Dear President Obama,

We have never met, although we are near neighbors. I live on E. Madison Park, a couple of blocks from your home in Hyde Park. We vote at the same polling place, Beulah Shoesmith Elementary School.

My daughter Karen has met you. She took two classes from you when she was in Law School at the University of Chicago. My granddaughter Lauryn, who is now eight years old, has also met you—although she doesn't remember the occasion. Karen brought her to class one day, shortly after her birth. Karen and Lauryn both attended your inauguration, ticketless, but with much enthusiasm. I wasn't there—I had classes to teach (social-political philosophy) on the north side, at Loyola University—but I share their enthusiasm.

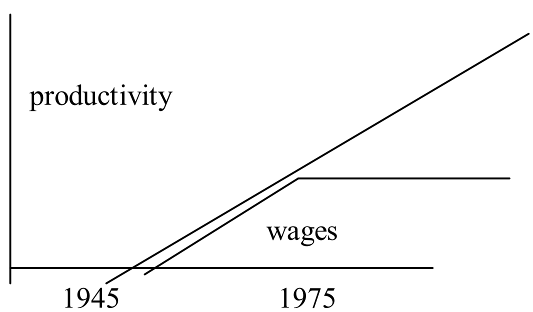
Which is why I am writing you this letter. You are a good person and a smart person, who has, somehow, against all odds, become president. You are in position to do things that few others on this planet are in position to do.

This is not a letter you'll want to show to your economic advisors anytime soon, certainly not to Paul Volker or Larry Summers. They would find it crazy and or hopelessly utopian, probably both. But if the policies they propose are implemented but fail—as I fear they will—you might want to think about some of things I'll be saying here. I'm proposing, if you will, a back-up plan.

First, let me explain to you why I think your stimulus package will fail, why the problem may be worse than even your most pessimistic advisors think.

It is important to grasp the real cause of the present crisis. It is not the subprime lending, nor the housing bubble that might have been reined in. It is neither Wall Street greed, nor their feckless "innovations," nor even the reckless borrowing that has characterized almost all sectors of the economy. These factors all played a role, but they are at best proximate causes.

Let me start with a picture, cribbed from a lecture by U. Mass/Amherst economist Rick Wolff—a Marxist. (I've warned you about showing this to your advisors.)



What we have here is a (simplified) graph showing a steady growth of output in the U.S. economy since WWII, due to ever-increasing productivity, and the corresponding wage trajectory. The latter, you will note, rose in tandem with output until the mid-70s, then went flat. That first period, 1945-75 is sometimes referred to as capitalism's "Golden Age." As Paul Krugman has noted:

> Postwar America was, above all, a middle-class society. The great boom in wages that began with World War II had lifted tens of millions of Americans--my parents among them--from urban

> slums and rural poverty to a life of home ownership and unprecedented comfort. The rich, on the other hand, had lost ground. They were few in number and, relative to the prosperous middle, not all that rich. The poor were more numerous than the rich, but they were still a relatively small minority. As a result, there was a striking sense of economic commonality: Most people in America lived recognizably similar and remarkably decent material lives

This, you will recall, was the heyday of "Keynesian liberalism," or, if you prefer, social democracy. Marx had been proven wrong. Workers were not consigned to increasing immiseration. They shared in the productivity growth that capitalist innovation produced (from publicly funded research as well as private investment). But this "social democratic contract" expired in the mid-70s. Notice, mid-70s, not in 1980, with Ronald Reagan, but well before that. Why? I'll get to that later. First let's think about the consequences.

At first glance, it would seem that we should have gone back to what Marx predicted—a classic crisis of overproduction. With wages held down, who was going to buy the ever increasing number of products being produced? To be sure, we did get a nasty recession--"the most severe downturn since the Great Depression," as it was then described--when Paul Volker, then Fed Chief, tightened the money supply. But this was a deliberate policy move, designed to "slay the dragon of inflation." Which it did. We came out of it during Reagan's first term; the economy began growing again, and, apart from some fairly minor interruptions, kept on growing—until a year ago.

