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HOW DO WE DETECT when a society is in trouble—*real* trouble? What canary in the coal mine signals danger? The real signs of major trouble are to be found not only in huge deficits, unemployment, even terrorism. The time to pay close attention is when people begin to lose belief in things that once mattered profoundly—like the most important values that have given meaning to American history from the time of the Declaration of Independence: *equality, liberty,* and *democracy.*

The long trends are ominous: the beginning point of the following study is the painful truth that there is now massive evidence that for decades Americans have been steadily becoming *less* equal, *less* free, and *less* the masters of their own fate.

The top 1 percent now garners for itself more income each year than the bottom 100 million Americans combined. Even before the war on terrorism produced new threats to civil liberties, the United States (as a conservative judge, Richard Posner, has observed) criminalized "more conduct than most, maybe than any, non-Islamic nations."[1]

And repeated studies have shown the majority of Americans know full well that something challenging and fundamental is going on with "democracy": Four out of five in a recent assessment judged that "[g]overnment leaders say and do anything to get elected, then do whatever they want." Another study found that seven out of ten felt that "people like me have almost no say in the political system."[2]

We tend to dismiss such signs of trouble. Most political debate focuses on who wins this or that election or on immediate problems like medical costs, tax cuts, unemployment. Some writers sense that something deeper is at work—that, for instance, with the radical decline of labor unions and the rise of the global corporation, the balance of power between labor and corporations that once kept U.S. politics within a certain range simply no longer operates. (The administration of George W. Bush in significant part reflects this shift in underlying institutional power.)

A few have recognized that we face even more fundamental questions. Thus Kevin Phillips writes of a new American "plutocracy" in which wealth "reach[es] beyond its own realm" to control political power and government at all levels.[3] Robert Kaplan suggests that we are moving in the direction of a regime that could "resemble the oligarchies of ancient Athens and Sparta." He believes: "How and when we vote during the next hundred years may be a minor detail for historians."[4]

But the idea that the American "system" as a whole is in real trouble—that it is heading in a direction that spells the end of its historic values—*that* idea is difficult, indeed all but impossible, for most people to grasp.

It is, however, the first major contention—or rather, observation—at the core of this study. Moreover, as we shall see, though the evidence is rarely confronted, it is a contention that is not at all difficult to support. Indeed, it is obvious to most people when they reflect on the long-developing trends in connection with equality, liberty, and democracy.

If the critical values lose meaning, politics obviously must also ultimately lose moral integrity. Cynicism, apathy, and a sense that the powerful control, no matter what, must grow until, finally, recognition that current political processes are at a dead end quietly becomes endemic. The polls already indicate that beneath a patina of conventional political concern, the basic elements of such an understanding are not far off.

Beyond this, if equality, liberty, and meaningful democracy can truly no longer be sustained by the political and economic arrangements of the current system, this defines the beginning phases of what can only be called a *systemic* crisis—an era of history in which the political-economic system must slowly lose legitimacy because the realities it produces contradict the values it proclaims.

Moreover, if the system itself is at fault, then self-evidently—indeed, *by definition*—a solution would ultimately require the development of a new system.

For most Americans the idea that a "different system" might be possible is something very few have considered. With the collapse of the Soviet Union—and the decline of older, more democratic visions of socialism—what, specifically, would it mean to "change the system"?

Furthermore, the United States today is the most powerful political-economic system in world history. To most Americans, the notion that ways might ultimately be found to transform the institutions at its very core seems utterly Utopian and impractical—even if one had an idea of what an alternative system might entail.

The conventional wisdom, of course, leaves us at a dead end. The old ways don't work, but no one even imagines the possibility of systemic change.

Or so it seems.

The fact is, just below the surface level of media attention, theorists, policy makers, and informed citizens have been generating an extraordinary range of new ideas in recent decades. As we shall see, these suggest that traditional economic and political strategies are not the only ways, institutionally, to secure equality, liberty, and democracy.[5]

The appeal of many of these ideas, moreover, reaches across traditional left-right political divisions. They deal in a thoroughgoing way with matters ranging from the local and mundane to the radical and systemic—including: How to build democracy with a small d in each community as a basis, ultimately, of rebuilding Democracy with a big D in the system as a whole. How, as technology advances, to ensure that people lave enough free time and security to have real rather than illusory freedom of choice. And how—the ultimate and most important issue—the vast wealth of the nation can be managed so as to directly democratize its benefits.

Even now, as we shall also see, the most interesting new approaches suggest the outlines of a radically different system-wide political-economic model. Furthermore, the quietly intensifying crisis itself is forcing ever greater understanding— and it is producing (and promises continually to produce) ever more refined clarifications of the basic ideas.

That this has begun to occur should not be surprising. In general, when traditional ways no longer work, people are forced to rethink what they have been doing. We often do not stand back from our current moment in history to reflect on the simple fact that this might also be happening here and now, and as time goes on, in our own society.

Even if it were possible to bring together the emerging new thinking to define the outlines of a system that might in principle be able to sustain equality, liberty, and democracy—and do so in ways better than either U.S. capitalism or its traditional socialist rival—could such an exercise ever have meaning in the real world of politics?

It is, of course, theoretically possible that nothing major will ever change in the United States—but it is also highly unlikely. Serious historians' understand—indeed, take for granted—that political-economic systems come and go over time, and that the current American system is probably not the be-all and end-all of world development.

To grant the simple possibility that the present system, like others in history, might one day be transformed opens a certain perspective on possibilities both for the coming century and for its opening decades. The tendency of those who think about systemic change is commonly toward abstraction. Words like "revolution" appear often in traditional writing. This, however, is only one way to think about structural change. It is striking that—again, just below the surface of most media concern—there has also been an extraordinary explosion of practical real-world economic and political experimentation in the United States that ties in with (and points in the direction of) some of the main features of the new system-oriented ideas.

Systemic change above all involves questions of how property is owned and controlled—the locus of real power in most political economies. The ownership of wealth in the United States is more concentrated even than income: the richest 1 percent of American households are now estimated to own half of all outstanding stock, financial securities, trust equity, and business equity![6] (This is an overall national figure. The most recently available data register median black financial wealth at a mere 3 percent of non-Hispanic white financial wealth. "Changes in Household Wealth in the 1980s and 1990s in the U.S.," in *International Perspectives on Household Wealth,* ed. Edward N. Wolff (Elgar Publishing Ltd., forthcoming). At the heart of the new thinking is a different principle—that the ownership of wealth must benefit the vast majority directly. Especially interesting, accordingly, is the evidence assembled in the following pages of long-developing trends that have produced thousands of new worker-owned firms, community-owned enterprises, even state and national examples of alternative ways wealth might be owned to benefit small and large publics.

In Newark, New Jersey, a nonprofit neighborhood corporation employs two thousand people to build and manage housing and help run a supermarket and other businesses that funnel profits back into health care, job creation, education, and other community services. In Glasgow, Kentucky, the city runs a quality cable, telephone, and Internet service at costs far lower than commercial rivals. In Harrisonburg, Virginia, a highly successful company owned by the employees makes and sells cable television testing equipment. In Alabama the state pension fund owns a major interest in many large and small businesses. In Alaska every state resident as a matter of right receives dividends from a fund that invests oil revenues on behalf of the public at large.

The emerging changes in these and hundreds (indeed, thousands) of other related instances involve new institutions—and the process of change is different from that which we commonly understand in connection both with traditional politics and traditional systemic change. Typically, political *reform* involves *policies* that improve or clean up around the edges of existing systems. Typically, *revolution* involves changing the *institutions* at the core of the system, often violently. What is happening in several key areas involves the steady building of a mosaic of entirely different institutions but in a manner that is both peaceful and evolutionary.

Even a very widespread evolutionary build-up of new local and state institutions, of course, would be a far cry from system-wide restructuring. I believe, however, that such developments may have significant implications beyond their immediate impact. Importantly, they are exploring principles of ownership in everyday life that have broader applications at other levels. The deeper question explored in the following pages is whether the emerging political-economic context might open the way to building upon and beyond the new ideas, on the one hand, and upon the emerging trajectory of practical institutional development, on the other.

The election of candidates committed to the key values might—or might not—lead to modest gains in the short term. Given the underlying pressures constraining traditional politics, however, those who have faced the issue squarely know that even when better candidates win office, serious change is unlikely following any currently feasible political strategies.

On the other hand, the social and economic pain that is now hitting Americans at virtually every level is also increasingly confronting diverse groups with ever more severe choices. In case after case, the converging viselike pressure of events is forcing new questions.

Either at some point a new strategic approach will have to be found, or issues of central importance to workers and to ethnic, racial, elderly, gender, family, and other constituencies on both the left and the right are likely to become increasingly and profoundly compromised. The growing pain levels point to the likelihood, ultimately, of a backlash— especially as the pressures the Bush era has unleashed continue to hit home.

Furthermore, the growing national fiscal crisis inevitably forces attention to the extraordinary income and wealth controlled by elites and major corporations. Quite apart from matters of equity, there are very few other places to look for resources. With the decline of traditional twentieth-century progressive strategies, a new and more militant "twenty-first-century populism," which targets those who control the lion's share of the nation's income and wealth, is already beginning to take shape. Far-reaching ethnic and demographic changes—and the coming minority status of non-Hispanic whites—are likely to reinforce the pressures leading to change as the twenty-first century unfolds.

The trajectory that points toward an ever more sharply focused challenge to corporations and elite concentrations of income and wealth, moreover, is beginning to converge, even now, with the developing trajectory of change defining a host of alternative institutions in which wealth ownership benefits the public directly—and in which community-based democratic practice is important.

It is quite possible—even probable—that life in the United States will get worse before it gets better (if it gets better) in the coming decades. We are likely to experience profoundly challenging times. Even in an era focused narrowly on issues of terrorism and war, however, large-order, longer-term change is rarely precluded. There are reasonable possibilities in the coming period of history (as in most periods of history) for much more fundamental change—building to and through the difficulties—than many conventionally hold.

There have been five major political realignments over the course of U.S. history—from before the Civil War to the Progressive era and beyond. Each has occurred in the face of arguments that nothing of great political significance was feasible. Further realignments over the course of the twenty-first century are not only possible but likely. The question is what they might entail and how far-reaching they might ultimately become.[7]

Part I
The Pluralist Commonwealth – Equality, Liberty, Democracy

We often forget that it was once simply assumed the United States would move inevitably in the direction of ever greater equality. A 1963 *American Economic Review* article observed that "most recent studies" of U.S. economic history take for granted that "since the end of the depression the nation's wealth has been redistributed and prosperity has been extended to the vast majority." A respected group of researchers declared, "The United States has arrived at the point where poverty could be abolished easily and simply by a stroke of the pen." The title of an important book by the liberal economist John Kenneth Galbraith proclaimed the "Affluent Society."[1]

Such assumptions now appear strange, indeed, unreal. Statistical studies show growing, not diminishing, inequality. Writers like Galbraith have been forced to a radical reassessment: "Alas, I am not nearly as optimistic now as then.... [T]hose who dismiss the pro-affluent movement of these past years as a temporary departure from some socially concerned norm are quite wrong."[2]

Compensation of the ten most highly paid CEOs averaged $3.5 million a year in 1981. By 1988 it had jumped to $19.3 million. By 2000 it was $154 million—an increase over this period of 4,300 percent.[3]

In 1948 Nobel laureate Paul Samuelson had attempted to illustrate the extent of inequality in his popular economics textbook with the following example: "If we made ... an income pyramid out of a child's play blocks with each layer portraying $1,000 of income, the peak would be far higher than the Eiffel Tower, but almost all of us would be within a yard of the ground."[4]

By the closing years of the century, Samuelson found that the Eiffel Tower no longer adequately expressed the orders of magnitude involved. He replaced it with Mount Everest.[5]

Another troubled economist, Lester Thurow, wrote, "No country not experiencing a revolution or a military defeat with a subsequent occupation has probably ever had as rapid or as widespread an increase in inequality as has occurred in the United States in the past two decades."[6]

Consider an even deeper problem: "As American democratic institutions begin their third century," political scientist Robert Putnam observes, "a sense is abroad in the land that our national experiment in self-government is faltering."[7] Quite fundamental forces have also undermined the experience of democracy for millions of Americans—and again what is striking and profoundly worrisome is the trend.

In the 1960s roughly two out of three regularly told pollsters they believed government was run "for the benefit of all." Asked in 1999, "Would you say the government is pretty much run by a few big interests looking out for themselves, or that it is run for the benefit of all the people," a mere 19 percent said that it is run for all. Fully 75 percent now felt that government was run for the benefit of special interests.[8] Voting—one bottom-line test of democracy—also declined dramatically. In the 1960 presidential election more than three out of five of those eligible voted; only slightly more than half did so in 2000. Less than 40 percent now bother to participate in congressional elections (understandably, since partisan redistricting has made almost 400 of the 435 seats in the House of Representatives all but impossible to contest!).[9]

An angry Republican senator, John McCain, describes the American political system as "an elaborate influence-peddling scheme in which both parties conspire to stay in office by selling the country to the highest bidder."[10]

Another obvious source of the "democratic deficit" is the enormous power of giant corporations. Careful academics, like the former president of the American Political Science Association, Charles Lindblom, put the point this way: "It is the large enterprises that pose obstructions to political democracy. Through their spending and relations with government officials they exercise much more power than do citizens. . . . [This is] a mammoth violation of the political equality deemed necessary for genuine rather than spurious democracy."[11]

Another political scientist, Carl Boggs, is less restrained: "[T]he largest corporations are able to dominate virtually every phase of economic, political, and cultural life; they set the agenda for nearly every dimension of public policy."[12]

Democracy's steady decline, theorist Michael Sandel laments, is ultimately evidenced in "a widespread sense that we are caught in the grip of impersonal structures of power that defy our understanding and control."[13]

Finally, consider the matter of liberty.

At the most obvious level, the war on terrorism has brought extraordinary threats to traditional American liberties. Georgetown University law professor David Cole writes: "Secrecy has become the order of the day. Criminal proceedings are governed by gag orders—themselves secret—preventing defendants or their lawyers from saying anything to the public about their predicament. . . . The Patriot Act authorizes never-disclosed wiretaps and secret searches in criminal investigations without probable cause of a crime, the bedrock constitutional predicate for any search."[14] Nor is this the worry only of liberals. An angry conservative, William Safire, charges, "Intimidated by terrorists and inflamed by a passion for rough justice, we are letting George W. Bush get away with the replacement of the American rule of law with military kangaroo courts."[15] Safire goes on, "These used to be the Great Unwatched, free people conducting their private lives; now they are under close surveillance by hundreds of hidden cameras.... This is not some alarmist Orwellian scenario; it is here, now, financed by $20 billion last year and $15 billion more this year of federal money appropriated out of sheer fear."[16]

Fear of crime also has fueled what the African American columnist, the late Carl Rowan, termed a "wild zeal" to guarantee personal safety and the willingness of many judges to countenance a "retreat from our historic protection of civil liberties and privacy rights." In 2002 one in eight black men age twenty to thirty-four was in prison or jail.[17]

For serious conservatives, liberty inherently requires small government, but here the underlying structural trends are also daunting. Not only is government big, but even when Republicans have been elected there is little evidence that its basic scale can be significantly altered. Indeed, government increased as a share of the economy during each of the first years of the George W. Bush presidency—from 18.6 percent in fiscal year 2001 to an estimated 20.2 percent in fiscal year 2004. "For those who cherish individual liberty and a free society," political economist Robert Higgs observes, "the prospect is deeply disheartening."[18]

Liberty in traditional conservative thought also depends on maintaining the underlying institutions of free-market capitalism—above all the independence, culture, and energy of the entrepreneur. The entrepreneur once did play a central role in the system—but this was more than a hundred years ago. Today roughly 90 percent of working Americans are employees—a very different kind of individual.[19]

A society can continue for a very substantial period along a path characterized by ever greater divergence between the core values and ideals that give it legitimacy and the institutions and practices that create and constitute the everyday realities its citizen’s experience. Plausibly, a society could continue indefinitely on such a course—though clearly, cynicism and apathy would result, and at some point increasingly serious demands for change most likely would be heard.

It would be surprising, however, if some of its most serious thinkers did not attempt to reassess the relationship between traditional theories and values, on the one hand, and politics, strategies, and underlying institutions, on the other.

Indeed, a steadily developing rethinking is now evident among individuals and groups on all sides of the traditional political divide—left, right, and center.

Chapter 1
Equality – Beyond Tax and Spend

For two decades economists concerned with inequality have debated the precise role global competition, changing technologies, sectoral balances, and other strictly economic factors have played in generating the worsening trends. Whatever the final resolution of the technical debate over how much weight to assign different forces, the important truth, as Barry Bluestone points out, is that none shows "the least sign of weakening."[1]

Accordingly, what is of truly fundamental concern for those who care about equality has been the collapse of the *political-economic* strategies it once was hoped might counter the deepening trends.

And the central question is whether there are any other ways forward, even in theory.

The evolving progressive reassessment begins with a cold appraisal of the reasons traditional approaches no longer work. There is very little doubt about what has happened to undermine liberal redistributive strategies.

First and foremost has been the radical decline of America's labor unions. Always weak in comparison with other advanced nations, peacetime U.S. union membership peaked at 34.7 percent of the labor force in the mid-1950s; it was a mere 12.9 percent in 2003 (8.2 percent in the private sector). The downward trend is all but certain to continue; responsible estimates suggest union membership in the private sector may sink below 5 percent by 2020.[2]

The decline obviously weakens union bargaining power over wages. Far more important, however, is that historically labor's political power has played a central role in the passage of social legislation and redistributive programs. "The political consequences of high levels of unionization are ... straightforward," political scientist Michael Wallerstein observes. "[O]ther things being equal, union movements representing a large share of voters are better able to influence policy."[3] Throughout the Western world, many studies show, greater unionization has been one of the best predictors of greater equality.[4]

Labor has been the most important countervailing force (partly) offsetting conservative political power throughout much of the twentieth century. As labor has continued to decline, the way has been opened to a series of aggressive corporate and other campaigns that have challenged redistributive programs of all kinds—first by the Reagan administration, then by the Gingrich Congress, now by the Bush administration.[5] The globalization of economic activity also has played a role, and it has increased the already enormous power of the large corporation economically and politically. Globalization brings with it ever expanding opportunities for relocation to other countries—and this adds to corporate leverage and the capacity to threaten departure unless demands are met. Business in turn has used its increased bargaining power to win concessions from labor.[6]

Worldwide competition for investment has added to the pressures, forcing government to reduce business tax rates, shifting more of the burden to low- and moderate-income earners. Globalization thereby also implicitly reduces the capacity of governments to spend on redistributive social programs. In 1945 corporate income taxes amounted to 35.4 percent of federal receipts. By 2003—as labor's political power decreased, as corporate power increased, and as globalization proceeded—such taxes had fallen to 7.4 percent of federal receipts. More than three-fifths of U.S. corporations paid no federal taxes at all in each of the years between 1996 and 2000![7]

The post-World War II social, economic, and cultural concentration of suburban political power and the urban exodus of the post-1960s decades have brought additional difficulties. Increasingly the largely white suburban middle class is simply no longer willing to pay for a progressive political agenda it believes will mainly benefit the black and Hispanic poor. At the same time, racial and ethnic divisions have weakened the capacity of the majority to unite behind redistributive measures.

