

Resequencing the DNA of Capitalism



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I am optimistic, and have always been, about the American condition, its prospects, and its possibilities. If you look to the middle distance and squint a bit, you can see an era of internal reform and discovery in this society, which is quite promising. The reason I can believe is because the book includes a lot of smart citizens, mostly not connected with government in any way, who are working on such reform.

ECONOMIC REMEDIES

While I'm optimistic about the middle and long-run future, I'm pretty grim about the present and the immediate future. The American empire is founded on quicksand, and it will fall. It will probably fall sooner because of recent foreign policy, based on the grand illusion which both parties have promoted for the last twenty or thirty years about American economic and military power. Many lies about our condition have been promoted by both parties. Those lies are going to come unglued in the next five or ten years, with wrenching adjustments.

When I wrote my book *One World, Ready or Not* about the global economy, the net indebtedness of the United States to the rest of the world was about 8 percent of our GDP. It is now 25 percent. It is rising at a rate that in a decade or less it will be 50 percent of our GDP. As Jeff Faux says in chapter 20, this is unsustainable.

Is anybody in American politics, except a few revolutionaries on the sidelines, talking about this? The answer is no, because both parties are deeply implicated in the deceptive construct of the global system. For thirty years, we propped the global system up for our own pleasure by buying more than we produced. The rate of that imbalance has accelerated even as, in the 1990s, we celebrated a new economy that the world so admired.

This really is old economics. There isn't anything modern about it. Sooner or later, the creditors get nervous. They don't renew the loans or expand the credit line. That is the moment this country is approaching.

Along with some others, I have been the bag lady on the street corner, waving the banner about America's net indebtedness for twenty years. The establishment, the media, and all right-thinking economists have found one reason after another not to talk about our indebtedness in honest terms, and that's built deep into the ruling class, or the "governing elite" if you prefer, in and out of government. This posture will not change until we get smacked in the head.

The change could occur when the euro becomes the trading currency for oil, which is logical and not unreasonable for the world or for Europe. Or it could happen when Germany or France, whom we've enjoyed belittling in the last few years, decides just not to renew the rollover investments.

In its own way, Europe's economy is dysfunctional at the moment, and Europeans need to get their heads straight, too. But there will be investment opportunities in Europe that look better than America, and when that day comes, there will be a little accompanying political pique, because they will say, "You're the folks who told us we were Old Europe, right?"

More immediately, the question remains whether America's economy can recover its normal energies for sustained expansion. If the economy stays down long enough, the global trading system will be severely damaged, and might even unwind.

The remedies for the economy are kept at a distance for good reason. They're old liberal heresies, and neither the Democrats nor the Republicans want to touch them, nor do they really understand them. One of the mysteries of history is that what people learn through struggle or pain may be forgotten in a generation or two, and that's essentially what's happened to economic policy. The Federal Reserve needs to re-inflate the currency. The federal government needs to embark upon a major stimulus program, with concrete spending and projects that really do generate business activity. And the government needs to liquidate some of its debts, both corporate and household.

The political system may not respond to these ideas. The people in power are clinging to their old orthodoxy, their old ideas, what got them to where they are, and they don't want to give up on it. They especially don't want to admit that supply-side economics which tilted toward wealth and against wages is over and that our economic system needs fundamental restructuring. We can say that to Japan, but saying it about our own system is threatening. It opens the book to all sorts of questions which have been suppressed for many years about economic imbalances, forms of enterprise, directions of public investment, and governing arrangements that led us to this point in history.

THE PIONEERS OF OUR AGE

My book *The Soul of Capitalism* is an attempt to get people to focus their minds and energies on how American capitalism functions. One of my premises is that we are at a point in history, with the Cold War over, when we can question how the American economic system deals with scarcity and production so that everybody, not just the ruling class, has at least a minimal level of housing, food, and wherewithal. From the 1950s on, with the exception of the very poor, virtually all Americans have lived as consumers beyond the necessities.