But how was that possible? With wages flat, who was buying the products? Well, as you know, the rich got very much richer in those days, creating a separate country (called "Richistan" by Wall Street Journal columnist Robert Frank) chock full of McMansions, multi-million dollar yachts, private jets, etc., etc. (Over the past thirty years the average annual salary in America has increased only ten percent, whereas the real annual compensation of the top 100 C.E.O.'s has increased *three thousand* percent.) But those expenditures weren't nearly enough to keep the economy on track. Ordinary people had to keep buying also, more and more. How? You know the answer to that question. We all do. By *borrowing*. Credit card debt has increased seven-fold (adjusted for inflation) since 1975, home equity loans have mushroomed, students went ever deeper into debt, and automobile loans rocketed ever upward. All in all, outstanding household debt mushroomed from 47% GDP in 1975 to 100% GDP thirty years later.

Marx would probably have smiled. "How clever those capitalists think they are. Instead of keeping up spending by raising wages (which I hadn't counted on them doing), they decided to loan the money to the working class instead. Much better, since they can collect interest on those loans. But, of course, they neglected one small fact. When it becomes clear that these debts are never going to be repaid, lending will stop. That big crisis I predicted, . . . well, hang on, here it comes."

It was a long time coming, longer than one might have expected. Lots of money was made during the credit boom, more than could be loaned out again to the "real" economy, so it flowed into the stock market, setting off a bubble there, and then, later, into real estate. (The Dow Jones doubled during the "Golden Age" from 500 in 1956 to 1000 in 1972, during which time wages doubled also. It increased 14-fold during the ensuing flat-wage period, hitting 14,000 in 2007.) People felt richer, so they spent more, and were able to borrow more against ever rising asset values.

But what can't go on, doesn't. Credit lines max out, especially when compound interest and falling asset values kick in.

Okay, we're in a bind. How do we get out? Your economic advisors call for a return to Keynesianism. Monetary stimulus: get the Fed to cut interest rates, get money to those banks that are in trouble. Fiscal stimulus: unbalance the budget (which was already badly unbalanced, but take no heed): cut taxes, engage in direct job creation. Surely these are moves in the right direction. Don't be timid. You should take Paul Krugman's advice: you need to be bolder than FDR ever was. (You should be reading everything Krugman writes—which you probably are—and acting accordingly). Let's get universal health care while we're at it. With so many people in distress, the time could hardly be more right.

Maybe this will work. Honestly, I hope it does. But, as you know, Keynesianism has been tried before. With mixed results. We're all looking back the Great Depression these days, and the New Deal that saved the day. But it didn't. It wasn't FDR's job creation programs, noble though they were, that pulled us out of the last Great Depression. Unemployment was 3% in 1929. It had jumped to 25% when the New Deal began—but was still at 17% in 1939. It took World War Two to pull us out, that vast mobilization of millions of men to fight abroad and the many millions more to supply them with the wherewithal to do so.

It's hardly bad news that there's not going to be World War III. The technologies are far too destructive for even the most insane neocon to advocate war with China, and, thanks to our twin-debacles in Afghanistan and Iraq, no one has any illusions anymore about our military omnipotence. As it is, we are spending more on our military than the rest of the world combined. Massive defense spending long after WWII was over was certainly a factor in keeping the Golden Age golden, but there's not much room left now, if any, for expanded military Keynesianism.

Keynesianism came to grief in the 1970s. Unions were strong and the government was committed to economic stimulus whenever unemployment worsened--but if productivity doesn't increase fast enough, then those union-negotiated wage increases and the additional government spending create inflation, not growth. We got stagflation, remember, which made everyone unhappy, including the workers themselves, who saw their gains nullified. So the stage was set for a war against inflation (initiated by Mr. Volker) that saw unemployment shoot up to 10%, making labor more docile than it had been in decades. Employers went on the offensive against the unions, relocating plants to the non-union "Sunbelt," and then, as deregulated globalization took hold, to anywhere else they wanted to put them. The short answer to the question posed earlier: why did wages flatline? A one-two-three punch: inflation, fierce recession, globalization.

If I'm right—that ultimately it is too-low wages that are the problem—well, how are your programs going to fix that? We can't raise wages, can we? Companies will just move abroad. It is that threat—by no means idle—that has kept those wages flat for so long. Yes, by all means make it easier for working people to join unions. By all means let's have worker free choice. That will help some. But as the concessions wrung out of the UAW so that their companies could get bail-out money make clear, union bargaining power is but a shadow of what it once was.

