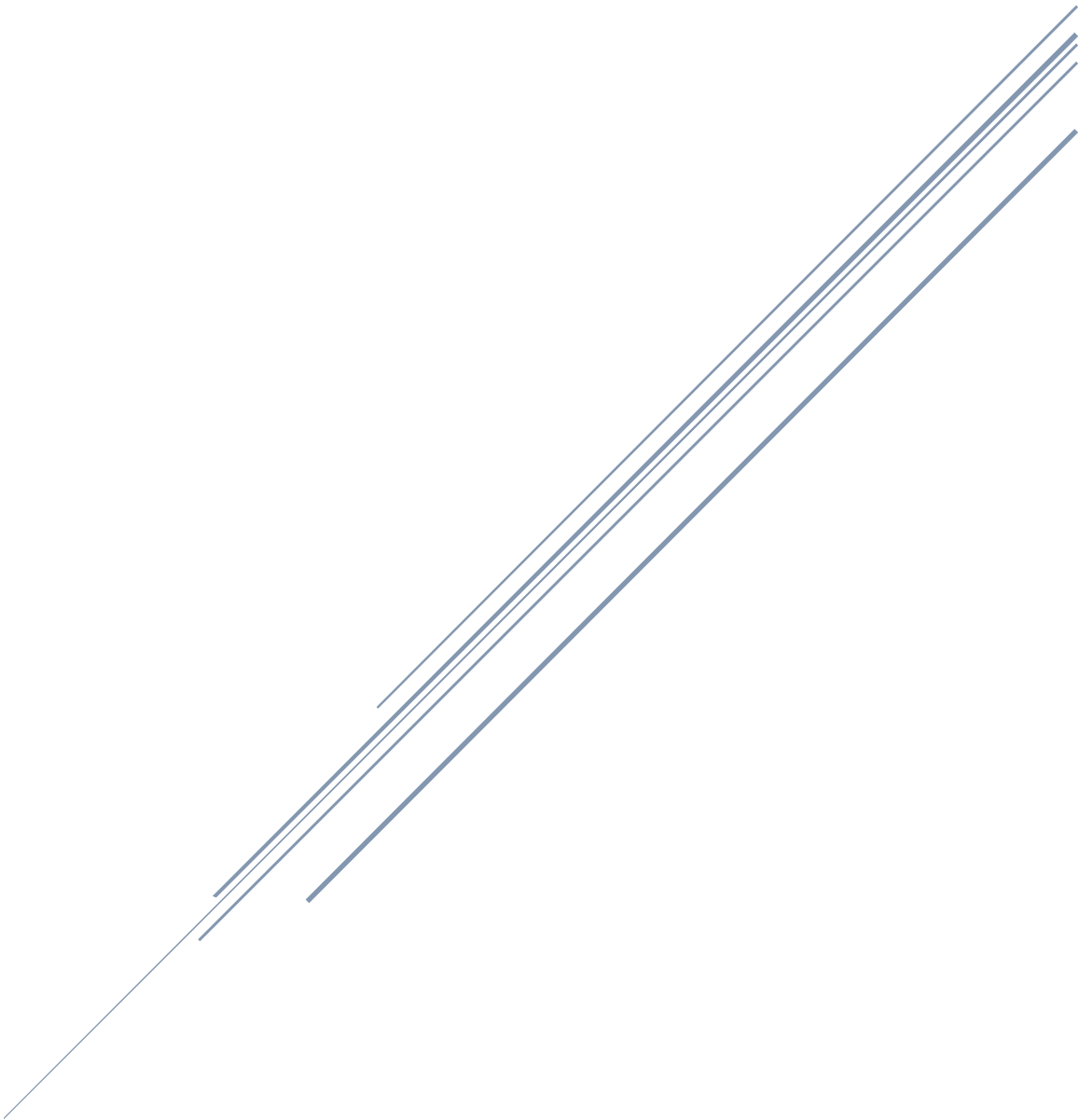


Values-Based Commerce & the Social Contract
White Paper



Author: James Coke

Values Based Commerce & the Social Contract

Introduction

Despite all the best intentions of donors, governments, NGOs, and activists throughout the developed world, communities in many nations remain economically unsustainable and dependent on outside financial aid. The literature suggests this derives from one of two primary causes.

