

# Chapter Six

Tentative Book title:  
**Economic Theory and Community Development**  
**An Exercise in Applied Philosophy**

## Chapter title:

The Imaginary World that Holds the Real World Captive

### Overview of the Chapter:

1. The Astonishment (on Milton Friedman)
2. The Stakes: the *Forme* and the *Fond*
3. The Stakes: The Physical Background of Culture
4. Evaluating the Community Work Programme
5. Some Observations on the Origins of Liberalism (on Adam Smith)
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7. Calculating Deadweight
8. Raising the Stakes (Critique and Unbounded Alternative)
9. The Superiority of an Unbounded Pluralist Worldview
  - A. History
  - B. The Realities of Business Today
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10. A Bow Toward Realism

### 1. The Astonishment

In his famous article, “A Theoretical Framework for Monetary Analysis”<sup>1</sup> Milton Friedman paraphrases “the first proposition” of Keynes as follows: “...there need not exist, even if all prices are flexible, a *long run equilibrium* position characterized by ‘full employment’ of resources.” A few paragraphs later Friedman writes, “The first proposition can be treated summarily because it has been demonstrated to be false.”

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<sup>1</sup> Milton Friedman, [A Theoretical Framework for Monetary Analysis](http://www.aldaname.com/texty/Milton%20Friedman%20-%20A%20Theoretical%20Framework%20for%20Monetary%20Analysis%20-%201970.pdf) *Journal of Political Economy*. Volume 78 (1970) pp. 193-238. (<http://www.aldaname.com/texty/Milton%20Friedman%20-%20A%20Theoretical%20Framework%20for%20Monetary%20Analysis%20-%201970.pdf> – accessed February 2015).

A first glance at these words makes one wonder what on earth was going on in Friedman's mind. If the proposition that full employment of labour (and other resources) "need not exist" is false, then it must be true that full employment need exist. In other words full employment must exist. If it *must* exist, then it cannot not exist. It must exist all the time. There must always be full employment. And yet the empirically observed fact is, as Keynes correctly writes, that full employment, or even approximately full employment, rarely happens, and when it does happen it does not last long.<sup>2</sup>

Friedman surely does not mean what at first glance he appears to mean. We must pay more attention to his qualifications. Reading a little more carefully, we see that Friedman is not saying that full employment necessarily exists and therefore exists all the time. He is saying that a "*long run equilibrium* position" characterized by full employment necessarily exists. (It is false that it need not exist, therefore it is true that it need exist.) He hedges his claim with the qualification that it is true only when the economy is in a certain position. He is not saying that there is always full employment. He is saying that there is full employment in the long run and when the economy is in equilibrium.

One is hardly less astonished. If the economy tends toward equilibrium, and in the long run will arrive at full employment, then full employment must be the normal tendency of the economy. It must be where the economy tends to go, even if at a given time it is not there yet. But this claim does not square with history either. If one regards capitalism as beginning around 1700, then it is now a little over three centuries during which no tendency toward a full employment equilibrium has been observed.

The key to Friedman's meaning must lie in another qualification: "even if all prices are flexible." Friedman must believe, contrary to Keynes,<sup>3</sup> that if wages could fall lower and lower without limit (a fall without limit which –as the reader will remember

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<sup>2</sup> John Maynard Keynes, *General Theory* pp. 249-50. (<http://www.aldaname/texty/Milton%20Friedman%20-%20A%20Theoretical%20Frame%20work%20for%20Monetary%20Analysis%20-%201970.pdf> – accessed February 2015).

<sup>3</sup> "There is, therefore, no ground for the belief that a flexible wage policy is capable of maintaining a state of continuous full employment; any more than for the belief that an open-market monetary policy is capable, unaided, of achieving this result. The economic system cannot be made self-adjusting along these lines." John Maynard Keynes, *General Theory*. p. 267. Op cit.

from Chapter Two -- for David Ricardo implied full employment only of all the workers living, since the workers for whom the market did not provide a living wage would die or not be born for lack of food) and if all other prices were also fully flexible, then there *would be* full employment in the long run.

Even with this additional qualification our astonishment remains. In the real world prices are *not* fully flexible.<sup>4</sup> They are not now and they never have been.

Interpreting Friedman as assigning a great deal of theoretical importance to a phenomenon – fully flexible prices -- that has never in fact happened leads to the title of this chapter. We are suggesting that for a neoliberal like Friedman what exists is *seen as an absence* of what ought to be. What actually happens in markets is seen as the absence of fully flexible prices in markets at equilibrium. Our astonishment leads us to the questions, “What is the seductive attraction of a worldview that leads Milton Friedman – and with Friedman the neoliberal economists who now make public policy at the global level and most national levels — to believe that it is of great scientific and practical importance to declare what *would* happen in hypothetical circumstances of equilibrium with fully flexible prices?” “Why do they think it appropriate to evaluate the real world by comparing it to a hypothetical world that does not exist, has never existed, and (as Joseph Schumpeter<sup>5</sup> and others have shown, and as we will show in this chapter) could not possibly exist?” This chapter will be devoted to solving the mysteries behind these questions.

## **2. The Stakes: the *Forme* and the *Fond***

This chapter has a *forme* and a *fond*. *Forme* and *fond* are two French words that have proven to be useful in applying the German psychological term *Gestalt*. Here they

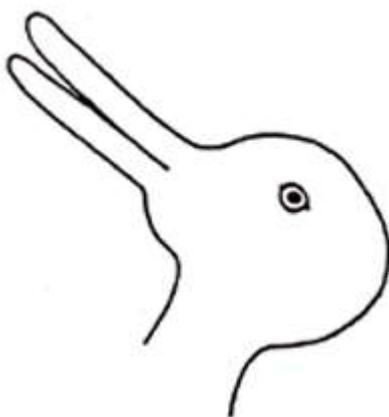
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<sup>4</sup> Criticizing Friedman, Paul Davidson argues that the very idea of fully flexible prices is contradictory. Money is by definition and by social function a store of value. It provides socially constructed stability linking past, present, and future. An economy can only exist if there is “...continuity over time in contractual commitments in money units.” Paul Davidson, “A Keynesian View of Friedman’s Theoretical Framework for Monetary Analysis,” in Robert Gordon (ed.) *Milton Friedman’s Monetary Framework*. Chicago: University of Chicago Press, 1974. Pp. 90-110. ([http://www.press\\_uchicago.edu/ucp/books/book/distributed/M/bo3641596.html](http://www.press_uchicago.edu/ucp/books/book/distributed/M/bo3641596.html) -accessed June 2015)

<sup>5</sup> Joseph Schumpeter, *The Theory of Economic Development*. New Brunswick NJ: Transaction Publishers, 2007. (first German edition 1911) Schumpeter argues that the circular flow (*Kreislauf*) of neo-classical economics could only exist in a static world.

will help to explain the relationship between the worldview we aim to deconstruct (Friedman's) and the worldview we recommend (unbounded organization.)

*Forme*, like form in English, is shape or figure. It comes into focus and stands out against a background, as the girlfriend of the Nicaraguan poet Ernesto Cardenal came into focus and stood out against the background of the crowd in the stadium.<sup>6</sup> Gestalt psychologists discuss the forms of a line drawing that can be interpreted as a duck or as a rabbit.



It can be *seen as* a duck or *seen as* a rabbit. Its *forme* can be duck or rabbit. Although one might refer to such a line drawing as ambiguous, it is only ambiguous for people who realize that it can be seen in more than one way. For a person who sees it as a duck, who does not realize that it can also be seen as a rabbit, the drawing is not ambiguous. It is a duck. Examples can be found in documents of the World Trade Organization where the diminishing of human happiness caused by trade barriers is not ambiguous. It is *seen as* a fact.<sup>7</sup>

The *fond* is the background. A *forme* always comes into focus emerging from and standing out against a *fond*. The girlfriend comes into focus standing out against a crowd. There is no text without context. The basic idea behind Kurt Gödel's famous incompleteness theorem – that we can never make explicit the complete background of what we mean - applies not just to number theory, not just to mathematics, but to any language. Up to some point which varies from case to case we can explain reasonably

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<sup>6</sup> *Ayer estabas en el estadio/ en medio de miles de gentes/y te divisé/ desde que entré/igual que si hubieras/estado sola/en un estadio vacío.* [Ernesto Cardenal](#).

<sup>7</sup> See the seven important objectives of the WTO at [World Trade Organization \(WTO\): Objectives and Functions](#).

well the background our ideas are coming out of. But we must eventually surrender to the inevitable limitation that anything we say or write is incomplete. There must be unspoken and unwritten background assumptions surrounding and framing it. At one level this must be true because it is impossible to say everything at once, or to write everything at once. At a second level it must be true because whatever one may say is only an infinitesimal fraction of all the talking going on around one, and it is this wider talking –much too vast to record and exhaustively analyse-- that gives meaning to the words one uses. In Mikhail Bakhtin’s phrases, words do not belong to us; one “borrows” words from the surrounding *milieu* and “ventriloquates” with them. At a third level it must be true because even the total of human speech depends for its meanings on things outside speech. The background we can fill in by providing more context when people ask us questions eventually -- sometimes sooner sometimes later -- fades away into a vast impossibility we cannot fill in. While the *fond* is very necessary because it makes it possible for there to be a *forme*, it is also very humbling. The *fond* spans an infinite range starting from what we can pretty easily explain and from there going deeper and deeper farther and farther downward and outward toward the unfathomable beyond the depths and the invisible beyond the horizon. Ludwig Wittgenstein expressed a different facet of the same point when he wrote that in mathematics (and – he implies — with greater reason outside mathematics) communication depends on something beyond clear definitions. It depends on the wider realities of agreement in action, agreement in judgments.<sup>8</sup> Wittgenstein was neither the first nor the last to observe that it is only because of simplifying cultural conventions (“forms of life” in his terms) that we can communicate at all.

### **The Stakes: the *Forme***

The *forme* that is the focus of this chapter is a tightly knit set of interconnected ideas commonly referred to today as “neoliberalism.” We have already identified it with seeing the world through the lenses of an imaginary world where there are fully flexible prices, markets in equilibrium (which simply means that everything that is brought to market is sold), and resources all fully employed. We have already suggested

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<sup>8</sup> Ludwig Wittgenstein, [\*Remarks on the Foundations of Mathematics\*](#). Cambridge MA: MIT Press, 1994, section 39 on pages 342-3.

that Milton Friedman (who called himself a “liberal”) saw the world as massively failing to be what it ought to be.

We have already called the tendencies so identified “mainstream,” “orthodox,” and “dominant.” In doing so we have been, in part, confessedly guilty of exaggerating the extent to which the bulk of today’s economists and policy makers all think alike. We have also been, in part, guided by some of our own negative opinions that we will not fully express about dissident economists, for examples Joseph Stiglitz and Paul Krugman. The neoliberal views whose limitations we will point out –without, however, saying they are completely mistaken — overlap with the views that can still be called mainstream but cannot be called neoliberal, and they also overlap with views that are not mainstream at all but which are still not free of a tendency to see the real world through the lenses of an imaginary liberal world. An extreme example would be the Polish socialist economist Oskar Lange who defended socialism by arguing that the result of perfect planning would be equivalent to the result of perfect markets.<sup>9</sup> In short, we are not aiming our critique only at neoliberals, but we are also not cleaning the Augean stables of economics by specifying exactly which views of which authors our critique applies to. That would be a task for Hercules, not for us.

To come closer to a single neat and clear idea that ties together and defines the neoliberal worldview that is the *forme* examined in this chapter, we borrow some reasonably neat and reasonably clear ideas from Jeff Madrick.<sup>10</sup> Madrick shows how one single beautiful 18<sup>th</sup> century idea envisioned by Adam Smith has led to no end of trouble. That beautiful, bad, seductive idea was the idea of a self-regulating market. Its progeny include austerity economics, government’s limited social role, an obsession with keeping inflation under control at all costs, blindness in the face of speculative bubbles, globalization (which Madrick calls “Friedman’s folly writ large”), and the myth that economics is a science.

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<sup>9</sup> Oskar Lange and Fred M. Taylor, *On the Economic Theory of Socialism*. Minneapolis: University of Minnesota Press, 1938. ([http://stevereads.com/papers\\_to\\_read/on\\_the\\_economic\\_theory\\_of\\_socialism\\_part\\_two.pdf](http://stevereads.com/papers_to_read/on_the_economic_theory_of_socialism_part_two.pdf) - accessed February 2015). Milton Friedman replied that if the purpose of socialism was to simulate perfect free markets, why not take the more direct route by perfecting the free markets we already have? See Milton Friedman, *Lerner on the Economics of Control*. *Journal of Political Economy*. Volume 55 (1947) pp. 405-416. (<http://www.jstor.org/discover/10.2307/1825534?sid=21105268153961&uid=70&uid=4&uid=3738032&uid=2&uid=2129> – accessed February 2015).

<sup>10</sup> Jeff Madrick, *Seven Bad Ideas: How Mainstream Economists have Damaged America and the World*. New York: Random House, 2014.

When we look for a way to sketch our *forme* succinctly we also find that what we have in mind corresponds reasonably neatly to John Maynard Keynes' target. At the beginning of his *General Theory* he provides a pithy summary of the "classical" economics he set out to criticize. Keynes found that the logic (i.e. the logical validity of the inferences from premises to conclusions) of the classical mainstream economics of his day was impeccable. Nevertheless, the resulting theory was unreal. Keynes targeted as unreal three tightly inter-related claims that stand or fall together, which we can update as follows: that wages are and ought to be determined by the marginal value added by labour, that full employment is normal, that supply creates its own demand (Say's Law).<sup>11</sup>

### **The Stakes: the *Fond***

A common approach to the unspoken background of a spoken thesis was neatly captured by C.S. Lewis in the phrase, "the joke has already been told." Everybody already knows what the joke was. If you do not know what everybody else knows then you should be ashamed of yourself. You had better shut up because if you speak you will be even more embarrassed than you already are. People who do not know what everybody is presumed to know are threatened with loss of face.

On the "joke has already been told" approach once we present our written reasons at the level of the *forme*, unwritten reasons would supply the missing premises. It would be obvious to the educated reader that neoliberalism is intellectually indefensible. The criteria for distinguishing defensible from indefensible theories are presumed to be well known to the audience. They do not need to be stated.

A second approach to the background of foregrounded discourse is also common. It might be called a "contribution to the field" approach. Every field consists (here we follow Karl Popper) at a print or digital level of symbols in libraries or bits on microchips that document what the scholars in the field have learned. At a human level the field consists of the scholars themselves. Those who are living constitute what

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<sup>11</sup> John Maynard Keynes, *General Theory*, pp. 21-22 op cit. and the preceding chapter leading up to this conclusion. We will discuss Say's Law in more detail in chapter eight.

Thomas Kuhn called a “scientific community.” It is to their material interest to build up knowledge in their speciality and to augment its prestige, so that they can get more students, more funding, and more employment for themselves and their graduates. The relevant judges in the background who evaluate a new text in the foreground are the acknowledged authorities who lead the field.

An important argument by Milton Friedman and his co-author L.J. Savage may serve as an example of treating the building up of economics as a field as the background used to judge the merits of a text in the foreground. In 1948 and 1952 Friedman and Savage published two articles on utility analysis that turned out to be seminal for Friedman’s later works.<sup>12</sup> Part of their argument was that human beings can be regarded as self-interested individuals seeking to maximize an abstract entity designated as their utility. More precisely, they proposed as a hypothesis in the second of the two articles: “individuals choose among alternatives involving risk as if they were seeking to maximize the expected value of some quantity which has been called utility.”<sup>13</sup>

Friedman and Savage concede that the psychological evidence in favour this hypothesis is “meagre.” Nonetheless they urge its acceptance on two grounds.

The first is, “its coherence with the body of economic theory.”

The second is convenience. Friedman and Savage write, “Convenience may seem a slender justification; it is in fact it is an extremely important one.” They go on: “Aside from inconvenience need anything be wrong with the use of Roman rather than Arabic numerals; or with dropping numerical nomenclature altogether and replacing it with extemporaneous circumlocutions?” They argue that there is the same justification for articulating a concept named “utility” measurable in economics as there is for

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<sup>12</sup> Milton Friedman and L.J. Savage, [The Utility Analysis of Choices Involving Risks](#), *The Journal of Political Economy*. Vol. 56 (1948) pp. 451-472; Milton Friedman and L.J. Savage, [The Expected-Utility Hypothesis and the Measurability of Utility](#). *The Journal of Political Economy*. Vol. 60 (1952) pp. 463-474.

<sup>13</sup> Friedman and Savage protect themselves against criticism by formally allowing that a given person’s utility might not be selfish at all but pure altruism. Apart from this being a formal precaution rarely if ever carried over into practical applications, it remains within the rhetorical frame of the economic actor. It does not support cultural resources like, for example, the *imago dei* in the human soul, *Ubuntu*, or social responsibility.

articulating concepts named “length” and “temperature” measurable in physics. In both cases the concept defines interval and ratio scale data to which quantitative techniques can be applied. By choosing to define “utility” as what human beings maximise, economics claims its right to be regarded as a hard science.

One could make a case for saying -- taking a larger view of a larger background -- that a conception of human nature that over-emphasizes individualism is *not* convenient. Analysing human behaviour as if it were a matter of calculated rational choices to maximize utility (which in practice tends to mean maximizing utility as measured by money) could properly be called *inconvenient*. If one reads Friedman and Savage’s texts against a wider background of a wider *fond* -- a *fond* displaying the physical functions of cultural-historical stories teaching what it means to be a human being—one is led to a different judgment. When the *fond* embraces the social practices that generate social cohesion, then a theory that postulates a utility-maximizing *homo economicus* appears as not convenient at all.