Thomas and Mary Edsall document the radical implications in their book *Chain Reaction:* "Just as race was used, between 1880 and 1964, by the planter-textile-banking elite of the South to rupture class solidarity at the bottom of the income ladder... race as *a* national issue over the past twenty-five years [broke] the Democratic New Deal 'bottom-up' coalition.... The fracturing of the Democrats' 'bottom-up' coalition permitted, in turn, those at the top of the 'top-down' conservative coalition to encourage and to nurture . .. what may well have been the most accelerated upwards redistribution of income in the nation's history."[8]

Finally, we may add the rise of the post-1970s Republican South—a change that has added force to each of the key factors and to conservative politics in general. By 1994—for the first time in modern history—Republicans constituted a majority of the Southern delegation in both the Senate and the House of Representatives. The new form of racialized Southern politics, political scientist Augustus B. Cochran III points out, inevitably produced "policies that favor political and economic elites to the disadvantage of the vast majority of average citizens."[9] (Michael Lind goes further: George W. Bush's Texas "is a toxic by-product of the hierarchical plantation society of the American South, a cruel caste society in which the white, brown, and black majority labor for inadequate rewards while a cultivated but callous oligarchy of rich white families and their hirelings in the professions dominate the economy, politics and the rarefied air of academic and museum culture." Michael Lind, *Made in Texas: George W Bush and the Southern Takeover of American Politics* (New York: Basic Books, 2003), p. 160). Taking the various factors together, in fact, provides only a minimal estimate of the unfavorable prospects for traditional strategies aimed at reversing growing inequality—for several additional reasons.

First, there is very little evidence that inequality-related trends have ever been significantly altered because of progressive political strategies per se—that is, efforts to enact reforms in normal, non-crisis times. Inequality has been significantly reduced in the twentieth century mainly as a result of major crises like the Great Depression (which spurred unusual political and policy change), and in the context of war-related conditions that produced a special policy environment, tight labor markets, and a compressed wage structure (especially World War II but also, in other ways, the boom years of the Cold War, including the Korea and Vietnam wars). Even in the best of times, the capacity of traditional political strategies to achieve major impact on their own in "normal" circumstances has been far weaker than many commonly acknowledge.[10]

Second, a close examination of traditional conventional measures makes it obvious that on its current path, *real* inequality will continue to worsen, no matter what. Most academic discussions of inequality are based on relative assessments. While useful for many purposes, such measures mask important relationships—especially of absolute political-economic power, and of cultural and social differences. If you have $1,000 and I have $50,000 this year, and next year you have $2,000 and I have $100,000, the relative measures widely used in conventional reporting will indicate that there has been no increase in inequality because the ratio of l-to-50 is unchanged. However, absolute inequality—the real-world difference between us—obviously has gone from $49,000 to $98,000.

The *absolute* income gap between the top 5 percent and the bottom 20 percent exploded from $191,800 in 1979 to $419,700 in 2000 (in 2000 dollars).[11]

Contributing to both the relative and absolute trends during much of the final quarter of the twentieth century was the fact that hourly wages of the bottom 60 percent did not rise as fast as inflation—with the result that the real income each person earned, hour by hour, was actually lower in 1995 than in 1973. For very large numbers of Americans, the only reason total family income rose—very modestly—was that people worked longer hours and/or spouses (mainly wives) went to work in increasing numbers.[12]

Put another way: unless they worked more hours or someone else in the family went to work during these years, many would have been better off if the economy had simply stood still at the 1973 level. Economic growth not only did not increase the real pay that an hour of work earned, it brought with it price increases that reduced real income.[13]

We also appear to be reaching a limit of those who can add to family income. The percent of wives working rose from 28.5 percent in 1955 to 42.3 percent in 1973 to 61 percent in 2002. Though spouses will provide a continuing contribution to family income, nothing like the qualitative shift that occurred during the second half of the twentieth century is ever likely to occur again.[14]

Traditional redistributive political strategies which aim to deal with inequality are based on what are sometimes called "after-the-fact" methods. It is accepted that capitalist economic systems as a matter of course produce highly unequal distributions of income. It is hoped that "after the fact"—after the basic income flows have been generated—progressive taxation, combined with various social programs, can alter the underlying patterns.

No one would deny the possibility of some future tax changes, but there has long been little expectation that significant after-the-fact approaches for dealing with inequality can be revived—even before the administration of George W. Bush added to the difficulties. Galbraith's summary judgment of the well-understood realities is trenchant: "The only effective design for diminishing the income inequality inherent in capitalism is the progressive income tax. . .. That taxes should now be used to reduce inequality is, however, clearly outside the realm of comfortable thought."[15]

Another Harvard economist, Richard Freeman, minces few words about the dead end that has been reached: "[C]urrent 'strategies' run the gamut from inadequate to sham."[16]

Some liberals continue to hope against hope that somehow a revival of progressive politics can one day reverse the decaying trend. But clearly, if serious after-the-fact redistributive measures are no longer viable, something much more fundamental is needed.

In recent years those who have confronted the issue squarely have increasingly come to the judgment that if change is ever to occur, an assault must ultimately be made on the underlying relationships that have produced the inequality trends in the first place—especially those involving ownership and control of the nation's wealth.

Freeman, for instance, urges, "If we were to start democratic capitalism with a blank slate, we would naturally divide the ownership of existing physical assets equally among the population. . . . Our main strategy—be we left or right—for fighting income inequality under capitalism, should be to assure a fair initial distribution of physical and human capital themselves." Freeman states the essential principle of such an approach in this way: "Equality of income obtained in the first instance via greater equality in those assets, rather than as an after-the-fact (of earning or luck) state redistribution of income from rich to poor, would enable us to better square the circle of market efficiency and egalitarian aspiration."[17]

Former secretary of labor Robert Reich also urges a similar, wealth-related, shift in focus: "The asset elevator has been lifting America's wealthy to ever-higher vistas, without their moving a muscle (except, perhaps, to speed-dial their brokers). Current tax law is lifting them, and their children, even higher. Hence the case for allowing the rest of America on the elevator, too."[18]

And former chief counsel to the U.S. Senate Finance Committee Jeff Gates holds: "[A]bsent an accompanying ownership-participation element, unbridled free enterprise is destined to throw both the social and economic system badly out of balance."[19]

The emphasis on wealth (rather than simply income) by these writers and others involved in the quietly growing reassessment has brought with it a related emphasis on underlying institutions (rather than simply policies). One specific line of development stresses the possibility that workers might own their own companies, a straightforward idea that if extended and applied across the board implies a political-economic system quite different from both traditional socialism and corporate capitalism.[20]

Radical economists Samuel Bowles and Herbert Gintis also begin their analysis by agreeing that political progressives need to reconsider failing traditional approaches: "[E]galitarian strategies should abandon what has hitherto been an exaggerated emphasis on ... tax and transfer policies." Not only is this *a* political dead end, but asset-based redistribution, they urge, "can use markets to discipline economic actors." Indeed, they hold that worker-owned firms ultimately may prove to be "more efficient than the capitalist firm, in the technical sense that the democratic firm uses less of at least one input to produce the same output."[21]

"Workers frequently have access at low cost to information concerning the work activities of fellow workers," Bowles and Gintis point out, "and in the democratic firm each worker as a residual claimant on the income of the firm has an interest in the effort levels of other workers." The ordinary firm must spend a good deal of money monitoring work activity. Quite apart from the equities involved, this is a drain on economic resources.[22]

Jeff Gates, drawing on his experience in the Senate, stresses the political possibilities of worker-ownership strategies: "The political potential in this area became obvious to me when, over the span of a two-week period ... I was asked to provide speech material for both Republican Senator Jesse Helms and Democratic presidential candidate Jesse Jackson." Gates and others have produced long lists of those endorsing the principle of employee-owned firms ranging from Ronald Reagan and George Will on the right, to Robert Kuttner and Robert Reich on the left.[23]

Worker ownership clearly is not die only wealth or "asset-based" approach that flows from the argument that a new strategic principle beyond after-the-fact taxing and spending is necessary. Another major strategy begins with the observation of Washington University expert Michael Sherraden that the federal government already provides very large indirect tax subsidies to encourage asset ownership by middle- and upper-income Americans. The most obvious of these are the tax deductibility of home-ownership mortgage interest, tax, and other payments; and of savings contributions to Keogh, IRA, and 401(k) plans. In fiscal year 2004, public subsidies of $98 billion were projected to go to home-owners and another $113.8 billion to those who saved through any one of the plans; taxpayer costs for 2004-2008 were estimated to be more than $1 trillion.[24]

Sherraden suggests that if such huge subsidies can be given to middle- and upper-income groups to encourage savings, incentives also should be used to develop asset holding among the poor. He proposes a system of Individual Development Accounts (IDAs) through which the government would directly match the savings of the poor—thus doubling their efforts and allowing low-income individuals to benefit from the ownership of capital: "Instead of focusing welfare policy on income and consumption, as we have done in the past, we should focus more on savings, investment, and asset accumulation. This idea might be summarized by the term *stakeholding.* ... A stake in the system means, in one form or another, holding assets."[25]

Although not as striking in their institutional implications as worker-ownership ideas, over the decade of the 1990s a stream of related asset-based wealth-holding and wealth-building proposals has expanded on Sherraden's theme— and on the general principle that wealth should benefit much broader groups directly. Most of the specific plans also emphasize the obvious point that any capital investment started early enough and held long enough ultimately will pay off handsomely.

A proposal by former Senator Bob Kerrey of Nebraska, for instance, would establish "KidSave Accounts" to which the government would contribute $1,000 at birth for every child, and $500 per year thereafter for the next five years. The funds would be invested and allowed to grow until the individual reaches age twenty-one—at which time roughly $20,000 would be available for investment in education or for other purposes.[26]

Significantly, the KidSave proposal was cosponsored not only by liberals, but by centrist and conservative senators Joseph Lieberman of Connecticut and John Breaux of Louisiana as well. A related proposal by Robert Kuttner aims to provide each child-with a $5,000 capital grant at birth and up to $1,000 a year thereafter until age eighteen. Kuttner estimates that if conservatively invested, such an amount will produce a capital fund of roughly $50,000 per individual at maturity.[27] (In a related proposal the Clinton administration put forward the idea of Universal Savings Accounts as a supplement to Social Security. In such IDA-like accounts the savings of the poor would be supplemented by up to $ 1,300 per year. The Blair government in Britain introduced a "baby bond" proposal based on similar asset-based ideas in early 2003. See Robert B. Reich, "To Lift All Boats," *Washington Post,* May 16, 1999, p. B1; Will Hutton, "A Chance for a Robin Hood Budget," *The Observer* (London), April 6, 2003, p. 30).

"Imagine if instead of being promised at birth that you will get a Social Security pension decades in the future . . . you were given a trust fund based on bonds or stocks whose returns would constitute your social transfer," comments Richard Freeman. "The incompetent poor would then be more like the incompetent rich: they would have income from assets that would let them live at some basic level, without depending on income transfers."[28]

Yale professors Bruce Ackerman and Anne Alstott take such wealth-holding ideas a step further by proposing that every individual be given a "capital stake" of $80,000 on reaching adulthood—to be used for any purpose they chose. The Ackerman-Alstott program also adds an important new dimension to asset-based strategic thinking: They urge that the program be initially financed by a 2 percent wealth tax, thus linking the principle of broadening wealth ownership to much larger publics, on the one hand, to a strategy that challenges the extreme concentration of existing wealth ownership in the hands of tiny elites, on the other.[29]

Several writers have pushed the basic principles underlying wealth-holding proposals forward to their logical—and much more far-reaching—system-wide institutional conclusions. Yale economist John Roemer, for instance, proposes a very radical long-term strategy he calls "coupon socialism," which in theory would ultimately totally "change the system" and pass on the benefits of *all* major stock ownership to the citizenry at large.

Under the Roemer proposal, taxation would first transfer ownership of capital to the government. Every adult would then receive an equal endowment of voucher-like coupons—nontransferable dollars—which could only be used to purchase stock through a new form of mutual fund. The resulting profits would be distributed to such investors— that is, to all adults—thereby ultimately providing an income stream from the now widely distributed ownership of capital.[30]

An important feature of Roemer's approach is that although the ownership of wealth would be revolutionized, the management and functioning of firms would not be disturbed. Since individuals could choose where to invest their coupons, competition for the funds they represent would continue to discipline market behavior.

A similar, equally radical, long-term system-wide asset-changing proposal is that of political scientist Leland Stauber. In this approach, too, the management and competitive situation of firms is not altered, and mechanisms of market discipline are maintained. Instead of individuals benefiting directly from the change in asset ownership, however, municipalities—as representatives of the public— are the ultimate recipients of dividends from the ownership of capital.[31]

A midrange position that also develops the full institution-changing logic of wealth-holding ideas is that of the Nobel laureate British economist, the late James Meade. Under Meade's approach, taxation of large-scale wealth produces funds to be used, first, to pay off the national debt, and second to accumulate surplus public capital. The surplus, in turn, is invested in corporate stock by investment trusts and other private financial institutions. The "beneficial ownership" of roughly half the nation's capital in this proposal is ultimately passed on to the public in the form of a "social dividend," distributed "free" of tax to every citizen . . . which depends solely upon the age of the citizen, a distinction being drawn between the payment to a child or to an adult of working age or to a pensioner."[32] (Progressive taxation recoups some of the income flowing to the well-to-do. A second strategy offered by Meade involves new forms of enterprise characterized by labor-capital partnerships that also implicitly change the beneficiary ownership of wealth—an idea echoed in Martin Weitzman's 1984 book, *The Share Economy,* which advocates changing the labor contract from a wage (dollars per hour) to a share of revenues (each worker would receive two-thirds of company revenue per worker). Martin L. Weitzman, *The Share Economy* (Cambridge, Mass.: Harvard University Press, 1984), pp. 3-5).

If Roemer, Stauber, and Meade come to their system-wide extensions of asset-based, wealth-holding concepts from the left, others have come to related ideas from a very different direction: Norman Kurland, Robert Ashford, and Stewart Speiser have picked up on the earlier writings of corporate lawyer and investment banker, the late Louis Kelso, to urge far-reaching programs of "universal capitalism" that draw heavily on Kelso's 1958 *The Capitalist Manifesto* (written with philosopher Mortimer Adler).

Kelso realized from his professional experience that one of the main—and strikingly obvious!—reasons his rich clients were able to multiply their ownership of stocks and bonds was that their existing wealth provided them with collateral that allowed them to borrow money for further investment. They could also hire experts to manage that investment. If the poor had access to collateral and experts, Kelso reasoned, why could they not also make money by investing borrowed funds?

Drawing on the precedent of federal programs that insure home mortgages, Kelso proposed that a new Capital Diffusion Insurance Corporation be established to guarantee loans so as to allow individuals to buy a diversified and professionally managed portfolio of stocks. The portfolio would remain in escrow until dividends repaid the loan, at which time the individual would take full ownership, thereby gaining a "second income" with the help of the government-backed or collateralized ownership of capital.[33]

Although Kelso's proposal would also ultimately result in a major system-changing buildup of wealth among the citizenry, unlike Roemer, Stauber, and Meade, he did not propose taxing away or expropriating existing wealth. Instead, a steady shift in ownership would be slowly accomplished as *new* wealth is created in the normal processes of economic development over long stretches of time.

The key principle involved in all variations on the Kelso approach is that ultimately the stock pays for itself out of the dividends it earns. Speiser puts it this way: "This is a method of acquiring new capital that has been used for centuries by wealthy people and profitable companies. *They simply let it pay for itself.* New factories opened by major successful corporations pay for themselves out of their own output. . . . This is the key to capital accumulation, and it is all based on *long-term* credit, which is not available to the little guy now but is always available to the large corporation or the wealthy person in our society."[34]

William Greider, an important progressive writer, now also urges the essentials of a Kelso-type strategy: "The central mechanism for democratizing ownership ... is reform of the credit system—enabling people without any wealth of their own to borrow the funds to buy shares of capital ownership, loans that will be paid back by future earnings from the very income-producing assets they have acquired."[35]

Few of those concerned with equality would abandon traditional redistributive strategies entirely (especially those that might still yield some benefits to people at the bottom of the system). The emerging shift, however, points to a longer-term system-wide principle—namely, that ultimately movement toward greater equality requires that the ownership of capital be altered. This in turn requires new institutions.

Clearly, the longer-term system-wide wealth-changing proposals are beyond the range of current political feasibility. But just as clearly, growing disillusionment with traditional after-the-fact policy ideas has set the stage for a much deeper and ongoing reassessment. If the old ways no longer work, is there any other option? New proposals to broaden the ownership of wealth are increasingly commonplace—and given the growing discontent, appear all but certain to continue to grow in number and refinement.

Two obvious questions are: first, whether—even if over very long stretches of time—the emerging principle can ever be significantly embodied in practical institutions; and second, whether it can receive any degree of substantial political backing against the huge odds and interests that stand in the way of major change.

We shall return to these matters in Parts II and IV—and to the question of whether there is any other way to give meaning to values based upon, or even remotely related to, the idea of equality in the new century.

Chapter 2
Liberty – Money, Time, and Real Freedom of Choice

As we have seen, two distinct trends have produced growing concern that the political-economic system no longer appears able to sustain a culture of liberty. The first and most obvious involves restrictions on individual liberties in response to terrorism and war, and in response to crime. The second, and more fundamental, relates to foundational issues involving the underlying structures and institutions of the political-economic system as a whole.

Our primary interest at this point is with foundational problems—the bedrock questions at the very heart of the system.