First, the community may be located in a geographic region that lacks natural resources essential for life and commerce. This may be the result of climate change, war, or poor environmental stewardship but regardless, the community cannot thrive or even survive where it is located.¹ Second, the community may find itself part of a weak or failed State that is unable to supply basic needs beyond urban settings, or the Elites are predacious in taking economic rents that impoverish society.² There is little that can be done in the first instance, and so the focus of most development work has been on strengthening country institutions and economic infrastructure. Unfortunately, outcomes are decidedly mixed when intervening institutions must work through dysfunctional sovereign institutions and their Elites to implement top-down solutions.³

As a result, numerous NGOs work directly with local entrepreneurs and cooperatives to train them in smallholder best practice, secure better market access, extend microloans, or provide basic services such as healthcare and banking. These are commendable, and arguably the most efficacious at empowering households. However, they do not have the reach to build a sustainable economy at the community level, which may range from a rural town to the citizenry of an entire country. They lack the financial horsepower of institutions like the UNDP, World Bank, and IMF, dependent as they often are on small citizen donations and foundation grants.

International companies play an important role when they source raw materials and sub-components from Small and Medium Enterprises (SMEs) based in developing markets. Indeed, Corporate Social Responsibility (CSR) practices like ‘fair trade’ sourcing have become an important part of Western business governance today.⁴ However, the local suppliers must generally be a part of the ‘formal’ economy registered by and paying taxes to the State, while the reality is that over 50% of the population operates as part of the ‘informal workforce’ and cannot participate in such arrangements.⁵ Further, the role of the buyer is that of market maker, not economic developer, and their influence in both the community and with the State is limited.

This leaves an important gap to be filled in economic development theory and practice; that of supporting entire communities in their effort to build an aggregated sustainable economy without the support of a weak or failed government. This paper proposes an approach leveraging facilitated community self-organization and action, based on an explicit values based commercial social contract that makes a place for community businesses, formal private businesses, public services, and the informal workforce. It also suggests an approach to integrating investment capital into the local economy that minimizes exposure to corruption and Elite predation.

Commercial Social Contract Theory

We have elsewhere proposed a conceptual model for understanding the place and role of the social contract in governance today.⁶ The focus in this section is adding to it that part related to building a robust economy.

¹ See for example; Diamond, J. “Collapse: How Societies Choose to Fail or Succeed”. Penguin Books, New York, 2005.

² See for example; Collier, P. “The Bottom Billion”. Oxford University Press, New York, 2007

³ See for example; Easterly, W. “The White Man’s Burden”. Penguin Books, New York, 2006.

⁴ BSR, “The Business Role in Creating a 21st Century Social Contract”, 2019

⁵ Chen, M. EGDI and UNU-WIDER Research Paper No. 2005/10; “Rethinking the Informal Economy”, 2005, p. 15

⁶ Coke & Linch. White paper; “Restoring Trust in Government”, [<https://www.governance-consortium.com/>], 2022

Any sustainable approach to community building must start from within the community, however it self-identifies. The community must master its own governance before it can undertake group efforts like providing local public services and building export industries. Outside interventions often fail to incorporate local values, norms, and cultural expressions essential to trust, and thus fail to gain the acceptance of the Citizens. Trust is the foundation of a communal social contract.

Because economic relationships are just one expression of living together in community, the commercial social contract inherits all the terms of the general social contract. It adds additional economic rules addressing such issues as trade, property rights protection, and financial justice. The community must agree to them through the same governance process used generally to gain acceptance by all participants. Importantly, all aspects of the social contract are bottom-up in origin. This allows the community to design requisite institutions fit for the purpose, rather than automatically adopting legacy structures or those used in other communities or countries.