### **3. The Stakes: The Physical Background of Culture**

Unbounded organization aspires to be a realist worldview. What really exists is taken to be necessarily the real *fond* of any *forme*.<sup>14</sup> Here is an outline of what exists and how it came to exist. The universe began 14 billion years ago as hot thin gas consisting largely of photons. After about two hundred million years the first stars appeared. They consisted mostly of hydrogen and partly of helium. In the intense heat inside the stars these simple atoms fused to form relatively small quantities of more complex atoms. The heavier atoms persisted in existence because electrical energy bound the protons in their nuclei to the electrons in their peripheries. “The atoms probably drifted around for one or two billion years before joining a denser cloud. Within such clouds small pockets collapse to form stars. Around these one finds disks of dust and gas, which in turn form planets. In the case of the earth about ten to the tenth power atoms ended up in a spherical ball with a barren cratered surface heaving with volcanism. During the next 4.5 billion years an extraordinary transformation took place,

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<sup>14</sup> Thinkers like Friedman scorn talk about “reality” as so much hot air. For a defense of such talk see Roy Bhaskar, *The Possibility of Naturalism*. Brighton, Sussex: Harvester, 1979; Roy Bhaskar, *A Realist Theory of Science*. London: Verso, 1997. (<http://m.friendfeed-media.com/66d08f6aef311d159f855cea426cc1e53d751570> accessed February 2015).

enabled by atoms extraordinary ability to combine in complex ways. At a glacial pace, a selective process took us from molecules to life.”<sup>15</sup> The selective process selected in favour of life because living cells (and later more complex organisms) recreate and reproduce themselves. Cells make DNA and DNA makes cells. Life is homeostatic. That is to say it responds to perturbations by defending its structure. It produces descendants of the same kind, i.e. of the same DNA code.<sup>16</sup> The chemistry of life is organic chemistry, i.e. the chemistry of carbon compounds. Most life also depends on nitrogen and oxygen. Life began when oxygen became abundant in the earth’s atmosphere. The processes of life require the favourable conditions of the part of the earth’s crust, waters, and atmosphere capable of supporting life, i.e. of the biosphere. Living beings compete for energy and other vital resources. DNA sometimes mutates. The more successful mutants survive long enough to reproduce and over time are selected. Some 400,000 to 250,000 years ago nature selected in favour of a *cultural* animal. Language, human forms of sexual attraction, stories, and rituals, gave human groups ethics and therefore coherence.<sup>17</sup> They could cooperate in gathering, hunting, child-rearing and other vital functions. They could pass norms and technologies from generation to generation by education, thus learning faster than species dependent on mutation and natural selection to change behaviour patterns.<sup>18</sup> The set of cultural norms constituting capitalism emerged and persisted because of its productivity (see e.g. Schumpeter)<sup>19</sup> because of the military advantages of societies driven by capital accumulation (see e.g. Adam Smith)<sup>20</sup> and because of its homeostatic qualities (see e.g. Michael Kalecki).<sup>21</sup>

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<sup>15</sup> Mark Whittle, [\*Cosmology: the history and nature of our universe\*](#). Chantilly VA: The Teaching Company, 208. p. 126.

<sup>16</sup> F. Varela, H. Maturana and R. Uribe, [\*Autopoiesis: The organization of living systems, its characterization and a model\*](#). *Biosystems*. Volume 5 (1974) pp. 187-196. ([http://link.springer.com/chapter/10.1007/978-1-4899-0718-9\\_40#page-1](http://link.springer.com/chapter/10.1007/978-1-4899-0718-9_40#page-1) accessed June 2015).

<sup>17</sup> See James Boggs, [\*The Culture Concept as Theory, in Context\*](#). *Current Anthropology*. Volume 45 (2004) pp. 187-209. Boggs shows how the culture concept supersedes the liberal worldview that constitutes the institutions that are currently globally dominant. (<http://www.jstor.org/discover/10.1086/381048?uid=3738032&uid=2129&uid=2&uid=70&uid=4&sid=21105284438351> – accessed Feb 2015)

<sup>18</sup> However even species dependent on genetics adjust to diverse environments, for example water plants that assume one form in rapidly flowing water and another in still water.

<sup>19</sup> Joseph Schumpeter, *Theory of Economic Development* op. cit. In this and other works Schumpeter depicts an historical process of creative destruction in which innovation leads to productivity gains.

<sup>20</sup> *Wealth of Nations*, Book V. The societies Smith calls “opulent” become militarily superior.

<sup>21</sup> “...everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis.” Michael Kalecki, [\*Political Aspects of Full Employment\*](#), first published in *Political Quarterly* in 1943. (<http://mrzine.monthlyreview.org/2010/kalecki220510.html> - accessed February 2015).

Unbounded organization and neoliberalism are not two worldviews competing to determine which one best satisfies the criteria for judging ideas established by the “jokes already told” by educated readers in general or by educated readers in a particular field. They are not two *formes* with the same *fond*. Unbounded organization aspires to position itself as a logical consequence of a realist worldview and as a conscious continuation of evolution. It is at an epistemological level more basic than that of economists who work to fit mathematical models to data provided by social statistics, for example regressing GDP on average number of years of schooling for all the countries for which data can be found. Calling unbounded organization (or John Dewey’s naturalism) “more basic” is not to say that it rests on the clear and distinct ideas of a Descartes, or on the impressions of a David Hume, or on the categories of an Aristotle or a Kant, or on the atomic facts of a Bertrand Russell or a young Wittgenstein, or on the life-worlds of a Husserl or a Heidegger, or on anything Richard Rorty would call “foundational.”<sup>22</sup> It is to say that unbounded efforts to improve the functioning of human institutions are part and parcel of the physical processes that generate matter, life, culture, imagination, stories and all *seeing as*<sup>23</sup> language, knowledge, and all material practices by which humans cooperate and compete to survive and flourish.

#### **4. Evaluating the Community Work Programme**

We see neoliberalism – understood as a shorthand term for the constellations of ideas Madrick and Keynes have helped us to identify with reasonable precision -- as a limited worldview. It is bounded. It is trapped inside the norms of commercial law that constitute and regulate buying and selling. It is a social science built on an ethics. Its ethics echoes the constitutive rules of markets. In today’s world it is out-of-control in a

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<sup>22</sup> Richard Rorty, *Philosophy and the Mirror of Nature*. Princeton NJ: Princeton University Press, 1979. Rorty argues that philosophers have been mistaken to look for foundations of knowledge, and even more mistaken when they claim to have found them. ([http://pages.uoregon.edu/koopman/courses\\_readings/rorty/rorty\\_PMN\\_full.pdf](http://pages.uoregon.edu/koopman/courses_readings/rorty/rorty_PMN_full.pdf) accessed February 2015).

<sup>23</sup> Heidegger’s *Geschichtlichkeit* (story-ness) specifically developed in the Zweiter Abschnitt, Fünftes Kapitel, of *Sein und Zeit* but implicitly present throughout. See the chapters on Heidegger in Howard Richards, *Letters from Quebec*. San Francisco and London: International Scholars Press, 1995. (<http://www.amazon.com/Letters-Quebec-Philosophy-Peace-Justice/dp/1883255171> - accessed February 2015).

mad rush to commercialize everything.<sup>24</sup> We will further illustrate neoliberalism so understood by addressing some practical issues concerning the evaluation of South Africa's Community Work Programme. We will contrast a neoliberal ("their") approach to evaluating CWP with a realist ("our") approach.

To prepare the ground a bit more for discussing contrasting criteria for evaluating CWP here is a recapitulation of themes from previous chapters framed as an account of how-we-see-neoliberals-seeing. They see the world in a way that makes it obvious that there must always be more and more annual growth of the Gross Domestic Product. It is similarly obvious that inflation must be kept in check by restrictive monetary and fiscal policies –which gives rise to intractable dilemmas because the unmovable pro-growth imperative frequently collides with the equally unmovable anti-inflation imperative. As they see it, a nation (any nation) must be competitive in the global marketplace in order to keep exports flowing out and to keep investments flowing in. Here there arises an anomaly that makes it clear that we are talking about a worldview – a way of seeing things — and not about a parade of facts: The prescription that all nations ought to be competitive skates close to a contradiction. It comes close to insisting that all nations simultaneously must win more competitions than they lose. It is like complaining that in the century and a quarter since it was invented in Springfield, Massachusetts in 1891, basketball has made no progress because the average team still loses half its games. Previously in Chapter Four on India we noted some anomalies that are crying out for a paradigm shift. We count exhortations calling on all nations simultaneously to “be competitive” as more anomalies.

Our recent discussion of *form* and *fonde*, culminated in a realist vision of culture as part and parcel of physical evolution. It was intended to widen lenses. Widening lenses was intended as a step toward seeing through and beyond anomalies. Anomalies

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<sup>24</sup> See the first chapters of Nancy Hartsock's *Money Sex and Power: toward a feminist historical materialism*. London: Longman, 1983, where she deconstructs for example “the marriage market.” (<http://berlincalling.com/p/money-sex-and-power-toward-a-feminist-historical-materialism-northeastern-series-on-feminist-theory/> accessed June 2015). Consider also Karl Polanyi's historical account of how economic relations became “disembedded” from social relations and then doubled back to dominate them. *The Great Transformation*. Boston: Beacon Press, 1944. ([http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0CDQQFjAC&url=http%3A%2F%2Fwww2.dse.uni-bo.it%2Fardeni%2Fpapers\\_development%2FKarlPolanyi\\_TheGreatTransformation\\_book.pdf&ei=MsjXVOThHfLO7QbYg4GAAw&usg=AFOjCNGsT\\_rFyWxYMfdCNwOfU1ocpF\\_BPO\\_&sig2=PpEa\\_46od3kuE\\_PmqoVXATg&bvm=bv.85464276,d.ZGU](http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0CDQQFjAC&url=http%3A%2F%2Fwww2.dse.uni-bo.it%2Fardeni%2Fpapers_development%2FKarlPolanyi_TheGreatTransformation_book.pdf&ei=MsjXVOThHfLO7QbYg4GAAw&usg=AFOjCNGsT_rFyWxYMfdCNwOfU1ocpF_BPO_&sig2=PpEa_46od3kuE_PmqoVXATg&bvm=bv.85464276,d.ZGU) – accessed February 2015).

in theory correspond to quagmires in practice. It is in this spirit – a spirit that looks for promising ways out of today’s quagmires — that we recommend approaching the evaluation of CWP.

*“Everybody sees work as a need, nobody wishes not to work. We all want a job. If someone loses their job today, the next day they will be out there looking for another job. This shows that work is very important.”*  
– a CWP participant, Randfontein  
CDI

If CWP is defined as a programme using public employment to catalyse community development, and if community development is conceived as transformative –nurturing other dynamics and logics, building livelihoods that depend less on sales-- then CWP should be evaluated as a promising attempt to take steps toward a socially and ecologically governable and sustainable future.

If on the other hand CWP is to be evaluated within the bounds of the currently dominant neoliberal ideology, then we are then in a contrasting world of discourse altogether. We are in the mental world of people like Martin Feldstein, who chaired the council of economic advisors of former USA president Ronald Reagan. Feldstein typically writes, “The primary effect of budget deficits is to reduce capital formation. This is a very serious problem, because a high rate of capital formation is the key to future increases in productivity and economic growth, and therefore to higher real wages and incomes.”<sup>25</sup> Feldstein goes on to argue that when the government sells bonds in the bond market to finance its deficit it sucks up money that otherwise would have gone to capital formation in the private sector, to fund investments, to create jobs, and to drive productivity increases. Thus deficit-financed public programmes crowd out private sector jobs and growth. If Feldstein were to visit India or South Africa today the elephant he would attack would be easy to find. Both NREGA and CWP are social programmes funded by governments that are running large budget deficits.<sup>26</sup> The

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<sup>25</sup> Martin Feldstein 1983, Washington: [Budget Deficits and Political Choices](#) *Challenge*. Volume 25. pp. 53-56. p. 54. (<http://www.jstor.org/discover/10.2307/40720112?sid=21105291442631&uid=2&uid=70&uid=4&uid=3738032&uid=2129> accessed February 2015).

<sup>26</sup> The government of India expects to run a budget deficit for the 2012/13 fiscal year equivalent to 4.9% of Gross Domestic Product. (India Government Budget -- [www.tradingeconomics.com/india/government-budget](http://www.tradingeconomics.com/india/government-budget), accessed 25 June 2015). For South Africa in 2012 the government budget deficit was

deficits are likely to worsen as time goes on. Properly funding the two programmes would require not only maintaining current spending but augmenting current spending.

*“Whenever there’s something happening here in the township, it’s always the CWP that’s involved.” – CWP Participant, Randfontein. CDI*

A similar argument made from within the same bounded worldview holds that even without a budget deficit when social programmes are paid for by taxes there is a “tax wedge” intervening between buyers and sellers in the marketplace. Taxes crowd out. Taxes force buyers to pay more. They leave sellers with smaller proceeds. There are fewer transactions because both buyers and sellers are less motivated. Thus the tax wedge kills jobs even when the government is spending its tax revenues to create jobs.<sup>27</sup> Now we are in the world almost identical to Feldstein’s of the authors of an OECD Territorial Review of the Province of Gauteng. They wrote of the Expanded Public Works Programme (EPWP) of which CWP is a component: “...it is far from clear how great a deadweight effect there is (creating jobs that would have been created in any case) or whether it is crowding out commercial private-sector economic activity.” They go on to suggest evaluating CWP by asking what it contributes to eventual private sector employment: “The work readiness of beneficiaries at the end of the programme and the success of individual EPWP beneficiaries in the private sector, has not been evaluated.”<sup>28</sup>

Since this is the first time we have mentioned the OECD report on Gauteng we digress a moment to specify that even though in commenting on it we will often write the acronym “OECD” we never mean to refer in general to the organization the acronym stands for. We know that within the OECD there are diverse currents of thought. We always refer to this particular report.

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equivalent to 5.1% of Gross Domestic Product. ([South Africa Government Budget -- www.tradingeconomics.com/south-africa/government-budget](http://www.tradingeconomics.com/south-africa/government-budget), accessed June 2015).

<sup>27</sup> See Ronald W. Jones (1987) [Tax Wedges and Mobile Capital](http://www.jstor.org/discover/10.2307/3440202?sid=21105291442631&uid=2&uid=70&uid=4&uid=2129&uid=3738032) *Scandinavian Journal of Economics*. Volume 89, pp. 335-346. (<http://www.jstor.org/discover/10.2307/3440202?sid=21105291442631&uid=2&uid=70&uid=4&uid=2129&uid=3738032> – accessed February 2015).

<sup>28</sup> OECD (2011) *OECD Territorial Reviews, The Gauteng City-Region, South Africa*. OECD: Paris. p. 176. ([http://www.oecd-ilibrary.org/urban-rural-and-regional-development/oecd-territorial-reviews-the-gauteng-city-region-south-africa-2011\\_9789264122840-en](http://www.oecd-ilibrary.org/urban-rural-and-regional-development/oecd-territorial-reviews-the-gauteng-city-region-south-africa-2011_9789264122840-en) - accessed February 2015).

The liberal Swedish economist Assar Lindbeck, who was called as an expert witness in the preceding chapter, complained that public funding for day care centres for small children in Sweden crowded out the private for-profit day care centre industry.<sup>29</sup> He admitted that in Sweden there was no private for-profit day care industry. But he argued that one might have come into existence in response to market demand if the government had not pre-empted the field by providing free public day care. Notice that a private industry in day care would also have been crowded out if Swedish parents had formed non-profit cooperatives to hire people to take care of their children. It would also have been crowded out if Swedish mothers and fathers had organized themselves to take turns taking care of each other's children themselves. There is indeed a literature about the stifling of private enterprise not by government employment but by volunteering.<sup>30</sup>

Although we and our neoliberal friends look at the same facts, we see the facts through different conceptual lenses. Through their lenses anything other than private for-profit business diminishes a theoretical optimum. Although market failure exists, whoever says there is one has the burden of proof. Through our lenses alignment across all sectors for the common good generates many diverse and changing material practices to serve the vital ends of sisterhood and brotherhood in harmony with nature. Our lenses filter realism through solidarity – realism because institutions are to be fitted to their physical functions; solidarity because we face the challenges posed by nature not alone but as communities and as a species.

Among the key conceptual lenses that shape our way of reading the facts are the concept of community, the concept of accumulation, and the concept of chronic insufficiency of effective demand.

We take CWP's mandate to catalyse community development to call for building resilient communities. A programme like CWP can be to an important extent a *solution* to budget deficits. By mobilizing community resources above and beyond

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<sup>29</sup> Assar Lindbeck (1997), [The Swedish Experiment](#) *Journal of Economic Literature*. Volume 35. pp. 1273-1319. pp. 1309-10. (<http://cob.jmu.edu/rossermv/lindbeck.pdf> - accessed February 2015).

<sup>30</sup> See Kathleen M. Day and Rose Anne Devlin (1996), [Volunteerism and Crowding Out: Canadian Econometric Evidence](#) *The Canadian Journal of Economics*. Volume 29. pp. 37-53. (<http://www.jstor.org/discover/10.2307/136150?sid=21105291744011&uid=2&uid=70&uid=4&uid=2129&uid=3738032> – accessed February 2015).

the resources of governments, it can accomplish more at lower cost. More fundamentally: A resilient community is one whose high levels of diversity and organization enable it to repair damage quickly, including damage caused by downturns in the national or global economy.<sup>31</sup>

Another key concept is accumulation. The concept of accumulation provides a conceptual lens for seeing capitalism's logic (i.e. its characteristic criteria for making decisions) and its dynamic (i.e. the characteristic motivation that drives action). It meets vital needs through production done for the sake of selling its product for profit. When one acknowledges the fundamental importance of accumulation, one can only agree with Amartya Sen that capitalism leads to disaster unless it is regulated and supplemented by non-mercantile institutions guided by different logics and motivated by different dynamics.<sup>32</sup>

The concept of chronic insufficiency of effective demand (our second Staggering Fact) shows us that markets alone will *never* provide reliable employment for all at good wages. The supply curve and the demand curve *normally* meet at a low level equilibrium, not at full employment.

*"It [CWP] has made my life better because my kids used to say, 'Mom it is better to eat poison because there is no purpose for me. I am just sitting and I do not even have money for bread. I do not go to school, and other kids are always having their lunch boxes.' So, this thing made me sad when I heard this child talks like this that he rather take poison and die because there is no purpose for him to live." – CWP Participant, Bushbuckridge CDI*

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<sup>31</sup> "Resilience" can be defined as, "the capacity of a system, here a human system, to absorb perturbation and to reorganize itself integrating the changes the perturbation brings." Vincent Liegey et al (2013) *Un projet de décroissance*. Paris: Les Éditions Utopia. p. 90. (Our translation) ([http://www.mouvementutopia.org/blog/public/pdfs/Un\\_projet\\_de\\_Decroissance.pdf](http://www.mouvementutopia.org/blog/public/pdfs/Un_projet_de_Decroissance.pdf) - accessed June 2015). In homeostasis the system simply stabilizes itself, often at a great social cost as when General Pinochet restored conditions favourable to capital accumulation in Chile by forcing wages down and profits up. Ricardo Lagos and Oscar Rufatt, Military Government and Real Wages in Chile. *Latin American Research Review*. Volume 10 (1975) pp. 139-146. In resilience the system reorganizes itself, integrating changes.

<sup>32</sup> Amartya Sen (2003), *Sraffa, Wittgenstein, and Gramsci* *Journal of Economic Literature*. Volume 41. pp. 1240-1255. p. 1247. (<http://www.jstor.org/discover/10.2307/3217460?sid=21105291744011&uid=2129&uid=70&uid=4&uid=2&uid=3738032> - accessed February 2015).

