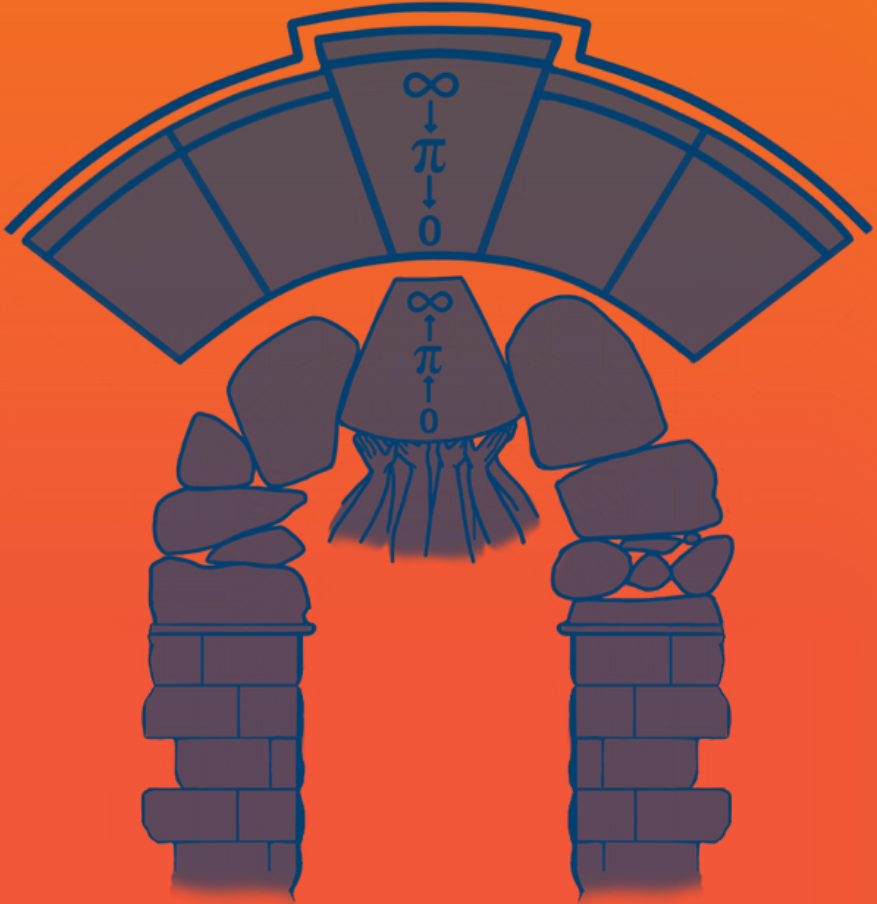


COMMEEDALISM

WHY CAPITALISM FAILS AND HOW WE CAN BUILD A
ROBUST, EQUITABLE AND SUSTAINABLE ALTERNATIVE



SAMUEL MWAURA

COMMEEDALISM

Why capitalism fails and how we can build a
robust, equitable and sustainable alternative

Commeedalism: Why capitalism fails and how we can
build a robust, equitable and sustainable
alternative by Samuel Mwaura

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*This book is dedicated to everybody out there that
believes that capitalism is bad for the world and must be
uprooted.*

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Preface

It is fair to say that in recent years there has been major dissatisfaction with capitalism, the prevailing economic philosophy where the keystone of the entire system is the so-called “profit motive”. Concerns about capitalism used to be mostly socio-political with major issues including inequality, corporate greed, and fallouts from economic crises. However, capitalism is now also recognised as a major driver of the many health and social problems we see in our society today as well as the sustainability crisis that disgracefully hangs over us and can no longer be ignored. All these have led to a growing clamour for system change globally.

In a watershed moment, in 2011, the then UN Secretary-General Ban Ki-moon told the World Economic Forum that the prevailing economic

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model is “more than obsolete (and) extremely dangerous... a recipe for national disaster... a global suicide pact”. “We need a revolution. Revolutionary thinking. Revolutionary action”, he proclaimed, adding that to make “sustainable development” happen, “we have to be prepared to make major changes - in our lifestyles, our economic models, our social organization, and our political life”.¹

Yet we do not seem to be developing any new ideas in this regard besides somewhat perfunctory tinkers with the prevailing model of capitalism. Ironically, despite the sobering sustainability crisis we are witnessing, a worrying banality bandied about by modern politicians is that “it is easier to imagine the end of the world than it is to imagine the end of capitalism”.² Regrettably, much of such defeatist sentiment is attributable to a crisis of intellect and imagination in academic research where big ambitious thinking is discouraged with incentives overwhelmingly geared towards token incrementalism.

Even more shockingly, do we even know what capitalism, the word, means? Nope. Dustin Mineau, in an insightful 2014 article, outlines the comical history of the term.³ Turns out it was actually pejoratively coined, and then inadvertently popularised, by polemic socialists. Since then, pathetic incremental efforts by free-marketeers to sanitise it have perennially failed, in part due to absurd infighting and inertness.

Ok, forget the term. How about the underlying pillars, concepts and theories that define the system itself and how it works? We hear that capitalism is a system in which capital and other property are privately owned and that economic production and distribution happens through voluntary exchange among free self-interested economic agents, all guided by the profit motive. Voluntary exchange, the theory suggests, is facilitated further by competitive prices, or bids, among congeries of buyers and sellers seeking to maximise utility and profits respectively. *Ceteris paribus*, profit maximisation should instantly produce optimal economic and social outcomes, efficiency and fairness, with no profiteering hogs. All very nice.

However, what we see is production and distribution that is co-ordinated through acquisitive hierarchical privately-owned “companies”. The motive of each of these companies is to generate and maximise profits for a handful of so-called “owners” or shareholders which they do by outcompeting and subjugating everybody. And we want this to happen under unfettered market conditions. Should we worry about these issues? Nah, there will be some market-failures alright, but specific interventions here and there, or may be some more, depending, can fix things no problem.

Ok, what about the core concepts and pillars of capitalism? How are they defined? Do we understand their nature and causes well? Is their theory robust? Well, actually, nobody bothers about the definitions of cornerstone concepts like that anymore. The convention is that there are no generally agreed definitions or theories pertaining to those big mainsprings and such. If you want to get published, and get tenure, forget the big issues. Instead, see if you can use a bit of jargon, massive data and really complex methodologies to highlight tiny wee artefactual

nuances. That will impress colleagues in your sub-sub-subject area and that's what you need to get ahead in academia in the 21st Century.

You may think am being facetious but this is actually a major issue. Recent conversations between Russ Roberts and academic researchers such as Tepo Felin⁴ and Branko Milanovic⁵ on the well respected EconTalk podcast have also lamented, while there is now a lot of data and advanced analytical tools, researchers are just not posing ambitious and problematic questions! As Peter McKiernan and Anne Tsui also document,⁶ much of business school research globally is highly unsatisfactory as it does little about the "problematique". They note, however, that doctoral research has the potential to be more transformative, not least because young PhD researchers, typically from diverse backgrounds, are not too wedded to old paradigms.

Indeed, the ideas presented in the coming pages emerged from my own PhD research process many a year ago. Besides not being entrenched in prevailing paradigms, the context for my research meant that such paradigms in fact accentuated the paradox I was facing: while mainstream thought suggests that entrepreneurship is great for economic development, how come developing

countries have so much of it yet are still poor?

I struggled a bit with this issue. But one of my academic mentors, Professor Ajit Singh, now sadly deceased, was a development economist and he intimated to me that in his experience, with most of the theory in business and economics developed in Western contexts, mainstream theory did not fit research questions and data from other (especially, developing country) contexts very well. This meant that developing new theoretical understandings often became necessary for curious unconventional researchers like young me.

He encouraged, further, that while developing new theory is difficult, if successful, it could be hugely significant as it sometimes entails revisiting the foundations of mainstream thought and its key assumptions. Thus, there is always the potential to discover and develop ideas that could challenge the paradigm. And even if they were not embraced, he would add, in the end, the satisfaction of resolving a mystery that tormented you enough to want to do a PhD on it is a significant outcome as it is for the researcher.

Regrettably, despite McKiernan and Tsui's hopes, incentive and institutional structures in academia mean that most modern PhDs end up being merely incrementalist. Thus to be completed successfully, my own PhD had to eventually "toe the line" and specify narrower pragmatic questions that could be explored empirically with marginal but hopefully meaningful contributions to knowledge.

This is where PhD studies and a PhD thesis sometimes differ, and I remain eternally grateful to my primary PhD supervisor, Professor Lisa De Propriis, for allowing me the scope to engage in eternal reveries about the theory of the classical entrepreneur and residual profits, and for supporting me when I rambled on about the topic to no end at PhD supervisory meetings. Of course she always knew that those ideas were perhaps too naïve and over the top to pass a modern PhD thesis examination or get published in academic journals, but she supported me along that journey while making sure I also satisfactorily covered the other bits necessary to produce a thesis that would meet the requirements of a modern doctorate. For that I am profoundly grateful.

Without anyone explicitly saying so, modern academia is structured in a way that makes sure that mildly curious ideas are

shelved, and best abandoned, as there will be little success publishing them.

Obviously a sad waste of thinking time on the part of young unorthodox researchers. Indeed, in my naiveté, at various points over the last decade, I have tried to develop some of the ideas I explore in the pages to come as academic papers, not least to seek to engage in proper rigorous debate and get some feedback, constructive criticism and useful pointers and suggestions – given that knowledge is socially created.

Essentially, I wanted someone to thoroughly unpack my thoughts and tell me whether they had legs or they were utter rubbish. But I have had little joy. Mainstream journals in the economics discipline no longer engage in, or indeed at all entertain, the classical approach to resolving research questions pertaining to basic principles – today, you need modls,⁷ regressions and tonnes of data for your work to be considered for publication as a marginal empirical exposition. So several economic journals where much of the classical work was published rejected, without reviews, my attempts to revisit the economic theory of the entrepreneur as not a good fit for what the journals now focus on.

On the other hand, business and management journals do not like approaches that sound too economic. As I have found, such apathy and silo mentality further means that even “special issue” calls for papers on new critical perspectives on capitalism do not actually want papers that do not in the end “fit in” with the seemingly sacrosanct mainstream model of capitalism. The message is that we can only seek to mend, not replace, capitalism! Because of the gate-keeping system that comes complete with a brutal desk reject process where the initial screen is a mere sniff test by a senior incumbent, any “outlandish” ideas do not actually get to be engaged with, interrogated or even dismantled. They are, instead, immediately chucked out the window and many eventually left to rot in limbo. Since career advancement incentives in academia focus on articles published in these inert journals, intellectual status quo is perpetuated with no new ideas allowed through.

So I have written this book because I believe there is an audience beyond institutionalised academia with an appetite for “disruptive” ideas towards building an alternative to the tentatively and defeatedly received model of capitalism. I am also confident that the ideas herein are robust and ready for discussion and debate, even as some will be seen as controversial in certain circles.

This book is for anyone that is dissatisfied with the state of the modern economy and the system of capitalism, as well as those that seek to continue to defend capitalism in the face of new opprobrium. This book promises to at the very least raise some thought-provoking questions about key pillars of capitalism, and at best outline a robust and readily implementable alternative for consideration.

I must concede, however, that aspects of this work are slightly “beta” and may come across as a bit raw, slightly rushed and even too academic, or indeed ethereal, in places. In the spirit of co-creation, the object of this publication is to stimulate new conversations, gather feedback, spark new ideas and hopefully start to build a belief and a momentum towards the total uprooting of capitalism.

I have also determined that this will not be published in academic outlets and I am unlikely to gather enough resources to do a traditional book in the near future. To advance my career and maintain a decent livelihood, I too have to play within extant constraints that demand incrementalist peer-reviewed journal articles. Still, I have been anxious for a while to at least check the

validity of these ideas and establish that there is in fact a demand for a prototype alternative to capitalism. Also, for over ten years I have mused and mused and got consumed by these thoughts, and I felt I needed a release. So I decided to try and develop material that existed disparately as mere thoughts, scribbles, PowerPoints, old thesis chapter drafts, and draft journal papers, into what I hope makes a coherent pitch for a robust alternative to capitalism.

While I hope you are keen and ready to engage with the ideas expounded here, it would be remiss of me not to tell you of another health warning. In attempting to capture some of the nuances that I believe are important to articulate certain aspects of the exposition here attempted, I have employed quite a bit of neologism and used uncommon archaic terms in places. Some of the neologism is an amateur attempt at satire, parody and facetious doggerel, now that am not restricted by the dictates of academic writing. So I for example refer to residual profits as *poor-fits* as they in part emanate, this book argues, from residual errors where actual remuneration does not match the fitting, or meed, rewards. I realise this and other solecisms are a little "maverick" - linguistic scientists like Mark Forsyth might have other more accurate labels! The work will read a little too academic and

abstractional in places too. This style will not be everyone's cup of tea, and I thus take full responsibility for these and all other faults in the book.

I should also wish to warmly thank my family for their support and encouragement, especially my children Martin, Hima and Leoa, who are my fuel. I also want to thank Anne-Flore and Affi for their help packaging the original manuscript and Kweku and the team at Bram-Larbi Studios in Glasgow, Scotland for their excellent design work. My PhD supervisors, Lisa De Propriis, Ajit Singh and Randolph Bruno, examiners, Mark Hart and Mary O'Mahony, and my old pastoral tutor and academic "uncle", Stan Siebert, engaged with my ideas critically and constructively many a year ago and I remain very grateful for their formative contributions. My pals Ben Ng'imor, Iain Cairns, Niall MacKenzie, Dominic Chalmers and many relations, friends and colleagues have endured my unending rambles about profit and have also made various other direct and indirect contributions to the development of these ideas over the years and I thank them all very much too. The University of Birmingham and the now defunct Overseas

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01

Introduction

In 1989, Robert Heilbroner, a highly influential economic historian and a self-proclaimed socialist enthusiast, wrote a famous article in the *New Yorker* titled “The triumph of Capitalism”.¹ His apparent change of heart was upon reflecting on what had been a decades-long two-way contest between capitalism and socialism. Capitalism, Heilbroner would concede, had managed to “organize the material affairs of humankind more satisfactorily than socialism: however inequitably or irresponsibly the marketplace may distribute goods, it (capitalism) does so better than the queues of a planned economy”.

To be fair, the case against socialism is not a terribly difficult one to make given the spectacular

collapse of the model internationally beginning in 1989. While socialism was initially intended as a response to societal problems such as inequality, hunger, poverty and exploitation,² post-mortem analysis by some asserts that the model “does not and cannot work”;³ that it is a “fundamentally defective idea” that was, for a while at least, “well carried out, enabling it to exist until its accumulated shortcomings made its survival extremely difficult”.⁴

It is undoubtedly the case that a variety of factors interacted in complex ways resulting in the precipitous collapse of socialism. Economically, there were major inefficiencies, rigidities and pure absurdities that made the central planning system completely untenable. For example, Soviet satires are cited to have suggested that state socialist factories made nails in ten tonne units when targets were in tonnes, and squillions of miniscule nails when targets were in units.⁵ Further, amongst other distasteful features, socialism entailed draconian state repression of most aspects of human life for all but the political elite.² In the end, these and other factors combined to gravely undermine the ability of state socialism to command societal legitimacy.⁴

Inevitably then, when socialism finally met its demise, the world ended up with capitalism, alone, as the seemingly absolute way to organise production and distribution.⁶

It is important to note, however, that capitalism has never demonstrated anything like a universal “triumph” for society at all at any time in history. John Plender, in his book “capitalism: money, morals and markets”, observes for example, that despite the prosperity historically associated with it, there is never really a time when people were at ease with capitalism; the system has always been much unloved.⁷ Thus, when capitalism took over the world in the 1990s, it was simply because it was the only other option available.

Indeed, in the absence of a viable alternative, discontent with capitalism, especially following the usual cyclic economic crises, has often seen support for socialism rise only to then ebb away. Thus, self-described socialist politicians such as Bernie Sanders prove hugely popular during electoral campaigns, except they never really ultimately carry the day. Critics such as Geoffrey Hodgson, a British institutional economist, have

thus argued that socialism revisionism continues to fail and the socialist system remains unviable.⁸

With capitalism itself also deficient in a range of ways, societies across the world have been tinkering with the system variously. Different countries have thus organised capitalism in different ways as they have pursued socioeconomic success. As widely researched and documented by political economists such as Peter Hall, David Soskice,⁹ and Uwe Becker¹⁰ amongst others, these adaptations have yielded different “varieties of capitalism” with two key ideal-types standing out.

Anglo-Saxon countries, including the US, UK, Canada, Australia, Ireland and New Zealand, are characterised by the Liberal Markets Economies (LME) variant of capitalism where *laissez-faire* competition in the market, through prices and new technology, are the main economic drivers with a rather small role for the government in the economy. On the other hand, Germany, Japan, and the Nordic countries are said to be Coordinated Markets Economies (CME) with a larger role for the government. Further, other bodies, such as labour unions, play a substantive role in the negotiations that determine how the market functions.

Between and beyond these two ideal-types, scholars conjecture that we have economies such as France, Spain, and the Netherlands, that depict “hybrid” characteristics. Further, many Central and Eastern European economies, that “imported” capitalism abruptly and at scale in an attempt to “bury” socialism,⁵ are argued to befit a new category altogether, labelled “Dependent Market Economies”. Here, foreign multinationals are the lifeblood of the economy.¹¹ Other emerging markets, such as the so-called BRICS+ economies (including Brazil, Russia, India, China, South Africa and Turkey) are seemingly slightly distinctive too in the way they organise their economies.¹²

Remarkably, China has somehow managed to embrace elements of capitalism within its communist system, although some lament that within this system lurks a dark Leninist imprint.¹³ Indeed, official doctrine maintains that full communism remains the eventual goal of the ruling Communist Party of China with economically fecund capitalist policies only embraced in the seemingly indefinite interim.⁸

Clearly, recognising its “mixed blessing” nature, societies across the world have attempted to

configure capitalism in line with their cultural and politico-economic environments to harness its productive capacity while trying to tame its ills.¹⁴ It is important to note, however, that there are no qualitative differences across the different varieties of capitalism. Rather, differences lie only in the quantitative configurations of the various elements, such as how big the role of government is in the economy. Thus, despite these global variegation efforts, not a single variety of capitalism has emerged as a paragon of virtue for others to emulate.

Even Nordic countries have not managed to develop an exemplar model of capitalism that delivers both growth and desirable social outcomes, despite regularly topping the charts when it comes to happiness, equality, innovation and competitiveness.¹⁵ Indeed, as Nobel Laureate Professor James Heckman laments, while countries such as Denmark may have a strong “welfare state”, socio-economic mobility is yet very low.¹⁶

Further, in what some have labelled the “Swedish paradox”, despite relatively high investments in research and development, these economies yet struggle with stagnating economic

and productivity growth, in part due to lower levels of entrepreneurial activity.¹⁷ World Bank data suggests that since 1990, Nordic countries have seen their GDP per capita levels remain about 15% below the US and growing merely at the same rate as the global average.¹⁸ In addition, while their relatively generous welfare system works to reduce income inequality, wealth inequality has remained notably high for many years,¹⁹ and income inequality has recently actually increased as traditional redistribution policy has been weakening.²⁰ Capitalism is seemingly at odds with *lagom* principles, such that the Nordic variety is not that much of a shining example after all.

To be sure, capitalism is largely responsible for the global prosperity we have witnessed since the industrial revolution and particularly over the last century. Historical data on the world economy, published by the late distinguished economic historian Angus Maddison, suggests that global GDP per capita was around \$900 in 0 AD (in early 2021 dollars)^a with little inequality globally. This

^a Maddison uses 1990 international dollars but the value of \$1 1990 USD is \$2 in early 2021 so we have rather conveniently just doubled Maddison's figures and checked that this aligns with data available from the World Bank.

had only increased to around \$1,300 in equivalent today's dollars by 1820 when the industrial revolution had more or less taken root. By 1998, this figure had grown to around \$11,000 and skyrocketed further to \$18,000 by 2019. From a rather equal footing globally in 1820, Western economies gradually inched ahead and then literally sprung off, after the second world war, leaving the rest of the world behind. Today, GDP per capita in Western economies is 300 – 400+ % higher than the global average.²¹

Forward-looking modelling by economists at the Organisation for Economic Co-operation and Development (OECD) however suggests that the next fifty years will be characterised by low growth and inequality will widen further.²² The OECD has also demonstrated that inequality actually also slows economic growth.²³ Indeed, while technology has driven much of the growth in recent decades, Tyler Cowen, a sometimes controversial American economist, argues that the US economy, in particular, has pretty much exhausted all of the low hanging fruit from natural resources and extant technologies and has hence hit stagnation mode.²⁴ In a sequel, Cowen portends more inequality down

the road driven by unevenly accessed technological advancements that will lead to a delamination of society into a wealthy aristocracy and a horde of desperate paupers. With politics dominated by old and rich voters, a new social contract will emerge where public policy will support poor people less and less – they will have to “reshape their tastes” and “fend for themselves much more than they do now”.²⁵

With capitalism’s association with such sentiments and actual socio-economic fallout, scholars have for many years continued to question the legitimacy and moral standing of the system.²⁶ But to ameliorate its ills, all we have done is attempt to place qualifiers such as, among others, “progressive” capitalism,²⁷ “conscious” capitalism,²⁸ “customer” capitalism,²⁹ and “stakeholder” capitalism.³⁰

Yet others see nothing wrong with capitalism. For example, in a recent podcast, Ajay Banga, the Executive Chair and former CEO of Mastercard opined that “the fundamental problem with those objectives of conscious [capitalism] and the like, is that it feels like you are attaching a good objective in front of a bad word called capitalism, to

make capitalism more palatable. And I don't believe that. I think capitalism does well".³¹

There is no doubt that a naïve utilitarian perspective would celebrate the remarkable aggregate growth. However, scratch beneath the surface a little and you get the "age of greed"³² with gains from such growth seemingly largely accruing to a few elites within and between countries globally and at huge damage to society and our planet.

With all the various ills that have taken root under capitalism, John McMurtry³³ sees it as a system that has reached what he calls the "cancer stage". In the present system, money capital is no longer linked to a productive function in society. Rather, capitalism has come to be about the malignant multiplication of money for money's sake. The effect of this is the annihilation of the social immune system of public services, regulation, morals and mores. Worse, this has metastasised to most, if not all, aspects of the ecosphere of planet earth.

These seemingly alarmist views are not isolated. In a series of recent Reith lectures on the

BBC, Mark Carney, former Governor of the Bank of Canada and the Bank of England, laments how capitalist market thinking has perverted the values of modern society. He argues, therefore, “that the roots of our environmental emergency lie in a deeper crisis of values”.³⁴ What is particularly troubling here, as Joseph Stiglitz,³⁵ Yanis Varoufakis,³⁶ Guy Standing,³⁷ and many others have argued, is that this has in fact been happening under the auspices of misguided national and supra-national institutions. The policies they stipulate are based on the market fundamentalist ideology that arguably draws on spurious theory.

It must follow, then, that a root and branch examination of mainstream theory and its underlying assumptions is required and new alternatives that policy could draw on developed. Yet received notions of capitalism are generally characterised by a resigned acquiescence and forlorn ambivalence. This is clearly symptomatic of a tragic crisis of intellect and imagination. As the late cultural theorist and philosopher Mark Fisher laments, capitalism has become something of a sad “realism”; we have come to rather defeatedly

submit to the system, warts and all, as if there is no possibility of an alternative.³⁸

Thus, despite all the glaring ills that characterise capitalism, focus remains on demure reformism. For example, Jeff Sachs' "clinical economics" recognises there is an intrinsic disease in the contemporary capitalist economy. He diagnoses this as the deficiency of civic value among the political and economic elite. The regimen he offers is revitalisation of traditional "American values" and the strengthening of political institutions.³⁹

But not everyone subscribes to the meek reformist agenda. For example, Paul Mason worries that capitalism appears to have a design fault.⁴⁰ This is a serious concern as we have been darning the holes in the system of capitalism for quite some time now globally with no luck! That we can only, in our many billions, but keep tinkering away at capitalism despite the grave concerns we have with it, sounds like something Yehudi Menuhin, the great violinist, would consider to be a "travesty of creativity". He observes: "generally our solutions for social, economic grievances reflect a dearth of inspired thinking, of imagination, of an absence in

the population at large of the concept of service to society".⁴¹

John McMurtry also laments that "even philosophers avoid examining the meta-rules of how their own society lives. It is taboo to call them into question".⁴² In his much celebrated primer, *Economics in one lesson*, Henry Hazlitt further observes that "economics is haunted by more fallacies than any other study known to man" and that "this is no accident", pointing to the many and "endless pleadings of self-interest". He further adds that "today is already the tomorrow which the bad economist yesterday urged us to ignore".⁴³

This book contends that there is in fact a design fault at the core of capitalism that emanates, chiefly, from a fundamental fallacy afflicting the concept of profit. The solution to this design fault, this book submits, requires us to literally overturn profit, the keystone of the prevailing paradigm. With this novel configuration, this book articulates a robust new alternative economic system quite different from both capitalism and socialism.

The book methodically constructs a radical new model of an economic system that delivers

dynamic economic growth in a way that is more sustainable, equitable, theoretically robust and morally upright. We dub this new model *commeedalism* – an economic system that is inherently orientated towards achieving “needs”, or meritable economic outcomes, at both the individual level and for all of us together at the societal level by sustainably maximising overall output and minimising distributional inequities.