It is essential to understand the deep-seated nature of the problem confronting those concerned with liberty—even, in the first instance, when approached from the perspective of the traditional (conservative)'assumptions prominent in contemporary discourse. That a dead end has been reached, with virtually no way back to traditional approaches, is painfully obvious to sophisticated thinkers. Indeed, in this respect, thoughtful conservatives are in as much of a quandary as thoughtful liberals concerned with equality; the system-wide nature of the problems they face is no different. Traditional conservative approaches to liberty depend, foundationally, upon two important institutional judgments: first, that "big government" must be reduced; second, that a free-market capitalist economy must be protected and sustained, both because it is held that free markets are essential to liberty in general, and because it is held that they nurture the spirit of entrepreneurship and a culture of free individualism.[1]

That "big government" is anathema to individual liberty is *the* fundamental structural argument of traditional theory. Ultimately, a reduction in government's reach, scale, and function is the premise of all secondary arguments—the necessary condition that allows the citizenry to build a society capable of nurturing and sustaining liberty against its many challenges. All power corrupts, it is held—even (perhaps especially) benevolent power.[2]

Despite President Bill Clinton's assurance that the era of big government is over, the reality is that government in the United States *is* big—far bigger than most realize. Rhetoric aside, the central fact is that conservatives have simply been unable to alter the fundamental patterns and orders of magnitude.

Government grew from roughly 7 percent of the economy in 1902 to roughly 31 percent in 2003. By a more comprehensive measure, the current figure is at least 36 to 37 percent, and some recent estimates of the impact of regulatory and other indirect activity add an additional 8 percent, bringing the total to 44 to 45 percent of the economy. (Milton Friedman believes the actual number is closer to 50 percent.)[3]

"I will do many things for my country," columnist George Will lamented during the Reagan years, "but I will not pretend that the careers of, say, Ronald Reagan and Franklin Roosevelt involve serious philosophical differences." (Near the end of Reagan's presidency, William Buckley observed, "No, [Ronald Reagan] has not reversed the great trends of the century that have given more and more responsibility to government, less and less to society." William F. Buckley Jr., "Musical Monuments," *Washington Post,* January 6, 1987, p. A21).

Richard Nixon left office with a government more expansive than that left by Eisenhower; that of Reagan was larger than that of Nixon; government at the end the first Bush presidency was larger than that of Reagan. And even before a major military buildup expanded the federal budget, there was little statistical evidence that George W. Bush would be able to more than marginally alter government's overall scope and scale.[4] Indeed; not only did government increase as a share of the economy during his first years in office but, much to the dismay of many conservatives, Bush successfully pushed through $400 billion in new prescription drug spending in 2003 and continued to support it in 2004 despite raising the projected cost to $530 billion.[5]

It is not that conservatives have not tried—and still continue to try. A broad range of strategies have been attempted—including selective budget cutting, balanced-budget laws, tax reduction designed to "starve government," even attempts to amend the Constitution. Just as traditional liberal strategies may have slowed the trend of growing inequality (but failed to reverse the trend beyond temporary moments), so, too, the conservative approaches that have so angered liberals have altered priorities and cut back important programs, thereby helping slow the growth of government. What they have *not* done is significantly reduce the general scope and scale of government.[6]

A cottage industry of political scientists has probed the institutional, constituency-based, organizational, and other reasons that government has grown, and why its core structures have been so unyielding. One group of scholars has argued that government grows because citizens oppose government in general, but want specific programs of interest to them in particular. Another group of theories derives from the work of the late economist Mancur Olson and from related work by Anthony Downs, James Buchanan, and Gordon Tullock. These emphasize that special interests have large incentives to secure government benefits—and also have the power to organize to gain their objectives. Even, though greater numbers in the public may pay the costs, it is difficult and expensive to organize them since few individuals have enough incentive to participate effectively.[7]

Still another theory is that of political economist Robert Higgs, who argues that a series of crises—World War I, the Great Depression, World War II—have been exploited in ways that not only expand government but lead to a "ratcheting" upward of government's scope and scale. Once expanded in the context of crisis, constituencies develop around programs and make it impossible to reverse the now upwardly "ratcheted" new levels.[8]

Whatever theory or theories in the end prove to offer the most accurate explanation, the bottom line is that there are powerful reasons why very little structural or trend change has occurred—even when conservatives have been elected to office. When the smokescreen of rhetoric attacking big government is pierced, we can understand why the chief architect of the so-called Reagan Revolution, Budget Bureau Director David Stockman, left office convinced that real change was "impossible." Or why the conservative economist Milton Friedman might lament, "We have been, despite some successes, mostly on the losing side."[9]

Similar problems confront the argument that individual liberty also depends, foundationally, on maintaining the underlying institutions of free-market capitalism—especially the independence and energy of the entrepreneur. Although it is also held that a thoroughgoing entrepreneurial economy is required to disperse power and nurture a culture of liberty, giant corporations now control such key industries as energy, telecommunications, steel, autos, home appliances, many food products, and so on. Simply by way of illustration:

General Electric, Whirlpool, and Maytag sell 80 percent of all ovens and 85 percent of all dryers; Procter & Gamble, Unilever, Colgate-Palmolive, and Dial account for 83 percent of bar soap sold in the United States. Three companies dominate 60 to 66 percent of the cable television, online job recruitment, and college textbook markets. Two companies control 75 percent of the soft drink market.[10]

Globally a mere three hundred multinational corporations account for an estimated 25 percent of productive assets. "The sales of General Motors and Ford," Noreena Hertz of Cambridge University observes, "are greater than the GDP of the whole of sub-Saharan Africa; the assets of IBM, BP and General Electric outstrip the economic capabilities of most small nations; and Wal-Mart, the U.S. supermarket retailer, has higher revenues than most Central and Eastern European states including Poland, the Czech Republic, Ukraine, Hungary, Romania and Slovakia."[11]

Nor, as traditional theory assumes, do such firms avoid government. Richard Nixon's secretary of the Treasury, the late William Simon, recalled how during his "tenure at Treasury I watched with incredulity as businessmen ran to the government in every crisis, whining for handouts or protection from the very competition that has made this system so productive." Simon went on to bitterly observe: "I saw Texas ranchers, hit by drought, demanding government-guaranteed loans; giant milk cooperatives lobbying for higher price supports; major airlines fighting deregulation to preserve their monopoly status; giant companies like Lockheed seeking federal assistance to rescue them from sheer inefficiency; bankers, like David Rockefeller, demanding government bailouts to protect them from their ill-conceived investments; network executives, like William Paley of CBS, fighting to preserve regulatory -restrictions and to block the emergence of competitive cable and pay TV."

And, he added, "always, such gentlemen proclaimed their devotion to free enterprise and their opposition to the arbitrary intervention into our economic life by the state. Except, of course, for their own case, which was always unique and which was justified by their immense concern for the public interest."[12]

Traditional conservatives, like the founder of the University of Chicago free-market school of economics, Henry C. Simons, begged fellow conservatives to recognize that "[t]urned loose with inordinate powers, corporations have vastly over-organized most industries." Indeed, this highly respected conservative (and Milton Friedman's revered teacher) held that "America might now be better off if the corporate form had never been invented or never made available to private enterprise."[13]

Another leading conservative, Friedrich A. Hayek, years ago urged that "if we continue on the path we have been treading [toward what he termed the 'monopolistic organization of industry' closely allied with government], it will lead us to totalitarianism."[14]

The traditional response to the reality of corporate power has been an antitrust effort to break up giant firms. But few any longer believe the kind of economy that undergirds the traditional theory can be restored by such means. An occasional antitrust battle has been won, but in the more than one hundred years since the Sherman Anti-Trust Act was enacted, there have been only a handful of successful challenges to major corporations. Commonly, even when large corporations have lost legal battles—as in the recent Microsoft case—they have been able to hire top legal teams and use delaying tactics until a new administration comes to power or until technological advantage has given them de facto control of the economic landscape of concern.[15]

Even in the few cases where antitrust has succeeded, the understanding of traditional conservatism that corporate power threatens values of liberty and democracy has all but disappeared. In the modern era antitrust discussions are narrowly focused on technical economic matters and complex (and debatable) measurements of the potential impact on consumers. William Safire is one of the few to stress what was once self-evident to fellow conservatives: "With the round-heeled Michael Powell steering the Federal Communications Commission toward terminal fecklessness; with the redoubtable Joel Klein succeeded at Justice's antitrust division by an assortment of wimps; and with appeals courts approving the concentration of media power as if nothing had changed since President Taft's day, the checks and balances made possible by diverse competition are being eradicated.

"The longtime anti-business coloration of liberals reduces their ability to take on the convergence con," Safire observes. Accordingly, "It is for conservatives to ask ourselves: Since when is bigness goodness?"[16]

The power implications of the giant corporation are one thing. Equally important is the indirect cultural and human impact of the historic shift away from entrepreneurial capitalism. "Dependence," Thomas Jefferson urged, "begets subservience and venality, suffocates the germ of virtue." Jefferson held that only under conditions of widespread small-scale individual property ownership could a people "safely and advantageously reserve to themselves a wholesome control over their public affairs."[17]

A hundred years later Woodrow Wilson warned that if America's children in the future were to "open their eyes in a country where they must be employees or nothing . . . then they will see an America as the founders of this Republic would have wept to think of." Louis Brandeis asked, "Can any man be really free who is constantly in danger of becoming dependent for mere subsistence upon somebody and something else than his own exertion and conduct?"[18]

That *a* nation in which nine out of ten people are *employees* is radically different, culturally, from a nation of *entrepreneurs*—and that the problems this raises for liberty must also be confronted—is something very few conservatives have even been willing to discuss in recent years. They have mainly looked away from what was once a central element in their philosophical stance—perhaps because the implications are so difficult to accept.[19]

For these many reasons, viewed in broadest historical perspective (and whether one agrees or disagrees with them), such traditional theories of liberty increasingly appear as walking intellectual corpses—ideas that for better or worse no longer have much structural relationship to the living realities of the modern political-economic world. Philosophical conservatives have developed wonderfully coherent abstract theories based on assumed first premises—but the premises commonly sidestep the hard problems defined by the long, unyielding, real-world structures and trends. (None of this, of course, has prevented politicians from continuing to hammer away at traditional ideological themes to rally support for favored policies.)

If, even from within the perspective of traditional conservatism, what have been understood as the institutional foundations of liberty no longer seem achievable in the real world, are there *any* strategic approaches that might one day come to terms with the underlying foundational issues?

One modern line of attack stems from the work of the late Robert Nisbet, a highly regarded conservative sociologist. Broadly speaking, traditional theories involve an implicit balance of power conception. On the one hand, liberty can be enhanced by weakening the state; on the other, it can be enhanced by protecting or bolstering the position of the individual (by, for instance, encouraging an entrepreneurial economy). A critical—indeed, absolutely essential—way to support the individual, Nisbet held, is to nurture the kinds of "intermediate institutions" that stand between the lone individual and the state, thereby providing both social support and a buffer against centralized power.[20]

The rise of fascism before and during World War II, Nisbet contended, demonstrated that isolated individuals were psychologically and politically vulnerable to the appeals of powerful leaders like Hitler: "Only in their social interdependence are men given to resist the tyranny that always threatens to arise out of any political government, democratic or other." A decline in the importance of churches, unions, and various local and neighborhood civic associations had been disastrous. Planning an all-out effort to nurture the conditions that support such institutions, Nisbet urged, was therefore required to protect individuals against the claims of centralized power.[21]

Peter Berger, William Schambra, and several other writers have offered variations on this basic theme in recent years. The concept of "mediating structures," Berger urges, is "politically promising. *It cuts across the ideological divides . . ."* and offers ways to transcend the dangers of a world characterized by the "'liquid molecules' of individuals caught in a chaotic private world, and the leveling tyranny of the totalitarian state."[22]

The argument intersects with the similar but slightly different argument that democracy (not liberty) requires nurturing local citizen associations. And in both cases—as Nisbet's general contention suggests and we shall further explore—the argument leads to the question of how the local context in which individuals and associations flourish or fail can be made secure (see Chapter 3).

A very different strategy aimed at bolstering the individual side of the state-individual balance has been offered by the well-known management consultant Peter Drucker— one of the very few who have been willing to confront the implications of the trend that has transformed entrepreneurs into employees.

Drucker suggests that the only way to establish the kind of stability and security once theoretically offered by individual entrepreneurial property is through government policies that achieve the "evolution of jobs into a kind of property." This requires that there be no "'expropriation [of the job] without compensation/ and that employers take responsibility to anticipate redundancies, retraining employees . . . and finding and placing them in new jobs." What is needed is "redundancy planning rather than unemployment compensation."[23]

A similar, even more sharply focused extension of the argument that jobs must be made secure—even a matter of right!—was included in early drafts of the Humphrey-Hawkins Full

Employment Act. And, of course, the idea that real liberty requires job security is at the heart of most academic-freedom arguments urged in defense of tenure arrangements common among college professors: without a secure place to stand, it is very difficult to achieve the independence that liberty urges as a central value.[24]

Finally, such arguments and strategies, of course, also speak to the concern urged by scholars like Edward Luttwak that economic insecurities generated by "turbo-capitalism" are ultimately responsible for a liberty-destroying culture that "vents its anger and resentment by punishing, restricting and prohibiting all that can be punished, restricted and prohibited."[25]

Traditional conservative premises also, of course, have long been challenged on their own terms. Political theorist Alan Ryan points out that there "have been many societies in which private property was taken seriously and political liberty was almost wholly absent." After all, he and others note, all the fascist systems we know of were built upon and grew out of what previously had been free-market capitalist foundations.[26]

Again, in a recent book Stephen Holmes and Cass Sun-stein stress that without effective and indeed costly government programs, Americans "would enjoy few or none of their constitutionally guaranteed individual rights. Personal liberty, as Americans value and experience it, presupposes social cooperation managed by government officials. The private realm we rightly prize is sustained, indeed created, by public action."[27] (Holmes and Sunstein challenge the position of conservatives who "cling instinctively to a cost-blind approach to the protection of the so-called negative rights of property and contract." To stare hard at the public costs of maintaining property rights, they urge, shatters "the libertarian fiction that individuals who exercise their rights, in the classic or eighteenth-century sense, are just going about their own business, immaculately independent of the government and the taxpaying community." *The Cost of Rights: Why Liberty Depends on Taxes* (New York: W.W. Norton, 1999), p. 29.)

For the most part, liberals who have confronted the deeper foundational issues have focused on how the conditions that define the real-world situation facing the individual can be altered so as to increase freedom of action and the power to choose. One major line of thought emphasizes questions of time.

Individual liberty obviously can never be fully realized if men and women must work devastatingly long hours simply to feed and shelter their families. Only if individuals have time that they can dispose of freely as they see fit can liberty be truly meaningful.

Walter Lippman held that free time was "the substance of liberty, the material of free will." John Maynard Keynes looked forward to an era ("much sooner perhaps than we are all of us aware of") when a reduction of working hours would confront man "with his real, his permanent problem—how to use his freedom." Herbert Marcuse judged that "the reduction of the working day to a point where the mere quantum of labor time no longer arrests human development is the first prerequisite for freedom."[28] (And, of course, Karl Marx believed that the "realm of freedom really begins only where labor determined by necessity and external expediency ends.... The reduction of the working day is the basic prerequisite." Karl Marx, *Capital,* Volume III, trans. David Fernbach (London: Penguin, 1991), pp. 958-959).

The reality, however, is that the political-economic trend that reduced the workweek from more than seventy hours at the end of the nineteenth century to roughly forty hours today has been essentially stalled for almost fifty years. Such writers as economist Juliet Schor, historian Benjamin Hunnicutt, and philosopher Jerome Segal have suggested that the productivity gains offered by modern technological development offer radically new possibilities for the expansion of free time as a foundation for'individual liberty and freedom of choice. They also have begun to propose strategies to encourage a resumption of the previously downward-moving trend over the course of the twenty-first century.[29]

One commonly urged approach would strengthen and revise current forty-hour-a-week laws limiting full-time work and regulating overtime pay.[30] Segal proposes that public policy should aim ultimately to reduce the workweek to twenty-five hours—and that the additional money needed to maintain basic needs be provided by an expanded form of the Earned Income Tax Credit, which currently provides a wage supplement for low-income working families.[31]

Other answers to the underlying question have been proposed by such political theorists as Bill Jordon, Philippe Van Parijs, and Yale law professor Anne Alstott. All have argued in general that a publicly guaranteed floor-level amount of income (beyond mere subsistence) is essential if liberty is to have meaning in the modern era. Van Parijs, whose work has been at the center of discussion here and in Europe, holds: "If we are serious about pursuing real-freedom-for-all. . . what we have to go for is the highest *unconditional* income for all consistent with security and self-ownership."[32]

Significantly, the conservative Nobel laureate, James Buchanan, also urges a "demogrant" form of basic income given equally to all (and financed by a flat tax). For many years Milton Friedman has also consistently urged the importance of a "negative" income tax involving cash supplements to low-paid workers—the underlying principle of which has been enacted on a bipartisan basis in the form of the Earned Income Tax Credit.[33]

Historian Eric Foner reminds us that during the early years of the Republic, the central focus of debate was not simply "liberty" but "equal liberty"—an idea that also reaches beyond legal and constitutional protections to consider the capacities and real-world conditions of the vast majority. "Even a conservative like John Adams, who distrusted the era's democratic pretensions," Foner observes, believed this required enabling "every member of society" to acquire land. Alexis de Tocqueville put it this way: "[N]othing struck me more forcibly than the general equality of condition among the people." Tocqueville went on to stress, "[T]he more I advanced in the study of American society, the more I perceived that this equality of condition is the fundamental fact from which all others seem to be derived and the central point at which all my observations constantly terminated."[34]

A final group of theorists has returned to the question of "equality of condition" in the search for strategies to nurture liberty by bolstering the position and capacities of the individual. Most have also built upon John Dewey's argument that "effective freedom" is radically different from the "highly formal and limited concept of liberty." It requires "effective power to do specific things." Thus Georgetown University professor and *Washington Post* columnist E. J. Dionne states, "To be the master of one's own fate—a fair definition of liberty—means not simply being free from overt coercion (though that is a precondition); it also involves being given the means to overcome various external forces that impinge on freedom of choice and self-sufficiency. It means being free *to* set one's course."[35]

Similarly, Alan Ryan observes that most people understand that freedom "involves the expansion of our options—" and that "'[f]reedom of choice' implies a wide range of options." The full implications of the argument have been developed by Nobel laureate Amartya Sen in work outlining the "capabilities" and "outcomes" needed to make freedom real. "Capability is ... the substantive freedom to achieve alternative functioning combinations (or, less formally put, the freedom to achieve various lifestyles)'."[36]

All arguments that focus on the importance of "equality of liberty," of course, bring with them a series of proposals for improving the education, health, and economic conditions of those whose capacities for choice are limited by the way in which economic and other resources are currently allocated.

Broadly speaking, emerging modern theories of liberty converge on three central propositions:

First, liberty requires institutional and structural support for individual economic security to replace that which at least in theory was once provided by entrepreneurial property. Second, it requires support for the community-wide conditions needed to nurture the intermediate associations and civil society organizations that are essential to sustaining a culture supportive of liberty. Third, it requires greater amounts of equitably distributed free time (without which little real freedom of choice is possible) and support for individual development (without which the capacities needed to exercise real freedom must inevitably be limited).

