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Tired of Capitalism? How about Something Better?

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The need for another revolution should be obvious to all those who are not willfully blind. It is not, I fear, probable. But without doubt it is possible.¹

This is Brian Barry, Lieber Professor of Political Philosophy, Columbia University, and Professor of Political Science, London School of Economics, the closing words of his beautiful, angry book, *Why Social Justice Matters* (2005)--his last book. Barry died in 2009. These words were foreshadowed by his remarks in the book's preface:

One thing can be stated with certainty: the continuation of the status quo is an ecological impossibility. The uncertainty lies with the consequences of this fact. It is quite in the cards that the response will be the further retrenchment of plutocracy within countries and an ever more naked attempt by the United States, aided and abetted by a "coalition of the willing," to displace the costs onto poorer countries. Whether it succeeds or fails, the results will be catastrophic. But I shall argue that there are some grounds for hope, which include growing discontent within rich countries with politics as usual.²

¹ Brian Barry, *Why Social Justice Matters*, (Cambridge: Polity Press, 2005), p. 272.

² *Ibid.* p. viii.

1. Ecological Crisis / Economic Crisis

Barry's book was written *before* the global economic meltdown—which would suggest that things are even worse now, since addressing climate change and other ecological disasters requires money, and *everyone*—governments as well as private citizens—are strapped right now.

Moreover, the current economic recession is not going to end, not unless there is a *fundamental* restructuring of our economic system.

Let's remember the deep cause of the present crisis—about which Left economists have been far more perspicacious than their mainstream counterparts. Wages have been flat, productivity positive—since the mid 70s. So, to keep up effective demand, the rich (i.e., the capitalist class) have been lending money to the rest of us—to us individually as consumers, and to us collectively, i.e., to our government--instead of raising wages or allowing their taxes to increase.

And there would seem to be no way out of the mess we are in. Globalization keeps downward pressure on wages. And there are no new technologies on hand that would create lots of new profitable enterprises that will create lots of new jobs. To the contrary, labor-saving technology now destroys more jobs than it creates. (It wouldn't be wrong to say that capitalism got a new lease on life following the Great Depression by accident. Not only did World War II pull us out the global crisis that had seemed to confirm Marx's analysis, but the new, transformative technologies spreading everywhere, above all those associated with the automobile, created vastly more jobs than they destroyed: not only in the manufacture and distribution of the automobiles themselves, but in the construction of highways, of gas stations, of auto-repair shops, of the vast tracts of suburban housing that automobilization made possible and attractive, of shopping malls, etc. There are no new technologies today, however wondrous they are in themselves, that have any such job-creating potential. To the contrary, most destroy more jobs than they create. As the title of Terry Eagleton's new book put it: *Marx Was Right*.³)

Moreover, even if some combination of Keynesian macroeconomics and luck should return the economy to vigorous

³Terry Eagleton, *Marx Was Right* (New Haven: Yale University Press, 2011).

growth, we will still be confronted with another, even less tractable, potentially more devastating, ecological crisis. That is to say, we are in a tight corner. To combat the recession, our economists urge us to spend, spend, spend, while our environmentalists tell us that our overconsumption is killing the planet. It is no accident that governments are deadlocked to the point of dysfunctionality over what to do about the state of the economy *and* what to do about climate change.

2. Other Intractable Problems with Capitalism

- Staggering inequality.

In the United States the top 1% now take home 25% of the income and own 40% of the wealth—and the gap grows larger every day.

- Rising unemployment, which is structural in nature, and hence not temporary.

“Labor-saving” technologies throw ever more people out of work, far more than are required by new industries. Jobs are increasing outsourced to lower-wage parts of the world. There is no end in sight to this process.

- Intensification of labor—for those who have jobs.

A visitor from another planet would likely be amazed that so many people in our society want to work but can't find jobs, whereas those who do have jobs are working harder, and often longer hours, than they would like. “Why not just spread the work around?” our visitor would wonder. Yet we know why unemployment breeds overwork. The higher the unemployment rate, the more anxious people become who have jobs, so the harder and harder we work—whatever the cost to psychological, physical and/or family well-being.

- Growing poverty in the midst of unprecedented material wealth.

It was once believed that we, the richest nation on earth, could eliminate poverty. We obviously have the resources. And yet poverty has *not* been eliminated—and no one even pretends

anymore that it can be. In fact, it is growing, not decreasing—at home and in the world at large.

- Degradation of democracy.