Approaching the evaluation of an innovative public employment programme from a viewpoint shaped by such concepts, some of the things we want to learn are whether it is complying with its mandate to catalyse community development, whether it is mobilizing community resources over and above what the public purse is paying for, and to what extent it is –in Amartya Sen’s terms — supplementing capitalism with non-mercantile institutions guided by different logics and motivated by different dynamics.

The currently dominant ideology sees a different world shaped by different conceptual lenses. Among its key concepts are crowding out, deadweight, the Harberger triangle, Pareto optimality, “real” prices as distinct from “unreal” or “distorted” prices, and rent-seeking; as well as the constraints imposed by the necessities of capital formation, currency stability, growth, and international competitiveness. It presupposes that supply creates its own demand. The overall result is that while we see everywhere a need to regulate and supplement capitalism, neoliberalism sees everywhere politicians giving in to short-sighted populism in ways whose consequences are in the end counterproductive.

When we look at CWP participants building a one room home for a blind ninety one year old widow with building materials donated by people in the area, or teacher assistants augmenting the staffs of the public schools, or community gardens not worked for profit supplementing the diets of people who cannot afford to buy vegetables and the diets of prisoners in jails, or the unemployed gaining respect because now they have a little money in their pockets and a useful role to play in the community, or thieves finding viable ways to live legally, or people living a marginal life who used to be regarded as crazy showing that they can function normally if given a chance, or a woman freed from a situation where her only survival strategy was to find men who would give her money for sex, or community donations combined with CWP labour used to build shelters for orphans whose parents have died of AIDS; we see community development. We see a process of building resilient communities with logics and dynamics that supplement those of bare-bones capitalism.

But when these same phenomena are seen through neoliberal lenses, they can be seen as big government financed by budget deficits crowding out economic growth.

## 5. Some Observations on the Origins of Liberalism (on Adam Smith)

In the following paragraphs we will add some observations relevant to evaluating CWP to what we already wrote in chapter two about the origins of liberalism. The same observations will be relevant to<sup>33</sup> explaining why so many people see the real world through the conceptual lenses of an imaginary world that does not exist, has never existed, and could not possibly exist. Neoliberalism is not entirely mistaken. It is coherent.

We return to Adam Smith's *An Enquiry into the Nature and Causes of the Wealth of Nations*. We underline the word causes. Smith purports to explain why some nations are wealthy while other nations are poor.

The first sentence of the book identifies the capacity of a nation to supply itself with the “necessaries and conveniences of life” (a capacity we take to be synonymous with “wealth”) with the products of its labour.<sup>34</sup> A few pages later at the beginning of Book One, which is titled “Of the Causes of Improvement in the productive Powers of Labour....”<sup>35</sup> Smith writes, “The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed or applied, seem to have been the effects of the division of labour.”<sup>36</sup>

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<sup>33</sup> We say “partly” because we agree with those who hold that the dominance of an ideology in an epoch is not entirely due to its being intellectually persuasive, but is partly due to power. See, for example, Gunnar Myrdal (1953), *The Political Element in the Development of Economic Theory*. London: Routledge (Swedish original 1929) (<http://www.jstor.org/discover/10.2307/2228045?sid=21105291744011&uid=2129&uid=70&uid=4&uid=3738032&uid=2> – accessed February 2015).

<sup>34</sup> Adam Smith (first edition 1776), *An Enquiry into the Nature and Causes of the Wealth of Nations* (*The Wealth* for short). (<http://www.gutenberg.org/files/3300/3300-h/3300-h.htm> accessed June 2015). We use the two volume edition edited by Edwin Cannan with an introduction by John Chamberlain. New Rochelle, New York, Arlington House, no date. Like many recent editions it is based on the last edition to be corrected by Smith himself, the 5<sup>th</sup> edition published in 1789. We refer to the first sentence of Smith's “Introduction and Plan of the Work,” at p. lix. Throughout we will cite Book (*The Wealth* consists of five Books) and Chapter as well as page number for the convenience of those using editions where the pagination is different. This first sentence does not appear in early precursors of what was to become *The Wealth*. It shows the influence of the French economists with whom Smith came into contact while in France as tutor to the son of the Duke of Buccleuch in 1774-76.

<sup>35</sup> Id. p. 1. The complete title of Book One is “Of the Causes of Improvement in the productive Powers of Labour, and of the Order according to which its Produce is naturally distributed among the different Ranks of the People.”

<sup>36</sup> Ibid.

Thus Smith’s first explanation of wealth is that it is mainly caused by the division of labour. He illustrates the point with his famous observation of a pin factory where ten men, each specializing in a particular part of the pin-making process, make upwards of forty eight thousand pins in a day. But if each had “wrought separately and independently” without any special education “ -...they certainly could not each of them have made twenty, perhaps not one pin in a day.”<sup>37</sup>

Smith compares a “civilized” nation with a nation of “savages.”<sup>38</sup> The former practices the division of labour and is wealthy. In the latter (Smith believes) each man tries to do everything or most things for himself and the nation is poor.

Smith’s reasoning can be diagrammed.

Civilized	Wealthy
Savage	Poor

where it is supposed that civilized nations practice a high degree of division of labour while savage nations practice it little or not at all.

In the following Chapter, Book One Chapter Two, Smith avers that the “Principle which gives Occasion to the Division of Labour” is contract.<sup>39</sup> The principle of contract is “Give me that which I want, and you shall have that which you want...”<sup>40</sup> To achieve the cooperation of others that he needs, a civilized person proposes to others contracts of exchange, where each gives the other what the other wants, thus contriving to “interest their self-love in his favour.”<sup>41</sup>

There follows another invidious comparison which we have glanced at previously, this time between benevolence<sup>42</sup> and self-interest. In another famous

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<sup>37</sup> Id. p. 3.

<sup>38</sup> *The Wealth*, Book One, Chapter One, pp. 4, 10-11; Book Two, Introduction, p. 293. Op ct.

<sup>39</sup> *The Wealth*, Book One, Chapter Two, p. 12.

<sup>40</sup> *The Wealth*, Book One, Chapter Two, p. 13.

<sup>41</sup> Ibid.

<sup>42</sup> Speaking generally, one can regard Smith’s reservations about benevolence and enthusiasm for self-love as part of the gradual transition from a religious worldview to a scientific worldview that took place in early modern Europe. Specifically, it seems likely that Smith targets “benevolence” because of the then influential views of Francis Hutcheson who had been Smith’s predecessor in the Chair of Moral

passage Smith writes, “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.”<sup>43</sup>

Here Smith’s argument can be diagrammed:

Benevolence	Weak motivation
Self-interest	Strong motivation

Compare the form of Smith’s arguments here with the form of the opening lines of Karl Marx’s *Das Kapital* quoted earlier in our chapter two. Marx writes, “The wealth of those societies in which capitalist production dominates appears as an enormous collection of commodities (*Waren*). The single commodity appears as its elementary form. Our enquiry begins therefore with the analysis of the commodity (*Ware*).”<sup>44</sup>

A commodity is to be sure a useful thing, satisfying some human need or want.<sup>45</sup> Making a commodity is useful work. But in a capitalist society a commodity is more particularly an item produced for sale, where sale is for the purpose of profit. It is implied that not all useful work consists of making commodities.

Here we see once again the importance of the broad rule that in CWP participants must do “useful work.” There is no requirement that during the two days a week they are in CWP the participants produce anything that can be sold for a profit. If they spend their two days caring for a victim of AIDS who has no money to pay them, then they have done “useful work.” On the other hand, if they can start a micro-enterprise during the remaining days of the week; if they find a way to earn a livelihood

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Philosophy at Glasgow and under whom Smith had been a student. In an earlier work Adam Smith (1759) *The Theory of Moral Sentiments* (various editions) Smith criticizes the view he attributes to Hutcheson that benevolence was the source and distinctive mark of virtue. ([http://www.ibiblio.org/ml/libri/s/SmithA\\_MoralSentiments\\_p.pdf](http://www.ibiblio.org/ml/libri/s/SmithA_MoralSentiments_p.pdf) - accessed February 2015).

<sup>43</sup> *The Wealth*, Book One, Chapter Two, p. 13. Op cit.

<sup>44</sup> Karl Marx (1867), *Das Kapital*, volume one, at p. 15. We cite the very beginning of Marx’s text after several introductions, where commences the Erster Abschnitt titled Ware und Geld of the edition published by Alfred Kroner Verlag at Stuttgart in 1957, it being Band 64 of Kroners Taschenausgabe. (Our translation). We cite the location of the text as well as the page number for the convenience of those using different editions or translations. (<https://archive.org/details/KarlMarxDasKapitalpdf> - accessed June 2015).

<sup>45</sup> Ibid.

pace the sidewalks selling something at retail for more than they paid for it wholesale, then they are given encouragement and support to do so. If they reach a point where they can raise their standard of living by resigning from working two days a week for CWP in order to have more time to devote to their business, then so much the better.

“We are able to get money at the end, about R500. We then buy maize-meal, rice and oil then we are happy. The government helped us by giving us these jobs. Thank you.” --- CWP Participant, uMthwalume

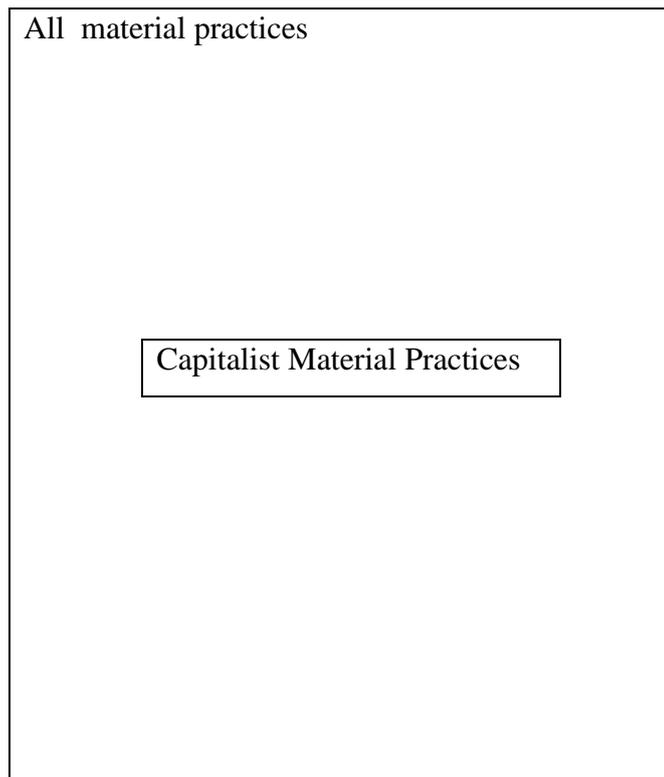
The clear implication in Marx’s text here is that there is more than one way to produce what Smith called “the necessities and conveniences of life.” The capitalist way is one way among others. This implication chimes in with the contemporary observation of Jean Drèze and Amartya Sen, also previously mentioned, that markets are “...among the instruments that can help to promote human capabilities.”<sup>46</sup>

Adopting from Fernand Braudel an idea of “material practices,” i.e. those practices that function to meet the material needs of life,<sup>47</sup> we can diagram the relevant implication from Drèze and Sen and from Marx at the beginning of *Das Kapital* as follows:

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<sup>46</sup> Jean Drèze and Amartya Sen (2002) [\*India, Economic Development and Social Opportunity\*](#). Delhi, Oxford University Press. p. 202. Some Marxists and some anti-Marxists will object that Marx would have had no sympathy with the pluralism of Dreze and Sen because Marx was committed to abolishing markets completely root and branch. Our view is that it will forever remain a mystery what form of socialism Marx would have advocated since his work is mainly a negative critique of capitalism (and in his *Critique of the Gotha Programme* a negative critique of a particular socialist proposal). It provides only a few inconclusive hints about what a positive construction of socialism would consist of. See on this point Howard Richards (2004) [\*Understanding the Global Economy\*](#). Santa Barbara CA, Peace Education Books. pp- 100-120. ([http://understandingeconomy.org/assets/PDF/UGE\\_SNIP.pdf](http://understandingeconomy.org/assets/PDF/UGE_SNIP.pdf) accessed June 2015). In any event we comment here only on certain words and ideas expressed by Marx in *Das Kapital*, not on his work as a whole.

<sup>47</sup> See Fernand Braudel (1973), [\*Capitalism and Material Life 1400-1800\*](#). New York: Harpercollins. (<http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1081919/> - accessed February 2015).



Alternatively, one could draw a Venn Diagramme showing an outer circle of “Material practices” and an inner circle of “Capitalist material practices” regarded as a subset of all material practices.

This latter form of thought (the one we have illustrated by citations from Marx and from Drèze and Sen) leads to an important dimension of the concept of unbounded organization. The inclusive category (all societies, all material practices) is an infinite one. Nobody knows how many forms of society there are or might be. Nobody knows how many material practices there are or might be. Even if some of the options are unknown, there is a logical space open for them, as well as logical space for all the known options.

Liberalism, we are suggesting, as it was classically formulated in Adam Smith, and as it has continued ever since, manifests a strong tendency to think in dichotomies. A more recent example can be found in Ludwig von Mises *Socialism: an Economic and Sociological Analysis*.<sup>48</sup> There an idealized capitalism where prices are

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<sup>48</sup> Ludwig von Mises (1981) *Socialism: an Economic and Sociological Analysis*. Indianapolis, Liberty Fund. (First German edition 1922) ([http://files.libertyfund.org/files/1060/Mises\\_0069\\_EBk\\_v6.0.pdf](http://files.libertyfund.org/files/1060/Mises_0069_EBk_v6.0.pdf) - accessed February 2015).

determined by competitive markets is contrasted with a socialism where there are no markets for producers' goods (i.e. for goods that are means of production). Since there are no markets for such goods there are no prices for such goods. Since there are no such prices there is no rational basis for the central planning of an economy. A fictitious unfortunate person von Mises calls the Director is perpetually frustrated because he is unable to plan a socialist economy rationally. He cannot be rational because socialism lacks real prices measuring costs and benefits. von Mises' central idea can be diagrammed as:

Capitalism	Rational decisions due to the presence of real prices
Socialism	Irrational decisions due to the absence of real prices

We believe that the verisimilitude of classic liberal ideas is enhanced by a deep-seated human tendency to think in binary terms. Claude Levi-Strauss finds roots of what he calls “binary polarities” in deep structures that build dualisms into the thinking of the people in a given culture at an unconscious and taken-for-granted level.<sup>49</sup> Dualism certainly has roots in common speech. A statement is true or false. An action is right or wrong. She loves me, she loves me not. To be or not to be. Those who are not with us are against us. And so on. We think an innate human tendency toward dualism goes some little way toward explaining why so many see the world through the conceptual lenses that liberalism and neoliberalism provide. We also think the real structures of the social and natural worlds are less dual than the mental models (liberal or not) that people employ to represent them. We think the complexity and (on the whole) non-duality of reality provide reasons for regarding an unbounded approach (or any approach that avoids simple dichotomies like civilized/savage, benevolence/self-interest, socialism/capitalism) as superior.

*“I appreciate that they (CWP) look after the sick that cannot look after themselves. They have the welfare and love of the people at heart.” ---  
CWP Participant, Randfontein*

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<sup>49</sup> Claude Levi-Strauss (1963) *Structural Anthropology*. New York: Anchor Books. ([http://mon.oskop.org/File:Levi-Strauss\\_Claude\\_Structural\\_Anthropology\\_1963.pdf](http://mon.oskop.org/File:Levi-Strauss_Claude_Structural_Anthropology_1963.pdf) – accessed February 2015).

To the obvious objection that the distinction bounded/unbounded is just one more dualism, we make the obvious reply that unbounded organization like Marx's all societies where the capitalist form of production does not prevail, and Drèze and Sen's all instruments other than markets that can be used for promoting human capabilities is an open category. It is not the second term in a duality. It is a logical space open to considering any number of ways to serve the common good of the societal enterprise. The Constitution of Ecuador adopted by a Constituent Assembly in 2008 defines that nation's economy as a balancing of five principles – production for local use (subsistence), reciprocity, redistribution, markets, and planning—but it is not necessary to stop at five.<sup>50</sup>

The division of labour is just the beginning of Smith's explanation of the causes of wealth. The principles “which give occasion to the division of labour”<sup>51</sup> turn out to be those of commercial exchange: contracts, sales, and markets. The operation of market principles is assured by the administration of justice; in other words by civilization; in other words by good government. The division of labour is “limited by the extent of the market.”<sup>52</sup> Hence the larger the market the better: the larger the market the more commercial exchange; the more commercial exchange the more division of labour; the more division of labour the more improvement in its productive powers; the more improvement in productive powers the greater the product and hence the greater the capacity of a society to supply “all the necessaries and conveniences of life.”<sup>53</sup> Smith's argument is coherent. Each concept dovetails with its predecessors and with its successors. Gliding into Smith's thought-world, it is easy to fall into a frame of mind where it seems quite obvious that there ought to be as much commercial exchange as possible on as large a scale as possible. In such a frame of mind anything other than large scale commercial exchange appears as a minus. It appears as a subtraction from

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<sup>50</sup> Although it is not necessary to stop at five, as José Luis Coraggio (an Argentine economist who is influential in Ecuador) has written, these five principles have the merit that humans have relied on them for their daily bread for thousands of years. They have been tested and found workable. See the chapter by Coraggio in Raul Gonzalez and Howard Richards (eds.) *Hacia Otras Economias*. Santiago: LOM, 2013, available online at [www.repensar.cl](http://www.repensar.cl). ([http://rio20.net/wp-content/uploads/2012/10/HACIA\\_OTR\\_AS\\_ECONOMIAS.pdf](http://rio20.net/wp-content/uploads/2012/10/HACIA_OTR_AS_ECONOMIAS.pdf) - accessed February 2015).

<sup>51</sup> *The Wealth*, Book One, Chapter Two, p. 12.

<sup>52</sup> *The Wealth*, Book One, Chapter Three, p. 17.

<sup>53</sup> *The Wealth*, Introduction, p. lix.

the maximum level of wealth (or “opulence”)<sup>54</sup> that must inevitably accompany a maximum level of commercial exchange.

But there is more. There is a whole other layer of Smith’s argument. In the Introduction to Book Two of *The Wealth* we learn that the accumulation of capital “...must, in the nature of things, be previous to the division of labour, so labour can be more and more subdivided in proportion only as stock is previously more and more accumulated.”<sup>55</sup> At this point everything we thought we knew about Smith’s system must be reconsidered. The division of labour at first appeared as the principal cause of wealth. Now the division of labour itself appears not as cause but as effect. It turns out to be an effect<sup>56</sup> of the accumulation of capital. That portion of stock, i.e. of useful things, which is used to produce revenue Smith calls “capital.”<sup>57</sup> A notable part of capital is held in the form of money.<sup>58</sup>

Capital in turn Smith divides into two parts. He calls them fixed and circulating capital. Fixed capital performs its functions in generating revenue for its owners without “changing masters,”<sup>59</sup> i.e. without being regularly bought and sold; examples would be machinery used over and over. “The intention of the fixed capital is to increase the productive powers of labour....”<sup>60</sup>

The employer’s circulating capital, on the other hand, “...is continually going from him in one shape, and returning to him in another, and it is only by means of such circulation, or successive exchanges, that it can yield him any profit.”<sup>61</sup> A key example

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<sup>54</sup> Although Smith uses the word “wealth” in the title of his work, in his text he more frequently uses the word “opulence.” For example, at Book One, Chapter One, p. 10 he writes, “It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people.”

