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What Kind of Capitalism?

This Labor Day, America seems to be holding its breath, trying to decide what kind of society it wants to be. Many Americans are wondering whether the country has lost its ability -- or our political will -- to sustain a middle class society that works for everyone. The current recession has deepened the anxiety and pain, but in many ways it has simply exacerbated trends that were underway for over a decade. These include widening economic disparities, a proliferation of low-wage and part-time jobs, and deteriorating social conditions. A growing number of Americans doubt that their children will be better off than they are.

Faced with an even graver situation in the Depression, President Franklin Roosevelt worked with Congress to give the federal government the tools it needed to revitalize the economy, put Americans back to work, and make business act responsibly. At the time, critics called him a socialist. But in retrospect, it is clear that what FDR did was to rescue capitalism.

We hear echoes of that same debate today. No matter what President Obama proposes -- health care reform, a stimulus plan of large-scale public works, extending unemployment benefits, protecting consumers from credit card abuse, increasing financial aid for college students, raising fuel standards on cars, and more -- Glenn Beck, Rush Limbaugh, and the right-wing mainstream of the Republican Party call it "socialism."

But in reality, the choice is not between "socialism" and "capitalism." It is between what form of capitalism makes the most sense for a healthy society.

One version of capitalism is characterized by free market fundamentalism, where consumers, workers, and families are on their own, and businesses do whatever they want, with little or no role for government. Let's call this "no rules" capitalism.

The other version of capitalism is one where society sets the rules and standards of commerce, regarding matters like protecting consumers, employees and the environment from irresponsible business practices, such as excessive pollution, risky oil drilling, predatory and reckless bank lending, unsafe workplaces, food, medicine, cars, and airplanes, minimum wages, and discrimination by race and gender. Let's call this "responsible" capitalism.

Without clear government ground rules, capitalism becomes anarchy and cronyism. Every segment of industry, as well as consumers, becomes so short-sighted and greedy that they don't see the possible train wreck coming around the corner. That's what happened to the financial services and housing industry -- the builders, banks, mortgage companies, brokers, investors, credit-rating agencies, and others -- when they got the deregulation that they fought so hard for.

Consider the current epidemic of foreclosures, which precipitated the nation's mortgage meltdown and led the country into today's economic hard times. Banks, mortgage brokers, rating agencies, and homebuilders all acted badly. If ever there was a case for regulating business, that was it. And Obama and the Democrats have put in place new rules that will protect consumers, and the entire economy, from Wall Street's greed. (Although Wall Street used its political clout in Congress to weaken the stronger rules that Obama and others wanted).

But here's the problem with our troubled financial system in a nutshell: Americans don't have enough money to pay their mortgages. Fix that -- that is, help most American families achieve a middle class income -- and you're pretty far along toward solving the other serious problems troubling our society.

In many ways, America today resembles the conditions in the late 1800s that was called the Gilded Age. It was an era of rampant, unregulated capitalism. It was a period of merger mania, increasing concentrations of wealth among the privileged few, and growing political influence by corporate power brokers called the Robber Barons. During the Gilded Age, new technologies made possible new industries, which generated great riches for the fortunate few, but at the expense of workers, consumers, and the environment. The gap between the rich and other Americans widened dramatically.

In the U.S. today, the wealthiest one percent of Americans own almost 40 percent of all corporate stock, half of all Americans own no stock at all, and a handful of large corporations dominate most sectors of the economy.

America today has the biggest concentration of income and wealth since 1928. Last year, average CEO pay for the largest 500 corporations was \$9.25 million -- 319 times that of the average worker, compared with 42 times in 1980 and 107 times in 1990. At the pinnacle of America's economic pyramid, the nation's 400 billionaires had a combined net worth in 2008 of approximately \$1.6 trillion, more than the combined net worth of the 56 million American families at the bottom half of wealth distribution.

Americans are understandably angry that Wall Street executives and other corporate honchos have made out like bandits, benefiting from taxpayer bail-outs with huge salaries and bonuses, while most families are treading water.

Few dispute that widening income and wealth inequality translates into huge disparities in political influence, giving business and the rich too much power to shape public policy, often at odds with public opinion, and often to the detriment of the majority of Americans.

A Pew poll last year found that 77% of Americans say that "there is too much power concentrated in the hands of a few big companies." A clear majority -- 62% -- says businesses make too much profit, while fewer than four-in-ten (37%) say businesses "generally strike a fair balance between profits and the public interest."

The obvious question confronting America is what role, if any, government should play in setting standards and rules for those corporations and their stockholders, taming their abuses; stimulating the economy to boost and sustain private economic growth; and providing or helping people afford education (both K-12 and college), health care, child care, and retirement savings.

If this debate sounds like Republicans vs. Democrats, it's not that simple. Almost all Republicans in Congress subscribe to the free market fundamentalist view of "no rules" capitalism. And most Democrats in Congress, as well as President Obama, favor "responsible" capitalism. But there are enough Democrats who aren't sure which brand of capitalism they prefer to make it difficult for Obama to advance his agenda. We saw that in the debate over health care (many Democrats in Congress opposed a single payer system and a handful opposed a public option), Wall Street reform, climate change, and even the extensions of jobless benefits. This may have more to do with campaign contributions than beliefs, but it is a division with serious political consequences. Obama prevailed in each case, but not without making compromises that some of his key supporters found frustrating.

