

Tentative Title: **Economic Theory and Community Development:**

Tentative subtitle: An Exercise in Applied Philosophy

## Introduction

In this book we advocate an approach to solving humanity's principal social and ecological problems that we call unbounded organization (UO). We gradually explain where the idea of unbounded organization came from, what it means, and why we regard it as an important idea we should not keep to ourselves but instead should keep offering to the public.<sup>1</sup>

UO is a capacious idea. Perhaps it should be called a meta-idea. We will come at it from many perspectives and relate it to so many concerns. Even if we fail to make any converts to our cause, at least we will be of service to conversationalists who prepare for parties by making up something to say on every topic likely to come up. We aspire also to be of service to thinkers frustrated by a world where specialists learn more and more about less and less. We will move in the opposite direction: toward a comprehensive synthesis, a realist worldview.

We will not regret our meanderings into many highways and byways. They will serve many purposes. But they may also make people forget our overall main point. This Introduction is a map of the book to be consulted whenever important points made *en route* fog the destination. It will outline how eight chapters lead to one conclusion. At the end of this Introduction we will say what that single conclusion is—in preliminary terms. Our aim—may God help us to achieve it!—is to add more content and more clarity to this Introduction's preliminary statement of our central message step by step, chapter by chapter.

We refrain from following the precedent set by G.W.F. Hegel in his *Phänomenologie des Geistes*. Hegel protested in his Introduction that he could not possibly state his conclusion at the beginning, not even in a preliminary way. The reader could not possibly understand the outcome without accompanying the author through the process. The reader had to walk with the author through each stage of the argument and at each stage *dort langweile* (stay there a while). There could be a conclusion only at the end. Although we refrain from following him, we acknowledge that Hegel was not wrong. Any complex book leads the reader to conclusions she or he is not prepared to understand on page one. *Pace* Hegel, in the following paragraphs we try to show how this book's eight diverse chapters add up to a case for UO.

### Chapter One (no title yet)

The first chapter begins with riots in South Africa and ends with a call to re-examine economic theory. The progression from this beginning to that end is the following.

The poor are indignant. Their riots express both material demands and *moral outrage*. Twenty years of democracy have been twenty years of *broken promises*. The poor also have a

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<sup>1</sup> We say "keep offering" because we have already published several books and articles on unbounded organization.

glorious tradition of righteous struggle against apartheid. They demand fulfillment of that struggle's economic promises.

The chapter then moves to South Africa's National Development Plan (NDP). It is not a dry-as-dust document. It is solid content packaged in lyrical poetry. It makes a poignant appeal to all South Africans to come together as one. It pleads with the people to resist "populism." Instead of divisive demagoguery, the NDP offers the high ground of patriotic cooperation. Instead of simplistic castles in the air, it offers the firm ground of scientific economics.

In particular, the national plan asks the people not to torpedo the National Development Plan by frightening investors away from South Africa.

Our Chapter One points out that the NDP's promises cannot be better than its science. Its science is mainstream liberal economics, give or take some nuances. (The nuances include distancing itself from the anti-state excesses of recent neoliberalism.) The NDP's ethical appeal rests on its mostly implicit theoretical claims about causes and effects. If the nation follows the plan (the causes) then *cet. par.* absolute poverty will be eliminated by 2030 etc. etc. (the effects).

The contemporary South African context thus sketched calls for re-examining economic theory. If economic theory can be improved, then the path to justice can be smoothed. The plea to the indignant to refrain from violence can be made more credible.

But economic theory has already been re-examined, not once but many times. This book aspires to make a distinctive contribution to a vast and growing literature in three ways. First, it advocates a new approach, a new worldview (UO). Second, this book includes an empirical study of a South African programme mandated to use public employment to catalyse community development. Unlike many books on economic theory it proposes an approach that already has its feet on the ground in specific innovative practices. Third, it takes seriously John Maynard Keynes' remark: "The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds."<sup>2</sup> Hence its proclivity to go everywhere and to comment on everything.