About eighty years ago, John Maynard Keynes prophesied this day. When it came, he said, human beings would be up against a real human problem. For the first time in the history of mankind, they would face the question of how to live wisely, agreeably, and well in the midst of this abundance, and I would add, despite the abundance, because this society today is peculiarly torn by the pressures of our wealth.

The problem raised by Keynes permeates American society today, and not just among the working class and among the poor. You can sit in the most affluent neighborhoods and living rooms and hear a very similar discussion about their lives. People describe themselves as confined by the economy, confined in their choices, and confined by demands to keep following those same choices. They feel trapped, injured. Around them they see their society and community deteriorating, bowled over by the forces of enterprise and government in ways they have utterly no control over, much less a voice in decision making.

Yes, we are fabulously wealthy as a country, but are we truly free? We must put that question back on the table again, because in their guts, if not in their articulations, a majority of Americans probably have this feeling.

Unless society wants to simply surrender its deeper values to enterprise, and we know society would perish if it did, then we have to change capitalism—really change it and not just enact a few more regulatory laws to hold down the fraud and greed. I mean going into the bowels of the system and reordering the structure command and control in this society where it really exists—in enterprise and finance, not in government—and altering the operating values, the narrow premises by which enterprise and finance make choices. I want to tinker with the DNA of American capitalism. I want organic, fundamental reordering.

This probably sounds rather far-fetched, but there are lots of Americans already working on this issue. To be sure, most are working in localized and somewhat limited ways, but I introduce a lot of these people in *The Soul of Capitalism*. I call them the pioneers of our age because indeed they are.

From various starting points these pioneers have figured out that people do have power, much more power than they imagine, if they figure out how to apply the leverage of that power as investors, workers, consumers, and voters. *The Soul of Capitalism* describes the mechanics of what are now really scattered fragments. People are learning slowly that there is somebody on the other side of the mountain doing the same thing in a very different realm, and that some things can be done together to give us more power.

Many such people gave up on politics a while ago. Without anybody telling them, they figured out that neither political party had any intention of addressing the fundamental problems of capitalism and so they decided to do the best they could in their own circumstances.

Such decisions are totally consistent with the story of our country. If you go back through American history, yes, there were important legislative victories and presidents who were real leaders. But the really profound changes always began with people on the ground, creating new ways to improve their social reality, their circumstances, like the people at MoveOn.org today (see chapter 31). Then others would see they could do the same. This is slow, tortuous change, but it's deep, because it has real people experiencing it; and if people can change the social reality, sooner or later, even politics will follow.

It takes patience, but given the decayed state of our democracy, I would rather hang out with those people than, say, go to a Democratic convention. Here I disagree with Jeff Faux. In chapter 20, he says it's not about new ideas, it's about doing the politics. I think politics begins when one party or the other begins dealing with new ideas, ideas which are now off the table.

EMPLOYEE-OWNED COMPANIES

Let's look at some of the concrete ideas that are in motion. In *The Soul of Capitalism* I take a look at consumption, work, capital, production, and the power of what I call imperious finance. I look at the strange results, particularly the ecological destruction we get from our system, the command and control of the corporation and how it might be altered. I look at politics, government, and public works. The original understanding of public works, which built capitalism and this society for 200 years, is now deranged, corrupted. Why don't we talk about it in politics? We all know why we don't talk about it: because people in politics are deeply complicit.

In the last twenty or thirty years, the terms, conditions, and quality of work have all been severely degraded in this country. This power imbalance, we were told, was due to "market forces."

If you read Barbara Ehrenreich's book, *Nickel and Dimed*, you got a glimpse of what happens at the working-class level. But you can see the same process under-way way up the line, among professional and middle managers and technicians, people who we used to think were above the shop floor and free of the routines of working-class, unionized laborers. One would think the Democratic Party would be talking about this. But the Democratic Party hasn't talked about these issues in thirty years—not just about the corrupted regulation of labor organizing, which has been turned into a useful tool for management to control unions, but about the much broader experience.