Let me throw one more grim consideration into the mix. Suppose I'm wrong. Suppose we do get the economy growing again--and are able to keep it growing. That will bring us face to face with a crisis of a different sort, a crisis based on the very fact of relentless, limitless growth: the environmental crisis. This one is real in a more profound sense than our current economic crisis, in that it has a *material* basis, as opposed to a "merely" institutional one. We *are* running down our supply of fossil fuels, depleting our fisheries and forests, pouring too much carbon dioxide into the atmosphere, using way too much fresh water, etc., etc. Sure, your advisors will tell you that we can "grow" our way out of this crisis by investing in green technologies, better insulating our homes and so on, but honestly, that's a fairy tale. You know that, don't you? To be sure, these things are important. They help. But it is obvious, isn't it, that a long term solution requires shifting our economy to one that does not depend for its health on ever-increasing consumption--a consumption that doesn't make us happier anyway?

Let's be clear: the fundamental problem isn't the consumer. If consumers are just naturally voracious, our businesses wouldn't have to spend $300b or so every year trying to persuade people to buy things. As the present crisis makes crystal clear, when consumers cut back their spending, the economy nose-dives--and everyone suffers. The ecological crisis is not so much about patterns of *consumption* as it is about mode of *production*.

So we are in a tight corner. Those concerned about rising unemployment urge us to spend, spend, spend, while the environmentalists scream back that our consumption-addiction is killing the planet. And both sides are right. Moreover, both sides really want the same thing: a healthy, stable full-employment economy that treads lightly enough on our fragile planet to be sustainable. It's what we all want, isn't it?

Here's where I make my pitch. Such an economy is possible. Its institutions can be spelled out--at least as a model. It would be democratic and efficient. It would embrace market competition. There would be a place in for entrepreneurial capitalists and for a small business sector like the one we already have. In fact, it wouldn't look too different from what our economy looks like today--and yet it would be *very* different.

This is something I've been thinking about, talking about, writing about for my entire academic life. Let me sketch out briefly the basic institutions of what I call "Economic Democracy." (It is a form of socialism, but we might not want to use that word--not that it wouldn't be immediately branded as such by opponents, terrified that, on its own merits, it might look too good to too many people.)

Let's imagine a world in which most large enterprises are run democratically. They are communities--not properties to be bought or sold or "relocated" to lower-wage parts of the country or globe. When you join a firm, you get to vote for representatives who will serve on a Workers Council that serves the same function that a Board of Directors (representing shareholders) serves in a modern corporation, namely selecting top management, setting the terms of their employment and approving major business decisions.

You have a vested interest in voting for competent representatives, who will appoint competent managers, since your income is tied directly to the fate of the company. You don't receive a fixed salary. Your income is a share of the company's profits. (Shares aren't equal. They will vary according to whatever criteria the enterprise chooses to specify, e.g. seniority and or levels of responsibility.) This gives you and every other worker in the enterprise a major incentive to work hard and effectively--and to monitor your co-workers to see that they do the same.

These enterprises compete for customers in a "free market" constrained only by familiar regulations that compensate for market externalities and protect consumers from deception and avoidable harm.

Enterprise governance is one key structural difference between Economic Democracy and capitalism. The other concerns finance, specifically the mechanisms that generate and then allocate funds for new investment. The "free market" has proven itself to be inadequate to the task of performing this function efficiently--to put it mildly. (Can any economist use the term "efficient markets hypothesis" these days with a straight face?) There are two parts to our reform. The first involves the source of funds. Let's break the connection between saving and investment. We won't rely anymore on private savings, which, apart from pension funds, comes overwhelmingly from the wealthy. Relying on this segment of society makes the whole economy hostage to their "animal spirits"--as Keynes put it. How much societal savings there should be, where and in what enterprises it should be invested--these decision are vital to the long-term future of everyone. They are too important to be left to the hunches and intuitions of a small segment of the population who are largely invisible and wholly unaccountable to the general public.

People can still save. We'll have Savings and Loan Associations in our economy, where modest interest is paid on deposits, where these deposits are insured by the federal government. These regulated S&Ls will serve as source for home mortgages and other consumer loans.

Business loans, however, are another matter altogether. We'll raise all the funds for business investment publicly, the way we raise funds now for public investment, namely, from taxes. Let's abolish the corporate income tax (which few corporations pay anymore anyway), and substitute a capital assets tax--a flat-rate tax on the value of an enterprise's tangible property. As it is now, we tax labor, via the payroll tax, but not capital. (As all economists know, but few bother to mention, this distorts the efficient allocation of resources, making production more capital-intensive than it ought to be.) This tax redresses the balance.