It is noteworthy that the last of these important conditions inherently depends upon some form of resource redistribution, a reality that returns us to the principal conclusion of Chapter 1 in connection with equality—namely, that this in turn ultimately requires new approaches to the ownership of wealth. The first and second—establishing conditions in which local community associations can flourish and in which job security can be maintained—require additional political-economic strategies. Many of these intersect with evolving new approaches aimed at rebuilding the local foundations of system-wide democracy.

Chapter 3
Democracy – From the Ground Up

What of the central question of democracy itself? Many have noted the trends of failing belief, the radical decline in voting, the massive role of money and corporate influence in lobbying, media, and elections—and in general, the large numbers who surveys show feel that "our national experiment in self-government is faltering." That millions of Americans believe "people like me have almost no say in the political system" has been *a* wake-up call for many on the left, right, and center.[1]

Several lines of reassessment have become increasingly important as the crisis has deepened. The first, directed to foundational "grassroots" community issues, has come into ever more sharply defined focus in recent years.

The work of Harvard political scientist Robert Putnam kicked off a major debate on one aspect of the problem.

Putnam probed well beneath such surface-level issues as the fall-off in voting to focus instead on local citizen associations, networks, formal and informal clubs, neighborhood groups, unions, and the like. Large numbers of Americans, he suggested, were now both actually and metaphorically "bowling alone" rather than in association with others. Putnam suggested that a decline in associational activity, in turn, had produced a decline in trust and "social capital"—foundational requirements of democracy in general. His response was straightforward: the nation should develop as many ways as possible to encourage local involvement—the only way, he held, Americans could hope to renew the basis of democracy throughout the larger system.[2]

Quite apart from Putnam's studies, general analysis, and recommendations (many of which were challenged by scholars), of particular interest was the explosive reaction to his argument—and the reorientation of strategic concern it represented. The outpouring of interest his first rather academic article on the subject produced revealed that Putnam had struck a powerful nerve. "Seldom has a thesis moved so quickly from scholarly obscurity to conventional wisdom," observed former White House aide and political scientist William Galston.[3]

Especially important was what was *not* at the center of attention: Putnam and many who responded to him did not focus on national parties, national interest groups, national lobbying, national campaign finance laws, or national political phenomena in general. What he and they focused on was the "micro" level of citizen groups and citizen involvement. *Here,* at the very local level, was now the place to begin to look for democratic renewal.

The heart of the larger foundational argument—and this is a critical emphasis—might be put thus: Is it possible to have Democracy with a Big D in the system as a whole if you do not have real democracy with a small d at the level where people live, work, and raise families *in their local communities?* If the answer is no, then a necessary if not sufficient condition of rebuilding democracy in general is to get to work locally.

Putnam essentially put into modern form Tocqueville's contention that in "democratic countries knowledge of how to combine is the mother of all other forms of knowledge." There is also clearly a close connection between Nisbet-style "intermediate association" arguments for liberty and neo-Tocquevillian associational arguments for democracy.[4]

But Tocqueville, in fact, had gone beyond "associations" to take up the deeper question of how—and whether—democratic practice is reflected not only in civil society, but in actual local government. "Municipal institutions," he stressed, "constitute the strength of free nations. Town meetings are to liberty what primary schools are to science; they bring it within the people's reach, they teach men how to use and enjoy it."

John Stuart Mill similarly held that direct experience with local governance was essential to "the peculiar training of a citizen, the practical part of the political education of a free people." Mill pointed out that "we do not learn to read or write, to ride or swim, by being merely told how to do it, but by doing it, so it is only by practicing popular government on a limited scale, that the people will ever learn how to exercise it on a larger."[5]

Understood in this broader framework, Putnam's thesis is only one of a group of arguments that focus primary attention on what goes on in local communities. Indeed, an important and expanding group of theorists have picked up on the more demanding "small d" Tocqueville-Mill argument that an authentic experience of participation in local government decision making is essential if democracy is to be meaningful. A forceful statement of the more fundamental judgment is that of political scientist Stephen Elkin, a theorist who stresses that citizens must experience the actual use of power: "Civic associations cannot do [this] job: The element of authority is missing." Again, "for citizens to have any concern for the public interest. . . they must have the experience of grappling with its elements. For any significant number of citizens this can happen only through local political life."[6]

Other democratic theorists who urge reinvigorating democracy through a renewal of local governing institutions include Jane Mansbridge, Michael Sandel, and Benjamin Barber. Mansbridge argues that citizens are "most likely to come to understand their real interests in a small democracy, like a town or workplace, where members make a conscious effort to choose democratic procedures appropriate to the various issues that arise." In his study, *Democracy's Discontent,* Sandel holds that it is important to recover the meaning of the "republican tradition" in American political life—a tradition that "taught that to be free is to share in governing a political community that controls its own fate. Self-government. . . requires political communities that control their destinies, and citizens who identify sufficiently with those communities to think and act with a view to the common good."[7]

Barber's treatise on *Strong Democracy* emphasizes the importance of different forms of knowledge to different degrees of democratic practice: "[K]nowing your rights and knowing the law are concomitants," he suggests, "of minimalist or weak democratic politics." Something far more powerful is needed—and this requires a very different understanding of how knowledge is acquired. "In the strong democratic perspective, knowledge and the quest for knowledge tend to follow rather than to precede political engagement: give people some significant power and they will quickly appreciate the need for knowledge, but foist knowledge on them without giving them responsibility and they will display only indifference." It follows that "only direct political participation—activity that is explicitly public" can achieve real civic education in a democracy.[8]

The necessity of an authentic experience of government has, of course, also been stressed over the years by numerous conservative theorists—and they, too, have consistently urged the importance of direct local involvement. Hayek speaks for many: "Nowhere has democracy ever worked well without a great measure of local self-government, providing a school of political training for the people at large . . . where responsibility can be learned and practiced in affairs with which most people are familiar, where it is the awareness of one's neighbor rather than some theoretical knowledge of the needs of other people which guides action."[9]

The basic community-oriented emphasis can also be found in a line of arguments urging decentralization of government *within* large cities so as to increase opportunities for Hannah Arendt (drawing on a Jeffersonian idea) suggested that "ward republics" be established at the neighborhood level. "It is futile," urban theorist Jane Jacobs similarly urges, "to expect that citizens will act with responsibility, verve and experience on big, city-wide issues when self-government has been rendered all but impossible on localized issues, which are often of the most direct importance to people." Jacobs, too, proposed transferring a number of municipal decisions to the level of neighborhood districts.[10]

There are also converging themes of community self-determination in the work of important black theorists: political scientist Phillip Thompson, for instance, draws on the earlier work of W. E. B. Du Bois to argue, "Mass incarceration of black male youth, extensive state 'therapeutic' management of poor African American communities .. .make it clear that African American communities are in need of strong independent civic institutions capable of providing their own civic voice and social order in the face of extensive external corporate and governmental control."[11] (A number of specific proposals to undergird local organizations, neighborhood efforts, and broader public participation have been offered by different writers. In connection with their "associative democracy" approach, Joshua Cohen and Joel Rogers have proposed devolution of certain public functions and financial assistance to citizen groups so that among other things they can become "more supportive of the range of egalitarian-democratic norms." Jeremy Rifkin suggests public payment of a "social wage" for community-serving work in—and tax deductions for time contributed to—legally certified tax-exempt, nonprofit organizations. Samuel Bowles and Herbert Gintis have urged limited tax credits (rather than deductions) for contributions to nonprofit organizations. Joshua Cohen and Joel Rogers, "Secondary Associations and Democratic Governance," *Politics & Society,* vol. 20, no. 4 (December 1992), p. 425; Jeremy Rifkin, *The End of Work* (New York: G. P. Putnum's Sons, 1995), pp. 256-259; and Samuel Bowles and Herbert Gintis, "From the I.R.S. to the P.T.A., " *New York Times*, April 19, 1995, p. A23).

The argument that nurturing democracy with a small d is necessary if big-D Democracy in the system as a whole is ever to be renewed brings into sharp relief some of the real-world conditions required to make this meaningful. A central question concerns the economic underpinnings of local democracy. It is obvious, for instance, that active citizen participation in local community efforts is all but impossible n the economic rug is regularly pulled out from under them. What, precisely, is "the community" when citizens are forced to move in and out of specific geographic localities because of volatile local economic conditions? Who has any real stake in long-term decisions?

That a substantial degree of economic stability is one of the critical preconditions of local involvement is documented in several important studies. A recent analysis of the 2000 election by the U.S. Census Bureau demonstrates that "citizens who had lived in the same home for five or more years had a voting rate of 72 percent. . . "—much higher than rates for individuals who had lived at their residences for a shorter time. Again, Sidney Verba, Kay Schlozman, and Henry Brady have shown that "years in community" is a positive predictor of both national and local-level civic involvement, with the effect nearly twice as strong for local involvement. Another detailed survey of nearly thirty thousand Americans undertaken in 2000 similarly shows that years lived in one's community and the expectation of staying in one's community are correlated with increased civic participation.[12]

A related issue involves the power relationships that set the terms of reference for municipal government. Numerous scholarly studies have demonstrated that local government decision making commonly is heavily dominated by the local business community. Commonly, too, the thrust of decisions favorable to business groups radically constrains all other choices. The use of scarce resources to develop downtown areas, and especially to attract or retain major corporations, inevitably absorbs funds that might alternatively be used to help low- and moderate-income neighborhood housing, schools, and community services.

The issue is not simply one of distribution. *City Limits,* an aptly titled study by Harvard political scientist Paul Peterson, demonstrates that as a result of the underlying relationships policy choices are often "limited to those few which can plausibly be shown to be conducive to the community's economic prosperity." Partly this is because businessowners have more money, hence usually more political influence. But quite apart from such considerations, local political leaders feel they must promote economic development, and they accordingly feel they need the help of the business community.[13]

The "democracy with a small d" question is whether there can be any meaningful democratic *decision making* when allocations to achieve business priorities implicitly preempt alternative choices. If not—if most choices are radically hemmed in from the start by the need to be responsive to business—what is there to decide? And if there is little to decide, what is the meaning of democracy? And how, precisely, might the situation be altered, given the power of business interests in the system?

The conclusion—though not always brought into clear focus by theorists concerned with democracy and civil society—is inescapable: if the local foundations of democracy are to be meaningfully rebuilt, this also requires an approach to achieving greater local economic stability that does not rely so heavily on traditional business-oriented strategies. If municipalities are to be "delivered from their present economic bondage," political scientist David Imbroscio observes, they must find ways "to promote economic vitality in their jurisdictions via the implementation of 'alternative' economic development strategies based on something other than capturing footloose investment."[14]

To the extent local economies can be made more stable, the economic environment in which local entrepreneurial businesses may flourish also obviously improves; hence, one of the foundational institutions of traditional conservative theories of liberty can also thereby be strengthened.

How to do this becomes the key question. One method is obvious: as many have noted, cities anchored by universities, state capitals, and other major public facilities commonly enjoy greater economic stability. Economist Ann Markusen also points to many community-stabilizing policies that have been used to deal with dislocations associated with the Department of Defense base closings and related experience. Many experts—for instance, city planning professor Arthur C. Nelson, and sociologists John R. Logan and Harvey L. Molotch—have proposed a range of "development-from-below" strategies. These include diverse education and training programs, and loan, tax, procurement, and other policies to encourage business retention, entrepreneurship, and neighborhood capital accumulation.[15]

A more fundamental structural approach intersects with the asset-based strategies considered in Chapter 1. An important feature of worker-owned firms is that they not only change the ownership of wealth but also are far more anchored in local communities by virtue of the simple fact that worker-owners live in the community. "The only real way a community can regain control over its economic future is to rebuild from the ground up," urges Michael Shuman, the author of *Going Local.* Over the long haul, he adds, this can only be done by supporting the development of non-corporate "community-friendly" enterprises that have many integral links to the locality.[16]

Real community democracy, in short, requires real community economic health—and the kinds of institutions that can sustain it. But this is obviously only one element in a comprehensive approach.

Chapter 4
Democracy – Inequality and Giant Corporations

A second line of attack on what many now call the "democratic deficit" zeroes in on the multiple ways the organization of the larger economy impacts democratic life.

One form of the question focuses on the challenge economic inequality poses to democratic practice—and the degree to which different institutions do or do not foster equality. "[I]f income, wealth, and economic position are also political resources, and if they are distributed unequally, then how can citizens be political equals?" asks political scientist Robert Dahl. "And if citizens cannot be political equals, how is democracy to exist?"[1]

The superior ability of the rich to participate politically is not limited to buying influence via donations and lobbyists (and television ads); they also have superior education, more time, more developed skills; greater personal security, and far greater access and experience in managing politics and government. A recent study found that 81 percent of individuals who donate at least $200 to congressional campaigns make over $100,000 per year; 46 percent make at least $250,000. Those among the bottom fifth vote less, attempt to speak to or influence public officials less, participate in organized groups less, and indeed, are only one-tenth as likely to make any form of campaign contribution as those in the top decile.[2]

Michael Lind's formulation of the antidemocratic result is succinct: "From its fortified command post in the large organizations of the private sector, protected by the concentric moats of alumni preference, college tuition, professional licensing and pro-managerial state laws, the white overclass dominates U.S. politics."[3]

If meaningful democracy requires greater equality among the citizenry, and if, as we have seen, existing economic arrangements simply do not permit "after-the-fact" strategies to significantly alter inequality, what then? Either nothing can be done, or clearly a rather different long-term arrangement of economic institutions is necessary, at least in principle. Strikingly, the emerging theory—beginning now from the question of democracy—converges with the emerging theory illuminated by Chapter 1's examination of the problem of equality on its own terms. (And, as we have seen, the logic that flows from such considerations points ultimately in the direction of asset-based strategies and alternative wealth-holding institutions.)

The same question—though rarely stated openly—is also implicit in discussions of campaign finance reform. There is not much disagreement about the extraordinary importance of money in modern political campaigning. The Center for Responsive Politics estimates total spending for and by congressional candidates, presidential candidates, and the parties in 1999 to 2000 at over $2.5 billion—plus roughly another $200 million dollars for "issue" advocacy campaigns.[4] (As of this writing, the 2004 Bush presidential campaign had built a campaign fund in excess of $200 million, breaking all previous records. See Thomas B. Edsall, Sarah Cohen, and James V. Grimaldi, "Pioneers Fill War Chest, Then Capitalize," *Washington Post,* May 16, 2004, p. A1).

"Only those who have accumulated lots of money are free to play in this version of democracy," observes William Greider. "Only those with a strong, immediate financial stake in the political outcomes can afford to invest."[5]

A "soft-money" campaign finance bill was approved by Congress in 2002. Sophisticated Washington insiders recognized immediately, however, that even if the law was not reversed by the Supreme Court, (In a decision handed down on December 10, 2003, *McConnell v. Federal Election Commission*, the Court approved many but not all provisions of the law), big contributors could easily find alternatives to channel money to special-interest front groups and to exert influence in other ways. Trying to get money out of politics, Senator Mitch McConnell comments, is "like putting a rock on Jell-O. You can squeeze it down, but it just goes in other directions." (This reality has not escaped the average voter: a 2002 Gallup poll found that two-thirds of Respondents believe that "no matter what new laws are passed, special interests will always find a way to maintain their power in Washington.")[6]

The deeper issue is thus profoundly challenging: even the most far-reaching reforms are unlikely to succeed, it appears, *given the underlying pattern of inequality.*

Put another way: until the foundational question of whether some other way to reduce inequality is confronted and resolved, it is unlikely that the *democratic* question of how to curb the influence of money in politics can be effectively dealt with. And given the failure of traditional approaches, for better or worse this again brings the problem of democratic renewal back to asset-based strategies and new institutional approaches to altering wealth ownership.

Intimately related to economic inequality is the matter of time—in this case as it concerns democracy as well as liberty. From Aristotle on, it has been obvious that democracy becomes meaningless if people do not have time to participate. Barber, concerned that a third of the workforce works more than forty-five hours a week, emphasizes that democracy requires "time to be educated into civil society, time to participate in deliberation, time to serve on juries, occupy municipal magistracies, volunteer for civic activities." Various ways to reduce the workweek, as we have seen, have begun to be put forward. However, most of these in turn require a way to distribute income more equitably—hence, also wealth—so that time itself can be more equitably distributed.[7] (Inequality is also related to trust and to social capital, Putnam's main concern. Studies by Eric Uslaner and his associates indicate that inequality is the strongest single predictor of trust across nations. It follows that from this perspective as well— that is, if trust and social capital are to be reconstituted as a basis of democratic renewal—there is no way to avoid the question of how to deal with inequality. See Eric M. Uslaner, "Producing and Consuming Trust," *Political Science Quarterly,* vol. 115, no. 4 (2000-2001), pp. 569-590, cited material on pp. 588-589).

The implications different economic arrangements have for democratic practice are also obvious in connection with the political influence of large corporations. As we have noted, Thomas Jefferson, Louis Brandeis, and such theorists as Henry C. Simons (along with many traditional conservatives), to say nothing of Karl Marx, all held large corporations to be incompatible in various ways with democratic practice. Although their alternative systemic solutions—entrepreneurial and smaller-scale capitalism, on the one hand, socialism, on the other—no longer appear viable, the underlying question has not gone away.

We are here at the very heart of the system problem. The key question: Is there any way to achieve democratic control in the face of the self-evident power of giant enterprises? Are there *any* viable longer-term alternatives?

A host of studies have documented some of the most obvious realities. The large corporation regularly

1. Influences legislation and agenda setting through, lobbying
2. Influences regulatory behavior through direct and indirect pressure
3. Influences elections via large-scale campaign contributions
4. Influences public attitudes through massive media campaigns
5. Influences local government choices through all of the above—and adds the implicit or explicit threat of withdrawing its plants, equipment, and jobs from specific locations
6. Influences choices at all levels by virtue of the simple fact that in the absence of an alternative, the economy as a whole depends on the viability and success of its most important economic actor—a reality that commonly forces citizen and politician alike to respond to corporate demands.[8]

One of the main "countervailing" forces checking the political powers of the corporation has been organized labor. With the steady decline of labor union membership, however, there has also been a weakening of labor's direct and indirect capacity to constrain corporate influence. Corporations now commonly account for three out of every four political donations in congressional elections—outnumbering labor contributions almost 14 to 1.[9]

Robert Kaplan is blunt: "[T]he influence that corporations wield over government and the economy is so vast and obvious that the point needs no elaboration. . . . Democratic governance, at the federal, state, and local levels, goes on. But its ability to affect our lives is limited."[10]

A former president of the American Political Science Association, Charles Lindblom, concludes his prizewinning book *Politics and Markets* with this judgment: "The large private corporation fits oddly into democratic theory and vision. Indeed, it does not fit."[11]

The classic twentieth-century strategies aimed at making corporations more accountable centered, first, on antitrust efforts; second, on various forms of public regulation. Such strategies do not attempt to move beyond the corporation as an institution; they essentially hope to use publically backed efforts to constrain its activities. With antitrust now of marginal importance both economically and in terms of its original "democratic power" applications, regulation is the main remaining traditional alternative.

