

Chapter Two

Tentative Book Title:

Economic Theory and Community Development

Tentative Second Chapter Title:

How Do We Make the Economy Work for the Poor?

The main thesis of this second chapter is that the economy (where “the economy” means a pure free market economy) normally does *not* work for the poor. Although this thesis taken literally refers to nothing, since a pure free market economy is not something that exists but only a theoretical model, the process of discussing it will shed light on tendencies that do exist. They exist because to some extent actual economies resemble pure free market economies. At its end this chapter commends community service for pay. It also includes some methodological remarks.

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1. Comments Prompted by the Chapter Title

The title of this chapter is motivated by a desire to participate in recent discussions in South Africa around the question it repeats, and also by a desire to place the fairly specific issues we will discuss in the context of larger problems.

We think it is almost self-evident that a satisfactory answer to the question, “How do we make the economy work for the poor?” would pave the way for answers to other crucial questions like, “How can conflict be resolved into cooperation?”¹ “How can social disintegration become social integration?” “How can the rising tide of inequality become a sea-change to liberty, equality, and fraternity?”² “How can world peace under the rule of law become justice?” “How can the growth of narco-criminal and fundamentalist-violent cultures be transformed into the growth of cultures of peace?” “How can economics-as-we-know-it adjust to advances in robotics and information technology that are dissolving the meanings of its concepts of labour and wages?” and “How can the world become sufficiently governable to make it possible to implement the environmental norms required to make the world sustainable?”³

Had it not been for our desires to echo the name of an ongoing conversation and to claim for our thoughts a central place in today’s big picture, another title might have been chosen, since this chapter will only begin to answer to the question how to make the economy work for the poor. Its principal conclusion is that the economy (defined in a narrow but nevertheless historically and intellectually important way) *does not* and *will not* work for the poor. Conceiving “the economy” (roughly speaking as a first approximation) as the economy Adam Smith considered natural, we hold it is not a Smithian natural harmony that is capable of working for the poor but rather what Gunnar Myrdal called a “created harmony.”⁴

¹ The doctrine that there is a close link between socioeconomic development and conflict prevention has been called “the Brazilian doctrine” and identified with that nation’s positions on international issues. Giorgio Romao Shutte, [Neo-developmentalism and the Search for a New International Insertion](#) Austral: Brazilian Journal of Strategy and International Relations. Volume 1 (2012) pp. 59-98. p. 72. (<http://www.erlacs.org/index.php/erlacs/article/view/URN%3ANBN%3ANL%3AUI%3A10-1-114303/9618> - accessed Feb 2015)

² In their book [The Spirit Level: Why More Equal Societies Almost Always Do Better](#) London Allan Lane 2009 authors Richard Wilkinson and Kate Pickett provide evidence that more equal societies tend to do better on measures of physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage pregnancies, and child well-being. (http://emilkirkegaard.dk/en/wp-content/uploads/The-Spirit-Level-Why-Greater-Equality-Makes-Societies-Stronger-Kate-Pickett-400p_1608193411.pdf - accessed Feb 2015).

³ That the world economy, and consequently the world, are not now governable and that for this reason the biosphere cannot be protected is argued by Joel Novek and Karen Kampen. [Sustainable or Unsustainable Development: an Analysis of an Environmental Controversy](#) Canadian Journal of Sociology, Vol. 17 (1992). pp. 249-273. The authors write at p. 250. “...the relationship between economic expansion and environmental protection remains fundamentally contradictory.” (http://www.jstor.org/stable/3341323?seq=1#page_scan_tab_contents accessed Feb 2015). This argument is further elaborated by many authors including Michael Redclift, [Sustainable Development: Exploring the Contradictions](#). London: Methuen, 1987. (http://books.google.co.uk/books/about/Sustainable_Development.html?id=o9Z0Lw-c-pgC&redir_esc=y - accessed Feb 2015).

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

Thus working with a concept of “the economy” mirroring a theoretical ideal of free competitive markets, when coupled with our thesis that the economy so conceived does not work for the poor, leads to important practical recommendations. It leads to a sceptical attitude toward structural reforms designed to move the really existing economy closer being a pure free market economy.

Our scepticism about pure free markets also orients research agendas. It orients research that seeks to explain why at some places and times (for example in Western Europe in the thirty glorious years after the end of World War II) wages rose and inequality declined. It orients research on the nature and consequences of free market reforms (for example in contemporary India and China⁵). In both cases it orients research away from attributing benefits for the poor to the normal operation of Smithian capitalism (as Simon Kuznets⁶ tended to do) and toward looking for *deviations* from a pure market economy and unusual circumstances that produced pro-poor outcomes (as Thomas Piketty recently has done).⁷

2. Economy and Community

⁵ See Jean Drèze and Amartya Sen, *An Uncertain Glory: India and its Contradictions*. Princeton: Princeton University Press, 2013 (<http://ebookandpdf.com/economics-finances/60025-an-uncertain-glory-india-and-its-contradictions.html> accessed Feb 2015); Amartya Sen and Jean Drèze, *India: Economic Development and Social Opportunity* (This book includes extensive discussions of China) Delhi: Oxford University Press, 1996. Apart from identifying causes of progress against poverty, much depends on how progress is measured, for example whether there is real improvement in quality of life, or only monetization leading to higher scores on some standard economic measures. See the chapter on Manmohan Singh in Howard Richards and Joanna Swanger, *Gandhi and the Future of Economics*. Lake Oswego OR: World Dignity University Press, 2012. (http://schelri.vitebooks.eu/?id=gandhi_and_the_future_of_economics_howard_richards_joanna_swanger_ivo_coelho_editor/ - accessed Feb 2015). Much also depends on how one interprets the New International Division of Labour which has tended to move industry away from high wage countries and to low wage countries. See Jeffrey Winters, *Power in Motion, Capital Mobility and the Indonesian State*. Ithaca: Cornell University Press, 1996 (<https://www.ssc.wisc.edu/~wright/Soc924-2011/924-2011-book-project/Winters.pdf> - accessed Feb 2015); Howard Richards, *Understanding the Global Economy*. Santa Barbara: Peace Education Books, 2004. (<http://www.howardri.org/Trade.html> - accessed Feb 2015).

⁶ For example, Simon Kuznets, *Quantitative Aspects of the Economic Growth of Nations IV: Distribution of Income by Factor Shares*, *Economic Development and Cultural Change*. Volume 7 (1959) pp. 1-100. (<http://piketty.pse.ens.fr/files/Kuznets1963.pdf> - accessed Feb 2015). Joseph Stiglitz has argued that capitalism contains powerful forces generating equality as well as powerful forces pushing in the opposite direction. *Distribution of Income and Wealth among Individuals*. *Econometrica*. Volume 37 (1969) pp. 382-397. Consistently with this view he holds that the causes of today's extreme inequality are not to be found in its basic institutional frame but rather in specific policy choices that could be reversed by equality-enhancing policy choices. *The Great Divide: Unequal Societies and what we can do about them*. New York: W.W. Norton, 2015.

⁷ Thomas Piketty, *Capital in the Twenty First Century*. Cambridge MA: Belknap Press of Harvard University, 2014. (original French edition 2013) (http://resistir.info/livros/piketty_capital_in_the_21_century_2014.pdf - accessed Feb 2015). Dani Rodrik analysed deviations from pure free markets that explain economic take-off in China in his *One Economics, Many Recipes*. Princeton: Princeton University Press, 2007.

Our theoretical proposals will draw on the practical experience of South Africa's Community Work Programme (CWP).⁸ CWP has a mandate from the South African cabinet "to use public employment to catalyse community development." We will interweave discussions of theoretical issues in economics with discussions of a programme on-the-ground whose name includes the magic word "community," and whose mandate includes the magic phrase "community development." We believe that much of the history of economics and of economics as a science can usefully be viewed as interactions of "community" and "economy."⁹ It is sometimes useful to think of community as not-economy and economy as not-community; to identify community with reciprocity, redistribution, and production for use; and to identify economy with buying and selling.¹⁰

It is also sometimes useful to do other things with the same words. It is sometimes useful to think of modern economic society as one kind of community among others. It is sometimes useful to think of a market as a community, or to think of a people constituting themselves as a community by adopting a common currency (as the Euro can be thought of as constitutive of the European Community).¹¹ Some writers sometimes consider it useful to make an invidious distinction between solidarity and community where the word "community" is vilified as a synonym of "conformism." Then "community" by definition stifles individual flourishing. "Community" becomes a friendless outcast exiled from the company of beautiful words, in its misery yearning for the good old times when it was treated as a synonym of solidarity instead of as the opposite of solidarity.

Our stance in favour of linguistic flexibility, making choices concerning the use of terms without renouncing the rights of ourselves and others to use them also in other ways, is matched by a stance in favour of a qualified limitless institutional flexibility in the face of

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

⁹ Thus John McKnight identifies community with caring human relationships. Caring cannot be commodified or managed by a bureaucracy. John McKnight, *The Careless Society: Community and its Counterparts*. New York: Basic Books, 1995. Paraphrasing Karl Polanyi we can say that in earlier times economy tended to be embedded in community, while in later times economy took on a life of its own disembedded from community. Karl Polanyi, *The Great Transformation*. New York: Farrar and Rinehart, 1944. (http://www2.dse.unibo.it/ardeni/papers_development/KarlPolanyi_The-Great-Transformation_book.pdf - accessed Feb 2015).

¹⁰ However, the new (2008) Constitution of Ecuador includes reciprocity and redistribution as principles of the economy, alongside buying and selling and two other principles: production for one's own subsistence and planning.

¹¹ Pierre Calame suggests that people define themselves as a community when they adopt a common currency. Pierre Calame, *Essai sur l'oeconomie*. Paris: Editions Charles Leopold Meyer, 2009. (http://www.i-r-e.org/docs/categories_of_goofs.pdf - accessed Feb 2015).

changing problems. One qualification is a commitment to work together to solve the problems. Alignment across sectors to do whatever it may take to achieve the goals of the societal enterprise (making society more nurturant) is ruled in; indifference to other people's needs is ruled out.¹² Conscientiously organizing human cooperation and regularly reorganizing it are characteristics of unbounded organization.¹³ Another qualification is giving due weight to the pragmatic need for stability. As Aristotle pointed out long ago in his *Politics* laws should not be changed too often. The force of laws is mainly the force of habits. Habits take time to be formed. The unintended consequence of frequent changes intended to produce better laws may be lawlessness.¹⁴

Economics is about one way to organize work and exchange (or several ways if, e.g., one regards a planned economy way as essentially different a from market economy way¹⁵). Unbounded organization is about all ways to align human activity in the service of the goals of the societal enterprise.¹⁶ Borrowing a phrase from Fernand Braudel, it is about all “material practices.”