The revenues from this tax will be kept separate from general tax revenues. All go into the "investment fund." All are plowed back into the economy, as loans to existing businesses wanting to expand production, upgrade their technologies, etc., or to individuals wanting to start up new businesses. (Just as payroll taxes are specifically earmarked for social security payouts, the capital-assets taxes are specifically earmarked for business investment).

Once collected, these investment funds are allocated to a network of regional and local banks, each region getting its *per capita* share. (Congress can readjust this *prima facia* allocation, but since the allocation is clearly a zero-sum game, any deviation will need solid justification.) Every year, each region of the country gets is "fair share" of the national investment fund. Regions don't compete for capital. They don't have to offer tax breaks and other incentives to attract investors. Citizens don't have to relocate to those regions into which the capital is flowing. Capital flows to where the people are.

Enterprises in regions *do* compete for capital. The investment banks are public institutions. Loan officers are public officials charged with allocating society's resources efficiently. Profitability is a major criterion of success, although a community might want to add some others--employment creation, for example, or the fostering of green technologies. In any event, the allocation process is open and transparent, for these banks are public institutions loaning out public money. Loan officers whose portfolios perform well will be rewarded; those whose portfolios do not may lose their jobs. Thus we have incentive structures in place appropriate to the efficient allocation of capital in accordance with democratically-decided priorities.

These are the basic institutions of Economic Democracy: a competitive market for goods and services, widespread workplace democracy, and what I call "social control of investment."

There are a couple of other supplementary policies that should also be adopted.

We need the government to serve as the employer of last resort. Every person wanting to work should have a job. No market economy, capitalist or socialist, can guarantee full employment. The government has to do that. Every citizen should enjoy a genuine "right to work." These jobs will not be high paying, but they should involve decent, socially-useful work. Involuntary unemployment is a scourge, a deepening global trend that must be addressed head on. (To be unable to find work a terrible thing. Society is saying to you, "There is *nothing* you can do that we need. We may deign to keep you alive, but make no mistake: you are a parasite, living off the labor of others." Is it any wonder that unemployment breeds social pathologies?)

Economic Democracy does not require that *every* business be democratically run. Small businesses need not be. Nor larger businesses either, no matter what their size, so long as the entrepreneurial founders are still actively involved. Economic Democracy values entrepreneurial ability. Society as a whole tends to profit from the exercise of such talents. If capitalist incentives are useful in fostering such abilities, they should be retained. Our economy will feature an entrepreneurial capitalist sector. Anyone who wants to can start a business, hire as many workers as s/he wants, introduce as much or as little worker-participation and profit sharing as s/he sees fit. *However,* when the entrepreneur wants to retire or cash out for any reason, and the business exceeds a certain size, s/he must sell the business to the state, which will then turn it over to the workers there to be run democratically. The entrepreneurial capitalist sector thus serves as an important source of democratic firms. Such capitalists play a valuable role in our socialist economy.

One final policy: Economic Democracy values healthy competition--competition among producers to find out what consumers really want, to use their resources efficiently, to innovate. But not all forms of competition are healthy. Wage competition is not. We do not want workers competing with one another to see who will work for less. This is race-to-the-bottom competition. In particular, we do not want our enterprises competing with those enterprises in poor countries whose competitive advantage derive from the fact that their workers earn substantially less than do ours. So we will adopt of a policy of "socialist protectionism."

The protectionist part: we will charge a tariff on goods imported from poor countries to bring the selling price of the goods up to what they would be if labor costs in the exporting counties were comparable to our own. We are thus protecting our workers from "unhealthy" competition.

The socialist part: we rebate the tariff back to the country of origin. This money may go to the government if we deem it progressive enough, or to labor unions or NGOs in the county working to upgrade working conditions there. In effect, our consumers are paying higher prices for their imported goods than the price the "free market" would set, and this difference is going to the poor country. That is to say, we believe in *fair* trade, not *free* trade.

Mr. President, I've provided only a bare sketch of an alternative economic order. I won't try to defend here the claim I defend elsewhere, namely that Economic Democracy is not only economically viable, but it would be vastly more democratic and egalitarian than our current economic system. I do want to say a few words, though, about the crises I discussed in the first part of this letter.

The first conclusion we can draw is a large one: Economic Democracy is not 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. Hence, there is no possibility of engaging in financial leveraging and other forms of speculative gambling.

