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Yes Virginia, There Is an Alternative

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Abstract
This article assesses the current economic crisis, why it is happening, its implications for the US role in the world and international relations, and what can and must be done to address the situation.

Keywords
global capitalism, economic democracy, financial innovations, Keynes

I. The Deep Irrationality of Global Capitalism

Let us start with a Chicago story. Recently it was announced that the Chicago Public School System, which services some 435,000 students, will have its budget cut next year by $600 million. This will require, among other things, increasing class sizes in the elementary schools to thirty five students, and making major cuts in non-varsity sports, kindergartens, after-school programs, summer programs, and magnet, Montessori and gifted schools.

Several weeks before this announcement, *Alpha Magazine* published its *Rich List*, the incomes of the top hedge fund managers for 2009. The top twenty-five averaged $1 billion each, the top earnings going to David Tepper of the Appaloosa Fund, who made a record $4 billion. On the list was Ken Griffin, the 42-year-old manager of Citadel, Chicago's largest hedge fund. He made $900m (Schwartz and Story 2010).

It occurred to me that if Mr. Griffin's income were taxed at 66 ⅔ percent (significantly less than the post-war top-bracket rate of 90 percent), those revenues would cover the entire CPS budget shortfall. The 435,000 young people would benefit, and he'd still have $300m left with which to play!

I then asked myself: what would it take to bring Mr. Griffin's income down to the salary of the highest paid government official in the United States, i.e. the president. That salary, what the citizens of the United States

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Table 1

Ken Griffin's Possible Tax Travails

Income	Tax Rate (%)	After Taxes
$900m	90.00	$90m
	99.00	$9m
	99.90	$900,000
	99.95	$450,000

deem their most important elected official merits, is $400,000. Table 1 is a reproduction of my back-of-the-envelope calculation.

That is to say, if the IRS were to take 99.95 percent of Mr. Griffin's income, he would still have more left over than the President Obama earns for his services as president—considerably more, in fact, since his $450.000 is *after taxes*, whereas the President would have to give back a 30 percent or so of his salary to the government. (Note: we would have to tax Mr. Tepper at 99.99 percent, leaving him with *one one-hundredth of one percent* of his income last year, to bring his after tax income down to Mr. Obama's pre-tax salary.)

Of course the staggering wealth of the few juxtaposed against the soul-destroying poverty of so many—globally, but also within rich countries—is but one of the deep irrationalities of the current order. Among the others:

- We have more control over nature than ever before in the history of our species, yet more ecological devastation. ("Drill, baby, drill")
- Technology that could give everyone more leisure throws millions out of work and makes hundreds of millions insecure and overworked. ("The End of Work")
- Vast numbers of people—billions—suffer the effects of economic crises that are purely structural, in no way related to such scarcity-creating material factors as drought, flooding, storms, pests, disease, or war that disrupted the economies of pre-capitalist societies. ("Financial Meltdown")

Can any rational being who thinks about such things deny the fact that there is something deeply wrong with our current economic arrangements?

II. What Is to Be Done?

We need a new economic system, a *socialist* alternative. Let me propose an alternative to the current capitalist system that would be as efficient as capitalism, but not suffer its deep irrationalities. Let us call it Economic Democracy.

But is it credible to speak of socialism today? Consider the words of one of our most progressive mainstream economists, Nobel-laureate Paul Krugman (2009b).

> Who now can use the words of socialism with a straight face? As a member of the baby boomer generation, I can remember when the idea of revolution, of brave men pushing history forward, had a certain glamour. Now it is a sick joke... The truth is that the heart has gone out of the opposition to capitalism (p. 14).

Yet surprisingly, Krugman strikes a different note, just a paragraph later:

> Capitalism is secure, not only because of its successes—which have been very real—but because no one has a plausible alternative. This situation will not last forever. Surely there will be other ideologies, other dreams, and they will emerge sooner rather than later if the current economic crisis persists and deepens.[1]

III. Current Crises

We should be clear. The current crisis *will* persist and deepen. Actually, we should speak of cris*es*, for we are facing more than one. Let us consider the fundamental cause of the current *economic* crisis.

Set aside the sleaze:

- Unscrupulous real estate brokers enticing people to sign contracts they did not understand,
- corrupt rating agencies giving triple-A ratings to high-risk mortgage-backed securities,
- lax regulators, and
- investment banks concocting collateralized debt obligations they knew were rotten, then betting against them.

[1] Another Nobel Laureate echoes this thought. Amartya Sen (March 26, 2009), writing in the *New York Review of Books* about the European conference on *A New Capitalism*, hosted by Nicolas Sarkozy and Tony Blair, asks, "Should we search for a new capitalism or for a 'new world'... that would take a different form?" (p. 27)

Set aside the financial markets altogether and all those lovely *financial innovations* created by that new breed on Wall Street, the *quants*, who flocked to finance from MIT, Princeton, etc. with their Ph.D.s in math and physics. ("'Financial innovation': two words that should, from now on, strike fear into investors' hearts," says Krugman (2007a).)

