labour have been part of human cultures since earliest times; one does not exclude the other. They learn a metanarrative about the organization and reorganization of human labour throughout history, and then they participate in that metanarrative by organizing and reorganizing whatever it takes to, for example, fence the cattle into the pasture and out of the maize. We suggest that as they build fences they build unbounded community. They do not build the bounded traditional communities modernists loathe; no, not xenophobic, patriarchal, stifling, superstitious, violent, narrow-minded communities. They build communities that get the fences built, the hill reforested, the frail care home remodelled, the meals cooked and the kitchen washed up. They align with the common good on two planes, on the plane of the immediate goals of their enterprise, and on the plane of the societal enterprise to which their immediate enterprise contributes.

Now let us look at the science of moral development. Points already made in this book lead to some caveats regarding it. The headwaters of the main stream of that science flow from Jean Piaget's classic from 1932 *Le jugement moral chez l'enfant*.¹⁶⁰ Piaget (1896-1980) studied working class children in Geneva as little moral philosophers who construct the rules for their games and gangs. When doubtful cases arise they parley. Anticipating Carol Gilligan¹⁶¹, Piaget found that the ethical reasoning of girls is somewhat

¹⁶⁰ Paris: PUF, 1932. English translation [The Moral Judgment of the Child](https://archive.org/details/moraljudgmentoft005613mbp). New York: Free Press, 1965. (<https://archive.org/details/moraljudgmentoft005613mbp> -accessed April 2015)

¹⁶¹ Carol Gilligan, [In a Different Voice](http://occupytampa.org/files/tristan/fem/books/gilligan%20in%20a%20different%20voice.pdf). Cambridge MA: Harvard University Press, 1982. (<http://occupytampa.org/files/tristan/fem/books/gilligan%20in%20a%20different%20voice.pdf> - accessed April 2015).

more relationship-centred, and that of boys somewhat more social-structure-centred. The overall upshot –if one dares compress his detailed study of children playing and quarrelling and carrying on into a single upshot-- is empirical evidence for Kant’s philosophy. Piaget names Kant and says so. The direction of moral development is from heteronomy to autonomy. It is from obeying authority to internalizing authority. At this point a caveat is in order. If the bottom line of the findings of the science of moral development is that properly socialized children have internalized Kant’s ethics; and if Kant’s ethics make Adam Smith’s principles of natural liberty eternal, universal, and sufficient; then the constitutive rules of markets define the fundamental norms not just for modernity but also for post-modernity and post-history and for a future that will *dure longtemps* until the planet earth crashes into the sun. The Staggering Facts will exist as long as ethics exist, which is to say as long as human beings exist. (We slip into this paragraph the idea that wherever there are humans there are ethics remembering Durkheim’s point that every human group generates morals because morals are a physical necessity essential for survival, and forgetting for present purposes distinctions between “ethics” and “morals.”) But maybe this is not what Piaget meant. Maybe Piaget meant or should have meant that in moving from heteronomy to autonomy children internalize *some ethics or other*.

Lawrence Kohlberg (1927-1987) and his colleagues collected huge quantities of evidence, initially using samples biased by the over-inclusion of American males, concluding in a manner reminiscent of Piaget that human moral development has three great phases, each of which can be subdivided into two stages. The three great phases are pre-conventional(stages one and two), conventional (stages three and four), and post-conventional (stages five and six).¹⁶² The highest stage, the sixth (notoriously criticized by Carol Gilligan for putting justice ahead of caring) is located generally in the liberal discursive space of Kant and rights-talk. It is identified by Kohlberg not precisely with Kant but more specifically with the ethical philosophy of his Harvard colleague John Rawls,¹⁶³ and more generally with a mature human being with a mature ethical

¹⁶² Lawrence Kohlberg, [The Psychology of Moral Development](https://explorable.com/theory-of-moral-development). San Francisco: Harper and Row, 1984.(<https://explorable.com/theory-of-moral-development> - accessed April 2015).

¹⁶³ That Rawls’ philosophy remains within the discursive space of liberalism is argued by Brian Barry in *The Liberal Theory of Justice*. Oxford: Clarendon Press, 1973. Rawls himself tells us in [A Theory of Justice](https://www.uta.edu/philosophy/faculty/burgess-) Cambridge MA: Harvard University Press, 1971 (<https://www.uta.edu/philosophy/faculty/burgess->

philosophy.¹⁶⁴ A mature philosophy features systematic respect for universal human rights. Points made above suggest more caveats here.

Kohlberg, his colleagues, Carol Gilligan, Martin Hoffman¹⁶⁵, and many others we have no space to name, have produced findings that have led to many practical applications. They have generated an academic and social movement pressing for moral education in every school, in every home, and in every workplace. Around the world buzz groups are buzzing "Kohlbergian moral dilemmas," banking on the finding that when people talk to each other about hypothetical moral dilemmas their conversations directly improve their judgment and indirectly improve their conduct. Applicants for employment as prison guards are selected to be one half or one Kohlbergian stage ahead of the prisoners because if their moral development is too low then the guards will be part of the problem instead of part of the solution, and if their moral development is too high they will talk over the prisoners' heads.