The construction of *commeedalism* builds on a painstaking diagnosis of profit as a key design fault in capitalism. To do this, a return to the cradle of economics itself is imperative. During the Enlightenment, Adam Smith and his peers carved out the field of economics from the wider domain of moral philosophy towards enabling a more scientific understanding of the economy. The key building blocks here were factors of production, including land, labour, capital and entrepreneurship, and their respective factor returns. Rents were established as the returns to land, wages to labour, interest to capital. As many an elementary economics textbook will show even today, profit was conceptualised as the return to entrepreneurship. Critical reviews by economic

historians such as Mark Blaug⁴⁴ and Robert Herbert and Albert Link⁴⁵ however show that robust understandings of both the concepts of entrepreneurship and profit were never properly developed.

From around 1900, economics would shift from the more discursive and philosophical classical school to the highly mathematised neoclassical paradigm. In a spectacular case of dereliction of intellectual duty, profit moved from a highly contested subject of debate in classical economic thought, to the debate being abandoned with a set of ethereal assumptions instead embraced. Despite remaining an enigma, albeit a speciously irresistible one, the concept of profit would rather furtively become the sacrosanct keystone of the entire system of capitalism.

Indeed, in 1900, as the neoclassical school was establishing itself, Frederick Hawley decried the prevailing assumption that “this dark corner of the science cannot be hiding anything of real importance”.⁴⁶ About half a century later, J. Fred Weston was bemoaning how the analysis of profits remained “a vexed, confused, and unsatisfactory subject,”⁴⁷ despite, as Harry Brown would add, its

importance “to our understanding of our economic order and, especially, to an appraisal of its fairness”.⁴⁸ Notwithstanding these concerns, so much dogmatic proselytisation of profit, and the maximisation of it, in no small part by misguided global institutions, would spread and cement its received sacrosanctity throughout the world. Notions of private property and freedom also share this high pedestal.

In the pages to come, a thorough evaluation of this venerated mainstay of capitalism reveals a monstrous fallacy at the heart of the system. This deconstruction makes capitalism untenable and paves the way for the fresh construction of commedalism as the demonstrably more robust alternative economic system the world needs today and can start to implement forthwith.

Humble beginnings, big epiphany

As earlier noted, the ideas presented in this book were first developed around ten years ago as part of a doctoral research process that was not in fact focussed on the question of capitalism *per se*. Rather, the question at the time pertained to the link

between entrepreneurship and economic development. This curiosity was inspired by a paradox presented by Global Entrepreneurship Monitor (GEM) research that found a U-shaped relationship between levels of entrepreneurship and economic growth across countries. Here, GEM research had found that poor countries had high levels of entrepreneurship, transitional economies lower, with more advanced economies reporting high levels of entrepreneurship as well.^{49,50}

Attempts to explain this phenomenon had led GEM researchers to come up with the idea of “necessity” and “opportunity” entrepreneurship.⁵¹ This was expected to relegate much of the entrepreneurship observed in Less Developed Countries (LDCs) to the inferior “necessity” bracket. In doing so, a rather slick argument, and an accompanying graph, could be advanced showing that “opportunity” entrepreneurship, supposedly more prevalent in advanced economies, was positively associated with levels of economic growth.^{51,52} Policy would thus just need to support more opportunity entrepreneurship to realise growth.

However, this concept did not sit well with researchers in LDCs who rejected the idea that there were theoretically two types of entrepreneurship, one found in developing countries and with connotations of survivalism and inferiority, and another associated with opportunity and innovation and found predominantly in High Income Countries (HICs).⁵³ Indeed, using the same survey instrument globally, LDCs would report high rates of both necessity and opportunity entrepreneurship,⁵³ and 40% of entrepreneurship in rich OECD countries would later be discovered to be of the “necessity” variety.⁵⁴ In the end, leading entrepreneurship researchers would go on to concede that the U-shaped model and the necessity-opportunity dichotomy did not provide an explanation for the relationship between entrepreneurial activity and economic growth, and therefore that that line of research had “reached a dead-end”.⁴⁹

The big question, on the link between entrepreneurship and economic development, however remained unanswered. As we have already seen, the field of economics had abandoned the concept of entrepreneurship without defining it

and clarifying the economic function of the entrepreneur. From around the 1970s, following the decline of the large industrial corporation,⁵⁵ the phenomenon we regard today as modern entrepreneurship mushroomed across the Western world, much to the excitement of researchers in a variety of disciplines. Entrepreneurship became a “free for all” concept; “a broad label under which a hodgepodge of research is housed”.⁵⁶ Some, like Murray Low, the Columbia Professor, worried that this risked trapping the entrepreneurship concept in a “lots of interest - little respect” tragedy.⁵⁷

Still, public policy, and society at large in fact, continues to look to entrepreneurship as a panacea for economic development, job creation, equality, sustainability, and even wellbeing. On the specific question of the missing link between entrepreneurship and growth, the OECD concedes that “everybody wants entrepreneurship, even if the link to growth is not clear”.⁵⁸ In line with the basic principles of economics, to be able to link entrepreneurship to economic production, and therefore growth, we must seek to conceptualise it as a unique factor of production and specify its corresponding factor rewards. Essentially, we must

return to that unfinished classical debate on the matter.

First, we must marry profit and the entrepreneur of classical economic theory together again. Going forward this book will refer to this entrepreneur of classical economic theory as the “proto-entrepreneur” (protoentrepreneur). This is because while it has not yet developed a consistent definition, we want to focus only on the unfinished conceptual debate in classical economic thought and the way the label entrepreneur is received today has departed by quite some way from that.

Here, a coherent explanation of the economic function of the protoentrepreneur that is directly and uniquely associated with residual profit is imperative. Once we have done this, an exposition on the link between the protoentrepreneurship – profit dyad and the wider economy is developed. This specification of the economic function of the protoentrepreneur, uniquely linked to residual profit, helps articulate a novel understanding of how economic production and distribution works.

This book will argue that the protoentrepreneur is only but a provisional underwriter of firm-level production, and therefore not a factor input as such. Underwriting production is necessitated by the fact that economic production is a highly concatenated social process littered with complexities and imperfections. Optimising such social production in the face of uncertainty requires the formation of companies. Companies are argued to be little polities of people bringing their various factors of production together as subsets of the long concatenated social production chain.

The protoentrepreneur is the underwriter of the social product of companies. Underwriting under uncertainty necessitates custodianship towards reducing the scope for errors. Residual profits are thus the product of the lurking production and distribution errors the protoentrepreneur underwrites. Over time, and with more protoentrepreneurs and thus more companies, and hence competition, these errors are rectified and production and distribution approaches the perfect markets of textbook economic theory.

This explains why both the protoentrepreneur and residual profits were always considered ephemeral in classical economic thought and in the real economy. Indeed, in textbook perfect markets of the neoclassical school, there is no place for the protoentrepreneur and their corresponding residual profits. Further, all economic exchange is equitable and efficient because it is assumed that all adjustments have been completed and errors ironed out.

Of course, the reality of actual human economic activity is that the perfect markets of Econ 101 are an ethereality that is never realised. The more meaningful discovery postulated here is that residual profits are in fact ephemeral errors that accrue not to capital, which is an input in production, but to the unique underwriting role of protoentrepreneurship. The latter is also ephemeral because the errors to underwrite and thus the associated residual profits, naturally tend towards minimisation, i.e., zero profits, not maximisation, i.e., towards infinity as is the received notion under capitalism.

The big epiphany is therefore that our understanding of profit, the keystone of capitalism,

is literally upside down! Residual profit is fundamentally an undesirable yet unavoidable aspect of our complex social system of economic production and distribution. But we naturally and perpetually seek to minimise it, not maximise!

Of course, clever maths could be used to argue that total profit is maximised at the point where marginal profit is zero. Here, no more profit can be made as residual errors have been maximally eliminated. With all necessary adjustments assumed to have been completed in full, profit maximisation describes a state or a point, not a process. The state in question is the so-called “perfect” equilibrium that supposedly lends itself to more or less accurate mathematisation. This epitomises the critique of the mathematisation of economics that contends, among other concerns, that “the translation of economic processes from a natural language to mathematics can be naïve and illegitimate”.⁵⁹

Thus, in “received notion” terms, to champion the maximisation of profit is basically telling people to engineer every strategy possible to extract as much residual profit as possible. This speaks to a process, not a state. Thus, the received

message is that the mission is to push profit towards infinity, not zero. Yet this can only happen through a process where errors are contrived and exacerbated as opposed to the natural tendency towards alleviating such errors. The irony is thus that under capitalism, the actually enacted process of profit maximisation pushes towards the exact opposite direction from the theoretical state of profit maximisation at which point profit is zero.

Further, prevailing thought delusively, or at least neglectfully, attributes residual profit to capital. This is a simple classification error since capital traditionally had a quite different economic function as a factor input with a directly imputable output rewarded in interest. Suggesting that maximising profit is justifiably seeking a bona fide return to capital only acts to legitimise the exacerbation of errors, thereby embedding distortionary tendencies at the very heart of capitalism.

By unravelling the concept of profit, this book is thus able to reveal the design faults that make capitalism so defective and unstable as an economic system. Critically, our commedalist model departs from the undue lionisation of

capital, to instead recognise all factor inputs and corresponding rewards fully and correctly. We then theorise the process through which the various factor inputs interact with the protoentrepreneurship function to generate the more desirable dynamic, sustainable, and equitable economic development outcomes.

This book also goes on to dismantle other mainstays of capitalism, including property rights and notions of freedom. In doing so, the book demonstrates that built on solid pillars and with different, more desirable, outcomes, the proposed system of commedalism is qualitatively different from capitalism and a much better and robust way to organise production and distribution. The book is thus a call, and a formative manifesto, towards the full replacement, not mere reform, of capitalism.

Indeed, uncorrupted by the contradictions of capitalism, the proposed model asserts that it in fact more naturally approximates both the normative and positive mechanics of how the economy and society of today inherently seeks to work. Thus, profits naturally tend to diminish over time and prices will innately gravitate towards

some notional intrinsic equilibrium levels. In contrast, the contrived and unsavoury aspects of capitalism push profit and prices in the opposite direction and this dynamic precipitates painful cycles of boom and bust crises. Accordingly, the adoption, further development and installation of commedalist ideals would be expected to be considered favourably without delay towards correcting the damage capitalism has done to the global economy, our societies and our planet.

We begin below by critically evaluating the concept of profit - the keystone of capitalism. This book argues that this keystone is gravely misconstrued, such that we have a keystone that is literally upside down! This, we contend, is the main reason the entire system of capitalism is historically unstable. The unravelling of the concept of profit is therefore the key to the fatal dismantling of capitalism.

02

Good old Profit: vexed us for millennia

The practice of commercial exchange was taboo in ancient society. Aristotle, for example, described it as “unnatural”; a system where one’s gain is another’s loss.¹ Perhaps linked to his famous quote that “we are what we repeatedly do”, Aristotle, as interpreted by Robert Solomon, is known to have further maintained as follows:

“a wicked person is responsible for his or her character not because he or she could *now* alter it but because he or she could have and should have acted differently early on and established very different habits and states of character. The corporate bully, the greedy entrepreneur, and

the office snitch all would seem to be responsible for not only what they do but who they are.”²

As such, rapacious merchants in society would have been seen to be not only a blot to society but also irredeemable. Owing to such sentiments, scholars have concluded that Aristotle legitimised the illegitimacy of protoentrepreneurship.³ Clearly, this strong tabooing may have discouraged, but not necessarily eliminated, the practice of commerce. Using a heavily moralistic lens, analysis focussed on the “rapacious” protoentrepreneur as a person who gains from others’ losses and therefore deserved condemnation. Similarly, in the 18th Century, Turgot argued that protoentrepreneurs belonged to the “disposable class” as they secured profits without labour.⁴

What may have been forestalled by these approaches is the conceptual understanding of business and protoentrepreneurship as a phenomenon present in the social and economic system. Thus, what was required was a systematic understanding of five core issues: a) the function being fulfilled by the protoentrepreneur, b) whether that function is an integral part of the

economic system in the way it actually works, c) the circumstances that make such a function necessary and unique as a concept, d) how the gains and losses Aristotle and others were unhappy with come about, e) whether any remedial action is needed, and the way in which it should be enacted.

Recall that elementary principles of economics identify factor inputs and corresponding reward dyads as:

- Land - rents;
- Labour - wages;
- Capital - interest;
- Protoentrepreneurship - profits.

While quibbles remain, the situation with land, labour and capital is more straightforward. Thus, Land, and other natural resources, produce pure gratuities of nature that accrue to nominal owners, or holders, as rents. Rent is essentially income that is not associated with any exertion. Labour, on the other hand, is physical (or mental) exertion that is rewarded in wages. Traditionally, capital referred to resources attributable to forgone consumption. Think about savings and things you can acquire using them. Forgoing consumption is

thus arguably a bona fide form of exertion, such that its rewards in interest is not summarily controversial.

In contrast, beyond the cursory acceptance of profit as residual returns for “business ownership”, a coherent understanding of profits remains elusive. Thus, for a start, we have no robust explanation of what unique economic function, activity, or source, they are attributable to. Further, no theory has thus far compellingly articulated why profits vary in the way they do. In particular, why are profits ephemeral in nature? In other words, why is it that profits tend to only last for a short while and diminish towards zero overtime and what does this say about profits as an actual “thing”?

These have been areas of huge enduring controversy in economic theory since classical times. To be sure, several theories have been put forward, but none has emerged as a robust and compelling enough to settle the matter. Recall that in the origins of economic theory, profits were linked to protoentrepreneurship so we must return to these original principles and seek to explain profits as a return to protoentrepreneurship. We

must then in turn seek to clarify what protoentrepreneurship itself entails. Classical theorists on this give us a few different arguments to draw on.

First, a function cited in most eminent works suggests that profits are in part a reward for a special kind of labour, namely, superintendence. This is different from toiling itself in that it entails more of allocating and monitoring production.⁵ The problem is that superintendence is still a form of labour and therefore not a conceptually unique function to which profit can be attributed as a distinct and deserved branch of income.

Second, protoentrepreneurs, according to Francis Walker, are employers who are said to earn profits as a rent reward to their exceptional ability, in leadership, judgement and general executive ability, that is in limited supply much like land and other natural resources.⁶ Walker's association of these qualities with employers is undermined by the fact that much of this executive talent is today itself employed. Further, judgmental decision-making entails mental labour,⁷ and labour is, in principal, paid in wages, not profit. Still, it is insightful to consider natural talent as the same as

land and other natural resources that command rents.

Third, related to the above is perhaps most the conventional profit theory, advanced by Frederick Hawley, Frank Knight and others. This approach associates profit with the assumption of risk and uncertainty. For Hawley, the protoentrepreneur earns profits as a reward for risk-taking,⁸ while Knight emphasises the uncertainty bearing as the more unique function associated with profit.⁹ Both slants are in line with the original conceptualisation of the protoentrepreneur by Richard Cantillon¹⁰ as a trader who buys at certain prices but sells at uncertain prices. With both risk and uncertainty, the link to profit is apparently that society must pay the protoentrepreneur that assumes them a premium to compensate for the disutilities that come with that.

One issue with the Cantillonian argument is that while a trader may buy at a “given” price, these are not the intrinsic prices as such as prices in the market will usually be fairly fluid until some sort of equilibrium settles. Moreover, while it is easy to envisage risk manifesting as price differentials for

the same item in the market, these as we shall see further below, will eventually be ironed out. Thus, this cannot explain profit as a branch of income inherently associated with a given direct and unique contribution to production as such. Rather, what we can see here is that it is differences in the prices of the same factors, or final goods, that result in residual profit. Thus, it is more about the risk that the price one charges or pays is up or down on the “true” underlying price.

Other aspects of risk could, however, be linked to production directly. Examples might include the risk of fire in a factory or crops being affected by a given blight. Knight however contends that such risk is itself differentiable from uncertainty in that risks are identifiable and reliable probabilities are commonly used to estimate actuarial values of the risks. Thus, we can identify fire and crop blights as potential risk factors, calculate an estimate for possible damage to production, and provide for that accordingly.

In these examples, fire and blights would be factors of production, albeit negative ones, something not presently properly conceptualised in economic theory. This is because focus has mostly

been on branches of income that assume positive direct outcomes associated with specific factors. Thus, labour is a productive factor that is paid in wages. However, predictable blights clearly have a negative outcome and extant theory does not explain how such a negative outcome is then associated with profit, as a payment that accrues to the protoentrepreneur.

Uncertainty, conversely, is a situation where probabilities are completely inestimable. Essentially, uncertainty happens upon production unexpectedly “on the day” such that we have no way of estimating its potential impact on production *ex ante*. But uncertainty is a fact of life. Knight contends, therefore, that the presence of uncertainty renders the execution of production of secondary importance to the decision on what to do and how to do it. For Knight, therefore, taking judgmental decisions and taking responsibility for them, uncertainty bearing, becomes the crucial function of the protoentrepreneur for which residual profit is earned. Residual profit is thus a return to good judgment and pure luck.

Followers of Knight, such as Mark Casson,⁷ however isolate taking judgmental decisions as a

function entailing “mental labour” or other talent that can be hired, and therefore paid a contractual wage income rather than residual profits as discussed above. This leaves “pure luck” as the residual - the aggregate of inestimable factors that impact production. Still, many factors in this pure luck residual will sometimes be identifiable in a precise manner once they have happened. For example, while extreme weather events have become more common, and thus not entirely surprising when they happen, they are yet largely unpredictable *ex ante* and thus constitute uncertainty. The global coronavirus crisis is another example of a factor that many will not have fully anticipated, and thus an aspect of uncertainty in those early days, that now has clear *ex post* impacts.

Still, there will be a residual of many factors that remain unidentified, even as their impacts are palpable but mysterious. These will often be labelled as pure luck, good or bad. Unknown good luck factors will produce completely unexplained residual profits while bad luck will have the opposite. As unidentified factors, such impacts only require the presence of some production

activity that they can enter inexplicably, at least initially.

For these completely “unknown unknowns”, no sound Knightian judgement “on what to do and how to do it” can be made really. Of course, the acknowledgement that some totally previously unknown factors may impact production favourably or unfavourably can only be helpful. In turn, starting small to help bring to light some of the unknown unknowns may be sensible way to manage the situation.

The fourth theory of profit considered here is Clark’s dynamic theory of profits. It postulates that constant changes in the structure of society mean that actual returns to factors of production are different from the long-run natural (static or intrinsic) rates any model could fashion. In the face of these dynamic changes, therefore, profits accrue to the protoentrepreneur. Clark sees the protoentrepreneur as the agent that employs labour and uses capital or simply establishes and maintains efficient relations between factors of production that he himself does not own. This sounds like Cantillon’s bearing of risk theory with superintendence and co-ordination added on.

In the dynamic theory, nevertheless, profits are continuously eroded. Thus, a protoentrepreneurless static order eventually establishes with the output attributed in full to land, labour and capital, with no residual balance.¹¹ Crucially, in this theory, profit is not attributable to any productive factors at all. Rather, residual profit, including negative profits (losses), are simply a result of the natural undulation of prices in the market before a static order eventually establishes, if at all.

A further related theory of profit is arbitrage as postulated mainly by Professor Israel Kirzner, of the Austrian School of Economics.¹² Here, protoentrepreneurs are said to discover knowledge gaps in the existing knowledge landscape and move in promptly to take advantage of such knowledge for profit. This, it is postulated, leads to more mutual awareness in the market and therefore an adjustment towards the equilibrium static levels. Profits are thus the pickings the protoentrepreneur ephemerally collects in price differentials before an equilibrium has settled.

Finally, the sixth theory of profits in our review is associated with the work of Joseph

Schumpeter.¹³ For Schumpeter, the protoentrepreneurial function that earns profits is disequilibrative innovation, the carrying out of new combinations. Rejecting the residual notion of profits, Schumpeter argued that profit “is not a simple residuum; it is the expression of the value of what the [proto]entrepreneur contributes to production in exactly the same way that wages are the value expression of what the worker ‘produces’”¹³.

In fact, he decried the residuum approach as “obviously not brilliant” and advocated instead for innovation as a specific “function the performance of which creates the [proto]entrepreneurial profit”.¹³ In later years, Schumpeter’s own views on this would go on to change with innovation activity in the industrial world largely undertaken within large firms by salaried scientists and engineers in research and development (R&D) teams.¹⁴ Knowledge from R&D would then go on to be considered a type of “capital”,¹⁵ and thus delinked from protoentrepreneurship.

Traditionally, the common approach in the critique of profit theories has sought to question: “(1) whether any of the meanings most frequently

given to the term makes it helpful in economic analysis", and therefore, "(2) whether there is any advantage in having any such term in addition to the terms 'wages', 'interest' and 'rent'".¹⁶ As Adam Smith observed, it should be readily appreciable that the protoentrepreneur undertook various distinguishable economic roles, including the labour of superintendence and provision of capital, whose rewards may be erroneously "disguised in the garb of profit".¹⁷ This notwithstanding, it should suffice that the returns to all kinds of labour are wages, returns to all capitals are interests, and returns to land and natural resources are rents. Thus, the labour theory and the rent theory of profits only highlight that profit is really a redundant concept resulting from mere classification errors.

Similarly, for Clark's dynamic theory, whilst the differentials between actual factor rewards and their natural standards provides a comprehensible explanation of ephemeral residuals, the co-ordination role that Clark associates with the protoentrepreneur may itself be argued to be a wage earning labour function.¹⁸ Ephemeral differentials in interim prices and long-

run “true” prices of goods and factor inputs that are arbitrated away also suggest that the protoentrepreneur as theorised by Cantillon and Kirzner is really not a unique productive factor input at all as the residuals accrue to the protoentrepreneur only transiently.

The same applies for risk and uncertainty (discussed in further detail later). For risk, there will be differentials in the estimates and the actuals which, in the final analysis, will result in residuals. Uncertain factors will not have been previously identified and thus will not have *ex ante* estimates. But their natures and effect will be clear once it has reared its head. Here again, it can be seen that the resultant residual profits, or indeed losses, are not really attributable to anything the protoentrepreneur has done as such as a factor input *stricto sensu*.

As discussed, while questionable, as will be later revisited, Schumpeter saw innovation as something the protoentrepreneur actually did and the profit rewards were thus not a residuum but an imputation. Innovation has however been conceptualised as the implementation of knowledge capital which should earn interest, not

residual profit. Further, knowledge is non-rival, in that someone employing a given idea in production does not mean there is less of that idea for others to use.

Knowledge asymmetry in the Kirznerian sense could thus afford the Schumpeterian innovators supernormal interests, or quasi-rents. These are still not residual profits as such but differentials in interim returns and long-run true returns. It is appreciable, thus, that Kirznerian arbitrage progressively increases the employment of such knowledge in the market, thereby eliminating the corresponding economic rents that accrued to the first-movers.

In all, from a factor inputs – factor rewards perspective, protoentrepreneurship and profits can both be argued to be mere tautologies resulting from errors in the classification of factors of production and their corresponding rewards. In other words, any input in production we can call protoentrepreneurship can be correctly reclassified to any of the other well established factor inputs. Further, any of the output residuals constituting profit are ephemeral and ultimately attributable to their correct factor inputs. This is the thinking that

mainstream neoclassical economic thought embraced in abandoning the debate on the theory of profit.

Yet beyond simple classification errors, where for example self-employed people call their returns a profit while it is in actual fact simply basic wages, the differentials that result in ephemeral residuals that accrue to the protoentrepreneur are real and must be explained. In the real world, markets are never in perfect equilibrium anyway. This means that neoclassical assumptions do not approximate the real world.

One would assert that the argument that the residuals are eventually eliminated in theory as they are allocated to their correct inputs, and therefore that they do not in fact exist as a unique concept, is unsatisfactory. This is simply because such an argument only explains profit and protoentrepreneurship away without actually explaining their nature and causes as a phenomenon that actually exists.

But perhaps the worst cover-up in this debate was the error of commission where profit was re-classified as a return to capital. This is a

simply inexcusable classification error given the return to capital is interest. Here, interests to capital that will have been disguised in what Adam Smith called the “the garb of profit” actually commandeered the full garb. With neoclassical assumptions that residual profits are equal to zero, this new form of profit (interest, really) would supposedly constitute a proper return to capital.

Further, wages to labour could be isolated and land “purchased” as an investment. Thus, land could be considered a capital too. So with neoclassical equilibrium assumptions that residual profits are zero, if we just pay out the wages of labour from the full product, the “residual” profit we now get must be the bona fide product of capital. As you will agree, something is clearly a little spurious here. The first thing we must do is to void the illegitimate marriage between capital and profit. Only then, can we properly scrutinize profit.

03

Capital wrongly usurps profit

The notion that profit accrues to capital, and is a reward for exposing an investment to risk is widely regarded as an organising principle in capitalism. As discussed above, this is a simple and rather obvious classification error since basic principles of economics already establish that the returns to capital are interest. Thus, the commandeering of the problematic residual that is profit by capital does not sanitise it, it only adds to the perversion.

Human capital theory provides a first ready way of debunking the idea that profit accrues to capital as a reward for risk exposure. According to Adam Smith, the “improved dexterity of a workman maybe considered in the same light as a machine or instrument of trade”.¹ Proponents of

human capital theory further observe that human capital is actually far more susceptible to extraordinary risks and uncertainties than physical capital.

To begin with, Gary Becker, who mainstreamed human capital theory, observes that “there is uncertainty about the return to a person of given age and ability because of numerous factors that are not predictable” ... including the ... “considerable uncertainty about the length of life, one important determinant of the return”.² Second, Becker adds, “human capital is a very illiquid asset – it cannot be sold”. Since human capital is not rewarded in profit despite these risks, it must follow that exposure to risk does not provide capital with a cogent theoretical claim to profit.