Consider the *standard story* of the current crisis. According to this account, the current crisis was caused by the bursting of the housing bubble, which led to those mortgaged-backed securities—securities created by bundling hundreds of mortgages, then slicing and dicing the pile into parts of varying risk, then selling the pieces to investors—becoming *toxic*, i.e. unsellable, thus causing the credit markets to freeze up. Without access to credit, businesses had to lay off workers, which decreased consumer demand, which caused more layoffs, which decreased demand further, etc.

Well and good, but this story does not address the more fundamental question: Why did we get a housing bubble—and indeed a general *assets-bubble*—in the first place? (Recall, the stock market soared in tandem with housing prices, the Dow hitting 14,000 in 2007.)

To answer this question, we need to go back to basics, i.e., to Marx and Keynes. As Marx pointed out, capitalism is prone to crises that would have been incomprehensible to early forms of society—crises of *over*production. In all previous epochs, economic crises were due to scarcity—not enough stuff. But under capitalism we get crises because of *too much* stuff. Not too much stuff relative to human needs or wants, but too much relative to consumer purchasing power. In Keynesian terminology, we have a crisis due to a deficiency of *effective demand*.

Marx locates the source of the crisis in the defining institution of capitalism: wage labor. In a capitalist economy, most people work for wages or salaries, utilizing means of production owned by others. To the owners of these means of production, wages are costs of production, and hence owners strive to keep wages down. But they also need to sell their products. That is a problem. For, as noted above, when certain companies cannot sell their products, they cut back production and/or lay off workers. These workers can no longer purchase the products of other companies, so more workers are laid off, ... the familiar downward recessionary spiral.

Pre-Keynesian *classical* economists were confident that such demand deficiencies were inherently temporary. They invoked Say's Law: supply creates demand. Keynes (like Marx before him) saw this as nonsense. There are no market forces that will automatically return a depressed economy to full employment. Recoveries usually follow downturns, but there is nothing inevitable about this, particularly if the recession is severe. The fact of the matter is, Keynes argued, a free-market, capitalist economy can stabilize at *any* level of unemployment.

The invisible hand may not pull us out of a recession, but, says Keynes, we need not stand idly by. The visible hand of the government can intervene. It can put people to work. It could, Keynes (1936) observed, put banknotes in bottles, pay people to bury them, then let free-enterprise entrepreneurs dig them up—not the most productive use of labor, but better than simply praying to the market gods. "It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing" (p. 129).

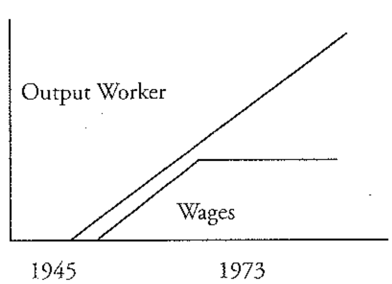
Keynes appeared to have saved capitalism. With suitable government monetary and fiscal policies appropriately deployed, the recurring deep recessions predicted by Marx could be avoided. And for three decades the Keynesian prescriptions worked. For three decades following World War II—capitalism's *Golden Age*—productivity increased steadily, incomes kept pace, and life got better and better for more and more. Indeed, it became an article of faith that your children would be better off financially than you were—just as you were better off than your parents.

But then, suddenly, trouble in paradise. Figure 1 tells the story.

Wages went flat. Household incomes increased slightly, up only 16 percent since 1973, and this increase due almost exclusively to the influx of women into the workforce. As Krugman (2007b) notes, "For men ages 35-44—men who would a generation ago have been supporting stay-at-home wives—we find that inflation adjusted wages were 12% *higher* in 1973 than they are now,... [whereas] the value of the output an average worker produces in an hour, even after you adjust for inflation, has risen almost 50% since 1973" (pp. 124-127).

The above figure raises a question. If wages have not kept pace with production, who has been buying all that extra stuff? Why has the economy not

Figure 1 Wages vs Production



been in recession for the last quarter-century or so—as the Marxian analysis would lead us to expect?

Some of the money has been invested in the real economy—hence productivity has continued to grow. Much of the *surplus*, however, went into paper assets (stocks and bonds) and real estate, inflating asset values. (As a measure of these paper *investments*, consider the following sequence: in 1956 the Dow Jones Industrial Average reached 500; 16 years later, 1972, it reached 1000; 15 years later, 1987, it hit 2000. Then it exploded to 8000 ten years later (1997), then to 14,000 ten years after that (2007). That is to say, the Dow only doubled during the *Golden Age* (during which period wages doubled as well); it then increased *fourteen-fold* during the flat-wage period.)

The real estate boom was later in coming, but when it came, it came on strong. Housing prices increased only 1 percent per year between 1975 and 1997 (Cynamon and Fazzari 2008:23), but then the rate of increase jumped six-fold, to 6 percent/year between 1997 and 2006 (Ellis 2008:3).

