

## **A Third Way Out?—**

### **On Adam Smith, Karl Marx and Social Enterprise**

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Social enterprise is a rising form of business which strives for common good as an ultimate purpose. The Social Enterprise Alliance in Hong Kong stresses three characteristics of social enterprises: addressing social needs and serving the common good, using commercial activity as a strong revenue driver as compared to relying on donations, and holding the common good as the primary purpose (“The Case for Social Enterprise Alliance”). By another definition, provided by the Home Affairs Department of Hong Kong, a social enterprise strives for social goods in the area of providing service for the community while creating employment and training opportunities for the socially vulnerable. It is also important that social enterprises reinvest their earned profits for the social objectives, instead of distributing them to shareholders. (“What is Social Enterprise.”)

One shall wonder, how does this relate to the existing business models and ideologies? In the following, I shall draw attention to ideas of Adam Smith and Karl Marx, and, in my wild imagination, their possible comments to social enterprises. Examples of social enterprises in Hong Kong shall be

quoted. The essay will end with a discussion on social enterprises as “the third way”.

### **On Adam Smith and Social Enterprise**

Smith is honoured as the Father of Economy, and his ideology drives the operation of a capitalistic society. In *The Wealth of Nations*, he emphasises the activities in a free market, driven by self-interest of individuals and led by an “invisible hand”.

For one, Smith stresses the importance of division of labour. He illustrates with the example of producing pins (424), in which he states that division of labour increases productivity and quantity of work. He also mentions that workers who excel at one talent would let it “grow[s] to be his chief business”, leading to division of labour (431).

This, however, does not apply to social enterprises. For instance, the Hong Chi Association (匡智會) is a non-profit-making organisation serving the intellectually challenged. The association runs a few social enterprises, including restaurants, convenience stores and organic farms (“Adult Services–Social Enterprise.”). These provide employment opportunity and training to the mentally challenged, who are unlikely to be employed elsewhere.

In Smith’s logic, division of labour serves ultimately the purpose of increasing productivity. He stands in the shoes of the capitalist, the master. Social enterprises, however, take into consideration the social needs of the employees and the society.

In the Hong Chi example, the Association provides employment opportunity to the vulnerable in the society. Due to their lower ability to work, the productivity and thus competitiveness of the social enterprise is lower than that of regular businesses. However, it is beneficial to both the

employee and the society: the employee can be recognised as a useful person, and be provided training which enhances their ability to work. The society can gain understanding towards the situation of intellectually disabled; and realisation to their working ability. This helps achieve social harmony through understanding, equality and respect, against the sole purpose of self-interest and capital accumulation.

Smith also acknowledges the possible unfairness and vulnerability of employees, under the system of wages. In the chapter “Of the Wages of Labour”, he admits that workmen could not subsist without his master, who pays him money as reward to his work. Smith marks the minimum payment as “at least be sufficient to maintain him” (448). He even quoted Cantillon’s argument on rearing four children since “one-half the children born, it is computed, die before the age of manhood” (449). This suggests two problems. Firstly, the wage a worker receives is obviously far less than the amount he earns for his master. In other words, exploitation is caused. Secondly, it shows an almost disgraceful ignorance to early death of child labour due to poor working conditions in factories. It is an inhumane attitude to the interests of employees, social justice or humanity as a whole.

Social enterprises, on the other hand, stress the importance of common good. It pays attention to the disadvantaged people and hopes to achieve social justice. Another mode of social enterprises is cooperatives, in which people gather voluntarily and share the rights and responsibility in businesses, without a “master” or “boss” in the company. It functions differently from Smith’s ideology.

An example in Hong Kong is a snack kiosk at The Chinese University of Hong Kong named “CU Women Cooperative” (my translation; Chinese name “中大女工同心合作社”) organised by Hong Kong Women Workers’

Association (HKWWA). I have been privileged to have the opportunity of doing an investigative project on the cooperative. In the process I have been involved in literature reviews, interviews with the organisers and the workers, participation in workshops and service experience at the kiosk. It is interesting to observe that the cooperative, as a social enterprise, practises very differently from ordinary businesses. Workers in the kiosk are considered “members”, and are awarded the same hourly wage regardless of their experience. They hold meetings in discussing daily issues of the kiosk, from what food to serve to the usage of revenue. Profit made by the kiosk was used in supporting the establishment of other cooperatives, as well as funding local labour activities. An example is to support the workers in the 2013 Hong Kong Dock Strike.

A vastly different pattern from Smith’s ideology is observed. Firstly, the members are paid with equal wages, without exploitation by a master. Secondly, the earned profits do not go into the pocket of a master, but instead goes to facilitating common good. Thirdly, members also have the right to participate in decision making, which is carried out by the master in normal economies.

Smith does consider the situation of a single independent workman as both master and workman, but he regards such cases “not very frequent” (446–447). It is fair for Smith to see this way, with reference to his era, and it shall be hard for him to imagine the structure of social enterprise as cooperative, which promotes his idea of “a single workman” to “a group of workmen”, making the proposition even more bizarre to him and his time.

### **On Karl Marx and Social Enterprise**

Karl Marx, on the other hand, criticises Smith’s ideology on political economy, accusing capitalists’ pursue of self-interest at the expense of

exploitation, sufferings and social misery. In “Wages of Labour”, he mentions that under such a hierarchy of capitalists over workers then, workers suffer an “inescapable, vital and harmful separation” from capital, landed property and labour, which ultimately is fatal to the worker (453).