Indeed, the formal definition of capital may help here further. Generally, capital as a factor of production is regarded as a durable resource that is produced for purposes of employment in further production.³ This traditional meaning has however been highly blurred recently as the label capital has come to be used to designate any resource at all including, among others, land and other natural resources (natural capital), money (financial

capital), talent, knowledge and skills (human capital), and discoveries and technology (knowledge capital). For analytical consistency, we employ the term capital here to refer to resources that are first loaded up with long-term productivity, or utility, with this then drawn down as part of the process of production over a period of time.

The key implication of the longevity of capital is that it adds a time value element, in the fashion of savings or deferred consumption. In line with the theory of diminishing marginal utility, suppose a consumer with two apples has the following two options: 1) eat both apples today for 20 and 15 notional marginal utils respectively, or 2) save the second apple for tomorrow when it could afford them the full 20 utils as a first unit of consumption. Here, while the apple will be worth 20 utils in the future (tomorrow), the present value of it today is 15 utils. The 5 utils difference is a premium equivalent to interest. It is a reward for forbearance, or the pure fruits of the deferment of consumption. The 15 utils, on the other hand, is the principal that was originally deposited as a saving.

Most pension incomes operate in a similar fashion, drawing from both the original savings (i.e. the principal), as well as interest earned over time. This process is known as decumulation and the shares between the original savings amount and the interest gains over time will usually be clearly decomposed. Amortised loans operate on this principle as well with regular payments covering both the principal and the interest according to a defined schedule.

By the same token, consider chattels - items of physical capital. These are first infused with productivity capacity (equivalent to the principal) which is drawn down over time by employing the chattel in production. The cost of hiring the chattel is rental fees as established in extant practice. Thus, the same way labour is paid wages, it is right and proper that owners of chattels (capital equipment) should be paid rentals for the employment of their equipment in production. This should be straightforward even in "owner-managed" businesses as many already pay wages to their putative owners. Similarly, equipment that is hired in, a common practice readily observable in the construction industry, for example, is paid in

rentals. It would thus be an application of the same principle where owners of the chattels employed in the business charge a rental price for them.

Now, because of the time element, since the chattel is to be used over several periods, the rental payments are equivalent to pension drawdowns. Recall these entail the decumulation of both the principal saving and the interest premium that has accrued over time. Similarly, the rental fee for a chattel will cover the productivity or utility drawn out of the equipment during production (which is really the usual depreciation) and the interest premium attached to the time lag covering the useful life of the asset in question.

The decomposition of rentals to depreciation and interest is key, however. This is because the depreciation element entails the extraction of the value that the original producers of the chattel in question had deposited into it. This makes that contribution to production equivalent to bought-in materials, and is thus not part of the company's value-added. Michael Morley made this point brilliantly in a 1979 paper reviewing Value-Added Statements that had been gaining traction in

the 1970s as an alternative to the usual profit and loss statement.⁴

Thus, part of the rental payments to owners of capital equipment that corresponds to depreciation, is similar to the repayment of the principal deposit in a loan or savings situation. As such, the only additional reward to capital equipment in a given production exercise is the interest due to its longevity; similar, again to savings (such as pensions) and loans.

Indeed, typically, when firms are evaluating the business case for a given investment, they use the discounting mechanism. Here, streams of payments expected to be received in the future from the investment are “discounted” to establish their present value. This accounts for the time value of the money invested and any risks to the investment that must be covered. Such approaches have also been employed in labour economics as Stephen Smith’s text elaborates.⁵ The basic point is that employees investing in human capital will also in some way have discounted potential future earnings.

Conventionally, should the present value of the future cash inflows from the investment cover the actual cost of the investment today, the investment is greenlighted. In all these evaluations, the discount rate is essentially an interest rate, the future cash inflows are the expected rental receipts, and the cost of the capital investment today is the principal. There is no credible place for profit here.

To be sure, a chattel with high longevity, will also be subject to multiple risks, including damage and obsolescence. Here, owners of chattels assume the risk that the principal value deposited into an item and the additional interest premiums attributable to deferment, may not materialise as expected either due to technological obsolescence, physical damage, etc. There is thus significant scope for errors, risk and uncertainty associated with chattels.

Still, like individuals do with their human capital, these are issues for owners of chattels to contend with internally. This should be done while discounting and working out a series of expected rental inflows, and therefore prices, for their chattels over the many periods expected to cover its lifespan. In determining a suitable discount

(interest) rate, risk assessments are typically undertaken very meticulously and a “hurdle rate” established – the minimum interest rate required for a given investment.

Of course, notwithstanding these evaluations, there will likely be discrepancies between the cash inflows projected and the actuals eventually received. This is simply due to difficulties with making accurate predictions of the future. Thus, projected inflows (rental) and the discount rates used to help with the investment decision may be wrong. Investments in human capital, that may be even more longterm, with inflows over an entire working life of typically almost forty years, also face these discounting errors.

In contrast, residual profit pertains not to such discounting over many future periods, but to “accounting” within a given period. Any risks associated with an accounting residual are therefore only risks that affect production and distribution within the corresponding accounting period. These are clearly quite different from risks associated specifically with future productivity, and rental inflows thereof, that pertain only to a

given item of capital. Discounting errors that affect one factor input's projections of the future can thus not cogently warrant a full and sole claim to residual profits that are essentially errors in being able to fully account for the production undertaken jointly in a given period.

In fact, owners of given capital equipment may assume the risk associated with such chattels in a way that may not ultimately affect overall production in a given period at all. For example, prematurely damaged machines may be replaced immediately such that production, that combines the various factor inputs, is uninterrupted. Here, the contribution to production attributed to the employed machine will be imputed back in a suitable rental and it will be up to the owner of the equipment in question to contend with the issue of the damage to the other machine. This has nothing to do with the other factor inputs.

In effect, owners of chattels, and other capital, essentially underwrite uncertain future rental payments accruing to such capital only at the factor level. In contrast, residual profit pertains to the full production level where all factors inputs combine to generate a revenue product that is to

then be distributed back to the respective factor inputs with profit being the residual thereof. Capital should accordingly only claim the rentals due to it, as a recompense for the principal investment and an appropriate interest premium for the time value of the investment and associated risk. Capital should thus not encroach on, or seek to commandeer, production level residual profit. But what is that firm level residual profit then?

04

Profit as a morass of errors

As alluded to above, a purely academic way of explaining residual profit espoused by neoclassical economic thought is to assume that in theory, profit and protoentrepreneurship do not in fact exist. An equally unsatisfactory approach only manages to explain it away as something of a menace that has no consequence as in the end it is only but transitory. A definitely more insidious type of classification errors that is sadly the received wisdom, prevalent in mainstream thought, is that profit is simply the return to capital such that profit is simply a moniker for interest. Here we have a poor fit between the underlying concept and the label attached to it.

As lamented earlier, perhaps in the name of parsimony, this lazy approach reduces factors and factor rewards to just labour and capital. Labour is paid in wages, and capital claims profit - the remainder of the full revenue product once wages are paid off. It is taken for granted that the full residual net of wages is rightly due to capital and so things simply add up that way. Here, land, a traditionally theoretically separate factor input with unique qualities, is annexed by capital, since it is also privately acquired or owned. The problematic protoentrepreneurship is in turn very expediently jettisoned or itself also annexed. This leaves us with a nice duality of labour and capital in economics and in turn into the labour versus capital socio-political duels we see in our democracies across the world.

In this understanding, capital, an otherwise fellow factor input in production, has the upper hand not least because it pays the wages to labour. To think, otherwise straightforward sister factor inputs, capital and labour, have been reconfigured into a set up where capital is master and labour is seemingly subservient with the two thus always in politico-economic conflict. If only but on this issue

alone, proponents of capitalism on the right are just as bad as their Marxist opposites on the left on the very elementary point that the subordination of labour/wages and the lionisation of capital/profit quite manifestly contradicts the classical textbook basics that outline factor inputs and factor rewards on the same side of the equation.

It must go without saying that what the economics discipline should have done, before allowing the matter so become so political, is put its basics in order. And it does not get more basic than using the right labels for core concepts. Instead, economics and sister disciplines irresponsibly took the problematic enigma that is profit, tried to sanitise it through an illegitimate marriage to capital, and then went on to make it the keystone of the system that dictates how economies work globally.

And so we have a situation the world over today where high school textbooks tells you that profit is the return to [proto]entrepreneurship, as interest is to capital. You then advance to university economics where theory tell you that apparently no one makes a profit because anyone that could do so already done it in a flash so it is immaterial to even

discuss. The accounting class then tells you that the profit and loss account is one of the most important financial statements as every business is trying to turn a profit. Profit is the bottom line, literally. But for the empirical economist, yes, there are residuals but in the modls the discipline uses, these residuals cancel each other out anyway. And so, in theory, residual profit remains a neat nil. Nothing to see here.

But out there in the real world of capitalism, everyone is basically trying to make, or rake in, the greatest amount of profit possible. It is, essentially, the main reason why commerce exists, we are told. Thus the textbook idea that the efficient thing is for profit to be swiftly eroded to zero does not make much sense. This is made even more bizzare by the fact that there is a clear case for bona fide returns to accrue to capital, so profit, the received return to capital, cannot be zero. So we have a situation where we have a number of major contradictions at the heart of our system.

Surely we should have a more consistent narrative when it comes to such an important subject. Surely the very keystone of the system that runs the world cannot be dubious like that! In the

pages that follow, we build on the errors theme discussed above to further unpick the profit keystone, towards the ultimate dismantling of the foundations of capitalism as we open up to the prospect of a newly imagined fairer and more robust economic system.

01. Remuneration Errors

“The theory of entrepreneurship begins where marginal productivity theory leaves off; there is more to distribution than is dreamed of in the static analysis of factor pricing”, affirms the late Mark Blaug, one of the finest economic historians of our time.¹ With the marginal productivity theory, the distribution of economic output, i.e. remuneration, is evaluated on the basis of the contribution made to production. It does this by assuming you could hold factors of production constant and vary the one that is of interest by a unit, for example for labour an additional hour or worker.

Here, holding everything else constant, the change in overall output resulting from employing the last added unit of labour, is attributed to that last unit of labour. This way, labour, and similarly other factor inputs, ought to get remunerated with the exact portion they contributed to production. So suppose you joined a team and the only thing that changed was you joining that team. If the new team output was to go up by \$100, that would be your marginal revenue product and it is what you should be paid.

The theory however complicates things a bit by suggesting that in fact all workers will be paid at the marginal revenue product rate of that last marginal newbie, due in part to competition between the many workers in the market. Not so much the so called “reserve army of labour”, but simply because the neoclassical market assumes that factor inputs such as labour are identical and freely mobile and there are zillions of buyers and sellers of it. Thus, as with the final goods produced and transacted in the market, prices are dictated by the market system and the system will usually drive prices down until an equilibrium is reached. At this point, a steady price is arrived at and essentially establishes as the “law”.

However, as Adam Smith had earlier noted, it is usually the “higgling and bargaining of the market ... (that) is sufficient for carrying on the business of common life”.² John Bates Clark³ further adds that, as “wages are paid by one person to another, the amount thus paid is adjusted by bargain, and may seem to depend on the comparative power and the adroitness of parties to the contract”. Essentially, while you can expect people to have an idea of how much their value-

added is worth, scientific marginal evaluations are difficult to operationalise in practice.

Further, due to contracts and organisational power dynamics, incumbent workers will hardly accept the new lower wage rates associated with the marginal revenue product of the most recent newbie in the workplace. Remuneration, is thus really an outcome of bargaining processes, not calculations of the marginal revenue product. Accordingly, Frank Knight asserts that profit is a payment residual and not a product residual.⁴ It accrues to protoentrepreneurs who exercise good judgement and benefit from transactional luck.

That is to say, profit is not directly attributable to an output that its claimant has produced. Rather, it is the difference between the product of given factor inputs and the payments made as remuneration to these inputs. Owing to transactional “luck”, or sway in the bargain, profit comprises the underpayment differential that would have been due to factor inputs.

Profits, according to Knight, are therefore quite different from classic rents:

“The analysis of profit is much simplified for students of political economy by the fact that the conventional distribution has placed such (misguided) emphasis on the concept of residual income, notably, of course, in the treatment of rent. Yet it will not do to press the parallel too far, for there is this important difference: Rent—and as every one now understands, any other share as well—is residual after the products of the other shares are deducted (product being the marginal contribution of a single unit multiplied by the number of units). But profit (under the simplified conditions we are now dealing with) is the residue after deduction of the payment for the other agencies, determined by the marginal bid of [proto]entrepreneurs as a class for all agencies as aggregates. The residue in the latter case is not a product residue, but a margin of error in calculation on the part of the non-[proto]entrepreneurs and [proto]entrepreneurs who do not force the successful [proto]entrepreneurs to pay as much for productive services as they could be forced to pay.”^a

^a Of course, this profit would yet class as rents in the general sense of income that is earned without effort, which is not dissimilar in key ways to output attributable to land, and thus claimed as income by landlords, despite the absence of effort on the part of the landlord.

This assessment echoes Turgot's age-old view of profit as "income without labour",⁵ which is of course also very similar to Karl Marx's concept of "surplus value", where the remuneration to workers is less than their value-added. The implication is thus that workers cannot with their wages afford to buy back the very thing they have just produced! For example, suppose I work in a cake factory and my direct marginal value-added is £10 (worth of cake) but I am only paid £6 with £4 going towards profit. Here, with my £6 wage, I cannot afford the £10 worth of cake I have just produced.

Conceptualised this way, profits can be seen to be mere *poor-fits* (henceforth *poorfits*) between a given factor input's value-added and the remuneration paid to it. These errors may be attributable to genuine imputation inaccuracies or pure extortion. The main point though is that any profit that accrues to the protoentrepreneur this way is essentially moneys docked from need returns to a given factor input.

Ironically, etymological origins of the term profit in the Latin word '*proficere*' suggest that the concept should pertain to advancing, making

progress.⁶ Yet it would appear that profit is only but a gain for some, deriving, as postulated thus far, from remuneration errors that result in losses to workers. Residual profits are thus in part, *remunerational poorfits*. Needless to say, this is something that should be corrected towards minimisation, such that labour and other factor inputs are paid their correct value-added. Surely it is wrong on all levels imaginable, that we can champion, or acquiesce to, residual remunerational poorfits being something to maximise, towards infinity.

02. Specification Errors

As touched on earlier, the thesis advanced by Frank Knight,⁴ considers risks as different from uncertainty. Risks can be identified, estimated, etc. making them something that can be controlled or insured against. In contrast, uncertainty, whilst pertaining to events that may in cases be identifiable, is not reliably estimable and is therefore uninsurable. For Knight, therefore, whether uncertainty comes to pass, and by how much its outcome is favourable or not, depends on the subjective judgment of his protoentrepreneur and pure luck.

In the classical debate on the theory of profit, the economist Frederick Hawley⁷ observed that “insurance is not a subject in distribution coordinate with rent, wages, and interest, because insurance is not a form of income at all”, but merely “an element of cost”.⁷ However, one would argue that an item that enters the cost outlay of a venture engaging in production is a factor in the production exercise in some way. This suggests that our understanding of the structure of production and distribution may be mis-specified with a bias towards the more obvious factor inputs and their

incomes. The question of risk provides a useful departure point towards a more comprehensive and accurate appreciation of factor inputs.

Outcomes before incomes

Principles of economic theory indicate that factor incomes should approximate the marginal products of the factors, such that in theory, we should be able to account for production and distribute the full product as payments to factor inputs in full. Accordingly, given that payments (incomes) are imputations corresponding to respective products (outcomes), it must follow that insurance payments pertain to elements that affect production. This way, insurance costs, must by definition, be associated with given factors of production.

This necessitates a more discerning look at proximate factors of production and factor *outcomes*, beyond the usual focus on factor incomes. Indeed, an as explanation for residual profit, remuneration errors as discussed above, pertain to the equivalence of incomes paid to the factors and the outcomes attributable to such factors. This

means that an evaluation of factor outcomes is central to the assessment of imputed incomes.

Generally, insurance provides protection from specified loss or damage by guaranteeing compensation should an unfortunate specified event happen. Essentially, the role of insurance is risk transfer and indemnification. It works by pooling resources from entities that are likely to suffer certain losses and those resources are then used to indemnify entities that do in fact suffer such losses. Since not all insured entities will suffer losses, the pooled resources will often be enough to compensate those who do in fact suffer losses.

Thus, to the individual entity, the cost of insurance will usually not be equivalent to the loss suffered; it will be lower. Similarly, an entity that does not suffer a loss will usually not have their insurance costs refunded. Although in the majority of cases we are paying for a loss that does not materialise, paying for insurance is deemed a reasonable cost for anxiety reduction which in turn facilitates more economic activity. Needless to say, if actual loss did materialise, we will have paid relatively little compared to the loss that we would otherwise have suffered. The risk has effectively

been transferred from one entity to the pool through the insurance intermediary.

It is immediately instructive, however, that beyond the textbook productive factors including land, labour and capital, insurance suggests that factors with a negative, i.e. disproductive, effect do also enter the production function, even if indirectly in certain circumstances. This is why we make provisions for them through insurance. Such disproductive factors need to be recognised properly and their nature and outcomes examined formally. It should be helpful, however, to first revisit the outcomes, not just “incomes”, of traditional factors of production to be able to better specify the structure of production and distribution. This will help in the identification of the parties that ought to or indeed shoulder the various risks and the corresponding insurance costs.

Good things sometimes come to those who wait

As already discussed, the true income return to capital is interest. The principal, or the cost of assets and other chattels employed in the business, should be treated like bought-in materials. Their

depreciation should thus not constitute the Net Value-Added within the business. Developments in financial reporting in the 1970s towards a Value Added Statement had already established this as documented in the previously referenced work by Michael Forley.⁸

One key argument for deducting depreciation is that capital goods will have been accounted for as output by their original producers. Accordingly, not deducting depreciation from the product they then go on contribute to will entail double counting, which is clearly an error. From this perspective, the only value-added, or economic outcome, uniquely attributable to capital goods employed in a given is simply what we would propose to name *lucre* – the gains in value over and above the original principal that accumulate over time due to the time value principle.

Lucre is essentially the extra value that may be drawn out of the asset, during the life of the asset in question, on top of the actual bought in value of the asset. Going back to our apple example from earlier, the principal value today is 15 utils if but if we forego the consumption of it and eat the apple tomorrow, it will be worth 20 utils. The 5 utils in

lucre are produced simply by time – the lag between the time of deposition of the principal (apple back in the fridge!) and the time when consumption, or drawing out of the value in further production, happens the next day.

Just like labour, the demand for capital goods is derived from the demand for the ultimate products they help produce. The marginal revenue product of capital is thus essentially a decumulation of the asset at the time of use - effectively a portion of the compound of the principal value in the original asset and any accrued *lucre* due to time lag.

It is immediately clear that the decumulation is the gross value-add of capital into the present production as it comprises the original pre-produced value and the time value. Thus, to avoid double counting errors as discussed above, we must deduct depreciation from this. This leaves *lucre* as the true net outcome attributable to given capital in a production exercise. In a perfect equilibrium, interest income should be equal to the *lucre* outcome that has been drawn out of a given asset and injected into the entity's revenue product,

net of the original value that had already been injected into the asset at the time it was purchased.

There are important demand and supply dynamics here that extant thought has not fully unpacked. The demand side is concerned with the decumulation of value from capital goods to contribute towards the entity's value-added as demanded by its market. The supply side on the other hand comprises owners of capital pursuing an accumulation objective in rental income that comprises interest over and above the principal cost of the capital goods in question.

It is clear, here, that the two sides come from entirely different perspectives. Demand is driven by decumulation contingent on the demand of the subsequent goods capital helps produce. Supply, on the other hand, is driven by accumulation, that is, principal value plus the interest on top. However, due to the derived demand situation, the gross value-add of capital decumulated from the items in question and added into subsequent goods may be lower than what the owners of the capital goods in question would have expected given the principal (asset cost price) and anticipated interest.

Consider a capital item, such as a commercial coffee machine, purchased for \$2,000 with the expectation it would be employed by a coffee kiosk for two years at a rental of \$1,500 per year. This is the supply side and the principal here is \$2,000 with a total interest over the two years of \$1,000 (\$500 per year). Suppose, on the demand side, the coffee kiosk was able to attribute a \$2,000 value-add per year to the coffee machine. The \$4,000 over two years would be the gross value-add. We can then account for depreciation - the \$2,000 worth of value the company that originally made the coffee machine had already deposited into the machine. This is the value that has now been extracted and used to make lattes at the kiosk for two years, depreciating the coffeemaker in full.

This leaves us a net value added of \$2,000. This right here is the lucre of the coffee machine as a capital item – the additional outcome value, beyond the original purchase price, that is attributable to the fact that the coffee machine was used over two years and that two year lag added a time value element. This lucre outcome derives from the demand (revenues) of coffee, by latte-drinking city yuppies say.

Recall though that the owner (supplier) of the coffee machine is paid a rental of \$3,000 over two years. Of this, \$2,000 was the principal (original costs of the machine being recouped). This means that the interest income on top is \$1,000. With the coffee machine having a lucre of \$2,000, an interest of \$1,000 indicates that we here have a case of remunerational poorfits. In a perfect equilibrium, the lucre value-add would be equal to the interest income paid to owners of the capital goods and there would be no residual profit.

It is of course the case that in a lot of situations, the demarcation of the demand and supply sides in the way we deal with capital employed in the firm is blurred. However, as this simple illustration demonstrates, specifying this structure and the intervening outcomes stage is important to the way we understand production and distribution. In particular, how missing the outcomes stage will lead to errors manifesting as residual profit.

Staying with the coffeemaker example, suppose the machine was purchased in early 2020, just before the pandemic. A couple of months in, the pandemic hits, lockdown is ordered and the

demand for coffee vanishes. Here, no value is decumulated from the coffee machine into hot lattes; no revenue product, no factor outcome, no income. But the supply, at least of the principal value, remains embodied in the coffee machine and would soon start to waste away with disuse. Strictly speaking, however, the risk that this cached value may not be demanded is clearly a supply side matter for the owners of the chattels who underwrite the cached value in anticipation that that value will be retrieved successfully in the future and with interest on top.

By the same token, should the machine be struck by lightning, or damaged in some other way that meant that the cached value could not be retrieved, this would be a case of supply not being forthcoming in the ultimate production exercise; therefore, again, no revenue product, no factor outcome, no income. In simple terms, if a given asset has not been employed in production, because of an absence of the derived demand for it or supply not being forthcoming, no value has been drawn out of the asset and into the revenue product and therefore such as asset has no bona fide claim at all to any part of the ultimate value-added.

As discussed earlier, owners of capital underwrite the future revenue product of the asset in question pending actual demand. This is therefore risk at the factor level and not at the level of production. Risk to capital, and associated insurance costs, do not thus enter the ultimate distribution of the revenue product. This is simply because true distribution, that is remuneration based on imputation, is contingent on derived demand, or value-add, of the factor in question.

In contrast, risk to capital, insurance, etc. are considerations for the supply of capital side of matters. Thus, departing from Hawley's views that insurance is an element of cost to the firm, one would argue that insurance for capital goods should not enter the firms cost outlay to the extent that costs are payments associated with production within the firm. This would be a misspecification of the structure of production. Rather, insurance costs for the various chattels are a matter for the owners of the given chattels to deal with internally at the factor level, not at the level of firm production where the various factors come together.

It follows that if owners of capital determined that supplying their capital to a given

production exercise is too risky, they should require a higher interest in accordance with their “hurdle rate”. We maintain, however, that these are considerations “nested” within the quite separate capital supply function. The demand side will in turn consider the derived demand for the capital items in question. If there is scope for a deal where the supply of given capital meets the derived demand for it, or at least some of it, then the respective capital will enter production.

As such, bringing capital’s “nested” risk and insurance costs into the main production and distribution evaluation is a mistake as it is tantamount to forcing costs that pertain to capital only, as a separate factor of production, onto all parties involved in the production exercise. Indeed, further inefficiencies can be expected if suppliers of capital dominate the demand side. Because the supply deal will not happen at the perfect equilibrium level, capital may command a price (remuneration) that exceeds its revenue product, effectively appropriating the revenue products of other factors of production. These distortions will also result in deadweight losses to society with the socially optimal levels of production not achieved.

As we shall see later, capital may even go on to complete a forward integration, i.e. acquisition, of the demand side. Here, capital commandeers the revenue product in full and becomes the function that distributes incomes to peer factors of production. This way, it claims its own product as well as the residuals resulting from poorfits docked from other factors or resulting from other errors as we shall see below.

Contrast this with individuals who invest in human capital. As earlier discussed, human capital investments are prone to major risks. However, these are generally treated as individual level risks, not firm level risks. Where companies undertake to pay private health insurance for their employees, these perquisites, or benefits in kind, are treated as salary top ups. In fact, most governments across the world will require that the figures upon which income tax is applied are adjusted to reflect these salary top ups. This subjects recipients of these benefits to more tax.

In contrast, insurances pertaining to physical capital and other business insurances are tax deductible. What ought to happen here, if all factors of production were equal, is that owners of

capital should bear the costs of their own insurance. Similarly, any capital employment perks should be explicitly recognised as such and adjustments to interest income tax applied as appropriate.

My deeds, my need

While wages is the income paid to labour, the *deeds* of labour may denote the actual outcome of labour in production; the marginal revenue product of labour which is derived from the demand of the ultimate product. In demand and supply terms, employers on the demand side are interested chiefly in economic outcomes in deeds. In exchange, they pay incomes to labour in wages. On the other hand, the supply of labour depends on wage rates and other supply side issues, such as leisure time preferences. The latter are considerations theorised to reduce the supply of labour at higher wages as people would rather chill and spend their already high wages than work some more.