This explosion of asset values produced what economists call a *wealth effect*. When you feel richer, you spend more. And major asset holders have, with good reason, felt very much richer in recent times. Between 1995 and 2004 the number of millionaires (in 2004 dollars) more than doubled, as did the number of households worth more than $5 million, more than $10 million, and more than $25 million. Krugman (2007) notes that if we define a "billionaire" as someone whose wealth is greater than the output of 20,000 average workers ($1b in mid-1990s), there were 16 in 1957 and 13 in 1968. There are now 160 (p. 18).

These people spend a lot.[2] But still, even with their yachts and villas and private jets, the upper one or two percent of the population cannot consume nearly enough to keep the economy humming.

Another large portion of the total surplus—far more important than the portion consumed by the *über*-rich—has been *loaned* to working people. The *debt explosion*, which parallels the asset-value explosion, has been striking. Consider two statistics:

1. In 1975 outstanding household debt stood at 47 percent GDP. It currently stands at 100 percent. That is to say, the amount of debt people are in, adjusted for inflation, is twice what it was thirty years ago.
2. Personal outlays as share of disposable income was 88 percent in 1981—i.e., the average household saved 12 percent of its income. Today it is

[2] Wall Street Journal reporter Robert Frank provides a glimpse into their world in his 2007 book, *Richistan*, a journey through this new country.

> 100 percent—i.e., zero net savings (Cynamon and Fazzari 2008:8, 18). This does not mean that nobody saves. It means that large amounts of the social surplus have been loaned out to finance consumer spending.

Over the last several decades there has been a massive increase in home equity loans, credit card debt, students loans and automobile loans. Never before have so many borrowed so much.[3]

In effect, our capitalist class, instead of raising wages, has lent out a large piece of their profits to the working class, to be repaid with interest. Pretty clever. Except for an inconvenient truth: What cannot go on, will not. Debt levels cannot keep increasing indefinitely when incomes are stationary. Soon enough, borrowers cannot even pay the interest charges on their debt, let alone repay the principal. Lenders get nervous. Credit dries up. Defaults and bankruptcies proliferate.

Might we be able to reform the system so as to return to a high wage, social democratic, post-WWII-type economy? Can we get back to the Golden Age? This possibility would seem to be now out of reach. We are now living in a global economy. High wages drive businesses abroad. Indeed, this need to stay globally competitive was a key factor in ending the social democratic class compromise in the first place.[4]

What is to be done? It is sobering to realize that Keynesian stimulations of the standard sort, the kinds undertaken by the Roosevelt administration and now by the Obama administration, did *not* bring an end to the Great Depression. Although the recovery officially began in March of 1933 as the economy began to expand again, the unemployment rate, which had dropped from 25 percent in 1933 to 14 percent in 1937, shot up again to 19 percent the following year. (It had been 3.2 percent in 1929.)

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[3] Home equity loans became available in late 1980s. In 2005 mortgage equity withdrawals reached $800b, a full 9 percent of disposable income, up from 2 percent in 1995. (Brenner 2006: 321). Credit card debt is equally substantial, and has also mushroomed over the last several decades, from $55b in 1980 to $880b in 2006. Even when adjusted for inflation, the expansion is astonishing—up seven-fold from 1980 (*New York Times Almanac* 2007:334). Student loans have also increased substantially. Some 8.5 million post-secondary students and their parents owe $87b. Today the typical graduate of a four-year college or university owes $20,000, more than double what the typical graduate owed a decade ago (Khalfani 2007:vii-viii). Automobile loans dwarf student loans. An estimated $575 billion in new and used auto loans are written every year, large numbers of which (100 percent of those originating with the automaker financiers) are repackaged and sold as securities. The average amount financed was $30,738 in 2007, up 40 percent in the last decade (Bensinger 2007:A-1).

[4] Recall Bruce Springsteen's My Home Town—recorded in 1983: "Foreman says these jobs are going boys, and they ain't coming back."

It was not Roosevelt's welfare and employment provisions that ended the Great Depression. As Krugman (2009a) reminds us, "it took the giant public works project known as World War II—a project that finally silenced the penny pinchers—to bring the Depression to an end."

But for us there is not going to be a World War III. Nuclear war is too destructive for even our most jingoistic neocons to contemplate seriously, and our embarrassing, tragic debacles in Iraq and Afghanistan have demonstrated unequivocally the limits of conventional warfare. This is not bad news—for us as human beings, that is—but it does close off an important Keynesian route out of the current crisis.

Moreover, even as a Keynesian stimulus, modern warfare has lost much of its punch, since modern warfare is far more capital-intensive, far less labor-intensive, than the warfare of the Vietnam era and before. And with the United States now spending more on its military than all the rest of the world combined, there is no political-ideological case to be made, even on the Right, for a massive increase in military spending, the kind of spending that did so much to sustain the Golden Age.

Then there is the *globalization problem*. The effectiveness of the Keynesian deficit spending depends on its *multiplier effect*—putting some people to work gives them more money to spend, which puts more people to work, etc.—the reverse of the recessionary downward spiral. But globalization has cut into this multiplier. When newly-employed people spend their money, which they tend to do frugally, they buy those cheap imported goods at Wal-Mart, which may put more Chinese workers to work, but not their compatriots.