The fields of economics and political economy are broad and deep, describing the innumerable ways people have organized their trade and commercial affairs through history (e.g., mutualist, capitalist, feudal). This thinking emerged from the philosophical schools addressing differences in how people participate in and experience community living. In the context of commercial social contract theory, this includes agreeing on such issues as:

- Access to economic resources (regulatory, heritable, lottery)
- Personal property rights (ownership, governance, profit share)
- Personal responsibilities (labor, corporate governance, commercial behaviors like bribery)
- Communal norms (market equity, how to handle the consequences of entrepreneurial risk)

‘Economic justice’ has been a theme of particular concern since the 2009 financial crisis privatized profitable excesses and socialized market losses. The legal system is viewed by many to have favored protected economic Elites over the average citizen who bore the loss of jobs, assets, and access to credit. Many citizens came to perceive that the ‘system’ is rigged against them. Certainly, policy-driven inflation continues to hollow out the middle class relative to the owners of capital who benefit most from government monetary and fiscal stimulus.⁷

‘Natural law’ provides guidance as to individual Justice, equity, and fairness; and the social contract explicitly considers their implications.⁸ While there are no universally accepted definitions for these words, most Citizens take the moral position that they ‘know it when they see it’. This can fail when there is great diversity in individual worldview, but is reinforced when there are shared community norms and values.

The following are a variety of issues and questions that communities address when agreeing to the commercial parts of their social contract.

1. Most cultures accept that the community cannot enforce financial *equity* among people having different productivity, knowledge, and available assets. Nevertheless, Citizens usually prefer that community rules apply consistently to all community members including having equal rights to work for a living and to own personal property. Most persons are willing to commit some level of their community’s resources to caring for those who are unable to support themselves economically or have suffered an irreparable loss. Most people recognize that it is in the community’s interest to ensure relational harmony and avoid destabilizing disenfranchisement. How broadly shared are these values?
2. Communities must also address the problem of widespread labor surplus emerging around the world as automation of unskilled tasks and new forms of work redefine the job skills in most demand (e.g., Information Technology, GreenTech, Human Care, BioInformatics, Robotics/3D Printing).⁹ Automation

⁷ Pew Research Center. “America’s Shrinking Middle Class: A Close Look at Changes Within Metropolitan Areas”, 2016

⁸ For an interesting application of these concepts to urban planning see; Eriksson et al. “On Justice Fairness and Equity in Gothenburg”, Mistra Urban Futures 2017:1.

⁹ World Economic Forum, “Jobs of Tomorrow”, 2020

tends to lower costs below those based primarily on labor, which becomes a competitive disadvantage in less developed communities having lots of Citizens who are semi- or unskilled in contemporary production techniques. Is there a strategy for utilizing this labor or should it emigrate?

3. As demonstrated throughout the world today, unconstrained, laissez-faire capitalism tends over time to consolidate productive resources into fewer, stronger hands having increasing ability to capture governmental policy for its own benefit in a self-perpetuating cycle. Advocates of a new economic paradigm often cite adverse trends in the GINI index¹⁰ that demonstrate increasing inequality. They believe that both business and government has a moral obligation to ensure social fairness and stability.

A new body of literature has emerged highly relevant to ‘free market’ Communities.

- Purpose Driven Commerce¹¹
- Steward Ownership¹²
- Conscious Capitalism¹³
- Shared Value Economy¹⁴
- Economics of Mutuality¹⁵

What is the ‘purpose’ of the community economy? How does the community view competition? What should production and trade seek to maximize?

4. Many communities do not trust their national governments (or even the prevailing global paradigm of national bureaucratic government) to enforce economic justice; there are too many contrary incentives not aligned to the interests of the Citizens. It then falls to the Community to govern itself, including enforcing or incentivizing commercial and governance behaviors deemed morally desirable and practical for meeting its collective and practical needs. Success in doing so obviously depends on the freedom of motion accorded the Community by its national government.

Governments do not tolerate competition, and national governments over time tend to accrue to themselves authorities initially left to regional governing bodies. Communities seeking to self-govern any aspect of public services must directly address the issue. Can the community achieve its semi-sovereignty objectives without resorting to force? How much freedom does it have to establish the infrastructure of economic management like banks, a local money/currency, and regulatory bodies?

5. Every Community must balance personal responsibility and rights. Frederick Hayek listed several virtues he believed responsible for economic success. Does the Community agree with these virtues?