¹² Evidence that indifference to other people's needs is unnatural and empathy natural is reviewed in John Gibbs, *Moral Development and Reality*, London: Oxford University Press, 2014; Iain McGilchrist, *The Master and his Emissary*, New Haven, Yale University Press, 2011; Samuel Bowles and Herbert Gintis, *A Cooperative Species*, Princeton: Princeton University Press, 2011

¹³ The concept of unbounded organization has previously been developed in Gavin Andersson, [Unbounded Organization: Embracing the Societal Enterprise](#), Pretoria: University of South Africa Press, 2015; (<http://www.seriti.org.za/index.php/component/content/article/77-unbounded-organization-embracing-the-societal-enterprise> - accessed Feb 2015); Gavin Andersson, [Looking Back to the Future: Conversations on Unbounded Organisation](#) Dark Roast Occasional Papers Series 12. Cape Town: Islandla Institute, 2003 (available at www.islandla.org.za, accessed 29 January 2013), revised and reprinted as a chapter in E. Pieterse and F. Meintjes (eds.) *Voices of the Transition: the Politics, Poetics and Practice of Development*. Johannesburg: Heinemann, 2004. Gavin Andersson and Howard Richards, [Bounded and Unbounded Organisation](#) *Africanus* Volume 42 (2012) pp. 98-119; Howard Richards, [Neville Alexander, Unbounded Organisation and the Future of Socialism](#) *Education as Change* Vol.17 (2013), pp.229-242. (<https://www.transcend.org/tms/2012/12/neville-alexander-unbounded-organisation-and-the-future-of-socialism/> - accessed Feb 2015). Howard Richards, “Unbounded Organization and the Unbounded University Curriculum,” in P.Inman and D. Robinson (eds.) [University Engagement and Environmental Sustainability](#) Manchester UK: Manchester University Press, 2014. (<http://www.palgrave.com/page/detail/university-engagement-and-environmental-sustainability-patricia-inman/?K=9780719091629> accessed Feb 2015). Videotaped discussions of the concept of unbounded organization are available on [Youtube](#) and on the websites www.unboundorganization.org, www.humiliationstudies.org and www.seriti.org.za.

¹⁴ Aristotle, *Politics*. Book Two, at the end of Part VIII.

¹⁵ It is by no means obvious that market economics and planning economics are essentially different. Samuel Bowles reports that the graduate microeconomics course he taught at Harvard “...was easily repackaged as the Theory of Economic Planning at the University of Havana in 1969,” Samuel Bowles and Herbert Gintis, *Walrasian Economics in Retrospect*. *Quarterly Journal of Economics*. Volume 115 (2000) pp. 1411-1439 at p. 1428.

¹⁶ We see the relationship of unbounded organization to economics as a leap into abstraction expanding what can be thought. See Gaston Bachelard, [The New Scientific Spirit](#). Boston: Beacon Press, 1985. (French original 1934)

We are sympathetic with earlier calls to integrate economics more completely into the social sciences.¹⁷ We especially sympathize with those who view economics as a discourse peculiar to a certain historical epoch and its characteristic cultural forms.¹⁸

We will now say a few words about the idea of “community.”¹⁹ Maurice Blanchot wrote that we live “...at a time when even the ability to understand community seems to have been lost.”²⁰ And then he asks a question, “But isn’t community outside intelligibility?” We follow Blanchot’s question with ours, “If today we find community unintelligible, is it not because we have come to identify the intelligible with the economic?”

Samuel Bowles and Herbert Gintis chime in with the idea that the intelligible has often in recent centuries been identified with the economic, but they find that today the image of a rational and therefore intelligible *homo economicus* is ever more tarnished. It is becoming ever clearer that trust, generosity, and collective problem solving are indispensable. Today “social capital” is stealing the show. “Social capital,” they say, may be a good idea, but it is certainly a bad term. “Community” is a better term.²¹

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

¹⁷ Among many such calls a recent one is contained in Thomas Piketty, *Capital in the Twenty-First Century*. Cambridge MA: Belknap Press of Harvard University, 2014 (op.cit.). Piketty says his work is as much a work of history as it is a work of economics.

¹⁸ See Louis Dumont, *From Mandeville to Marx: the Genesis and Triumph of Economic Ideology*. Chicago: University of Chicago Press, 1977; Albert Hirschmann, *The Passions and the Interests*. Princeton: Princeton University Press, 1977 (http://english.duke.edu/uploads/media_items/hirschman-part-1.original.pdf - accessed Feb 2015); Robert Heilbroner, *The Making of Economic Society*. Englewood Cliffs NJ: Prentice-Hall, 1963. (http://www.tiberiumwars.com/blahdocs/uploads/0136080693makingecono_2483.pdf - accessed Feb 2015); Alfred Marshall in his *Principles of Economics* (8th edition, London, Macmillan, 1920) devotes his first pages to explaining how economics as a science could not come into existence until the institutions it studies came into existence. Marshall’s pupil John Maynard Keynes remarks that his rather pessimistic conclusions are valid only within the presently existing institutional framework, and would not necessarily be valid in a different one. *General Theory of Employment, Interest and Money*. London: Macmillan, 1936. P. 254.

¹⁹ See David Minar and Scott Greer, *The Concept of Community*. New Brunswick: Transaction Publishers, 1969; Amitai Etzioni, *Creating Good Communities and Good Societies*. *Contemporary Sociology*, Vol. 29 (2000), pp. 188-195. Etzioni replies to the objection that the meaning of “community” has become so vague that the word is useless. (http://www.asanet.org/images/members/docs/pdf/special/cs/CS_29_1_Symposium_17_Etzioni.pdf -accessed Feb 2015).

²⁰ Maurice Blanchot, *The Unavowable Community*. Barrytown NY: Station Hill Press, 1998. p. 1.

²¹ Samuel Bowles and Herbert Gintis, Social Capital and Community Governance, *The Economic Journal*, Volume 112 (2002) pp. F419-F436. F420.

A German intellectual tradition associated with the names of Ferdinand Tönnies²² and Georg Simmel²³ builds a science of society around polar concepts of community (*Gemeinschaft*, literally things held in common) and modern economic society (*Gesellschaft*, literally a partnership). On their view historically *Gemeinschaft* came first. *Gesellschaft* arose in Europe mainly starting in the 16th century but with important antecedents earlier. *Gemeinschaft* was glued together by traditional sources of social cohesion like kinship and religion. *Gesellschaft* is built on individualism. They tended to romanticize *Gemeinschaft* as the normal and healthy solidarity typical of the species, and to denigrate *Gesellschaft* as a modern (read English) aberration.

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

Some economists, including Alfred Marshall and his student John Maynard Keynes, have used the phrase “the community” as a synonym for “the public.”²⁴ Thus it is said that the price of a commodity often²⁵ rises when “the community” wants more of it and is able and willing to pay more to get it. Perhaps they meant to suggest—as it would have been in line with Marshall and Keynes’ political sympathies to suggest—that even in a modern highly individualistic market

²² Ferdinand Tönnies, *Community and Society*. New Brunswick: Transaction Publishers, 1988.(original German edition 1887, revised German edition 1912) (http://ebooks.cambridge.org/ebook.jsf?bid=CBO9_78051_1816260 - accessed Feb 2015).

²³ David Frisby, *Georg Simmel*. London: Routledge, 2002. Simmel is perhaps best known for his “philosophy of money.”

²⁴ “The community” is the general public in Marshall’s standard *Principles of Economics* that went through many editions and formed much of the basis for more recent economics when Paul Samuelson devoted his 1928 doctoral dissertation to rewriting it in mathematical language, and also in Keynes’ *General Theory*. Contrast the more normal usage of Milton Friedman and Anna Schwartz in their *Monetary History of the United States 1867-1960* where they wrote “the public” where Marshall and Keynes wrote “the community,” for example in discussing how much money the public chooses to hold as currency instead of as bank deposits.

²⁵ We say often instead of always because sometimes it does not. Although Marshall was the inventor of a way of drawing supply and demand curves which show prices rising as demand increases, he also took large notice of economies of scale that cause unit costs to fall as sales increase. As Marshall noted, this phenomenon has much to do with large firms underselling and thus crowding out small firms leading to oligopoly instead of the competition postulated by pure economics.

society ideals of social cohesion persist. Perhaps they were dropping a subliminal hint that after all the purpose of the economy is to serve the community.²⁶

3. The Economy

Without pretending to have even begun to plumb the unfathomable depths of the meanings of “community,” we now return to “economy.” We will look at what Adam Smith meant by “natural” and very briefly at what later became known as “pure economics.” These two terms “natural” and “pure” will help us explain what we mean by our admittedly narrow definition of “the economy” (the one we say will not work for the poor). They will help us to characterize our narrow view as describing a great deal (although not all) of what people called “economists” think about. Robert Solow sang our song when he wrote: “Ever since Adam Smith economists have been distinguished from lesser mortals by their understanding of and –I think one has to say their admiration for—the efficiency, anonymity, and subtlety of decentralized competitive markets as instruments for the allocation of resources.”²⁷

For Adam Smith the landlord *naturally* extracts from the tenant (Smith has in mind tenant farmers who rent from landowners) as much money as the tenant can pay. The hard bargain is natural. “Rent, considered as the price paid for the use of land, is naturally the highest the tenant can afford to pay...” Smith admits that as an empirical matter there are some exceptions, but insists that the most the tenant can afford “...may still be considered as the natural rent of land, or the rent that it is naturally meant that land should for the most part be let.”²⁸

There is also a natural price of a commodity, a natural profit and a natural wage. In all cases the market price gravitates around and over time converges toward the natural price. Competition lowers prices to the costs of production. “When the price of any commodity is

²⁶ John McKnight develops the idea that the purpose of the economy is to serve the community in *The Careless Society: Community and its Counterfeits*. New York: Basic Books, 1995.

²⁷ Robert M. Solow, On Theories of Unemployment. *The American Economic Review*. Vol. 70 (1980) . pp 1 - 11. p. 1.

²⁸ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. (<http://www2.hn.psu.edu/faculty/jmanis/adam-smith/wealth-nations.pdf> - accessed Feb 2015) - (various editions, first edition 1776, but most reprints are based on the 1789 edition). The quotations are from the beginning of Book I, Chapter XI “On the Rent of Land.” The phrase “naturally meant” recalls Smith’s earlier work *Theory of the Moral Sentiments* Cambridge UK: Cambridge University Press, 2002 (first edition 1759) where he argued that divine providence had designed humans to act from self-interest. The famous “[invisible hand](#)” metaphor is found in part IV chapter 1.

neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.²⁹” Smith adds, and repeats several times, that although there may be exceptions in practice, this is the necessary result wherever there is “perfect liberty.”

Again: “The natural price, or the price of free competition ... is the lowest which the sellers can commonly afford to take, and at the same time continue their business.”³⁰

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

Let us go back to the beginning of Smith’s *Wealth of Nations*. The stated purpose of the book is to explain the nature and the causes of wealth. It begins with an extended invidious distinction: the savages do not practice the division of labour, and they do not have wealth. The civilized practice the division of labour and they do have wealth. Smith maintains that the division of labour is the first and primary cause of wealth. But the division of labour in turn supposes exchange; it supposes buying and selling, a practice “...common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts.”³¹ But exchange on a large scale can only take place when there is general acceptance of the rules of the game being played. The civilization that makes possible the division of labour, and therefore wealth, turns out to depend on the security of contracts and of property rights.³²

Later Smith complements his claim that the division of labour causes wealth with the claim that the accumulation of capital also causes wealth.³³ A similar necessity for an institutional frame that secures contract rights and property rights follows.

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

²⁹ Smith, *Wealth* (op. cit.), at the beginning of Chapter VII of Book I. The natural profit for Smith is that which will just induce the entrepreneur to stay in the business, and not switch to some other trade.

³⁰ Id. , three pages from the end of the chapter.

³¹ Smith, *Wealth* (op. cit.), at the beginning of chapter II of Book I.