But it is also increasingly clear that the effectiveness of regulatory strategies is extremely limited in many areas, and under attack in several others. During the final decades of the twentieth century, deregulation occurred in connection with trucking, airlines, railroads, telecommunications, energy transmission, and large sectors of the financial services and banking industry. Corporations also have been able to develop powerful lobbying and other tactics to influence federal agencies and commissions established to oversee their functioning. Although the Enron, WorldCom, and other scandals forced its hand in certain areas, the administration of George W. Bush has been particularly aggressive in challenging traditional regulatory strategies.[12]

In its first years in office the administration froze and ultimately weakened regulations covering workplace ergonomic rules, medical privacy standards, preferences for union labor in federal contracts, and rules covering the disqualification of companies with poor workplace, environmental, and other compliance records from new government contracts. The Bush administration has also attempted to weaken appliance efficiency standards for items such as air conditioners and refrigerators, abandoned a campaign pledge to limit carbon dioxide emissions, and quickly settled the Microsoft antitrust case. It weakened protections for wetlands, eased mining laws, and simply sidestepped the Kyoto accord on global warming. In June 2003 Bush's Federal Communications Commission appointees relaxed media ownership rules permitting a single corporation to own multiple major outlets in one city (allowing, in the biggest cities, one company to directly control three television stations, eight radio stations, and a newspaper).[13]

Scholarly analyses have illuminated the foundational logic that commonly reduces the impact of traditional regulatory strategies. One large body of research provides detailed studies of the systematic and regular processes through which "iron triangles" of corporate and other pressures hedge in and co-opt regulatory systems—allowing just enough reform to buy off critics without seriously challenging basic corporate priorities. Quite regularly, political scientist Marver Bernstein observes, "faced with the organized opposition ... a commission finds its survival as a regulating body dependent heavily on its facility in reaching a *modus operandi* with the regulated groups."[14]

Nobel laureate George Stigler demonstrated early on that regulation often is actually sought by leading firms in an industry as a way to maintain dominance. Even when it is thrust upon the industry, regulation commonly "is designed and operated primarily for its benefit." The result is what another respected conservative, James Q. Wilson, calls "a government of cartels and clients." (Ralph Nader characterizes the same implicit collusion as "corporate socialism, a condition of federal statecraft wherein public agencies control much of the private economy on behalf of a designated corporate clientele,")[15]

As the comments of conservatives like Stigler and Wilson suggest, these are not simply liberal or academic concerns. Nor do they relate only to the policies of the Bush administration. We have noted the experience of William Simon, Richard Nixon's secretary of the Treasury—and his "incredulity as businessmen ran to the government in every crisis, whining for handouts or protection." David Stockman, the architect of the so-called Reagan Revolution, came to the conclusion that the political power of "strong clients" like Boeing, Lockheed, General Electric, and Westinghouse was simply overwhelming. They "know how to make themselves heard. The problem is, unorganized groups can't play in this game."[16]

The "Chicago school" conservative economist Henry C. Simons analyzed the underlying logic of power and came to the conclusion that "regulatory strategies" involved the worst of all solutions. Even public ownership was better, he felt— even from the perspective of free-market economic theory. At least it provided for public disclosure of information and open oversight. The state, Simons proposed, "should face the necessity of actually taking over, owning, and managing directly…industries in which it is impossible to maintain effectively competitive conditions." Likely candidates included railroads, "utilities, oil extraction, life insurance, etc." For similar reasons Simons suggested that it might make sense for metropolitan governments to "acquire much or most of the land in their areas."[17]

Although the problem of "regulatory capture" is real, it does not follow that there is no role for regulatory strategies in a longer-term foundational approach. Many gains have been achieved in connection with the environment and other matters.[18] A central question is, under what conditions can regulation be made to work effectively and efficiently? Part of the answer clearly involves the extent to which an engaged citizenry has the experience, time, and money to force regulatory agencies to hold corporations to publicly determined standards.

But this in turn brings the question back, again, to issues of citizen democratic experience, on the one hand, and inequality, on the other. Both also drive the question back, once more, to the institutional foundations—particularly economic—that are required to nurture a truly democratic citizenry (see Chapters 1 and 3).

At this stage of the reassessment process, no fully comprehensive proposal has as yet been put forward that even in theory fully confronts the challenge to democratic practice presented by the power of the large corporation. Various thinkers have, however, begun to offer a number of suggestions that move in the direction of a comprehensive approach that might one day plausibly be combined with other emerging ideas to produce an integrated strategy. (See below and Chapter 6.) These proposed partial solutions center on the legal status of the corporation; the role of public and quasi-public "stakeholders"; the degree to which the corporation can be democratized from within; and the leverage that public or quasi-public ownership of corporate stock can confer.

The large for-profit corporation is a creation of society. It has no independent right to exist absent a public charter that spells out its rights and obligations. For much of the nineteenth century, significant scale corporations in the main were authorized only to undertake specific public or quasi-public projects—for example, the construction of waterways and canals. Large, independent, limited-liability corporations evolved slowly, gaining real economic purchase only after the Civil War.[19]

A number of writers have urged replacing or supplementing current state chartering of corporations with federal chartering to avoid states "racing to the bottom" to set minimum chartering requirements (a reform also urged by Henry C. Simons years earlier). Senate Minority Leader Tom Daschle and former House Minority Leader Richard Gephardt, among others, have proposed related legislation to establish "R corporations" that would receive preferential tax treatment if they agreed to a stipulated code of conduct. Sociologist Charles Derber has proposed that corporate charters define an explicit public purpose and include social, environmental, and accountability requirements.[20]

More fundamentally, Rabbi Michael Lerner, the editor of *Tikkun,* suggests a "Social Responsibility Amendment" to the U.S. Constitution that would require each corporation to renew its charter every twenty years. If a corporation could not prove that it serves the common good, its charter would be revoked and its assets distributed to another community group that could better meet important social goals.[21]

A second line of strategy centers on proposals by another group of analysts that employee, community, and other stakeholders be granted seats on corporate boards so they can directly represent their interests. Ralph Estes of the Stakeholder Alliance suggests that corporations also be required to provide die Securities and Exchange Commission with an extensive array of information on social and environmental performance—and that such information be made available to workers, to consumers, to suppliers, and to the communities corporations serve through mandated "Corporate Reports." In addition, "stakeholder councils" with limited powers would be established to provide oversight for the enterprise.[22]

The challenge confronting proposals to redefine the legal status of the corporation is obviously similar to that facing regulatory strategies. Although changes in citizen capacities might one day alter the underlying relationships, currently the corporation clearly has sufficient independence to avoid or severely limit the proposed constraints. Similarly, while stakeholder representation also offers the possibility of greater accountability, it has done little so far to alter the fundamental power relationships in U.S. companies where it has been tried, or in countries such as Germany where a related approach—"codetermination"—has been attempted (Several U.S. corporations currently have labor representatives on their boards— including Daimler-Chrysler, Bureau of National Affairs, and United Airlines). Indeed, many observers feel that unless bolstered by much more fundamental reforms, such participation can all too easily lead to the "co-optation" of labor representatives and other stakeholders.[23]

The third line of proposed strategies emphasizes internal corporate democratization: Columbia University professor Seymour Melman theorizes that workplace democracy might ultimately "encompass every major aspect of activity necessary to production, and thereby construct an alternative to the hierarchical systems of both business and government—an alternative to state capitalism." A comprehensive system of self-governing employee-owned enterprises, Robert Dahl holds, "would tend to ... give all citizens a more nearly equal stake in maintaining political equality and democratic institutions in the government of the state." David Ellerman, the former adviser to the chief economist of the World Bank, proposes that all corporations be restructured as partnerships, with all workers included as partners with ownership and governance rights.[24]

The thrust of such democratization proposals is in line with a trend among sophisticated corporate managers that emphasizes the efficiency gains greater employee empowerment can produce.[25] It is also in line with the developing thrust of worker-ownership proposals for small- and medium-size locally based firms. However, there are obvious limits to this approach as well. Critically, most of the ideas for *internal* democratization simply do not confront the *external* political and power dynamics of the very large-scale firms that are of central concern. Even democratized corporations have reasons to exercise their inherent political power when their particular interests are at stake.

A final line of developing strategies involves significantly greater institutional change. This focuses on the large blocks of stock held by public and private pension funds.

In the 1970s Peter Drucker coined the phrase "pension fund socialism" to underscore the potential leverage that large-scale capital accumulations might give major pension funds. A few years later the activist-writers Jeremy Rifkin and Randy Barber suggested that pension funds be required to finance a Midwest regional "rust-belt" reinvestment plan centered on worker and community-based firms; a more recent treatise by sociologist Robin Blackburn has offered detailed analyses and recommendations for a comprehensive long-term strategy. Blackburn and others also have urged unions and public authorities to shift their current pension investment priorities to achieve other public goals—and a number have invested successfully in housing, on the one hand, and businesses that provide jobs in certain states, on the other (see below and Chapter 10).[26]

The broader corporate-accountability and democracy possibilities that an extension of public pension fund strategies might ultimately offer is suggested by recent developments in California. CalPERS (California Public Employees' Retirement System), the state employee pension fund, is the second-largest U.S. pension fund and third-largest in the world. It has long used its financial power to encourage corporate governance reforms, recently divesting itself of tobacco stock and rejecting investments in companies fleeing the country for offshore tax relief. CalPERS' leadership also helped organize a national coalition of state treasurers who oversee combined portfolios of more than a trillion dollars to force investment banks to reassess conflicts of interest.

Beyond this, CalPERS requires companies seeking investment support to follow a specified code of conduct in their international investment practices: firms from emerging-market nations are judged according to their governments' records on human rights, labor rights, corruption, and investor protections. "Show me a company locating offshore in Bermuda or polluting the environment and I'll show you a company that's going to screw its shareholders," declares California treasurer Phil Angelides. "Transparency, democracy, labor rights, these are all issues that should be part of fund managers' due diligence."[27]

Though the financial interests of the public pension fund as shareholder can sometimes be in tension with other issues of public and employee concern, the evolving experience of CalPERS and other pension funds suggests that, a growing body of "democratic accountability" experience vis-a-vis the corporation is steadily being developed by such efforts.[28]

There are also some obvious structural parallels—and potential connections to be made—between the new strategies and some of the strategies emerging in connection with equality:

In Chapter 1 we reviewed wealth-related proposals by Roemer, Meade, and Kelso that involve large-scale publicly backed stock ownership aimed at producing a supplemental income stream for citizens. Those of Roemer and Meade also require some form of public authority—very similar to the agencies that manage public pension funds—to.oversee the investment of stock on behalf of the citizenry.

The developing trajectory of public pension fund practice, on the one hand, and the proposed publicly backed income-producing strategies, on the other—taken together—point logically in the direction of a system-wide wealth-ownership approach that, at least in theory, might one day offer ways to achieve both greater democratic accountability and greater equality.

Standing back from the steadily evolving reassessment process, the historically interesting questions are the pace at which each of the emerging strategies for dealing with the power of the corporation might continue to develop and be refined—and whether key aspects of each might be integrated with other emerging approaches to one day achieve a fully comprehensive democracy-enhancing approach.[29] (See Chapter 7. CalPERS and several other public pension funds also allocate a share of investment to economic development within the borders of the state—a strategy that can in turn be used to help achieve community economic stability goals related to the support of local democratic experience). We shall return to these questions shortly.

Chapter 5
Democracy – Is a Continent Too Large?

One final important cross-cutting democracy issue began to surface, very quietly and initially very marginally, as the reassessment process continued to develop momentum. This involved what should have been an obvious question to those interested in equality, liberty, and democracy all along: namely, is it really feasible—in systemic and foundational terms—to sustain such values in a very large-scale, centrally governed continental system that spans almost three thousand miles and includes almost 300 million people? And if not, how might a democratic nation ultimately be conceived?

Reflection on the impact of very large scale on democracy can be traced back to the Greeks, and later especially to Montesquieu, who held that democracy could flourish only in small nations. The judgment that very large scale is inimical to democracy was also taken very seriously by the founding fathers. Indeed, at a time when the United States hardly extended beyond the Appalachian mountains, John Adams worried: "What would Aristotle and Plato have said, if anyone had talked to them, of a federative republic of thirteen states, inhabiting a country of five hundred leagues in extent?" Similarly—again, at a time when the nation numbered a mere 4 million people—even James Madison (who challenged the traditional argument that democracy was possible only in small nations) believed that a very large (rather than a "mean"-scale) republic could easily become a de facto tyranny because elites at the center would be able to divide and conquer diverse groups dispersed throughout the system (*"Divide et impera,* the reprobated axiom of tyranny, is under certain qualifications, the only policy by which a republic can be administered on just principles. It must be observed however that this doctrine can only hold within a sphere of a mean extent. As in too small a sphere oppressive combinations may be too easily formed against the weaker party; so in too extensive a one, a defensive concert may be rendered too difficult against the oppression of those entrusted with the administration." James Madison to Thomas Jefferson, October 24,1787, in *The Papers of James Madison,* vol. 10, ed. William T. Hutchinson et al. (Chicago: University of Chicago Press, 1977), pp. 207-215). Few people imagined democracy in a continent.[1]

One can also isolate important and difficult aspects of the question of scale in the larger complex of issues that in the nineteenth century culminated in the Civil War.[2] For our purposes, however, it is sufficient to recall that a sophisticated theoretical debate over scale problems began to develop in academic and political centers during the early years of the twentieth century, continuing up to and through the 1920s and 1930s.

The traditional response to the argument that democracy is difficult if not impossible in very large scale units has been to propose decentralization to the states. The point of departure for the more sophisticated debate is recognition that many states are simply too small to manage important economic issues, or for instance (in the 1930s as well as in modern times) a number of important ecological matters. Logically, if a continental national system is too large and many states are too small, the obvious answer must be something in-between—the unit of scale we call a "region."

Historian Frederick Jackson Turner put it this way: "There is a sense in which sectionalism is inevitable and desirable"—going on to observe: "As soon as we cease to be dominated by the political map, divided into rectangular states.. .groups of states and geographic provinces, rather than individual states, press upon the historian's attention."[3]

A leading conservative theorist who urged the same logic during the 1930s was Harvard political scientist William Yandell Elliot: "Regional commonwealths would be capable of furnishing units of real government, adequate laboratories of social experiment, and areas suited to economic, not-too-cumbersome administration."[4]

"The libertarian argument against 'too much government,'" Henry C. Simons held, "relates mainly to national governments, not to provincial or local units—and to great powers rather than to small nations." Simons believed a "break-up" of the United States "desirable" (though he did not think it politically feasible).The alternative, he urged, required taking seriously a process of "steady decentralization."[5]

Another Harvard professor and president of the American Political Science Association, William Bennett Munro, did not mince words about the issues and logic that he believed needed to be confronted: "Most Americans do not realize what an imperial area they possess," he said, adding, "Many important issues and problems ... are problems too big for any single state, yet not big enough for the nation as a whole ... They belong by right to regional governments."[6] (Lewis Mumford and others associated with the regional planning movement also urged decentralization. However, they rarely confronted larger constitutional questions aimed at restructuring the continental political economy as a whole. See Mark Luccarelli, *Lewis Mumford and the Ecological Region: The Politics of Planning* (New York: The Guilford Press, 1995). Similarly, Howard Odum and other writers concerned with Southern regionalist sociology and culture during the 1930s rarely posed constitutional political-economic questions. See Howard W. Odum and Harry Estill Moore, *American Regionalism: A Cultural-Historical Approach to National Integration* (Gloucester, Mass.: Peter Smith, 1966); Harry Estill Moore, *What Is Regionalism?* (Chapel Hill: University of North Carolina Press, 1937); Michael Steiner and Clarence Mondale, *Region and Regionalism in the United States: A Source Book for the Humanities and Social Sciences* (New York: Garland Publishing, 1988 and Robert L. Dorman, *Revolt of the Provinces: The Regionalist Movement in America, 1920-1945* (Chapel Hill: University of North Carolina Press, 1993).

The then innovative experiment with regionalism, environmental management, and public ownership—the Tennessee Valley Authority—was related to the early twentieth-century regional rethinking movement, as were proposals by Franklin Delano Roosevelt for similar regional authorities throughout the country. Even though President Harry Truman continued to offer such ideas (in connection, for instance, with the Columbia River), the regionalist movement was cut short by a combination of anti-New Deal politics and the advent of World War II and the era of the Cold War.[7]

The underlying issue of scale, however, is plainly still with us. Moreover, the extraordinary cost of modern campaigning in large areas has added to the advantages that scale gives to wealthy elites and corporations, thereby further undermining democratic possibilities. Money talks louder when expensive television ads are the only way to reach large numbers. During the election of 2000 an estimated $1 billion was spent on television alone. A total of more than $50 million was spent by George Bush, Al Gore, and their backers in only two states (Pennsylvania and Florida) where the outcome was expected to be close.[8]

We rarely pause to consider the truly huge size of the American system. The fact is, the United States is extreme in scale. Germany could fit within the borders of Montana alone; France is smaller than Texas. Leaving aside the two nations with large empty land masses (Canada and Australia), the United States is larger geographically than all the other advanced industrial (OECD) countries taken together—that is, Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, and the United Kingdom.[9]

Moreover, population growth alone is likely to raise ever more challenging questions as time goes on. Census Bureau "middle series" projections suggest the United States will add another 120-million-person nation to its population by mid-century—for a total of approximately 400 million; and then will add another 170 million, to roughly double the current population to 570 million by century's end. There are reasons to believe these may well be conservative estimates, but even if they are discounted considerably, the population of the United States will become extraordinarily large by any measure as time goes on (see Chapter 14).

What is of interest now are a series of discrete indications that the question of scale has begun to resurface in diverse quarters—in part as a resumption of the trend that was interrupted by World War II and the Cold War, in part in response to emerging considerations and global developments.