## **Chapter Two: How to Make the Economy Work for the Poor**

In the second chapter we go back not all the way to the beginnings of mainstream liberal economics but as far back as Adam Smith. We develop a limited, or pure, concept of "the economy." The economy in this limited sense corresponds approximately to what Smith observed, and precisely to what he said he would observe under conditions of free competition governed by natural liberty. The economy in this limited sense does not work for the poor. It tends to drive wages down. There is no guarantee that everyone who needs to sell something (labour power or something else) to make a living will find buyers for what she or he has to sell. It is characterized by two Staggering Facts: (1) Production depends on investment for the sake of making something to sell (accumulation). (2) Not everyone who needs a buyer finds one (chronic insufficiency of effective demand). Methodologically, these two staggering facts are

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<sup>2</sup> John Maynard Keynes, *The General Theory of Employment, Interest, and Money*. London: Macmillan, 1936. P viii.

consequences of the constitutive rules of markets, not empirical findings established by gathering data and analyzing it statistically.

When in history and in the future a society's institutions do work for the poor this happy result is not produced by a pure market economy alone (although such an economy does tend to generate productivity that makes it not completely off-the-map for Smith to claim that even the poorest person in a modern society lives better than a king among the savages). It is produced by what Gunnar Myrdal called, in deliberate contrast to Smith's "natural liberty" a "created harmony." Harmony is created by regulating and supplementing markets. When one regards the number and size of supplements as in principle unlimited, and when one is confident that it is psychologically possible for humans to align across sectors for the good of all, then one is on the road to UO.

Solutions to problems an economy does not solve often bear names including the word "community." Sometimes it is useful to think of "community" as what the economy is not, as its necessary complement and foundation, as *Gemeinschaft* was for Max Weber and his friends the predecessor, the complement and the foundation of *Gesellschaft*. South Africa is currently complementing private-investment-to-produce-for-sale-for-profit with public-investment-to-meet-needs-without-sales and with community development in its Community Work Programme (CWP).

### **Chapter Three: Origins of the Community Work Programme (CWP)**

South Africa's experience in fighting poverty provides empirical confirmation of some ideas we derived from the constitutive rules of markets and associated with Staggering Facts one and two. Government anti-poverty programmes have accomplished little or nothing when they could only reach their goals if markets pick up the baton after the government has run the initial lap by paying start-up or incubation costs. For examples: a government-funded data bank to match unemployed youth with available jobs; comprehensive government backing to jump-start small private poultry-raising businesses in the province of Limpopo.

Where public sector resources have played a larger role (as in housing, where large injections of public funds complemented a people's housing self-help movement and private bank lending) something substantial was accomplished. It is indeed unlikely (some of us would say impossible) that employment in the private sector making products-to-be-sold-at-cost-covering prices with a margin left over for profit will *ever* solve the unemployment problem in South Africa. Imminent advances in robotics and information technology make it unlikely (some of us would say impossible) that a pure market economy will in the future *ever* solve the unemployment problem in any country. (We call our own views what "some of us would say" to distinguish them from the thinking of South African policy makers that led to the founding of CWP.)

CWP brings hope that chronic structural unemployment can be overcome without going down the Roman Decadence path of simply giving people bread and circuses, and without going down the Orwellian path of grey faceless bureaucracy. In the origins of CWP this communitarian hope came from the inspiration provided by prior experience in South Africa

with Organization Workshops (OW). Organization workshops began in Brazil, spread to three continents, and preceded CWP at two of its three pilot sites. With a theoretical basis in the social psychology of Cultural Historical Activity Theory, OWs in South Africa showed how to design CWP to be community-driven public employment. Experience with OWs and with community development in Botswana led to the emergence of the concept of unbounded organization (UO).

#### **Chapter Four: India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)**

CWP is regarded by some as a prototype and a laying down of infrastructure for a true employment guarantee. India's Mahatma Gandhi National Rural Employment Guarantee Act already is an employment guarantee although it applies only in rural areas and has other limitations. MGNREGA's proponents sold it to the public and to parliament as a way to comply with the right to employment enacted in the Constitution of India and in international conventions on economic and social human rights signed by India.

Courts have held that economic and social human rights even though they are in some sense law are not enforceable. Governments when sued can allege that they lack sufficient resources. They can plead that the treaties were signed and the constitutions were ratified subject to the proviso that the rights guaranteed on paper would be implemented in practice only if and when governments could afford to implement them. Unbounded organization replies to this legal argument. It changes the status of rights by moving the boundary that separates the possible from the impossible. It shows how livelihoods for all usually can be achieved with existing resources.