<sup>55</sup> *The Wealth*, Book Two, Introduction, p.294.

<sup>56</sup> The lines just quoted from Smith say only that for there to be division of labour there must be accumulation first. They make the latter a necessary condition of the former. However, it soon appears that the latter is also a *sufficient* condition for the former, because Smith maintains that when capital is accumulated it will inevitably be used to create employment, and to do so efficiently. “As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labour, so that accumulation naturally leads to this improvement.” *The Wealth*, Book Two, Introduction, p.294.

<sup>57</sup> *The Wealth*, Book Two, Chapter One, p.296.

<sup>58</sup> Money is the topic of Book Two, Chapter Two, which is titled, “Of Money considered as a particular branch of the general stock of Society, or of the Expence of maintaining the National Capital.”

<sup>59</sup> *The Wealth*, Book Two, Chapter One, p.297.

<sup>60</sup> *The Wealth*, Book Two, Chapter Two, p.305.

<sup>61</sup> *The Wealth*, Book Two, Chapter One, p.297.

is the money used to pay the wages of workers, which is continually replenished by revenue from the sale of the products they make.

This key example shows the reason why in Smith's world the accumulation of capital must necessarily *precede* the division of labour. It is because there must be a stock of goods to maintain the workers and to supply them with materials and equipment long enough for two things to happen: first, a saleable (Smith uses the word "vendible") product must be completed. Second, it must be sold. Until these two things happen, the workers can only live and work by consuming stocks that the capitalists have previously accumulated.<sup>62</sup>

*"I am also a CWP worker; I am also working at the garden, planting different plants. The vegetables that we plant help a lot, particular with the people that are sick that need to have the fresh and nutritious foods such as vegetables."*  
--- CWP Participant, uMthwalume CDI

Fixed capital does not by itself generate revenue. "No fixed capital can yield any revenue but by means of a circulating capital."<sup>63</sup> It is circulating capital that brings in revenue; circulating capital fills the box office. Fixed capital is only the supporting cast in a show where circulating capital is the star. The buying-and-selling game is the only game in town, as is seen once more when Smith discusses a third and last way that the capitalist can also spend his money or consume his stock of goods. He can spend it on houses, servants, grounds, and on other forms of personal consumption. Smith – followed by economists from 1776 until now -- classifies this third way of spending money as unproductive. It brings in no revenue; it does not generate anything "vendible."<sup>64</sup>

Smith does not doubt that more accumulation is better. (Translated into language of the present day, where some see injustice and inequality, Smith, like his present-day followers, sees capital formation). More accumulation means more

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<sup>62</sup> *The Wealth*, Book Two, Introduction, p.293.

<sup>63</sup> *The Wealth*, Book Two, Chapter One, p.301.

<sup>64</sup> *The Wealth*, Book Two, Chapter Three, titled "Of the Accumulation of Capital, or of productive and unproductive Labour."

employment and more production; if there is not enough employment and not enough production it must be because there has not been enough accumulation. Thus he writes:

“In all countries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command, in procuring either present enjoyment or future profit. If it is employed in procuring present enjoyment, it is a stock reserved for immediate consumption.<sup>65</sup> If it is employed in procuring future profit, it must procure this profit either by staying with him or by going from him. In the one case it is a fixed, in the other a circulating capital. A man must be perfectly crazy who, where there is tolerable security, does not employ all the stock which he commands, whether it be his own or borrowed of other people, in some one or other of those three ways.”<sup>66</sup>

And: “The undertaker of some great manufactory who employs a thousand a year in the maintenance of his machinery, if he can reduce this expense to five hundred, will naturally employ the other five hundred in purchasing an additional quantity of materials to be wrought up by an additional number of workmen.”<sup>67</sup>

Smith (like his present-day neoliberal followers) is what Joseph Schumpeter called a “hitchless” economist.<sup>68</sup> That is to say, Smith is an economist who sees no inherent hitches (or snags) in turning products into money. He is not tormented by Keynesian worries about a drag on prosperity inevitably and pervasively generated by a chronic weakness of effective demand. What a hitchless economist like Smith views as capital formation making possible more investment, more employment, more profit, and

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<sup>65</sup> Although Smith classifies consumption as “unproductive,” he does not disagree with the famous thesis of Bernard de Mandeville that the luxury consumption of the rich provides employment for the poor. He devotes most of a chapter to de Mandeville in his *The Theory of Moral Sentiments* op. cit.

<sup>66</sup> *The Wealth*, Book Two, Chapter One, p.303.

<sup>67</sup> *The Wealth*, Book Two, Chapter Two, p.306.

<sup>68</sup> “...economic models differ according to whether they are or are not built on the assumption that the economic engine has or has not an *inherent* tendency to develop hitches (merely by working normally and according to design), which then make it stall or stop working normally or according to design. ...for example the strain or stress that –really or supposedly–shows in the impossibility of selling the products it is capable of producing at prices that will cover costs. With apologies, I introduce the term *hitchbound* for models that do recognize the existence in the economic system of such inherent tendencies to stall, and the term *hitchless* for models that do not.” Joseph Schumpeter (1954) *History of Economic Analysis* New York, Oxford University Press. p.565. op cit. (<http://digamo.free.fr/schumphea.pdf> accessed June 2015) Although Schumpeter’s account of the issues involved is comprehensive, he neglects Rosa Luxemburg, who is perhaps the most persuasive hitchbound economist. See Rosa Luxemburg (2003) *The Accumulation of Capital*. London, Routledge. (German original 1913) (<https://www.marxists.org/archive/luxemburg/1913/accumulation-capital/accumulation.pdf> - accessed February 2015).

more economic growth, can be seen by a hitchbound economist like John Maynard Keynes as a liquidity preference not likely to be followed by the profitable investment of the money saved. Keynes himself remarks, “A decreased readiness to spend will be looked on in quite a different light if, instead of being regarded as a factor which will *cet. par.* increase investment, it is seen as a factor which will *cet. par.* diminish employment.”<sup>69</sup>

## **6. The Technification of Hitchlessness**

However much one may disagree with Smith, one must give him credit for making his reasoning clear. His very clarity – at least so it seems to us — makes it easy to see that what he is saying is flawed and that a more plural, more deliberately aligned with the common good, more inclusive, unbounded approach would be less flawed. Let us accordingly assume for now that we are succeeding in making a case for evaluating CWP in a framework that does not assume that wherever there is a “tolerable administration of justice,” the accumulation of capital and the division of labour will naturally lead to prosperity. Let us assume for now that it is agreed that a plural economy is needed and that CWP should contribute to building it. Now we move from the level of general principles to the level of specific standards and techniques for evaluation.

One may well be convinced at the level of general principles that there are fundamental misreadings of reality in the liberal tradition. One may think the contemporary neoliberal consensus is misguided. But one might nevertheless be ensnared by what appear to be technical calculations indifferent to politics; and apparently indifferent also to theoretical economics and to basic ethical philosophy. Nevertheless those apparently innocent and merely technical calculations could have the effect of supporting practices that apply misguided criteria one rejects at the level of general principles

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<sup>69</sup> John Maynard Keynes (1936) *General Theory* op. cit. p. 183. Keynes points out that the physical capacity to produce something, whether brought about by capital formation or in some other way, is of little consequence if there is no effective demand for it. Id. p. 215.

We will look at some of today's technical calculations and sketch a little of their history to show that they are rooted in error --not so much in specific false premises as in seeing the real world through the distorting lenses of an imaginary world.

In the OECD Territorial Review of the province of Gauteng, South Africa, we find an example of specific technical prescriptions for evaluation rooted in a general liberal worldview. At one level this document is written by international technical experts for an audience of national and provincial technical experts. At a second level it remains within the theoretical framework articulated more than two centuries ago by Adam Smith. At a third level it may manifest a sea-change in our times that may be part of a transition from a prevailing neoliberal consensus to a prevailing consensus around the principles of a developmental state.<sup>70</sup> If so (if the intention is to construct a developmental state) then it is important not to take over uncritically the technical apparatus of the neoliberal recent past.

The OECD Gauteng Review declares itself in its foreword to be one of a series of reports sharing a common methodology and a common conceptual framework.<sup>71</sup> In its text one quickly recognizes ideas found today nearly everywhere.

*"I sometimes also help out; especially those who are sickly with all these diseases that are now all over the place. I am able to start the process that will lead to the sick person being put on a treatment program. I have already done this for a number of people. I also go out to get knowledge and information from those who have the expertise in things like how to take care of a person who's chronically ill and is at home. If I am given information then I take it back to the person who needs it." --- CWP participant, uMthwalume CDI*

The common conceptual framework of the OECD expresses the principles of Adam Smith in a contemporary vocabulary without altering their fundamental

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<sup>70</sup> On the concept of a developmental state see Meredith Woo-Cummings (ed.) (1995), *The Developmental State*. Ithaca, Cornell University Press. ([http://www.bresserpereira.org.br/Terceiros/Cursos/09.Woo-Cummings,Meredith The developmental State Odyssey of a concept. pdf](http://www.bresserpereira.org.br/Terceiros/Cursos/09.Woo-Cummings,Meredith%20The%20developmental%20State%20Odyssey%20of%20a%20concept.pdf) – accessed February 2015).

<sup>71</sup> OECD (2011), *OECD Territorial Reviews: The Gauteng City-Region, South Africa 2011*, Paris, OECD Publishing. <http://dx.doi.org/10.1787/9789264122840-en> p.3. (Cited hereafter as OECD) (op cit.)

meanings. Smith writes of an annual fund that supplies a nation with the “necessaries and conveniences of life.”<sup>72</sup> The OECD writes of the GDP.<sup>73</sup> While Smith writes of “Improvement in the productive Powers of Labour”<sup>74</sup> the OECD writes of “productivity growth.”<sup>75</sup> Smith writes that the division of labour is limited by the extent of the market. Consequently the larger the market the more the productive powers of labour are improved.<sup>76</sup> The OECD writes of globalisation.<sup>77</sup> It writes approvingly of Gauteng’s efforts to become more competitive in the global market.<sup>78</sup> Smith writes of capital accumulation.<sup>79</sup> The OECD writes of growth.<sup>80</sup>

But at a second level there is a sea-change. Adam Smith’s dear friend the philosopher David Hume was already famous in the 18<sup>th</sup> century for promoting the doctrine still influential today in some circles that an “ought” cannot be deduced from an “is.”<sup>81</sup> Hume observed that authors often proceed “for some time in the ordinary way of reasoning” where they make statements about what is and is not, but then they imperceptibly slide into propositions “connected with an ought or an ought not.” The latter “expresses some new relation or affirmation.” It is necessary that some reason or explanation be given “for what seems altogether inconceivable, how this new relation can be a deduction from others, which are entirely different from it.”<sup>82</sup>

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<sup>72</sup> *The Wealth*, Introduction and Plan of the Work, p. lix.

<sup>73</sup> OECD p. 17 and *passim*. The initials GDP stand for Gross Domestic Product, which can be roughly defined as the market value of the goods and services produced in a country in a year (or in some other time period). For an account of how such indices are calculated see Herman Daly and John Cobb Jr. (1994) *For the Common Good*. Boston, Beacon Press.

<sup>74</sup> *The Wealth* Book One, Chapter One, p. 1.

<sup>75</sup> OECD p. 30 and *passim*.

<sup>76</sup> *The Wealth* Book One, Chapter Three.

<sup>77</sup> OECD p. 3

<sup>78</sup> OECD pp. 3, 54, 62, 69, 134, 157, 177, 223, 232, 233, 235, 258. At p. 54 the OECD notes that wage costs in South Africa are competitive when compared to Germany, Japan, the United Kingdom and the United States, being about a fifth of wages in those countries; but not competitive with respect to the developing countries with which South Africa competes to attract foreign investment and with which its exports compete. It notes that South African wages are four times as high as wages in India and three times as high as wages in Indonesia.

<sup>79</sup> *The Wealth*, Book Two, Chapter Three.

<sup>80</sup> OECD *passim* The OECD praises the Gauteng Region for having had in 1997-2007 a higher average annual growth rate (2.7%) than that of the average metropolitan region in the OECD countries (.96 %) p. 17. It nevertheless finds that opportunities for growth are not fully exploited. p.3 In its recommendations it writes, “If properly managed, the city-region’s potential for growth could be huge.” p. 17.

<sup>81</sup> David Hume (2007) *A Treatise of Human Nature* first part of first section of third book. Oxford, Clarendon. (First edition 1739-40) ([http://michaeljohnsonphilosophy.com/wp-content/uploads/2012/01/5010\\_Hume\\_Treatise\\_Human\\_Nature.pdf](http://michaeljohnsonphilosophy.com/wp-content/uploads/2012/01/5010_Hume_Treatise_Human_Nature.pdf) - accessed February 2015)

<sup>82</sup> *Id.* p. 469.

That there is an important distinction between statements about what is and statements about what should be has long been a staple in the philosophy of science and of democratic theory. Kenneth Arrow, for example, in his seminal work *Social Choice and Individual Values* takes the market and the ballot box to be twin sources of legitimate social decisions precisely because there is no generally accepted and credible scientific or theological justification for deducing values from facts. Faced with the logical gap between facts and values, the best we can do – and what modern societies on the whole do do — is to derive legitimacy for social decisions from procedures whose foundations lie in allowing each individual to express her or his preferences in markets and in elections.<sup>83</sup>

*“The people who look after the environment like the CWP volunteers play an important role in our community. They look after our lives, when people are sick, they make sure that we breathe fresh instead of always breathing dirty air, living around flying plastic bags, and also the smell of dead dogs. We live in unhealthy conditions. Much as there are those who are polluting our environment, there are those who are doing good by cleaning up the area, keeping our environment clean, they are trying to do good.”*

--- CWP participant, Randfontein CDI

Although Adam Smith’s thinking did not always in all respects accord with that of his friend David Hume, he was on the whole careful to respect Hume’s point that what *should be* cannot be deduced from what *is*. *The Wealth of Nations* is about the *nature* and the *causes* of wealth (or as Smith more frequently writes the causes of “opulence”). Smith tells us what *naturally* will happen when the government does a good job of enforcing property rights and contract rights and then mainly<sup>84</sup> leaves the economy alone.

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<sup>83</sup> Kenneth Arrow (second edition 1963) [Social Choice and Individual Values](http://www.econ.boun.edu.tr/content/document/ec35201/6923.pdf). New York, John Wiley. (<http://www.econ.boun.edu.tr/content/document/ec35201/6923.pdf> – accessed February 2015). We refer to the overall framework of Arrow’s thought and not to his detailed discussion of the difficulties involved in deriving social decisions from individual decisions. Arrow is influenced to a considerable extent by Frank Knight who argues that traditional ways of justifying value judgments are not credible in modern times. Hence we are driven to rely on what Knight calls “rational consensus,” that is to say, on what people agree on through orderly procedures where it is part of the consensus that whatever the outcome of the orderly procedure (e.g. an election, a trial, a properly functioning market) may be, it will be regarded as legitimate. See Frank H. Knight (1976) [The Ethics of Competition and Other Essays](http://digital.bl.fcen.uba.ar/Download/Bunge/AR_UBA_FCEN_MB_SecPI_SerFT_194.pdf). Chicago, University of Chicago Press. (First edition 1935) ([http://digital.bl.fcen.uba.ar/Download/Bunge/AR\\_UBA\\_FCEN\\_MB\\_SecPI\\_SerFT\\_194.pdf](http://digital.bl.fcen.uba.ar/Download/Bunge/AR_UBA_FCEN_MB_SecPI_SerFT_194.pdf) - accessed February 2015).

<sup>84</sup> In Book Five of *The Wealth* Smith treats of the expenses of the sovereign, and in doing so discusses the functions of the sovereign, which include in addition to the administration of justice national defence and providing basic education.

The OECD has no such scruples. Its Territorial Review of Gauteng speaks in a realm of discourse where technical experts in and out of government do not hesitate to prescribe what should be done. "...much effort should be made to expand the export-led sector."<sup>85</sup> "...the functional area should include areas surrounded by municipalities which are part of the functional system, and thus Randfontein should be included as part of the functional area..."<sup>86</sup> "Over-emphasis on the public contribution to innovation should be avoided..."<sup>87</sup> "...this agenda should aim to increase the environmental sustainability and available amenities of the city, which are critical to maintaining Gauteng's competitive edge."<sup>88</sup> "Policy makers within Gauteng should be supported in their attempts to find more affordable housing solutions."<sup>89</sup> "These initiatives indicate a strong commitment to improving the efficiency of the labour market in Gauteng, but should nevertheless be subject to objective evaluations."<sup>90</sup>

Although we have selected as examples a few sentences that explicitly contain the word "should," any reader can verify that the OECD's review and the South African documents it cites with approval are not ashamed to be prescriptive. They reflect confidence that the overall aims of development have already been authoritatively decided, that the path to it is known, and that the details of what provincial and municipal governments ought to do to make it happen can be prescribed by experts. The invisible hand has become the visible hand, but its *modi operandi* are still the same: namely, capital accumulation, productivity increases, and more and ever-larger markets.

In a document that is prescriptive throughout, it is not surprising to find standards prescribing how public employment programmes in general and CWP in particular ought to be evaluated. We will comment on two key standards prescribed: One is "... the work readiness of beneficiaries at the end of the programme, and the

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<sup>85</sup> OECD p. 32.

<sup>86</sup> OECD p. 38

<sup>87</sup> OECD p. 69

<sup>88</sup> OECD p. 134

<sup>89</sup> OECD p. 139. The context of this sentence is one where particular attempts the OECD authors look upon favourably have been mentioned. "To tackle the housing problem, such programmes would need to be supported, replicated and complemented by new initiatives." Ibid.

<sup>90</sup> OECD, p. 165.

take-up and success” of individual beneficiaries in the private sector.<sup>91</sup> A second prescription is that evaluators should calculate “...how great a deadweight effect there is (creating jobs that would have been created in any case), or whether it is crowding out commercial private-sector activity.”<sup>92</sup> We will consider here an aspect of the second OECD criterion, how deadweight is calculated, and what frame of mind one would have to be in to see a number measuring deadweight as an essential criterion for evaluating South Africa’s Community Work Programme. We have already shown the limitations of the first OECD criterion (that of readiness for and success in private sector employment) by showing that now and in the future livelihoods for all in the private for-profit sector are not going to happen.