A 1973 book, *Size and Democracy,* by Robert A. Dahl and Edward R. Tufte, opened the modern discussion by offering a detailed assessment of the then available studies. A variety of questions had to be confronted by those concerned with democracy, it concluded, as "the inexorable thrust of population growth makes a small country large and a large country gigantic."[10]

Daniel Bell subsequently joined in, arguing that the "nation-state is becoming too small for the big problems of life, and too big for the small problems of life." Bell went on, "[T]he flow of power to a national political center means that the national center becomes increasingly unresponsive to the variety and diversity of local needs.... In short, there is a mismatch of scale."[11]

George F. Kennan took the argument a step further: "We are, if territory and population be looked at together, one of the great countries of the world—a monster country.... And there is a real question as to whether bigness in a body politic is not an evil in itself, quite aside from the policies pursued in its name." Kennan proposed long-term regional devolution which, "while retaining certain of the rudiments of a federal government," might yield a "dozen constituent republics, absorbing not only the powers of the existing states but a considerable part of those of the present federal establishment."[12]

The radical historian, the late William Appleman Williams, suggested a strategy embodying socialist principles: "[T]he issue is not whether to decentralize the economy aim itics of the country, but rather how to do so. The solution here revolves about the regional elements that make up the existing whole." And the modern conservative regionalist, Donald Livingston, asked in 2002: "What value is there in continuing to prop up a union of this monstrous size?" He went on: "[T]here are ample resources in the American federal tradition to justify states' and local communities' recalling, out of their own sovereignty, powers they have allowed the central government to usurp."[13]

The titles of several general works are themselves illustrative of the modern trend: *Downsizing the USA,* by Thomas H. Naylor and William H. Willimon; *The Nine Nations of North America,* by Joel Garreau; and Robert Goodman's *The Last Entrepreneurs: America's Regional Wars for Jobs and Dollars.*[14]

A converging trend of environmental thinking is also significant. Much of the work of the Environmental Protection Agency is already organized along regional lines, and as Harvard analyst Mary Graham observes, "Many environmental problems are inherently regional in scope, rather than national or local." Among the interesting proposals here are suggestions by Kirkpatrick Sale that emphasize small "bio-regions" and work on "eco-regions" by World Wildlife Fund experts in the Conservation Science Program.[15] A fully developed long-term ecological vision in which many "regions within the United States could become relatively self-sufficient" has been put forward by Herman Daly and John Cobb. "|T]he nation-state is already too large and too remote from ordinary people for effective participation to be possible."[16]

The various developing arguments have also received indirect support from research on the achievements of smaller-scale nations—some roughly equivalent to U.S. regions. The Scandinavian nations and such countries as Austria and the Netherlands, for instance, have demonstrated that smaller scale has commonly helped—rather than hindered—their capacity to deal with major economic, social greater and unemployment rates lower than than in most larger European countries. Moreover, although such nations far more involved in trade than larger nations, for the most part they have found more effective ways to manage dislocations and other challenges brought about by economic globalization.[17]

In a related development, political scientist Michael Wallerstein has demonstrated how the United States's large scale and huge labor force have made union organizing both difficult and expensive. This in turn has tended to limit union size, thereby both weakening collective bargaining and undercutting one of the primary organizational foundations of progressive political-economic strategies in general.[18]

The modern reemergence of regionalist ideas is no accident. Although the primary thrust of the argument concerns what it takes to achieve democratic accountability and participation, the American discussion is part and parcel of a world-wide trend that is already producing different forms of regional devolution in nations as diverse as Britain and Canada, on the one hand, and China and the former Soviet Union, on the other (see 165-166).

A global perspective, in fact, suggests that the quietly emerging—and seemingly unusual—American arguments are only the beginning of something that is all but certain to grow in force and sophistication as time goes on.

Chapter 6
The Pluralist Commonwealth

Increasing numbers of Americans concerned with equality, liberty, and democracy have begun to despair that traditional strategies to achieve the nation's most fundamental values simply no longer work. If corporate capitalism (to say nothing of the socialist model) appears unable to sustain equality, liberty, and democracy, is there any conceivable, logically coherent way forward?

It is possible to bring together critical elements of the evolving foundational thinking, and project and extend others, to define the underlying structural building blocks of a political-economic system "model" that is different in fundamental ways from both traditional capitalism and socialism.

The schematic model flowing from the various considerations emphasizes the systematic development of a robust vision of community democracy as the necessary foundation for a renewal of democracy in general. It prioritizes a variety of strategies to undergird local economies and thereby establish conditions favorable to nurturing local civil society associations and to increasing local government's power to make meaningful decisions.

Partly to achieve such local democracy objectives—but for much larger reasons as well—the model also projects the development over time of new ownership institutions, including locally anchored worker-owned and other community-benefiting firms, on the one hand, and various national wealth-holding, asset-based strategies, on the other. These ultimately would take the place of current elite and corporate ownership of the preponderance of large-scale capital.

At the national level a major new institution—call it a "Public Trust"—would be projected to oversee the investment of stock on behalf of the public, as state and other pension boards commonly do today. Variations include allowing the proceeds to flow to individuals, to states, to municipalities, to the federal treasury—or perhaps to fund such basic public services as education or medical care for the elderly.

Over time a fundamental shift in the ownership of wealth would slowly move the nation as a whole toward greater equality directly—through, for instance, worker-owned enterprises; and also indirectly—through a flow of funds from the larger asset-based strategies and investment on behalf of the public. (Capital would likely be assembled both by the taxation of elite income and wealth and by Kelso-type loan-guarantee strategies to finance the broadened ownership of new investments.)

Over the long arc of the twenty-first century and beyond, the flow of funds from such sources would also be allocated to help finance a reduction in the workweek so as to permit greater amounts of free time, thereby bolstering both individual liberty and democratic participation. In addition, the traditional entrepreneurial foundations of liberty are strengthened in the model by the strategies that stabilize the local economy (as, of course, is individual job security as well).

Finally, the emerging model implicitly moves in the direction of, and ultimately projects, a radical long-term devolution of the national system to some form of regional reorganization and decentralization—a strategic move important not only to democracy and liberty, but to the successful democratic management of ecological and other issues as well.

The overall system model denned by the critical structural elements might be termed *a* "Pluralist Commonwealth"— "Pluralist" to emphasize the priority given to democratic diversity and individual liberty; "Commonwealth" to underscore the centrality of new public and quasi-public wealth-holding institutions that take on ever greater power on behalf of the community of the nation as a whole as the twenty-first century unfolds.[1]

Although at this stage of development the model is obviously general in form, certain features of the Pluralist Commonwealth's political-economic architecture are striking. Of particular interest is that its basic elements, taken together, offer an integrated approach to dealing with a number of the fundamental power problems presented by large-scale economic enterprise in any system—capitalist, socialist, or other.

First, over time the model steadfastly attempts to nurture and rebuild democratic experience by supporting various mechanisms to make democratic practice real in the lives of citizens. The development of a meaningful democratic culture is foundational: a guiding judgment is that without attention to nurturing, the conditions needed to support an active and engaged citizenry, very little can be done either in theory or in practice to achieve larger democratic goals.

Second, the model opens a steadily expanding wedge of time for individuals to participate in democracy. This is one of the Pluralist Commonwealth's most important elements. Without time to participate, authentic democratic processes to constrain economic actors (be they private or public), and to monitor a revitalized public sector, are simply not possible.

Third, the model's financial mechanisms also aim to translate technological gains into greater equality—thereby offering long-term possibilities for equality of democratic participation in general and for challenging and containing the power of large-scale enterprise in particular.

Fourth, as in the case of modern public pension fund management, the change in ownership legitimizes the public's inherent right to ensure that major firms are made accountable to larger concerns—even as competitive practices are encouraged through a variety of well-established techniques (Typically public pension funds hire contending teams of investment managers, discarding losers and rewarding winners in a disciplined process of internal competition. "This is not financial rocket science," observe financial experts Alicia Munnell and R. Kent Weaver in a related discussion. ("How to Privatize Social Security," *Washington Post,* July 9, 2001, p. A17.) New ownership forms also inherently facilitate accountability measures requiring greater openness and transparency in enterprise management and governance.

Fifth, the longer-range Pluralist Commonwealth vision ultimately and over the long haul also reduces the scale of public institutions that hold firms to account. Though it is increasingly difficult to achieve effective "vertical" political associations across a continent, regional scale units (as, for instance, now in certain states) offer important strategic possibilities for greater political control of corporate practices.

Neither traditional socialism nor traditional capitalism deals well with the power problems presented by large-scale enterprise. Significant economic actors in the socialist state are commonly unaccountable either to market forces or to the public; they are power systems within a power system.[2] The modern for-profit corporation is for the most part unaccountable to the public—and contrary to traditional theory, in most cases unaccountable to its shareholders as well. As the Enron and other scandals have shown (and many scholarly studies demonstrate) managers and top executives largely run the system, dominating boards and annual meetings alike. Rarely are successful challenges to their power successful, even by major shareholders.[3]

The Pluralist Commonwealth structurally tethers large-scale firms at the top by lodging stock ownership in a Public Trust entity accountable to (and open to scrutiny by) the public—and it steadily expands four major vectors of activity and structure (robust community democracy, steadily increasing free time, greater citizen equality, regional decentralization) that over the long haul offer expanding opportunities for democratic control from the bottom. Additional elements of the model include new public chartering requirements, the addition of specific stakeholders to corporate boards, and the democratization of corporate structures from within.

That the emerging system model leaves numerous questions unresolved is obvious. On the other hand, the Pluralist Commonwealth clearly defines a series of strategic propositions around which debate is already beginning to form. As research, dialogue, and further development continue over time, specific issues are likely to be increasingly clarified and answers found to the most important unresolved questions. Driving the process is the fact that traditional solutions simply no longer even attempt to offer theoretically plausible responses to many critical questions.

It is commonly held that free-enterprise capitalism is the most efficient of all systems—certainly more efficient than traditional socialism—and that other possibilities must inevitably also be inefficient. Even at this stage of its development, however, there are reasons to believe the Pluralist Commonwealth could equal or possibly surpass the efficiency of real-world capitalism.

First, although some of the wastes and inefficiencies of capitalism are occasionally highlighted in the media, we are beginning to grasp just how vast these may be. The electricity crisis in California in 2000" and 2001 cost the state tens of billions of dollars. A conservative estimate is that over $10 billion was directly attributable to market manipulations by private firms. Corporate scandals in 2001 to 2003 cost New York State alone an estimated $13 billion.[4] The Enron scandal cost workers and pension holders $ 1 billion. The savings and loan bailout in the first Bush administration cost taxpayers $125 billion in direct costs, plus an estimated additional $275 billion in subsequent years for interest and increased service of the national debt. Lobbying by the oil, pharmaceutical, insurance, television, banking, and other industries regularly generates further billions of dollars of questionable federal subsidies. This is to say nothing of numerous widely publicized scandals and bankruptcies that have illuminated many other obvious and well-known, but commonly ignored, costs routinely associated with current economic practices.[5]

Second, various quasi-public and public firms (e.g., worker-owned firms, municipal electric utilities) have been shown to be at least as efficient as traditional corporations— and in many instances, more efficient. Public pension management strategies of the kind that would likely be used in the proposed public asset management systems have also been demonstrated to commonly be as efficient or more efficient than those of private pensions.[6]

Third, salaries paid to public managers in comparable positions are far lower. For instance, William J. McDonough, then the president of the Federal Reserve Bank of New York, received $297,500 in 2001, while William Harrison, the CEO of J.P. Morgan Chase, took home more than $21 million. Top executives managing large state-run pension investments (e.g., CalPERS) received compensation of less than $450,000 in 2001—while William Foley, the chairman and CEO of Fidelity National Financial, garnered more than $13 million. Compensation for top executives in the Tennessee Valley Authority is regularly much less than compensation for executives managing major private electric utilities.[7]

Fourth, it is clear that additional strategies to achieve economic efficiency are already being developed—and are likely to continue to be developed. Kelso, Roemer, Meade, and Stauber all have suggested ways to combine the public's interest in important economic activity with strategies to ensure the independence of strictly business decisions and the use of market discipline—and additional variations and refinements are likely to be put forward as time goes on. Investment managers who oversee endowments for universities and other public institutions have also developed strategies that can be drawn upon to balance longer-term growth objectives with the need to ensure against cyclical fund-flow downturns.

Critics of public involvement in economic matters commonly implicitly compare new approaches with the efficiency properties of a competitive but exceedingly abstract and rarefied free-market model. The result is a self-serving "heads-I-win, tails-you-lose" economic argument: traditional political-economic practices are evaluated "as if" they were (or should be) purely efficient free-market operations, ignoring what everyone knows to be the actual dynamics of corporate political-economic behavior. Meanwhile, alternatives involving proposed public strategies are evaluated "as if" they must inherently involve grave political-economic market distortions—ignoring studies that demonstrate the measured efficiencies of a wide range of available alternative practices.

The truth is, various forms of manipulating the market are central to the operation of the current corporate-dominated political-economic system, not peripheral to it. They come with the territory—as everyone knows full well when they shift their gaze away from abstract theory to the real world of oil company lobbying, drug company political payoffs, Microsoft anticompetitive maneuvering, Enron corruption, and Andersen accounting complicity.

The Pluralist Commonwealth model breaks the logic of the traditional argument—first, by challenging the Utopian idea that most firms keep away from government in the current system; second, by developing various strategies that allow for both competition and increased citizen accountability; and third, by structurally changing ownership patterns in ways that achieve greater transparency so that when the inevitable problems, public or private, arise, they can be openly debated and corrected. Finally, of course, the model's shift to new ownership forms inherently recaptures for broader public use excessive funds that might possibly be garnered through corporate political maneuvering.

We may add that to the extent the political-economic system defined by the Pluralist Commonwealth is able to achieve greater equality through the overarching wealth-holding changes it contemplates, it would likely also achieve much greater efficiencies in the development and use of human resources. Leaving aside the morality of the implicit choices of the present system, countless studies demonstrate that we currently throw away literally millions of productive people whose contribution to the economy could be enormous. To cite only one instance, recent research reveals that minority and other low-income students with high test scores are five times as likely not to attend college than high-income students with comparable scores. A mind, as the saying goes, is a terrible thing to waste—as are the contributions that might be made by so many Americans whose potential skills and capacities are left behind by the current system.[8]

Chapter Endnotes

Introduction

1. In 2000 the top 1 percent received 17.8 percent of income while the bottom 40 percent earned 12.6 percent of income. After-tax income was slightly less unequal, with 15.5 percent going to the top 1 percent and 14.6 percent going to the bottom 40 percent. Congressional Budget Office, "Effective Federal Tax Rates, 1997 to 2000," August 2003, www.cbo.gov/ftpdoc.cfin?index=4514&type=l (accessed 10/10/03), table B1-C. Richard Posner quoted in Alexander Cockburn, "The Prosecutorial State," *The Nation,* vol. 268, no. 7 (February 22, 1999), p. 9.

2. Peter Levine, "Expert Analysis vs. Public Opinion: The Case of Campaign Finance Reform," *Philosophy and Public Policy,* vol. 17, no. 3 (Summer 1997), p. 1. Alan F. Kay, Hazel Henderson, Frederick T. Steeper, Stanley B. Greenberg, and Christopher Blunt, "Who Will Reconnect with the People: Republicans, Democrats, or... None of the Above?" Americans Talk Issues Foundation Survey #28, Conducted June 1995 (Washington, D.C.: Americans Talk Issues Foundation, 1995), p. 7. Ronald Brownstein, "Poll Says Americans Deeply Discouraged with State of Nation," *Houston Chronicle,* November 5, 1995, p. 2.

3. Kevin Phillips, *Wealth and Democracy* (New York: Broadway Books, 2002), p. xv.

4. Robert D. Kaplan, "Was Democracy Just a Moment?" *Atlantic Monthly,* vol. 280, no. 6 (December 1997), pp. 56, 73.

5. The specific contributions of numerous scholars over many years are cited throughout this book. Among conservatives, the early work of Louis Kelso and Robert Nisbet deserves special mention. Important early progressive contributions include those, especially, of E. F. Schumacher, Martin Carnoy and Derek Shearer, Jane Mansbridge, Samuel Bowles and Herbert Gintis, Benjamin Barber, Bertell Ollman, Murray Bookchin, Noam Chomsky, Robin Hahnel and Michael Albert, and Robert Dahl. In recent years the ongoing work of the Real Utopias project led by Erik Olin Wright has been particularly valuable. The trajectory of my own concern begins with an initial effort in the late 1960s, "Notes Towards a Pluralist Commonwealth," which is most easily available in Staughton Lynd and Gar Alperovitz, *Strategy and Program* (Boston: Beacon Press, 1973). See alsoThad Williamson, *What Comes Next? Proposals for a Different Society* (Washington, D.C.: National Center for Economic and Security Alternatives, 1998). See also John Cavanagh and Jerry Mander, et al., *Alternatives to Economic Globalization: A Report of the International Forum on Globalization* (San Francisco: Berrett-Koehler, 2002); Roberto Mangabeiralinger, *Democracy Realized* (New York: Verso, 1998); Hazel Henderson, *Creating Alternative Futures* (San Francisco: Kumarian, 1996); Jeff Gates, *The Ownership Solution: Toward a Shared Capitalism for the Twenty-First Century* (Reading, Mass.: Addison-Wesley, 1998); and Immanuel Wallerstein, *After Liberalism* (New York: The New Press, 1995). I have not attempted to cite in this work the vast literature and numerous important contributions made by many others who have offered significant "market socialist" strategies, or the many insights provided by earlier guild socialist and anarcho-communitarian theorists. However, for a useful overview of the market socialist debate see Bertell Ollman (ed.), *Market Socialism:The Debate Among Socialists* (New York: Routledge, 1998).

6. "Changes in Household Wealth in the 1980s and 1990s in the US," in *International Perspectives on HouseholdWealth,* ed. Edward N.Wolff (Elgar Publishing Ltd., forthcoming), p. 12 and table 6. See also Arthur Kennickell, "A Rolling Tide: Changes in the Distribution of Wealth in the U.S., 1989-2001," Federal Reserve Board, March 2003. Lawrence Mishel, Jared Bernstein, and Heather Boushey, *State of Working America: 2002-2003* (Ithaca, N.Y.: ILR Press, 2003), table 4.1 (47.3 percent of financial wealth was held, by the top 1 percent in 1998). See also Lisa A. Keister, *Wealth in America* (Cambridge: Cambridge University Press, 2000); Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth/White Wealth* (New York: Routledge, 1995); and Dalton Conley, *Being Black, Living in the Red* (Berkeley: University of California Press, 1999). While there is an obvious relationship between wealth and income, households in the wealthiest 1 percent are not necessarily the same as those in the richest 1 percent by income, and vice versa.

7. In addition to the first founding period, commonly cited political realignments include the changes that created the second party system, resulting in the election of Jackson in 1828; which produced the new Republican Party in 1860 and opened the way to the Civil War; which established "the system of 1896," and reoriented politics in favor of triumphant industrial capitalism; and which created the 1932 New Deal coalition during the Great Depression. A sixth realignment, centered on the takeover of Southern politics by the Republican Party after 1964, is cited by some analysts. A classic work is Walter Dean Burnham, *Critical Elections and the Mainsprings of American Politics* (New York: W. W. Norton & Co., 1970).