“These virtues were independence and self-reliance, individual initiative and local responsibility, the successful reliance on voluntary activity, non-interference with one’s neighbour and tolerance of the different, and a healthy suspicion of power and authority.”¹⁶

¹⁰ World Bank, GINI Index estimates; [<https://data.worldbank.org/indicator/SI.POV.GINI>], accessed 2021-11-28

¹¹ See for example; [<https://www2.deloitte.com/us/en/insights/topics/marketing-and-sales-operations/global-marketing-trends/2020/purpose-driven-companies.html>], accessed 2021-11-28

¹² See for example; [<https://purpose-economy.org/en/>], accessed 2021-11-28

¹³ See for example; [<https://onlinebusiness.northeastern.edu/blog/what-is-conscious-capitalism-and-how-does-it-differ-from-corporate-social-responsibility/>], accessed 2021-11-28

¹⁴ See for example; [<https://hbr.org/2011/01/the-big-idea-creating-shared-value>], accessed 2021-11-28

¹⁵ See for example; [<https://www.eom-center.com/>], accessed 2021-11-28

¹⁶ Hayek, F; “The Road to Serfdom”, 1944

6. A commercial social contract must account for several types of economic actor, all of which are simultaneously jostling for position in an economy. What parts of the economy should each service?
- Community business – owned by the community and operated for collective (profitable) benefit.
 - Private business – owned by one or more individuals and operated for private (profitable) benefit.
 - Public services / utilities – operated by the community for collective benefit.
 - The informal workforce – individuals providing services outside a formal employment contract.

The informal workforce in particular is a problem for institutional governments and ‘national champion’ businesses. States would like to force all citizens into the formal economy to ensure access to the full tax base. This then obligates them to provide an economic safety net for any labor surplus, lest they face rebellion from Citizens needing to make an informal living to survive. This State policy is also resisted by local employers who seek the lowest cost ‘informal’ workforce to avoid costly employer mandates like payroll taxes and benefit payments. This both defeats State intent to formalize the economy, and leaves the ‘informal’ workforce dependent on public services. Conversely, the global firms that dominate each industry depend on Country governments to grant them market access, and often support them in regulating away the ‘informal’ economy as a way to eliminate competition from lower cost local labor.¹⁷

7. Every community must address the question of how best to allocate finite capital in all its forms (financial, physical, human, social-relational, and natural). It needs to balance long-term investment in its human capital against consumption of investment for short-term wants and needs. It needs to decide whether central planning or competition can best determine highest return on investment. It also needs to consider issues of environmental sustainability under its control. Every culture considers important community and family activities essential for group well-being not counted as part of the traditional wage-based economy. Citizens need to find a way to appropriately value and allocate human capital to these informal services as well.
8. Extensive work is being done in the field of ‘trustless’ commerce based on peer-to-peer relationships having no enforcing intermediary.¹⁸ How important is relationship and trust (social capital) in a world that rewards rapid change and opportunism? What are the implications for real world communities when individual members are socialized in virtual groups based on ‘trustless’ relationships with one other?
9. The Community economy rarely operates in a vacuum. It must trade its surplus production with other firms and communities beyond its borders to import products and services it cannot produce internally. Without exports, there is no globally accepted currency available to pay for imports. Sustainable trade requires that exports exceed imports, so the Community must be viewed as a favored trading partner.

The challenge is in conforming to a fiercely competitive global marketplace that often adheres to different values than those shared within a cohesive community. There are powerful incentives to exaggerate product utility while minimizing the cost of quality, to engage in corrupt practices deemed necessary to access foreign markets, and to sequester for personal use a portion of foreign earnings in the international banking system rather than repatriating all the earnings back to the local community. How will the Community monitor and enforce its own trading activities?

In short, the commercial portion of the Community’s social contract needs to address the practical issues of a) Citizen economic rights and responsibilities, b) relationship with the host country government, and c) integration with the global economy.

¹⁷ Chen, M. WIEGO Working Paper No. 1; “The Informal Economy: Definitions, Theories and Policies”, 2012

¹⁸ CoinMarketCap; Glossary, “Trustless”, [<https://coinmarketcap.com/alexandria/glossary/trustless>], accessed 2021-11-28

Models

There are innumerable case studies on economic development, and compiling even a summarized literature review is daunting. So too is creating a taxonomy of principles and their effects given the wide variety of econometric outcomes generated from inconsistent input factors. For these reasons, we present below methods that we as practitioners have found helpful in thinking through alternative economic approaches.