Going back a step, in a perfect economy, wage incomes would be equal to the deeds of labour – the need share corresponding to contribution to the overall output. Thus,

remunerational poorfits with respect to labour would be present if the income paid in wages was different from the actual deeds of labour incorporated in the revenue product. This would happen in a monopsony, for example, where there is a dominant employer of labour, such that labour is not paid the meed wage that is equal to their deeds and there would be further inefficiencies in deadweight losses to society.

With the advent of human capital as previously discussed, earlier laments by Adam Smith that the greater part of an apothecary's "apparent profit is real wages disguised in the garb of profit"² apply to wages today. Thus, within the income category of wages today, we must seek to specify how much is imputable to actual deeds from exertion, how much is a product of human capital, how much is raw talent, and how much, like much of executive pay today, is mere extraction of undue economic rents.

This is important as research by the now very famous French economist Thomas Piketty and others shows that top wage earners, i.e. "top executives, also called the 'working rich', have replaced top capital owners (the 'rentiers') at the

top of the income hierarchy over the course of the 20th Century".⁹ The specification and estimation of the deeds of pure labour here would be highly instructive but it would not surprise anybody that the greater part of these fat salaries is economic rents disguised in the garb of wages!

Needless to say, tax regimes should not treat the garb of wages as pure wages and an argument can be made that the graduated tax system essentially treats higher income brackets as rents. A case can be made then that tax rates at those higher brackets should be even higher given the efficiencies in tax collection associated with economic rents, or scarcity rents, such as the rents of land and similar factors. Indeed, as we shall see further below, there are many factors beyond land that make good hunting ground for the efficient collection of rents to the benefit of society given that rents should morally accrue to society really.

Mother Nature's gratuities for us all

Land as an economic concept captures all productive natural resources. But let us entertain some more neologism and just label all resources that have economic qualities that are similar to

land, *landlikes*. This will help us capture other natural resources beyond land and physical nature more conveniently. For example, in a recent paper, Jonathan Mijs, a Harvard sociologist, argues that talent (in sport, etc.) is today “what inherited land was to feudal societies”.¹⁰ Natural human talent is thus a *landlike* alongside land itself.

Now, traditionally, the income associated with land is rent which accrued to “owners” of land, i.e. landlords. Rent is basically income without any exertion that accrues to those with a monopoly of a scarce asset. As documented by a recent book by Guy Shrubsole,¹¹ in England, since the times of William the Conqueror, all land belonged to the Crown. It would then be parcelled out to the aristocracy and the gentry in perhaps the most nepotistic fashion imaginable. In a complex chain of subletting and subordination, labourers could till the land for a wage and tenants could husband the land in exchange for rents that worked their way back up the chain to the monarchy.

In the 18th Century and earlier, it was believed that land was the source of much of the utility enjoyed by humankind. Labour was productive in drawing this value out and was

rewarded in wages. Landlords, who did not till the land, collected rents some of which could be “disposed” up the chain to the monarchy to pay for wars, sustain regal luxury, etc. Since they were not toiling on the land, as the renown French philosopher and political economist Anne Robert Jacques Turgot asserted, the gentry and the ruling classes were themselves also disposable in that they could be deployed to serve in other prestigious roles like knight service in the military.⁵

The legacy of this clearly iniquitous situation looms large a thousand years later. In his 1909 book, *The People’s Rights*, Winston Churchill took the view that “the land monopolist has only to sit and watch complacently his property multiplying in value, sometimes manifold, without either effort or contribution on his part; and that is justice!”¹² More recently, the late Duke of Westminster, Sir Thomas Grosvenor, who was the third richest person in the UK at the time of his demise, said to a *Financial Times* reporter that the advice he would give to young entrepreneurs looking to emulate his success was to “make sure they have an ancestor who was a very close friend of William the Conqueror”.¹³

Granted, questions of ownership are very complicated as Michael Heller and James Salzman show in their recent book titled “Mine!”.¹⁴ But as John Stuart Mill observed: “No man made the land. It is the original inheritance of the whole species”.¹⁵ This is the basis for proposals by Henry George¹⁶ and others that affirm that rent income from land should, in principle, be clawed back in full through a land value tax and redistributed to all of humanity.

However, despite wide acceptance by economists as robust and highly efficient in theory, the Georgist movement, observes Warren J. Samuels, has had success that is “so miniscule as to border on, if not constitute, failure”.¹⁷ Key factors here, adds Samuels, “are the identification of income as productivity regardless of source—what is mine, I have earned” as well as “the belief in a right to privatize economic rent” attributable to the gradual spread of home ownership. There is also the difficulty of estimating land value, especially its separation from improvements, and the quantification of rents.

As we have done above with capital and labour, we need to explicitly specify the outcome of

land (and other natural resources) that should precede the disbursal of rent income. We would propose to refer to this outcome as *gratuities* of nature (let us call these *grats* for short). Identifying grats as such before they have been allotted should be expected to dispel the spurious entitlement to them as “earned”. Surely something that Mother Nature has very graciously and bounteously brought forth cannot then be claimed by any human as exclusively earned!

To be sure, land is said to be a passive factor of production in that other factor inputs are required to actually generate useful value. Thus, while nature may produce and ripen wild fruits, labour is yet required to pick these; only then do they become goods that have value proper. Of course, gatherers picking such fruit would be very quick to claim it as “theirs” but the productive role of land is clear and obvious.

Arguably satirical aphorisms such as “an Englishman's home is his castle” may also have bred the received notion that people have a right to privatise economic rent. This is seemingly because many in the population now own the plots of land their homes sit on. This must be rejected. As Guy

Shrubsole writes, of the 60 or so million acres of land in the UK, 24 million families have just 5% of this to share between them with under 0.4% of the population controlling about two thirds of Britain. This is simply not defensible. Worse still, privileged landowners on the right of British politics not only defend private property but pontificate about the UK being “full” with no room for immigrants to come over here and encroach into the 5% of land reserved for common folk.

Curiously, in the land law that applies in England even today, there is no such thing as absolute ownership of land.¹⁸ Rather, land is only but variously “held” from the respective sovereign, dependent on applicable tenure rights and obligations.¹⁹ Ian Williams, a London legal scholar, painstakingly explains in a Cambridge Law Journal article that such rights are indeed never held perpetually or absolutely, even for freehold land.²⁰

Moreover, he adds, in various circumstances, land, and the various entitlements, will often escheat back to the sovereign. This is because the so-called owners of land are only granted certain bundles of rights to the land and are thus never owners of the land itself. In the present

age of popular sovereignty in much of the world, it must follow that all land, and therefore the first rights to the *grats* of land, and all nature, ultimately belong to “we the people”.

We then have to contend with the question of estimation of land value and the quantification of economic rents as posed by Warren J. Samuels above. In our case, what we are interested in, in the first place, is the *grats*, the economic output attributable to land and nature. Here, we can borrow from Frank Knight who as we saw earlier, avers that, economic rent, in our specific case here the *grats* of land, is the “residual after the products of the other shares are deducted”.⁴

In other words, the output that has not been claimed by labour and capital, in line with their marginal products, is the output of *landlikes* - the *gratuities* produced freely by Mother Nature outwith any exertion by human beings. Essentially, then, what we should do is ask labour and capital to claim their marginal outputs from the total fruit the production effort brings forth. Once these due rewards are disbursed, whatever is left unattributed to exertion and forbearance should be considered Mother Nature’s *grats* and should

escheat to the popular sovereign, the people, forthwith for societal distribution.

What would happen in such situations then is potentially that sections of labour and capital with more or less inelastic supply, at least in the short-term, would seek to charge high wages and interests. Alfred Marshall, one of the great luminaries of economics, considered the income thereof to be quasi-rents as it technically mimics land and landlikes that are fixed in supply.

Consider the case for medical doctors. All across the world, it takes many years to train doctor, around six years at university and several more as a junior doctor. Many also give up. And to make the situation even worse, training facilities are in low supply such that training places are limited and very competitive. This is why medical doctors the world over are in low supply. But it is also the reason why they charge relatively high prices in wages.

According to Alfred Marshall, much of their wage is in fact quasi-rents directly linked to their scarce supply. This is how even labour and capital can take landlike characteristics. But we have

known this for a while and it is the reason why we can employ a graduated or progressive tax system to correct this – the more the income, the more likely the wage has quasi-rents tendencies and therefore a higher rate of tax should apply. If the system was accurate, we would know the point at which any further wages earned comprised pure rents. These would then be clawed back for the public purse, in full, just like normal rents from landlikes.

Omitted factors

Earlier, we suggested that risk and insurance with regard to capital does not directly enter the main production equation as these are nested within matters capital. However, from our focus on factor outcomes, and not just the traditional factor incomes, it must follow that at least conceptually, there are other classes of factor inputs that extant thought has missed that could, in fact, impact production directly and indeed negatively.

Ronald Coase also alluded to this when he indicates that “the right to do something which has a harmful effect (such as the creation of smoke, noise, smells, etc.) is also a factor of production”.²¹

Accordingly, one could conceptualise *vandals*, deliberately destructive human activity, whose outcomes could be branded *dents*. Similarly, destructive forces that occur naturally, including, for example, natural disasters and diseases, are also readily perceivable, especially in their difference to productive natural resources. Such factors could be classified as *bales*, natural detrimental forces, whose outcomes could be labelled *blights*.

Morally, society will within reason usually bear the *blights* inflicted by natural *bales*. Thus, disaster relief is common in most societies, whether organised by governments or independent charitable work. In contrast, *vandals* are duly personally liable for resultant *dents*.

Recall, though, that the proximate effects conceptualised here are direct at the level of production. It is appreciable, as discussed above, that such effects may also be indirect, or intermediate, by first adversely impacting the supply and engagement of land, labour and chattels in production and in turn their marginal productivity outcomes. Still, recognising these as relevant classifications of factors of production helps specify them formally in evaluations of their

proximate, intermediate or ultimate effects on production.

Besides insurance, there will usually be other preventative measures taken to neutralise, and therefore mitigate, or sometimes militate against potential loss-inflicting factors. For example, areas prone to flooding will usually have levees erected. Levees here are productive as an *anti-bale*. Similarly, retail security guards are employed to help prevent shoplifting, and therefore serve as *anti-vandals*. However, in contexts with minimal likelihood of the respective undesirable outcome, these antidote factors would be rendered redundant. Thus, the security guard in an area with no shoplifting to prevent would be a *neuter* whose productive outcome is *nought*. Even after proper specification, without a productive outcome, any payments to *neuters* will constitute remunerational poorfits since there is no matching outcome to warrant the income.

Other factors could also be neuters in a more inherent fashion, that is, not necessarily as neutralised disproductive factors or productive factors that have been rendered redundant, but as factors that could be considered to have no material

contribution to given production. For example, in family businesses, incompetent members of the family that have gained managerial positions through nepotism could be total neuters, or indeed negatively impact productivity at the firm level in some ways which would render them vandals in fact.

Specifying these new classes of factor inputs and outputs is arguably useful in that it extends our conceptual toolkit for understanding production, imputation and distribution. However, operationalising concepts towards ascertaining the relationship between two variables can sometimes be challenging in economics and the social sciences. This is especially the case if we do not understand pertinent phenomena and relationships well enough to develop correct models. In other words, we may have apposite concepts, but if we do not have the right variables and specified in a suitable “functional form”, we will not correctly estimate the relationship in real life and any inferences and action thereof will be flawed.

Thus, for example, while it is generally taken as axiomatic that knowledge and innovation are the principal drivers of economic performance,

researchers have struggled to model or robustly prove this link. Accordingly, Thanos Fragkandreas, a researcher from Goethe University, has identified at least 15 innovation paradoxes, mostly surrounding the inability to coherently link innovation/ knowledge to economic output.²²

Indeed, since Robert Solow's legendary papers on growth accounting in the 1950s,²³ innovation has also been widely attributed, not to a given input, but to a residual called Total Factor Productivity (TFP) or Multi-Factor Productivity (MFP) - the putatively biggest driver of economic performance. Solow estimated that only 12.5% of growth in output per worker in the US between 1909 and 1949 could be explained by increases in stocks of capital. The TFP residual explained the remaining 87.5% of economic performance!

Moses Abramovitz would famously regard this residual as the "measure of our ignorance".²⁴ Researchers have argued that technical progress proper cannot satisfactorily account for the residual and have since sought to improve their specifications by identifying and estimating human and intangible capital, among other variables.²⁵ In

one very insightful experiment, Xavier Sala-i-Martin, an economics Professor from Columbia University, collected around sixty variables expected to correlate with economic growth and ran over two million regressions.

His estimates found at least 21 variables to appear to significantly correlate with growth, including, among others, religion, politics, colonial legacy and “degree of capitalism”.²⁶ Since Douglas North and Robert Thomas’ work on institutions in the 1970s,²⁷ some consider such factors to be ultimate or fundamental causes of economic performance. They impact the way in which the more proximate human and physical capital factors, and the TFP residual, then impact economic performance. Still, sometimes institutions show a direct effect on economic performance, which makes sense, although the robustness of such analysis can be questioned.²⁸

Thus, while improved specification has led to a better understanding and significant reduction in estimates of residual TFP, it remains a significant enigma. Indeed, the OECD Compendium of Productivity Indicators estimates that between 2010 and 2019, TFP was responsible for around 27% of

growth amongst its members on average, ranging from -7% in Luxembourg to 69% in Japan.²⁹

These gaps lead us back to the issue of risk and uncertainty. As discussed previously, uncertainty pertains to identified, or at least in some way identifiable factors, whose likelihood of occurrence, and nature and magnitude of effects are not reliably estimable. For risk, in contrast, potential outcomes and their likelihood of occurrences are more or less known such that mitigating action, insurance, etc. can be arranged. Uncertainty is associated with pitfalls and windfalls pertaining to a given factor that only become apparent *ex post*.

For example, a lightning strike, is arguably a readily apparent uncertain event in that we know it can happen but not when or how much damage it could cause. Suppose then that a warehouse full of goods awaiting shipment to customers is struck with the goods destroyed. Here, a direct *bale – blight* effect is discernible, albeit retrospectively. Still, once this is properly specified, it is clear how what would have been put down as a loss or negative profit can be explained with the adverse blight

impact attributed correctly to the bale that the lightning was.

Beyond risk and uncertainty, however, the idea and enormity of the TFP residual may lead one to conceptualise *unknownity*. This is where unidentified factors enter production, directly or indirectly, with palpable adverse or advantageous effects. The levels and variability of *unknownity* suggested by the TFP estimates among rich OECD peers manifestly epitomise the menace of specification errors. It is simply staggering that there is so much of our economic output that we cannot attribute to known factors. To be sure, this is not unique to economics as Michael Blastland discusses in his book, *The Hidden Half*.³⁰

Typically, just labour and human capital payments are made from the full economic output with the rest transferred to capital as residual profit. Of course, as vehemently argued here, we should account for returns to capital separately. But we now know that labour and capital are not the only factor inputs and what this means is that residual profit comprises in no small part of what we may regard *specificational poorfits*, the outcome of *unknownity* (omitted variables) and other

specification errors in the way we think we understand the input - output relationships in business and economics.

Within this context, *unknownity* may be conceptualised as luck. Luck itself comes from nature. Good luck is a *landlike*, bad luck is a *bale*. Thus, non-zero residual specificational poorfits are presumably either gratuities or blights from Mother Nature and thus transferable to the popular sovereign for societal distribution.

Of course, if people felt that the claim to have the full product of nature-supplied luck transferred to society was unmerited, they would need to tease out and better specify particular factor inputs and their outcomes from the *unknownity* residual. They would then need to estimate the specific factor outcomes and claim their due meeds accordingly. Needless to say, this makes residual specificational poorfits warts to seek to minimise, not idolise.

03. Commutation Errors

In our discussion above, we have only considered things from a factors of production perspective. In his original conceptualisation, Richard Cantillon³¹ saw the protoentrepreneur as an agent who bought at certain prices to sell at uncertain prices. For Frank Knight as well, “the main uncertainty which affects the [proto]entrepreneur is that connected with the sale price of his product”.⁴

The implication here is clearly that where there is a difference in the buying price and the selling price, there will be a residual profit or loss for the protoentrepreneur. This is often what is considered as the reward for uncertainty-bearing. In some ways, then, you could argue that the difference here that constitutes residual profit is explained by specification errors since unspecified inputs are not in the cost outlay.

But the old textbook principle of allocative efficiency may provide further critical insight here. The principle posits that optimal allocation of resources towards producing goods and services that best meet consumer needs in society is

achieved where the marginal utility of a given good (represented by the price consumers are willing to pay) equals the marginal cost of producing such a good. Where allocative efficiency is achieved, commutational or exchange equity is also achieved. This is because the cost to producers, and thereby the imputed rewards to factor inputs, equals the benefit (utility) consumers gain.

As we have already seen, however, we have many specification and remuneration errors on the production side that may render the marginal costs inaccurate. Similarly, the translation of marginal utility to price is not straight-forward. Demand is driven not just by reckonings of marginal utility but also by income considerations on the part of the consumer, prices of other goods (both complementary and substitute), consumer expectations of future changes in prices and their income, and tastes and preferences and changes thereof, among others. Thus, there will be estimation errors on both sides of the exchange resulting in *commutational poorfits*.

Textbook economics suggests, nevertheless, that markets will naturally gravitate towards an equilibrium price where marginal costs equal the

prices consumers are willing to pay. At this point, many consumers will be paying less than what they would have been willing to pay (consumer surplus) and many producers will sell at prices higher than their costs (producer surplus). These two surpluses are said to constitute net gains from trade accruing to society as a result of voluntary exchanges by profit-maximisers in free markets. However, in perfectly competitive markets, there is no producer surplus as the price set by the market is a given for all producers. Further, producers are compelled by the market to produce only at the minimum efficient scale, the point at which average costs are at their lowest.

The received notion of profit-maximisation is however not built on ideals of allocative efficiency, or indeed commutational equity. Rather, interest is simply in selling at the highest possible price and producing at the lowest possible costs. In effect, profit-maximisation is about maximising producer-surplus and minimising consumer-surplus. This is basically redolent of a strategy to contrive *commutation errors* to extract *commutational poorfits* from buyers.

Indeed, strategies such as predatory pricing and limit pricing,³² and, more recently, quite acquisitive “value capture” techniques have been employed to maximise profit by eating into consumer surplus.³³ In predatory pricing, companies can price their products at levels lower than costs to push rivals out of the market. Once a monopoly position is consolidated, such companies will then go on to hike their prices at will. Similarly, limit pricing lowers the price low enough to discourage any competition from entering, granting the monopoly free rein to exploit customers.

Value capture is another strategy that has become the “go to” plan for many modern corporates. A popular approach used here is skim pricing, also called price skimming. We all know people that cannot wait to get their hands on the latest model of an iPhone or MacBook. These people are prepared to pay a small fortune for it. So what Apple does is sell to these early adopters at a premium, which is what they are actually prepared to pay.

Subsequently, prices are successively decreased to increasingly attract other customer

segments. This can go on until the average customer is reached and the price more or less matches the average price on the market. This way, quite a bit of consumer surplus, the *cream*, is skimmed from the various customer segments as consumer surplus is extracted down the demand curve and turned into producer surplus. That is, incremental profits are raked in over time as the customer base grows even as the market price is gradually reducing.

To be sure, with price representing the marginal utility the consumer may draw from the product, consumer surplus itself constitutes a form of commutational inequity favourable to some consumers. This is because the utility drawn from the product is higher than the market price. The differential here, in consumer surplus, is the *cream* that gets skimmed as profit by unscrupulous capitalist corporates.

Strictly speaking, however, it is fitting that consumers should pay a price that in fact corresponds with the utility they get from a given product. Accordingly, one could morally argue that opulent early-adopters willing to pay a premium price should indeed pay that higher price.

Similarly, producers should be paid a merit price in accordance with costs.

As Adam Smith professed, humans have a “natural” propensity to truck, barter and exchange. As such, the market mechanism that stipulates the (notional) equilibrium price at the system level can be said to be a natural societal dynamic. The apparatus that generates both producer and consumer surpluses is thus essentially a landlike. Consequently, the commutational poorfits that constitute these surpluses are themselves gratuities that producers and some consumers acquire in rents. It naturally follows that commutational poorfits should be rightfully clawed back in full for the public purse.

04. Perversion Errors

Advertising is a massive deal in modern society. Citing clinical tests and other experiments, Ron Marshall, President of Red Crow Marketing, wrote in 2015 that the Americans are exposed to between 4,000 and 10,000 ads every day!³⁴ Research has also found that advertising budgets comprise around 1% of GDP in OECD countries.³⁵ For context, OECD countries spend just under 0.7% of GDP on environmental protection, 1.4% on defence and 1.68% on public order and safety.³⁶

But advertising is as big as it is controversial. Traditionally, sales and advertising functions have had their ethics questioned due to a history of illegalities and unscrupulous behaviour including deception, misrepresentation and the withholding of key information.³⁷ Clearly objectionable practices, such as, to cite one extremity, targeting children in advertisements for harmful products like cigarettes,³⁸ do in fact, amount to corporate illegality. Where profit is a key priority vis-à-vis ethics, organisations will usually ask themselves if illegality is affordable given the prevailing business environment (e.g. declining

sales), or whether it is “allowed” by the regulatory conditions present, i.e. if they can get away with it.

A third factor driving illegality is choice, where misrepresentation is employed as a misguided strategic tool skirting around existing regulations and calculating whether any penalties would yet be worth it.³⁹ Accordingly, different countries have developed a range of measures to regulate advertising that encompass formal legislation, self-regulation within the industry, and the consideration of prevailing community standards by involving members of the public in bodies that deal with advertising complaints.⁴⁰

But why is advertising so big and so controversial? In their recent book, “Blindsight”, Matt Johnson and Prince Ghuman aver that human brains do not experience reality directly but instead construct something neuroscientists call a “mental model”.⁴¹ The mental model is however incredibly impressionable and can thus be influenced. The marketing industry uses this neuroscience to engineer belief-based mental models in the minds of (potential) consumers that serve to advance business interests.

Matt Johnson and Prince Ghuman give the example of Coca-cola that spends \$4 Billion a year to hammer in our brains that *Coke=Happiness* in a way that actually impacts how we perceive the taste of the beverage itself. “The mere idea of Coke activates the brain in a profound way”, they write citing experiments that show that “people aren’t just telling themselves Coke tastes better. Coke does actually taste better to them, because of association design”.

Given, as discussed earlier, that prices customers are prepared to pay approximate marginal utility, the object of these practices is to pervert the perception of the utility the consumer might expect to draw from a given good. This ultimately means that perceived utility at purchase will not be matched by actual utility following consumption; the product does not do exactly what it says on the tin. These *perversional poorfits* act to compound *commutational poorfits* and other errors that constitute profit as discussed above.

Decoy pricing works in a similar way. It builds on the idea of product versioning where you have a basic offering as well as premium versions with extra features. For smart phones, this will

usually be the same generation of the product with different camera and storage specs. Usually, the cost of adding the higher specs is a lot lower than the price differential so more premium versions make more profit. With decoy pricing though, the various versions are priced in a way that tricks potential customers to buy the most profitable variant believing they are getting the most value for their money.

For example, as Robert C writes on Medium, “in 2019, Apple used this effect where the iPhone 11 was priced at \$649, while the iPhone 11 Pro was priced at \$999 and the iPhone 11 Pro Max at \$1099. Here, the iPhone 11 Pro was acting as the decoy”.⁴² With calculated strategies like these, it is clear that resultant perversional poorfits accrue to profit-maximisers out of wanton greed, guile and gall and should be duly deplored.

But advertising may, in fact, be even more pernicious. Generally, a “good” is something consumers consider to have utility and are thus willing to pay for, and a “bad” is something that has negative utility that consumers pay to have removed or must be compensated to accept, such that they have a negative price in the market.⁴³ A

common example is rubbish, which one has to pay to have removed.

However, branding and other marketing artifices have created a new class of products that we might call *banes*: consumables that have negative utility, or actually in a sense serve to “mutilate” consumers and can thus be said to have *mutility*, not utility. Yet, unlike bads, the very consumers are compelled, through insidious marketing, to pay for these *banes* themselves. Pause and consider that: the pursuit of profit is so malicious that neuroscience is used to devise tactics that will compel you to pay money for something that actually mutilates you because you have been made to believe that it is good for you.

Cigarettes are an obvious example of banes. They represent perhaps the gravest manifestation of perversional poorfits and the integrity problem with profit-maximisation in general. The World Health Organisation reports that “tobacco kills up to half of its users”.⁴⁴ British American Tobacco (BAT), perhaps the worlds largest player in the tobacco industry, suggests that “the tobacco and nicotine market serves a growing base of more than one billion adult consumers” that consume 5,200

Billion cigarettes a year.⁴⁵ Half of these will fatally mutilate themselves with sticks they themselves purchased.

What is more, BAT reports that in 2019, sales for the legal global tobacco market were worth approximately \$818 Billion. Mark Goodchild and colleagues however estimate that “the total economic cost of smoking (from health expenditures and productivity losses together) totalled \$1852 billion in PPP (Purchasing Power Parity or International dollars, equivalent to US \$1436 billion) in 2012. To put it in context, this sum is equivalent to 1.8% of the world's annual gross domestic product (GDP)”.⁴⁶

These figures highlight the bane element quite starkly as this is such a perverted situation. We are spending almost a trillion dollars every year to fatally mutilate millions of people and cause almost a trillion and a half worth of damage to the economy. And we continue to do it with tobacco companies raking in billions in profits out of this grave global mental and physical health crisis every year. This is a grotesque epitome of perversional poorfits.