*“I would like them to increase the sports because I would like to see the youth focusing more on sports. That helps a lot in health. They won’t do bad things such as rape and other criminal activities.”*  
---CWP participant, uMthwalume CDI

## **7. Calculating Deadweight**

The calculation of deadweight began with a French engineer named Jules Dupuit. Dupuit defined the deadweight loss as the extent to which real total utility is less than the maximum attainable total utility.

The crux of this abstract idea is that we think we know what *would have happened* in circumstances that *did not happen*. We can then complain about what really happened subtracting its utility from “maximum attainable total utility” and call the difference “deadweight loss.”

In 1844 Dupuit published in the journal *Annales des ponts et chaussées* an article titled “De la mesure de l’utilité des travaux publics.”<sup>93</sup> (On measuring the utility

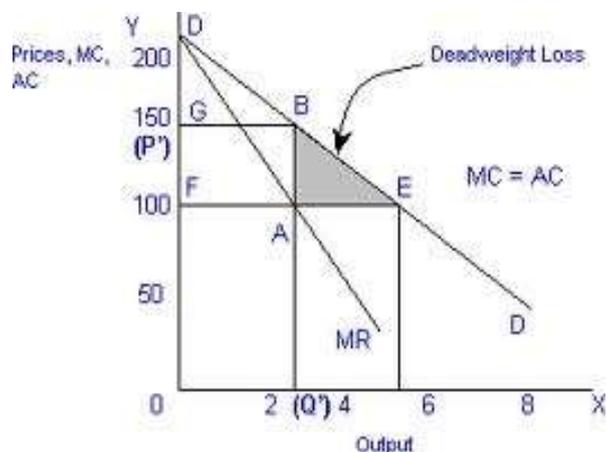
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<sup>91</sup> OECD, p. 176. Admittedly this is a composite standard. Following these words of the OECD which mention its distinguishable elements all in one breath, we propose to treat it as a clump of closely-related evaluation criteria.

<sup>92</sup> Ibid. We take this opportunity to discuss deadweight even though the sentence in which it is mentioned seems to identify it erroneously with creating jobs that would have been created in any case.

<sup>93</sup> Arsène Jules Étienne Juvénal Dupuit, [De la mesure de la utilité des travaux publics](#), *Annales des ponts et chaussées* Vol. 8 of second series (1844); translated and reprinted in Kenneth Arrow and Tibor Scitovsky (eds.) (1969) *Readings in Welfare Economics*. Homewood, Illinois: Richard Irwin. pp. 255-

–or value-- of public works). In the course of his article Dupuit developed the concept that was to become known as “deadweight” starting with a diagram of this kind.<sup>94</sup>



The vertical or Y axis measures the prices of a commodity to be sold. The symbol (P′) stands for Price. (Regarding price formation here differences between marginal cost and actual cost are ignored, treating MC as equal to AC.) The horizontal or X axis represents the quantities offered for sale of the same commodity. The symbol (Q′) stands for Quantity. Say sugar for example. (Here the word “commodity” simply means “something-to-be-sold”) The X axis is also labelled “Output.” It could also be called “Supply” or “Offer.”

The two diagonal lines on the graph both start out high in the upper left-hand corner. This signifies that when the price is high (like 200 rands –the number of rands written in the upper left-hand corner) then demand is low (In the upper left-hand corner the diagonal lines are at or near zero with respect to the X axis). Not much can be sold at that high price, so Output is low. (Q′) is low.

Both diagonal lines start out in the upper left-hand corner (high price, low output) and then travel toward the bottom right-hand corner (low price, high output). However they do not actually reach the bottom right-hand corner. Instead they are left

283. ([http://econpapers.repec.org/article/prsrfreco/rfeco\\_5f0769-0479\\_5f1995\\_5fnum\\_5f10\\_5f2\\_5f978.htm](http://econpapers.repec.org/article/prsrfreco/rfeco_5f0769-0479_5f1995_5fnum_5f10_5f2_5f978.htm) - accessed February 2015).

<sup>94</sup> The diagram actually used by Dupuit is more complex, has the axes reversed, and uses a vocabulary we do not now employ.

dangling in space. Their failure to intersect the X axis represents the fact that as the price falls toward the cost of production at some point there will no longer be any output. The sugar producers will stop producing because sugar cannot be sold on favourable terms.

Consider the upper diagonal line D - D. It starts with a D in the upper left and ends with a D dangling in empty space toward the lower right.

Along the line segment D – D there is a point E. E stands for Excellent! If you buzz a beeline straight left from Excellent! to the Y axis you find the number 100. This represents a price of 100. If you drop a plumb line straight down from E to the X axis you hit quantities somewhere between 4 and 6. Say 5.5. Call it 5.5 tonnes of sugar.

What this means is that the market has determined an equilibrium price (100 rands) and an equilibrium quantity (5.5 tonnes) where willing buyers exchange with willing sellers.

Now focus your mind on the big triangle with the vertices E, F, and D. (Look at the D in the upper-left, not the D dangling in the lower right). This big triangle represents a lot of happy people. It represents people who would happily have paid 200, 199, 198, 197, 196 .....108, 107, 106, 105, 104, 103, 102, or 101 rands for a tonne of sugar (In this happy world the price of sugar is very low) but they only had to pay 100 rands because the market fixed the equilibrium price at 100. The area of triangle with vertices E, F, and D is called “consumer surplus.”<sup>95</sup>

We can if we want imagine a similar happy triangle in the bottom right hand corner. If we imagine a beeline from the point where there is another D dangling in space to the Y axis we will see that at a price of 50 rands the sugar producers gave up and there was no output because their product could no longer profitably be sold. On the upside of 50 there were producers who happily would have sold sugar at 99, 98, 97, 96, 95 .....55, 54, 53, 52, or 51 rands. They are happy because they were able to sell

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<sup>95</sup> See Alfred Marshall (1893) [Consumer's Surplus](http://college.holycross.edu/ej/Volume8/V8N1P79_82.pdf) *Annals of the American Academy of Political and Social Science*. Volume 3, pp. 90-93. ([http://college.holycross.edu/ej/Volume8/V8N1P79\\_82.pdf](http://college.holycross.edu/ej/Volume8/V8N1P79_82.pdf) - accessed February 2015).

at the market price of 100 when they would have settled for less. This is called “producer’s surplus.”

Now look at the letter G three quarters of the way up the Y axis beside the number 150. G represents a price of 150 rands. Making a straight dash rightward from G one hits the first diagonal line at B. Dropping down from B to the X axis we find that the Output Q is between 2 and 4, say 2.5. This means that at the higher price of 150 market equilibrium will occur when 2.5 tonnes of sugar are produced and sold. The letter B represents the ordered pair  $(x=2.5, y=150)$ . Less will be produced. Fewer workers will be hired to produce it. Less will be sold. The happy triangle of consumer surplus will be the smaller triangle with vertices B, G, and the upper left-hand D.

Jules Dupuit considers the situation where the price goes up from 100 to 150 because the government imposes a tax. Nowadays the tax is called a “tax wedge”. The buyer has to pay the tax, but the seller does not receive it. There are fewer buyers at 150. Meanwhile the sellers still want 100, the same as before. For the sellers the new equilibrium<sup>96</sup> tells them to produce 2.5 tonnes as is represented by point A in the hypothetical example depicted in the diagram. At point A  $(x=2.5, y=100)$ , the quantity is 2.5 tonnes of sugar while the price is 100 (as far as the seller is concerned), but because of the tax wedge the price is 150 for the buyer.

For every tonne of sugar sold the government collects 50 rands, represented by the distance from point F to point G on the Y axis. (A distance representing the difference between the 150 the buyer pays and the 100 the seller receives). The amount sold is the 2.5 tonnes represented by the horizontal distance F to A. Thinking of an area as an image of revenue per item multiplied by number of items taxed, then we can think of government revenue as the area of a box. The area of the box with the four vertices G B F A represents what the government collects in taxes. The consumer surplus shrinks to the smaller triangle BGD.

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<sup>96</sup> To be more exact than in our rough example it is necessary to give numerical values to the two equilibria, and to determine empirically or estimate demand schedules and elasticities (i.e. ratios between change in demand and change in supply). See W. Erwin Diewert (1981), [The Measurement of Deadweight Loss Revisited](#) *Econometrica*. Volume 49, pp. 1225-1244; Arnold Harberger (1964), “[The Measurement of Waste](#),” *American Economic Review*, Volume 54, pp. 58-76. ([http://219.219.114.96/cufe/upload\\_files/other/3\\_20140520040453\\_The%20Measurement%20of%20Deadweight%20Loss%20Revisited.pdf](http://219.219.114.96/cufe/upload_files/other/3_20140520040453_The%20Measurement%20of%20Deadweight%20Loss%20Revisited.pdf) – accessed February 2015).

Now here is Dupuit's point: *the shaded triangle with vertices B A and E represents value the consumer loses but the government does not get.* All the area to the right of the line BA represents transactions that did not happen, output that was not produced, workers who were not hired. It does not represent any government revenue. It is an area past which the second diagonal line (MR for marginal revenue) represents no revenue for the government because production stopped at the new equilibrium point A, i.e. at 2.5 tonnes. The tax wedge eliminated a consumer surplus (and a producer surplus) that was not compensated by an equal amount going to the government as tax revenue.

The difference in ( $Q'$ ) between 2.5 and 5.5 represents economic activity that because of the tax wedge did not happen. Since it did not happen it is of no benefit to anybody. It is a *might have been* that provides neoliberal economists with a criterion for judging *what is*. The deadweight loss is calculated as the area of the triangle with vertices B A and E (around 75, expressed in units of price times quantity).

The liberal economist James Hines comments on a modern version of Dupuit: "This simple and straightforward exercise has numerous applications and the virtue of producing answers rather than conjectures".<sup>97</sup> Gordon Tullock has extended Dupuit's analysis throwing taxes, tariffs on imports, monopolies, and theft into the same category. They are all wedges that restrain trade.<sup>98</sup> They all produce deadweight losses. Milton Friedman adds unions, government regulation of business, and requiring a license to practice a profession.<sup>99</sup> Contemporary neoliberalism reinforces a tendency already present in Adam Smith: It idealizes pure markets.

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<sup>97</sup> Hines refers to similar contemporary calculations applying some technical improvements to the basic idea of Dupuit. James Hines (1998), [Three Sides of Harberger Triangles](http://www.bus.umich.edu/otpr/papers/1998-21.PDF) *NBER Working Papers Number 6852*. Cambridge MA: National Bureau of Economic Research. p. 1. (<http://www.bus.umich.edu/otpr/papers/1998-21.PDF> - accessed February 2015).

<sup>98</sup> Gordon Tullock (1967), [The Welfare Costs of Tariffs, Monopolies, and Theft](http://cameroneconomics.com/tullock%201967.pdf) *Western Economic Journal*. Volume 5, pp. 224-232. (<http://cameroneconomics.com/tullock%201967.pdf> - accessed February 2015).

See also John Kay (1980), [The Deadweight Loss from a Tax System](http://www.sciencedirect.com/science/article/pii/0047272780900250) *Journal of Public Economics*. Volume 13 pp. 111-120; Richard A. Posner (1975), "The Social Costs of Monopoly and Regulation," *Journal of Political Economy*. Volume 83, pp. 807-827. (<http://www.sciencedirect.com/science/article/pii/0047272780900250> - accessed February 2015).

<sup>99</sup> Milton Friedman, [Capitalism and Freedom](http://oll.libertyfund.org/titles/2492). Chicago: University of Chicago Press, 1962. Regarding unions and business see Chapter 8; regarding licensing of professions Chapter 9. (<http://oll.libertyfund.org/titles/2492> - accessed Feb 2015).

#### 4. Raising the Stakes

Although neoliberalism is more a worldview than it is a scientific theory, it is a worldview that supports itself with technical arguments. The one we have been reviewing depends on treating the consumer surplus and the producer surplus lost when taxes slow down business activity as dead weight not offset by any gain anywhere.

We make five objections, or to be more precise qualifications. Then we refocus the questions. Then in the following section we acknowledge that there is nevertheless a kernel of truth in the deadweight-crowding-out-tax-wedges clump of concepts, and we propose a progressive alternative for coping with that kernel of truth.

1. The argument assumes elasticity of demand. In its absence (or if it is small) instead of less production there will be the same (or nearly the same) production even though the price is higher. In the absence of elasticity of demand in our example, 5.5 tonnes of sugar will still be produced and sold instead of 2.5. People will pay 150 rands per tonne instead of 100. There will be some redistribution of benefits where some are favoured and others are disfavoured by the higher price, but there will not be less sugar production..
2. Consider a single mother who when she has earned 500 rands working in CWP buys maize-meal, rice and cooking oil. The value to her of 500 rands may well exceed the value of 5000 rands lost by others because the tax wedge that paid her wage had a series of adverse effects. Moral: It is not unusual for public spending to satisfy the criterion of creating more value than the value lost by the private sector because of taxes, even when losses due to tax wedges are factored in.<sup>100</sup>
3. A.C. Pigou and many other economists have established the general principle that when transfers are made from haves to have-nots as a rule total welfare goes up. A rand in the pocket of a poor man means more than the same rand

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<sup>100</sup> For a more extensive recent discussion of the benefits of transferring resources from haves to have-nots see Samuel Bowles, *The New Economics of Inequality and Redistribution*. Cambridge: Cambridge University Press, 2012. Notice both in our case and in Bowles' case that as we discuss technical neoliberal economics we tend to get ensnared into appearing to accept premises of a neoliberal worldview, for example the premise that a Pareto optimum is a true ethical optimum.

in the pocket of a rich man. Assume the neo-liberals are right in affirming a second principle: tax wedges create deadweight losses. Both principles can be true at the same time. One does not negate the other.

4. Suppose that consumers X, Y, and Z voluntarily donate to charity. Their welfare declines because they can no longer spend the money they donated on themselves. But their total welfare goes up because they have the satisfaction of having donated to charity –which is worth more to them than spending more money on themselves. Their preference was to give and they have satisfied their preference. Now suppose that another taxpayer who is an ardent social democrat derives pleasure from paying taxes because she enjoys helping to pay for public goods. Now consider yet another taxpayer who is also a social democrat but less ardent. He smilingly endures paying taxes because he knows other people are paying taxes too. All the taxpayers together can fund a better society than any one of them could fund alone. He derives a deep satisfaction from being part of a collective effort to build a better society. In all these cases for the actors involved the satisfaction gained from participating in what Sen and Drèze call “public action” would offset the losses occasioned by a tax wedge.<sup>101</sup>
5. Consumers who lose their consumer surplus lose a bargain, but by definition they still pay a price they are willing to pay. (The definition of consumer surplus is the difference between market price and what a given consumer is willing to pay.)

To refocus the questions: the larger questions about a public anti-poverty programme are likely to concern corruption –as we saw in the case of NREGA. They are likely to concern effectiveness –as we saw in the case of poultry farms in Limpopo. A larger question about CWP concerns whether and how it can catalyse community development –as we saw it did in the case of Bokfontein. These larger questions put the OECD criteria in a different perspective. The OECD questions reflect a worldview

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<sup>101</sup> In the city of Rosario, Argentina, rate-payers in the city were given the option of paying 10% more on their gas heating bills to create a fund to connect to the gas distribution system poor people living on the outskirts of the city who were not connected. Almost all voluntarily paid the extra ten percent. Interview with Hermes Binner (then mayor of Rosario) in Howard Richards, *Solidaridad, Participacion, Transparencia: conversaciones sobre el socialismo en Rosario, Argentina*. Rosario: Fundación Estevez Boero, 2008. Chapter Four. Available on line at [www.repensar.cl](http://www.repensar.cl). Available in English translation online at [www.unboundedorganization.org](http://www.unboundedorganization.org).

unfriendly to the general idea that public employment catalysing community development should be a permanent part of the mix of a mixed economy. If one is willing to entertain the general idea, and wants to know about CWP's many diverse achievements on the ground, how they are accomplished, and how to accomplish them better, then the OECD questions are not good questions.

The OECD asks how well CWP is preparing participants for private sector employment, and how much dead weight loss is crowding out private sector jobs. Its questions fade toward insignificance in the light of the second of our two staggering facts (which tells us that private sector employment normally fails to provide livelihoods for all); and in the light of the coming new information-age technologies that are compelling nations around the world to rethink the whole idea of livelihoods funded by individuals selling their labour in the labour market.

These considerations placing the OECD recommendations for evaluating CWP in a wider perspective suggest numerous directions our discussion could go next. We will go in two. First, in the balance of this chapter we will offer an alternative to and a critique of a neoliberal worldview unfriendly to the whole idea of public employment. Second, we will move in the next chapter toward the sort of evaluation of CWP we recommend. We will depict how CWP actually works on the ground. We will illustrate what can be learned from it by those of us who assign high priorities to building resilient communities, to mobilizing community resources, and to supplementing the logic and dynamic of capital accumulation with other logics and other dynamics.<sup>102</sup>

### **A Progressive Alternative**

The kernel of truth in deadweight analysis – and in its cousins that object to crowding out, tax wedges, labour unions, environmental regulation, health and safety laws, government regulation of business generally, tariffs, and the licensing of professions — is that when costs go up and profits go down there is less business. Deadweight analysis is what the OECD calls “objective”. It looks objective because it leads to a number (75 in our example). But the number does not count anything that

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<sup>102</sup> The next chapter will not however discuss corruption, an issue which so far has not surfaced in CWP. The chapter after next will make some remarks on the broader issue of moral development.

exists. It is a phenotype of a wider genotype specifying what *would* happen in a competitive market with fully flexible prices tending toward equilibrium and without tax wedges or other perturbations. It is a number that lives in an imaginary world which, at this point in history, unfortunately holds the real world captive. Nevertheless, as with any ideology, the myth hides power. The power it hides is revealed in our first Staggering Fact. To an important extent (an extent that underestimates the great variety of material practices that are already at work in the world) nothing moves without profit. Hence the kernel of truth: when costs go up profits go down and there is less business. Costs can go up because of a tax wedge, a wage wedge, an environmental regulation wedge, the costs of complying with health and safety laws – and indeed whenever any social or environmental criterion imposes constraints the accumulation of capital.

For the science of management (the science of organizations) constraints are the stuff of everyday life. Managers solve problems calling for choosing the values of decision variables to achieve objectives subject to constraints all the time. Adding, subtracting, or modifying the value of a constraint may add a variable or change the value of a variable, but it does not turn the problem into one managers do not know how to solve. Managers, lawyers, accountants, and judges also know how to deal with a situation where the result of the analysis is that the enterprise is insolvent and will remain insolvent and it is not feasible to continue it. They know how to liquidate and pay what can be paid to creditors, how to reorganize when reorganization is practicable, and how to set up new enterprises – corporate, partnership, joint venture, public, cooperative, employee-owned, para-statal, non-profit, sole proprietor, foundation, public benefit and other new figures created by recent European legislation, or none of the above .... – to seize new opportunities or more broadly to mobilize resources to meet social needs. Mission-driven organizations and mission-driven personalities already move us some way toward a less commodified world, i.e. toward a world governed more by use-value criteria and less by exchange-value criteria.