So if traditional Keynesian monetary and fiscal policies cannot end this recession, and if there is not going to be another major war to pull us out, what *are* we going to do? Frankly, I do not think that there is *anything* we can do to get us out of the economic mess we are in—short of a restructuring of our basic economic institutions that goes well beyond anything currently contemplated by even the most radical elements of respectable opinion.

Of course I could be wrong. Perhaps a combination of judicious policies and good luck will pull us out of this recession. But even if this should turn out to be the case, we are far from home free, for there is another crisis waiting in the wings.

Consider two of the most fundamental contradictions of capitalism:

1. Wages are a cost of production and must be held down, but the output must be sold.
2. Capitalism requires steady growth to be healthy, but infinite growth is incompatible with the resource constraints and carry-capacity of our planet.

The first contradiction generates economic crises; the second foments environmental crises. Unfortunately, these crises produce contradictory imperatives. To resolve as economic crisis, we must consume more. Recall the cover of *Newsweek* (March 23, 2009) where the familiar figure of Uncle Sam exhorts:

> *I Want You*—to Start Spending! Invest in America—Before It's Too Late.

But to head off our environmental crises, we must consume less, for as Kenneth Boulding has remarked (himself an economist):

> Only a madman or an economist thinks the exponential growth can go on forever in a finite world (Olsen and Landsberg 1973:97).

Harvard ecologist Richard Levins (2010) notes the contradiction: "Economic recession seems to provide the only respite that capitalism grants to forests and waters" (p. 44).

IV. Other Dreams

There *is* an alternative: an economically viable, vastly more democratic system that is *not* vulnerable to financial crisis and does *not* need to keep growing to remain healthy. Before setting out the basic model, let me underscore the importance of being able to specify the institutional details of an economic order beyond capitalism that is both feasible and desirable.

It is no longer credible for those of us on the Left to avoid this question. There have been too many attempts to go beyond capitalism that have ended in disaster. Margaret Thatcher's TINA objection (There Is No Alternative) issues quickly from the lips of all of capitalism's defenders. If we want to be credible, and to move beyond mere critique, we have to have a coherent, positive vision.

Moreover, the time is now ripe for enlarging the debate. There is a hunger out there right now, in the world at large, for a new vision. It is becoming clear that the old order has exhausted itself and is incapable of solving the problems that it has created. This thought is as yet consciously acknowledged by relatively few, but it is intuitively felt by many more—particularly by the young. Consider the results of a Rasmussen poll, taken April 9, 2009. When asked, "Do you prefer capitalism or socialism?" the results were as follows:

Among all Americans:
- Prefer capitalism: 53 percent
- Prefer socialism: 20 percent
- Undecided: 27 percent

Among Americans under 30:
- Prefer capitalism: 37 percent
- Prefer socialism: 33 percent
- Undecided: 30 percent

The youth of America are on the fence regarding socialism—a remarkable result given the fact that few have heard the term used publically in any but derogatory fashion. (The campaign by the Right to brand Obama as a socialist may be having unforeseen consequences. "If Obama is a socialist, and I voted for him, well then, maybe I'm a socialist too.") What the poll result would seem to show is the deep sense many young people have that the system they are expected to navigate (capitalism) is hopelessly flawed.

It is also important to have a sense as to where it is we want to go, in order to evaluate possible reforms within capitalism that might prefigure the new order *and* to develop a viable strategy for getting beyond capitalism.

The fact of the matter is, we now have at our disposal the means to demonstrate, beyond a reasonable doubt, that there does indeed exist a viable, desirable economic order that preserves the basic strengths of capitalism, but eliminates its fundamental weaknesses.

Let us start, not with an abstract model, but with what we now know, given the proliferation of economic experiments during the century just past. We now know:

- That competitive markets are essential to the functioning of a complex, developed economy. (This is the great negative lesson of the socialist experiments of the twentieth century. Detailed centralized planning in a modern economy does not work. The information and incentive problems are too great.)
- That some sort of democratic coordination of investment flows is essential to rational, stable, sustainable development—for individual countries and for the world economy as a whole. (This is the negative lesson of the neoliberal experiments of the last twenty-five years. Allowing financial markets to control the allocation of capital is a recipe for disaster.)
- That productive enterprises can be run democratically with little or no loss of efficiency, often with a gain in efficiency, and almost always with

considerable gain in employment security. (This is positive lesson of a great many recent experiments in alternative forms of workplace organization. Workplace democracy works.)[5]

V. Economic Democracy

Let us give our new socialism its appropriate name: Economic Democracy. The point is to extend democracy into areas of life hitherto considered off-limits. Here are our slogans:

- Democratize labor
- Democratize capital
- Democratize democracy

We will not discuss that last slogan here, although it is *sine qua non.* So long as money rules, and not the people, we are not going to accomplish what we must accomplish. Campaign finance reform has to be high on our agenda.