Of course tobacco advertising is heavily regulated in most countries such that costs today are more a legacy of past perversions that insidiously persist. But there are hundreds of banes that we purchase every day that go on to chronically and terminally mutilate us. In his book, “Sicker, Fatter, Poorer”, Dr. Leonardo Trasande documents that rapid increases in neurodevelopmental, metabolic, reproductive, and immunological diseases directly attributable to the hundreds of thousands of chemicals that we are exposed to every day.⁴⁷ We have been conditioned to see these nasty banes as goods.

Coca-cola epitomises this conditioning with its renowned marketing prowess. In fact, Coke itself is arguably a bane too. Matt Johnson and Prince Ghuman recently told Sana Qadar, who hosts the very insightful All In The Mind Podcast series, that this merely brown carbonated beverage that we associate with feelings of happiness actually has negative utility, and is thus harmful to human health, if you evaluate its nutritional content.⁴⁸

When not mutilating us for profit, other unscrupulous capitalists hoodwink us by selling us

what we may call *duds* – products that while they do not harm us are essentially futile and thus have *futility* as opposed to utility. For example, detox teas are widely recognised as total duds. But other duds are big business, however. A meta-study by David Jenkins and his colleagues from the University of Toronto and elsewhere, found that vitamin and mineral supplements actually offer no meaningful benefit even as they cause no harm.⁴⁹

Still, to the extent that we spend billions every year on these supplements in the belief that they have health benefits, moneys extracted from us by selling us duds like these yet comprise perversional poorfits. Surely, a civilised society should not have to stomach such sinister perversion errors that kill, maim or even merely flimflam us all in the name maximising clearly iniquitous profit.

05. Externalisation Errors

As a social people, many of the things we do will have neighbourhood or spillover effects on other people and the environment around us. These can either be spillover costs or benefits. Economists refer to these as “externalities” and attribute the concept to British political economists Henry Sidgwick and Arthur Pigou. As a welfare economist, Pigou was interested in ways of achieving optimal wellbeing at the societal level. His contributions to the question of externalities build on the distinction of social and private costs and benefits.

To illustrate negative externalities, he famously described a situation where “costs are thrown upon people not directly concerned, through, say, uncompensated damage done to surrounding woods by sparks from railway engines”. He then goes on to add that, “all such effects must be included - some of them will be positive, others negative elements - in reckoning up the social net product”.⁵⁰ Notwithstanding the much debated economic calculation problem, it is clear that *externalisation errors* in the evaluation of

costs and benefits will result in *externalisational poorfits*.

Consider, first, negative production externalities. Here, the marginal damage, i.e. costs imposed on society, such as pollution or the torching of common woods or private farmland in the Pigouvian example above, are not borne by producers. The incorrect externalisation of these costs will in effect result in externalisational poorfits lining up the profit residual at the cost of society.

Negative consumption externalities work in a similar fashion. Here, however, it is consumption that is associated with damage to society, as opposed to production *per se*. Thus, while there will undoubtedly be some negative production externalities on the production side, the usage of pollutant cars is manifestly bad for the environment in its own right. Consumers externalising environmental damage to society unduly benefit from doing so because they get to enjoy their luxury vehicles without paying for the damage they cause. These *externalisation poorfits* on the part of consumers should be redressed.

However, there can also be situations where the blame actually falls on producers. For example, in 2015, Volkswagen was very notoriously found to have installed a cheating device that led to a misrepresentation of emissions levels advertised to consumers. This deceit is reprehensible in that it amounts to vandalism of our planet in the name of profit. This is perhaps one of the worst examples of perversional poorfits. Had consumers been correctly informed of the true pollution levels, it is conceivable that the demand for the respective vehicles would have been lower and correspondingly the negative consumption externality would have been lower, as would VW's profits.

Indeed, research shows that health warnings do deter purchases of cigarettes, at least among those lower in nicotine dependence that can be rescued.⁵¹ Thus, when properly informed, one may optimistically argue that the majority of consumers in modern society do not actually want to willingly mutilate themselves and others or destroy our planet, especially for the sake of profit. In fact, recent research suggests that the VW

scandal “may have harmed not only the VW brand but also the Made in Germany label in general”.⁵²

Of course VW and other German exporters will have contributed to the creation of that positive “Made in Germany” reputation. There are thus positive externalities also. Positive production externalities happen when activity by a given entity benefits others outwith the said entity without due compensation. Thus there will be a sense that the positive externalities enjoyed by outside parties at no cost will have a negative effect in *externalisational poorfits* on the part of the party that undertook the work that is not compensated.

Accordingly undue *externalisational poorfits* will accrue to the party that benefits from the positive externality at no cost. A popular example of positive production externality is knowledge produced through a given firm’s R&D activity that goes on to spawn major spillover benefits beyond the firm. Similarly, a positive consumption externality will happen if my consumption of a given good also benefits the wider society. Getting vaccinated exemplifies positive consumption spillover effects as it means you will not go round infecting others.

Externalities have been very problematic to deal with across history as they result in inefficient economic outcomes. With demand and supply decisions made at the “private” level, positive externalities will lead to under-consumption. This is because there is more of the good to be consumed in society and since that does not happen, the positive externality is not optimised. A welfare solution to this for goods with positive consumption externalities is to actually make such consumption public such that consumption is maximised at the societal level.

Economists like to define “public goods” as things that are non-rivalrous so can be widely consumed without reducing availability, and non-excludable in that many can enjoy them without having to pay. An optimal welfare solution is one that seeks to make conceptually public goods public for real. Thus vaccination, much of health, schooling, and a lot of other “public goods” are either heavily subsidised or publicly accessible.

Knowledge through R&D inherently meets the public goods definition but is made excludable for some time through the usage of intellectual property rights to allow profits to accrue to the

holders of such rights. This is of course controversial and arguments can be made that knowledge cannot in fact be “created” privately and therefore that knowledge is inherently a public asset.

Indeed, R&D costs can be argued to be subsidised by the public already to the extent they are charged in the firm’s outlay in the first place as will be discussed later. Here, perhaps the installation of a boundary that internalises and externalises things itself requires a more nuanced reconsideration, since, as observed above, private market dynamics will result in the under-consumption of positive externalities.

Negative externalities are even more problematic because they lead to over-consumption. Thus, we have more pollutant vehicles on our roads than is desirable. This unwarranted consumption causes actual damage at the societal level while accruing iniquitous externalisational poorfits as discussed above. In his original work on externalities, Arthur Pigou averred that public policy, including taxation and regulation, would be ideal corrective tools to deal with this issue.

Through taxation, negative externalities are forcibly internalised as costs to the firm such that the firm's cost outlay reflects the social cost too. This will correct externalisation errors and correspondingly reduce externalisational poorfits. Regulations sometimes entail setting quotas to limit production and consumption to socially efficient levels.

This approach was vigorously criticised by Ronald Coase in his famous paper: "The Problem of Social Cost".²¹ He contended that governments do not have the correct information on socially efficient demand and costs and everything, chiefly because these are highly subjective and arrived at through market bargaining. Further, the nature of the damage is "reciprocal" to the extent that banning pollutant products means that useful value from the products is also lost. He proposed, therefore, that a more optimal solution can be arrived at within the market mechanism. Here, the "social" asset, e.g. a river, is internalised through the allocation of property rights to specific individuals. Market bargaining can then work out a solution.

Thus, the new proprietor or holder of river rights could charge anyone that chucks pollutant chemicals into the river a price for that. The proceeds could then go towards purifying the water, say. This way, the pollutant is still able to produce his goods, albeit at a higher cost, and the safety of the river water is not deleteriously compromised. The Coase Theorem thus postulates that the value of total production could be maximised by correcting “defects in one part of the system without causing more serious harm in other parts”.

Critics of the Coase Theorem highlight that his approach is just as stymied by the calculation problem as the Pigouvian approach.⁵³ Usefully, however, Coase argues for the allocation of rights to undertake “a circumscribed list of actions”, and not necessarily outright ownership as such, as essential to enable market transactions. Garrett Hardin takes a similar view when he discusses the tragedy of the commons,⁵⁴ especially in his 1998 extension where he emphasises that it is the management of the commons that matters, not necessarily the privatisation of commons.⁵⁵

This allocation of responsibility to a specific custodian ensures that producers cannot profligately channel pollutants into rivers. Moreover, it provides a mechanism to start to approximate damage, costs and benefits through both better specification and bargain. As more information becomes available, such rights and prices can be rearranged as appropriate towards again maximising the total product.

The allocation of rights to specific entities is however difficult when the social property in question is very large, e.g. the environment, and everyone on earth must agree to such an approach in the first place. Some externality problems can thus only be more efficiently corrected through government interventions such as Pigouvian top-down tax and regulation. Still, others may be more amenable to Coasian market bargaining solutions. Crucially, the later will yet require specification errors to be corrected as appropriate, including the identification of landlikes and their corresponding grats which should ultimately accrue to the public purse.

Nevertheless, as with other poorfits already discussed, residual externalisational poorfits

should be expropriated in full by the state. This should discourage the money-grubbing behaviour that leads to societal level damage for the sake of iniquitous private gain. At the same time, in addition to regulation, other measures to reduce the over-consumption associated with negative externalities will also reduce externalisational poorfits. These include better consumer education, cheaper substitutes and other measures that will shift the demand for products with negative externalities downwards.

Ironically, the reality of externalities and its conceptual debate, shows that economic production, consumption and distribution cannot in fact be correctly appreciated through a simplistic bifurcated internal and external model. At the very least, economic entities and their activities are characteristically permeable, variously interfaced, and ultimately subsumed within a larger system. As such, strict internalisation and externalisation would itself be erroneous.

What we need to do, therefore, is to develop an alternative more nuanced model of the process that economic production, consumption and distribution entails and why companies are at the

heart of it. Building on the factors of production we have thus far identified, we must also clarify the unique role played by the protoentrepreneur in this process. We then need to model how everything comes together and how we are to minimise the aforesaid errors and their resultant residual poorfits to deliver the outcomes society needs, both jointly and at the individual level.

05

Companies are people, cannot be owned for profit

In his much acclaimed book, *The Distribution of Wealth*, John Bates Clark makes a highly profound statement: “an article is not finished, in the economic sense, till the retail merchant has found the customer whose needs it satisfies. The sale of completed articles is thus the terminal act of social production”.¹ The implication here is as enormous as it is obvious: the production process is incredibly elaborate and covers the entire value chain. It is highly concatenated. Consider the case of coffee. As Figure 1 shows, starting with the farmer, coffee will usually go through around a dozen core value-chain actors and processes before it reaches the consumer at the grocery store or

coffee shop where the ultimate value-added, the final revenue-product, is realised.²

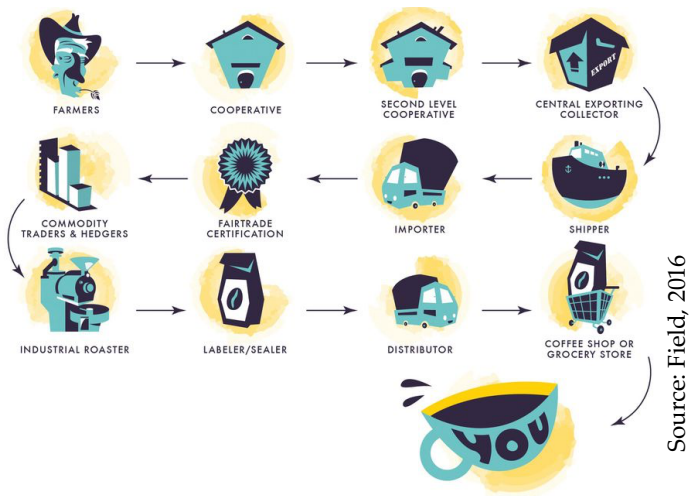


Fig. 1 – The typical value-chain for coffee

01. A concatenated crumbly incalculable common

With such a chain, the ultimate value-add can be seen to be a highly collective product, something of a “common”. If you pause for a moment and think about it, you could observe, like J.B. Clark, that “there is no way in which the fixing of the terms of division can be begun and completed after the goods are finished and exposed for sale”.¹

Most things on earth have exemptions so of course there is a way. For a great many of the almost 18 million coffee farmers in the Global South, it is common to wait months, or years sometimes, from the time they harvest the coffee until their coffee has sold quite further down the value chain and the farmers can then get paid. All the while, these small-scale farmers do not actually know how much the coffee they harvested, sometimes in the rain, will be worth, and therefore if they can afford school fees, for example. This uncertainty can cause problems for many. In fact, when it does eventually come, oftentimes, as a recent True Price report for Fairtrade International

shows, the money is hardly enough to live on and actually comes at a net loss to many farmers.³

In some countries, to provide farmers with a livelihood in the interim, banks have come up with schemes where advances (loans, pretty much) are extended to farmers with the anticipated coffee returns as the guarantee of payment. This arrangement, however, has nothing to do with the returns from coffee itself and some frustrated coffee farmers in Kenya, for example, have elected to cut the crop down. "I was paid \$100 advance for 550 kilos and when all the other deductions were made, I was left with \$10. The advance was not even enough to buy fertilizer and meet my personal needs. With this kind of misery, I no longer need the crop in my farm. I would rather plant maize or Napier grass for my cows", one farmer is reported to have said.⁴

A Reuters report highlighted that many coffee farmers across the Global South earned under a cent a cup. The report further indicates that in a letter sent to "chief executives at companies such as Starbucks, Jacobs Douwe Egberts (JDE) and Nestle, a group representing growers in more than 30 countries said there was a risk farms would be

abandoned, fuelling social and political unrest as well as more illegal migration".⁵

The sense that not enough of the ultimate value-add of coffee is being fed back to farmers can be seen to have big potential implications. However, in something of a "do-gooder", some, like Thrive Farmers Coffee, Pachamama Coffee Cooperative and Divine Chocolate are developing a business model that allows farmers to partake in the higher downstream value-add, although the forbearance required remains a thorny matter.⁶

It is no doubt that coffee has its idiosyncrasies even as it makes for an insightful case study. For much of the economy, as J.B. Clark notes in his 1899 classic, most of the distribution of the product is done as social production goes on and adjusts in accordance with prices changes in the market. Further, it is done in groups and sub-groups - the industries and firms along the value-chain. Now, Professor Clark's description of how distribution works does align with modern-day economic reality no doubt. But how this set up came about in the first place is not fully theorised.

One useful way of starting to theorise this is to consider what production and distribution would have looked like in a hypothetical “state of nature”, i.e. if it was not organised through the industries and firms we see today. This approach has been very insightfully employed to explain how modern organised society, with nation-states and social contracts, will have established from a state, that Thomas Hobbes noted would have had “no place for industry, because the fruit thereof is uncertain” and where life in general was “solitary, poor, nasty, brutish, and short”.

Now, further, if we recognise economic production as social and the ultimate product as a common as we have posited above, it is clear that it must follow that there is much scope for Garrett Hardin’s tragedy of the commons.⁷ In the state of nature that is devoid of organisation and some satisfactory certainty, it is hard to imagine concatenated social production happening efficaciously, if at all. As the coffee case above shows, *ex post* distribution of the common product is quite challenging as the risk of discontent is high and social production can crumble very quickly.

In the state of nature, thus, what would prevail is primitive modes of production such as a peasant economy.⁸ Here, production and consumption is almost wholly organised within the family with little market activity or industry value-chains. Essentially, then, the benefits of social production would be squandered. This, really, is the tragedy of the common product.

02. We produce as polities to maximise profruit

How might the tragedy of the common product be averted and thus how might the more prolific organised social production have come into being? Hardinian thoughts may help here. Now, according to Hardin, the tragedy of the commons is averted by fencing and “private property, or something formally like it”. As alluded to earlier, following some criticism, Hardin clarified in later work that it was the allocation of responsibility to manage the common that mattered, not privatisation in and of itself.⁹ So it is all about the allocation of custodianship that matters as opposed to ownership as such.

In applying Hardin’s concepts to the context of social production, fencing may be thought of as the subsetting of the common product, and the social production it entails, such that it is carried out within and amongst delimited subsets of the wider society. This creates companies, as distinct *social entities* or *polities*, comprising agents that come together to carry out some purposed economic production activity conjunctively.

This approach assumes that the default settings are that we have a Hobbesian disordered, inefficient and wasteful lot to start with. We know, however, that humans have an inherent *arrayist* tendency to seek to create order from that default state of disorder. Philosophers like Hobbes, Jean-Jacques Rousseau, John Locke and others have long argued that this is how society has managed to organise itself into political polities. We follow this line of argument and suggest that, in a way similar to the emergence of other polities in modern society, including nation-states, economic agents emergently organise into companies, economic polities, to optimise the benefits of social production.

Companies allow us to transform from a state of disorder to economic order. The result at the societal level is arrays of companies across the macro landscape engaging in social production in an efficient orderly fashion drawing on inputs from both within the company and outwith it. Companies are thus not fully fenced off from the macro-environment. They are also not siloed units with an interface with the external. Rather, as polities, companies are really just clusters of the

wider society; modules subsumed within the wider macro environment.

A company is thus simply just that - a company of people doing given value-adding work together. Any demarcation can only be thought of as having a dotted line and therefore highly permeable. Macro-level factors including political, legal, social, ethical, environmental and all other “external” factors will have substantive and substantial implications on company activities and are therefore not strictly “external” at all. Similarly, the activities of the company will spillover to the environment. Needless to say, companies cannot be privately owned.

It must follow, further, that the common product is not just common within the firm, but common in general. This is because it does indeed comprise inputs from the wider environment within which the company is subsumed. Moreover, from the perspective of the predominant macro environment, the true value-add of a given company is essentially the aggregate *fruit brought forward* by such a company into the ultimate common basket. We could apply the moniker *profruit* (henceforth *profruit*) for this.

The shared value perspective, proposed by Michael Porter and Mark Kramer, takes a similar approach.¹⁰ The major difference here is that the shared value perspective looks to align profit maximisation with social benefits. In contrast, we unreservedly reject the notion that profits are, or can be, a good thing to seek to maximise. In this regard, we have demonstrated that profits are errors that are clearly inconsistent with desirable societal outcomes.

In our proposition, profruit is simply the value-added brought forward from company level activity to the societal account, all things considered. It reflects the overall benefit to society and must thus be net of externalisation and perversion errors at the very least. Thus, the profruit of a pollutant company will be the revenue-product less environmental damage caused. Similarly, the profruit of crooks that sell us futile duds must reflect a nullity as appropriate.

By the same token, cigarette companies must account for the mutility caused by their products and related economic losses. Advancements in health economics have shown that estimates such as those reported by WHO's

Mark Goodchild and colleagues¹¹ are credible. To illustrate, let us do some crude estimates using figures cited earlier. Around 5,200 billion cigarettes are smoked annually across the world with \$818 billion in revenues but a social cost of \$1,436 billion every year.

Now, if we assumed a revenue to Gross Value Added (GVA) ratio of 30%, cigarettes can be said to have a GVA of \$245 billion. But against the social cost of \$1,436 billion, the cigarette industry has a whopping *negative* profruit of \$1.2 trillion! This is the economic mutility the cigarette industry contributes to the global economy, never mind the destroyed lives. Cigarettes damage the equivalent of the entire economy of Australia every year.

One response to this would be to seek offset the social cost, and thus nullify the negative externality. This would mean that cigarette smoking pays for its economic damage and thus contributes nothing to the world, which is clearly a lot better than the present situation. To do this, we would have to slap an excise of 23 cents per cigarette onto the present average price of 16 cents a stick. Cigarette prices would have to almost triple for the industry to merely have a neutral effect on

the economy, although lost lives would not return and damaged lungs may not be restored.

This goes to clearly show just how *unprofitable* the tobacco industry is. To think they still turn billions in profits every year! Surely, such companies should be rightly weeded out. It is a tragedy of the common sense that we have companies as economic polities among us that produce banes that mutilate us for private profit. Worryingly further, we are also letting polluter companies foment the tragedy of the common planet for private profit.

Recall, we left the inordinate state of nature, where life in general was “solitary, poor, nasty, brutish, and short”, to organise as polities and improve our lot together. Sadly, our companies have been hijacked and refrabricated as wanton scroungers of profit and self-interest. The tragedy here is that it is self-interest that was at the heart of the tragedy of the common product that led us to form companies in the first place.

We must return to the basics. We must return to recognising companies as polities formed to optimise the benefits of social production, to

maximise the common profruit and minimise distributional poorfits. But to be properly robust, and thwart any attempts to be hijacked or compromised again for profit, we cannot afford to have missing links.

03. Meet the underwriter, the missing link

Thus far, in an effort to deal with the tragedy of the common profruit, we have subset social production from a mammoth activity organised at the societal or indeed global level, which is essentially a non-starter hence the tragedy, to one carried out within companies. Within each company, however, we still have a common profruit. This means that the tragedy of the common profruit yet remains across the entire system and social production consequently remains in jeopardy. How is this tragedy to be dealt with?

Consider, first, the original Hardinian private property solution. We will use this to develop our exposition to explain how the protoentrepreneur role comes about. We will later argue against privatisation given further institutional developments have meant that ultimate responsibility is now not solely held by the protoentrepreneur and responsibility is not necessarily predicated upon private ownership.

Indeed, rather controversially, Hardin suggested that while it can itself lead to more

damage through negative externalities, privatisation of commons would be effective as it was associated with “intrinsic responsibility” to see to it that the resource is suitably optimised but not destroyed. If we follow this logic, the common here that is to be privatised is the common profruit, at the company level which in turn translates to the system level.

The person that becomes the private owner of the company’s profruit, we hereby posit, is the protoentrepreneur. This is done through precontracted payment guarantees where the protoentrepreneur undertakes to pay a negotiated remuneration to the specified factors of production operating within the firm. This happens before the actual profruit has been established - when the product is finally transferred to a paying customer finally bringing production to fruition.

In effect, the protoentrepreneur contracts to buy the marginal profruit of factor inputs at the prices agreed with the owners of these inputs. The protoentrepreneur thus assumes ownership of the profruit of the company before it has materialised. Whether it goes on to sell to ultimate consumers for a higher or lower price is a subsequent matter.

What this arrangement does is that it effectively transforms production from a purely *conjunctional* activity, that could easily fall through due to uncertainty and discontent, to one that has an additional *transactional* element. The later has built-in pay guarantees to factor inputs, agreed through bargain with the factor owners. Factor inputs here have a contractual obligation to deliver on their part of the bargain for the agreed price and it is this dynamic that makes social production more stable and reliable. The transactional element in wider production comes about as you have factor inputs on one side carrying out production in conjunction with each other, and the protoentrepreneur on the other side of the transaction as the buyer of the common profruit thereof.

Ultimately, however, all the protoentrepreneur does as the owner of the uncertain profruit of the firm is simply *underwrite* production. In doing so, protoentrepreneurs ensure that social production that would otherwise have been “touch and go” is carried out with more stability. This is how the tragedy of the common profruit, that would have meant that the

opportunity for such social production is squandered, is averted. Apart from providing a platform for social production, nevertheless, by only undertaking to underwrite social production within the company, the protoentrepreneur strictly speaking plays no overtly active role in production itself.

To be sure, issues such as asset specificity, may lead owners of physical assets to integrate the buyer of their product, the protoentrepreneur. As expounded by Oliver Williamson and others,¹² some assets may have a very high value to a particular production activity only and may not be easily deployed to other activities. Here, owners of such assets may seek to integrate their protoentrepreneur, essentially acquire them, to guarantee a “lock in” that ensures that such a buyer does not abandon them in pursuit of alternative suppliers. This is simply because such an outcome would leave the owners of capital holding an asset that has little alternative use.

Recall that in our discussion of capital earlier, we saw that capital items are infused with value, or productivity capacity. Owners of capital buy this cache upfront. Subsequently, as the

chattels are employed in production the cached value is decumulated over several periods. Owners of capital may thus commandeer the protoentrepreneur role to ensure that the future products of their capital are also underwritten thereby securing their original investment (the principal), the lucre produced by time lag and the interest incomes thereof.

Another reason why capital and protoentrepreneurship roles may be wrongly seen as one is that ownership of physical assets may more palpably demonstrate what Frank Knight called the “ability to give satisfactory guarantees”¹³ to other factor inputs, including employees. Essentially, that you both have the wherewithal to make good on the promise to pay as agreed and that you have skin in the game too.

Still, it is clear that the use of chattels (or other wealth) to help underwrite production and the employment of such chattels in production itself are two discrete economic functions. This is the distinction that eluded classical theorists which in turn has made it difficult to uncouple protoentrepreneurship from ownership of capital. Now we have done that, we need to reunite

protoentrepreneurship and residual profit to ensure conceptual integrity in line with formative classical principles.

To reiterate, with the privatisation solution, underwriting means that the protoentrepreneur assumes the rights to the company's profruit *ex ante*. This is done through negotiations with owners of the various factor inputs. Here, remuneration is determined using what Frank Knights calls "marginal bids", offers made in the bargain process, as opposed to precise *ex post* evaluations of marginal revenue products attributable to the various factor inputs.

Recall, moreover, that not all factor inputs are identified and classified correctly. Further, no mathematical models are specified, and specified fully for that matter, to calculate marginal revenue products that could advise the bargain. The company's profruit, as an adjusted revenue product, is itself also a product of bargains with customers, and not accurate measurements of cardinal utility that is to be drawn from the goods.

In underwriting the company's uncertain profruit, the protoentrepreneur strictly speaking

assumes responsibility for the residual poorfits emanating from the bargaining process and the various other errors discussed earlier. This, it is hereby submitted, is the definitive link between the protoentrepreneur and residual profit that eluded classical economic thought, perhaps because focus was on conceptualising protoentrepreneurship as a factor input.

It is instructive, nevertheless, that underwriting is indeed an apposite interpretation of the conceptualisation advanced by Richard Cantillon in his pioneering definition of the protoentrepreneur as one who bears ultimate pricing risks and uncertainties.¹⁴ Further, in the *Wealth of Nations*, Adam Smith refers to the “undertaker of the work” as the beneficiary of residual profits. In fact, the term to undertake and its French cousin “entreprendre” are archaically synonymous with underwriting and guaranteeing.