³² Thus Smith remarks at the end of his long digression on silver at the end of Book I that the only encouragement industry requires is some tolerable security that it shall enjoy the fruits of its own labour. Friedrich von Hayek develops this theme by acknowledging the solidarity of primitive societies, but asserting that a different ethic is needed for extended societies that practice exchange on a large scale.

³³ This can be inferred from *Wealth* (op. cit.) Chapter VI of Book I.

“The sphere of circulation, or of exchange of commodities, within which labour power is bought and sold, is in fact a true Eden of the natural rights of man. There reign only freedom, equality, property, and Bentham. Freedom! Because the buyer and seller of a commodity, say labour power for example, are not moved by anything but their own wills. They make a contract, as free persons, equal in rights. The contract is the form in which they give to a joint legal expression to their common will Equality! Because they relate to each other as owners of commodities, and they exchange equivalent for equivalent. Property! Because each disposes only of his own. Bentham! Because each is concerned only with his own self-interest.³⁴ The only force that brings them together and defines their relationship is their selfishness, their own advantage, their private interests. And just because each is concerned only with himself and neither has concern for the other, due to the pre-established harmony of things, or under the guidance of a most cunning providence, all work for the sake of each other’s advantage, for the common good, for the general interest.”³⁵

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

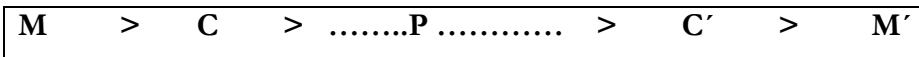
We turn again to Marx, simplifying diagrams he uses in the second volume of *Capital* to drive home the dependence of the economy on the confidence of investors and entrepreneurs. There is nothing particularly Marxist about the underlying idea. A similar diagram could be drawn illustrating basic tenets of Adam Smith, John Maynard Keynes, or Milton Friedman. Marx provides a convenient picture for showing something everybody already knows: namely, to the extent that the institutions regarded by Smith and his followers as natural prevail, production is for sale and sale is for profit; therefore production is for profit; therefore when investors and entrepreneurs are not confident that they can expect profits, production slows down or stops.³⁶

³⁴ Here Marx does not refer to Bentham’s famous felicific calculus, or to his famous views on the greatest good of the greatest number. He appears to refer to passages where Bentham holds that since people are experts on their own pleasures they should be left free to pursue happiness as they see fit and/or to those where he regards the pursuit of self-interest as natural and inevitable. Although it is clear enough why Marx invokes Bentham’s name here, it could not be said that Bentham was in fact on the whole in favour of each looking out only for himself. His collectivism balanced his individualism. See L.J. Hume, [Jeremy Bentham and the Nineteenth Century Revolution in Government](#) *The Historical Journal*. Volume 10 (1967) pp. 361-375. (http://www.jstor.org/stable/2637841?seq=1#page_scan_tab_contents – accessed Feb 2015).

³⁵ Karl Marx, *Das Kapital*. Erstes Buch, 4 Kapitel, section III in the next-to-last paragraph. (our translation) (op. cit.)

³⁶ Marx uses diagrams like this several times in the second volume of *Capital*, which was edited by Friedrich Engels after his death and first published in German in 1885. It is available in English in a translation by Ben Fowkes published by [Penguin](#) classics in London in 1990.

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



The diagram represents that the investor or entrepreneur begins with M, Money.³⁷

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

(Marx's German word translated as C "commodities" is *Waren*, a cognate of the English "wares" i.e. things made to be bought and sold. The word "wares" was famously employed by the innocent Simple Simon who said to the pie man "Let me taste your wares," unaware that in a mercantile economy the possession of money is a prerequisite to eating—a point later developed in greater detail by Amartya Sen in his study of famines.³⁸)

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

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

Finally comes the sale of C' resulting in M'. The quantity of Money M' earned by the sale of the commodities produced is greater than M, the quantity of Money initially invested.³⁹

³⁷ The formula for the circuit of money-capital is: M — C ... P ... C' — M', the dots indicating that the process of circulation is interrupted, and C' and M' designating C and M increased by surplus-value. <--my insert - r. 24Feb

³⁸ Amartya Sen, *Poverty and Famines: an Essay on Entitlement and Deprivation*. Oxford: Clarendon Press, 1983. Sen shows in detailed studies that there has been food available in the great famines of recent centuries, but that the poor lacked the legal right to eat it because they lacked money and could not buy it.

³⁹ A more complete account would consider the division of the surplus among profit, rent, and interest. For now and in the following chapters we lose nothing essential by simply saying that the motive power that drives the system is profit or capital accumulation. In Chapter Eight we will distinguish rent, profit and interest.

This graphic representation⁴⁰ of the economy implies staggering consequences.⁴¹ We recommend keeping the dependence of the economy on the confidence of investors in mind permanently and constantly.⁴² We briefly mention a few staggering consequences now. It should be borne in mind that they only follow to the extent that “the economy” (natural and pure) accurately represents human practices and institutions.

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

Money is advanced for the purpose of producing some good or service to sell at a profit.⁴³ If money-seeking-profit is not advanced, nothing happens.⁴⁴ The aim of the game is to make the difference M' minus M as large as possible. For that to happen the difference C'

⁴⁰ Max Weber regarded Marx’s account of capitalism as an analysis of ideal types. Max Weber, *The Methodology of the Social Sciences*. New York: Free Press, 1949. p. 103. (<https://archive.org/details/maxweberonmethod00webe> - accessed Feb 2015). - Louis Althusser and Etienne Balibar in their commentary on *Capital* emphasize that Marx makes many simplifying assumptions. See their *Reading Capital*. (abridged English edition) London: New Left Books, 1970. (<http://www.marx2mao.com/Other/RC68NB.html> - accessed Feb 2015 - Complete French edition *Lire le Capital*. Paris: Francois Maspero, 1968 <http://digamo.free.fr/lirecap.pdf> - accessed Feb 2015).

⁴¹ The diagram shows the essence of the logic and dynamic of accumulation. Once M has become the larger quantity M' , the process can be repeated. M' can become the even larger quantity of money M'' . M'' can be reinvested to produce M''' , and so the accumulation of money can go on indefinitely.

⁴² What we have to say will be only a tiny addition to the huge existing literature on capital accumulation. Marx himself wrote in the first volume of *Capital*: ““With the accumulation of capital there develops the specifically capitalist mode of production, and with the specifically capitalist form of production there develops the accumulation of capital. ... Each accumulation becomes a means for making a new accumulation.” *Das Kapital* Erstes Buch, Kapitel 23, part II, paragraphs 7-8 (our translation) (op. cit.). Four basic sources are Rosa Luxemburg, *The Accumulation of Capital*; London: Routledge and Kegan Paul, 1951 (original German 1913); Patrick Bond, Horman Chitonge and Arndt Hopfmann (editors), *The Accumulation of Capital in Southern Africa*. Durban: University of KwaZulu-Natal, 2006 (<http://ccs.ukzn.ac.za/files/RL%20Capital-africa.pdf> – accessed Feb 2015); Samir Amin, *Accumulation on a World Scale*. New York: Monthly Review Press, 1974; Maria Mies, *Patriarchy and Accumulation on a World Scale*. London: Zed Books, 1986. (<http://armexploitednations.net/twlibrary/Proletarian%20Feminism%20%28Third-Worldism%29/Patriarchy%20&%20Accumulation%20On%20A%20World%20Scale%20-%20Women%20In%20The%20International%20Division%20Of%20Labour.pdf> – accessed Feb 2015).

⁴³ Today in practice the amount of money changing hands every day speculating in what John Maynard Keynes called the “casino economy” dwarfs the sums invested in the real economy producing goods and services. See Susan Strange, *Mad Money*. Manchester UK: Manchester University Press, 1998. (https://www.press.umich.edu/10893/mad_money - accessed Feb 2015). From Marx’s perspective this shortcut turning M into M' without P cannot possibly be sustainable because the only way to earn sustainable profits is to hire workers whose cost to the employer is less than the value of what they produce.

⁴⁴ In Marx’s vocabulary there is no *Bewegung*, no movement. Money advanced is the impetus that sets everything else in motion; without it everything else stands still.

minus C must be as large as possible; in other words the aim is to maximize the difference between the selling price of the goods and the cost of making them. Costs must be kept down. Wages are a cost; therefore the wage bill must be kept down, both by limiting hires and by limiting wages. If costs rise to the point where the spread $C' - C$ shrinks toward zero, causing the spread $M' - M$ to shrink toward zero, then no money-seeking-profit will be advanced. In that case there will be no employment and no production, and consequently (since nothing will be produced) no consumption.

Looking again at Marx's diagram, notice that both the left-hand side (the beginning) and the right-hand side (the end) consist of sales. (Remember that we said earlier that it is sometimes useful to think of economy as about sales, and of community as about reciprocity, production for use, and redistribution.) In the beginning the capitalist *buys* the labour-power and other inputs needed to set in motion the production process. In the end the capitalist *sells* the products. The legal rules that constitute exchange in markets must be in force or the process will not work.⁴⁵ The most important of these rules are expressed in the Latin legal maxims *sumum cuique tribuere* (to each his own) and *pacta sunt servanda* (contracts are to be honoured). It follows that social change projects must be thought through very carefully because any measures that shake confidence in these basic legal principles will (other things being equal) slow or stop production. There also follows the conclusion, or at least the suggestion, that one way to work toward a more governable and more equitable society, one with a better mix of institutions, less supinely dependent on one institution, is to do community development.

5. Pure Economics

Nearly a century after Smith published the *Wealth of Nations* and nearly a decade after Marx published the first volume of *Capital*, Leon Walras laid the foundations of what has become known as pure economics or general equilibrium analysis. We will discuss his ideas later as they relate to proposals to evaluate the Community Work Programme with techniques derived from Walrasian principles. Here we simply note that Walrasian pure economy is the same as Smithian natural economy with the difference that Walras makes no pretence of doing empirical work to discover the facts of the world. Smith says his results would obtain if there

⁴⁵ Max Weber is famous for the implausible claim that capitalism began with the protestant ethic of inner-worldly asceticism, but more often he made the more plausible claim that capitalism could only begin after or concurrently with the establishment of a rational legal order of the western Roman type. Without law, he pointed out, economic decisions could not be made because their consequences would not be *kalkulierbar*; in other words without law the future enforcement of property rights and contract compliance would be so uncertain that no investments could be made. See the section of Weber's *Economy and Society* on "Meaning and Limits of Legal Authority for the Economy." (<https://archive.org/details/MaxWeberEconomyAndSociety> - accessed Feb 2015).

were perfect liberty. Walras demonstrates that Smith was right by calculating what would happen under the conditions to which Smith refers when he speaks of perfect liberty. Walras conducts a purely mathematical exercise.⁴⁶ He concludes that if self-interested actors engage in free competition the end result (provided certain other conditions are met) will be market-clearing sales (by definition this is equilibrium), efficient allocation of all factors of production, full employment, maximum welfare⁴⁷ (i.e. what would come to be called after Walras' successor in the chair of political economy at Lausanne Wilfredo Pareto a Pareto optimum⁴⁸) and (a key point for further discussion later) no profit (in Walras' French business would be conducted *sans perte ni benefice*).⁴⁹ To the extent that empirical reality does not conform to his mathematical demonstration of the way to maximize welfare Walras frankly advocates changing empirical reality.⁵⁰

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

Marx agrees with Smith, in the sense that when the two look at commodity exchange in an economy they see the same practices governed by the same norms; Smith also agrees with Marx, in the sense that Smith also finds that a consequence of market exchange is, by and large, the misery of the wage-earner.⁵¹ That wages will be low follows from Smith's principle that prices in general, including wages (i.e. the price of labour) gravitate around and tend to converge to the natural price.⁵² The natural price is the cost of production. Competition in free markets

⁴⁶ This should perhaps be qualified because often after his mathematical analysis Walras will write in effect, "And this is what happens in practice in competitive markets". Then without reporting any empirical observations of markets he outlines how the *tatonnage* (groping by trial and error) of markets in principle leads to the same result he got by solving equations.