It is not necessary to share the neo-liberal predilection for judging the world by the standards of a utopia where all business is private and for-profit, all costs of business are minimized, all prices are fully flexible, and an ideal state called

“equilibrium” defines full employment of resources and Pareto optimality.<sup>103</sup> In the light of the kernel of truth in demonstrations that a tax wedge (or a wage wedge, or any wedge) will slow down business activity, it is not necessary to surrender all down the line, settling for lower taxes, less public health, less public education, smaller pensions, privatization of the public sector, fewer public goods of all kinds, lower wages, less employment, more pollution, faster global warming, no access ramps for the handicapped, no compulsory labelling showing the ingredients of foods, fewer and smaller public parks, globalisation that erases national sovereignty and with it government of the people by the people and for the people, and handing over natural resources (“gifts of nature”) to private for-profit enterprises.

*“CWP even goes into the clinics and helps there as well; they clean the clinics. They plant [food] gardens at the clinics. They also care for those gardens too.”*  
--- CWP participant, Randfontein CDI

An alternative to a neoliberalism hell bent on maximizing the size of the private for-profit sector at any cost, a policy which will (as we have shown in Chapter Two) necessarily fail to produce an economy that works for the poor no matter how assiduously it is implemented, is a private for-profit sector smaller in size, higher in quality, and governable. When all private sector companies do what the best private sector companies already do (like for example triple bottom-line accounting, people, planets, profit)<sup>104</sup> there will be fewer of them, if only because the marginal enterprises cannot afford to pay high wages. The challenge then becomes that of growing other sectors to achieve livelihoods complying with international standards for economic and social human rights that cannot be achieved by the private for-profit sector alone.<sup>105</sup>

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<sup>103</sup> A [Pareto optimum](#) is defined as a situation in which nobody can be made better off without making someone else worse off. It can also be conceived (similarly to market equilibrium) as a market that has done its work by facilitating all the transactions where both parties gain by trade and has come to rest. Concerning Pareto optimality Amartya Sen has remarked, “...that all competitive market equilibria are Pareto efficient may not appear to be a terrific trophy for the market mechanism since it is hard to see Pareto efficiency as sufficient for social optimality. Pareto efficiency is completely unconcerned with distribution of utilities (or of incomes or of anything else) and is quite uninterested in equity.” Amartya Sen (1993), [Markets and Freedoms: Achievements and Limitations of the Market Mechanism in Promoting Individual Freedoms](#) *Oxford Economic Papers*. Volume 45. pp. 519-541. p. 521. (<http://www.cs.princeton.edu/courses/archive/spring06/cos444/papers/sen.pdf> - accessed February 2015).

<sup>104</sup> Triple bottom line accounting is now required by law for large companies in Argentina.

<sup>105</sup> C.K. Prahalad, who was a great advocate for major private companies (like Hindustan Lever, of which he was a director) throwing their weight behind world-wide efforts to eliminate poverty and achieve environmental sustainability was very clear in saying that the private sector should not attempt to do it alone. It should work hand-in-hand with other sectors. One of his examples is a campaign to improve

A better question is not whether to build a plural economy, but how. It is this better question that should orient the evaluation of CWP.

*“As workers of CWP we sometimes visit sick people in their homes doing a social visit. You find that there is a woman or a young lady who is sick and you can see that they need help.”*  
--- CWP participant, uMthwalume CDI

## 5. The Superiority of an Unbounded Pluralist Worldview

We take the view that the liberal ideal of a world with fully flexible prices tending toward an equilibrium where all resources are fully employed (which is behind Milton Friedman’s astonishing remarks quoted at the beginning of this chapter, and behind the technical procedures the OECD territorial review of Gauteng recommends for evaluating CWP):

- A. ...has very little to do with economic reality as it has existed historically.
- B. ...has very little to do with economic reality as it exists now.
- C. ...is not ethically defensible.

and

D. ... is not in any event a realizable ideal. It does not describe a possible economy.

We will briefly discuss each of these four points separately.

A. History.

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personal hygiene in rural India where major soap manufacturers worked together with state governments, grassroots community groups, university academics, and the World Health Organization. *The Fortune at the Bottom of the Pyramid*. Philadelphia: Wharton School, 2004. (<http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf> - accessed February 2015).

The history of capitalism has not been a history of suppliers increasing production until the point where marginal costs of production equal marginal revenue derived from sales; i.e. to an equilibrium point which when generalized to all commodities represents maximum possible consumer satisfaction. It has been for the most part a history of struggle – not infrequently armed struggle — for more advantageous positions. It has been a struggle for control of profitable enterprises sheltered from intense competition, access to resources and access to markets and investment opportunities.<sup>106</sup> Neoliberal economics is not an accurate description of what has happened. It is a weapon.

*“What encourages us is that we are working with people and learning about how to eat healthy and take care of the elderly and sick people. That is why it is important for us to know that, so and so, should eat this and, so and so, shouldn’t eat certain foods. We are taught that and we also go and get their medication at the clinic if they do not have strength to go themselves.”*

--- CWP participant, uMthwalume CDI

## B. The Present Business Reality

A worldview that sees businesses everywhere increasing production (and with it consumer satisfaction) until a point of equilibrium is reached where marginal costs equal marginal revenue has very little to do with the realities of business today. Today students in business schools study the already classic “five forces” model of Michael

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<sup>106</sup> “Struggle” here refers only indirectly to the struggles of the exploited and dispossessed to raise their living standards; it refers directly to struggles among elites. We do not claim that there is a single unified methodology and/or theoretical structure on which economic historians have reached consensus. We do claim that anyone who studies economic history will realize that struggle for advantageous positions has been central to it, and that general equilibria like those described by theorists like León Walrus have occurred rarely if at all. Among the many authors and works who study in detail the struggles of economic history and the dynamics that drive them we particularly call attention to Immanuel Wallerstein, *The Capitalist World-Economy*, Cambridge UK: Cambridge University Press, 1979; (<http://catdir.loc.gov/catdir/samples/cam034/78002955.pdf> - accessed February 2015).

Fernand Braudel, *Capitalism and Material Life 1400-1800*. London: Weidenfeld and Nicholson, 1973; ([http://books.google.co.uk/books/about/Capitalism\\_and\\_material\\_life\\_1400\\_1800.html?id=2u23AAAAIAAJ&redir\\_esc=y](http://books.google.co.uk/books/about/Capitalism_and_material_life_1400_1800.html?id=2u23AAAAIAAJ&redir_esc=y) – accessed February 2015).

Rosa Luxemburg, *The Accumulation of Capital*. Op cit. London: Routledge, 1951. (First German Edition 1913); Samir Amin, *Accumulation on a World Scale* (two volumes). New York: Monthly Review Press, 1975; Maria Mies, *Patriarchy and Accumulation on a World Scale*. London: Zed, 1987.

Porter, professor of strategy at Harvard Business School.<sup>107</sup> Based on data derived from hundreds of case studies, it teaches that to achieve sustainable profitability a firm should position itself in its industry<sup>108</sup> in the light of five causes of competitive advantage:

*“About the taverns, since the introduction of curfews for them, where they are required by the metros to stop selling alcohol at a certain time, we now notice the level of crime decreasing. So as far as I’m concerned, the CWP and the patrollers are doing a fine job and must never stop.”*

--- CWP participant, Randfontein

*“In my area I am assisting and involved in patrolling to stop crime, anti-crime patrol to fight crime.”*

--- CWP participant, Randfontein CDI

1. Competition in the industry. In an industry where there is intense competition on price among many firms, there will be little profit for anybody. Therefore seek an industry with few major players, free of intense price-cutting.<sup>109</sup>
2. Potential of new entrants into the industry. Find a niche or create one where there are barriers to entry keeping out new competitors. This can be done, for example, by buying up patents and other intellectual property rights (to

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<sup>107</sup> Michael Porter (1980), *Competitive Strategy*. New York, Free Press; Michael Porter (1985), ([http://www.iseq.utl.pt/aula/cad1505/Textos\\_Apoio/cap\\_9\\_a\\_13\\_Michael\\_Porter.pdf](http://www.iseq.utl.pt/aula/cad1505/Textos_Apoio/cap_9_a_13_Michael_Porter.pdf) - accessed February 2015). (*Competitive Advantage*. New York, Free Press; Michael Porter (1986) (<https://faculty.fuqua.duke.edu/~charlesw/s591/Bocconi-Duke/Papers/c06/Porter%20%28Chap.%201,%201985%29%20Class%206.pdf> – accessed February 2015). *Competition in Global Industries*. Boston, Harvard Business School Press; Michael Porter (1990), *The Competitive Advantage of Nations*. New York, Free Press. Although Porter remains the single most important writer on business strategy, today his views have been overshadowed by a somewhat different approach known as RBT the Resource Based Theory of business strategy. Although one might complain that we cite the classic views of Porter at a time when the zenith of their influence has passed, one cannot say that the RBT writers have provided any data tending to show that businesses naturally and normally behave in ways likely to lead to general equilibrium and welfare maximization as Walras and his followers conceive them. On the contrary, while differing from Porter on certain points they confirm the main points made here. See Margaret Peteraf and Jay Barney (2003) “[Unraveling the Resource-Based Tangle](#),” *Management and Decision Economics*, Volume 24, pp. 309-323; and the articles by Margaret Peteraf and others in the October 2003 special issue of *Strategic Management Journal* devoted to the question, “Why is there a resource based view?”

<sup>108</sup> Porter also points out that quite apart from competitive advantage within a given industry, in some industries (like wholesale trade in grains) all or most firms are profitable, while in others (like automobile tyres) profits are low for everybody.

<sup>109</sup> It is often to a firm’s advantage that its competitors in the same industry are also profitable. When a major player in the industry is in danger of going under, it may be tempted in its desperation to resort to price-cutting that will make the entire industry unprofitable for all players.

keep others from using them even if one does not intend to use them oneself) or by negotiating long-term exclusive contracts with key suppliers of inputs.

3. The bargaining power of suppliers. Seek an advantageous position where the bargaining power of suppliers is weak, so that one is in a position to negotiate low prices for inputs. This would be the case for example for a company like Cargill trading internationally in soybeans and grains. The grains are supplied in most cases by farmers with little bargaining power to negotiate favourable prices for their harvests.
4. The bargaining power of customers. Similarly, competitive advantage and sustainable profits are caused by the low bargaining power of customers. This can be achieved for example by product differentiation such that no other firm sells exactly the same commodity, combined with dependency of the customer on the supplier for post-sale service, spare parts, and technology updates.
5. The threat of substitute products. Profitability is low where customers do not really need the product because they can switch to a different one. For this reason it is to the interest of all the firms in an industry not only to have a tacit gentleman's agreement (or where it is legal a cartel) to avoid ferocious price-cutting. Cooperation within the industry is called for also to erect barriers to new entrants, and to promote the public image and develop the technical superiority of its product as distinct from substitutes for it.
6. Innovation can be added as a sixth force although Porter himself declines to do so.<sup>110</sup> Innovations give the innovators a monopoly on a new product or process until competitors imitate them, or as long as patent protection lasts, or as long as trade secrets can be kept. For example, Procter and Gamble enjoyed a temporary monopoly in disposable diapers after it first introduced them. Much of the profit it amassed from its temporary disposable diaper

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<sup>110</sup> Porter treats innovation not as a separate factor but as an outcome of factors already considered in his model. See Michael Porter, [Towards a Dynamic Theory of Strategy](http://onlinelibrary.wiley.com/doi/10.1002/smj.4250121008/pdf). Strategic Management Journal, Volume 12 (1991) pp. 95-117. P. 111. (<http://onlinelibrary.wiley.com/doi/10.1002/smj.4250121008/pdf> accessed June 2015).

monopoly went to fund research and development to keep a steady stream of new products coming to market. Constant innovation aims to make P & G profitable indefinitely.<sup>111</sup>

In short, the reality of business today is that the way to act to achieve success is *not* to act in the ways that liberal theory supposes that firms naturally and normally act.

*“We are taught about these things (safe practices) as we are taught about taking care of our people as we are community workers. So, what we have been taught, we teach others.”*  
CWP participant, Randfontein CDI

### C. Ethics

Although it might be difficult to explain to an extra-terrestrial why many earthling economists have adopted the practice of classifying as “distortions” most if not all of the prices that actually exist, while classifying as “real” prices that rarely or never exist,<sup>112</sup> there are several possible explanations. We will consider one.<sup>113</sup> It is that

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<sup>111</sup> Roger Martin, *The Design of Business*. Cambridge MA. Harvard Business Press, 2009. Chapter Four. Transforming the Corporation, The Design of Procter and Gamble. (<https://hbr.org/product/the-design-of-business-why-design-thinking-is-the-/an/12176-HBK-ENG> - accessed June 2015). See generally Thomas McCraw, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction*. Cambridge MA: Harvard University Press, 2007. (<http://www.hup.harvard.edu/catalog.php?isbn=9780674034815> – accessed June 2015).

<sup>112</sup> Among the maverick economists who have not adopted this practice are the Latin American structuralists. They have analysed really existing prices as they are shaped by the bargaining power of the parties. See Armando di Filippo (2009), *Latin American Structuralism and Economic Theory* *Revista CEPAL*, Volume 98, pp. 175-196. (<https://kellogg.nd.edu/publications/workingpapers/WPS/043.pdf> - accessed February 2015)

<sup>113</sup> Four others, each of which probably identifies a significant factor explaining the current hegemony of neoliberalism are: (1) So-called “real” prices can be regarded as ideal types as Max Weber regarded *homo economicus* as an ideal type, fully aware that in a pure state he does not exist, but nevertheless regarding him as conceptually useful as a model useful for understanding real phenomena by analysing deviations from it. See Donald Macintosh (1977), *The Objective Basis of Max Weber’s Ideal Types* *History and Theory*. Volume 16, pp. 265-279. (<http://sociology.sunimc.net/html/edit/uploadfile/system/20110116/20110116003051465.pdf> - accessed February 2015). (2) Another would be that liberal price theory is immune from refutation by evidence, since any prices that might be taken to falsify it can be dismissed as distortions. See Andreas G. Papandreou (1958), *Economics as a Science*. Philadelphia, J.B. Lippincott. (3) A third would be that liberal theory enjoys favour with powerful political and economic interests because it serves as their ideology. See Gunnar Myrdal op. cit. (4) A fourth would be that its conceptual elegance and mathematical sophistication gives it a competitive advantage in the jungle of academic politics. See Herbert A. Simon (1969), *The Sciences of the Artificial*. Cambridge MA, MIT Press. Simon argues that the training of professionals in universities has been drawn away both from reality and from practical utility by the academic prestige of the hard sciences. (<http://www.sh.se/p3/ext/>

prices represented by equilibrium points in graphs like those of Dupuit are called “true” or “real” not in the sense that they represent prices that exist, but in the sense that they represent prices that *ought to exist*.<sup>114</sup> Thus one speaks of “true love” as ideal love, or of a leather sofa as a “real leather sofa” using the word “real” to suggest that it is superior to empirically more frequent imitation leather sofas.

The Nobel-prize winning liberal economist John Hicks stated succinctly an ethical premise we have mentioned before. It would appear to be required to make a case that equilibrium prices are those that ought to be, and a related case that general equilibrium represents an ideal that society ought to strive to attain. Hicks wrote: “...if an article can be sold at a price which covers its costs of production, it should be produced; if it cannot be sold at a price which covers its cost of production, it should not be produced.” Hicks goes on to say: “(1) ... that we should accept that the aim of production is to produce the things that consumers want; and (2) that we should accept that the wants of consumers are “revealed” (as Samuelson would say) by their market behaviour.”<sup>115</sup>

*“We don’t sell the vegetables - so you decide that I can see the family is struggling let me give them some vegetables even though they have not asked for them.”*  
CWP participant, uMthwalume CDI

From these premises it is plausible to move toward the conclusion that society ought to be organised in such a way that competition drives prices down toward

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[res.nsf/vRes/kalendarium\\_simonsciencesartificial\\_chapter1\\_1\\_6mb\\_pdf/\\$File/SimonSciencesArtificial\\_chapter1-1-6mb.pdf](http://res.nsf/vRes/kalendarium_simonsciencesartificial_chapter1_1_6mb_pdf/$File/SimonSciencesArtificial_chapter1-1-6mb.pdf) - accessed February 2015).

<sup>114</sup> The normative character of the conclusions of mathematical economics was at stake in the *Methodenstreit* in economics at the end of the 19<sup>th</sup> century. Those who favoured studying economic phenomena as they are found in society as it is, led by Gustav von Schmoller, used historical methods of research. Others, such as Carl Menger, held that there could be such a thing as pure economics, which did not depend on historical evidence, which could through calculations establish important criteria for rational and therefore optimal decision-making. The issues took on a different focus when Paul Samuelson published his doctoral thesis (1947) *Foundations of Economic Analysis*. Cambridge MA, Harvard University Press. Samuelson recast the then-mainstream economics of Alfred Marshall in precise mathematical terms. His rationale for doing so was not that pure mathematical economics could establish normative conclusions, but rather that restating the principles of economics with the greater precision mathematics provides would make it possible to formulate more exact research hypotheses and thus to advance the construction of an empirically verified science.

<sup>115</sup> John R. Hicks (1962), *Economic Theory and the Evaluation of Consumers’ Wants*. *The Journal of Business*. Volume 35, pages 256-263. p. 256. ([http://econpapers.repec.org/article/ucpjlbus/v3a35\\_3ay\\_3a1961\\_3ap\\_3a256.htm](http://econpapers.repec.org/article/ucpjlbus/v3a35_3ay_3a1961_3ap_3a256.htm) - accessed June 2015). Hicks qualifies his succinct remarks by saying there is more to be said, but holds nonetheless that these are the most important points to be made when one is compelled to use few words.

or to costs of production, while the profit motive motivates sellers to cut costs of production and to increase production to the point where they produce as much as they can sell at cost-covering prices. Then –it would seem plausible to think — consumers would get a maximum of what they want. And it would also – on these premises — seem valid to maintain that consumers getting a maximum of what they want is the ethical ideal society should strive to achieve.

It should be noticed that these Hicksian premises are in important ways a mirror image of the Grenoble<sup>116</sup> school’s neo-Marxist concept of regime of accumulation.

Hicks says that what can be produced and sold at cost-covering prices *should* be produced and sold. Grenoble says that only what can be sold at a profit *will* be produced.