By this logic, I suggest that Marx would agree with part of the principles of social enterprises. For instance, social enterprises serve the common good, which includes equality and social justice. These are values which Marx advocates. While in normal industries, division of labour would lead to the dependence of workers on capitalists and fierce competition among workers, social enterprises place significant concern for workers, especially the vulnerable. Misery on workers can possibly be reduced. Protection and opportunity for the vulnerable in the society could be provided. The benefited could be females suffering from gender inequality, the physically or mentally challenged, patients recovered from psychiatric diseases or released prisoners. Social enterprises stand with concern for such workers, instead of merely seeking monetary income.

Referring to examples of Hong Kong, various social enterprises and associations show concerns in such an aspect. As aforementioned, the Hong Chi Association’s social enterprises provide opportunity for the mentally challenged, who are vulnerable in competition with other workers. Cooperatives organised by the HKWWA provide opportunities to unemployed females: ladies who used to be full-time mothers are less likely to be employed, due to both their age and disorientation from the workplace while raising children. The New Life Psychiatric Rehabilitation Association (新生活精神康復會) operates social enterprises in catering, retailing and cleaning service industries. They provide employment opportunities to recovered patients who suffered from psychiatric diseases, helping them to re-enter the workplace (“Social Enterprise—Overview”).

Other than the employment itself, it is a comparatively protective and fair environment for the vulnerable group. On top of providing them with income, employees in social enterprises can also receive training opportunities, and self-enhancement to help them integrate into the wider society. These are uncommon in normal business environment. Marx's worries for consequences on workers are less likely to happen.

Yet, social enterprises cannot eliminate social misery. Marx suggests that alienated labour causes devaluation of human world, in direct relation to the increase in value of the material world, leading to commodification of workers and domination of capital (458–459). Even though social enterprises provide a different working environment, which is possibly more protective from exploitations; it does not solve the fundamental problem of alienation. This is because the workers still fall under the mechanism of working for capital and using the capital to sustain life. Though endeavouring to achieve the common good, social enterprises still bear the characteristics of a capitalistic business, and are inevitably affected by objective situations such as market dynamics and competition. To solve the alienation of labour requires an inversion of the capitalistic mechanism, which is far beyond the power of social enterprises.

Social enterprises are often classified as “alternative economy”, a different model of business which can hopefully be beneficial socially and environmentally. The Social Enterprise Alliance names it the “missing middle” to business, government and non-profit sectors (“The Case for Social Enterprise Alliance”). Referring to the discussion above, the model of social enterprises could be, also, considered as the “missing middle” to the school of Smith and Marx.

The benefits of social enterprises as compared to normal business are multi-fold. Firstly, welfare of workers can be better protected, in terms of

working conditions and a fairer distribution of surplus value produced. Secondly, through employment and training opportunity, vulnerable groups in the society can be aided. It also recognises their abilities. Thirdly, common good can be achieved: social harmony through understanding and respect to the vulnerable; and social justice through preventing exploitation on workers and promoting equality among workers.

However, social enterprises do have their limitations. Some of them have a considerably lower productivity and competitiveness due to employment of less abled workers. Some may have a lower flexibility and efficiency in resource allocation due to the shared responsibility in decision making. Overall, they are still subject to the capitalistic nature of the market, and external factors such as land price, cost of production and market dynamics.

### **Social Enterprise: The Missing Path?**

Social enterprises can be considered as a “third way” between Smith and Marx, in the sense that they attempt to achieve common good and avoid social misery, with a philosophical inclination to Marx’s socialism; but still maintaining the mechanism and goal of achieving wealth under Smith’s capitalistic political-economy. I would like to suggest borrowing the Alliance’s metaphor of the “missing middle” into this Smith-Marx binary opposition, since social enterprises do not diverge from the two existing models, but instead select and merge merits of the two.

Beyond ideological and practical conflicts, I sincerely believe that philosophy of both Adam Smith and Karl Marx are based on a keen craving for the welfare of mankind, be it through wealth accumulation or a radical commitment to equality. In retrospect, extremes of the two philosophies have failed us: be it the domination of 1% of capitalists over 99% of the

people in capitalistic America; or relatively poorer development and poverty in communist former Soviet Union. The “missing middle” is an alternative worth considering. Social enterprises are, in a broader sense, a starter to the experimentation of the “missing middle”. It bears further significance than a business model, but is also a search for the equilibrium of the two extremes.

And ultimately, the well-being and common good which we all desire may no longer be a mere fantasy, but a reality which mankind can achieve one step at a time.

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### **Teacher’s comment:**

Ho Ning gave a balanced evaluation of the social enterprise based on the theories of Smith and Marx. Her paper is well written and clearly structured. Social enterprises attempt “to achieve common good and avoid social misery, with a philosophical inclination to Marx’s socialism; but still maintaining the mechanism and goal of achieving wealth under Smith’s capitalistic political economy.” Smith stressed the consequences of division of labour: the material well-being of people can be improved; Marx not only contested the idea that division of labour can give rise to universal opulence, but for him the division of labour itself is against human nature. Labour in the form of free production is an expression of species being. According to Ho Ning’s analysis, social enterprises can address some problems caused by the capitalist market economy, but they cannot solve the fundamental problem of alienation, as they still operate under capitalist principles. Ho Ning’s analysis shows her good understanding of Marx’s idea of the devaluation of the human world. “Be it through wealth accumulation or a radical pursuit of equality”, the thoughts of Smith and Marx “are based on a keen craving

for the welfare of mankind.” Her concluding words can explain why these two thinkers are included into the syllabus of *In Dialogue with Humanity*: concerns for humans are as central in Smith as in Marx. (Ho Wai Ming)