⁴⁷ The claim that free markets lead to a welfare maximum is known today as the first theorem of welfare economics, i.e. the theorem that a competitive market equilibrium constitutes an efficient allocation of resources. Here is one of many proofs that nineteenth century notions of competitive markets tending toward equilibrium are still influential in the twenty first century.

⁴⁸ At a [Pareto optimum](#) trading stops because there are no more exchanges that would benefit both parties.

⁴⁹ No profit for Walras does not mean entrepreneurs get nothing. It means that whatever they get is reckoned as reward for their labour and as rents from resources they control, and not profit per se.

⁵⁰ Léon Walras, [Elements of Pure Economics](#) London: Routledge, 2003. (French original 1874). (<http://www.gbv.de/dms/zbw/657540056.pdf> - accessed Feb 2015). *Passim*. For example, "Freedom procures, within certain limits, the maximum of utility, and since the factors that interfere with freedom are obstacles to the attainment of this maximum, they should, without exception, be eliminated as completely as possible." Section 222, page 256. Although Walras eschews any labour theory of value, he agrees with Smith that free competition drives prices down to the cost of production. See for example pages 225, 240, 243, 248, 271.

⁵¹ This point was not lost on Marx, who observed that Smith himself explained why in a free market in negotiations between employer and employee the employer commonly has the stronger bargaining position. *Das Kapital*, Erstes Buch, Kapitel 23, paragraph 6. Smith's general discussion showing why workers are usually the losers is in Chapter VIII of Book One of *The Wealth of Nations*. (op cit).

⁵² We omit the complications derived from the fact that the classical economists worked with a labour theory of value, while most contemporary economists tend to define the value of a thing as whatever a buyer is willing to pay for it.

tends to lower the prices sellers can charge buyers down toward the cost of production of the item sold.

Smith and other classical economists taught that in the case of skilled and educated workers, the cost of production of a worker included the cost of acquiring skills and education. But in the case of 18th and early 19th century European ordinary workers, the kind of worker most observed and most discussed by the classical economists ---Smith, Ricardo, Malthus, and Marx, and their French contemporaries and predecessors-- the principal component of the cost of production of a worker was the cost of food. Smith wrote, "...the demand for men, like that for any commodity, necessarily regulates the production of men; quickens it when it advances too slowly and stops it when it advances too fast. It is this demand which regulates and determines the state of propagation in all the different countries of the world..."⁵³ Lack of market demand for labour "stops" its production because children die, or are never born, and sometimes adults die, because wages do not suffice to buy sufficient food. David Ricardo makes a similar point with more explicit language: "Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution."⁵⁴

Notice carefully the reason why wages are low: It is that free competitive markets drive down the price of labour to its cost of production; that is to say first and foremost to the price of food. When supply exceeds demand production stops. It stops because working class families cannot sell more labour power to buy more food. Unemployed workers cannot exist for long because lack of employment means lack of money which means lack of food which means life cannot continue. When we summarize a main result of pure free markets with the two words "low wages," we refer also to Ricardo's expectation that poor people whose services could not be sold in the labour market would cease to exist. Perhaps as Ricardo looked around him he saw what appeared to him to be confirmation of his view that the demand for labour determines its supply. We do not see such confirmation today. Ricardo's expectation translates in twenty first century terms (since today the poor do not cease to exist but somehow go on living) into

⁵³ *Wealth of Nations* (op cit), book 1, chapter 8, at page 88.

⁵⁴ David Ricardo, *On the Principles of Political Economy and Taxation*. London: Macmillan, 1951. (<http://socserv.mcmaster.ca/econ/ugcm/3113/ricardo/Principles.pdf> - accessed Feb 2015). The lines quoted are the opening paragraph of Chapter Five "On Wages." We are not saying the views of Smith, Ricardo, and Marx (and Thomas Malthus) were identical, but only that they all expected wages to be low, and that this expectation was valid given the bounded institutional structure they studied and the facts they observed. In other texts the same authors qualify their views acknowledging that the cost of production of a worker is not necessarily that of bare subsistence. It also includes a culturally determined minimum that varies from place to place.

teeming masses getting by on precarious and irregular ways to earn a little cash, government grants, charity, and/or crime.

The ideas of Smith and Ricardo help us understand much of what we see on the streets of crowded cities and in depressed rural areas in our own times. They are also ideas that still echo in academic economics. Milton Friedman, for example, calls for “price flexibility in correcting unemployment,”⁵⁵ i.e. for lowering wages downward to make it profitable for employers to hire. But our main point is not that today’s neoliberals use basically the same ideas long ago used by Smith and Ricardo. Our main point is that such ideas are valid whoever uses them. They are made valid by the constitutive rules of the institutional framework.⁵⁶ To the extent that pure competitive markets prevail, and in the absence of exceptional circumstances or countervailing factors, life for the poor will be precarious and wages will be low.

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

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

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

Michel Aglietta writes that capitalism is “...radically opposed to the unification of so many traditional societies by way of myth, custom, and a tight network of interpersonal obligations, by

⁵⁵ Milton Friedman, [Interest Rates and the Demand for Money](http://www.nber.org/chapters/c11410.pdf) *Journal of Law and Economics*. Vol. 9 (1966) pp. 71-85 at p. 71. (<http://www.nber.org/chapters/c11410.pdf> - accessed Feb 2015). See also Milton Friedman, *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962 (op cit) Chapter Eight, where Friedman argues in favour of wages being set by competitive markets and against unions.

⁵⁶ The limitations imposed by the constitutive rules of the institutional framework are elaborated in Howard Richards and Joanna Swanger, [Dilemmas of Social Democracies](http://www.fredskontakt-uppsala.net/The_Dilemmas_Democracies.html). Lanham MD: Rowman and Littlefield, 2006. (http://www.fredskontakt-uppsala.net/The_Dilemmas_Democracies.html - accessed Feb 2015) See especially chapter 7, “The Revenge of the Iron Law of Wages.”

a solidarity of community and neighbourhood. It is because capitalism does not simply utilize in its production workers who still continue to live according to the rules of a traditional community, but penetrates into their whole mode of life, that it necessarily breaks up civil society and recombines it according to the logic of abstract classification and stratification.”⁵⁷

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

Consider this famous passage from *The Wealth of Nations*: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity, but to their self-love and never talk to them of our own necessities but of their advantages.”⁵⁸

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

Smith feels a need to make arguments to discredit traditional notions like *ubuntu* and love of neighbour. He takes the trouble to answer people who believe in old community norms that make the members of communities responsible for meeting each other’s needs. In his earlier *Theory of the Moral Sentiments* (1759) Smith went to great pains to show that contrary to traditional norms of kinship and religion we are not after all our brother’s (or sister’s) keeper, but rather ordained by divine providence to pursue our own self-interest.⁵⁹ The idea that one person’s necessity implies a duty to aid binding upon other members of her or his clan or tribe; and the idea that food security, security in old age, and other kinds of security can be achieved by reciprocity and redistribution are old and wise ideas.⁶⁰ They do not die easily. They make a comeback in the twentieth century in the welfare state.

⁵⁷ Michel Aglietta, *A theory of capitalist regulation*. London: Verso, 2000. p. 70. (<http://mlg.eserver.org/the-institute/2009-portland/a-theory-of-capitalist-regulation/view> - accessed 2015).

⁵⁸ Smith, *Wealth*, near the beginning of Chapter Two, Book I. (op cit).

⁵⁹ For detailed studies of *The Theory of the Moral Sentiments*, of Smith’s theology and of how Smith relates to the theological controversies of his day see the works of Andres Monares. *Oikonomia, Economia Moderna, Economias*. Santiago: Editorial Ayun, 2008; *Reforma e Ilustracion, los Teologos que Construyeron la Modernidad*. Santiago: Editorial Ayun, 2012.

⁶⁰ Karl Polanyi et al, *Trade and Market in the Early Empires*. New York: Free Press, 1957 (<http://web.mit.edu/arnico/Public/PristaDocs/Polanyi%20readings.pdf> – accessed Feb 2015).; Richard Wilk and Lisa Cliggett, *Economies and Cultures: Foundations of Economic Anthropology*. Boulder CO: Westview Press, 2009; George Dalton, *Traditional Production in Primitive African Economies*, *The Quarterly Journal of*

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

Here is the thought-exercise:

Imagine. Imagine we are having a beer in a tuck shop⁶¹ in Alex.⁶² Now imagine while we drink our beer we are transported in time but not in space. Now we are at exactly the same location on the surface of the earth four hundred years earlier. We notice that now (in our new now ca. 1615, the one four hundred years prior to the time we conventionally call now) the human population is quite small; it seems lost and insignificant in the vast immensity of the natural landscape. Money plays a small role in our lives if we use it at all. Although food consumption in terms of calories per day is comparable to what it will be for the poor people four hundred years later, the future-people (not just any future-people but specifically the poor ones in the tuck shop in Alex) will have lost many food-producing and food-gathering skills; they will spend more hours a day on the whole trying to eke out a living by hook or by crook and will enjoy less leisure.⁶³ The future-people will have lost their traditional culture and identity.⁶⁴ They will no longer live securely in extended families and clans where “children of the same homestead will share even the head of a locust.”⁶⁵ They will see wealth but will not touch it. Humiliation will be the daily diet of their souls.⁶⁶ Drinking, fighting, and promiscuity will be their constant temptations. The future people will live far from the lands of their ancestors, for

Economics. Vol. 76 (1962) pp. 360-378; Paul Bohannon and George Dalton, *Markets in Africa*. Evanston: Northwestern University Press, 1965.<

⁶¹ A small shop where liquor is sold and served, similar to what would be known in other parts of the English-speaking world as a pub, a bar, a lounge, or a saloon.

⁶² Alexandria, a poor district of Johannesburg.

⁶³ This thought is suggested by Marshall Sahlins, *Stone Age Economics*. Chicago: Aldine, 1967, although he wrote of times still longer ago.

⁶⁴ In the language of Emile Durkheim they will suffer *anomie*, normlessness. Durkheim found that *anomie* was a typical consequence of the transition from archaic to modern society. Emile Durkheim, *The Division of Labor in Society*. New York: Free Press, 1947 (French original 1893) (<http://soc100willse.voices.wooster.edu/files/2012/01/Durkheim-Div-of-Labor.pdf> - accessed Feb 2015); *Suicide*. New York: Free Press, 1951 (French original 1897). Similarly, Karl Polanyi describes the growth of the modern economy as a “disembedding” of economic relations from social relations; while Louis Dumont construes the rise of modernity as the rise of the isolated individual. Karl Polanyi, *The Great Transformation*. Boston: Beacon Press, 1944 (http://www2.dse.unibo.it/ardeni/papers_development/KarlPolanyi_The-Great-Transformation_book.pdf - accessed Feb 2015);; Louis Dumont, *Essays on Individualism*. Chicago: University of Chicago Press, 1992. (<http://www.alanmacfarlane.com/TEXTS/DUMONT3.pdf> - accessed Feb 2015).