In an atmosphere charged with mainstream liberal economics, MGNREGA could only win approval in parliament by making labouring in it so unattractive that nobody would prefer it to working in the private sector. For this reason among others working for MGNREGA is more miserable and more poorly paid than it needs to be. Nevertheless because MGNREGA pays the legal minimum wage it raises wages in the countryside by siphoning workers away from employers who pay less than the minimum wage.

Rural India's anomalies are the stuff Kuhn's paradigm shifts are made of. Huge quantities of grains are purchased by the government, put in warehouses, and left there. The purpose is to keep farmers in business by keeping prices above the cost of production. Meanwhile millions go hungry. At the prevailing prices they cannot buy enough food. Farmers are driven to suicide by debt bondage while their workers rightly complain that they are not paid enough to live on. Unhappy and inefficient farms are preserved because no better way to create livelihoods for the farmers, their families, and their workers is perceived.

#### **Chapter Five: The Swedish Model**

Chapter five begins with a précis of the personal experiences that led Gavin Andersson to formulate the concept of unbounded organization, some of them with OWs, some of them

working with development NGOs in Botswana. Then it turns to the rise and fall of the Swedish Model.

The lesson to be drawn from the decline of the Swedish Model is that within the basic rules of the game of the global economy—*which are those of Smith's natural liberty*—it is impossible—*except under unusual circumstances like those prevailing in Sweden immediately after World War II*—to sustain full employment with good wages and social security. The chapter on Sweden replies to the many authors (for example those who make an empirical case that equality favours growth) who advocate egalitarian policies without making a fundamental critique of economic theory and of what Joseph Schumpeter calls its “institutional frame.” Sweden lost the race to the bottom because its wages were too high. Its taxes were too high. Capital fled. Volvo itself fled to Brazil. But Brazilian workers did not win what Swedish workers lost. The Brazilian economist Paul Singer wrote, “The effect of neoliberal globalization is to level wages downward in all countries.”<sup>3</sup>

The latter part of the chapter is devoted to how to make the global economy governable for humanity's sake and for the biosphere's sake. A first step is to free minds from pies. The pie image—*the image that tells us that first we must grow GDP before the poor can get a bigger slice of it*—is what Ludwig Wittgenstein would call a picture that holds us captive. A second step is to make the importation of goods produced in labour conditions that violate human rights illegal as fencing stolen goods is illegal. A third step is to tie capital to a social purpose and to a territory. These three steps—*which of course are only a beginning*—are sufficient to show that with a UO paradigm even the most fundamental laws of capitalist accumulation—*including those that tanked the Swedish Model*-- can be changed.

## **Chapter Six: The Imaginary World that Holds the Real World Captive**

Mainstream liberal economics prescribes exactly the opposite. It holds that the global economy should *not* be governed, or what amounts to the same thing that it should be governed by natural liberty. Chapter six is devoted to details of economic theory. It does some detective work to solve the mystery of how an imaginary world (epitomized but not exhausted by the theory of Walrasian general equilibrium) came to be (for example in the rules of the World Trade Organization) a normative standard with the force of law in the real world. It connects with CWP by criticizing an OECD proposal to evaluate CWP not according to how well it uses public employment to catalyse community development but according to how well it prepares the unemployed for employment in the private sector.

The chapter shows that major currents of economic thinking do not describe the real world. They do not describe even a possible world *because in general equilibrium profits go to zero and it is impossible for the global economy to function with zero profits*. Instead business strategy achieves sustainable profits by making use of Michael Porter's five forces: maximizing bargaining power *vis à vis* suppliers, maximizing bargaining power *vis à vis* customers, erecting barriers to entry to keep competitors out of the industry, working together with other players in the industry against substitute products, and gentlemen's agreements not to compete aggressively on price.

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<sup>3</sup> Citations are given in the respective chapters not in this Introduction.

The real world practices of business guarantee that the theoretical ideal of maximum consumer satisfaction will remain in the heaven of theory and never descend to the world of facts. They make corporate social responsibility a more realizable ideal than a neoliberal free market utopia. The fundamental theorem of welfare economics (that general equilibrium is a Pareto optimum), in addition to prescribing a world that does not and cannot exist, is not a defensible ethic. It is an unethical distraction from the physical welfare of people and planet.

### **Chapter Seven: (no title yet)**

The seventh chapter goes into detail on exactly how CWP uses public employment to catalyse community development with an in-depth case study of CWP at a single site, the district known as Orange Farm on the south side of Johannesburg. It begins and ends by sandwiching life as it is lived on the ground on the south side of Joburg between discussions of a key issue in the global economy, the issue of debt.