As everyone knows, money talks, louder now perhaps than ever before in the history of our country. Our political system is no longer one-person, one-vote, but one-dollar, one-vote. Campaigns cost so much now, and the lobbyists are so numerous now, with so much money to dole out. Is it a surprise that politicians do favors for those upon whose donations their political future depends? Is it any wonder that successful politicians—and their financial backers-- oppose reforms that would undercut the very system that they have worked to their advantage?

So, as Brian Barry said, we need a revolution.

3. But what might a restructured economy, a genuinely “new economy” look like?

Not long ago I received a phone call from my sister-in-law, a fundamentalist Christian, conservative on social issues, but not particularly political otherwise. She made a surprising request. Her pastor has taken recently to railing against socialism. But she knows that I am a socialist and not a terrible person, so something didn't seem right. “Could you explain to me,” she asked, “what socialism is?”

“Don't refer me to a book,” she added. “Just write up a few pages.”

So I took up the challenge. I didn't attempt an academic treatise. I made no distinction, for example, between “socialism” and “communism,” nor did I attempt a short history of these terms or movements. I gave her, in essence, a brief account of my own version of “socialism,” which included some institutional specifics, since the question, “What is your alternative?” has been the central focus of my research and writing for almost forty years. Here's my multi-part answer to her question.

3.1. What socialism is not:

(I realize that few in this audience need to be told this, but I think it useful for us to keep in mind the standard objections—for when we do preach beyond the choir.)

- Socialism is *not* anti-religious.

The fundamental values of socialism (which I'll get to in a moment) are in no way incompatible with the basic moral principles of Christianity or any of the other major religions. That the most influential of the early socialists, Karl Marx, was an atheist is an historical accident. Marx, while a student, came under the influence of groups of German atheists (the Young Hegelians), but eventually broke with them, because he didn't buy their line that religious superstition was the cause of Germany's problems. For Marx it was the *economic structure*, not religion.

- Socialism is *not* opposed to freedom or individuality.

To the contrary, classical socialism regarded capitalism as a hindrance to real freedom and genuine individuality. In Marx's words, we want a society in which “the free development of each is a condition for the free development of all.”

- Socialism is *not* anti-democratic.

Prior to the advent of the Soviet Union, socialism was explicitly democratic. In the *Communist Manifesto*, Marx urges workers to “win the battle of democracy.”

- Socialism is *not* what developed in Russia and Eastern Europe in the 20th century.

Marx expected socialism to triumph first in the advanced capitalist countries that had already industrialized and developed sophisticated technologies. Instead, the first “socialist” revolution occurred in a backward country surrounded by hostile powers (who had intervened against the revolutionaries during the Civil War.) Feeling the need to industrialize rapidly, the leadership (primarily Stalin) put the country on authoritarian, military footing, and proceeded—at horrific human cost—to do just that—

industrialize at breakneck speed. And when, following WWII, the Russians insisted on keeping the Eastern European countries in their “orbit”—for self-protection—they were equally ruthless. The democratic component of socialism was quashed.

- Socialism is *not* opposed to inequalities based on genuine differences of productive contribution to society.

Marx called the leveling down of everyone to a common level, “crude communism,” a form *inferior to capitalism*. Democratic socialists recognize the need for economic incentives, to encourage people to develop their talents and to employ them productively. What we *don't* want are massive inequalities that keep compounding, since, under capitalism, one can “put one’s money to work,” so that the more you have, the more your fortune grows.

- Socialism is *not* about the wholesale replacement of competition with cooperation.

Socialism wants a balanced mix of the two. Certain forms of competition are healthy: we want enterprises to compete to see who can use their materials most efficiently, who can innovate most productively, who best responds to what consumers need and want. Other forms of competition are not healthy: status competition based on consumption levels, and above all competition among workers to see who will work for the lowest wage.

3.2. The core values of socialism:

- Meaningful work

It has from the beginning been a fundamental tenet of socialism that work is essential to human dignity. Work allows one to contribute to society. Good work allows one to develop one’s skills and talents. Not to be able to find work is devastating to one’s self-respect. Society is in essence saying to you, “There is nothing you have to offer that we need. We may deign to keep you alive, but you are essentially a parasite, living off the work of others, contributing nothing.” (Is it any wonder that unemployment breeds all sorts of social pathologies.)

- Intergenerational solidarity

Socialism recognizes the social nature of human beings, and our profound dependence on one another. No one is truly “independent.” All of us were once children. Most of us will get sick. Most of us will need to be cared for by those younger than we are, just as we have cared for those younger than us. Since none of us chooses his or her parents, or chooses to get sick, or chooses to grow old, socialism asks that we assume *collective* responsibility for each other. Socialism asks that we, in some way, regard *all* the children of society as “our” children, *all* the sick as “our” relatives, and *all* the elderly as “our” parents. Of course we have special obligations and feelings for our intimate relations, but we have larger collective obligations as well, which can be met by assuring quality pre-natal care, child care, education, health care and pensions for all members of our society—and ultimately, for all human beings everywhere.