The New Deal was one of the great moments in our history, but the New Deal and the progressive era before it did not resolve the deeper questions of capitalism. They certainly ameliorated conditions, improved relationships, and helped a lot of people. But one of the things the New Deal never quite confronted was the feudal master-servant relationship in workplaces. If that sounds harsh, think about it. I have yet to encounter anyone—workers, middle managers, owners, CEOs, young people—who, after reflection, fails to acknowledge the master-servant relationship.

The people in charge get to command the behavior of the people below. If they are in the factory, the boss tells them what they can say, what they think, what they do, and in most cases—not all, fortunately, but in most workplaces in America—they have no right to participate in the decisions or even talk back when they think the boss has got it wrong.

Elaine Bernard, who teaches labor studies at Harvard, has said that the workplaces in this country are factories of authoritarianism polluting our democracy. How can you expect people to be citizens when they spend their work days taking orders and turning off their brains? I've heard that phrase so many times from working people: "I just do the shift. I turn my brain off; the inspectors will catch the mistakes. They don't want me to raise complaints, and if I do make suggestions, they will use them against me." That's a reality for millions and millions of Americans.

So the road to reviving our democracy and restoring authenticity may start in the workplace rather than in electoral politics. For many years, I have been an advocate for what I think is the most direct and reliable solution to the problem. It's an old word of capitalism: ownership. People have to own their own work.

How do they do that? They can do it through a cooperative. They can do it through a partnership, like lawyers. And they can do it through employee-owned companies. Such companies have grown in the last twenty years, thanks partly to some tax advantages that Russell Long and Louis Kelso got into law.

The corporation and the employment system are the central engines of inequality in our society. The inequality isn't just about outrageous CEO salaries, which we know ballooned in the last twenty or thirty years (although if the employees had some advisory voice in how rewards are structured in a firm, who would imagine they would produce the system that we have now?). It has to do with the

distribution of returns, the profits that go back into internal reinvestment, but that also are distributed to “the owners.” One hundred years ago, during the rise of the great industrial corporations and the progressive reform era, the fiction was allowed to flourish, and we cling to it still, that the shareholders are “the owners.” In the last few years, we have had a fairly dramatic demonstration of the fraudulence of this fiction. In the name of shareholder value, a bunch of corporate titans not only committed great frauds to their own benefit, but also wrecked their companies in the process, all ostensibly to serve the shareholders, who of course were meanwhile left in tatters, their savings wiped out.

If ownership means who’s in charge here, who controls this property, the real owners are a relatively small group of insiders—top management, maybe a few block-share stockholders who own big percentages, and some key financial firms that collaborate in the decision-making of the firm. In most cases, everybody else who participates in this company is shut out, especially people who thought that they were in some vague way owners too, because that was the rhetoric they heard. They owned shares, and they also devoted their lives to these companies, and it was quite embittering.

I’ve heard this story literally hundreds of times from people who, in their middle years, at age forty or forty-five or fifty-five, discover that the company has just thrown them over the side, that they were, after all, expendable.

Employee-owned companies in fact leveled off in their growth in the second half of the nineties—precisely because of this deception called stock options, this funny money floating through the upper reaches of our society. To resume the growth, we need real, structured ownership. I have spent a lot of time with pioneering labor leaders, managers, and even some owners who have made the transformation to employee-owned companies. It is very hard to do, because you really have to transform human relationships within the firm. You need to create some degree of democratic ethos within the firm, ideally a formal system for participation. You still have a CEO—somebody still has to take the heat and give the orders. So it’s not a democracy, exactly. But it’s a firm in which everybody knows they’re both worker and owner.

COLLECTIVIZED WEALTH

Structural reform is also deeply relevant to finance capital and how it behaves. One development that hasn’t gotten much attention is “collectivized wealth” and is potent with possibilities. It also drives right-wingers crazy.