In particular, the kind of housing bubble we've just experienced, fueled by the massive demand for mortgage-backed securities couldn't happen, for there are no such securities to buy or sell. Mortgages stay with the Savings and Loan of origin. To be sure, if the demand for homes should rise, individuals might gamble that prices will keep going up, and hence buy in order to resell--but the S&Ls would be well positioned to scrutinize loan applications, since they are all coming from local residents. An individual S&L might make some bad loans, perhaps so many as to force it into bankruptcy, but there is little danger of contagion.

It is interesting to note that Krugman, in spelling out his own plan for economic recovery projects that "it will come close to full temporary nationalization of a significant part of the financial system"--though he is quick to add, "This isn't a long term goal, a matter of seizing the economy's commanding heights:

finance should be reprivatized as soon as it is safe to do so." He doesn't say why. Clearly, he wants to reassure everyone that he is not a closet socialist--"for nothing could be worse than failing to do what is necessary out of fear that acting to save the financial system is somehow 'socialism.'")

Immunity to speculation is not the only strength of Economic Democracy. Even more important, it is not vulnerable to that *deep problem* confronting every capitalist economy, which I discussed above, namely insufficient effective demand, due ultimately to the fact that wages are a cost of production. It is rational for each capitalist to keep his workers' wages down, and yet the wages of working people constitute the major source of consumer demand. (Ideally, a capitalist would like to keep the wages of his own workers down, while those of all other workers remain high, but he has control, not over what other capitalists pay their workers. Individual rationality leads to collective irrationality--a classic collective-action problem.)

Wages are not a cost of production in a democratic firm. Workers get a specified share of the firm's profit, not a wage--so all productivity gains are captured by the firm's workforce. There are no excess profits seeking investment outlets.

What about the environmental crises, which derive from the fact that a capitalist economy must constantly grow to remain healthy. I've argued that contemporary capitalism is in a bind. If the economy doesn't grow, we get an economic crisis; if it does, we get an ecological crisis.
Economic Democracy is far better positioned than capitalism to avoid the latter kinds of crises as well as the former.

A fundamental fact about a democratic firm is that it lacks the expansionary dynamic of a capitalist firm. The reason is structural. Democratic firms tend to maximize profit-per-worker, not total profits. That is to say, doubling the size of a capitalist firm will double the owners' profits, whereas doubling the size of a democratic firm will leave everyone's per capita share the same. (Doubling the size of the firm means doubling the size of the workforce.) Thus, democratic firms are not incentivized to grow. Unless there are serious economies of scale involved, bigger is not better.

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. For there aren't any financial markets. 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 will more likely translate into increased leisure than increased consumption. The economy will continue to experience "growth," but the growth will be mostly in free time, not consumption. So we might be able, at long last, to slow down, spend time with our family and friends, read the books, listen to the music, see the films we've long wanted to read, listen to and see. We might even find time to smell the flowers. Keynes mused about such a state of affairs, when thinking about the "Economic Possibilities for Our Grandchildren,"

> We shall use the new-found bounty of nature quite differently than the way he 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.

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." He was wrong, of course. The "rentiers" have not suffered euthenasia, as he had predicted they would. The grandchildren of his generation may have lived in a post-war social democracy that looks good to us, mired as we now are in recession, but they were still far from the promised land.

Keynes was wrong--or was he? The essay's title notwithstanding, he was not referring literally to his grandchildren. His projection was for "a hundred years hence," i.e. 2030. Might there be things "going on under the surface" right now, to which we are blind, that could bring us to sustainable, democratic, human world?

I'm thinking of my own granddaughter right now. She's eight years old, right between Sasha and Malia. What kind of a world will she inherit? It'll be the same world your daughters will inherit.

I've sketched an "economic possibility." Will we move toward something like that? Your presidency will likely shape the future as few other presidencies ever have. The world is going to be very different eight years from now from the world we are leaving behind.

Many of your programs are pointing in the direction of that "promised land." You are creating jobs. That could be extended to a job for *everyone*. You are nationalizing banks. That could serve as an opportunity for radical restructuring. You are bailing out the auto industry, and will doubtless be called upon to bail out other troubled businesses. You could begin insisting on some workplace democracy.

Who knows how all this will come out? It is important to realize that there does exist a viable, desirable, sustainable alternative to the current system. It has become suddenly, tantalizingly visible on the horizon. That gives me hope. It might give hope to many.

Good luck.

David Schweickart

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