- Participatory autonomy

People have the right to participate in the decisions that affect them. This is the core principle of democracy—and yet, under capitalism, it does not extend to the economy. In particular, it does not extend to the workplace, where the employer exercises near-complete authority, nor does it extend to our society’s investment priorities, even though such decisions—where to invest or not invest, in what to invest or not invest—will affect the long-term structure of our economy and all our lives. Socialism aims at overcoming these “democratic deficits.”

- Ecological sustainability

We need an economy that will work in harmony with our increasingly fragile natural world. We need to regard ourselves as stewards of nature, not masters.

3.3. Does there exist a form of socialism that would preserve the strengths of competitive capitalism while at the same time eliminating or at least mitigating its worst features—among them systemic unemployment, and environmental degradation?

Yes—if we extend democracy to the economy itself. Consider the structure of free-market capitalism. It consists, essentially, of three kinds institutions:

- Markets for goods and services: enterprises compete with one another to provide consumers what they need or want.
- Wage labor: In order to work, one must have access of “means of production,” i.e., a place to work, equipment with which to work, materials with which to work, etc. People must compete for jobs (i.e., access to means of production), and, once hired, do what they are told.
- Private allocation of investment funds, via private financial institutions that raise money from those who have excess, and allocate it to business promising the highest profitability.

Let us imagine a form of socialism, which we will call Economic Democracy, that keeps the first set of institutions, i.e., competitive markets for goods and services, but a) replaces (most) wage labor, by cooperative labor, and b) replaces those out-of-control financial markets with democratic allocation of investment. Let us add c) the government as employer-of-last-resort, and d) public provision of basic education, health care, and pensions. Thus our new economy would be:

- a competitive market economy, with
- democratic workplaces,
- transparent public banks, answerable to their communities, that allocate investment funds in accordance with long-term development needs,
- full-employment, and
- basic human needs guaranteed.

Such a socialism would be economically viable, and would not suffer the massive evils of capitalism.

4. Economic Democracy: More Details

In my response to my sister-in-law I sketched the basic features of Economic Democracy, but let me be more specific about several of the elements. Let’s begin with the “basic model.”

In essence, a free-market capitalist economy consists of three types of markets:

- Markets for goods and services
- Labor markets
- Capital markets.

Economic Democracy retains the first set of markets, but replaces the latter two with more democratic institutions. The basic model of Economic Democracy thus has three components:

- 1) A market for goods and services, which is essentially the same as under capitalism.
- 2) Workplace democracy, which replaces the capitalist institution of wage labor.
- 3) Democratic control of investment, which replaces capitalist financial markets.

Let me elaborate briefly on each of these key institutions.

1) Historical experience makes it clear that markets are a necessary component of a viable socialism. Central planning does not work for a sophisticated economy. The knowledge and incentive problems are too great. (How are planners to know, in fine-grained detail, what consumers want? How do we motivate enterprises to use their resources efficiently, and workers to work conscientiously? How do we incentivize innovation?) But these markets should be largely confined to goods and services. They should *not* embrace labor or capital. And, of course, they should be regulated so as to protect the health and safety of both consumers and producers.

2) Enterprises in Economic Democracy are regarded, not as entities to be bought or sold, but as communities. When you are employed by a firm, you have the right to vote for members of a worker council. This council appoints upper management and oversees major enterprise decisions. Although managers are granted a degree of autonomy, they are ultimately answerable to the workforce, one-person, one-vote.

All workers share in the profits of the enterprise. Indeed, workers receive, not a contractual wage, but specified shares of the company's profits. These shares need not be equal, but everyone's income is tied directly to the performance of the firm--hence the incentive to work diligently and efficiently—and to see to it that

your co-workers do the same. (Almost all studies of cooperatives find fewer supervisory personnel employed than in comparable capitalist firms.)

3) Some sort of *democratic control of investment* is essential if an economy is to develop rationally. But control of investment is exceedingly difficult if the investment funds themselves are privately generated. The solution to this problem is conceptually simple. Don't rely on private investors. When you do, you become hostage to their confidence and good will (as current events so amply attest). Generate your investment funds publicly--via taxation. A *capital-assets tax* is the best tax for this purpose—a flat-rate property tax on all businesses.