What will be the basic institutions of our new, democratic, economy?[6] Capitalism is often identified as a *free-market economy*. In fact, it is a *three-market economy*. There are:

- Markets for goods and services,
- labor markets, and
- capital markets.

Economic Democracy, unlike the classic models of socialism, retains competitive markets for goods and services, which are, in fact—as defenders of capitalism never tire of pointing out—a form of democracy.[7] Economic Democracy retains markets for goods and services, but it replaces those labor

[5] For a sampling of the evidence, see my *After Capitalism*, Pp. 59-62.

[6] The set of institutions set out here represent a *model* of a viable, desirable democratic socialism. Like all models of complex economies, its instantiation in the real world would be considerably more complex than what is outlined here, and would likely deviate to a degree from the *pure* model discussed here. For a more complete discussion of both the basic and supplementary institutions of Economic Democracy, see *After Capitalism*. More technical details and arguments are elaborated in my *Against Capitalism*, Cambridge University Press, 1993.

[7] When one makes a purchase, one is in effect voting for the production of that product. To be sure, this is one-dollar/one-vote democracy, not one-person/one-vote, but if the distribution of income is fair—which is decidedly *not* the case under capitalism—we want a system that produces the goods that people are entitled to purchase.

and capital markets with more democratic institutions. Economic Democracy's basic institutions are:

- Markets for goods and services,
- worker self-management of firms, and
- social control of investment.

There are two essential components of worker-self-management, concerning control and income respectively.

1) Enterprises are regarded, not as objects to be bought and sold, but as communities. When one joins an enterprise, one is entitled to vote for a workers' council that appoints upper management and oversees major enterprise decisions. The basic rule is one-person, one-vote.
2) Workers' incomes are profit shares, not wages or salaries. These shares need not be equal. Higher shares can be awarded to those with seniority, higher skills, and or more responsibility. But everyone's income is tied directly to the enterprise's profits, thus everyone is motivated to work conscientiously—and to encourage co-workers to do the same. (It should be noted that *profit* is calculated differently in a democratic firm than it is in a capitalist firm, since workers' incomes are not regarded as *costs* in a democratic firm. Democratic profit is the difference between sales revenue and non-labor costs.)

There are three essential components to "social control" of investment:

1) The national investment fund is generated, not from private savings, but from a capital assets tax—a flat-rate tax on the value of the capital assets of each business enterprise. It is important if we are to have democratic control over the allocation of investment, that we gain control over the *source* of those funds. The capital assets tax may be regarded by democratic firms as a leasing fee. Society as a whole *owns* the means of production, which the workers of an enterprise lease from society.
2) This fund is distributed to regions and to communities on a *per-capita* basis. Each region and each community gets its *fair share*, each and every year, of the national investment fund. Regions and communities do not compete for capital. Capital flows to where the people are; people do not have to relocate to where the capital is flowing, as is the case under capitalism. (Per-capita share is a *prima-facie* right, which can be overridden by the democratic decision of a legislative body. But investment allocation is a public, transparent process, and it is a zero-sum

game. If some regions get more than their *per-capita* share one year, other regions get less, so convincing reasons must be presented to justify exceptions to the *per-capita* rule.)

3) These funds are allocated to a network of public *investment banks* that loan them out to existing enterprises or to individuals wanting to start new businesses, based on a) projected profitability of the investment, b) employment creation and c) other social factors deemed relevant by the community, e.g. specific environmental concerns. (At each stage, national, regional and community, a certain portion of the investment fund is set aside for investment in public goods. Again this apportionment is transparent, it being clear that the more investment made in the public sector, the less available to the private sector and vice versa.)

The market, workplace democracy and social control of investment comprise the basic institution of Economic Democracy, to which should be added at least three supplementary institutions:

1) The government as Employer-of-Last-Resort (ELR)
2) Socialist Savings and Loan Associations
3) Capitalists under socialism

A brief comment on each:
Re. 1): It has long been a tenet of the socialist tradition that every able-bodied person who wants to work should be guaranteed a decent job. Work is essential to a person's sense of dignity and self-respect. If you are unable to find work, society is in effect saying to you, "There is *nothing* you can do that is of any value to us. We may deign to keep you alive, humane creatures that we are, but make no mistake: you are a parasite, living for free on the labor of others." Is it any wonder that unemployment breeds social pathologies?

Unfortunately, a market economy, capitalist *or* democratic, cannot be counted on to provide full employment. The government must step in with a program that creates living-wage jobs for anyone who wants one. As it happens, such a program is incompatible with a capitalist economy, which relies on the threat of unemployment to keep workers in line. There exist, at the heart of every capitalist firm, opposing interests, capitalists wanting to get as much work as possible from their workers while paying them as little as possible, workers wanting to be paid as much as possible for doing as little work as possible. Since capitalists cannot employ brute force against *free* labors, a substantial "reserve army of the unemployed" (as Marx called it) is a structural necessity.