⁶⁵ “*Bana ba motho ba kgaogana tlhogwana ya tsie.*” A proverb in the Tswana language.

⁶⁶ See Evelin Lindner, *The Psychology of Humiliation* (Ph.D. dissertation, University of Oslo) and other works by the same author.

they will have left their ancestral lands to move to the city to look for work, and many of them will not have found it. That is a strange concept, they say, “looking for work and not finding it.” “We cannot understand it. How can one not find work when all of nature invites us to do something useful for ourselves and our kin? We cannot grasp the concept, but no doubt the future-people who will have personal experience of it in daily life will know what it means.”

8. Some Methodological Points

We summarize and repeat some of the same ideas calling attention to some methodological points. We are working within a realist framework that sees culture as the ecological niche of the human species⁶⁷. Culture is a concept that links the natural sciences to the human sciences. Causal explanation in economics relies on premises derived from the basic cultural structure of modern society.⁶⁸ Thus we connect the natural sciences with anthropology, anthropology with culture, culture with norms (or rules), rules with constitutive rules, constitutive rules with the particular ones that constitute markets, and the rules of markets with capital accumulation as the driving force of the economy. Two staggering facts follow. One has already been discussed: Production depends on profit. Another will soon be discussed: There is a chronic shortfall of effective demand. In the light of these two staggering facts much else can be understood.

We have been suggesting that the phrase “the economy” is appropriately glossed as human practice governed by the constitutive rules⁶⁹ of commodity exchange, namely⁷⁰ freedom, formal equality, property, contract, and self-interest. These were called principles of natural liberty by Smith. They were assumed as givens of pure economics by Walras.⁷¹ These rules of

⁶⁷ This idea was adumbrated by Rom Harre and by Rom Harre and Paul Secord in several works that deliberately connect an interpretive social science featuring explanations of human behaviour relying on concepts of rules (or norms) with a realist philosophy of natural science. It has been carried forward by Roy Bhaskar and Margaret Archer among others.

⁶⁸ This is the burden of the argument in Howard Richards, *Understanding the Global Economy*. Santa Barbara; Peace Education Books, 2004. A methodology that sees economics as working within the basic constitutive rules of modernity is applied to case studies in Howard Richards and Joanna Swanger, *Dilemmas of Social Democracies*. Lanham MD, Rowman and Littlefield, 2006.

⁶⁹ The phrase “constitutive rules” is explained and applied in a way similar to the way we apply it here in Charles Taylor, [Interpretation and the Sciences of Man](http://goodliffe.byu.edu/301/protect/taylorinterp.pdf) *Review of Metaphysics* Vol. 25 (1971) pp. 3-51. (<http://goodliffe.byu.edu/301/protect/taylorinterp.pdf> - accessed Feb 2015). This seminal essay has been frequently anthologized and is available on line.

⁷⁰ By saying “namely” we do not mean to insist that there is anything irreplaceable about the words we have chosen (following Marx and Smith). There are other legitimate and useful ways to describe how the same set of norms constitutes the same basic social structure; Taylor for example in the essay just cited writes of a “bargaining society.”

⁷¹ Earlier we took the precaution of saying Smith and Marx saw the same rules “--provided that we restrict our analysis to the exchange of commodities in what Marx calls the sphere of circulation.” The reason for this

the game make it inevitable, or nearly so, that the logic guiding the system and the dynamic driving the system will be profit, in other words capital accumulation.⁷² Notice that this does not imply that there should be no profit or no capital accumulation. It simply says that the system is what it is. For the most part it postpones discussions of the social functions of profit. It postpones discussing how to achieve sustainability and justice while performing the social functions of profit as well or better.

However, it does not postpone such discussions completely. Some conclusions can already be drawn. Assuming with Adam Smith that natural liberty is inseparable from free competitive markets, these rules of the game make it inevitable, in the absence of certain unusual circumstances, that wages will be low. The economy so structured does not work for the poor very often or very well. Suppose now we project ourselves in our imaginations into a future where robots do most of the work and computers do most of the thinking. Now will anyone still say the income of a human being ought to be the price her or his labour power would sell for in an ideal market undistorted by trade unions, clan or family ties, sentiment, morality, or government?

There is still more that can already be concluded. It is still more fundamental. The objective of working for the poor or any social or ecological objective ---indeed any objective whatever ---is likely to clash with the economy's overriding imperative. The economy's overriding imperative is to keep alive the expectation of profits, because the expectation of profits is what drives it and makes it move. (Its overriding imperative, expectation of profits, was named "confidence" by John Maynard Keynes.⁷³) The overriding imperative will win. It must win. The competing social or ecological objective will lose. It must lose.

Nongeniso Madlokazi lives in the rural village of Upper Mnyameni in Keiskammaboek in Eastern Cape. She is the elected CWP supervisor for her village. Of seven people in her

precaution was that Marx thought profit could not be explained at the level of circulation but only at the level of *Produktionsverhältnisse* (the production relations found in theP..... part of the diagram where C becomes C'). Although we believe "the economy" is appropriately glossed as we have stated, we do not mean to ignore Marx's views on this point.

⁷² See on this point Chapter Four "Law—The Constitution of Modernity" and Chapter Five "Economics—the Operation of Modernity" in Catherine Hoppers and Howard Richards, *Rethinking Thinking: Modernity's Other and the Transformation of the University*. Pretoria: University of South Africa, 2015.

⁷³ John Maynard Keynes, *A General Theory of Employment, Money, and Interest*. London: Macmillan, 1936. Chapter 12. (http://cas.umkc.edu/economics/people/facultypages/regel/courses/econ645/winter2011/general_theory.pdf - accessed Feb 2015). Keynes adds a twist. People invest not only because they expect a firm to be profitable, but also because they think the value of their shares will increase because other people will regard them as a profitable investment. He emphasizes that investment is motivated not by profits but by the *expectation* of profits.

household, only one is working. "The CWP has helped to chase away the hunger. In my house there was no furniture and now I have furniture and there is food in the house. It has also warmed my heart because I have got respect in the village because of this project. COGTA

It can be concluded also that when in history there have been economies that have reliably worked for the poor (and that if there are to be in the future economies that reliably work for the poor) there must have been (and in a happy future there must be) *other causes at work. To diminish the force of the overriding imperative there must be some modification of the institutional frame.* Those other causes might include monopoly and oligopoly. (*modifying free competition*) They might include minimum wage laws and labour unions. (*modifying freedom of contract and individualism*) They might include full employment produced by the government acting as employer of last resort. (*modifying the dependence of employment on profit*)

Ways to make the economy work for the poor might well consist of taking measures precisely contrary to those Smith recommends. Companies might be able to pay high wages (and able to do research and development on green technologies) precisely because they are *not* competing in the free markets that Adam Smith thought nature prescribed. Governments and labour unions might raise wages precisely because *unlike* Ricardo they *do not* treat labour as a commodity bought and sold like any other commodity. Notice, however, that in suggesting that less competition might favour, or make it possible to favour, workers in *some* firms, we are also suggesting forgoing some social benefits that would in theory flow from a highly competitive economy tending towards equilibrium: namely full or nearly full employment and maximum consumer satisfaction.

The upshot is that, while doubting the neoliberal story about the benefits to be achieved by following neoliberal policies, we favour achieving the same benefits in *other ways*, such as creating livelihoods by capturing rents and spending them to achieve social objectives,⁷⁴ and such as counting on sophisticated moral education more than on an unsophisticated invisible hand to orient individual behaviours towards social optima⁷⁵. The idea of “unbounded” is meant to suggest unlimited creativity in crafting ways to move toward a fully nurturant society living in harmony with its natural environment.

⁷⁴ The reader will notice that our suggestions differ from the usual proposals for a guaranteed unconditional basic income for all. We favour a great variety of useful and satisfying *activities*, not just money grants. See Yves Clot, *Travail et pouvoir d'agir*. Paris: PUF, 2008. When we think of how to pay for them we think first of transferring rents, not of taxing wage earners. (See Chapter Eight below)

⁷⁵ See John C. Gibbs, *Moral Development and Reality*. New York: Oxford University Press, 2014.

Our “unbounded” approach is basically very simple: Do not set any *a priori* limits to social imagination. Do what works. But although basically simple there is a guiding ideal: align with the common good. Work together across sectors to solve the problems, doing whatever it takes. And there is a methodological implication that is perhaps not at first obvious, but which might lead to disqualifying the majority of articles published in professional economics journals: Do not limit yourself to making models to fit the data, ignoring the larger question of what rules constitute the institutions. Consider what would be possible if the rules were different. Consider what would happen if there were more community and less economy. Positively, “We now use the term ‘unbounded organisation’ to refer to inter-sectoral collaboration, individuals linking between their ‘own’ organisations, coalition-building, cross-cultural activities and involvement by all segments of society.”⁷⁶

Our initial answer to the question how to make the economy work for the poor is a negative one. “The economy,” in a historically and intellectually important sense of the term, is *not* going to work for the poor. As Amartya Sen has wisely written capitalism generates mean streets and stunted lives unless it is restrained and complemented by other institutions-- in many cases by nonmarket institutions.⁷⁷

Not surprisingly, as a matter of intellectual history, thinkers who have advocated pure free markets have also advocated severe punishments for theft. Since pure free markets do not work for the poor, it is necessary to keep the poor down by force.⁷⁸

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

Having already presented some reasons for believing our negative thesis that the economy normally does *not* work for the poor, we turn now to making a positive proposal.

Our positive proposal is to employ the concept of unbounded organization in thinking about how to adjust culture (i.e. socially created reality) to make it better serve its physical functions. Think about how to adjusting a part of culture, the economic part, to make it deliver clean water, good food, decent housing, and other physical prerequisites of dignity. Dignity too is a physical need. The need for dignity implies that ending poverty cannot be achieved with handouts. It

⁷⁶ Gavin Andersson, *Looking Back to the Future: Conversations on Unbounded Organisation*, Dark Roast Occasional Paper Series Number 12. Cape Town: Isandla Institute, 2000. p. 4 (Op cit).

⁷⁷ Amartya Sen, [Sraffa, Wittgenstein, and Gramsci](#). *Journal of Economic Literature*, Vol. 41 (2003) pp. 1240-1255. p 1247.

⁷⁸ Bernard E. Harcourt, [The Illusion of Free Markets](#). Cambridge MA: Harvard University Press, 2011.

must be achieved with activities that make the poor themselves the authors or co-authors of their ascent to prosperity. All this implies separating the right to live from the necessity to sell.

We have been using some terminology from economics. Now we shall shift to the somewhat different terminology of human rights.⁷⁹ We will bring together these different realms of discourse with a proposition about the kind of economy needed to honour commitments to human rights: It cannot be “the economy” in the narrow and “pure” meaning of the phrase we have been critiquing. It must be an economy where it is not necessary to sell something (labour-power or something else) in order to enjoy the right to live.