It gets better. John C. Gibbs' recent (2014) account of the state-of-the-science explicitly says what we suggested Piaget should have said: what the child internalizes when she or he attains Kohlbergian stage three and four *conventional* moral development is *the conventions of some culture or other*. For Gibbs the post-conventional stages five and six are not so much psychological stages as participation in adult culture. Post-conventional moral development is doing things human beings, or at least the thinkers among human beings, have been doing for thousands of years, thinking about life, thinking about how to cope with its challenges, thinking about what is right and what is wrong. In Gibbs the science of moral development is becoming cultural historical. Moreover, recent research has corrected an over-emphasis on *cognitive* moral development with an overdue emphasis on *affective* moral development. Gibbs writes:

[jackson/A%20Theory%20of%20Justice%20\(Excerpts\).pdf](#) –accessed April 2015) that his work is located within traditions beginning in Europe in the 18th century and is devoted to strengthening their rights-talk strands over against their utilitarian strands.

¹⁶⁴ Kohlberg also sometimes said that Socrates, Martin Luther King Jr. and Mahatma Gandhi were examples of people who had attained stage six of moral development, but these were throw-away lines since he made no serious attempt to study the thinking of any of the three.

¹⁶⁵ Martin Hoffman, [Empathy and Moral Development](#). Cambridge UK: Cambridge University Press, 2001. (<http://catdir.loc.gov/catdir/samples/cam032/99029669.pdf> - accessed April 2015).

“...given the cross-cultural diversity of societal norms and of approaches to moral socialization it is unlikely that the requisite levels of prosocial behaviour could be commonly achieved without some universal starting place in the child, as it were, for such socialization. Put positively, moral socialization and internalization must have help from a biological readiness or receptivity to altruistic appeals in socialization; that is, predisposition to accept prosocial norms. Hoffman’s [Martin Hoffman’s] word for such a biologically based predisposition is *empathy*.”¹⁶⁶

Combining Gibbs’ account with points made in this book suggests a three-level approach to unbounded community: (1) affective support for new-borns and throughout early childhood¹⁶⁷, (2) internalization of conventional norms, assuming that most conventional norms of most cultures most of the time are reasonably functional, and making exceptions where conventional norms are clearly dysfunctional; (3) improvement of conventional norms, including the constitutive rules of institutions, to make them better serve their physical functions.

In this book we have been interweaving the themes of economy and community. This positions us to notice in closing another major intellectual trend of our times. It is a trend that keeps alive the hope that traditionalists can be brought into conversations with modernists in dialogues where neither side starts from the unquestioned and unquestionable premise that it is morally superior to the other. Sometimes this trend is called “discourse studies.” Scorn for everything non-western and pre-modern as pre-scientific and as cruel is replaced by a perhaps exaggerated admiration of everything indigenous and ancient, and by a relentless Foucauldian exposure of the frauds of modern power. This trend is nowhere more evident than in the works of European Marxists devoted to reviving the meaning of community in a neoliberal age when the very possibility of understanding community seems to have been lost.¹⁶⁸ It is as if while in the nineteenth and early twentieth centuries

¹⁶⁶ John C. Gibbs, [Moral Development and Reality](http://www.naruto-u.ac.jp/center/prevention/pictures/flier/Gibbs%20Moral%20Development%20%20Reality%202nd%20Ed%20.pdf). London: Oxford University Press, 2014, p. 100. (<http://www.naruto-u.ac.jp/center/prevention/pictures/flier/Gibbs%20Moral%20Development%20%20Reality%202nd%20Ed%20.pdf> – accessed April 2015).

¹⁶⁷ See John Bowlby, [Child Care and the Growth of Love](http://www.violence.de/prescott/letters/BOOK_OF_THE_CENTURY-BOWLBY.pdf), Baltimore MD: Penguin, 1953 and see generally the works of Erik Erikson. (http://www.violence.de/prescott/letters/BOOK_OF_THE_CENTURY-BOWLBY.pdf - accessed April 2015).

¹⁶⁸ For example, Giorgio Agamben, [The Coming Community](http://zine.library.info/files/comingcommunity.pdf). Minneapolis: University of Minnesota Press, 1993 (original Italian edition 1990). (<http://zine.library.info/files/comingcommunity.pdf> -accessed April 2015).

the left could organize opposition to capitalism relying on appeals to principles of solidarity submerged but not forgotten in the common-sense of the masses,¹⁶⁹ today when neoliberalism has penetrated so deeply and thoroughly into the minds and hearts of the masses that solidarity is no longer intelligible, it falls to the Marxists to remind the public of the lost meanings of conservative ideals.