04. How noble custodianship trumps idle ownership

Our view of the firm as a social entity that helps avert the tragedy of the common profruit is consistent with extant theories of the firm expounded by Ronald Coase,¹⁵ Oliver Williamson,¹⁶ Armen Alchian and Harold Demsetz¹⁷ and Sanford Grossman and Oliver Hart,¹⁸ among others. These theories see the firm as an arrangement that helps optimise desirable co-operative production in the face of complex co-ordination impediments. However, they have their gaps, especially pertaining to the question of ownership and profit.

Ronald Coase does not attempt to explain residual profits at all in his thesis, and to whom they should accrue and why. Rather, his focus was on explaining why it must be profitable to organise production within firms as opposed to the price mechanism of neoclassical perfect markets. He thus takes an uncritical view of profit as a “taken for granted” object of the firm for the benefit of the owners of such a firm.

In contrast, Alchian and Demsetz do discuss profit a little in their theory of the firm. But they

erroneously attribute residual profits to a superintendence role, which is essentially labour whose deeds should be paid an equivalent wage. Similarly, Oliver Williamson and Grossman and Hart emphasise ownership of assets as the solution to the pertinent co-ordination issues and see it as the principle that grants title to residual claims.

The later, as we have already argued, is a mistake as rewards to capital are interest equivalent to the lucre from forbearance that is directly imputable to such capital. With the former, a cogent mechanism explicating the ways in which the ownership of assets solves production co-ordination problems is not advanced. Furthermore, even where capital serves to demonstrate the ability to give satisfactory guarantees, the underwriter role that we have linked to residual poorfits above remains separate.

What underwriting, in the sense of the assumption of rights to the company's (residual) revenue product, does no doubt entail is the imperative to reduce exposure on the part of the protoentrepreneur. Thus, Alchian and Demsetz argue that the possibility of shirking in joint production requires the employment of a monitor.

Their role is to see to it that employees carry out their contracted work appropriately and thus merit the agreed wage. In doing so, greater productivity within the company is achieved.

The monitoring carried out here however entails the usual labour and is paid in wages, not residual poorfits. It enters the production exercise to fend off shirking, prevent vandals, and uphold the common profruit. What this suggests is that it is the underwriter's imperatives that lead to the custodianship of social production that actually bear fruits; mere ownership itself just lazily lays claim to residual poorfits and we know these emanate from unwelcome errors.

Today, many sectors in the economy are characterised by relatively low capital intensity. The implication here is that physical assets would not be needed to signal the ability to make satisfactory guarantees in return for residual poorfits. What matters, instead, is the ability to make "credible promises". Game theory suggests that credible promises come with a high degree of confidence that they would be kept, not least because it is in the best interests of the party making the promise to keep it. Same difference, I hear

someone say, but there is an important nuanced difference.

Critically, the ability to make credible promises goes beyond the ownership of capital supposedly required to underwrite production. Rather, the ability to make credible promises will usually speak to company level markers of legitimacy and believable success potential. It would include the firm's track record, reputation, licencing, vision and values, ability to inspire, a strong competent team, networks, robust plans and processes, skin in the game, etc. etc.

Thus, plausible cashflow projections, good sales traction and a talented team will be required of many startup businesses seeking to make credible promises to suppliers of capital in fact. Today, you do not yourself have to have a pile of capital to make satisfactory guarantees to new capital, employees, or indeed other factor inputs or suppliers.

What is more important is the credible promise that the business will work efficaciously in producing a profit. And that the factor input being enlisted can partake in this process and be

suitably rewarded. This is the essence of custodianship. It will be readily appreciated that this contrasts markedly with the mere focus on ownership that only demonstrates ability to provide protection against potential loss by pointing to assets owned as a guarantee for payments.

Indeed, in a lot of ways, the guaranteeing of payments is not something that needs to be demonstrated palpably at all today. This is because underwriting is now variously institutionalised and, in some cases, flatly mandated. It is thus no longer something the protoentrepreneur very kindly affords humanity towards averting the tragedy of the common profruit in exchange of which we have to suffer a battery of poorfits.

Payment of wages is, for example, protected by statute in most countries. Accordingly, workers need not undertake any due diligence to satisfy themselves that a potential employer would in fact pay them; the law already stipulates that. Potential recruits will thus be looking at the company more holistically and how it aligns with things the recruits themselves care about.

Further, while accounts receivables (moneys from customers) remain pending, many short-term payments that the business cannot accommodate internally, such as the payroll, will usually draw on financial products such as overdrafts, working capital loans and invoice finance. These will usually charge an interest which is a bona fide item in the company's cost outlay as they contribute to sustaining production. Similarly, if the protoentrepreneur has to make good on their underwriting role by actually injecting finances into the company to cover cashflow shortfalls, they should charge the business an interest accordingly.

Developments in business law globally also mean that the protoentrepreneur as underwriter does not in fact guarantee payments in full anyway; even when the role is coupled with ownership of capital. With limited liability, only the assets in the company's books can be pursued by claimants. However, many "owners" will reduce their exposure by using holding companies, director loans and similar financial machinations.

Indeed, research has demonstrated that bailout expectations were a key driver of the discipline deterioration that precipitated the global

financial crisis in the now unforgettable 2007/08 period.¹⁹ While that was arguably a one-off crisis event with the government's hands tied in many ways, many countries do indeed have a loss relief scheme that allows businesses to "carry forward" or "carry back" losses. This means that any losses made are set off against future or recent profits, which in turn means a lower tax bill. Recall that both profits and losses are poorfits emanating from errors that sometimes become apparent after the fact. Arguably, then, it is right that losses are offset against profits to the extent that this helps towards the process of correcting errors in the social production system.

As previously discussed, however, the various residual poorfits should escheat to the public purse. Since the company is a module subsumed within the wider environment, the gross profruit at the company level is technically a common. Once suitable need remunerations to specified factor inputs are made, residual poorfits become the net common that should escheat to the public in full.

In this very vein then, when the poorfits are losses to be offset against future/ recent profits in

loss relief schemes, the public becomes the *de facto* underwriter. To be sure, there is nothing wrong with that in principle. It just means that the protoentrepreneur is a merely nominal underwriter at the company level and therefore practically redundant.

The problem with present practice comes in when we have positive residual profits. Instead of escheating to the public purse, these largely accrue to the underwriter protoentrepreneur who lays claim to ownership of the residuals, despite zero exertion. The protoentrepreneur invokes the pretence that their capital is put at risk of loss in making satisfactory guarantees. We have already shown this to be specious, not least because they should just charge a fitting price in interests for that.

Recall, further, that poorfits result from workers being underpaid, customers being overcharged and even perverted, and Mother Nature being milked, or indeed damaged, for private gain. With underwriting coupled with capital, these clearly ignominious moneys will, very unscrupulously, often be sanitised and reinvested poorfits transform into capital. This loot

then gets the legitimacy of a bona fide principal investment earning interest income on top. The enhanced ability to give satisfactory guarantees may itself be employed to extract further residual poorfits which will add to the cumulative extraction.

What if we changed the perspective slightly and saw the protoentrepreneur simply as the custodian of the common revenue product of the company? To start with, the custodian has no ownership claims, they only have the responsibility to *hold* the common profruit and help manage the entailing social production process in the face of multiple errors. Holding the common profruit means that the custodian will distribute as appropriate to specified factor inputs, and then transfer any unclaimed residuals to the public purse forthwith.

It is also the duty of the custodianship role to facilitate the correction of the various errors. Thus, custodianship will take proactive measures to mitigate and militate against unproductive and disproductive factors inputs. Here, for example, superintendents will be employed to monitor production to prevent shirking and vandalism and

undertake metering as appropriate, so workers are paid their just returns. Further, risk management and strategic foresight, etc. will be enlisted to minimise risk, uncertainty and unknownity and ensure better specification. As more information becomes available, adjustments will be made and errors reduced accordingly.

Production is also guaranteed proactively by making credible promises that have the interests of parties in the company and those to be onboarded, or variously engaged with, and those of the wider environment, all aligned. When bales and other adverse outcomes and errors hit, such that losses are incurred, custodianship can draw as appropriate on public support, such as schemes like loss relief, the furlough scheme, and the many programmes governments across the world launched when the coronavirus pandemic happened upon us. Indeed, it is right that both the blights and gratuities of Mother Nature are shared as a common.

Over time, as more information becomes available, other errors are minimised in turn reducing residual poorfits. Production is better specified, remuneration is paid correctly, and

generally prices in the economy are more or less efficient and equitable. Residual profits are observed less and less and the custodianship role is thus reduced. This further explains the putative ephemerality of both residual profits and the protoentrepreneur's custodianship imperative.

Moreover, it reiterates the fact that the protoentrepreneur has no bona fide income at the end of the day. Of course, Austrian economists like Israel Kirzner can argue that one can indeed elect to pursue a career as a protoentrepreneur that only underwrites the common revenue product pocketing arbitrage profits while they last. Austrians might assert that this is in fact upright as it helps make the system increasingly more efficient as it tends to equilibration.

In contrast, we would strongly contend that having profit, and its maximisation, as the motive, as is the case with capitalism, is to all intents and purposes brazenly advocating for errors to be contrived through extraction, exploitation, perversion and pollution, all just to manufacture abominable profit.

In the alternative thesis we advance, companies are formed as polities by founding leaders who simply enrol peers sharing a common purpose. The German system of co-determination, where employees participate in a substantive and substantial way to company decisions through an electoral process, is highly instructive in this regard.²⁰ Further, unlike mere private ownership, custodianship of the common profruit and the social production process is proactive and this imperative will entail actual exertion towards abating the errors that beset efficient social production.

Through better information and bargain, errors should be corrected over time and the system will, if only but asymptotically, approach perfect efficiency. The motive pursued is to maximise profruits and minimise poorfits to deliver the outcomes we *need*, both jointly and severally. This is the organising principle of *commeedalism* at the firm level. How this translates to macro-level growth is considered next.

06

Equitable economic growth, no boom and bust

Concerned primarily with international comparisons, GDP per capita, as a measure of economic output and income per person, has for a long time been employed as a ready indicator of development and wellbeing. Traditionally, the indicator sufficed in much public policy and discourse around development. It was assumed that overall economic gains would trickle down to the average citizen in the form of new jobs and other socio-economic opportunities.¹ Since the 1990s, however, focus started to markedly shift away from GDP following some years of uneasiness with it.

The United Nations was very much at the heart of this global conversation. A Working Group of the General Assembly had been tasked with developing an action-oriented, comprehensive agenda for development in 1994. In 1997, the full General Assembly adopted that agenda. The core message is captured by the first few lines of the agenda: “Development is one of the main priorities of the United Nations. Development is a multidimensional undertaking to achieve a higher quality of life for all people. Economic development, social development and environmental protection are interdependent and mutually reinforcing components of sustainable development”.²

Contributing to this debate, the Nobel Laureate Amartya Sen, opined that development, “requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states”.³ In taking this approach forward, the United Nations Development Programme (UNDP), would go on to note: “while people contribute to growth and

growth contributes to human wellbeing, (...) economic growth is not the *end* of human development. It is one important *means*".⁴

The UN would further spearhead the deliberation and international adoption of the Millennium Development Goals (MDGs) and then the Sustainable Development Goals (SDGs). In the interim, discontent with GDP as a priority parameter has grown prodigiously with popular books such as *Gross Domestic Problem*,⁵ *The Growth Delusion*⁶ and *Utopia for Realists*⁷ gaining a lot of traction, not to mention much discussion on popular media, political campaigns, university seminars, pub debates, everywhere in society.

A key issue with GDP is that it relies on prices of things and prices do not approximate value very well as our discussion of poorfits showed. Public service is also very big in most countries but is not overtly commercialised. Further, some very highly valuable things we experience routinely in life, such as childcare, homemade food, housework in general, rest and merriment, are not priced at all as they are not commercialised.

Sadly, though, commercialised things that are bad for society, like gambling, cigarettes and pollutants, are included in GDP. Problem-solving or restorative activities like healthcare, litigation and disaster recovery also add to GDP even as we would never elect to have more of the adversities that necessitate them. Another key issue is that as it is an aggregate measure, GDP tells us nothing about how equitable such an aggregate is distributed. Be that as it may, GDP has proven quite stubborn and remains a key indicator of prosperity the world over.

In pursuit of alternatives, many indices have emerged to try and capture the multidimensionality of development. The Human Development Index (HDI) is one of the leading ones released annually by the UNDP, and an inequality-adjusted HDI (IHDI) is now also being published. One issue with composite indices is that they are very complex methodologically and results can be questioned.⁸ For HDI, in particular, reservations about its added value have also been raised as it seemingly does not significantly differ from per capita GDP.⁹

01. Gross Common Profruit: a sounder aggregate

Since much of our modern economy is commercial, GDP nevertheless remains a key indicator of living standards and captures a significant part of our wellbeing. Policy makers also maintain that GDP helps greatly with decisions about public finances, monetary policy and other things required to manage the economy and support the pursuit of prosperity.¹⁰ Many governments across the world are however looking beyond GDP.

The OECD, for example, hosted the High-Level Group on the Measurement of Economic Performance and Social Progress (HLEG) tasked with exploring alternatives. The task group rightly asserts that we must move beyond GDP; policies need to be guided by a dashboard of indicators with robust and comprehensive information about people's material conditions, the quality of their lives, inequalities thereof, not forgetting sustainability.¹¹

To add to this debate, the cigarette illustration we saw earlier suggests that we could

employ information we already have, about externalities, etc., to move beyond the revenue product, or gross value-added, to profruits – the net benefit to society a given company brings forth. This could even be reported at company level, given advancements in data collection, modelling and estimation of externalities.

On pollution for example, technology triangulating data from satellites, other remote sensing techniques, and artificial intelligence has made it possible to transparently estimate emissions by activity at very granular levels. A good example here is Climate TRACE, a global coalition led by the former US Vice President, Al Gore. We could use such data to estimate the damage caused through emissions and add it into evaluations of the profruitability of firms in the various industries.

This is not a crazy far-fetched idea, in fact. The UK government is already now making sustainability-related disclosures mandatory as the recent “Roadmap to Sustainable Investing” policy paper sets out.¹² All that would be needed is for suitable impact metrics that can be used to offset the value-added to be developed so we can see the net

benefit produced for society, the profruit. Existing excise levies, such as the UK's sugar tax could also be more readily employed in company reporting. But we must make sure that these excises accurately approximate the damage caused otherwise policy could be deemed complicit in the externalisation of damage to society that serves to line the pockets of corporates in poorfits.

Similarly, if we undertake reconstruction work following a natural disaster, we could first estimate the initial damage and offset that against the rebuild. We could do this with healthcare costs too. There already are well established methodologies of estimating economic costs of morbidity and mortality. Here, direct costs capture the value of resources that are devoted to care, etc. that could be allocated to other uses in the absence of disease.

These presently enter GDP as a positive thing suggesting more illness helps grow the economy as we would need health services to counter it. Indirect costs on the other hand estimate the value lost due to reduced or discontinued productivity caused by morbidity and mortality. We could employ these indirect costs of illness as

estimates of the economic blight of disease and then have the direct costs as our antidotal efforts to counter this. Of course, direct care costs are not incurred merely in the interest of securing or upholding economic productivity. In fact, much of the direct costs of care goes towards the elderly that are already economically inactive. But the point is that an offset of direct costs is warranted to account for the disease blight we seek to neutralise.

In all, we need to do a better job of identifying bales (blights) and vandals (dents) that entered our economy, as well as the bads, duds and banes we consumed to our disadvantage. We should estimate these negatives and include them in assessments of what we have produced together as opposed to just accounting for antidotes of unnamed detriments as standalone good things that we should have more of.

If we were able to implement these kinds of calculations, we would have an aggregate one might call Gross Common Profruit (GCP), the overall net benefit to society our economic activity brought forth in a given period. It should be interesting to see how GCP and GDP compare. Given the interest in multiple indicators beyond

GDP, GCP is something we would probably want to report either way.

As an aggregate, though, GCP and GCP growth would face the same critique as GDP when it comes to concerns about distribution. But a commeedalist economy is built on the principle of equity at the heart of it. Traditionally, it has always been thought that there is a big trade-off between efficiency, output per capita, and equality. As you would expect, the situation is a little complicated than this oversimplification as Torben Andersen and Jonas Maibom show in a recent paper.¹³ The basic dilemma is however said to come about because redistributive policies required to accomplish equality are thought to produce misallocations of resources, such that equality supposedly comes at a cost.

Professor Arthur Okun famously lamented that redistributive efforts were like a “leaky bucket”.¹⁴ This is because governments can be rather inept in the collection and delivery of the moneys. But more importantly, it is thought that redistribution is associated with high deadweight losses to society as a whole. For example, redistributive taxes are said to dampen the

productivity of highly talented income earners and highly profitable businesses. What this means is that redistributive interventions end in lower production overall so there is less to actually redistribute.

The ideas proposed herein very strongly suggest that there is quite a lot in the way of gratuities of nature and residual poorfits that governments have a duty to collect for redistribution. These are characteristically nondistortionary so there is a robust efficiency case for their collection. Furthermore, ideals of equity would dictate that the distribution of needs means that incomes should be commensurate with outcomes attributable to exertion. High income earners must thus be able to point to what they have actually themselves produced, adjusted for quasi-rents. It would be preposterous, therefore, to allow poorfits to accrue to certain individuals on the grounds that such thievery is good for growth.

In line with classic understandings of the social contract and the emergence of nation-states, the state has a central role as the overall custodian of nature, in all its forms. In turn, given we all commonly have natural rights to the gratuities

thereof, the state must facilitate their collection and distribution. Further, we must look to the state to help redress errors contrived to extract poorfits from the people. Still, competition and market exchange are also an integral, and natural, part of efficient economic functioning and governance. Indeed, economics textbooks instruct that competition is a very good enforcer of fair prices and efficiency in the market. But we need to more nuancedly appreciate the role competition plays in facilitating equitable growth and efficiency in the economy.

02. Growing from wasteful disorder to efficient order

As described previously, the “state of nature” in economic production appears to be one crippled by the bale of ignorance and inordinacy. The resultant blight associated with this is high levels of unrealised productivity and utility as the benefits of social production are squandered. By underwriting company production and making it custodial and transactional, protoentrepreneurship acts to abate this blight.

Importantly, within this context, the magnitude of residual poorfits thereof serves to signal the scope of errors in the economic system that remain uncorrected. Residual poorfit is therefore a most important parameter in our thinking of how the economy works and we should be rightly wary of high residual poorfits, and proactive in minimising it.

Indeed, following the first iteration of transactional social production, all pertinent agents will get a chance to evaluate the facts. They will consider actual economic outcomes against the prevailing bid prices and the residual left over, and

seek to adjust their new bids accordingly. Everyone along the concatenated social production value-chain will do this, from the indigent coffee farmers in Kerala to the yuppie coffee snobs at Cafe Caritas. Where high remunerational poorfits are apparent, for example, owners of the respective factors of production will renegotiate their factor prices with their custodian protoentrepreneur.

There will be internal differences, as part of the bargain mechanism, as to what the correct figures should be. New companies will emerge as a result making the bargain external. In turn, competition between companies will help adjust factor prices further towards a market equilibrium, the putative fair price. Further, naturally, many previously innominate factors will be discovered during the iterative production process. These will be included in future claims as given factor incomes, linked to outcomes. This will in turn reduce specificational poorfits.

At the customer end, competition will be driving the price down, reducing commutational poorfits. Consumers will also increasingly become better informed, empowered by the competition between companies and their own enlightenment

through experience, etc. and will demand things they more knowledgeably deem to be of benefit. This will increasingly reduce the scope for perversion and related poorfits. As citizens of our planet, enlightened consumers, producers and constituents will also not accept externalisation errors and companies in competition with each other, and acting under the law, will have to oblige.

In line with conventional theory of productive efficiency, competition will help correct optimisation errors by compelling firms to operate at their most efficient production scale. This will eliminate dead-weight losses in the economy. We will increase the employment of available resources up to the production possibility frontier, responsibly producing things that our civilised society desires. In this emergent perfect economy, all factors of production will be specified, returns to such factors will equal their marginal outcomes, firms and the wider economy will operate at their most efficient levels, meeting societies needs at cost price and sustainably. We will have achieved productive efficiency, allocative efficiency and social efficiency.

Through this iterative process the economy will eventually level up, or *levelop*. Our new neologism, *levelop*, is level with the “-op” suffix which I gather means “towards”. To *levelop* is thus to approach “level”, to level up. As an economic concept, *levelopment* here means the elimination of the various inefficiencies through increases in protoentrepreneurship, the number of companies and competition in the economy. Through this process, we level the economy up to its productive potential by reducing deadweight losses, we level remuneration up to outcomes of factor inputs, prices to costs, marginal utility to prices.

As the bale of ignorance and inordinacy, and the associated blights, are fully ameliorated, poorfits and the underwriting function of the entrepreneur will be eliminated. Even the firm as a discrete entity will cease to exist as such with the operations of subset companies now virtually seamlessly integrated within the broader economy. In this perfect economy, all boundaries will be virtually defunct and all transactional economic activities will virtually now be conjunctual; perfect competition will be tantamount to perfect co-operation.

Strictly speaking, therefore, in the exposition here advanced, the pure function of the protoentrepreneur in the economy is to transiently facilitate the iterative construction of a more fully optimised co-operative economy. In the process of minimising the various economic errors and residual poorfits, the economy shifts from a state of ignorance and inordinancy towards a more stable and equitable configuration; from disorder to order. This explains why profits and the protoentrepreneur were always thought to be ephemeral in the economy. The protoentrepreneur is simply a transient arrayist agent.

It is appreciable, however, that that theoretical state of perfect competition is never ultimately achieved in the vagarious real world. In fact, greater protoentrepreneurship and competition may become ruinous. Here, prices in the market will be driven below costs and there will be a lot of excess capacity and deadweight losses. We may end up with a market that characterised by *monopolistic competition* with every company slightly unique but all competing for the same customers.

Companies may also become ever smaller, operating below the suitable efficiency levels and with sub-optimal returns. Such an over-correction would be an error itself and would lead to a recidivation to the tragedy of the common profruit. Low income countries with swarms of micro subsistence enterprises thus either characterise an under or overcorrection of the tragedy, hence the high levels of inefficiency and under-development which is itself a tragedy. These errors would need to be ameliorated by reducing the levels of competition and seeking to level back up to the suitable levels of scale and prices in line with intrinsic levels of productive, allocative and social efficiency.

The error minimisation dynamics we expound are manifestly the natural and desired response to the tragedy of the common profruit and disorder more generally. Just like other phenomena in the natural world, a commeedalist economy innately seeks to asymptotically approach the patently desirable state of order. In contrast, the conventional notion that residual profits are to be maximised can be seen to have the opposite, utterly

farical destabilising effect: maximising profit will entail the unnatural aggravation of errors.

This is the single most profound internal contradiction of capitalism that has eluded extant thought. Capitalism is thus a repulsive fabrication. To think, a lot of the economic frictions and crises we see can be explained by the fact that capitalism pushes in the opposite direction from nature.

The financial crisis of 2007-08 is a good example. Here, we had people that clearly could not afford credit being perverted into taking on more debt to purchase wildly overpriced homes. Further, both buyers and sellers of mortgage products wrongly believed that such prices would indeed carry on rising,¹⁵ affording handsome profits to all involved. The financial system thus extended finances to even riskier borrowers since with appreciating prices, struggling borrowers would still have profitable homes.¹⁶

Curiously, the finance industry already speaks of a situation where prices have been growing and growing as one that will have, or require, a “correction” eventually, and could yet spiral into a full blown crisis. In the lead up to the

global financial crisis, in fact, analysts had been worried about the likelihood of this happening but there was profit to be made so the risks were deemed to be small.^{15,17} If we had a commeedalist system in place at the time, the initial escalation that built the bubble up before it went on bust could have been averted. How? I hear you ask. The answer: the big residual poorfits would have been cause for concern and correction, not exuberance and exacerbation.

The exposition we have developed thus far assumes a given technological regime and finite inputs such that we have a definite production possibility frontier. Any growth we can achieve through the error minimisation dynamics are thus only efficiency gains. Such growth is capped by definition. We will merely have leveloped in full to an equilibrium steady state economy. But humans are about pushing and unfurling the envelope; developing, not just leveloping. How do we achieve this equitably?

03. The munificence of the knowledge ATM

The only thing that doesn't change is change itself, a popular truism goes. What this means for our exposition is that we will never have a steady state economy with given technology, factor inputs and markets. At the very least, there will be changes in the population and resources such that factor inputs and consumer markets cannot be constant.

But we also know that innovation is almost incontrovertibly recognised as the most fundamental driver of growth at both the macro-level^{18,19} and at the firm and industry levels.²⁰ In his seminal work on innovation, Schumpeter defined the phenomenon as the “carrying out of new combinations” of factors of production and argued that this was the defining function of the protoentrepreneur.²¹

In keeping with the conceptualisation developed here, it is true that a change in the combinations of factors of production may be fraught with errors. This will necessitate the protoentrepreneur and their custodianship. There will also be much scope for the various poorfits in

those early iterations. Thus, where there is innovation, there will be protoentrepreneurship, but the two are merely complementary in the pursuit of betterment.