This tax is collected by the central government. These revenues constitute the national investment fund. *All* of these revenues are reinvested in the economy. They are not used for other governmental services. A separate income or consumption tax will fund on-going governmental expenses.

Each region of the country gets, as a matter of right, its *fair share* of the national investment fund (in most cases its *per-capita* share). Regions do not compete for capital. Each and every year they get their rightful share of the capital-assets-tax revenue. These funds go to *public banks*, which channel them back into the economy, utilizing both economic and social criteria--including, importantly, employment creation and environmental sensitivity--when making loans. Coherent long-term investment planning, at the national, regional and community levels, becomes possible.⁴

Would an economy so structured work? As I have argued in details elsewhere, the empirical data strongly support the claim that such

⁴ More and more relatively mainstream thinkers are beginning to think about alternatives to private financial markets. John Wooley, Head of the Wooley Centre for the Study of Capital Market Dysfunctionality at the London School of Economics, asks, “Why on earth should finance be the biggest and most highly paid industry when it’s just a utility, like sewage or gas?” In questioning so sacred a cow as finance, Wooley admits, “What we are doing is revolutionary.” Quoted by John Cassidy, “What Good Is Wall Street?” *The New Yorker*, (November 29, 2010).

an economy would work better than capitalism.⁵ We know a lot now about *regulating* a market economy. (We know that *laissez-faire* doesn't work.) There is a vast literature now extant on worker-owned or worker-self-managed enterprises. (We know what problems are likely to arise, and how these can be addressed.) There have been many attempts at macro-economic planning, often involving the allocation of investment resources. We know that intelligent investment planning is possible.

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 other structures that should be part of our "new socialism." Let me comment briefly on two of them.

- The government as employer-of-last-resort

It has long been a tenet of socialism that everyone who wants to work should have access to a job. Everyone should have a genuine *right-to-work*. Long-term involuntary unemployment is not only socially wasteful, but it can be psychologically devastating. The solution is simple enough. The government will serve as the employer-of-last-resort. If a person cannot find work elsewhere, the government will provide that person with a job, low-wage, but decent, doing something socially useful.

- An Entrepreneurial-Capitalist Sector

In my view, Karl Marx's critique of capitalism remains unsurpassed, but there is an important economic issue that Marx neglected, namely the function of the *entrepreneur* in society. Marx's analysis of capitalism focuses on the capitalist *qua* capitalist, i.e. as the provider of capital. This is a *passive* function, one which can readily be taken over by the state—as is the case in our basic model.

But there is another role played by *some* capitalists—a creative, *entrepreneurial* role. This role is assumed by a large number of individuals in a capitalist society, mostly by "petty capitalists," who set up their own small businesses, but by some "grand capitalists" as well, individuals who turn innovative ideas into major industries

⁵See *After Capitalism*, 2nd Edition (Lanham, MD: Rowman and Littlefield, 2011) or, for a more technical analysis, *Against Capitalism* (Cambridge: Cambridge University Press, 1993).

and reap a fortune in the process. Any society that aspires to be technologically innovative and dynamic must provide incentives for this kind of initiative. It is quite clear from the experience of Soviet socialism that such incentives were sorely lacking in their non-market, centrally-planned system. So it might well be good to have some capitalists in our socialist society.

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. He is anything but a parasite. It takes energy, initiative and intelligence to run a small business. These small businesses provide jobs for large numbers of people, and goods and services to even more.

Petty capitalists may provide important services to society, but they do not provide much in the way to technological or organizational innovation. There is also an honorable role to play in a socialist society for entrepreneurial capitalists who operated on a grander scale. Such an entrepreneurial capitalist class need not pose a serious threat to a society in which democratic workplaces are predominant. Democratic firms, when they have equal access to investment capital, need not fear competition from capitalist firms. On the contrary, since capitalist firms must compete with democratic firms for workers, they will be under considerable pressure to at least partially democratize their own operations, by instituting profit sharing and more participatory work relations.

Moreover, there is a rather simple legal mechanism that can be put in place to keep this capitalist class in check. The basic problem with capitalists under capitalism is not their active, entrepreneurial role (which relatively few capitalists actually play), but their passive role as suppliers of capital. Economic Democracy offers a transparent, rational substitute for this latter role—the capital-assets tax. So the trick is to develop a mechanism that would prevent the active, entrepreneurial capitalist from become a passive, parasitic one.