There is an international consensus solemnly expressed in a series of multilateral treaties signed by the authorized representatives of almost all nations⁸⁰ affirming that every human being has civil, political, economic, social and cultural rights.⁸¹ These rights are nowhere more affirmed than in the Constitution of South Africa. Underlying all these rights is the right to live.⁸²

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

Since the earliest beginnings of the human species diverse cultures have prescribed that human beings in one form or another have duties to contribute to sustaining the lives of others.⁸³ Commonly social norms provide that humans have a duty to work. Those excused

⁷⁹ The general notion that in any given society there may be operating different and perhaps incommensurable “languages” comes from the methodology of the sociologist Robert Bellah and his co-authors of *Habits of the Heart: Individualism and Commitment in American Life*. Berkeley: University of California Press, 1986. (<http://www.robertbellah.com/Center%20for%20the%20Study%20of%20Democratic%20Institutions%201986%20Dialogue%20on%20Habits%20of%20the%20Heart.pdf> - accessed Feb 2015) They found four pervasive “languages” in mainstream United States culture: the language of business, that of therapy, that of religion, and that of civic life.

⁸⁰ As of October 2012 the economic, social, and cultural rights covenant had been signed by 162 nations and ratified by 160.

⁸¹ [The International Convention on Civil and Political Rights](#) was adopted by General Assembly resolution on December 16, 1966. It entered into force on March 23, 1976. [The International Covenant on Economic, Social, and Cultural Rights](#) was adopted by General Assembly resolution on the same date and entered into force on January 3, 1976. It includes the right to an adequate standard of living. [The Constitution of the Republic of South Africa](#) was approved by the Constitutional Court on 4 December, 1996 and entered into force on 4 February, 1997. Its Chapter Two is a Bill of Rights that includes among others rights to the basic necessities mentioned in the text above, food, water, housing, and health care services.

⁸² Like most people we do not think of a right to live as merely a right to remain barely alive, but as a right to live a truly human life. To avoid further complicating an already complicated argument we omit this nuance from the text. Similarly by using the generic phrase “low wages” we omit nuances found in the classical economists concerning the precise level competition drives wages down to.

⁸³ It has been argued that the most general form of the duty to contribute to the welfare of (at least some) others found in all human cultures is the norm of reciprocity. Alvin Gouldner, [The Norm of Reciprocity: a](#)

from the duty to work have generally been an upper class, not a lower class. But there cannot be a duty to sell. A sale always requires the voluntary agreement of a buyer. Because there cannot be a social norm obliging buyers to buy, there cannot be a social norm obliging sellers to sell.

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

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

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

Thereby hangs a tale of cruelty.⁸⁴

10. A Digression Concerning the Philosophy of the Social Sciences

Notice what we are doing. We are relativizing commodity exchange. We are relativizing the institutional frame⁸⁵ of economics. We are stepping out of our culture, moving backward, and seeing it from a distance as one culture among several or among many; as we might in our imagination move to a position in outer space where we could see the planet earth

[Preliminary Statement](#) *American Sociological Review* Vol. 25 (1960) pp. 161-178. Nancy Tanner has shown that the physical evolution of the human species has been that of an animal evolving to live in groups and to secure its livelihood by cooperation in her [On Becoming Human](#). Cambridge: Cambridge University Press, 1981.

⁸⁴ The tale of the inherent cruelty of economics is well told by Viviane Forrester in [L'horreur économique](#). Paris: Fayard, 1996.

⁸⁵ The institutional frame of economics is discussed by Joseph Schumpeter in his [History of Economic Analysis](#) New York: Oxford University Press, 1956 at pp. 544-550. (<http://digamo.free.fr/schumphea.pdf> - accessed Feb 2015). It is the same as the Smithian “natural liberty” and Marxian “true Eden of the rights of man” we have been discussing.

as one among several⁸⁶ planets, or move still farther out to see our own galaxy as one of many galaxies.⁸⁷ In our minds we are breaking free of the bounds of the modern neo-Roman liberal institutional framework of economic science.

We see this book as part of a transition from bounded social sciences whose categories are derived from liberal institutions,⁸⁸ to an unbounded social science whose categories are unlimited. We draw inspiration from Immanuel Wallerstein⁸⁹ and from the cultural/historical approach to psychology pioneered by Lev Vygotsky.⁹⁰ We find ourselves sympathetic with the views of the anthropologist James Boggs.⁹¹

Boggs works with “culture” somewhat as Weber works with *Gemeinschaft*. We mentioned above that in Weber’s terminology there has to be community before there can be any human action at all because by definition human action supposes common understandings. Human action is social. It presupposes expectations about how others will interpret and react. Bicyclists in Weber’s Germany passed each other on the right presupposing a conventional norm. We can make a similar point using the polysemic but indispensable concept of “culture.” Without culture there is no humanity at all, and therefore no human action and no human institutions.

⁸⁶ Thus for the historian Karl Polanyi there are not very many types of human economy, as there are not many planets in the solar system. For Polanyi a future that corrects the exaggerations of the present is likely to feature the tried and true principles that worked for many centuries before the rise of capitalism, notably the principle of reciprocal obligation and the principle of redistribution of the surplus. See Karl Polanyi et al. [*Trade and Markets in the Early Empires: Economies in History and Theory*](#). New York: Free Press, 1957 and other works by the same author.

⁸⁷ Our own view is that the human capacity to invent institutions is unlimited. One reason for this view is the anthropologist Victor Turner’s opinion that the physiology of the human brain lends itself to creative processes including ritual play that function in the social construction of reality somewhat as mutation and variation function in organic evolution. Victor Turner, [*Body, Brain, and Culture*](#) *Zygon: Journal of Religion and Science*. Vol. 18 (1983) pp. 221-245.

⁸⁸ Immanuel Wallerstein periodizes the disciplinary consolidation of economics, political science, anthropology, and sociology in the early 19th century and sees them as part and parcel of the global liberal hegemony established after the defeat of Napoleon. See his [*Unthinking Social Science*](#) Stanford: Stanford University Press, 1995. (<http://24hrcricketnetsession.com/unthinking-social-science-limits-of-19th-century> - accessed Feb 2015).

Michel Foucault similarly saw the founding of the social sciences as an aspect of the constitution of *notre modernité* dating their rise a bit earlier at the time of the French Revolution. See the latter part of his [*The Order of Things*](#) New York: Random House, 1994 (http://faculty.georgetown.edu/irvinem/theory/Foucault-Order_of_things-text.html - accessed Feb 2015) (French original *Les Mots et les Choses* 1966), his books on the origins of psychiatry, medicine, and criminology, and his lectures at the Collège de France where he deals with the origins of political science and economics.

⁸⁹ Immanuel Wallerstein, *Unthinking Social Science*. Stanford: Stanford University Press, 1995. Wallerstein shows how the social science disciplines took form as part of the liberal world order established in the early nineteenth century.

⁹⁰ See the extended discussion of Vygotsky and Activity Theory in Gavin Andersson, *Unbounded Organization: Embracing the Societal Enterprise*. Pretoria: University of South Africa Press, 2015. (Op cit).

⁹¹ James Boggs, [*The Culture Concept as Theory, in Context*](#) *Current Anthropology*. Volume 45 (2004) pp. 187-209. (<http://www.jstor.org/stable/10.1086/381048> - accessed Feb 2015).

In Boggs essay on the concept of culture, he regards it as the flagship of anthropology as a discipline. It plays a role in anthropology similar to the role of the theory of evolution in the biological sciences. It ties the science together and makes it what it is. Culture can be thought of as the ability to transmit innovations better adapted to the environment from one generation to another through upbringing. Culture gives the human species an evolutionary advantage over species that can only innovate by mutation and natural selection.

In the twenty first century the anthropological concept of “culture” is compelling the rethinking --Wallerstein calls it the unthinking-- of the social sciences. Culture is becoming their new overarching theoretical framework. Anthropology is challenging economics. Localism is challenging globalism. Culture is overthrowing the previously hegemonic liberal doctrine of human order inherited from the Enlightenment, typified by Adam Smith’s “natural liberty.” The constitutive rules of commodity exchange are no longer *seen as* the necessary institutional frame of human life everywhere and everywhen. Pace Fukuyama and von Hayek, they are also not seen as the only viable survivors among a multiplicity of sets of basic cultural norms previously existing. ⁹² For Boggs, culture, like Cronos overthrowing Uranus, is destined to end the hegemony of the liberal social sciences that gave it birth. While the 18th century Enlightenment was conquering medieval mysticism with weapons forged from universal principles of natural social order, its own passion for rational scientific inquiry was setting in motion processes of research and reflection that would in the course of two centuries lead to dismantling its own weapons. Its universal principles of natural order proved to be, after all, the norms of some cultures but not of others. ⁹³

The political implications of the scientific success of the concept of culture explain why it is now under attack. Boggs summarizes and responds to a series of contemporary attacks “from the left” e.g. those that fault “culture” for inevitably implying hierarchy, and a series of contemporary attacks “from the right” e.g. those that fault “culture” for undermining the very possibility of science and the very possibility of ethics.

⁹² Friedrich Von Hayek agrees that the constitutive rules of commodity exchange are social constructions neither universal nor eternal, but nevertheless argue that they should not be altered. See his *The Fatal Conceit: the Errors of Socialism*. Chicago: University of Chicago Press, 1988. (<http://www.libertarianismo.org/livros/fahfjc.pdf> - accessed Feb 2015).

⁹³ Smith himself was aware that the natural liberty he advocated was not universal. The early drafts of *The Wealth* were concluding parts of his lectures on the history of jurisprudence. Those lectures outlined what was then known about the great variety of institutional frameworks humans have devised to meet their material needs. Adam Smith, *Lectures on jurisprudence*. Oxford: Oxford University Press, 1976. (http://www.estig.ipbeja.pt/~ac_direito/Smith_0141.06.pdf - accessed Feb 2015).

Agnes Moswale is a coordinator of the Bokfontein CWP. "When I started CWP I was a participant and couldn't read or write. I used to sign with an X and I hated it. At our site participants attend ABET⁹⁴ classes. I attended the classes and worked hard and was promoted. As a coordinator I must write a weekly report on the work that is done by my participants. I find that I can do this as well as manage my registers. If it wasn't for CWP I would not be where I am now." COGTA

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

We return now to why full economic and social rights can only be honoured in a society where the right to live is separated from the necessity to find a buyer to buy what one has to sell. We find another reason why selling cannot possibly be a duty adumbrated in John Maynard Keynes' concept of liquidity preference. People prefer liquidity. They prefer to hold cash. Money is withheld from circulation. Therefore commodities that people want or need to sell often remain unsold. Labour power for example. Anticipating the rationale for the Community Work Programme: It is one thing to say everyone should do useful work; it is quite another thing to say everyone must find a buyer who can and will pay them money for doing it.