Hicks says that society *should* be organized so that the profit motive will motivate behaviour that generates a maximum of welfare, where welfare is defined as consumers getting what they want.

*“I am a captain of the Mavusana soccer team which helps to keep the youth active. So, I think I’m doing my part in building the community.”*  
CWP participant, Randfontein CDI

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<sup>116</sup> We name Hicks’ interlocutor after the Grenoble school (generally known as regulationist, whose leading members include Robert Boyer and Michel Aglietta) because that school invented the idea of “regime of accumulation,” even though it has done little to develop its wider implications. See Robert Boyer and Yves Saillard (eds.) (2002) *Théorie de la régulation: l’état des saviors*. Paris, La Découverte. This book includes a short chapter on regimes of accumulation by Michel Juillard at pp. 225-233. (<http://www.cairn.info/theorie-de-la-regulation-l-etat-des-saviors--9782707137654.htm> - accessed February 2015). Wider implications have been drawn out by David Harvey (1987) *The Condition of Postmodernity*. Oxford, Blackwell (<https://libcom.org/files/David%20Harvey%20-%20The%20Condition%20of%20Postmodernity.pdf> – accessed February 2015); and even wider ones by Fredric Jameson (1991) *Postmodernism: the Cultural Logic of Late Capitalism*. London, Verso. ([http://flawedart.net/courses/articles/Jameson Postmodernism cultural logic late capitalism.pdf](http://flawedart.net/courses/articles/Jameson%20Postmodernism%20cultural%20logic%20late%20capitalism.pdf) - accessed February 2015). The similar idea of “systemic imperatives of capitalism” is developed in Ellen Meiksins Wood (2003) *Empire of Capital*. London, Verso. In different ways numerous writers have made or assumed the general point that where capitalism prevails it is necessary (i.e. not optional) to establish conditions favourable to profit-making. We draw the logical conclusion that to make society governable and widen the range of options available it is necessary to reduce dependence on capital accumulation as the single or main motor that drives production.

Grenoble says that as long as society is dominated by the imperatives of capitalism, all of society's institutions *must* be organized to create the conditions required for the accumulation of capital.

What for Hicks satisfies the demands of a utilitarian ethics because it creates the greatest good for the greatest number, on Grenoble principles frustrates ethics because any human project intended to shape society closer to the heart's desire to achieve inspiring ideals – say, for example, the ideals of liberty, equality, fraternity, and ecology — cannot be implemented. Ethics cannot be implemented because, come what may, whatever human beings may aspire to do, what they *must* do is obey the imperatives of capital accumulation. Social justice must be postponed for the sake of investor confidence. Wages must be kept down to keep profits up. Etc. What *must* be done to create the conditions necessary for capital accumulation trumps any and all ethical ideals.

Hicks and Grenoble *look at* the same world, but what they *see* is different. Seeing what Hicks sees, it is reasonable to identify equilibrium prices, even though they are more hypothetical than observed, as “true” prices or “real” prices, as we speak of “true love” however infrequently it may be observed, and as we speak of a “real leather sofa” even though ordinary mortals, when they sit on sofas more commonly sit on imitations.

We have reasons for believing that the conceptual lenses worn by the likes of Hicks<sup>117</sup> are misleading. We have reasons for believing that the equilibrium they idealize is not ethically defensible.<sup>118</sup> The liberal utopia would not be a desirable utopia.<sup>119</sup>

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<sup>117</sup> Here we refer not just to Hicks but also to similar views of others; but not to all of Hicks since the few lines we have quoted from him do not reflect the more balanced and nuanced views he expressed on other occasions and indeed on the same occasion when he spelled out his views at greater length. See John Hicks (1981), *Wealth and Welfare*. Oxford, Blackwell. <-- cant find, Howard – strange. . .

<sup>118</sup> We incorporate by reference here, as if set out in full, the reasons why bare-bones capitalism does not work for the poor already given in Chapter Two above.

<sup>119</sup> See Franz Hinkelammert (2002) *Critica de la Razón Utopica*. Bilbao, Descleé de Brouwer; Nicholas Georgescu-Roegen (1976), *Energy and Economic Myths: Institutional and Analytical Economic Essays*. New York, Pergamon. ([http://graduateinstitute.ch/files/live/sites/iheid/files/sites/developpement/shared/developpement/cours/E735/Georgescu-Roegen\\_1965-farming\\_versus\\_manufacturing.pdf](http://graduateinstitute.ch/files/live/sites/iheid/files/sites/developpement/shared/developpement/cours/E735/Georgescu-Roegen_1965-farming_versus_manufacturing.pdf) - accessed Feb 2015). “...once the existence of equilibrium in this fictional world has been proved, GET (General Equilibrium Theory ..our note) theorists go crazy. They pursue their model too far, under the

A first reason is that what purchases in the market reveal is not what consumers want, but rather what people with money buy. The market is like a ballot box into which rich people cast many ballots, those with less money cast fewer ballots and the penniless cast no ballots at all.<sup>120</sup>

Second, the putative ethics that makes what can be sold the criterion for judging right and wrong is not a proper ethics.<sup>121</sup> For example: a proper medical ethics calls on the doctor to put the life and health of the patient first. Selling the patient whatever she or he will pay for is not ethical medicine. Speaking generally: a proper ethics provides criteria for distinguishing good desires and intentions from bad ones, right from wrong. To say (following Hicks' use of Samuelsson's terminology) that people ought to have what their market behaviour reveals to be what they prefer is to beg a question ethics historically has functioned to answer: namely, whether people ought to desire what they do desire. Thus Aristotle holds that a well-educated person -- one educated to desire what she or he should desire -- finds pleasure in virtue, while a badly-educated person finds pleasure in vice.<sup>122</sup> Returning to the medical example, the doctor may prefer to give a bogus treatment and charge a large fee, and the patient may

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illusion that by clarifying its optimum properties they have also clarified the optimality of the modern capitalist economy, in which entrepreneurs and bankers play such an important role, whereas all they have in fact done is clarify the optimality of a hereditary economy". Michio Morishima (1991), [General Equilibrium Theory in the Twenty First Century](#) *The Economic Journal*. Volume 101, pp. 69-74, p. 72. (<https://www.hse.ru/data/2011/02/28/1211527098/2.pdf> - accessed February 2015).

<sup>120</sup> Amartya Sen has wryly remarked that because the claim that maximum welfare is produced by minimum "distortions" would only be plausible if wealth and income were much more equally distributed, those who make that claim should – in order to argue their own viewpoint consistently — become radical revolutionaries. Amartya Sen (1993) [Markets and Freedoms: Achievements and Limitations of the Market Mechanism in Promoting Individual Freedoms](#) *Oxford Economic Papers*. Volume 45, pages 519-541. p. 521; see generally Sen (1987) *On Ethics and Economics*. Oxford, Blackwell. Op cit.

<sup>121</sup> Ethics is a huge subject, older than economics and on which more has been written. A few highlights are Aristotle's *Nicomachean Ethics* which might be called an ethics of virtue, the ethics of Confucius whose key principles are usually translated from ancient Chinese as "harmony" and "sincerity;" Immanuel Kant's [Foundations of the Metaphysics of Morals](#) which might be said to present an ethics of rational integrity; John Stuart Mill's [Utilitarianism](#) which can be called an ethics of happiness; Emile Durkheim's [Moral Education](#) where ethics is identified with ever increasing loyalty to ever larger groups leading finally to loyalty to humanity; Jean Piaget's [Moral Judgment of the Child](#) where children are found to be biologically inclined to organize groups with rules; John Rawls' [A Theory of Justice](#) which purports to articulate a reflective equilibrium where the judgments we make in particular cases mesh with general ethical principles. Our point here is that whatever one's ethical theory may be, to be a proper theory it must provide some way to tell good from bad, right from wrong. A proper ethical theory cannot be one that says that perfect market outcomes are the right outcomes because perfect market outcomes are the standard that defines right outcomes.

<sup>122</sup> Aristotle, [Nicomachean Ethics](#) (various versions and translations) 1104b. (<https://ebooks.adelaide.edu.au/a/aristotle/nicomachean/> - accessed Feb 2015).

be dumb enough to prefer the expensive bogus treatment, but that does not make it right.

*“It has changed my life in big way, I mean there are STI, HIV and all those diseases, you know sometimes you risk your life and sleep with someone that you don’t love, just so that he can give you money. Since I started getting a job knowing that I get something at the end of the month, that stopped, sometimes you go out with someone that you don’t even love, just so that you can get money, maybe he is working in a mine, so this job has changed my life, I can go to the bank and withdraw some money.”*  
female CWP participant, Randfontein CDI

At stake here is whether markets can be evaluated. To be more precise, it is whether they can be evaluated by any standard other than measuring to what extent they are perfect (undistorted) markets, and to what extent they are imperfect (distorted) markets. With a proper ethics -- say a social and/or an ecological ethics -- one can judge the market itself; one can evaluate how good or bad a job it is doing in providing health care or preserving endangered species. In general one can use criteria like needs or security to evaluate markets. One can ask whether health care needs are being met, or whether people have old age security or a secure water supply.

Using an imaginary world of market equilibrium to judge the real world (as in deadweight analysis and crowding out arguments) is circular reasoning: what ought to be is what the (perfect) market delivers, because by definition the perfect market outcome is the right outcome.

Making the same point coming at it from a slightly different direction, when judged by the criteria of a realist ethics (one concerned with the physical needs of humans and the biosphere) what the first fundamental theorem of welfare economics (i.e. that competitive markets in equilibrium establish Pareto optimality) asserts is not about welfare in any ethically defensible sense. The word “welfare” – like so many other words -- has been captured by the dominant ideology. It is difficult to participate in debates on public policy expressing a realist point of view when the meanings of all or most of the key words are part and parcel of the reigning unreality.

Pareto optimality (explained in a little more detail in footnote 103 above) is operationally not about physical reality.<sup>123</sup> Although it is called a welfare optimum because further exchange cannot make both parties better off (i.e. any further exchange would necessarily make at least one party worse off), what “better off” and “worse off” mean is people getting more (better off) or less (worse off) of what they want. Operationally equilibrium in a competitive market (which the first fundamental theorem tells us is equivalent to Pareto optimality) is reached the same way markets reach any other state: namely, by sales. Sales are juridical performances; they are what H.L.A. Hart calls acts-in-the-law.<sup>124</sup> Building a science on the juridical foundation that Smith called natural liberty, using as a criterion of welfare what people buy, is ethnocentric and a-historical. It is ethically unacceptable if like a good Deweyan pragmatist or critical realist, one evaluates social practices and institutions in terms of their degree of success or failure in adapting to physical reality.<sup>125</sup>

#### **D. Impossibility of the Liberal Utopia**

Adam Smith observed that when many merchants enter the same trade, competition among them drives down prices.<sup>126</sup> This is, of course, what needs to happen to make sense of Dupuit’s (or anybody’s) deadweight analysis. Adam Smith noticed a point that Alfred Marshall a little over a century later made more explicit: when profits fall below a certain point, entrepreneurs shut up shop and close because they are no longer motivated to stay in business.<sup>127</sup> To attract investment into hiring

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<sup>123</sup> Neither is GDP. Although it is sometimes said that GDP is in principle about what is physically produced in a certain territory in a certain time, and the money-values are only *indexes*, what in fact gets counted and reported are money values.

<sup>124</sup> H.L.A. Hart, [The Concept of Law](http://nw18.american.edu/~dfagel/Class%20Readings/Hart/International%20Law%20Chapter%20From%20Concept%20of%20Law.pdf). Oxford: The Clarendon Press, 1961. (<http://nw18.american.edu/~dfagel/Class%20Readings/Hart/International%20Law%20Chapter%20From%20Concept%20of%20Law.pdf> – accessed June 2015).

<sup>125</sup> When Kenneth Arrow derived his impossibility theorem in welfare economics, he explicitly rejected a realist ethics, taking as his criteria what people buy in markets and how they vote in elections, i.e. their choices as formalized by certain legal institutions. [Social Choice and Individual Values](http://cowles.econ.yale.edu/P/cm/m12-2/m12-2-all.pdf). New York Wiley 1951. (<http://cowles.econ.yale.edu/P/cm/m12-2/m12-2-all.pdf> - accessed June 2015).

<sup>126</sup> Adam Smith, *The Wealth*. p. 97 op ct. - at the beginning of Chapter 9 of Book One. “When the stocks of many merchants are turned into the same trade, their mutual competition naturally tends to lower profit...”

<sup>127</sup> Alfred Marshall (1920, first edition 1890), [Principles of Economics](#). London, Macmillan. Op cit`. Marshall develops a concept of “normal profit” understood as profit high enough to make it worthwhile to be in business.

workers and producing goods or services, the return must as a general rule be at least as high as what the same money would earn if lent out at interest.<sup>128</sup>

In his *Elements of Pure Economics* Leon Walras argued that markets tend toward a general equilibrium and demonstrated that when equilibrium is reached there will be no profits.<sup>129</sup> Our opinion is that the reasoning of Walras was correct. If you start assuming perfectly competitive markets and perfect Smithian natural liberty, then you will arrive by a series of steps that Walras calculates in detail at the conclusion that these premises imply an eventual result where there is maximum consumer satisfaction,<sup>130</sup> full employment, and no profit. In the world as it is, of course, businesses *do* make profits, there is *not* maximum consumer satisfaction, and there is *not* full employment. The world as it is can be explained on Walrasian principles as a consequence of the *absence* of perfectly competitive markets and perfect Smithian natural liberty.<sup>131</sup>

Not only in the world as it is, but in any world where production is for sale for profit, investing money to produce goods and sell them afterwards will cease long before the marginal cost of bringing more goods to market eats up every last ounce of profit. And not just because profits will be insufficient to motivate sellers before the point of equilibrium<sup>132</sup> is reached. The imaginary equilibrium where imaginary

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<sup>128</sup> Keynes (1936), *General Theory*, p. 137, and generally Chapter 11 and Part IV “The Inducement to Invest.” Op cit.

<sup>129</sup> Leon Walras, *Elements of Pure Economics*. Routledge: London 2003. (First French edition 1874) pp. 225, 240, 243, 248, 271. Op cit.

<sup>130</sup> There is maximum consumer satisfaction in the objectionable sense that there is the Pareto optimum that we will object to below and that Amartya Sen objects to in footnote 101 above.

<sup>131</sup> The conclusion that it is reasonable to expect the world to be as it is given that at general equilibrium profits would go to zero is not shaken by the doctrines of economists who find that it is normal for businesses to make profits. For example Alfred Marshall, as noted above, says a normal profit is the supply price of business. His view that unless they get at least their normal profit entrepreneurs will withdraw from business is consistent with his remarking several times in his *Principles* that merchants are careful not to “spoil their market” by cutting prices too much when they have unsold stocks and/or underutilized productive capacity. The effect of Marshall’s normal price theory is to add *another constraint* making it less likely that there will be full employment and maximum consumer satisfaction than on Walras’s theory. Karl Marx argued that profit was impossible given the premises of classical Smithian and Ricardian economics. *Das Kapital* Kapitel 4. Nevertheless businesses do regularly make profits because one of the commodities purchased as an input of production, namely labour-power, has a cost of production and therefore a price lower than the value it creates after the capitalist buys it. *Op cit* Kapitel 5. We suggest a post-Marxist variant of Marx’s point: workers are hired *only if* the value created by their work exceeds the cost of hiring them. Such accounts of what it is that makes profit possible also posit an *additional constraint* making it less likely that full employment or maximum consumer satisfaction will occur.

<sup>132</sup> i.e. the imaginary point where marginal cost equals marginal revenue.

undistorted markets create an imaginary maximum of consumer satisfaction is *also* in practice impossible because producers usually (as is shown in B above) strive and connive to make *higher profits* by selling *less* at *higher prices* in *less competitive* markets.<sup>133</sup>

The world as it is requires profits not only because of the Staggering Fact that doing business requires them, but also because other institutions require them. Endowments of charities and universities depend on profits. Government revenue depends in part on taxing profits. Pension funds count on profits. In general society expects that firms will normally earn profits, as indeed they do. The world is not prepared to morph itself into the imaginary world of general equilibrium.

*“It has really helped me because I no longer drink that much, I am able to stay at work and keep myself busy.”*

*“I stay away from funny things like taverns. In our community the youth is under pressure of getting drunk.”*

CWP participant, Joe Morolong local municipality, Northern Cape province<sup>134</sup> CDI

Viewing these matters not through the conceptual lenses of an economic theory but in the light of what has actually happened in history, the eminent economic historian Immanuel Wallerstein wrote, “The profitability of [businesses] depends to an important degree on their relative monopolization. That is to say, if a box contains the conditions

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<sup>133</sup> The irony that according to the standard economics that serves as an ideology for capitalism in the long run there can be no profits was noted by Joseph Schumpeter (1955), *Theory of Economic Development*. Cambridge MA: Harvard University Press. pp. 29-31, 45-46. Op cit. He elsewhere praises Walras’ *entrepreneur ne faisant ni bénéfice ni pert* explaining why perfect competition would lead to an equilibrium where all firms just break even as “the proposition from which starts all clear thinking on profits.” Schumpeter (1956) *History of Economic Analysis*. New York, Oxford University Press, p. 893. Op cit. Perhaps the most complete attempt to put such an ideology into practice was that of the Pinochet dictatorship advised by Chicago-trained economists in Chile in the years 1974-1981. The economy of Chile crashed in 1981-82. The Gross National Product fell 14% in 1982 alone while the major banks collapsed. The dictatorship (which lasted until 1990) then switched to a more pragmatic version of capitalism. See Benny Pollack and Jean Grugel (1984), *Chile Before and After Monetarism Bulletin of Latin American Research*. Volume 3, pp. 131-143. (<http://pics3441.upmf-grenoble.fr/articles/poll/Chile%20before%20and%20after%20Monetarism.pdf> – accessed February 2015).

“...it is well known that the recovery after 1984 was based on a mix of pragmatic and heterodox policies.” Carlos Ominami in Gonzalo Martner and Eugenio Rivera (editors) (2013) *Radiografía crítica al “modelo chileno.”* Santiago, Ediciones LOM/USACH. p. 112.

<sup>134</sup> The quotations from CWP participants in this chapter are taken from Shamima Vawda, Mélanie Prinsloo, Adele Mostert, and Nelisiwe Mazibuko (2013), “The South African Community Capability Study: the Community Work Programme,” available on-line at [www.tips.org.za](http://www.tips.org.za/files/u72/cdi_community_capability_study_2013.pdf). [http://www.tips.org.za/files/u72/cdi\\_community\\_capability\\_study\\_2013.pdf](http://www.tips.org.za/files/u72/cdi_community_capability_study_2013.pdf), accessed September 8, 2013.

of perfect competition –multiple small sellers and multiple small buyers, with perfect information—then the rate of profit must inevitably be minimal....”<sup>135</sup>

## 10. A Bow toward Realism

We have been likening the interlocking concepts of neoliberalism to lenses through which the facts are viewed. If our simile is valid neoliberalism is not a set of claims about the facts. Other critics have emphasized that the factual claims of neoliberals are in general false.<sup>136</sup> We are suggesting that liberalism’s remarkable capacity for surviving empirical refutation can be explained – and neoliberalism can be more thoroughly refuted — if it is understood less as a set of factual claims and more as a conceptual apparatus. It is a way of viewing the world that provides categories for interpreting what is observed there. In Heideggerian terms it is less a set of claims about what phenomena are observed than it is a predisposition to *read* the observed phenomena in a certain way.

