

**Yes, Virginia, There *Is* an Alternative**

**Rethinking Marxism Conference**

**University of Massachusetts/Amherst**

**November 6, 2009**

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.<sup>1</sup>

This is Nobel-Laureate Paul Krugman, in book published just this year. Yet surprisingly the iconoclastic 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.<sup>2</sup>

There *are* in fact other dreams. Let me sketch for you one of them. Let us call it "Economic Democracy." Let me begin, not with an abstract model, but with what we now know in light of the economic experiments of the past century.

- ◆ We now know that competitive markets are essential to the functioning of a complex,

developed economy. This is the *negative* lesson of the socialist experiments of the twentieth century. Markets cannot be replaced wholesale by planning.

- ◆ We now know that some sort of planning, particularly 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 thirty years.

There is something else we know--at least those of us who study such things. Actually, most people do *not* know this important fact. It is not something talked about in polite company.

- ◆ We now know 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 the positive lesson of a great many recent experiments in alternative forms of workplace organization.

With the right structures in place, workplace democracy works.<sup>3</sup> Not perfectly. Bad managers are sometimes appointed. Bad decisions are sometimes made. Democratic firms sometimes fail. But Winston Churchill's dictum appears to hold: "Democracy is the worst form of government--except for all the others that have been tried from time to time."

What changes might we envisage that would transform our current capitalism into one that takes account of these things that we know? Clearly we need to democratize labor and democratize capital. But what structural changes would do that?

## Democratizing Labor

Suppose we had an economy dominated by cooperatives and by public worker-self-managed companies. Imagine an economy where all "public" corporations, that is to say, those corporations whose shares are traded on stock markets, have been nationalized --and turned over to their employees, *to be managed democratically*. Instead of absentee owners (shareholders) voting for a board of directors that appoints upper management and monitors the company's performance, the employees elect a workers' council to perform these functions.

Economic Democracy need not require *complete* democratization. Small businesses can remain private. We might even want to have some *large* capitalist firms. (More on this later.) The point is to democratize the "*commanding heights*" of the economy. These "public" companies should become truly public, i.e., owned by society and governed democratically.

## Democratizing Capital

If "democratizing labor" means workplace democracy, what does "democratizing capital" entail? To gain control over the *allocation* of investment funds, we must gain control over the *source* of those funds, for it is exceedingly difficult to control the allocation of investment funds when these funds are private. We must *break the connection between private savings and investment*. These funds should be, for the most part, publicly, not privately, generated.

There is a simple way to do this. Let us abolish the corporate income tax (which most corporations have become adept at avoiding anyway) and replace it with a *capital assets tax* --a flat-rate tax on business enterprises. This may be thought of as a "national property tax" on revenue-generating property. Revenues from this tax will constitute society's "investment fund."

All of this money will be reinvested in the economy each year to enhance job and productivity growth.

Since these are public funds, they will be allocated via *public* banks, using criteria in addition to (but not other than) profitability. Let us allocate them to regions the way public goods are usually allocated--on a *per-capita* basis. That is to say, if a region contains X% of the national population, it gets X% of the investment fund., each and every year, as a matter of right.<sup>4</sup>

This "democratization of capital" would have three crucial consequences:

1. *Regions would no longer compete for capital.* Regions do not have to offer tax breaks to companies who will come to their regions, or less stringent environmental regulations, or less unionization.
2. *This tax-generated capital would stay in the country.* It does not flow abroad in search of higher returns. Since democratic firms do not relocate to lower-wage parts of the world either, or outsource their work, the whole problem of enterprises and jobs being transferred abroad disappears.
3. *Since these are public funds, a certain amount of investment prioritizing can be set by national, state and local governments.* For example, funds can be offered at lower rates to companies willing to invest in environmentally-friendly technologies.

### **VIII. Three Supplementary Structural Changes**

The three basic institutions--markets for goods and services, workplace democracy and social control of investment--constitute the defining features of Economic Democracy, but there

are several other changes that should be part of our "new socialism." Time constraints preclude elaboration, but let me mention three.