To declare that there is merit and insight in Keynes' concept of liquidity preference today is to join a conversation where many voices have been saying many things for many years. As the Ptolemaic astronomers of old with the solid support of the Ptolemaic rulers of Egypt postulated epicycles within epicycles to save the doctrine that the Pharaoh's palace was the centre of an earth that was itself the centre of a universe composed of suns and planets revolving around it, so today academic establishments with the solid support of well-heeled foundations postulate that no money ever really goes unspent. What individuals do not spend they do not hoard; they deposit it in banks, which then lend it out again to borrowers who spend it. Meanwhile, the partisans of liquidity preference, who were in the last decades of the twentieth century and up to the crash of 2008, increasingly isolated from political power and from economic gravy trains, did not take such sophistry lying down. Barricaded in many cases behind tenure granted in the old days before neoliberalism took to silencing its intellectual opponents by the simple expedient of abolishing the university as a centre of independent inquiry and turning it into a business paid to produce human resources for other businesses and

⁹⁴ [ABET](#) - Adult Basic Education and Training

paid to supply other businesses with marketable innovations, the Keynesian remnant fought back and still fights back to this day. ⁹⁵

Milton Friedman early in his career carried out meticulous empirical examinations of hypotheses derived from Keynes' liquidity preference theory and found that contrary to Keynes' expectations people often save about the same proportion of their incomes as their incomes go up, rather than larger proportions as Keynes had expected.⁹⁶

Later when he had become a tenured professor and a global celebrity Friedman wrote: "One major strand of Keynesian analysis traces the implications of a particular empirical assumption about the demand for money-that its elasticity with respect to interest rates is very high, approaching infinity (in Keynes' own terms, liquidity preference is, if not absolute, approximately so). Such a situation would have very far-reaching implications: it would greatly limit the effectiveness of price flexibility in correcting unemployment; it would render changes in the quantity of money produced by open market operations impotent to affect economic conditions; it would make the effect of government deficits on income and employment independent of the way in which the deficits are financed. By now, there is wide agreement that conditions of near-absolute liquidity preference, if they occur at all, are very rare, so that this strand of Keynesian analysis has receded to the status of a theoretical curiosity."⁹⁷

Our aim in this book is not so much to contribute to ongoing research and debate about liquidity preference as it is to move the conversation to another level: the level of the institutional frame. Broadening the conversation for a moment to include also other intellectual battles between neoliberals and neo-keynesians fought with empirical evidence, we take the view that neoliberal research is often valid when the scientific method is conceived as testing falsifiable hypotheses in the light of empirical data gathered in the world as it (unfortunately) is. Raising wages really does cost jobs, even though left-leaning economists can make a respectable case that the data is ambiguous and the jury is still out, or ought to be still out. Raising taxes on business really does make a nation less competitive in a global economy where capital is highly mobile.

⁹⁵ Much of the history of the ongoing battles pro-Keynes, anti-Keynes and post-Keynes is recounted by J.E. King in *The history of post-keynesian economics since 1936*. Cheltenham UK: Edward Elgar, 2003. See generally the *Journal of Post-keynesian Economics*.

⁹⁶ Milton Friedman, *A theory of the consumption function*. Princeton NJ: Princeton University Press, 1957. The consumption function and the liquidity preference go together, the former being a measure of how much of income is spent and the latter a measure of how much is not spent.

⁹⁷ Milton Friedman, *Interest Rates and the Demand for Money* *Journal of Law and Economics*. Volume 9 (1966) pp. 71-85 at p. 71. (http://www.jstor.org/stable/724994?seq=1#page_scan_tab_contents – accessed Feb 2015).

The world (unfortunately) works that way. To raise wages, to establish national and regional democratic sovereignty in the face of global economic power, to put planet before profits when the two collide, and to diminish inequality it is necessary to think outside the box. We need a different kind of research. We need research that dedicates itself less to showing with impeccable quantitative methods how the economically powerful defeat the economically powerless in the world as it is, and more to showing with realist methods harbingers of a better world that *could be*. In this book we provide a modest sample of such a different kind of research in our modest study of South Africa's community work programme.

The box image refers simultaneously to the legal framework that constitutes markets and to the intellectual framework patterned after it that constitutes orthodox economic theory.⁹⁸

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

The liquidity preference is a preference for holding cash (or assets similar to cash) instead of spending the cash to buy something.⁹⁹ Keynes gives a list of eight "psychological" reasons why people often prefer having money to spending it. They are:

1. To build up a reserve against unforeseen contingencies.
2. To build up a reserve for foreseen future needs, such as old age, paying for the education of children.
3. To build up funds to enjoy consumption at a later date.
4. To enjoy a gradually increasing expenditure, i.e. instead of taking all one's enjoyment now.
5. To enjoy a sense of independence.
6. To secure a flexible sum of money for carrying out business projects.
7. To bequeath a fortune.
8. To satisfy pure miserliness.¹⁰⁰

⁹⁸ Friedman himself once acknowledged that orthodox economic theory is too narrow. Milton Friedman, [Wesley C. Mitchell as an Economic Theorist](#) *Journal of Political Economy*. Volume 58 (1950) pp. 465-493 at p. 467. (http://www.jstor.org/stable/1827087?seq=1#page_scan_tab_contents – accessed Feb 2015). For details on how causal explanation in economics takes as premises the cultural norms that constitute markets see Howard Richards, *Understanding the Global Economy*. Santa Barbara CA: Peace Education Books, 2004.

⁹⁹ Keynes further distinguishes a category of money not spent on consumption but not held in liquid form either, but rather held as illiquid assets one cannot immediately spend. John Maynard Keynes, [The General Theory of Employment, Interest, and Money](#). London: Macmillan, p. 166. For our present purpose this distinction can be ignored. (<http://cas.umkc.edu/economics/people/facultypages/kregel/courses/econ645/winter2011/generaltheory.pdf> - accessed Feb 2015).

Keynes drew up additional lists of motives for not spending money that apply to central and local government and to business enterprises.¹⁰¹

The fact that people have what Keynes calls liquidity preferences implies (we and others claim) that some goods and services remain unsold (the ones that would have been sold if people had had no liquidity preferences and therefore had spent their money buying them).¹⁰²

Consider a way to look at three time periods.

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

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

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

Therefore, looking at the matter from this viewpoint, there is a problem. Purchasing power at Time Three derived from sales at Time Two must be less than X . Therefore for at least some sellers it must be impossible to sell at Time Three for lack of buyers. Although many solutions have been offered for this problem, our opinion is that none of them are fully satisfactory -- short of the kind of solution the Community Work Programme exemplifies, one

¹⁰⁰ Keynes, *General Theory*, pp. 107-8. (Op cit).

¹⁰¹ Keynes, *General Theory*, pp. 108-9. (Op cit).

¹⁰² We see sellers refraining from buying as a massive fact whose consequences require in the end an unbounded approach like that of CWP. Those who see the economy differently might be divided roughly into three classes: (1) Those who see no problem, reasoning for example that money not spent will be deposited in banks, who will then lend it out again to people who will spend it; (2) those who positively celebrate not spending as saving which will make possible investment and therefore growth; (3) those who see a problem, but who believe that suitable monetary and fiscal macroeconomic policies can cope with it in a more or less acceptable way. Concerning the latter two: "The development of new products for which demand is disproportionate to normal demand will not stop, even if it ...breaches ecological norms. Nor will it cease to be necessary to balance society's books. The new products process ...and consumers who like to shop with their credit cards will still be necessary to keep employment at acceptable levels. They display the treadmill that ensnares humanity; it is necessary to go forward faster just to stay in place.... Thus it is that caring and aware humans everywhere are asking the questions, How did we get on this treadmill? And how can we get off it?" Howard Richards, *Understanding the Global Economy*. Santa Barbara CA: Peace Education Books, 2004. p. 68. (http://www.san.beck.org/worldpeacebooks.org/PDF/UTGE_Preface.pdf - accessed Feb 2015).

that is not market-based at all but instead empowers people to do useful work and earn a livelihood without selling in markets.

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

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

$$\text{Total Sales} = \text{Total Purchases}$$

An individual may have more sales than purchases (and accumulate cash) or more purchases than sales (accumulating debt) but if one sums up over a whole society first all of the sales and then all of the purchases, the two totals must be equal.¹⁰³ This is true because what is a sale from the seller’s point of view is a purchase from the buyer’s point of view. It is the same transaction.

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

$$\text{Total Receivables} = \text{Total Payables}$$

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

¹⁰³ This is true in an ideal-typic stripped down bare-bones capitalism. In the real world there are taxes. The buyer pays more than the seller receives. This circumstance has led neoliberals to argue that reaping the benefits that allegedly would flow from perfect markets requires minimizing or eliminating “tax wedges” that prevent mutually beneficial sales that would occur if the tax wedges did not prevent them from occurring by making the transactions unattractive to one or the other party.

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

Like the consequences of the institutional fact that production is for profit, those of Keynes’ concept of liquidity preference –or, to be more complete, the consequences of jettisoning the extended family of the archaic tribe or clan and entering the modern world of mutually indifferent egoists trading in markets, which Keynes’ concept of liquidity preference begins to explore-- are staggering. They change everything. They imply that one can no longer repose full confidence in the precept of the Washington Consensus that the best way to help the poor is to improve the quality of what the poor have to sell in the market, i.e. their labour-power, i.e. themselves, by improving health and education. They imply that no amount of education, no amount of skills-training, no amount of encouraging the poor to go entrepreneurial and set up their own enterprises, no amount of advice on how to tap into new markets, in short nothing that makes the poor more capable of producing and marketing goods and services will suffice to end poverty. They imply that controversies over genetically modified foods and tobacco and violence on television and endless stockpiling of armaments are about more than the profits of Monsanto, Philip Morris, Fox and Boeing because they are also about the overall systemic need to increase aggregate economic activity. Let Keynes speak: “The celebrated *optimism* of traditional economic theory, which has led to economists being looked upon as Cándides, who, having left this world for the cultivation of their gardens, teach that all is for the best in this best of all possible worlds, provided of course we let well alone, is also to be traced, I think, to their having neglected to take account of the drag on prosperity that can be exercised by an insufficiency of effective demand.”¹⁰⁴

Notice too that Keynes answers a possible objection to our use of the classical concept that prices -- including wages as the prices of labour—are determined fundamentally and in the

¹⁰⁴ John Maynard Keynes, *General Theory* op. cit. p. 33. Paul Krugman has argued that the economic crises of recent decades show that Keynes was right on the precise issue at stake here; namely they show that there really is a chronic weakness of effective demand. Paul Krugman, *The Return of Depression Economics*. New York: Norton, 2009. (<http://www.princeton.edu/~pkrugman/fullerton.pdf> - accessed Feb 2015).

There is an unending stream of academic literature attacking, defending, and revising Keynes’ ideas. Much of it is summarized in J.E. King, *A History of Post-Keynesian Economics since 1936*. Cheltenham UK: Edward Elgar, 2002 (Op cit); J.E. King, *Post-Keynesian Economics: An Annotated Bibliography*. Aldershot UK and Brookfield VT: Edward Elgar, 1995.

long run by production costs. It can be objected that production-cost theories of wages and prices are obsolete. Today it is demand-side utility-maximizing or preference-maximizing theories that rule the roost. Wages are said to be fixed in a free market by the marginal productivity of labour, and ultimately by the contribution of the worker to the satisfaction of the consumer, quite apart from how much it may or may not cost the worker's family to produce and maintain her or him.¹⁰⁵ Keynes shows that the conclusion that the basic pure rules of the game do *not* work for the poor remains solid even when the emphasis is shifted from cost of production to sales.

12. Staggering Consequences of the Scarcity of Buyers

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

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

In the words of Michel Aglietta: "But there is no reason why purchases and sales should always interconnect. The metamorphoses of value can be halted by an interruption in buying and selling. Someone who has sold, in fact, and thereby acquired money, is in possession of a general and permanent purchasing power which does not require him to buy immediately. Money can make an exit from commodity circulation and exist as a *store of value*."¹⁰⁶

¹⁰⁵ Milton Friedman develops the argument that wages are and ought to be determined by the value of the worker's product in *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962. (Op cit). He overlooks the fact that before the value of the product can assume the form of money the product must be sold.