No such necessity exists in an Economic Democracy, since each worker has a positive incentive to work conscientiously: her income is a share of the firm's profits. Individual workers who cannot or will not do the work expected of them can be terminated, but the workforce as a whole does not require the threat of unemployment to keep them appropriately disciplined.[8]

Re. 2): Although Economic Democracy breaks the link between private savings and productive investment, there is a role for institutional mediation between individuals who want to save some of their current income, and individuals who want to borrow so as to purchase big-ticket items (most notably housing), before saving up the full purchase price. Credit unions, worker-self-managed S&Ls, and even capitalist (see below) S&Ls will exist, paying interest on savings accounts, charging (somewhat higher) interest on mortgages and other consumer loans. These will be regulated, since (as today) savings deposits are insured by the government. They will make consumer loans, but *not* loans to businesses.

Re. 3): Although most workers in Economic Democracy work in either the public sector or the cooperative sector, not all businesses need be worker-self-managed. Small businesses need not be. Owners of small businesses are not, typically, mere *owners*, but are actively engaged in managing the business, an important and productive function that need not be democratized.

There might even be some large capitalist enterprises in a democratic economy. It is important to distinguish the *entrepreneurial* capitalist from the *pure* capitalist, the capitalist *qua* capitalist. The first is an individual who comes up with an innovative idea for a product, production process or technology, and then builds a business around this innovation. The capitalist *qua* capitalist is the individual who *supplies the capital* to the entrepreneur, so that she might turn her idea into a reality. A healthy, dynamic economy needs entrepreneurs—individuals with innovative ideas and the skills to turn them into real goods or services—but it does not need capitalists *qua* capitalists. Public

[8] Although few economists are candid about this to the general public, most believe that trying to achieve full employment is bad policy, that trying force the unemployment rate below the *natural* rate of unemployment—rebaptized as the non-accelerating inflation rate of unemployment (NAIRU)—is a recipe for disaster. That is to say, most now agree with my claim that unemployment is essential for (capitalist) economic stability. But not all. Among the most prominent are Nobel-laureate William Vickery (who died in 1996, just days after being awarded the prize) and L. Randall Wray, currently Professor of Economics at University of Missouri-Kansas City and Senior Research Associate at the Center for Full Employment and Price Stability. Insofar as the push for full employment is a crucial component of any strategy to take us beyond capitalism, the writings of the ELR economists merit careful consideration. See, for example the contributors to Aaron Warner, Matthew Forstater and Sumner Rosen, (eds.). 2000. *Commitment to Full Employment: The Economics and Social Policy of William S. Vickery*, Armonk, NY: M. E. Sharpe; and those associated with Research Center for Full Employment and Price Stability (University of Missouri-Kansas City) [cfeps.org], and the Centre of Full Employment and Equity (University of Newcastle) [el.newcastle.edu.au/coffee].

banks will make funds available to any individual or group of individuals wanting to start up a new business, be it cooperative or privately-owned. Banks allocate investment funds based on the projected profitability of a project, and the employment it will create, not on the internal structure of the enterprise.

The entrepreneurial capitalist can hire as many workers as she wants, build the business to any size, make as much money as she can. The only restriction is this: When the entrepreneurial capitalist decides to retire or to move on to another endeavor, she must sell the enterprise to the state, which then turns it over to its workers, to be run democratically. (This provision blocks the transformation of the entrepreneur into a capitalist whose income is based solely on ownership of means of production.) Thus the entrepreneurial capitalist plays two honorable roles in our socialist society—she is a source of innovative ideas and practices, and she lays the foundation for new democratic firms—without posing a threat to the overall democratic character of the economy.

VI. Economic Democracy and Economic Crises

Economic Democracy is not vulnerable to the kinds of financial crisis that plague capitalism. For there are no private financial markets—no stock market, no bond market, no investment banks, no private equity firms, no hedge funds—hence no possibility of financial speculation or malignant financial *innovation*. Financial markets are wholly transparent.

As for the deeper problem identified above, the gap between output and wages, this too is impossible, since worker incomes rise automatically with productivity increases (unless offset by increases in leisure—to be discussed below).

Economic Democracy is also far more compatible with ecological sanity than is capitalism. For a democratic firm lacks the expansionary dynamic of a capitalist firm. The reason is structural. Capitalist firms tend to maximize total profits. Democratic firms tend to maximize profit-per-worker. Under conditions of constant returns to scale, a capitalist firm will keep growing. Doubling the size of a firm will double its profits. A democratic firm under similar conditions will *not* expand. Doubling the size of a firm will also double profits, but this will also double the number of workers with whom the profits will be shared.[9]

[9] This structural difference tends to keep democratic firms smaller than comparable capitalist firms. There is less tendency toward monopoly. Hence, an economy in which democratic

Moreover, since funds for investment in an Economic Democracy come from the capital assets tax, not from private investors, the economy is not hostage to *investor confidence*. We need not worry that an economic slowdown will panic investors, provoking them to pull their money out of the financial markets, triggering a recession. If investment opportunities contract, the capital assets tax can be cut accordingly. A stable, *no-growth*, sustainable society is possible under Economic Democracy, but not under capitalism.[10]

Actually, *no-growth* is a misnomer. Productivity increases under Economic Democracy are more likely to translate into increased *leisure* than into increased *consumption*—particularly if environmental consciousness is high. (Hence the continuing need for a strong environmental movement.) When introducing a more productive technology into their enterprise, workers in a democratic firm have a choice not available to their counterparts in a capitalist firm: they can choose to take those productivity gains in the form of shorter workweeks or longer vacations rather than higher incomes. The economy will continue to experience *growth*, but the growth will be mostly in free time, not consumption.