I am talking about the fiduciary institutions—from pension funds to mutual funds to all the other pools of other people’s money where capitalism relies upon fiduciaries. Those fiduciaries own something like 60 percent of the thousand largest companies in America. They are overwhelmingly the biggest players in the stock

market but in many other financial assets as well. There has been a struggling campaign for some years to get more social responsibility from those fiduciaries. The campaign has been led by religious leaders, buyers, and labor leaders, among others.

There is an acceleration of those different perspectives coming together and understanding that they're all playing in the same game. Together, they may have some leverage—not just through shareholder petitions or amendments but through real leverage—active investors who are willing to punish companies for their behavior.

The process starts, or ought to start, with pension funds, particularly the public pension funds, which often are managed by elected boards, or labor-managed pension funds, which are smaller but still have over \$400 billion.

People must become more aware of a new theory of this collectivized wealth in our capitalism. Potentially, the new theory is revolutionary—and we must figure out how to make it come alive. The theory is presented in a book called *The Rise of Fiduciary Capitalism* by James Hawley and Andrew T. Williams. Hawley and Williams have developed a concept of “universal owners.” A pension fund that invests across the whole market has an interest different from the companies owned by the pension fund. And, of course, the workers who put their money in the pension fund have a different interest from the companies they own. The practice of American corporations is to throw off their costs on others. These thrown-off costs are called “externalities.” Examples of externalities are dumping toxins into a river or betraying a community that helped finance a new factory.

Hawley and Williams point out that externalities are costs to the pension funds, because pension funds are invested across the economy. A pension fund is as close to a universal investor as any institution can be, and it will pay the burden. Whether through higher public spending, slower economic growth, or lost innovation, all of the costs out of which these companies make profits will become losses to the broad portfolio of the pension funds.

That's an explosive concept, because it does bring deep social objectives into the belly of the beast. As pension funds learn how to judge companies on externalities and other behavioral indicators, withdraw their capital, and say “Sorry, we don't want to play your game,” there's enormous power.

GOVERNMENT

Where is government in this story? Government often is a maligned force, and it would be nice to change that. But we can't trust government to make wise and broad public-spirited choices on the subject of reforming capitalism—not yet, anyway. That's unlikely to happen until a new politics arises that shows politicians they can escape from their relationships with money patrons and with the particular sectors that they've always supported and begin to make other choices.

I'll give you some examples. A while back, the *New York Times*, and only the *Times*, as far as I could tell, had an amazing front-page story on the recognition by McDonald's of what the ranks of consumers, farmers, social agitators, environmentalists have been saying for years—that growth hormones in animals and other antibiotics are bad for people, animals, and the environment.

McDonald's told its suppliers it would be good if they didn't use these growth hormones. That's enormous market power, and it sent a deep tremor through the American meat industry. Government has dodged this issue for twenty years. Democrats and Republicans have dodged it. McDonald's is going to change that industry.

Where did this come from? It came from People for the Ethical Treatment of Animals, the Sierra Club, Friends of the Earth, and local agitators. This is food. Food, like work, is one of those great, bubbling issues in this society. But neither the Republicans nor the Democrats will touch it. (Dennis Kucinich is an exception—he has an advanced position on all of these issues.) But it would be a lot easier if we had a politics that led to government leadership, if not regulation, on subjects like food. In the meantime, people will do the best they can, and they're making some headway in areas the politicians are afraid to face.

The federal government, particularly, but also state and local governments, now routinely subsidize the very behavior they are supposedly trying to stop with their regulatory systems. Meanwhile, the regulatory systems are either captured by the regulated industries or degraded in ways that we're all familiar with.

We need to take on the question of what is public investment, and why are we investing in companies that offend our values and don't lead us anywhere in the future except to repeat the old injuries. We need to take a deep breath and rethink, in fundamental ways, the model regulatory system that was developed during the New Deal.