Innovation serves to increase the economy's productive potential, hence shifts the production possibility frontier outwards. Innovation itself maybe argued to entail the correction of erudition errors that remain in our civilisation. Arguably, the discovery and implementation of new knowledge reveals, as Israel Kirzner puts it, the “wastefulness and the misallocated character” of presently prevalent practice.²²

Linking innovation to economic performance has however itself been quite problematic. To start with, a satisfactory explanation of the “black-box” of technological change has eluded researchers for many years.²³ How innovation then impacts national level growth,²⁴ or indeed improved firm performance,²⁵ has also not been established. Moreover, that innovation is always good has been questioned as examples of inefficiencies and other undesirable outcomes abound.²⁶

Still, new knowledge is central to the innovation process, since innovation entails the implementation of new knowledge in production. This is how innovation and knowledge impact production, and therefore growth. Recall, Joseph Schumpeter defined innovation as the “carrying out of new combinations of factors of production”.

Knowledge is however itself a complex factor and the way it works has huge implications. It is necessary, therefore, to develop a coherent framework that appreciates the multifaceted nature of knowledge. Essentially, we must conceptualise such multidimensionality in a way that helps us understand the true nature of knowledge and in turn how it contributes to economic performance.

In the following, we identify three dimensions of knowledge as an economic resource: Knowledge Accumulation, Knowledge Transference and Knowledge Maximisation. This is the knowledge ATM. We use this model to further elaborate the nature of knowledge as a highly bounteous resource for all of society to draw from. Our exposition will further explicate how these three dimensions interact to open up new possibility frontiers and thus new opportunities for

economic growth, beyond efficiencies within a given technology.

Knowledge Accumulation

We can think of knowledge accumulation as simply the stack of ideas, theories, recipes, etc. that can be found in the economy, the extent to which such knowledge is employed in production notwithstanding. Importantly, every idea, theory, recipe, etc. is qualitatively different. Knowledge accumulation thus relates to growth in the stocks, in the sense of varieties, of the different ideas, etc. that make up the global body of knowledge. As indicated earlier, it is the implementation of knowledge in production that links innovation to the generation of an actual economic output, and therefore growth. But to the extent that every idea, etc. is qualitatively different, analysis pertaining to implementation and outputs of knowledge as a factor input would need to track every idea, recipe, technology, etc. discretely to assess its productivity. We will revisit this later.

But first, the process through which knowledge is accumulated in the first place is

highly instructive about the nature of knowledge itself. It is fair to say that every unique piece of knowledge is monomorphic, i.e. exists in only one form. This means that a given piece of knowledge will be subject to multiple discoveries as Robert Merton demonstrates in a very insightful 1963 paper.²⁷ The knowledge search and formulation process can thus be argued to entail a form of prospecting activity that leads to discoveries. Prospecting will entail non-zero costs, but is also quite prone to serendipity.

From this perspective, R&D and all other ideation and formulation costs in general constitute “prospection costs”. More importantly, while much focus has been on the characterisation of knowledge as a public good due to its non-rivalry and non-excludability characteristics,²⁸ knowledge can in fact be argued to be a latent natural resource that is merely discovered through prospection activity such as R&D. This makes knowledge both a public good and a public asset, to the extent that natural resources are intrinsically considered public assets.

Extant policies, such as R&D tax relief and tax credits,^{29,30} view knowledge only as a (quasi)

public good. They thus seek to support knowledge accumulation because of the social benefits it affords society as a public good. Our public asset perspective raises further issues. In particular, once knowledge is recognised as a natural resource, the debate surrounding the exploitation of traditional natural resources and the distribution of economic rents thereof becomes highly instructive.³¹

Indeed, a number of policies applying to traditional natural resources have been employed similarly in knowledge matters, perhaps without a direct recognition of the same. To start with, a lot of knowledge exploration and prospection is publicly funded, whether directly or indirectly through subsidies and tax credits.^{30,32} This mirrors public financing towards the prospection for natural resources like oil.³³ There is also direct public ownership of key technologies, such as the Global Positioning System (GPS) which is actually considered a public “utility”.³⁴ Further, R&D expenditure is tax deductible and a key rationale for patents is that they enable owners to recoup their R&D expenditure. This makes taxation arrangements applying to knowledge not

dissimilar to cash flow tax policies used for natural resources.³¹

Still, there are several important differences between knowledge and other natural resources that have implications for policy. A key one is that knowledge is a non-finite resource; there is no end to knowledge. Certainly, thus, it is in the interest of society that as much knowledge as possible is accumulated, not least because of its bounteous public good nature with zero costs to use once formulated.

Second, while elements of knowledge are monomorphic, knowledge as a whole can be argued to be highly multiplex, permeative and miscellaneous. Consider biomimicry, with a lot of examples discussed in a popular BBC podcast, *30 Animals That Made Us Smarter*.³⁵ This will often draw on multidisciplinary cutting edge science to emulate given natural organisms and processes in developing innovations useful to humans. So the new knowledge is not merely drawn, or copied, from nature as such.

Legend also has it that the fordist assembly line was inspired by an overhead pig

dismembering track line Henry Ford saw at a butchers shop in Chicago. Similarly, the transformative Toyota just-in-time model is reputed to have been inspired by the way stocks of green groceries are managed. Disparate monomorphic elements of knowledge can thus blend in complex ways and go on to variously inspire, and indeed constitute, multiple entirely different technologies and applications.

Conversely, most natural resources are “point source” and therefore easy to territorialise and expropriate. Suitable rights may also be designated to specific entities. This makes the level of prospection and accumulation of such resources generally easier to manage. In contrast, the discovery, synthesis, formulation and exploitation of knowledge is naturally very widely and randomly dispersed. This makes prospection, accumulation and appropriation of knowledge highly decentralised, patchy and inefficient. Knowledge is thus also a rather miscellaneous public resource.

The implication of this is that policy has a central role to play in the accumulation of knowledge, allocation of pertinent rights, and

public repositionation of ideas and recipes. As discussed, policy has already been contributing to the accumulation of knowledge through direct funding, tax policies and other related government provisions such as education and research. For example, extant tax policies indirectly address unpredictable non-zero prospecting costs issue by allowing these to be capitalised and amortised over time. Further, through publicly funded education in most countries, the research and other skills often required to formulate knowledge are paid for by the state. From the perspective here advanced, these only need to be recognised as public outlay towards the prospecting of natural knowledge resources.

The notion of knowledge as a natural resource has more profound implications still. Presently, knowledge is largely considered a creation of individual entities. As a supposed product of individual exertion, therefore, knowledge is considered the property of the author and is granted proprietary rights thus.³⁶ In contrast, we argue that the ideas and recipes that make up the global body of knowledge are a latent natural resource that is merely discovered through

prospection activity which is itself largely publicly funded. As a natural resource, knowledge is thus intrinsically a public asset. All the returns to all knowledge should thus accrue to the public.

Prospection activity does however entail exertion and this should be paid from the public purse accordingly. In the present Intellectual Property Rights (IPRs) regime, private entities can be said to be allowed a period of time to exclusively exploit the natural resource that knowledge is to recoup their investment. Upon expiration of this term, the rights to such knowledge duly revert to the public.

The conventional view is however that intellectual property rights are allowed as a way of dealing with public goods attribute of proprietary knowledge by making it excludable thereby encouraging greater innovation. This has, very sadly, been captured for profit with little knowledge accumulation activity. For example, Vinayak Prasad, a hematologist oncologist and health policy commentator, decries the worthless and sometimes even harmful cancer drugs that are hyped as truly transformative. He writes: "The magnetic pull of profit, regulatory capture and

hype have resulted in policies that lead us astray from the best interests of people with cancer".³⁷

Similarly, Robin Feldman, an American Law Professor, recently told Russ Roberts of the EconTalk podcast that over 75% of drugs associated with new patents are not new drugs at all. Yet "the profit margins for companies on their drugs is about 76% in terms of the marginal cost, once you have the drug in place". Firms are thus only incentivised to undertake minor changes, "like adjusting a drugs dosage... So, you may get a [patented] change that means very little from a therapeutic standpoint, but you get a lavish reward in return".³⁸

From our perspective, this is an abuse of the patents system. Since knowledge is both a public good and a public asset, it should in fact not be made excludable at all. Rather, it is the rightful recompense for prospection costs that should be made from public coffers quicker to facilitate the more rapid discovery of these public assets. Subsidies and grants have already been employed in this regard for many years.

You will recall further that within a commeedalist system, all residual poorfits should escheat to the public purse as they are essentially the unallocated parts of the common product. Thus, R&D and other prospection costs incurred by a given company on behalf of the public can be written off against these poorfits. This should be similar to the way VAT offsets are carried out such that only net payments are made to the state.

Under capitalism, the use of IPRs to serve the profit motive has slowed down innovation and its contributions to society. Within commeedalism, focus is on the undertaking of research and development work as a unique activity aimed simply at discovering new knowledge assets publicly available for employment. It is right that this work is remunerated appropriately. New knowledge thereof should then be patented in the sense of making this public knowledge asset actually “patent”. As the custodian of public assets, the state must thus stipulate and facilitate patenting as the public repositation and publicisation of knowledge.

To begin with, this would help in the evaluation of the amount or height of knowledge

that society has accumulated thus far. More profoundly, since specific elements of knowledge are monomorphic as discussed above, the patenting of all existing knowledge through public repositation and publicisation should reduce unnecessary duplication of search efforts. Further, building on the idea that knowledge is miscellaneous, multiplex and permeative, public repositation and publicisation would enhance further accumulation and extension of knowledge in different directions thereby growing the aggregate body of knowledge and its applications.

Knowledge Transference

The second dimension of knowledge is “knowledge transference”. This captures the degree of diffusion; the extent to which the proficient knowledge of a given idea or recipe may be said to have spread, through learning, sharing and other forms of knowledge impartation. Thus, ideas and other ken that are universally known have, or have had, high levels of transference.

From a macro perspective, the transference dimension highlights the breadth of

knowledgeability in the wider economy with regard to a given piece of knowledge. Knowledgeability can be thought of as a prerequisite to the proficient and efficient employment and exploitation of knowledge in production. Beyond public repositation and publicisation of extant knowledge, therefore, in expanding knowledgeability, transference is about readying as many economic agents as possible for the gainful exploitation of knowledge. Given the public asset nature of knowledge as discussed above, knowledge transference must also be a priority area for policy if knowledge is to contribute to greater social betterment.

Robert Lucas' view of knowledge capital as human capital³⁹ may be seen to be capturing the transference dimension of knowledge. This is because education generally draws from the extant global accumulation of knowledge and diffuses it, resulting in an enhanced height of knowledge across society. Much of education however mostly imparts basic knowledge or the capacity to learn other more specific and applied knowledge. It is therefore only a building block, albeit a paramount one. It should be in the interest of society that all

knowledge, including technical recipes and applications, is readily transferable as appropriate.

Indeed, according to the World Intellectual Property Organization (WIPO), patent specifications should “explain how to work or carry out the invention in practice so as to enable anyone skilled in the relevant art to do so likewise, without undue experimentation”.⁴⁰ This makes the knowledge inhering in patents to be easily learnt by suitably educated and trained professionals in the corresponding areas. In fact, in line with the notion of absorptive capacity,⁴¹ rather than developing new ideas or recipes, considerable R&D expenditure entails gaining access to and understanding extant knowledge and developing pertinent competencies to unpack complex technical knowledge. Such efforts thus constitute “learning costs” which again should be footed by the public to the extent the product of the respective knowledge should accrue to the public. We have argued they in fact already are since they are at present deducted from the common revenue product.

To be sure, effective public repositation and publicisation policies should reduce these learning

costs anyway. Further, robust systems enabling inventors to recoup their prospection costs should also help make patents less cryptic and trade secrets less prevalent thereby reducing learning costs for adopters. The advent of open innovation, as popularised by Henry Chesborough,⁴² can also be seen to be a highly helpful development in this regard.

Here, the development of knowledge is more collaborative and the sharing of it is thus more open. Besides enhancing rapid knowledge transference, open innovation minimises the duplication of search efforts and the prospection costs they entail. In addition, it enables greater capacity to collaboratively grow the body of knowledge and diffuse such knowledge expeditiously to economic agents that are highly likely to employ it in production since they co-created it. Open innovation would thus be a powerful tool in a commeedalist economy as it appears to quite favourably encompass the accumulation and transference dimensions in a way that further bodes very well for the maximisation of the knowledge in actual production.

Knowledge Maximisation

The third dimension of knowledge pertains to the actual full utilisation of knowledge in economic production. In a famous 1990 paper, Paul Romer, a globally renowned New York University Professor, gave prominence to the now widely recognized idea that the marginal cost of the additional employment of a given idea is zero.¹⁹

Chad Jones summarises this concept beautifully citing one of Paul Romer's favourite examples: "Oral rehydration therapy is an idea – dissolving a few minerals, salts and a little sugar in water in just the right proportions produces a life-saving solution that rehydrates children and saves their lives. Once this idea was discovered, it could be used to save any number of children every year – the idea (the chemical formula) does not become increasingly scarce as more people use it".⁴³

This perfectly epitomises the idea that innovation entails the reduction of erudition errors: we discover new knowledge that is useful to society, we spread it across society so that as many people as suitable are fully aware of it and proficient in its use, and we then maximise the employment of such knowledge to draw its fecund

fruits for the greatest benefit to society. The more erudite more of society is, the greater the societal betterment.

Recall, however, that we argued that every idea is unique and analysis of knowledge as a factor input would need to evaluate given ideas, or at least particular technologies, discretely. This would of course be impossible and unnecessary from a distributional perspective. Notwithstanding that it is a public asset so its product should accrue to the public, with specific bits of knowledge not identified and measured individually, knowledge and its product would fall under specification errors and the respective poorfits should escheat to the public anyway. But for purposes of demonstrating the sheer munificence of knowledge, some elaboration is in order.

Now, a core implication of the zero marginal costs theory is that once a given idea has been formulated, its supply, for exploitation, is unlimited at price zero. You will recall that we previously elected to label all natural resources "landlikes" as they have the same characteristics as land, chiefly a fixed level of supply that does not vary with costs/ prices. Knowledge is a marked

exception. In theory, once discovered, the supply of units of it that can be gainfully supplied is virtually unlimited and at price zero. Unlike landlikes, thus, the supply of formulated knowledge for use is instead *airlike* – everyone can use it as many times as they wished, for free.

The demand for a given idea is however derived from the demand for the ultimate goods. It is thus downward sloping due to diminishing marginal utility with increased consumption. To realise allocative efficiency, therefore, knowledge should be exploited until the point where the marginal revenue product reaches zero. This also means that the equilibrium price of knowledge employed in production is zero. As a result, the entire product of knowledge should ordinarily accrue to customers as consumer surplus with no scope for producer surplus.

This explains why much of modern online technology, typically exempt from standard IPR protection, has proven extremely difficult to price and is thus technically free to use. Most of the benefits we get from google and Facebook and other modern tech giants is essentially a consumer surplus. This is why these companies have resorted

to alternative revenue models in what Shoshana Zuboff calls Surveillance Capitalism.⁴⁴ Here, in exchange for the huge consumer surplus, we unconsciously, or sometimes actually compulsorily, give big tech virtually unfettered access to very personal details about our lives. If we consider this data as a commercial product, we can immediately see that such data is essentially very intimate human assets that have been extracted from mankind and packaged as commodities for sale.

Since big tech is highly monopolistic, the command the industry has on the supply of these commodified human assets is huge. On the other hand, with huge scope to use big data to even, rather disturbingly, pervert human behaviour for profit, the demand from advertisers is very high. It is also relatively price inelastic as there are fewer substitutes. This allows a gargantuan “producer” surplus for big tech. What started with a huge consumer surplus with a zero price to consumers ends with billions in profits for big tech. Of course we sadly also have a people not just monitored but also conditioned to behave in ways that accrue perversional poorfits for unscrupulous profiteers.

You will recall we have elsewhere argued that consumer surplus is cream equivalent to rents that should accrue to the state for distribution. What has presently been happening under capitalism is that such cream is skimmed and captured as profit, as the iPhone pricing examples earlier showed. In the era of big data, we also surreptitiously pay for this consumer surplus “in kind” with private human data that is then sold for profit, sometimes with grave societal outcomes.

To think, the most profitable businesses in the world are technology firms and all that profit is the product of a natural resource we all have a right to. Instead, moneys that should be accruing to society have been pilfered to create pompous billionaires. That we then celebrate these billionaires for their philanthropy when they toss crumbs to society from society’s own assets is utterly outrageous.

Indeed, present arrangements allocate monopoly rights to knowledge exploitation to given firms. Conventional basic micro-economic theory however suggests that monopolist markets will often be associated with inefficiencies leading to deadweight losses. This is because monopoly

firms will not employ resources at the most efficient scales. From a knowledge perspective, what this means is that firms employing knowledge monopolistically do not just profit from a public asset. Rather, they are also dogs in the manger as they deny the rest of society the opportunity to benefit from such knowledge.

The maximisation of knowledge can thus only be achieved where knowledge accumulation and knowledge transference are publicly funded, widely publicised, and knowledge maximisation is rightfully also open. The later would also mean greater competition amongst companies which would lead to more efficient markets overall. The public financing of the prospection required for knowledge accumulation, and in turn the costs of knowledge transference, does have some problematic implications for policy, however.

If left to competitive markets, the product of knowledge would accrue in full to opulent customers who would have been willing to pay more than the equilibrium price. The state does thus need companies to skim this cream and transfer it to the public purse. Recall, however, that, as previously argued, prospection costs in

company outlays are effectively paid for by the public to the extent that residual poorfits should escheat to the public anyway.

But it is not just the financing of prospection and learning costs that the state should be concerned about. Innovation has often been regarded as “creative destruction” following Joseph Schumpeter’s introduction of the concept in his 1943 book “Capitalism, Socialism and Democracy”. One critique of innovation is thus the wake of destruction it leaves behind.²⁶ This destruction is a negative externality that must be compensated. Policy must thus not only seek to ensure that the benefits of innovation are maximised. Rather, these benefits must outweigh the destruction caused such that a just transition to new technological regimes can be achieved with suitable redress.

Mariana Mazzucato, a famous activist economist from University College London, has also warned that some innovations, such as the financial innovations responsible for the global financial crisis, could in fact be “destructive creations”.⁴⁵ We must thus be sure to evaluate the profitability of innovation not just by seeking to

maximise its exploitation but also by ensuring that its externalities are also suitably offset again such public benefits and the end result is sustainable and equitable.

In linking innovation, protoentrepreneurship and equitable growth, we can consider innovation to entail the accumulation, transference and maximal implementation of new knowledge. The implementation of new knowledge in production, the carrying out of new combinations of factors of production, shifts the economy to a new technological regime.

This new regime will be fraught with errors at the start. Protoentrepreneurship is thus again required to facilitate the minimisation of the various economic errors and poorfits towards perfecting economic production and distribution within this new regime. This way, protoentrepreneurship facilitates a more equitable distribution of the gains from the new growth and further helps towards economic stabilisation following technological change.

In contrast, under capitalism, the high initial profits that technological change is associated with

will incorrectly signal prosperity and opportunity. In turn, profit maximisation, being effectively an error aggravating dynamic, will exacerbate such mispricing errors to crisis levels. This, we would submit, is the reason why most new technologies are typically associated with boom-and-bust cycles.

With commedialism, we recognise that moving to new technological regime is itself a reduction in erudition errors which is both natural and desired. But this shift will yet be associated with high poorfits to start with. In a commedalist system, however, residual poorfits signal the extent of error minimisation work required. As such, we naturally get to work straightaway to seek to minimise these new errors and stabilise the economy towards the levels of productive, allocative, and social efficiency suitable for the new regime.

In doing so, commedialism ensures that we can maximise the munificence of knowledge equitably. That we can realise economic development and just transitions through dynamic but stable cycles of innovation and levelopment. Through knowledge accumulation and transference, we can open up new production

possibility frontiers. And through competition, profits minimisation and development in general, we can achieve productive, allocative and social efficiencies. Under commeedalism, we can rid our economy of the so-called big trade-off because our growth is equitable, by design.

07

Erecting commedalism: the ten tenets

Since its inception, capitalism has always been shrouded in controversy. As John Plender writes, society has never been at ease with capitalism.¹ We have known for some time that capitalism has a design defect. The characteristically unstable boom and bust cycles, inequitable distribution, wanton pursuit of growth and profit with little regard for the adverse effects on our health, our environment, and life as we know it, are only but a few reasons why stomaching capitalism all these years has taken its toll.

Until now, we have had a lot of frustrated discontent and clamours for more reforms that ebb and flow with the political cycle. We have also had

a reproachful discourse on capitalism that has sometimes sounded like a defeatist moan shop. You get a lot of sharp insightful critiques and ideas too, but many of these are dismissed as merely thought-provoking academic or utopian musings. There is no alternative, the story goes. Fundamentalists say we must live with capitalism as is, warts and all. Contrarians concede that all we can do is tinker away at the margins of capitalism and hopefully get a little more of the capitalists' pickings to trickle down.

We have gone for the jugular, in this book, to expose a key design fault in capitalism: we have a system with a topsy-turvy keystone because the underlying assumptions and understandings of profit were underdeveloped or misguided. To prevent the wobbly compromised system from crumbling, society has, at great cost to itself, inured to great subjugation by capitalism and literally holds the monstrous upended profit keystone up in place to the benefit of capitalists.

That alone makes capitalism a profoundly untenable way to organise our economy. We have, in the preceding chapters, attempted to construct an alternative economic system building on broad

and cogent theoretical foundations around the key concepts. To fully dismantle capitalism and erect commeedalism, as a feasible seed of an idea at least, we conclude our exposition by revisiting the various other philosophical and policy voussoirs, springers, imposts and piers of capitalism and refashioning these to more robust building blocks of fully fledged commeedalism that we can start to visualise as a functional thing.

01. To each according to need

You will have heard of the aphorism “he who does not work, neither shall he eat”. This has been a core basis for moral judgements about fairness in various societies since time immemorial. In labour economics, work is deemed necessary to generate a livelihood. But the toil entails the forfeiture of leisure such that the utility gained from the wages comes at the disutility of the toil and missed leisure. There are of course other arguments that work does have huge psychological and social utility aspects too. Thus, those in unemployment are found to have lower life satisfaction despite standard theory suggesting they would have more leisure time so should be happier.

The point, though, is that it is right that the disutility suffered is rewarded correspondingly such that the utility enjoyed is not lower than the disutility sustained through engagement in production. On the other hand, people should not be getting utility off the disutility endured by others. Under commedalism, therefore, need wages should equal the deeds of labour. Likewise, need interest income to capital should match the

lucre afforded by time as a reward for the disutility of forbearance.

We know, however, that labour and capital are not the only factors of production. We have here argued that the gratuities of landlike factors and airlike knowledge as well as residual poorfits are indeed public moneys. Since they are not the product of any one person's exertion, everyone in society is rightly due a meed share of these bounties. How abundant they could be is of course a highly interesting empirical question.

We saw earlier that nature does also have devastating outcomes, and while nature itself is a common, its adverse impacts will not be evenly distributed. Accordingly, while a degree of personal responsibility is sensible, when a bale, such as illness or other adverse natural occurrences, befalls a given individual, they would meed a full antidote funded by society. This is not least because nature, even when destructive, commonly belongs to all so its adverse impacts are a common too. Whether the gratuities of nature would be enough to offset or neutralise the blights that nature also levels on society every so often is of course another interesting empirical question.

02. Modularism versus individualism

Individualism has always been associated with capitalism. Self-interest and possessive private property are deemed to be core to the workings of the system. You will have heard of Adam Smith's famous quote: "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 self-interest". This is often used to justify the merits, and morality, of individualism, not least that it leads to social betterment. "Greed, for lack of a better word, is good", said Gordon Gekko, played by Michael Douglas, in the famous movie *Wall Street*.

Researchers in the social sciences tend to like dichotomous concepts a lot. Thus, individualism has often been contrasted with collectivism.² Since the 1980s, people and societies across the globe have been categorised within one of the two following seminal work by Geert Hofstede³ and others. Critics however lament that the dichotomy is unhelpful because some values serve both individual and collective interests (e.g. wisdom), some values may be universal beyond a given in-group (e.g. social justice), and that the dichotomous approach is mistaken in suggesting

polarity while the reality is in fact a little bit more complex with much in common.⁴

The ostensible success of capitalism in putatively collectivist countries such as Japan and China also undermines the dichotomy and the association of individualism with capitalism. In any event, modern corporates in “individualistic” capitalist societies in the West tend to have collectivist norms and authoritative management.⁵ Which is better for development then? I hear you ask. It is complicated. But while individualism is highly lionised, Richard Ball argues, in an insightful review paper, that generalised collectivist norms are yet needed to facilitate highly individualised one-shot exchanges between strangers.⁶ It is thus fair to say that the individualism-collectivism dichotomy is a bit inadequate, both as an analytical model and as a set of competing ideals.

A ready alternative to the dichotomy, building on our foregoing discussion, is modularism. In our approach, our economic system comprises individuals as modules undertaking certain roles, some similar and interchangeable. These roles are undertaken separately or in

companies in a way that plugs into a wider more complex but congruent structure. The wider system comprises other modules as well as system level components such as common land, the environment and institutions such as trust, norms and the law.

In commeedalism, modularism optimises system interests, like the maximisation of the common profruit, and individual interests, such as the right to meed remuneration, meed share of the gratuities of common nature, and the minimisation of poorfits in general. Beyond economics, modularism is arguably also a sounder perspective to understand other aspects of civil society recognising humans as inherently social beings with social sensibilities, norms, laws and limited freedoms. Modularism is thus a key tenet of a commeedalist society.

03. Verifreedom, not just bare freedom

As would be expected of any modular system, the integrity of the whole overrides any rogue hankerings and activities of individual modules. In his epoch-making book, *The Social Contract*, Jean Jacques Rousseau propounds that under the social contract “men exchange natural liberty for civil and moral liberty”. He adds, “what man loses by the social contract is his natural liberty and an unlimited right to anything which tempts him and which he is able to attain; what he gains is civil liberty and property in all that he possesses. In order that we may not be mistaken about these compensations, we must clearly distinguish natural liberty, which is limited only by the powers of the individual, from civil liberty, which is limited by the general will”.