VII. What Would Marx Say about All This?

As we all know, Marx's powerful and compelling critique of capitalism provided no model for a post-capitalism economy, no "recipes for cookshops of the future." (Marx 1967a:26) Marx should not be faulted for this omission. He was a *scientific* socialist. Although there were sufficient data available to him to ground his critique of capitalist, there was little upon which to draw regarding alternative economic institutions. No "experiments" had been performed.

We no longer have that excuse. We know more now about alternative structures than Marx could possibly have known.

Were Marx to survey the situation today, what would he say? Well, he certainly would not be surprised to find capitalism in a state of economic crisis,

firms are the norm is more likely to remain a competitive economy—though competition is less intense than under capitalism, since firms have no interest in driving their competitors to the wall or taking them over. (Non-profit enterprises—universities, for example—exhibit these features even in a capitalist economy. Successful universities do not grow ever larger, and although there is competition for students—generally a healthy competition that focuses on best practices—they do not try to drive their rivals out of business so as to capture their student body.)

[10] For a fuller elaboration of this argument, see my "Is Sustainable Capitalism an Oxymoron?" (2009a): 559-80, or a shorter version, "A New Capitalism or a New World?" (2009b): 12-19.

one that is, at bottom, a crisis of *overproduction*. I doubt that Marx would have been surprised by the ecological crisis either. Although it is commonplace to argue that Marx belongs to the promethean tradition of the Enlightenment, which celebrated man's *domination of nature*, recent research on Marx contradicts this view. Marx was far more aware of capitalism's despoliation of the environment than is commonly acknowledged.[11]

As for the basic structures of Economic Democracy, consider: much of Marx's critique of capitalism focuses on the workplace—his early writings, particularly his 1844 manuscript, *Alienated Labor*, but also volume 1 of *Capital*, with its detailed description of the actual conditions of work in mid-nineteenth century Britain.

But what might be the solution to *alienated labor*? The answer would seem to be obvious—although not stated explicitly by Marx. *The workplace should be democratized!* (Marx's writings on cooperatives give further credence to this view (Jossa 2005: 3-18).)

Another part of Marx's critique has a different emphasis. At the theoretical heart of *Capital* is Marx's solution to the "riddle of capital"—how is profit possible when equals are always exchanged for equals in the marketplace? Profit, Marx argues, derives from the exploitation of workers, but this exploitation does not take place in the marketplace, but within the productive enterprises owned by the capitalists. Profit is possible because workers are required to work more than the labor-time necessary for their own reproduction. This surplus labor produces *surplus value*—the source of capitalist profit.

Marx's critique pertains not to the fact that surplus value is produced, but to the fact that *the producers, collectively, do not have control over the disposition of that surplus*. Marx makes it clear in his *Critique of the Gotha Program* that a socialist society would still need to generate a social surplus. It is not true, Marx argues, that every worker in a communist society should receive the full proceeds of his labor. From the "collective proceeds of labor" must be deducted funds for the expansion of production, insurance funds against accidents and natural disturbances, funds to cover the general costs of administration not pertaining directly to production, as well as "that which pertains to the general satisfaction of needs, such as schools, health services, etc." a part which, he

[11] See Marx (1967b) where he writes, for example, "All progress in capitalist agriculture is a progress in the art, not only of robbing the laborer, but of robbing the soil; all progress in increasing the fertility of the soil for a given time is a progress toward ruining the lasting source of that fertility (p. 506)."

For further evidence see John Bellamy Foster. 2000. *Marx's Ecology*. New York: Monthly Review Press.

says, "grows considerably in comparison with present day society, and grows in proportion as the new society develops."

Thus we see that Marx's critique of capitalism is in essence a *democratic* critique. Workers have no democratic control over their conditions of work. Society lacks democratic control over the social surplus, the disposition of which determines the general developmental trajectory of society. Economic Democracy addresses both of these factors.

VIII. What Would Keynes Say?

Keynes (1936) would be no more surprised than Marx by the current economic crisis—given the massive growth in unregulated financial markets in recent decades. Few economists have written so scathingly as Keynes about the irrationality of the financial sector. Just a few quotes from the famous Chapter 12 of his monumental, paradigm-shifting *General Theory of Employment, Interest and Money*. He debunks the standard view:

> It might have been supposed that competition between expert professionals, possessing judgment and knowledge beyond that of the average private investor, would correct the vagaries of the ignorant individual left to himself. It happens, however, that the energies and skill of the professional investor and speculator are mainly occupied otherwise. For most of these persons are, in fact, largely concerned, not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with foreseeing changes in the conventional basis of valuation a short time ahead of the general public (p. 154).