United States Federal law grants Native American tribes special freedoms to self-govern. Many have created businesses (e.g., casinos, foodstuffs, transportation, crafts) that are owned communally by the tribe to provide jobs to tribal members and income for the tribe at large.¹⁹ They are usually subject to a Council of Elders who function as the Board of Directors supervising the management team. Operating profits are split between internal company reinvestment, Community support projects, dividend distribution to the tribe, and retained earnings.

A productive workforce must be well fed, healthy, educated, and happy. This requires that society find a way to provide a financial safety net, accessible quality healthcare and education, a sanitary environment, and work arrangements that are balanced and positive. These services are viewed as ‘utilities’ in many developed countries which provide access to them as part of the social contract.²⁰ They may be delivered directly by the State, or contracted with private suppliers with the State providing funding and oversight. Such utilities are expensive and lead to government being up to 50% of GDP. But Citizens in such countries are regularly found to be most satisfied in global surveys.²¹

The Social Finance/Capital Markets emerged from the need for investment capital that is patient and willing to sub-optimize financial return to facilitate social purpose. It is one step removed from donor and philanthropic grants such that investors are willing to accept a risk free rate of return on an inherently risky investment. The Environmental-Social-Governance (ESG) space is best known, but this also includes such vehicles as specialty private equity and public social impact bonds.²²

The special case of SomaliLand is instructive.²³ The Citizens declared independence from Somalia in 1991 and established their own self-governing republic with public and private sectors based on local values and norms. They trade with their own currency, maintain unofficial diplomatic relations under their own flag, and have their own self-defense force. They try to balance a free market with economic justice, and provide for those either unable to work or doing non-wage work that benefits the community. The community faces challenges to growing the economy because the international community does not recognize it as a sovereign State, and so cannot access development loans or fully trade with its currency. Community solvency is heavily dependent on remittances from Somali Citizens in the diaspora.

In the emerging virtual/digital space, Decentralized Autonomous Organizations (DAOs) offer interesting templates for trustless governance and universally applied economic reward.²⁴

- Separate governance, profit share, ownership
- Off-chain base level protocols + On-chain application level protocols

¹⁹ Bordeaux, S. “Tribal Economic Development - A Total Approach”, [<https://www.occ.treas.gov/topics/consumers-and-communities/community-affairs/resource-directories/native-american-banking/bordeaux.pdf>], accessed 2021-11-30

²⁰ Kidd, et al. Development Pathways. “The social contract and the role of universal social security in building trust in government”, 2020

²¹ UN Sustainable Development Solutions Network; “World Happiness Report”; [<https://worldhappiness.report/ed/2021/>], accessed 2021-11-30, 2021

²² See for example; J.P. Morgan and GIIN; “Insight into the Impact Investment Market”, Social Finance Research paper, 2011-12-14