Received notions of freedom and individualism tend to emphasise natural unfettered liberty which is in stark contradiction with the civil society we live in today. Under the proposed system of commeedalism, we would like to propose the notion of *verifreedom* to bring the freedom we espouse in line with the civil liberty Rousseau talks about. The *veri-* prefix qualifies bare freedom to

imply: a freedom that is true in the sense of factual and therefore in line with the lived reality of our civil society today; a freedom that is right and proper; a freedom that is legitimate.

In modern society, legitimacy derives from societal custom and democratic political governance processes. Both of these are dynamic which means that verifreedom is dynamic too. Thus today, despite some misgivings, profit maximisation is considered legitimate, such that free market capitalists are essentially verifree to contrive errors to extract profit no problem. Should society choose to embrace, expand and institutionalise the ideas propounded herein, then rogue capitalists may unadvisedly feel free to continue to extort poorfits from society for iniquitous personal gain, but they would no longer be verifree to do so.

04. Rectinality versus rationality

In many ways, as our exposition variously demonstrates, humans are naturally predisposed to multiple errors. Despite being wise *homo sapiens*, the enormity of errors faced implies that the notion of the perfectly rational *homo economicus* of conventional economic thought must be absurd. In light of the socio-economic mechanisms expounded here, the wise human is more appositely a correcting human, *homo corrigens*. It is thus assumed here that *homo corrigens* is *rectional* since they actively seek to “rect”, i.e. correct or right, the error-strewn state they find themselves in towards a desired orderly, efficient, flourishing state.

The normative socio-economic behaviour of such a model of human agents is thus quite different from the narrowly self-interested algorithmic maximiser that is *homo economicus*. We see *homo corrigens* as the underlying model characterising diverse modules that dynamically function and organise in a way that seeks to minimise the various errors afflicting them, optimise change, stability and efficiency, and

ultimately maximise both collective and modular needs.

It will come as no surprise indeed that the extant rationality precept in neo-classical economics has been a subject of intense controversy, even contempt. It postulates human agents as super intelligent, with immediate access to all the information related to all the choices they could possibly make, and the ability to instantaneously process that information to choose the most optimal alternative forthwith. Am sure you will agree that this is a glaring myth and so improbable an assumption that any inference drawn from it must be bogus.

A formal critique of this assumption was seminally put forward by the great all round social scientist Herbert Simon.⁷ He argued that the rational homo economicus model is wildly out of touch with the real humans it purports to approximate. In his view, limitations of both knowledge and computational capacity makes human agents “boundedly rational”. Decisions are thus made by satisficing and approximate optimising.

Satisficing is settling for a satisfactory, rather than an approximate-best, through heuristics and trial and error mechanics. Approximating entails the simplification of a real-world situation to a degree the agent can handle well enough to make a decision. Formal optimisation on the other hand entails the algorithm-like full calculation that computes the various optima. In received terms, satisficing is a form of optimising to the extent we are making the best of what we have in terms of information, measurements, assumptions and computation capacity.

Our idea of rectionality embraces these views. However the rectional action proposition proffered here highlights three additional nuances. First, rectionality is active and iteratively so. This means that rectional agents asymptotically pursue perfect error minimisation. Second, rectionality assumes that agents are modular by definition. Hence, rectionality has to contend with additional system alignment and integration constraints beyond the interests of the individual actor. A shared rectionality thus helps array agents towards a perfect modular system.

Third, errors include unattained erudition that we seek to correct by pursuing innovation.

Here, rather than an optimisation problem as such, we have a situation where we may be looking to depart from a “known” we are now unsatisfied with. This is a situation that is clearly rectional, since we are trying to pursue something better. At least initially, though, we will be prospecting for a better alternative but one whose parameters we cannot yet at all define, much less optimise. Rectionality does thus sometimes invoke and indulge in imagination and ideation, which are key human virtues.

05. Order is deliberate and deliberative, not spontaneous

A further key assumption building on the above is that the transition from ignorance and inordinancy to order is deliberate and not merely spontaneous. Whilst it is not the result of a centrally orchestrated grand engineering project as such, it is also not the result of perfunctory human wanders. Rather, if we accept that human agents are actively rectional, the resultant order is *deliberate* in two senses of the word: firstly, it is intentionally instituted (started, e.g. through the founding of a company, a club, a revolution); and secondly, it is deliberately cultured and institutionalised in wider society through rectional iterative modular alignments.

To be sure, deliberate order in markets is coordinated through certain signals like prices in line with the Austrian doctrine as ever so convincingly argued by Frederick Hayek in his famous 1945 paper, *the use of knowledge in society*.⁸ Emphasis, here, is on the fact that the resultant order emanates from *active* error-correcting human behaviour that fundamentally considers, and integratively and iteratively aligns with, societal conditions.

Deliberate order rejects both centralised planning and perfunctory spontaneous order. In line with Hayek, one recognises that the information used in the social cultivation of order is dispersed across society in such a way that it may not be possible to collect it, analyse it, and then formulate an optimal grand design for society that accommodates everyone neatly.

However, it is also insulting, and indeed dangerous, to reduce humans to mindless asocial algorithmic dinguses because we do actually have agency. We have constitutions, referenda, manifestos, elections, legislatures, judiciaries, policy-makers, diplomats, activists, ombudsmen, guilds, values, visions, missions, five year plans, business plans, job specs, job interviews, pitches, disciplinaries, sanctions, dismissals, resignations, reforms, revolutions. The order we see everywhere around us is really quite deliberate, deliberative, iterative, rectional.

The tragedy, as we have discussed previously, is that much of our agency has been hacked under surveillance capitalism. Some bad eggs in our society have tried to make us mindless asocial algorithmic dinguses for profit and private

gain. Through propaganda, conspiracy theories and unscrupulous advertising they guilefully manipulate our thoughts and our actions for their own ends. Thus, beyond just perverting us into buying duds and banes we should shun, they also brainwash us into voting and fighting for narcissistic usurpers who have the cheek to claim such wins as legitimate mandates. Ironically, even the compromised order we get here is not spontaneous, it is deliberate and with a deliberative guise. Needless to say, these are errors that rectional agents must then deliberately and deliberately concert to act to correct.

06. Custodial property versus private property

One of the foremost pillars of capitalism is private property where “owners” of such property are deemed to have the right to the product of such property. As already discussed, classically, capital derives from savings and the exertion or disutility of foregone consumption. There is thus a morally defensible claim to the lucre outcome of such capital as interest income. The problem is that private property has been extended to literally everything.

It is thought that since the tragedy of the commons is likely to cause the ruinous depletion of land and other natural resources, it is best that such a resource is made the reserve of a few privileged individuals in society. However, that the free product of nature should accrue to a private party to the exclusion of all others is clearly an outrage. Classical thinkers regarded landowners as belonging to the “disposable class” as they accrued an income without any exertion. As such, all the economic rents thereof could be taxed away and used for other social purposes. This thinking has largely been neglected in modern times with the

extraction of rent in fact celebrated and formally licensed through private property.

We must return to the seminal wisdom of classical thought. In fact, common law from time immemorial never actually granted explicit ownership of land as such. Individuals could only but “hold” such land on behalf of the sovereign; they were merely custodians of the land. Today, we have “we the people” as the sovereign. Thus, all commons should be regarded as custodial property held on behalf of “we the people”. Custodians do of course have a right to claim suitable incomes in line with the exertion associated with their custodial duties. However, the product of the common they are merely responsible for belongs to society and must be transferred to the public purse for distribution to “we the people” as appropriate.

07. Prices, markets and competition

The market exchange mechanism is hugely central to the exposition we have been advancing here. Recall that production is highly concatenated and hence that the value chain has to be broken down into a number of stages. There will thus be transactional exchange between companies along the value chain.

Then we have production within companies itself being facilitated by transactions between factor inputs and the protoentrepreneurship role. Then obviously the ultimate transaction with consumers is a market exchange. Markets are thus a core mechanism in the functioning of commeedalism.

All of these exchanges entail bargaining processes, and for these we need prices. By definition, prices are bids that derive from subjective evaluations with different agents considering different factors. Price bids will be signals containing that information.

Thus, consumers will evaluate their preferences and marginal utility and estimate their price bids; factor inputs will appraise what their contribution to production is worth and claim their factor incomes;

companies will aggregate these to come up with a suitable unit price to quote to customers.

In commeedalism, everyone involved in all of these exchanges must name their price. All that remains, then, is for the rubber to meet the road for deliberative price iterations to start towards reconciling the heterogeneous information, normalising the various variables, equalising these prices and minimising poorfits in the various exchanges. Any residual poorfits is essentially unclaimed income, whether as errors or as gratuities of nature, and should escheat to the public purse for distribution to the wider society.

As discussed previously, residual poorfits also signal the magnitude of errors that remain uncorrected in the economic system; how far we are from achieving productive, allocative and social efficiency. Competition is the mechanism we need to drive the system towards these efficiency levels, not least by helping correct the various prices towards their intrinsic values.

Note, however, that competition can sometimes create a race to the bottom with inefficient outcomes for society. Recall, further, that companies and markets are subsets of society, and are thus by definition under the

auspices of the state. It goes without saying, then, that we need both markets and the state.

08. The “lagom” state

Capitalism decries the place for the state in the economy in advocating for private property, individualism and free markets. Our exposition has robustly shown the weaknesses in these precepts. Indeed, under commeedalism, the state is in fact a highly important player. But the state does not have to be distortionary; the state need not be at odds with the efficiency of market mechanisms. For example, competition policy may be sufficient to address factor and product pricing errors and the quasi-rents that can be competed away.⁹ Commeedalism thus needs just a “lagom” level of involvement of the state in the economy as prevailing conditions dictate: not too little to be inadequate, not too much as to be distortionary.

Now, we know that production does entail the utilisation of many natural resources whose product fittingly belongs to all of society. Production itself is a societal level activity which essentially makes economic output a common product. We have however demonstrated how transient competitive custodianship of such a common product allows the more malleable market mechanism to work to correct the various economic

errors to the equitable benefit of society. In the intervening period while errors remain, companies can be tasked with suitable reporting and the transfer of residual poorfits to the state. There is no need for the state to directly become the sole protoentrepreneur executing custodial duties in the entire economy.

Still, social production happens under the auspices of the state. The state has a duty, therefore, to create a suitable environment to facilitate the maximisation of the common profruit and the minimisation of distribution errors. Thus, markets cannot be left unfettered and to their own devices. Verifree markets, as opposed to bare free markets, must have suitable limits put in place through the state as appropriate in the interest of the public.

Suitable standards and regulations will thus need to be put in place to ensure products are safe for consumers and there is no misrepresentation regarding their utility, that production itself is executed safely and sustainably, that factor inputs are remunerated as appropriate, etc. At the same time, markets themselves will be able to iteratively come up with other laws, such as equilibrium prices for products and factor inputs. The state

must support this mechanism through appropriate competition policies.

We have argued that it is clearly iniquitous to allocate rights to what are clearly commons to select private individuals. Instead, we favour custodianship with the product of the commons, gratuities, reverting to the state for distribution. The state thus has a duty to collect these gratuities and distribute them across society as appropriate. Note that the distribution of gratuities is actually different from the received notion of redistribution. This is because under a custodianship system we are distributing the economic *outcome* of common resources that is by default due to the state. This is different from a private property arrangement where gratuities are first seized as “earned” rental incomes that the state then has to try to claw back from the private wallets of such industrious rentiers to redistribute to supposedly undeserving scroungers.

Similarly, as previously discussed, personal responsibility is obviously sensible and paramount. However, should a bale, such as illness or other adverse natural occurrences, befall a given individual, it would be iniquitous to leave such an

individual to shoulder the blight outcome on their own. Sadly, in many jurisdictions, capitalism sees that as an opportunity to profit with big pharma and healthcare in general home to some of the most profitable corporations. Indeed, examples abound of highly malignant practices such as dud or even harmful cancer treatments being passed as effective therapies sold at a small fortune.¹⁰ Under commedalism, efforts towards the neutralisation of bales such as disease through suitable antidotes should be publicly funded and suitably regulated.

Similar policies are also warranted in other areas where damage is clearly inflicted by natural misfortune. Thus, policies such as loss relief and all the other relief schemes we have seen rolled out across the world in the wake of the Coronavirus pandemic are also morally defensible, besides the pragmatic interest in reducing the damage to the economy. Given, nevertheless, that residual poorfits signal that there are various economic errors that need to be corrected, policies regarding pricing and accounting transparency are pivotal such that in loss relief situations we better diagnose the errors that need correcting going forward.

09. Taxes as merited GATE collection

The famous sardonic quote that “in this world, nothing is certain except death and taxes”, apparently incorrectly attributed to Benjamin Franklin, perhaps best captures the attitude people have traditionally had towards taxes – as something of an unavoidable burden; something to hate. Indeed, in common parlance outwith public finances, something is said to be taxing if it is a strain that weighs heavily on somebody. The ways in which tax is collected are particularly onerous and coercive such that people also hate the way tax is collected, even when they do not hate taxes themselves.¹¹

Matters tax, research further suggests, are quite emotional and psychological. For example, Peter Ubel, a behavioural scientist from Duke University suggests it is more a case of “how dare the government steal my hard-earned money and give it to undeserving moochers?”, than, “gosh, it’s too bad such a high percentage of my paycheck goes to the government”.¹² Interest is thus usually on the extent, and the victims, of the tax burden. “We focus so fixedly on taxes as the instrument of governmental taking”, adds Joshua D. Rosenberg, a

University of South California professor and an expert in tax law and the psychology of law, “that taking is almost all we see when we look at taxes”.¹³

Psychological experiments however suggest that under certain conditions, individuals can indeed derive non-negligible utility from paying taxes. Researchers call this the “Tax Affinity Hypothesis”.¹⁴ Joshua D. Rosenberg is also of the view that we can have a more positive relationship with tax where we do not see them as something to hate and to avoid at all costs. He notes:

If we change the system to one that fosters communication rather than polarisation between taxpayers and the Service, if we take steps to encourage people to work for tax compliance rather than for tax avoidance, if we use the media properly to support taxes, and if we use taxes to support society’s shared behavioural norms, we might well see that “taxes” will no longer be a negatively charged word. We would both accomplish more societal goals and improve revenue collection. At the same time, we could make people feel good about paying taxes rather than feel cheated when they pay taxes. The choice is ours.

As you will readily appreciate, the proposed system of commeedalism fully embraces this.

Progress has been made in some areas such as greater use of technology to make collection methods less onerous. There has also been increased transparency with regard to how tax monies are used. For example, in the UK, individuals receive personal tax summaries in the post every year outlining how much money they paid in taxes that year and where it was used. Similarly, the US has a “taxpayer receipt”. These, clearly, are highly welcome developments.

Traditionally, though, unlike other areas of the law, scholars have highlighted that tax law and tax policy has tended to lack robust normative underpinnings.¹⁵ A quote popularised by Franklin D. Roosevelt indicates that “taxes are the price we pay for civilised society”. In some ways, the quote may be construed in an unhelpful way. Indeed, discontent with taxes largely surrounds the issue of not getting what we are “paying” for. Thus, people hate it when they pay their hard-earned money to the government only for it to then be given to “undeserving moochers”.

A helpful alternative proposed here is to develop a taxonomy of taxes, following for example the work of Thomas Barthold.¹⁶ A basic normative case can then be made for each of the categories to

help dispel the generic ill will surrounding taxes. To bastardise the famous truism, we argue that taxes are the GATE the state, as the custodian of civilised society, collects from constituent citizens. The GATE comprises gratuities, aid, tolls and excise.

The case for the collection of gratuities of nature has largely already been made in the present work. As we have previously argued, these grats need to be recognised as such at the outcome stage before they are captured as rental income. It must be understood that due in large part to custodianship arrangements required to avert the tragedy of the commons, the landlikes that produce these grats are variously “held” by given individuals but on behalf of society. There is a straightforward normative case, then, that all grats must be collected in full by the state for distribution to society. This further applies for all residual poorfits and quasi-rents, or scarcity premiums that are clearly not rewards associated with exertion.

The second branch of taxes is “aid”. The case for aid as a unique branch of taxes is associated with the principle that society ought to assist in counteracting the blight that may befall members of society by virtue of misfortune or some other

exigency. Social security programmes, available in many countries in various forms, would fall under this bracket.

Third, we have “tolls”. These are payments for public services including: the military, roads, electricity, water supply, waste management, courts of law, education, etc. etc. Emergency services are an obvious public service which in our thinking here would be covered under aid. While questions about the quality and availability of the service provided can be raised, and rightly so, that tolls ought to be paid, in one form or another, is scarcely controversial. Indeed, tolls are essentially prices, like commodity prices, and those receiving such a service should pay for it, in line with the classic benefit principle.

Finally, we have “excise”. This is perhaps the branch of tax that many have qualms with. Joshua D. Rosenberg notes that one of the reasons people hate taxes is because “basically, we understand that taxes are what we *pay* (and what the government takes), and the enactment and enforcement all *nontax* laws is what we *get* (and what the government gives)”.^a Essentially, people

^a Emphasis in original.

are unhappy with the idea that we pay government monies to enable it to enforce our curtailment, including in consumption. There is no question, however, that in civil society, the state has a duty to disincentivise, or indeed outrightly ban, behaviour that has adverse effects on wider society. With excise, interest is on internalising the externalised costs consumers or producers of exceptionable products impose on society such that the excise accounts for the damage caused or reduces consumption or production thereby forestalling the damage.

While the normative case for excise and other tax categories is perhaps clear enough, pragmatic constraints will also have important implications. Thus, economists will point to deadweight losses when taxes are imposed, sometimes with little change on the consumption of the goods we wish to disincentivise. Moreover, transaction costs may render the application of tolls for all public services discretely quite impractical.

On the later, it should be interesting, in fact, to explore whether gratuities, in all their previously discussed forms, including, classic land value taxes, residual poorfits, and scarcity rents such as elite pay, would be enough to offset the aid and tolls

budget. On the other hand, excise, despite the cogent pigouvian case for it, faces many implementational problems, including, among others, the general preference among politicians be associated with the conferment of benefits to society rather than the imposition of costs.¹⁶ Whether we employ excise directly or we camouflage it using alternatives inspired by the Coase Theorem, we cannot not exact a prohibitive, discouraging or at least a restorative cost on externalities and other things that are bad for society.

10. Profruit and Lot Accounting

Commeedalism aims at producing meritable outcomes at the societal and individual levels, i.e. what we need jointly and severally. Our meritable outcome at the societal level, joint needs, is profruit. At the micro level, this is simply company value added net of negative externalities, or social damage. It establishes what a company brings forth to society. If a company makes a positive contribution to society, it is profrutable.

This profruit must then be wholly and equitably attributed and distributed, i.e. lotted or allotted, back to the factors that produced it. In accounting basics, it is established that the balance sheet must balance because everything the firm owns is owed to someone such that assets must equal liabilities. Drawing on these principles, we assert that everything we see as the profruit output in a given year is imputable to inputs that entered production that year.

Thus, the profruit generated should equal the total lotted out, with the residual being the net poorfits to be transferred to the state as the product

of unidentified factors that entered production and other residual errors as previously discussed. We thus require to do the accounting for both the profruit, in terms of how it is jointly generated, and the lotting, the meritable distribution of such common profruit to its modular factors of production. This idea of common and modular meeds is really what commeedalism is all about and the Profruit and Lot Accounting is the mechanism that makes it work. This builds on the value-added accounting statements that have been in and around financial reporting for many years, gaining some traction in the 1970s as discussed by Michael Morley,¹⁷ with a more recent case for value-added statements as a part of integrated reporting made by Alex Haller and Chris van Staden.¹⁷

Our approach however departs from these classic models in three major ways. First, it is the central argument of the present work that residual profit is not a bona fide return to capital. Thus, just like labour and other inputs, capital must charge a price which is to be disbursed in the usual way. Second, unlike the value-added statement, we add social damage to the accounting. Given recent developments, both in the more

accurate estimation of various externalities and in the regulations requiring their reporting, including social damage to get a picture of the net contribution to society companies make is deemed appropriate and integral to the sustainability agenda. Profruit and Lot accounting is thus essentially value-added and damage attribution and distribution accounting that we need in a modern sustainability-sensitive society.

Third, we recognise that there are activities that have positive externalities that will be carried out within the firm. Ideally, the outlay pertaining to the production of such potential public goods, e.g., research and development costs, should be shouldered by the public. Since residual poorfits are essentially public funds transiently held by the firm, it makes sense to offset such costs at the company level with the net then transferred to the state. Thus, other deductible outlay is included in the Profruit and Lot statement to accommodate this.

The basic structure of a Profruit and Lot statement is thus proposed as follows:

Profuit and Lot Statement	
Sales	XXX
Less: Cost of bought-in materials and services	(XXX)
Gross value added	XXX
Less: Depreciation	(XXX)
Net value added	XXX
Less: Social damage	(XXX)
Gross Profruit	<u>XXX</u>
Lotted to:	
Payments to Labour	(XXX)
Payments to capital providers	(XXX)
Tolls (priced public services)	(XXX)
Gross residual poorfits	XXX
Other deductible outlay	(XXX)
Net residual poorfits (transferred to the state)	XXX

Tab. 1 – Proposed structure of a Profruit and Lot Statement

To reiterate, all profruit generated in a given year must be lotted out in the same year. There can be no retained earnings within the company. Certainly, as already affirmed, since residual

profits are a common, reinvesting these and increasing capital thus is essentially stealing from society and attempting to sanitise such pickings.

However, individuals may wish to make fresh additional investments using monies from their own bona fide meed incomes received in a given year, whether they be interests or wages. Note, however, that different accounting will need to be made for this outwith the Profruit and Lot account.

Thus, providers of capital within the company would need to undertake separate accounting to record these investments. Where needed, reconciliations of rental receipts with the previously estimated future cash flows, net present value of the assets, their internal rates of return, decumulation, other depreciation, and other discounting matters are also to be done separately. Similarly, direct taxes applying for interest and wage incomes, including the grats paid out as quasi-rents that must be clawed back, should be dealt with at the level of these factor inputs, in much the same way health insurance and pensions that pertain to employees, are accounted for in company records.

In Conclusion

For too many years, capital has dominated the way our economy functions and the way we think our economy should function. Capital does play an important role in production, no doubt. But it is only but a peer factor of production and it must not be unduly aggrandised any more. Capital must be cut down to size. Having insidiously encroached beyond its place in the economy and eventually overreached itself, capital and capitalism must now fall from a perch that was unwarranted in the first place.

It is my hope that this book has at least challenged your mindset about capitalism and the way the economy works, and ought to work. As capitalism has been destroying our planet and our lives, sadly, it did indeed almost become easier to imagine the end of the world than the end of capitalism. Hopefully now we can build on the commeedalism concept this book has propounded to begin to build the end of capitalism. Hopefully we can start to act now to save ourselves and our world from the cancer that capitalism has become. Hopefully we can see ourselves as civil error correcting modular people and start to build, not

just imagine, a more equitable and sustainable today, not a distant utopian tomorrow. Dear open minds of our beloved Planet Earth, the floor is open for debate and discussion, proposals and revisals, programmes and policies. Let us call time on capitalism and start to build a flourishing, equitable, sustainable and efficient economy. We can uproot cancerous capitalism and install robust new commeedalism, starting today.

About the Author

Dr Samuel Mwaura is a UK-based Kenyan-born academic with multidisciplinary research interests in the intersection of business, humans - in all their complexities, and the wider economy and society. Samuel grew up in Ting'ang'a, a high-inequality smallholder farming cum dormitory village in Kiambu County, in the outskirts of the city of Nairobi, Kenya, and not far from the equator, so Samuel took an interest in matters of inequality and economic development from a young age. His dad, a now retired campus facilities officer, spoke endlessly about the "universtay" every night, so Samuel was rather subliminally conditioned to end up as something of a fixture at a varsity campus somewhere. Samuel has loved satire, authorial activism and creative license since he read George Orwell's *Animal Farm*, Nikolai Gogol's *The Government Inspector* and Khaemba Ongeti's *Visiki* at school. He went to old Scottish missionary schools, and now lives in Scotland, so does at times use unusual words like "outwith". When not academiaing, or answering emails like other "knowledge workers", Samuel is probably doing daddy's taxi rounds for his weans or catching up on his favourite podcasts, occasionally pausing to have a wee moan and a muse about how capitalism is to blame for many a societal ill and how commedalism could do so much better. Please visit commedalism.co to join Samuel and others in debates about commedalism and capitalism.

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SYNOPSIS

Capitalism is bad for our economy, our society and our planet, and we know that full well. But until now, we have had no feasible alternatives to consider for a replacement. We have never actually quite figured out what is inherently wrong with capitalism. Without a problem well stated, we have had no launch pad towards a credible solution. So we have been stuck with capitalism and sadly actually almost gave up on even the mere envisioning of an alternative. We acquiesced.

This book bravely rejects such gloominess. Instead, it invokes ambition, scrupulous scholarship, conceptual iconoclasm, satire and theoretical rigour to dismantle the keystone and core pillars of capitalism. It then goes on to methodically construct the robust alternative we call commealism.

This book demonstrates that we no longer have to see growth and equity as competing objectives. Under the proposed model of commealism, you will envision how we can coherently achieve economic development equitably and sustainably; how we can realise progress without the pain of boom and bust. Designed for prompt implementation and impact, commealism is not a utopian dream. This book sets out a draft blueprint to hash out so we can start constructing an upright economy forthwith.

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