Such a mechanism is easy enough to envisage: a simple, two-part law stipulating that a) an enterprise developed by an entrepreneurial capitalist can be sold at any time, but, if it exceeds a certain size, *only to the state*, (for a sum equal to the value of the assets upon which the capital-assets tax is paid) and b) the enterprise *must* be sold when the owner retires or dies. When the state purchases an enterprise, it turns it over to the enterprise's workers, to be run democratically.

Thus the entrepreneurial capitalists serve two socially useful functions. They are a source of innovation *and* an incubator of new democratic enterprises. Entrepreneurial capitalists have a significant role to play in our democratic *socialist* economy.

5. Economic Democracy and Economic/Ecological Crises

I have argued at length elsewhere that Economic Democracy is preferable to capitalism across a wide array of economic and non-economic values. Economic Democracy would not only be efficient and innovative; it would be much more democratic than capitalism, vastly more egalitarian and more rational in its development.⁶

It is also the case that Economic Democracy would not be vulnerable to the kind of *economic* crisis we are now experiencing. The basic reason is simple. There are no private financial markets in Economic Democracy. Markets for goods and services remain, but there are no stock markets, bond markets, hedge funds, or private "investment banks" concocting collateralized debt obligations, currency swaps and the myriad other sorts of derivatives that preoccupy investment bankers today. Thus, *there is no opportunity for financial speculation.*

The financial system is quite transparent. A capital assets tax is collected from businesses, then loaned out to enterprises wanting to expand or to individuals wanting to start new businesses. Loan officers are public officials, whose salaries are tied to loan performances. The loans they make are a matter of public record, as are the performances of those loans. There is nothing *mysterious* about finance in an Economic Democracy.

Immunity to speculation is not the only strength of Economic Democracy. Even more important, it is not vulnerable to a *deep problem* we have considered: insufficient effective demand, due ultimately to the fact that wages tend not to keep pace with increases in productivity. For wages are a cost of production in a capitalism firm, and so capitalists strive to keep wages down.

But wages are *not* a cost of production in a democratic firm. Workers receive a specified share of the firm's profit, not a wage--so all productivity gains are captured by the firm's workforce. Worker income always keeps pace with productivity gains.

⁶*Ibid.*

Capitalism, as we have seen, faces an even deeper problem than the one responsible for the economic crisis now holding us in its grip. Should we succeed in getting our economies growing again (indeed, even if we don't), we will soon find ourselves an ecological crisis (more precisely, ecological *crises*--large global ones, many smaller, more regional ones).

Economic Democracy is far better positioned than capitalism to avoid ecological crises. First of all, democratic control over investment means control over development. We can aim for healthy, equitable, sustainable development, not the mindless consumption that fails to make people happy.

Moreover, since funds for investment in an Economic Democracy do not come 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. There aren't any private investors. (Entrepreneurial capitalists as well as existing democratic firms obtain their financing from our public investment banks.) Economic Democracy can be a healthy, sustainable, "no-growth economy," whereas capitalism cannot be.

Actually, "no-growth" is a misnomer. Productivity increases under Economic Democracy can be translated into increased *leisure* instead of ever-increasing *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. Given the importance of scaling back excessive consumption, the government can encourage such leisure over consumption choices. It can do so without having to worry about provoking a recession. The economy will continue to experience "growth," but the growth will be mostly in free time, not consumption.

6. Conclusion

It is interesting to note that the greatest economist of the twentieth century anticipated such a leisure-based economy. In a remarkable essay written just after the onset of the Great Depression, John Maynard Keynes speculated about the "Economic Possibilities for Our Grandchildren." He offered a prediction 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.⁷

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*."⁸ 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? We should ask ourselves, what can we do, now, to hasten the arrival of such a world.

One final note. I opened with a quote from a recently deceased progressive thinker. Let me close with another. The great novelist/essayist Kurt Vonnegut concludes his final book, *A Man without a Country*, published shortly before his death in 2007, with poem. It's not a happy poem. It's entitled "Requiem." Let it serve as a reminder to us all as to what is at stake.

Requiem

The crucified planet Earth,

⁷ John Maynard Keynes, "Economic Possibilities for Our Grandchildren," In *Essays in Persuasion* (New York: Norton, 1963), pp. 368-72.

⁸ *Ibid.* p. 359.

Should it find a voice
And a sense of irony,
Might now well say
Of our abuse of it,
“Forgive them Father,
They know not what they do.”

The irony would be
That we know what
We are doing.

When the last living thing
Has died on account of us,
How poetical it would be
If Earth would say,
In a voice floating up
Perhaps
From the floor
Of the Grand Canyon.
“It is done.”
People did not like it here.

—Kurt Vonnegut