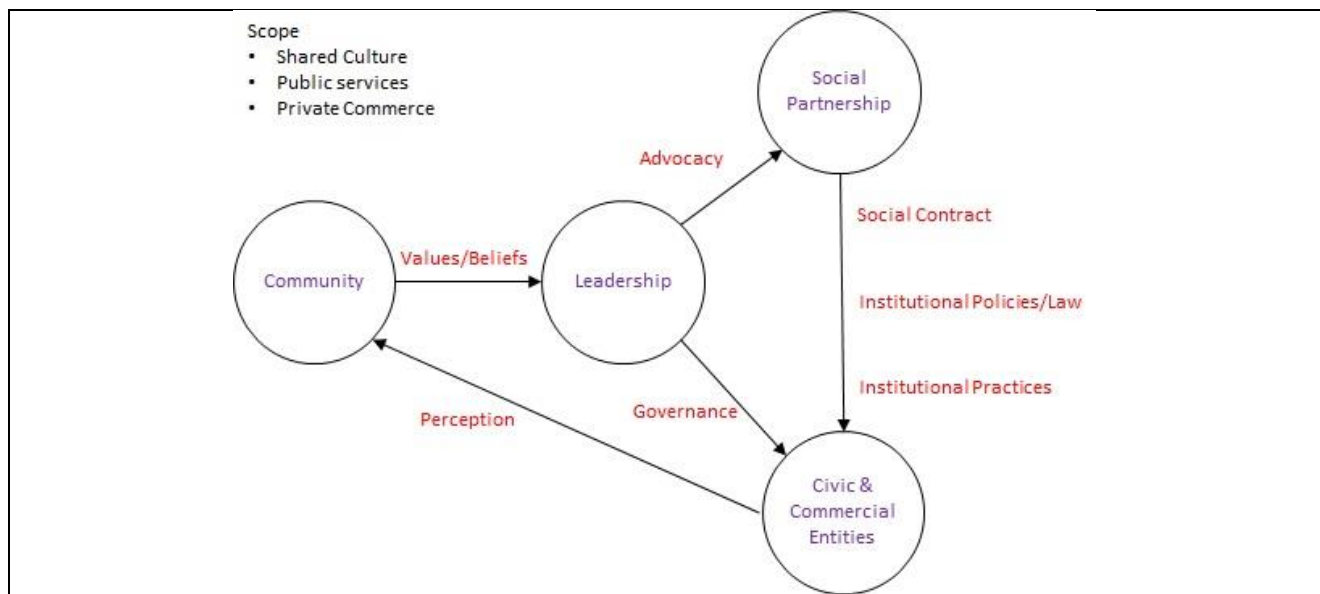
²³ Muhumed, M. “Somaliland Trade, Exports and Imports: An Overview”. Developing Country Studies. Vol. 6, No. 12, 2016

²⁴ Buterin, V. “Moving Beyond Coin Voting Governance”. Blog post [<https://vitalik.ca/general/2021/08/16/voting3.html>], accessed 2021-11-25

Implementation Approach

We have elsewhere proposed a template methodology for developing a communal social contract and using it as a tool in creating or reforming institutions.²⁵ The focus in this section is detailing activities in that methodology specific to trade and the economy. Any such method must be tailored to real-world circumstance. Because economic relationships are highly dynamic, feedback loops and associated continuous innovation are essential.

We use the Community social contract framework below to organize questions and issues pertinent to the Community Political Economy. These should be answered in a logical progression from Community Values/Beliefs to Institutional Practices in the context of facilitating overall Community governance maturity.



- Community
 - Are Community members only people, or do trade unions and companies establish values?
 - Are companies with both local and foreign ownership a part of the Community's economy?
- Values & Beliefs
 - What behaviours are desirable in the Community? (thrift, self-reliance, communal care)
 - What natural rights (liberties) should Citizens possess?
 - What are the commercial and economic norms? (justice, equity, fairness)
 - What is the 'purpose' of the community economy?
 - How does the community view economic competition and collaboration within the culture?
- Leadership (advocacy and Governance)
 - What character is desirable in economic leaders (entrepreneurs, advocates, managers)?
- Social Partnership
 - How do Community leaders ensure balanced participation that does not favor financial interests?
- Social Contract (foundations of trusted relationship)
 - What property rights should Citizens possess? (ownership, governance, profit share)
 - What economic responsibilities do Citizens have? (labor, corporate governance, lawfulness)
 - Is there an explicit value to informal work? (non-wage employ, home care, volunteerism)
 - How do Citizens access different types of economic resources? (regulatory, heritable, lottery)

²⁵ Coke & Linch. White paper; "Reforming Weak States Via the Social Contract", [<https://www.governance-consortium.com/>], 2021