¹⁰⁶ Michel Aglietta, *A Theory of Capitalist Regulation*. London: Verso, 2000. P. 333. Notice that the right to keep money without spending it is a normative principle. It is not a deduction from any quasi-Newtonian

We see no reason to believe that in a society like ours every seller who needs to sell something in order to live will find a buyer.¹⁰⁷ We find confirmation of our disbelief every time we walk the streets of an inner city and see the homeless, the beggars, and the hawkers trying to sell goods nobody really needs. On city sidewalks we see goods for sale not because there is buyer-demand for them but because there is seller-demand for some way to get enough money to buy another bottle of wine to continue drinking oneself to death.

We need to separate the right to live from the duty to sell because many who need to sell something to make a living are not finding buyers. There is a fundamental difference between an unbounded society devoted to mobilizing resources to meet needs, where institutions are organized and re-organized in an unceasing process of adjustment of culture to physical function, on the one hand; and on the other hand a bounded society with rigid institutions where human needs are met if and only if someone makes a profit by meeting them.

In Chapter Eight we will come back to Keynes when we analyse a central theme in his General Theory that is moreover a central theme of centuries-long controversies in economics: the theme of Say's Law. Say's Law holds, roughly speaking, contrary to common sense and contrary to Keynes, that under normal circumstances everybody who needs to sell something to make a living will find a buyer to buy what she or he has to sell.¹⁰⁸

13. Community Service for Pay

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

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

¹⁰⁷ The contrary view that for every seller there must be a buyer is approximately Say's Law attributed to [Jean Baptiste Say](#) (1767-1832). We will discuss it and contemporary views of it in a later chapter. It makes a huge difference for CWP and for any employment guarantee scheme whether the real world is more as Say sees it or more as Keynes and Aglietta see it.

¹⁰⁸ An economist working on a mathematical model of an economy may suppose that the output of firms necessarily must flow either to households, or to government, or to export, or to other firms. But there is another possibility: It can flow nowhere. It can sit in a warehouse unsold. More massively, there can be non-output that was never put out because entrepreneurs anticipated that it would not be sold. If Keynes is right (See especially *General Theory* chapters 5 and 20 – op cit) and Say's Law is wrong, then there can be and normally will be a low-level equilibrium where not all factors are employed even though many needs are still unmet.

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

But this further conclusion, while it solves certain problems, raises others. It raises the practical difficulties inherent in trying to make non-market livelihoods a living reality. For centuries humanity has relied mainly on sales in markets to validate that labour is socially necessary, and on lack of sales in markets to correct the misallocation of resources. If today we are painfully aware of the limitations of market-based employment and we are more and more supplementing commodified labour with decommodified labour, we must emphasize other ways to distinguish work that is useful from work that is not useful. We must indeed go on beyond the idea of work to practice the principle that the purpose of the economy is to serve people, not the other way about. As technology frees humans from work, the economy should free humans to live meaningful and dignified lives in disciplined pursuits that have intrinsic value and not just instrumental value, such as dancing, singing, sports, basic science, meditation, enjoying nature; perfecting the life of the mind, the life of the body, and the life of the spirit.

We will be discussing later some ways CWP and other public employment programmes in India and in Sweden deal and dealt with the practical difficulties of administering non-market livelihoods. But now we can already affirm that separating the right to live from the necessity of selling in markets is possible. South Africa's Community Work Programme is a fact.¹⁰⁹ Its participants are not only not *required* to sell; they are not *allowed* to sell anything they produce on the taxpayer's time or with public assets.¹¹⁰ An official document states: "This approach uses public employment as a catalyst for community development. 'Useful work' is prioritised at the local level, through structures such as ward committees and local development fora. This helps energise such structures, and deepens the mechanisms for local participation in setting development priorities."¹¹¹

¹⁰⁹ Also alive and well is the [Mahatma Gandhi National Rural Employment Guarantee](#) Scheme started in India in 2005, and by 2010 enrolling participants from over 55 million households. Its experience has been a major source of ideas for CWP. It in turn has drawn on the experience of the employment guarantee schemes that have functioned in the Indian state of Maharashtra since 1972-73. Although CWP is laying the groundwork for a possible future employment guarantee in South Africa it is not yet an employment guarantee.

¹¹⁰ The work to be done in CWP is defined as "work that contributes to the public good, community goods or social services." It is specifically not "for profit-making enterprise-based activity." *Community Work Programme Implementation Manual*. Pretoria: Department of Cooperative Governance and Traditional Affairs. 2011. Pp. 19-20. We do not think the fact that these rules are sometimes broken invalidates our point that CWP shows one of the many ways it is possible to work without selling.

¹¹¹ These lines are quoted from South Africa's "[Second Economy Strategy](#)"(p. 10) composed by Kate Philip and others and approved by Cabinet (see also www.tips.org.za). Some details on how this is done are provided in Chapter Seven.

CWP and the larger EPWP (Expanded Public Works Programme) of which CWP is a part are well on their way to reaching the goal of providing useful regular paid work for a million participants.¹¹² This is a fact too big to ignore. It exists. If it exists it must be possible.

14. **Permanent Sharing of Rents**

Painting with a broad brush we can portray a need for the permanent sharing of rents as a corollary of a permanent need for community service with pay.

The principle of “permanent sharing of rents” can be illustrated using as an example the financing of caring for the poor by religious orders in France in the late middle ages.¹¹³ Landowners bequeathed land to the church, often expecting in return perpetual prayers for their souls. The land produced enough to sustain the people working on it; it also produced enough to sustain its own farming operations. In addition it produced the surplus that centuries later economists would call “rent.” The surplus normally supported the lifestyle of aristocratic and clerical leisure classes (as millennia earlier in Mesopotamia and elsewhere the surplus made possible by the agricultural revolution supported military and priestly classes). This same surplus could be, and sometimes was, used by religious orders to care for the poor. It made possible the first hospitals. (Even today in France the hyphenated word *hôtel-Dieu*, “God’s hotel” is used as a synonym for *hôpital*.) The first hospitals were not only for the sick. They were houses of hospitality for all those in need.

This example illustrates the central idea of the permanent sharing of rents. It begins with the transfer of a surplus. It ends with the meeting of needs.

Moving from example to principle, we can deduce a permanent need to share rents taking as premises the constitutive rules of modernity and treating the organizing of the satisfaction of vital needs as a basic function of any culture.¹¹⁴

Recall Staggering Fact Two.¹¹⁵ Markets usually and normally leave some proportion of the population out in the cold. It follows that there is a need for non-market livelihoods. (Here we arrange our definitions to exclude from the non-market livelihoods that there is a “need for” what is perhaps the most common non-market livelihood: namely, crime. We will not count

¹¹² For 2016/2017 the target for CWP is 1,030,000 participants. (See: the document [Department of Cooperative Governance and National Treasury on funding model for Community Works Program briefing presented by COGTA](#)).

¹¹³ Add references.

¹¹⁴ The idea that one of the basic functions of any culture is to meet vital needs was developed by Bronislaw Malinowski in . We treat this idea as not only explanatory but also normative.

¹¹⁵ The reader will recall that Staggering Fact Two is not so much an empirical finding as it is a consequence of the basic rules that organize a market society.

terrorizing good citizens and stealing from them as “community service,” nor will we count stolen goods as “pay,” or neighbourhoods controlled by drug-dealing gangs as places where there is “successful meeting of needs.”)

Now let us further arrange our definitions to allow the meaning of “community service for pay” to balloon to include any way to earn a livelihood serving others or developing one’s talents. (Excluding crime etc. as noted above.) This is a stretch. It includes for example the livelihoods of family members whose “community service” is caring for the house and the children, and whose “pay” is sharing the pay-checks of family members who work for wages. But we are painting with a broad brush and we give ourselves licence to stretch.

Question: From where do the resources flow to pay those who earn a livelihood serving the community, but do not sell?

Answer: From many places. The material practices that exist or have existed are innumerable. Social innovation is ongoing.

Question: Does this mean that any amount and any kind of redistribution is compatible with running a thriving culture?

Answer: No. Recall Staggering Fact One.¹¹⁶ Until further notice the work of the world is accomplished (not entirely, but nonetheless crucially) by producing goods and services for sale. In productive processes organized as most are with sales in view (and the situation is not in this respect very different in a centrally planned economy) capital has social functions. Capital has to exist and it has to be managed by somebody. Whoever manages it (in whatever sector) needs to have enough of it to pay the costs of production, including what Alfred Marshall called the “supply cost of business,” that is to say, the cost of motivating entrepreneurs.¹¹⁷ Therefore the

¹¹⁶ Recall also that Staggering Fact One is more a consequence of the rules that organize commerce than it is a generalization from empirical observations.

¹¹⁷ “The supply price, therefore, at which business ability, in command of the requisite capital, will be forthcoming, consists of: (a) the supply price of the ability itself; together with (b) the supply price of the bringing together of that ability with the capital required to give it scope, or, to look at the same thing from another point of view, Insurance against Personal Risks; together with (c) the supply price of the capital employed.” Alfred Marshall, *The Theory of Business Profits*, *The Quarterly Journal of Economics*. Vol 1 (1887) pp. 477-481 at p. 479. For Marshall elements a, b, and enter into the cost of production of a commodity, while rent does not. Hence rent can in principle be transferred to meet social needs while still providing the incentives needed for production. See also Alfred Marshall, *On Rent*, *The Economic Journal*, Vol. 3 (1893) pp. 74-90; Alfred Marshall, *Principles of Economics*, 8th edition, London: Macmillan, 1920, especially Book IV chapters 1-3, Book VI, chapters 7-10. Thomas Piketty and his co-authors are among those who have shown, however, that today’s exaggerated executive salaries in some industries, for example in the financial services industry in the United States, do not in fact serve any social function. Piketty’s views will be discussed in chapter eight together with further discussion of Marshall’s views and a reference to recent writings in the same vein by Joseph Stiglitz.

permanent need for community service for pay implies a permanent need to transfer not just any revenues, but to transfer precisely the surplus that is not part of the cost of production; that is to say, by definition, rents. Q.E.D.

In the following chapters, especially in Chapter Eight, the social vocation of rents will be always in the background and sometimes in the foreground. Simplifying terms a bit, we will try to keep in focus three complementary sets of phenomena:

1. Production and distribution that is *not* happening because there is no profit in it. Insofar as whatever happens is motivated by expectations of profit, when there is no confidence that profits will be made things do not happen.
2. Production and distribution that *is* happening and is generating *more* profit than is needed to motivate it, i.e. rents, thus creating slack¹¹⁸ that can be transferred to solve the social problems generated by (1).
3. Production and distribution that is partly or wholly mission-driven, not motivated or only partly motivated by expectations of profit.

¹¹⁸ The word “slack” comes from Richard Cyert and James March, *A Behavioral Theory of the Firm*. New York: Wiley-Blackwell, 1992 (1963). An empirical study of major United States corporations found that their revenues were greater than what was needed to pay costs and satisfy shareholders, creating “slack” that was disbursed according to the discretion and/or power of influential people and groups within and without the organization.