Part 1 – The Pluralist Commonwealth

1. Ervin K. Zingler, "Wealth and Power in America—An Analysis of Social Class and Income Distribution (Book Review)," *American Economic Review, vol.* 53, no. 3 (June 1963), p. 462; James N. Morgan et al., *Income and Welfare in the United States* (New York: McGraw-Hill, 1962), p. 3; and John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton Mifflin, 1958).

2. Michael Harrington, *The Other America: Poverty in the United States* (New York: Macmillan, 1962); John Kenneth Galbraith, "The Heartless Society," *New York Times Magazine,* September 2,1984, pp. 20,44; and Dwight MacDonald, "Our Invisible Poor," *The New Yorker,* vol. 38, no. 82 (January 19,1963), pp. 82-132.

3. Paul Krugman, "Plutocracy and Politics," *New York Times,* June 14, 2002, p. A37; Krugman's data drawn from Kevin Phillips, *Wealth and Democracy* (New York: Broadway Books, 2002), pp. 151-153.

4. Paul A. Samuelson, *Economics: An Introductory Analysis* (New York: McGraw-Hill, 1948), p. 63.

5. Paul A. Samuelson and William Nordhaus, *Economics* (Boston: Irwin/McGraw-Hill, 1998), p. 359.

6. Lester C. Thurow, *The Future of Capitalism: How Today's Economic Forces Shape Tomorrow's World* (New York: William Morrow, 1996), p. 42.

7. Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993), p. 3.

8. Steven Kull, *Expecting More Say: The American Public on Its Role in Government Decisionmaking* (Washington, D.C.: Center on Policy Attitudes, May 10, 1999), pp. 4, 10.

9. Data from Committee for the Study of the American Electorate, published by the Center for Voting and Democracy, www.fairvote.org/turnout/index.html (accessed 10/25/02); Center for Voting and Democracy, *Monopoly Politics 2002: How "No Choice" Elections Rule in a Competitive House,* September 30, 2002, www.fairvote.org/2002/mp2002.htm (accessed 08/22/03); and Steven Hill and Rob Richie, "Drawing the Line on Redistricting," *Washington Post,* July 1, 2003, p. A13.

10. Ronnie Dugger, "Crimes Against Democracy," *The Progressive Populist,* vol. 5, no. 13 (December 15, 1999), p. 14.

11. Charles E. Lindblom, *The Market System: What It Is, How It Works, and What to Make of It* (New Haven: Yale University Press, 2001), p. 237.

12. Carl Boggs, *The End of Politics: Corporate Power and the Decline of the Public Sphere* (New York: Guilford Press, 2000), pp. 70-71.

13. Michael J. Sandel, *Democracy's Discontent: America in Search of a Public Philosophy* (Cambridge, Mass.: Belknap Press, 1996), pp. 201-202.

14. David Cole, "National Security State," *The Nation,* vol. 273, no. 20 (December 17, 2001), p. 5.

15. William Safire, "Seizing Dictatorial Power," *New York Times,* November 15, 2001, p. A31.

16. William Safire, "The Great Unwatched," *New York Times,* February 18, 2002, p.A15.

17. Carl Rowan, "Who Will Stop the Erosion of Civil Liberties?" *The Buffalo Nevis,* July 5, 1997, p. C3; and Paige M. Harrison and Jennifer C. Karberg, "Prison and Jail Inmates at Midyear 2002," *Bureau of Justice Statistics Bulletin,* U.S. Bureau of Justice Statistics, April 2003, p. 11.

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19. Bureau of Labor Statistics, "Incorporated Self-Employed in the United States, Annual Averages 1989-2001," and "Self-Employment in the United States, Annual Averages 1948-2002," unpublished tables provided by the BLS economist Marissa Di Natale. See also John E. Bregger, "Measuring Self-employment in the United States," *Monthly Labor Review,* vol. 119, nos. 1 and 2 (January/February 1996), pp. 3-9.

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1. George E. Johnson, "Changes in Earnings Inequality: The Role of Demand Shifts," *The Journal of Economic Perspectives,* vol. 11, no. 2 (Spring 1997), pp. 41-54; James K. Galbraith, *Created Unequal: The Crisis in American Pay* (New York: The Free Press, 1998); Frank Levy, *The New Dollars and Dreams* (New York: The Russell Sage Foundation, 1998), pp. 3-4; George Borjas, *Heaven's Door: Immigration Policy and the American Economy* (Princeton: Princeton University Press, 1999), p. 11; and Barry Bluestone, "The Inequality Express," *The American Prospect,* vol. 6, no. 20 (Winter 1995), pp. 81-93.

2. The mid-1950s estimate is widely cited and is included in the text for this reason. However, it is not fully comparable to more recent estimates. Since 1973, the official source of union membership statistics has been the Current Population Survey. In 1973, 24 percent of the workforce were members of unions. Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey: Note," *Industrial and Labor Relations Review,* vol. 56, no. 2 (January 2003), pp. 349-354. The wartime peak was slightly higher: 35.5 percent in 1945. U.S. Census Bureau, *Historical Statistics of the United States, Colonial Times to 1970, Part 1* (Washington, D.C.: Government Printing Office, 1975), p. 178; Bureau of Labor Statistics, "Union Members Summary," Current Population Survey, January 2004, www.bls.gov/ news.release/union2.toc.htm. Projections of continuing union decline are offered by Henry S. Farber and Brace Western, "Accounting for the Decline of Unions in the Private Sector, 1973-1998," *Journal of Labor Research,* vol. 22, no. 3 (Summer 2001), pp. 459-485; Paul C. Weiler, "The Representation Gap in the North American Workplace," Larry Sefton Memorial Lecture, February 22, 1989, mimeo, p. 7; and Bruce E. Kaufman, "The Future of U.S. Private Sector Unionism: Did George Barnett Get It Right After All?" *Journal of Labor Research,* vol. 22, no. 3 (Summer 2001), pp. 433-457.

3. David Card, "The Effect of Unions on Wage Inequality in the U.S. Labor Market," *Industrial and Labor Relations Review,* vol. 54, no. 2 (January 2001), pp. 296-315; and Michael Wallerstein, "Union Organization in Advanced Industrial *Democracies," American Political Science Review,* vol. 83, no. 2 (June 1989), pp. 481-501 and 481. For discussions of the relationship between labor movements and welfare state protections see Seymour Martin Lipset and Gary Marks, *It Didn't Happen Here* (New York: Norton, 2000), pp.

284-285; and Alexander M. Hicks, *Social Democracy and Welfare Capitalism* (Ithaca, N.Y.: Cornell University Press, 1999).

4. Bjorn Gustafsson and Mats Johansson, "In Search of Smoking Guns: What Makes Income Inequality Vary Over Time in Different Countries?" *American Sociological Review,* vol. 64, no. 4 (August 1999), pp. 585-605.

5. Nelson Lichtenstein, *State of the Union: A Century of American Labor* (Prince-ton: Princeton University Press, 2002); Michael Goldfield, *The Decline of Organized Labor in the United States* (Chicago: University of Chicago Press, 1987); and Fernando Gapasin and Michael Yates, "Organizing the Unorganized: Will Promises Become Practices?" *Monthly Review,* vol. 49, no. 3 (July-August 1997), pp. 46-62.

6. Thomas I. Palley, "The Economics of Globalization: Problems and Policy Responses," Paper prepared for the plenary meeting of the Pontifical Academy of Social Sciences, March 3-6, 1999, The Vatican (revised July 1999), p. 9.

7. Office of Management and Budget, *Budget of the United States 2005: Historical Tables,* (Washington, D.C.: Government Printing Office, 2004) w3.access.gpo .gov/usbudget/fy2004/pdf/hist.pdf (accessed 08/22/03), table 2.2, pp. 31-32. For 2003 numbers see Congress of the United States, Joint Economic Committee, "U.S. Corporate Taxes are Very Low from Both an Historical and International Perspective," November 6,2003, jec.senate.gov/democrats/Documents/Releases/ dc6nov2003.pdf (accessed 05/25/04).The welfare state, Dani Rodrik concludes, "can work as long as international economic integration is not too advanced. But once globalization moves beyond a certain point, the government can no longer finance the requisite income transfers because the tax base becomes too footloose." Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, D.C.: Institute for International Economics, 1997), p. 55. See also Lucas Bretschger and Frank Hetrich, "Globalisation, Capital Mobility and Tax Competition: Theory and Evidence for OECD Countries," Paper for the Dynamics, Economic Growth, and International Trade, V Conference, June 22-24, 2000. For other views see Geoffrey Garrett, *Partisan Politics in the Global Economy* (New York: Cambridge University Press, 1998); and Duane Swank and Sven Steinmo, "The New Political Economy of Taxation in Advanced Capitalist Democracies," *American Journal of Political Science,* vol. 46, no. 3 (July 2002), pp. 642-655. General Accounting Office, "Tax Administration: Comparison of the Reported Tax Liabilities of Foreign and U.S. Controlled Corporations, 1996-2000," GAO-04-358, February 2004, table 4. The study further distinguished between large and small corporations ("large" indicates assets of at least (250 million or gross receipts of at least S50 million in constant 2000 U.S. dollars). In 2000 more than 45 percent of large U.S. companies paid no federal taxes, ibid, table 6.

8. Juliet F. Gainsborough, *Fenced Off: The Suburbanization of American Politics* (Washington, D.C.: Georgetown University Press, 2001), pp. 76-77; J. Eric Oliver, *Democracy in Suburbia* (Princeton: Princeton University Press, 2001), p. 86; and Thomas Byrne Edsall with Mary D. Edsall, *Chain Reaction* (New York: W. W. Norton, 1991), pp. 5-6. See also Jill Quadagno, *The Color of Welfare: How Racism UnderminediheWarcm Poverty* (NewYork: Oxford University Press, 1994).

9. August B. Cochran III, *Democracy Heading South* (Lawrence: University of Kansas Press, 2001), p. 23.

10. On market-generated inequality see Lester C. Thurow, *Zero-Sum Society* (New York: Basic Books, 1980), pp. 199-200; see also Claudia Goldin and Robert A. Margo, "The Great Compression: The Wage Structure in the United States at Mid-Century," *Quarterly Journal of Economics,* vol. 107, no. 1 (February 1992), pp. 1-34; and Robert D. Plotnick, Eugene Smolensky, Eirik Evenhouse, and Siobhan Reilly, "The Twentieth-Century Record of Inequality and Poverty in the United States," in *The Cambridge Economic History of the United States.* Vol. 3, *The Twentieth Century,* ed, Stanley Engerman and Robert Gallman (New York: Cambridge University Press, 2000), pp. 249-300, cited material on p. 286. See also U.S. Census Bureau, "Index of Income Concentration (Gini Index), by Definition of Income: 1979 to 2001," table RDI-5, www.census.gov/ hhes/income/histinc/rdi5.html (accessed 12/03/02). In general, and in connection with shifts that took place prior to 1950, note especially the tax structure put in place as a result not of "normal politics" but of World War II; note also the ongoing post—World War II impact of such critical programs as AFDC and Social Security, enacted in the special political environment of the Depression. A possible exception to the general rule was the enactment of Medicare and Medicaid in 1965 in the highly unusual Great Society Congress elected in the wake of the Goldwater defeat of 1964. The debacle resulted in the temporary defeat of thirty-eight Republican members of the House—the equivalent in many instances of a shift of seventy-six votes in the House.

11. Congressional Budget Office, "Effective FederalTax Rates, 1997 to 2000," August 2003, www.cbo.gov/ftpdoc.cfm?index=4514&type=l (accessed 10/06/03), table B1-C. Average income of the bottom 20 percent increased from $13,700 in 1973 to $14,600 in 2001 while average income for the top 5

percent increased from $205,500 to $434,300 (all figures are adjusted by the Congressional Budget Office to 2000 dollars using the CPI-U-RS).

12. Lawrence Mishel, Jared Bernstein, and Heather Boushey, *The State of Working America: 2002-2003* (Ithaca, N.Y.: ILR Press, 2003), tables 1.7, 2.6, pp. 47, 128.

13. While favorable economic conditions in the second half of the 1990s modestly raised both median real wages and median family income, the return of slow growth and recession undermined these slight gains. Median income fell and poverty increased in both 2001 and 2002—and recent data suggest continuing difficulties in 2003. Between 2000 and 2002 the number of those in poverty increased by 3 million; the average income of the poor in 2002 was lower relative to the poverty line than in any year since 1979. Center on Budget and Policy Priorities, "Poverty Increases and Median Income Declines for Second Consecutive Year" (September 29, 2003), www.cbpp.org/9-26-03pov.htm (accessed 05/20/04). Mishel, Bernstein, and Boushey, *The State of Working America,* table 2.1, pp. 98, 117.

14. See Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," Bulletin 2307 (August 1988).The rate of married women joining the labor force slowed from 1.3 percent per year in the 1970s to 0.4 percent in the 1990s. Over the postwar period, the share of families with a spouse to add to the labor force also declined as marriage rates declined. Currently, 62 percent of wives are working—which may be close to a "ceiling" participation rate, according to Mishel and Bernstein. Mishel, Bernstein, and Boushey, *The State of Working America,* table 1.7 and pp. 46-47; and Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America: 2000-2001,* table 1.6. On wives' labor participation rates, see Chapters I and 15 in this book.

15. John Kenneth Galbraith, *The Culture of Contentment* (Boston: Houghton Mifflin, 1992), p. 179. See also Lester C. Thurow, *The Future of Capitalism* (New York: William Morrow, 1996), p. 245.

16. Richard B. Freeman, "Solving the New Inequality," in *The New Inequality: Creating Solutions for Poor America,* ed. Joshua Cohen and Joel Rogers (Boston: Beacon Press, 1999), p. 11.

17. Freeman, "Solving the New Inequality," p. 14.

18. Robert B. Reich, "To Lift All Boats," *Washington Post,* May 16,1999, pp. B1, B4.

19. Jeff Gates, *The Ownership Solution* (Reading, Penn.: Addison-Wesley, 1998), p 17.

20. Worker-ownership ideas, of course, were widely discussed in the nineteenth century. For a discussion of the earlier era see Terence V. Powderly, *The Path I Trod,* ed. Harry J. Carman, Henry David, and Paul N. Guthrie (New York: Columbia University Press, 1940), pp. 206,273-285; and Kim Voss, *The Making of American Exceptionalism: The Knights of Labor and Class Formation in the Nineteenth Century* (Ithaca, N.Y.: Cornell University Press, 1993), pp. 84-85.

21. Samuel Bowles and Herbert Gintis, "Efficient Redistribution: New Rules for Markets, States, and Communities," in *Recasting Egalitarianism: New Rules for Communities, States, and Markets,* ed. Erik OlinWright (New York: Verso Books, 1998), pp. 10, 58, 37.

22. Bowles and Gintis, "Efficient Redistribution," pp. 37-38. Economic arguments in support of worker ownership have been offered by a range of scholars. See, for instance, David Schweickart, *Against Capitalism* (Boulder, Colo.: Westview Press, 1996); Gregory K. Dow *Governing the Firm: Workers' Control in Theory and Practice* (New York: Cambridge University Press, 2003); and Joseph Blasi, Douglas Kruse, and Aaron Bernstein, *In the Company of Owners: The Truth About Stock Options (And Why Every Employee Should Have Them)* (New York: Basic Books, 2003), among others. For an overview of pros and cons and a theory that emphasizes the costs of decision making, see Henry Hansmann, *The Ownership of Enterprise* (Cambridge, Mass.: The Belknap Press, 1996). For a recent empirical study that emphasizes the gains of participatory decision making, see John Logue and Jacquelyn Yates, *The Real World of Employee Ownership* (Ithaca, N.Y.: ILR Press, 2001). For critical views see Michael C. Jensen, *A Theory of the Firm: Governance, Residual Claims and Organizational Forms* (Cambridge, Mass.: Harvard University Press, 2000), chapter 6 in particular; and Armen A. Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review,* vol. 62, no. 5 (December 1972), pp. 777-795. See Chapter 7 in this book for a discussion of studies of the efficiency of the most common form of worker ownership.

23. Jeff Gates, *The Ownership Solution* (Reading, Penn.: Addison-Wesley, 1998), p. 167, support from others cited in Gates, pp. 167-169; and Robert Kuttner, "Broaden the Wealth: An Idea Even Conservatives Love," *Business Week,* no. 3545 (September 22, 1997), p. 22.

24. Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Yean 2004-2008* (JCS-8-03) (Washington, D.C.: Government Printing Office, 2003), table 1, pp. 22, 28. Estimated tax expenditures in 2004 for home-ownership include deductions for mortgage interest ($61.4 billion), property taxes ($18.7 billion), and the exclusion of capital gains on the sale of homes (817.9 billion). Tax expenditures related to pension contributions include those for employer plans ($94.6 billion), individual plans ($13 billion),

and Keoghs ($6.2 billion).

25. Michael Sherraden, *Assets and the Poor* (Armonk, N.Y.: M.E. Sharpe, Inc., 1991), p. xv (emphasis in the original).

26. Social Security Solvency Act of 1999, S.21, 106th Congress, Sec. 11, Part C— KidSave Accounts. Robert B. Reich, "To Lift All Boats," *Washington Post,* May 16, 1999, p. B1.

27. Senators Moynihan, Lieberman and Breaux cosponsored S.2184, Kerrey's "KidSave" bill in the 105th Congress. Robert Kuttner, "Rampant Bull," *The American Prospect,* vol. 9, no. 39 (July-August 1998), pp. 30-36. Similar proposals have been offered by Republican Senator Rick Santorum of Pennsylvania. J. Larry Brown and Larry W. Beeferman, "From New Deal to New Opportunity," *The American Prospect,* vol. 12, no. *3* (February 12, 2001), pp. 24-27; and Ray Boshara, "The $6,000 Solution," *Atlantic Monthly,* vol. 291, no. 1 (January-February 2003), pp. 91-95.

28. Freeman, "Solving the New Inequality," pp. 16-17.

29. Bruce Ackerman and Anne Alston, *The Stakeholder Society* (New Haven: Yale University Press, 1999). Ultimately, Ackerman and Alston: hope the stakeholder grant will become largely self-financing. At the end of the stakeholder's life, the $80,000 would be returned to the government.

30. John E. Roemer, *A Future for Socialism* (Cambridge, Mass.: Harvard University Press, 1994); John E. Roemer, *Equal Shares: Making Market Socialism Work,* ed. Erik Olin Wright (New York: Verso Books, 1996). Roemer would also prohibit private investment in stock other than through the use of coupons, thus making this the only source of investment.