We need to rethink, as many environmentalists are doing, how a regulatory system might work that doesn't always turn into a kind of game of cops and robbers and political influence, but that leads an enterprise toward higher standards of behavior in a more or less continuous way. This is not beyond the imagination of human beings. But right now we are playing in a regulatory system that the present administration can so easily degrade, without us doing much about it. The fact is that there's a fundamental problem underneath that we need to address.

SOCIAL TRUST

Then there is scale. This country spent most of its first 150 years with deep suspicions of bigness inherited from experience and from a European past. Now we have a system that hardly stops to ask questions when conglomerates, consolidations, and takeovers build institutions that are bigger and bigger, and when businesses become more and more narrow and pointed-headed at the top.

Antitrust doctrine has almost nothing to say about these corruptions of scale. Lawyers who are young and able to think free of recent history need to redevelop an antitrust doctrine—what I would call “social trust.” Antitrust is kind of an archaic phrase, and you would begin with a presumption that when the big boys come together, the burden of proof is on them. They have to really demonstrate in concrete, convincing ways that the society will benefit, not just their particular bottom lines.

We’ve had so many failures of the present system in recent years. The AOL Time Warner merger is an epic catastrophe, not just for the stockholders who lost approximately \$200 billion, but for the employees and for communications. Yet it’s not on the political agenda. The creation of megabanks—Citigroup, Morgan Chase, J. P. Morgan Chase and the others—has already demonstrated this failure of scale. These institutions have been in the crosshairs of criminal investigation. They won’t be indicted, of course. We know that, following Enron and the other disasters.

There is a huge disconnect between what mostly ordinary folks are trying to contend with on the ground across the country and what politicians accept as “issues.” We must try to reconnect with the broad countryside, to have honest discussions with real people about how they see the world. That’s the predicate for reviving our democracy—and, in the process, the Democratic Party.

ACTION

How do we begin converting these long-range ideas into action?

It wouldn’t hurt if some Democrats started to articulate them. These ideas are not ready for prime time, so you can say quite a lot without fear of being contradicted on the roll call. You’re not even going to have a roll call, much less win. But what the right has learned over thirty to forty years is that losing is not bad for advancing an idea. And Eli Pariser has had the same experience with MoveOn.org in recent years (see chapter 31). Losing gets you to the table. You sketch out perhaps grandiose visions of what these ideas will accomplish, you get your head beat in, and you go and meet some more. Then you come back the second time and it sounds a little more plausible, and you go ahead with it.

There are a lot of things that the federal government could do to help. A few state and local governments already are helping in modest ways to take the ownership idea. In the mid-nineteenth century, the federal government created agents for every farming district in America and an elected board locally. We are not ready for that today, but the idea is appealing. At some point, I can imagine revising the tax code to make sure everybody in America becomes an owner of their own work, one way or another, and an owner of that equity that produces a nest egg. We can change the regulatory system. The federal government can enforce a “three strikes, you’re out” policy for polluters, for example.

Two models can help the process. One is based on the home-ownership reforms of the 1930s. Up until 1940, something like one-third of the families in America owned their own homes. Then we changed the rules of credit, extended the life of home mortgages, and created agencies that supervise the housing market. Now nearly 70 percent of the families in America own their homes. That is a deep reform that profoundly changed this country. It gave people of ordinary means a whole new understanding of their lives, what their stake was, what their future was, and what they might pass on to their children. (Home ownership reform has been degraded in the last twenty years because people are literally spending down their equity in homes to stay afloat.)

The other model is homesteading in the nineteenth century. Again, the federal government essentially provided capital to families who were willing to develop their version of sweat equity.

I have become rather conservative about a timetable for action because I've seen so many really good, strong ideas ruined and destroyed because they were brought to the legislative process before they were ripe for legislation, before the advocates had the political strength to pass them intact. It is better to lose and better not to push for ultimate victory until you really know what the idea involves for people on the ground, they understand it, and they have absorbed it as part of their reality. Then we can begin the kind of ground-up action that provides hope for our long-term future.

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