We note a passage in *Il tempo che resta*, an exegesis of St. Paul's letter to the Romans by Giorgio Agamben.¹⁷⁰ We observe in passing that no subtlety of ancient or medieval theology is so obscure that it escapes the attention of this Italian Marxist. Agamben labours tirelessly to recover spiritual meanings that were intelligible in the past but have become unintelligible in the present. Like Badiou and Žižek he emphasizes that in the great and original sources of the universal ideal of humanity, universal was not supposed to mean, and humanity was not supposed to mean, the expansion of the European world-system to become a single modern world-system governed everywhere by capitalist production relations. It was not supposed to mean bringing the Napoleonic codes to Siam. It was not supposed to mean elevating property rights above human rights. It was supposed to mean welcoming outsiders into communion. It was supposed to mean extending the sense of the sacred to embrace the sacredness of the personhood of those who are not members of our community but are members of the larger community of the human family. The true "universal" (or some other word that does better the job for which Badiou retains "universal") is not a single sameness that eliminates all detail for the sake of naming a single class with a single symbol. It is a single welcome.

In one passage commenting on Paul's letter to the Romans the Italian Marxist philosopher Agamben considers questions raised by the apostle Paul preaching Christ's

Alain Badiou, Saint Paul: [The Foundation of Universalism](#). Stanford: Stanford University Press, 2003 (original French edition 1997), (<http://www.sup.org/books/title/?id=4042> – accessed April 2015). Slavoj Žižek, [Living in the End Times](#). London: Verso 2011. (<http://cnqzu.com/library/Economics/zizek/Zizek.%20Slavoj-Living%20in%20the%20End%20of%20Times.pdf> – accessed April 2015).

¹⁶⁹ For an example see E.P. Thompson, [The Making of the English Working Class](#). London: Penguin, 1963. (<https://uncomradelybehaviour.wordpress.com/2012/04/30/the-making-of-the-english-working-class-ep-thompson/> - accessed April 2015).

¹⁷⁰ Giorgio Agamben, *Il tempo che resta*, un commentato alla Lettera ai Romani. Torino: Bollati Boringhieri, 2000. English translation: [The Time that Remains](#), a commentary on the letter to the Romans. Stanford: Stanford University Press, 2005. (<http://www.sup.org/books/title/?id=3189> – accessed April 2015)

message to the *gojim*, the non-Jews.¹⁷¹ The questions arise: What are the boundaries of the Jewish community that separate Jew from gentile? What do those boundaries imply for a Paul who is writing a letter to Romans who are not Jews? On one account the boundary of the community is circumcision. Jews are circumcised. Gentiles are not. On another it is the law. Jews are under the law. Gentiles are not. Paul circumvents the question whether the gospel can properly be preached to the non-circumcised and to those not under the law. He introduces a different distinction, one he claims to be the essence of the message to be preached, and therefore decisive for determining to whom it is to be preached. In Paul's Greek the distinction is *sarx/pneuma*. In Agamben's Italian it is *carne/soffio*. In English it is flesh/spirit. The message is that in Christ we are born again, this time not of the flesh but of the spirit. Paul's framing of the message paves the way for his universalist answer to the question to whom the message is addressed. Because all of us are tempted by the flesh the message is for all of us. If economic questions become psychological questions, and psychological questions become cultural questions, then with Paul and Agamben we can ask of the motivations of economic actors to what extent they are driven by *sarx/carne* and to what extent they are driven by *pneuma/soffio*.

Agamben's wager, as we read it, is that if Italians could recover the meanings of ancient words like *pneuma* and *soffio* they could face the future more united and less divided.¹⁷² He reminds readers that for Marx the proletariat was a universal class destined to include everybody and to liberate everybody.¹⁷³ Going beyond Agamben and speaking in the terms of a cultural historical psychology, the internalization of prosocial norms through activities that internalize prosocial word meanings and channel biologically-rooted empathy could improve the conduct of almost anybody. It could improve the conduct of anybody except for those with a damaged right lobe of the prefrontal cortex¹⁷⁴, a severe

¹⁷¹ Il tempo che resta pp. 50-55 (op.cit.)

¹⁷² Mfuniswela Bhengu is among those who make the similar proposal that if Africans could recover their spiritual heritage they could face the future more united. See his *Ubuntu*. Cape Town: Lotsha Publications, 2006.

¹⁷³ Il tempo che resta p. 59 (op.cit.)

¹⁷⁴ For an account of how the physiology of the brain interacts with culture in moral development, including the consequences for moral development of physical damage to the brain see Iain McGilchrist, [The Master and his Emissary](http://www.iainmcgilchrist.com/brief_description.asp). New Haven: Yale University Press, 2012. http://www.iainmcgilchrist.com/brief_description.asp - accessed April 2015).

early childhood trauma, or some other exceptional condition that prevents normal moral development.

In the last analysis the most effective way to recycle the surplus to meet social needs may be a moral and intellectual reform centred on the prosocial education of children, youth and adults. To the extent that it works a result would be that whoever administers property would administer it for the common good.