- What economic responsibilities does the Community have to its members? (full employment, social safety net)
- What should production and trade seek to maximize? (owner wealth, community purpose)
- What are the rights and responsibilities of each type of economic participant?
- Which parts of the economy should be served by each type of economic participant?
- What is the scope of community economic sovereignty vis-à-vis the national authorities? Should the Community establish its own infrastructure that facilitates local economic activity? (credit facilities, a local money/currency, regulatory bodies)
- How should the Community economy integrate with the Global economy?
- How should the Community economy integrate with the Digital economy?
- How should the Community ensure its sustainability (economic, environmental, social)?
- Institutional Policies/Law (structures)
 - What is the design of the Community's economic infrastructure?
 - What regulatory accountabilities should be imposed on Community economic participants?
 - What regulatory accountabilities should be imposed on foreign economic participants?
 - How should State and Community policies be reconciled if inconsistent?
 - What are the processes for influencing State policies?
- Institutional Practices (execution)
 - How will economic participants administer their operations to remain supportive of the social contract? (corporate governance, labor relations, supply chain partnerships)
 - How will economic participants establish a culture of innovation and learning that continuously improves their value to the Community? (training, social projects, academic partnerships)
 - How will the Citizens provide feedback to Community economic participants?
- Civic & Commercial Entities
 - What are the various Community economic institutions? (credit, fiscal, monetary, regulatory)
 - What are the various types of Community economic entities? (communal business, private company, public service/utility, cooperative, trade association, wage labor, informal workforce)
- Perception (feedback)
 - How should the Community monitor its own economic activities and enforce its norms?
 - How should the Community hold economic leaders accountable to its norms?

There are a wide variety of interventions that can have an impact on Community economic development. Opportunities will naturally arise as the Community answers the questions above and designs institutions that work to its purposes. Several are presented below.

Intervention – Build Required Economic Infrastructure

A variety of pre-requisites must exist for a Community economy to function. These include:

- Local producers of goods and services
- Local and foreign consumers willing and able to procure goods and services
- Marketplace for matching sellers and buyers (physical, digital)
- Physical resources for production (land, energy, water)
- Physical facilities for staging and moving product (roads, warehouses)
- Trade governance (regulatory accountability to Community norms)
- Money unit of account (gold, national money)
- Medium of exchange that also serves as an accepted debt tally and store of value (national currency, local currency or commodity, cryptocurrency, digital tally)
- Monetary governance (regulatory management of currency and credit)

Most communities have a basic production, trade, and distribution system in place that yields Citizens some form of comparative advantage in local exchange. There is extensive literature and best practice that addresses this level of commerce:

- Improving agricultural productivity
- Creating ‘cold chain’ infrastructure
- Accessing foreign markets and distribution channels
- Gaining and sharing market pricing and other data

There is a broad ecosystem of consultants, technology suppliers, and international institutions that help developing nations implement a stock exchange, central bank, and other modern digital systems. Unfortunately, these services are out of reach at the Community level. New monetary infrastructure, for example, must remain simple while leveraging the trusted trading norms already in place.

To illustrate a simple monetary system: Farmers are given a paper ‘credit’ (similar to a dollar bill) by the local warehouse when they deliver their crops, which the farmer can then use to buy fertilizer from the warehouse. He can also buy seed directly from another supplier who will accept the paper credit because he can also redeem it at the warehouse for irrigation equipment. And so on. The credit is the money unit of account, equivalent to some locally agreed value, while the currency is the piece of paper representing a quantity of credits associated with a specific transaction. The warehouse issues a total number of credits limited by the value of commodities being traded (or stored) in some period of time within the economy.

Intervention – Use traceable interventions and metrics

Each Community has unique values, assets, and needs. Therefore, the impact of varying interventions in differing contexts cannot be assessed with a single, universal set of metrics. Good traceability of outcomes back to causal drivers is essential to continuous innovation.

Inputs (interventions) => Outputs (outcomes) => Impact (metrics)

One approach is to start with relevant Sustainable Development Goals (SDGs) and decompose them into contributing interventions, potentially at increasing levels of specificity. The example below shows how one SDG is split into its component outcomes, having metrics and interventions aligned to each.

SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

	Economic Growth		Employment / Work	
Outcomes	Inclusive	Sustainable	Inclusive	Decent Work
Metrics	M 1 / M 2			
Interventions	I 1 / I 2			

M 1 Number of Own-Account and Contributing Family Workers (per 100 workers)²⁶

I 1 Provide select services/utilities (education, public works, healthcare) via communal entities that are designed to maximize outcomes (profits, service quality, public access, employment).

M 2 Percent participation by each stakeholder in governance, profit distribution, and ownership.²⁷

I 2 Separate stakeholder participation in governance, profit share, and ownership of communal entities.