1. *The government as employer-of-last-resort*--to fulfill the socialist commitment to genuinely full employment
2. *Non-Governmental Credit Associations*--to handle personal savings and consumer loans.
3. *An Entrepreneurial-Capitalist Sector*--to provide adequate incentives for innovation.

A quick comment on this last supplement: Although workplace democracy should be the norm throughout society, we needn't demand that *all* businesses conform to this norm. The petty capitalist, after all, works hard, and their small businesses provide jobs for large numbers of people usually. There is also an honorable role for entrepreneurial capitalists to play in a socialist society. To prevent the active entrepreneurial-capitalist class from becoming a passive, parasitic class, we will require that, when the entrepreneur decides to step aside, the business must be sold to the state, henceforth to be run democratically by its workers. Thus the entrepreneurial class serves two functions, both valuable for society: it is a source of innovation, and it generates new democratic firms.

### **Economic Democracy and Economic Crises**

In a longer version of this paper I argue that Economic Democracy is far better positioned than capitalism to avoid both kinds of crisis facing humanity today: financial crises leading to persistent, permanent and growing unemployment (the "end of work") and ecological devastation. Here let me say just a few words about the latter.

As is well-known, 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. 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. A stable, "no-growth," sustainable society is possible under Economic Democracy, but not under capitalism.<sup>5</sup>

Actually, "no-growth" is a misnomer. Productivity increases under Economic Democracy are more likely to translate into increased *leisure* than increased *consumption*. 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 short 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.

### **What Would Marx Say About All This? What Would Keynes say?**

Given our time constraints, let me pass over Marx, and go to directly to Keynes. Keynes would be no more surprised than Marx by the current economic crisis. Few economists have written so scathingly as Keynes about the irrationality of financial markets. Here's a quote from his *General Theory*, debunking the still-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. . . . 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.<sup>6</sup> (154-6)

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" (372).

Keynes doesn't think this unhealthy state will persist, for he thinks capital will soon become so plentiful that the return to capital 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*" (376). (Keynes's words, not Marx's.)

If we need additional capital to ensure full-employment, "it will still be possible [to have] communal saving through the agency of the state." 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, (157) . . . I expect to see the State . . . taking ever more responsibility for directly organizing investment. (164)"

It thus appears that "social control of investment," as practiced by 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 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.<sup>7</sup>

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*."<sup>8</sup> Keynes'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?



## Coda

As many of you may know, a major inspiration for those of us advocating workplace democracy is the remarkable Mondragon Cooperative Corporation (MCC), which 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 network of more than 260 cooperatives employing 100,000 members. One week ago, 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."

## NOTES

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<sup>1</sup> *The Return of Depression Economics and the Crisis of 2008* (New York: W.W. Norton, 2009), p. 14.

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<sup>2</sup> *Ibid.* Another Nobel Laureate echoes this thought. Amartya Sen, 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?” (March 26, 2009, p. 27)

<sup>3</sup> For a sampling of the evidence see my *After Capitalism* (Lanham, MD: Rowman and Littlefield, 2002), pp. 60-62. See also Gregory Dow, *Governing the Firm: Workers' Control in Theory and Practice* (Cambridge: Cambridge University Press, 2003).

<sup>4</sup> Per-capita share is the *prima facie* principle governing investment allocation. This could be modified by the legislature at the appropriate level to take into account special circumstances

<sup>5</sup> For a fuller elaboration of this argument, see my “A New Capitalism or a New World?” *World Watch* (September-October 2009.)

<sup>6</sup> John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace and Company, 1936). Page numbers to specific quotes are given in the text.

<sup>7</sup> John Maynard Keynes, “Economic Possibilities for Our Grandchildren,” in *Essays in Persuasion* (New York: Norton, 1963), pp. 368-72.

<sup>8</sup> *Ibid.* p. 359.