The public, however, is not as divided over these matters as the politicians. Even some Tea Party activists scream "Get your government's hands off my Medicare." In fact, according to polls, the majority of those who sympathize with the Tea Party want the federal government to help create jobs, rein in Wall Street and even do something about excessive executive bonuses. Yes, they want "responsible" capitalism, too.

Most Americans are *frustrated* with the government but not *angry* with it, according to polls. While a majority lack confidence in government's ability to get things done, they also recognize that effective government is needed to help address serious problems, like creating jobs, protecting consumers, limiting pollution, fostering affordable health care, developing new energy sources, making college education affordable, improving public schools, and even reducing poverty. A Pew survey last year found that 63% of Americans think that it is government's responsibility to "take care of people who can't take care of themselves". They want, according to pollsters Guy Molyneux and Ruy Teixeira, "better, not smaller" government.

The measures taken by the Obama administration so far to address the economic crisis -- the government's fiscal stimulus, bailouts of financial companies, and the Fed's lower interest rates -- prevented a depression, slowed a decline in gross domestic product, and saved about 8.5 million jobs, according to a recent study by economists Alan Blinder and Mark Zandi.

But the economy is still in serious trouble, foreclosures continue to mount, and Americans aren't confident when -- or if -- the situation will get better. Rightly or wrongly, most Americans believe that these efforts have helped Wall Street more than Main Street. According to a Pew survey, they think that government policies have helped large banks, large corporations and the wealthy, but provided little or no help for the poor, the middle class or small businesses. Although it was the Republicans who stymied bold action on these issues, the voters are likely to take out their frustrations on the Democrats this November.

We are surely at a crossroads. Like the choices facing America during the Great Depression, we need to rescue capitalism again. But what kind of capitalism?

The new (October 2010) issue of *The American Prospect* helps answer that question. It provides a roadmap for "responsible capitalism." Articles by Robert Kuttner, Harold Meyerson, David Moberg,

David Bensman and Molly Greenberg, Ann O'Leary, Stephen Franklin, Rebecca Ruiz, Jan Breidenbach, and myself document dozens of policies -- many of which the President can do without new legislation -- to create new jobs, stabilize the middle class, lift families out of poverty, and revitalize the economy toward shared prosperity.

To advance an agenda of responsible capitalism, progressives need to redefine what we mean by a "healthy" economy and business climate as one in which prosperity is widely shared by working people, that lifts the working poor into the middle class, and provides economic opportunity and security.

As the articles in *The American Prospect* demonstrate, government has ample powers to change these conditions for the better. Back in the days of Lyndon Johnson's War on Poverty, Republican critics liked to say that the best anti-poverty program is a job. The federal government has the capacity -- and responsibility -- to promote full employment, where everyone who wants to work has a job. But the kinds of job -- the pay, benefits, security, and prospects for advancement -- are as important as the job itself.

American workers today face declining job security and dwindling earnings as companies downsize, move overseas, and shift more jobs to part-time workers. Last year, a survey by the Economic Policy Institute found that 44 percent of American families had experienced either the job loss of one or more members, a reduction in hours, or a cut in pay over the previous year. For the vast majority of workers, the costs of basic necessities are rising faster than incomes.

Meanwhile, despite improvements in productivity, the earnings of most workers have been stagnant, while the cost of health care, housing, and other necessities has risen. The basics of the American Dream -- the ability to buy a home, pay for college tuition and health insurance, take a yearly vacation, and save for retirement -- have become increasingly slippery. Last year, 61 percent of Americans said they always or usually live paycheck to paycheck, up from 49 percent in 2008 and 43 percent in 2007. Even 30% of those who earned over \$100,000 said they lived in that precarious situation. For many Americans -- including the over 40 million Americans living below the official poverty line -- the dream has become a nightmare.

In July, roughly one out of 10 Americans -- nearly 15 million people -- was out of work. Add people who'd given up looking for work -- and not counted as jobless -- and the figure is considerably higher. Almost half (46 percent) of the jobless had been out of work for at least six months. This is the highest rate of long-term unemployment since the government began keeping such records in 1948. About a quarter of the unemployed had been jobless for more than a year. There were nearly five workers actively searching for work for every job available.

Economic security means more than having a job. It means not getting wiped out by a medical illness, rising college tuition, a workplace injury, or a layoff. Yale political scientist Jacob Hacker has calculated that one in five American households -- the highest level in the past 25 years -- is financially insecure. They've lost at least one-quarter of their income within a year due to a job loss and/or large out-of-pocket medical expenses and don't have enough savings to replace those losses.

Joblessness and economic insecurity lead to personal and economic disaster. People often lose their health insurance, lose their homes through eviction and foreclosure, suffer depression, and fall into poverty. And high unemployment weakens the bargaining power and reduces the wages of those who do have jobs.

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