Nevertheless, we cannot end this chapter without a gesture toward unveiling the hard facts of dominant economic power that the cold haze of liberal economic science rationalizes. We cannot end without some practical suggestions for changing the world as it is to complement our theoretical reasons for not believing in a mathematical fantasy that is not.

In a world where Gary Becker, who succeeded Milton Friedman as leader of the Chicago school of economics upon the latter’s retirement, can advocate with a straight face treating as the three fundamental postulates of economic science maximizing behaviour, market equilibrium, and stable preferences,<sup>137</sup> any dog can sniff a political

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<sup>135</sup> Immanuel Wallerstein (2000), “Introduction” *Review (Fernand Braudel Center)* Volume 23 p. 8. Wallerstein uses the term “box” to refer to a category in which he groups a kind of historically existing business.

<sup>136</sup> Pierre Bourdieu, *Contre-feux*. Two volumes. Paris: Liber-Raisons d’Agir, 1998, The first volume is subtitled *propos pour servir à la résistance contre l’invasion néo-libérale*. Joseph Stiglitz points out that in general markets are not Pareto efficient, that markets may not clear, that in real-world cases markets may be thin or non-existent, that rents are everywhere, and so on. Joseph Stiglitz (1993), [Post Marxian and Post Walrasian Economics](https://www.google.co.uk/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#safe=off&q=stiglitz+Post+Marxian+and+Post+Walrasian+ Economics) *Journal of Economic Perspectives*. Volume 7, pp. 109-114. (<https://www.google.co.uk/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#safe=off&q=stiglitz+Post+Marxian+and+Post+Walrasian+ Economics> accessed Feb 2015). Michael Barratt Brown (2007) observes that liberal economics does not explain how development historically has happened, remarking caustically that facts do “... not appear to trouble the ideologues of Washington DC.” Book Reviews, *Journal of African Political Economy*. Volume 34, pp. 104-108 at p. 105.

<sup>137</sup> Gary Becker, *The Economic Approach to Human Behavior*. Chicago: University of Chicago Press, 1976. P. 5. See also Gary Becker, Nobel Lecture: The Economic Way of Looking at Behavior. *Journal of Political Economy*. Volume 101 (1993) pp. 385-409.

point and purpose behind the endowing of high-prestige academics to produce year after year an endless flow of conclusions derived from such false premises.<sup>138</sup> Any dog can sniff that neoliberal economics must have something or other to do with the worldwide defeat of social democracy. No elephant can forget that in the middle of the twentieth century social democracy was thought to be the irreversible wave of the future.

It will be worth our while to devote a paragraph to remembering a few representative details of twentieth century optimism. In the early twentieth century many hoped and expected that the trend of the future would be away from individualistic competition devoted to profit at any price and toward serving the societal enterprise.<sup>139</sup> It was hoped and expected that banking-rents and land-rents would be socialized, making it easier to obtain credit for industry and commerce, easier to do something useful in order to turn money into more money, harder to by-pass creating use value while getting rich manipulating exchange value, harder to sit on land doing nothing with it while waiting for its value to increase, and easier to finance a welfare state.<sup>140</sup> Excess profits not needed to fund or motivate production and revenues from “gifts of nature” not created by anybody’s labour or by anybody’s entrepreneurial creativity could be channelled --as the medieval church channelled rents from lands it owned<sup>141</sup>—to hospitals and schools. And to scientific research and the fine arts. John Maynard Keynes looked forward to a time when capital would be so abundant that it would lose its scarcity value, and when government would cooperate with business in

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<sup>138</sup> For an account of the politics of the spread of neoliberal ideas see Richard Cockett, *Thinking the Unthinkable: Think-tanks and the Economic Counter-revolution 1931-1983*. London: HarperCollins, 1994.

<sup>139</sup> See for example H.S. Foxwell 1917, *The nature of the industrial struggle*. *The Economic Journal*. Volume 27 pages 315-329 Peter Drucker 1956. [Business objectives and survival needs: Notes on a discipline of business enterprise](http://www.jstor.org/discover/10.2307/2350590?sid=21105574510281&uid=70&uid=4&uid=3738032&uid=2129&uid=2). *The Journal of Business*. Volume 31 pages 81-90. <http://www.jstor.org/discover/10.2307/2350590?sid=21105574510281&uid=70&uid=4&uid=3738032&uid=2129&uid=2> – accessed March 2015). See note 146 below for some signs that to some extent the expectation that business would become more socially responsible is coming true in the 21<sup>st</sup> century.

<sup>140</sup> See G.D.H. Cole 1931. *The socialisation of banking*. London, Victor Gollancz, John Dewey 1937. *The socialization of land rent*. In Jo Ann Boydston 1987 (Ed.) *The later works of John Dewey 1925-1953*. Volume II. Carbondale, Southern Illinois University Press.

<sup>141</sup> The Knights of St. John for example were endowed with lands for the support of the poor. Timothy Miller 1978. [The knights of St. John and the hospitals of the Latin west](http://www.jstor.org/discover/10.2307/2849782?sid=21105574510281&uid=3738032&uid=2129&uid=2&uid=70). *Speculum*. Volume 53 pages 709-733 at p. 718. (<http://www.jstor.org/discover/10.2307/2849782?sid=21105574510281&uid=3738032&uid=2129&uid=2&uid=70> – accessed March 2015). See also Balch, Emily Greene 1893. [Public Assistance of the Poor in France](https://archive.org/details/jstor-2485656) *Publications of the American Economic Association*. Vol. 8 pp. 9-179. pp. 9-21 (<https://archive.org/details/jstor-2485656> - accessed March 2015).

the rational planning of investments.<sup>142</sup> Back in the 19<sup>th</sup> century Marx himself expected that on its way to socialism capitalism would pass through a phase in which the functional requirements of industry would crowd out the speculative gains of rentiers.<sup>143</sup>

Once one raises the question what role implausible and counter-factual neoliberal theories have played on the stage of history, a plausible and factual answer – regarding which we make no claim to originality—immediately suggests itself. Neoliberalism is a complex and mathematically elegant fig leaf for power. Michael Kalecki succinctly explained one of the figs behind the leaf as follows:<sup>144</sup> “Under a laissez-faire system the level of employment depends to a great extent on the so-called state of confidence. If this deteriorates, private investment declines, which results in a fall of output and employment (both directly and through the secondary effects of the fall in incomes on consumption and investment). This gives the capitalists *a powerful indirect control over government policy*; everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis”.<sup>145</sup> As this example from Kalecki’s writings illustrates, the theory may be an illusory tapestry woven of facts seen through distorting lenses, arbitrary conceptual choices, and a non-empirical individualist ethical philosophy; but the political interests behind the theory are not illusory at all.<sup>146</sup> They hit hard. When wages are low, when pensions are lower, when there are holes in the social safety net, when employment is scarce and

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<sup>142</sup> John Maynard Keynes, 1936, *General theory of employment, money and interest*. New York, Macmillan. Chapter twenty four. (<https://www.marxists.org/reference/subject/economics/keynes/general-theory/> - accessed March 2015).

<sup>143</sup> See Michael Hudson 2010. *From Marx to Goldman Sachs: The fictions of fictitious capital and the financialization of industry*. *Critique: a Journal of Socialist Theory*. Volume 38, pages 419-444. (<http://michael-hudson.com/2010/07/from-marx-to-goldman-sachs-the-fictions-of-fictitious-capital1/> - accessed March 2015).

<sup>144</sup> Michael Kalecki 1943. *Political aspects of full employment*. *Political Quarterly*. Volume 14, pp. 322-331. (<http://www.modernmoneynetwork.org/uploads/1/2/5/3/12534585/political-aspects-of-full-employment.pdf> - accessed March 2015). Milton Friedman and others argue to the contrary that measures like those advocated by Keynes are *not* technically feasible. For them it is the other way around: populism succeeds at a political level because its promises attract votes, but at the level of economic reality populist projects regularly fail. See for example, Friedman’s presidential address to the American Economic Association: Milton Friedman 1968. *The role of monetary policy*. *The American Economic Review*. Volume 58, pages 1-17. (<https://www.aeaweb.org/aer/top20/58.1.1-17.pdf> - accessed March 2015).

<sup>145</sup> *Ibid.* Italics added. One can speculate that Kalecki decided to return to his native Poland to work as a planner for a leftist authoritarian regime because he believed that in democracies the indirect control of capitalists over government policy made progress toward socialism politically impossible.

<sup>146</sup> See, as an example of a large literature, Gunnar Myrdal, *The Political Element in Economic Theory*. London: Routledge and Kegan Paul, 1953.

precarious; the victims know they have been hit, even though they may have confused ideas about who hit them, with what weapon, why, and how.

Some qualifications: Having assumed the risks inherent in using the overused word “power,” we add that power (defined as causal efficacy) is held more by the constitutive rules of the system than by any persons or groups. The system runs on confidence whether any human being likes it that way or not. If the system were reorganized to meet the needs of 100% of humanity in harmony with nature, then everybody’s great-grandchildren would be happier, including the great-grandchildren of today’s wealthiest families. We advocate applying what is known about psychology and pedagogy to organize cultures of peace and economic solidarity.<sup>147</sup>

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

Concerning capital, we observe that even in a post-capitalist world; even in a cooperative world; even in a world where knowledge has become the leading factor in production; even in a world where there is so much capital that astronomical quantities of it have nothing better to do than flit around the globe from one computer screen to another in a speculative casino economy; even in a world where the existing capital equipment of most industries is running at 60% or less than capacity for lack of customers; even in a world where central banks are lending money at or near zero percent interest; even in a world where much of the flood of capital being given away by central banks ends up being borrowed by corporations who use it to buy back their

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<sup>147</sup> That it is in fact the case that everyone would be better off in a more egalitarian society is argued by Richard Wilkinson and Kate Pickett 2009. *The spirit level*. London, Allen Lane. ([http://emilkirkegaard.dk/en/wp-content/uploads/The-Spirit-Level-Why-Greater-Equality-Makes-Societies-Stronger-Kate-Pickett-400p\\_1608193411.pdf](http://emilkirkegaard.dk/en/wp-content/uploads/The-Spirit-Level-Why-Greater-Equality-Makes-Societies-Stronger-Kate-Pickett-400p_1608193411.pdf) - accessed March 2015). See also Andrew Carnegie, *The Gospel of Wealth and other Timely Essays*. New York: Century Publishing Co. 1901. (<https://archive.org/details/cu31924001214539> - accessed March 2015). Throughout the United States many towns have “Carnegie Public Libraries” built with funds donated by the 19<sup>th</sup> century tycoon Andrew Carnegie. The Carnegie Foundation is an active peace research organization still today. Carnegie was an advocate of high inheritance taxes. For examples of entrepreneurship with a social purpose see Blake Mycoskie, *Start Something that Matters*. New York: Spiegel and Grau, 2011. (<https://docs.google.com/document/d/1kK3DIdfVnpDL5LHk4vEriYs23XXRURsN8HJEUR5UJoA/edit?pli=1> - accessed March 2015). Mycoskie does not want to accumulate wealth at all, but rather to live a happy and meaningful life supported by a business that provides an adequate living for himself and his associates.

own shares;<sup>148</sup> even in a world where real estate, art, stocks, bonds, and other asset prices are inflated because excess capital has nothing better to do than bid them up; even then, even now, there must be capital. Somebody has to manage it. Concerning the questions who should manage capital, how to democratize its management, who should own it and in what forms, what criteria should be used to measure and evaluate the performances of capital and its managers, how to distinguish legitimate rewards for performance from socially functionless rent-seeking, and so on, we submit that the best answers –the ones that most serve the common good--<sup>149</sup> are plural and not singular..

Some practical suggestions: Resilient communities. The plural and unbounded solution we suggest might be named as “resilience.” Resilience is a word with several related meanings and with a growing following. In the biological sciences “resilience” refers loosely to the ability of a system to maintain its function when faced with novel disturbance.<sup>150</sup> In psychology “resilience” tends to refer to the ability to maintain socially competent behaviour in spite of stress.<sup>151</sup> We suggest that the term can usefully be pressed into service to name the ability of a social system to maintain its functions when investor confidence falters. As ecologists find that redundancy in bio-systems where more than one element serves the same function enhances resiliency, and as psychologists find that people are more resilient to stress when they feel some degree of control over their own lives, we suggest that societies with a plurality of logics and dynamics working to meet basic needs and with relatively high self-sufficiency are more resilient. Resilience is majorly about mobilizing a community’s own local resources, starting with the neighbours who take care of the kids when mom is sick, big sister is sicker, big brother is in jail, and dad has to go to work –a very important topic too big to fit into this already full chapter. Resilient nations and towns and neighbourhoods are less constrained by the threat or reality of deterioration of investor confidence identified by Michael Kalecki.

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<sup>148</sup> When corporations buy back their own shares then by sleight of hand earnings per share go up. Shares held in the corporation’s own treasury are not counted when earnings per share are calculated. A top executive can then exercise stock options and collect a bonus.

<sup>149</sup> Or, alternatively, following John Rawls, the ones that best serve the worst off.

<sup>150</sup> Colleen T. Webb 2007. [What is the role of ecology in understanding ecosystem resilience?](http://rydberg.biology.colostate.edu/ctwebb/publications/role%20of%20ecology%20in%20ecosystem%20resilience.pdf) *BioScience*. Volume 57 pages 470-472. (<http://rydberg.biology.colostate.edu/ctwebb/publications/role%20of%20ecology%20in%20ecosystem%20resilience.pdf> - accessed March 2015).

<sup>151</sup> Suniya S. Luthar 1991. [Resilience and Vulnerability: A study of high-risk adolescents.](http://assets.cambridge.org/97805218/07012/frontmatter/9780521807012_frontmatter.pdf) *Child Development*, Volume 62 pages 600-616. ([http://assets.cambridge.org/97805218/07012/frontmatter/9780521807012\\_frontmatter.pdf](http://assets.cambridge.org/97805218/07012/frontmatter/9780521807012_frontmatter.pdf) - accessed March 2015). This and other studies find that people under stress are more resilient when they feel that they have some control over their lives.

Raising wages and improving working conditions. Resilience is a key to raising wages and improving working conditions. The best wages are paid in favourable conditions: the firms can afford to pay good wages; the mission of the firm defines employees as collaborators and collaborators as stakeholders. Higher wages are seen as success in achieving a corporate objective (not as failure to minimize costs); the firm is committed (or can be induced by its ownership structure<sup>152</sup> or by public policy to be committed) to stay where it is. It is committed to contribute to the community where it is and not inclined to roam the globe in search of cheaper labour and higher profits. The rule of law in the workplace has been established by collective bargaining and/or by labour legislation that is not only written on the books but also honoured in practice. Immigration policy does not allow undermining of labour standards by poverty-stricken people flooding in from elsewhere. Workers have alternatives like for example going back to school to study or setting up a small shop for themselves or forming a workers' cooperative to run a large business as employee-owners.

In the above list of conditions favouring higher wages, the bottleneck issue is the first item on the list: No matter how much effort is expended in achieving the other favourable conditions, wages cannot be raised if the firm is simply too poor to pay high wages. The idea of resilience -- along with plurality, recycling surplus, and unbounded organization-- provides a solution for the bottleneck issue. The solution is to simply let the firms that are too poor to pay decent wages disappear --with proper support enabling their workers, their owners, and their managers to move to more promising fields. This was the solution of the Swedish Model described in chapter five. Rather than run a shoe industry with indecent wages and miserable working conditions, let the Italians make shoes! Sweden will import shoes and export commuter airplanes! Although the Swedish Model ran into trouble and had to be virtually abandoned, as social democracy gets a second wind and breezes past the brick walls that stopped it in its tracks in the twentieth century, high wages too have a second chance. What might be: An infinitely plural economy with infinitely higher productivity fuelled by amazing advances in technology. It will step back from the brink of absolute conflict and it will find good will to align across sectors. It will be perfectly capable of creating dignified

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<sup>152</sup> European legislation that gives special privileges to enterprises that qualify as social does not look only at stated purposes and demonstrated impact. To qualify a business must also embody its social vocation in its ownership structure. Are the stakeholders represented on the Board of Directors?

slots for all, even though many of the slots cannot be funded by revenues from the sales of products and many of the slots will need to be funded some other way.

Here is an example of resilience: Enrique Martinez, the head of Argentina's National Institute of Industrial Technology, has launched a programme called ABC (*Abastecimiento Básico Comunitario*, which can be translated as meeting basic needs at a local level).<sup>153</sup> Part of its background is the successful implementation in the city of Rosario of primary health care clinics at a neighbourhood level.<sup>154</sup> Martinez's dream is that in every *barrio* in Argentina the citizens will be assured of primary health care, housing, and food. Then whatever happens in the global economy and whatever happens in the national economy Argentines will be basically secure.

If ABC succeeds then in addition to making a difference on the streets and in the houses in every *barrio*, it will put a floor under wages country-wide. It will also make a difference in the bargaining power of the nation in the global economy. If ABC succeeds then Argentine policy-makers will have less fear that a door slammed in their faces on Wall Street will lead to riots of the destitute back home in Argentina.

With these qualifications and these practical suggestions –together with others made implicitly or explicitly throughout these pages—we conclude repeating the main point of this bow toward realism: The real world cannot be liberated from captivity in the imaginary Babylon of neoliberal theory just by writing more exposés of the “con” in “economics.” It will be liberated by organizing economic solidarity on the ground of the *barrios* of the poor and in the air of the skyscrapers of the rich. The next chapter shows how South Africa's Community Work Programme organizes solidarity on the ground in the *barrio* known as Orange Farm on the south side of Johannesburg.

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<sup>153</sup> *Abastecimiento Básico Comunitario* (<http://www.inti.gob.ar/abc/> accessed December 19, 2013). Our information comes not only from this website but also from conversations with Mr. Martinez in Buenos Aires on dates which unfortunately we do not remember.

<sup>154</sup> Howard Richards 2008, *Solidaridad Participación, Transparencia*. Rosario Argentina, Fundación Estévez Boero. Chapter Four. (<http://www.psocialista.org/wp-content/uploads/2013/09/2012-socialistas-y-socialismo1.pdf> - accessed March 2015).