Intervention – Provide accountable, high impact investment

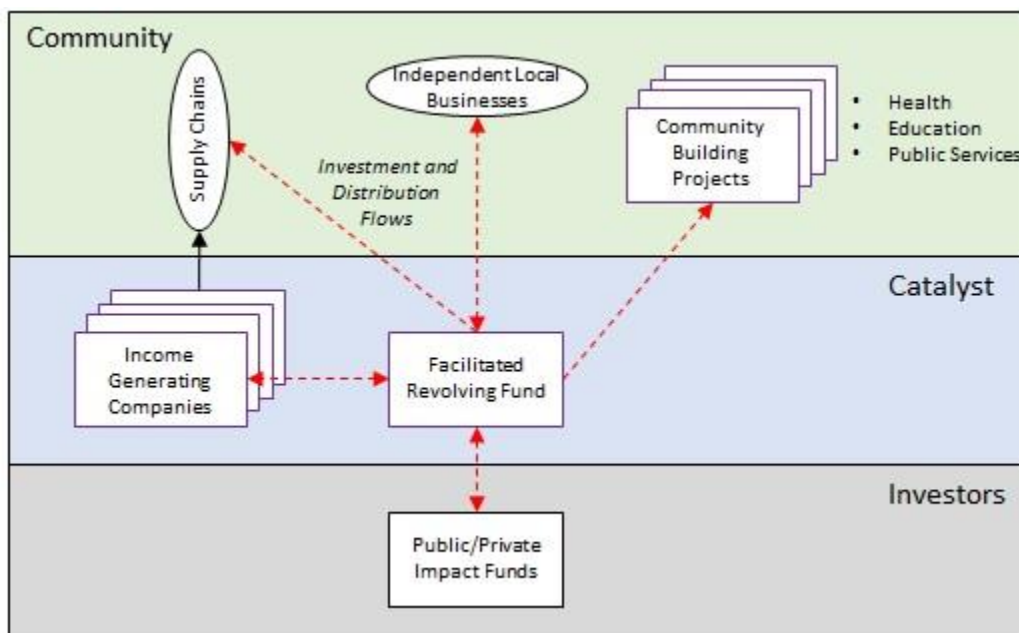
²⁶ Asian Development Bank. Publication Stock No. RPT113837; “Framework of Inclusive Growth Indicators”, 2011, p.22

²⁷ Impact Terms. “Steward Ownership”; [<https://www.impactterms.org/steward-ownership/>], accessed 2021-11-30

Developing a sustainable local economy often requires catalyzing access to outside capital, markets, and expertise. It is essential to provide this in a way that does not encourage corruption from either inside or outside the community. An offshore revolving fund is one way of providing effective donor assistance that targets investment to developing local supply chains that export to global markets.

The diagram below illustrates how philanthropist, ESG, and other impact investors can finance an offshore revolving fund that holds investments in offshore, cash-generating businesses. These companies are pre-positioned in market segments to source from community-based, locally owned businesses in the target community and sell through established market channels. The fund may also directly finance community entrepreneurs in viable local businesses that supply the offshore companies, or otherwise contribute to the domestic economy.²⁸

The revolving fund contributes excess earnings above a threshold financial return to funding community infrastructure not provided by the State. These services support a healthy, educated, and motivated workforce, including next-generation leaders and entrepreneurs who will further build their community.



Intervention – Provide supply chain planning services

Many of the Community economic producers need assistance integrating with advanced market supply chains. It is helpful to supply them with the following services:

- Review supply and distribution network design (periodic, upon request, and upon disruption) including cost/fulfillment optimization, and risk/financial sensitivity analysis
- Review and improve planning/execution business processes & KPIs (LEAN, Six Sigma, Kaizen)
- Integrate new trading partners (technology, data, business process protocols)
- Improve the quality of everyone's input data (RFID tagging, bar coding)
- Participate in Sales & Operations Planning (S&OP)
- Calculate production and movement orders (bucketed or continuous)
- Engage and direct 3PL and other logistics providers as needed

²⁸ For a similar proposal see: Tzouvelekas, M. International Social Innovation Research Conference, Paper; "Enriching the social finance ecosystem: the design of a Social Mutual Fund", 2013

- Monitor and report KPIs and outliers (activity against orders, variance in consumed forecasts)

The diagram below illustrates one way of supporting the operations of the Community business (in blue) with facilitating planning services (in green).