Keynes, who spent a fair amount of his own time at the London stock exchange, making a fortune, losing it, then making it back again, tells us:

> The actual, private object of most skilled investment today is to "beat the gun," as the Americans so well express it, to outwit the crowd, and to pass the bad, or depreciating half-crown to the other fellow.... It is, so to speak, a game of Snap, of Old Maid, of Musical Chairs—a pastime in which he is victor who says "Snap" neither too soon nor too late, who passes the "Old Maid" to his neighbor before the game is over, who secures the chair for himself when the music stops (pp. 155-156).

And the situation is likely to get worse over time:

> As the organization of investment markets improves, the risk of the predominance of speculation does increase. In one of the greatest investment markets in the world, namely New York, the influence of speculation is enormous (p. 158).

He continues:

> Speculators may do no harm as bubbles on a steady stream of enterprise. But the situation becomes serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done (p. 159).

What is to be done? Keynes notes in the final chapter of *The General Theory* that "the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income" (p. 372).

The two faults are interrelated. The great danger to a modern capitalist economy is too much savings relative to the opportunities for genuinely productive investments in the real economy. Since the wealthy tend to save a much larger portion of their income than do poorer people, they are the ones primarily responsible for the deficiency in aggregate demand that causes unemployment. (For Keynes, *investing* in the stock market or in some other financial asset is *saving*, not investing; investing means expanding existing production facilities or developing new ones.)

Keynes does not think this unhealthy state will persist, for he thinks capital will soon become so plentiful that the return to capital, accordance with the basic laws of supply and demand, will soon approach zero, which "would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative, oppressive power of the capitalists to exploit the scarcity value of capital" (p. 376). This is well and good, he thinks, for:

> Interest today rewards no genuine sacrifice, any more than does rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital (p. 376).

If we need additional capital to ensure full-employment, "it will still be possible [to have] communal saving through the agency of the state." That is to say, we do not have to rely on the private savings of private individuals for investment funds; we can generate them publicly via taxation. As for their allocation, since "there is no clear evidence from experience that investment policy which is socially advantageous coincides with that which is most profitable, (p. 157)...I expect to see the State...taking ever more responsibility for directly organizing investment (p. 164)".

We see that "social control of investment," as it occurs in Economic Democracy, is fully consistent with Keynesian principles and predictions.

Keynes gave no thought to the prospect of workplace democracy, but he did write about a society more oriented toward increasing leisure than consumption—the kind of society, I have argued, that is possible under Economic Democracy, but not under capitalism. In a remarkable essay written just after the onset of the Great Depression, Keynes speculated about the "Economic Possibilities for Our Grandchildren." He offered his opinion as to what our world would look like a hundred years hence:

> We shall use the new-found bounty of nature quite differently than the way the rich use it today, and will map out for ourselves a plan of life quite otherwise than theirs... What work there still remains to be done will be as widely shared as possible—three hour shifts, or a fifteen-hour week... There will also be great changes in our morals... I see us free to return to some of the most sure and certain principles of religion and traditional virtue—that avarice is a vice, that the extraction of usury is a misdemeanor, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow... We shall honor those who can teach us how to pluck the hour and the day virtuously and well, the delightful people who are capable of taking direct enjoyment in things (pp. 368-372).

Keynes wrote these words in 1930, at a time when "the prevailing world depression, the enormous anomaly of unemployment, the disastrous mistakes we have made, blind us to what is going on under the surface (p. 359) Keyne's projection was for "a hundred years hence," i.e. 2030—no longer the distant future. We should ask ourselves: Might there be things "going on under the surface" right now that could bring us to sustainable, democratic, human world?

IX. Coda

A major inspiration for those of us advocating workplace democracy has been, for many years, the remarkable Mondragon Cooperative Corporation (MCC), a network of cooperatives that has grown from a single cooperative founded in 1956, under the auspices of a Catholic priest, in the Basque town of Mondragon, into an incorporated collection of more than 260 cooperatives employing 100,000 members. On October 27, 2009, the United Steelworkers of America, the largest industrial union in the U.S., issued a press release:

> The USW and MONDRAGON International S. A. today announce a framework agreement for collaboration in establishing MONDRAGON cooperatives in the

> manufacturing sector within the United States and Canada. "We see today's agreement as an historic first step toward making union co-ops a viable business model that can create good jobs, empower workers, and support communities," said the USW International President, Leo Gerard. Josu Ugarte, president of MCC, added: "What we are announcing today represents an historic first step—combining the world's largest industrial worker cooperative with one of the world's most progressive and forward-thinking manufacturing union..."

There are, indeed, "things going on beneath the surface."

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