On a UO realist worldview cancelling debt, as the ancient Hebrews did periodically according to the Old Testament, is just one more way to adjust culture to its physical functions. But to make what would be sensible doable in the neoliberal world that has been socially constructed in the last several decades, debtor communities must become resilient communities to resist the inevitable consequences –such as bank runs and capital flight—of pressure from creditors. The pressure comes, in the last analysis, not from creditors as people but from the systemic imperatives of the system itself –a system which must either re-organize itself or continue to produce one dysfunctional result after another.

Chapter seven shows the nitty-gritty of how a government programmes administered through non-profits can build resilient communities. It shows communities mobilizing resources to meet needs in practical ways that do not depend either on the price signals of markets or on top-down planning. The point is not to rid the world of the price signals provided by markets, nor to rid the world of governments, but to complement both in an unbounded approach to organizing the exchange of matter and energy with the environment that is the metabolism of society. The chapter provides empirical support for UO by showing how it is a psychological possibility for human beings to work together in diverse and creative ways to meet needs. The *necessity* for building *community* to cope with structural flaws of the global *economy* revealed by a series of debt crises at the global and national levels is connected with a case study demonstrating the *possibility* of UO.

### **Chapter Eight: How to Pay for Social Programmes**

Mainstream thinking is trapped in a mindset where economic growth as measured by GDP is regarded as a prerequisite for opening up fiscal space to pay for social programmes. This thinking is not just thinking. It is thinking that reflects, that builds, and that cements into place existing institutions. Nevertheless, freeing our minds to embrace UO at the level of thought – which activity theory tells us can best be done learning organizing by organizing—is a necessary part of necessary institutional reform.

Chapter eight finds steps toward UO in the Bachelet Commission report to the International Labour Organization suggesting numerous creative ways to open up fiscal space to pay for social programmes. It finds more in Thomas Piketty's research suggesting that *rentier* wealth might be taxed to make the global economy governable, to reduce inequality, and to pay for social programmes with little or no damage to production. And still more in Herbert Marcuse's point that social transformation requires not only social science, which studies what is, but also philosophy, which studies what might be. Chapter eight includes a critique of Say's Law (a law that implies that if only we had perfect markets every seller, including every seller of labour-power, would find a buyer) that complements chapter six.

The initial question, how to pay for social programmes, and specifically how to pay for expanding CWP to make it a true employment guarantee, becomes the general question how to recycle wealth from where it is not needed in order to use it intelligently where it is needed. This then leads to the question how to make redistribution compatible with the social functions now performed (but not performed well) by inequality. Profits have social functions. Prices have social functions. Interest rates have social functions. Saving has social functions. Accumulated wealth has social functions. At the curtain call, when all the actors in the play make their bows, unbounded organization appears more as a psychological worldview than as an economic worldview. It is a view of what human motivation, human cognition, and human moral development could be and need to be in order to solve problems (like making redistribution compatible with production, and both compatible with the requirements of sustaining the biosphere) that cannot be solved by rigid (read neurotic) adherence to inflexible patterns of thought and action.

### **The Conclusion: Unbounded Organization**

One might say that the central message of this book is that more public employment is needed in a world where private employment is shrinking and is projected to shrink more and faster. One might say that the central message is the need for liberation from the dependence of the daily bread of all on the capital accumulation of some; for an economics of solidarity; for liberation from a systemic imperative that dominates any and all social and ecological imperatives. One might say that it is displaying community development in OW and CWP to project how community can fill the lacunae of economics. One might say it is the need for community—for reciprocity, redistribution, and production for use—to provide livelihoods where jobs are scarce. One might say the central message is the need for community to provide the logics and dynamics of a better future world that will not be as dependent on profits to drive everything else as is our present world.

We prefer to say that the central message is more abstract and more general. It is the need to adjust and continually to readjust culture to serve its physical functions. We call that adjustment UO. UO means embracing the societal enterprise, being pleased and proud of how one's particular activities contribute to the general good. It means aligning across sectors to eliminate poverty, to reverse global warming, to end domestic violence, to abolish war.... It means thinking outside the box; recovering from the past material and spiritual practices that are undervalued today; anticipating a future when our descendants will create material and spiritual practices that we today cannot even imagine.