31. Leland Stauber, *A New Program for Democratic Socialism* (Carbondale, 111.: Four Willows Press, 1987), p. 339.

32. J. E. Meade, *Liberty, Equality, and Efficiency* (New York: New York University Press, 1993), p. 199. Anthony B. Atkinson, "James Meade's Vision: Full Employment and Social Justice," *National Institute Economic Review,* no. 157 (July 1996), pp. 90-96.

33. Louis Kelso and Mortimer Adler, *The Capitalist Manifesto* (New York: Random House, 1958), pp. 241-251. For further detail on the design of the plan see Louis Kelso and Mortimer Adler, *The New Capitalists* (New York: Random House, 1961).

34. Stuart Speiser, *Supentock* (New York: Everest House Publishers, 1982), pp. 50-51 (emphasis in the original).

35. William Greider, *One World Ready or Not: The Manic Logic of Global Capitalism* (New York: Simon & Schuster, 1997), p. 418. See also his book *The Soul of Capitalism: Opening Paths to a Moral Economy* (New York: Simon & Schuster, 2003).

Chapter 2 – Liberty: Money, Time, and Real Freedom of Choice

1. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 2-3,8,15; Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944); and Henry C. Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948), p. 23.

2. Friedman, *Capitalism and Freedom,* p. 201.

3. The 1902 figure, based on statistics then available and not directly comparable to the modern 2002 figure, is nonetheless a serviceable approximation. Total government expenditures as a share of GDP were 30.6 percent in 2003: Office of Management and Budget, *Budget of the United States Government: Historical Tables, Fiscal Year 2005* (Washington, D.C.: Government Printing Office, 2004), www.gpoaccess.gov/usbudget/, table 15.3. For 1902 figures see U.S. Census Bureau, *Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition* (Washington, D.C.: Government Printing Office, 1975), pp. 1, 120 (government expenditures), 224 (GDP). A more comprehensive measure of state and local government expenditure (including government enterprises and insurance trusts) brings total government expenditure to around 36-37 percent of GDP. U.S. Census Bureau State and Local Government Finances, www.census.gov/govs/.vww/estimate.html (accessed 10/21/03); for an explanation of the difference between the two measures, see Bureau of Economic Analysis National Income and Product Accounts Table 3.19, www.bea.gov/bea/dn/nipaweb/ (accessed 10/21/03). Milton Friedman estimates that "roughly 40% of our income... is spent by government—federal, state and local" and an "additional 10% or so of income [is spent by] residents or businesses in response to government mandates and regulation." Milton Friedman, "What Every American Wants," *Watt Street Journal,* January 15, 2003, p. A10. Bureau of Economic Analysis National Income and Product Accounts Table 1.1, www. bea.gov/bea/dn/nipaweb/ (accessed 10/21/03).The percentages, of course, vary from year to year—in part depending on whether the economy is in boom or recession (thereby altering the denominator of the fraction of government's share). For the 8 percent estimate of regulatory costs see W. Mark Grain and Thomas D. Hopkins, "The Impact of Regulatory Costs on Small Firms," U.S. Small Business Administration, Washington, D.C., July 2001,

www.sba.gov/ ADVO/research/rs207tot.pdf (accessed 10/21/03). For a recent overview—and interpretation of—the literature on regulation, see Edward L. Glaeser and Andrei Shleifer, "The Rise of the Regulatory State," *journal of Economic Literature,* vol. 41, no. 2 (June 2003), pp. 401-425.

4. Eisenhower left office with federal spending at 18.4 percent of GDP, the Nixon/Ford administrations ended with spending at 20.8 percent of GDP, Reagan at 21.2 percent, and the first Bush administration at 21.5 percent. See *Economic Report of the President 2003* (Washington, D.C.: Government Printing Office, 2003), table B-79, p. 370. The current Bush administration's first two budgets both anticipated an increase in the ratio of government spending to GDP. Office of Management and Budget, *Budget of the United States 2002: Historical Tables* (Washington, D.C.: Government Printing Office, 2001), w3.access .gpo.gov/usbudget/ (accessed 11/11/02), tables 1.1, 10.1; and Office of Management and Budget, *Budget of the United States 2003: Historical Tables,* (Washington, D.C.: Government Printing Office, 2002), w3.access.gpo.gov/usbudget/ (accessed 11/11/02), tables 1.1,10.1.

5. Regarding conservative dismay, see also Stuart M. Butler, "The Medicare Drug Bill: An Impending Disaster for All Americans,"The Heritage Foundation, Web-Memo #293, June 13, 2003, www.heritage.org/Research/HealthCare/wm293.cfm (accessed 09/05/03). Another indicator of the unyielding reality is the number of people employed directly and indirectly (through contracts and grants) by government—a figure which increased from 11 million in October 1999 to 12.1 million in October 2002. See Paul C. Light, "Fact Sheet on the New True Size of Government," Center for Public Service, Brookings Institution, Washington, D.C., September 5, 2003, www.brookings.org/dybdocroot/gs/cps/light20030905.pdf (accessed 09/10/03); and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2005* (Washington, D.C.: Government Printing Office, 2004), www.gpoaccess.gov/usbudget/, table S.13.

6. For a statement of continuing conservative strategies aimed at starving government through fiscal crowding-out, see Grover Norquist, "Step-by-Step Tax Reform," *Washington Post,* June 9, 2003, p. A21. For a review of various failed attempts to curtail the general size of government, see Joseph White and Aaron Wildavsky, *The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s* (Berkeley: University of California Press, 1989), pp. 78-81. The frustration of conservatives is captured in Fred Barnes and Grover Norquist, "The Politics of Less: A Debate on Big-Government Conservatism," *Policy Review,* no. 55 (Winter 1991), pp. 66-71. Similar frustrations are expressed in Murray Weidenbaum, "Progress in Federal Regulatory Policy, 1980-2000," *Contemporary Issues Series 100* (St. Louis: Center for the Study of American Business, 2000); and Stephen Moore, "Not-So-Radical Republicans," *Reason,* vol. 30, no. 3 (July 1998), pp. 24-32.

7. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, Mass.: Harvard University Press, 1965); James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962); James Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: University of Chicago Press, 1975), pp. 147-165; Anthony Downs, *An Economic Theory of Democracy* (New York: Harper & Row, 1957); and George Stigler, "The Theory of Economic Regulation," in *The Politics of American Economic Policy Making,* 2nd ed., ed. Paul Peretz (Armonk, N.Y.: M. E. Sharpe, 1987), pp. 60-75.

8. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

9. David A. Stockman, *The Triumph of Politics: How the Reagan Revolution Failed* (New York: Harper & Row, 1986), p. 13; and Milton and Rose Friedman, *Two Lucky People: Memoirs* (Chicago: University of Chicago Press, 1998), p. 588. 10. "The Share-of-Market Picture for 1999: 1999 Core Appliance Market Share," *Appliance,* vol. 57, no. 9 (September 2000), p. 85; "Discounters Continue to Make Gains," *Chain Drug Review,* vol. 24, no. 2 January 21, 2002), p. 17; "Big Business: Why the Sudden Rise in the Urge to Merge and Form Oligopolies?" *Watt Street Journal,* February 25, 2002, p. Al; and "Coke's Share of Market *'Rises," Atlanta Journal-Constitution,* February 25,2003, p. D1.The modern literature on market concentration is primarily concerned with the impact concentration may have on prices; it largely eschews questions related to liberty and other political matters. One of the few recent articles to address broader issues, albeit through the lens of aggregate as opposed to market concentration, is Lawrence White, "Trends in Aggregate Concentration in the United States," *Journal of Economic Perspectives,* vol. 16, no. 4 (Fall 2002), pp. 137-160; see also Edward Nissan, "Measuring Trends in Sales Concentration in American Business," *Quarterly Journal of Business and Economics,* vol. 36, no. 1 (Winter 1997), pp. 17-34. An important related study of corporate trends is Naomi R. Lamoreaux, Daniel M. G. Raff, and Peter Temin, "Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History," *American Historical Review,* vol. 108, no. 2 (April 2003), pp. 404-433.

11. David C. Korten, *When Corporations Rule the World* (San Francisco: Berrett-Koehler, 2001), p. 210;

and Noreena Hertz, *The Silent Takeover: Global Capitalism and the Death of Democracy* (London: William Heinemann, 2001), pp. 7, 33-34.

12. William E. Simon, *A Time for Truth* (New York: McGraw-Hill, 1978), p. 196.

13. Simons, *Economic Policy for a Free Society,* p. 34.

14. Hayek, *The Road to Serfdom,* pp. 194-195. It is often forgotten that Hayek saw the general movement in this direction as "planned mainly by the capitalist organizers of monopolies, and they are thus one of the main sources of this danger."

15. Marc Eisner, *Antitrust and the Triumph of Economics* (Chapel Hill: University of North Carolina Press, 1991), p. 235; and Walter Adams, "Dissolution, Divorcement, Divestiture: The Pyrrhic Victories of Antitrust," in *Antitrust, the Market, and the State: The Contributions of Walter Adams,* ed. James Brock and Kenneth Elzinga (Armonk, N.Y.: M.E. Sharpe, 1991), p. 191.

16. Eisner, *Antitrust and the Triumph of Economics;* Robert Bork, *The Antitrust Paradox: A Policy at War with Itself* (Chicago: University of Chicago Press, 1978), pp. 7-9; and William Safire, "The Urge to Converge," *New York Times,* March 7, 2002, p. A31.

17. Thomas Jefferson, "Notes on the State of Virginia," and Letter to John Adams, "The Natural Aristocracy," October 28, 1813, in *The Portable Jefferson,* ed. Merrill D. Peterson (New York: Penguin Books, 1977), pp. 217, 538.

18. Woodrow Wilson, *The New Freedom* (Englewood Cliffs, N.J.: Prentice-Hall, 1961), pp. 166-167, quoted in Michael J. Sandel, *Democracy's Discontent: America in Search of a Public Philosophy* (Cambridge, Mass.: Belknap Press, 1996), p. 216; and Louis Brandeis, *Business: A Profession* (New York: Augustus M. Kelley, 1971), p. 53.

19. Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), pp. 118-132.

20. Robert Nisbet, *Twilight of Authority* (New York: Oxford University Press, 1975), p. 195; and Robert Nisbet, *The Quest for Community: A Study in the Ethics of Order and Freedom* (San Francisco: Institute for Contemporary Studies Press, 1990), p. 237.

21. Nisbet, *The Quest for Community,* p. 238. Recent scholarship has challenged the theory that atomization led to the rise of Nazism: see, for example, Sheri Berman, "Civil Society and the Collapse of the Weimar Republic," *World Politics,* vol. 49, no. 3 (April 1997), pp. 401-429.

22. Peter Berger, *Facing Up to Modernity* (New York: Basic Books, 1977), pp. 137, 141 (emphasis in the original).

23. Peter F. Drucker, "The Job as Property Right," *Wall Street Journal,* March 4, 1980, p. 24.

24. The Humphrey-Hawkins Full Employment and Balanced Growth Act, as initially offered in 1975, would have established a Federal Job Guarantee office and the right of "all adult Americans able and willing to work" to opportunities for "useful paid employment at fair rates of compensation." It directed "all practical means" to the achievement of full employment (set at 3 percent unemployment). The bill that passed into law omitted or watered down these provisions, and simply set "as a national goal the fulfillment of the right to full opportunities for useful paid employment at fair rates of compensation of all individuals able, willing, and seeking to work." See Equal Opportunity and Full Employment Act, S. 50, 94th Congress; and Full Employment and Balanced Growth Act, H.R. 50, 95th Congress. On the subject of tenure and academic freedom see Anthony O'Hear, "Academic Freedom and the University," in *Academic Freedom and Responsibility,* ed. Malcolm Tight (Philadelphia: Open University Press, 1988).

25. Edward Luttwak, *Turbo-Capitalism* (New York: HarperCollins, 1999), p. 68.

26. Alan Ryan, "Please Fence Me In," *New York Review of Books,* vol. 46, no. 14 (September 23, 1999), pp. 68-72; and Alan Ryan, *Property* (Minneapolis: University of Minnesota Press, 1987), p. 87.

27. Stephen Holmes and Cass R. Sunstein, *The Cost of Rights: Why Liberty Depends on Taxes* (New York: W.W. Norton, 1999), pp. 14-15.

28. Walter Lippmann quoted in Benjamin Kline Hunnicutt, *Work Without End: Abandoning Shorter Hours for the Right to Work* (Philadelphia: Temple University Press, 1988), p. 262; John Maynard Keynes, "Economic Possibilities for Our Grandchildren," (1930) in John Maynard Keynes, *Essays in Persuasion* (New York: W.W. Norton, 1963), pp. 365, 367; and Herbert Marcuse, *Eros and Civilization* (Boston: Beacon Press, 1966), p. 152.

29. Joseph Zeisel, "The Workweek in American Industry, 1850-1956," *Monthly Labor Review,* vol. 81, no. 1 (January 1958), pp. 23-29; Juliet B. Schor, *The Overworked American: The Unexpected Decline of Leisure* (New York: Basic Books, 1991); Hunnicutt, *Work Without End;* and Jerome M. Segal, *Graceful Simplicity: Toward a Philosophy and Politics of Simple Living* (New York: Henry Holt, 1999).

30. The Bush Administration proposed regulatory changes to overtime laws in 2003 that could have made more than 8 million white-collar employees ineligible for overtime pay. However, as of this writing, both

the Senate and the House of Representatives have voted to block the changes. See Ross Eisenbrey and Jared Bernstein, "Eliminating the Right to Overtime Pay: Department of Labor Proposal Means Lower Pay, Longer Hours for Millions of Workers," EPI Briefing Paper (Washington, D.C.: Economic Policy Institute, June 2003), www.epinet.org/briefingpapers/flsajun03.pdf (accessed 09/05/03); and Juliet Eilperin, "In a Switch, House Rejects Bush Overtime Proposal," *Washington Post,* October 3, 2003, p. A2.

31. Segal, *Graceful Simplicity,* pp. 93-94.

32. Philippe Van Parijs, *Real Freedom for All: What (If Anything) Can Justify Capitalism?* (Oxford: Clarendon Press, 1995), p. 33 (emphasis in the original).Thomas Paine may have been the first to argue for a basic income grant in 1796: Thomas Paine, "Agrarian Justice," in *The Life and Major Writings of Thomas Paine,* ed. Philip S. Foner (Secaucus, N.J.: Citadel Press, 1974). Others arguing for a basic income, for various reasons, include: Bill Jordan, *The State: Authority and Autonomy* (Oxford: Basil Blackwell, 1995), pp. 266-269; Alan Carling, *Social Division* (London: Verso, 1991);James E. Meade, *Liberty, Equality, and Efficiency* (New York: New York University Press, 1993); Bruce Acker-man and Anne Alston, *The Stakeholder Society* (New Haven: Yale University Press, *1999); Arguing for Basic Income,* ed. PhilippeVan Parijs (London: Verso, 1992); and Robley E. George, *Socioeconomic Democracy: An Advanced Socioeconomic System* (Westport, Conn.: Praeger, 2002).

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5. Total California energy costs were estimated at nearly S27 billion a year in 2001 and 2000, as opposed to only $10 billion in 2002. "2002 Annual Report on Market Issues and Performance," California Independent System Operator, www. caiso.com/docs/2000/07/27/2000072710233117407.html (accessed 10/22/03), pp. B1-E2. For calculations on the portion that can be attributed to market power, see Severin Borenstein, James B. Bushnell, and Frank A. Wolak, "Measuring Market Inefficiencies in California's Restructured Wholesale Electricity Market," *American Economic Review,* vol. 92, no. 5 (December 2002), pp. 1376-1405. "Over $10 billion" from personal communication to Alex Campbell from Frank Wolak (06/11/03). For higher estimates see Kathleen Sharp, "Price-Gouging Inquiries Target Enron, Overcharges in California May Exceed $40 Billion," *Boston Globe,* March 3, 2002, p. A12; and William J. Kilberg "From the Editor: Enron: The Studebaker of the 21st Century?" *Employee Relations Law Journal,* vol. 28, no. 1 (Summer 2002), pp. 1-6. For estimates of the cost of resolving the savings and loan crisis and related funding crises, see General Accounting Office, "Financial Audit: Resolution Trust Corporation's 1995 and 1994 Financial Statements," GAO/AIMD-96-123 (Washington, D.C.: GAOJuly 1996), pp. 13,19.

6. On the efficiency of ESOPs, in particular, see Chapter 7, note 14 in this book. For other literature on the efficiency of worker ownership, and for critical arguments in general, see also Chapter 1, note 22 in this book. On the efficiency of public utilities, see Chapter *8,* note 19 in this book. See also *The Rise and Fall of State-Owned Enterprise in the Western Vfbrld,* ed. Pier Angelo Toninelli (Cambridge: Cambridge University Press, 2000); and Malcolm Sawyer and Kathy O'Donnell, *A Future for Public Ownership* (London: UNISON, 1999). On public pension fund investment see Wilshire Associates, "Private Versus Public Pension Fund Investment Performance," February 4, 1999, www.calpers.ca.gov/ whatshap/hottopic/w-study.htm (accessed 06/10/03); Cost Effectiveness Management, "Do Public Funds Underperform Corporate Pension Funds?" February 5, 1999, www.calpers.ca.gov/whatshap/hottopic/cem-study.htm (accessed 06/10/03); General Accounting Office, "Public Pension Plans: Evaluation of Economically Targeted Investment Programs," GAO/PEMD-95-13 (Washington, D.C.: GAO, March 1995); and Gordon L. Clark, *Pension Fund Capitalism* (Oxford: Oxford University Press, 2000). See also Geoffrey M. Hodgson, *Economics and Utopia: Why the Learning Economy Is Not the End of History* (New York: Routledge, 1999); Joseph S. BerlinerrTfte *Economics of the Good Society: TheVari-ety of Economic Arrangements* (Maiden, Mass.: Blackwell, 1999); and the *Annals of Public and Cooperative Economics.* Recent contributions to the larger theoretical debate on efficiency versus equality include: Louis Putterman, John E. Roe-mer, and Joaquim Silvestre, "Does Egalitarianism Have a Future?" *Journal of Economic Literature,* vol. 36, no. 2 (June 1998), pp. 861-902; *Meritocracy and Economic Inequality,* ed. Kenneth Arrow, Samuel Bowles, and Steven Durlaf (Princeton: Princeton University Press, 2000); and Samuel Bowles and Herbert Gintis, *Recasting Egalitarianism* (New York: Verso, 1998). For an estimate of waste and inefficiency throughout the U.S. economy see Samuel Bowles, David M. Gordon, and Thomas E. Weisskopf, *Beyond the Waste Land* (Garden City, N. Y.: Anchor Press/Doubleday, 1984). See also pp. 96-97,115-118 in this book.

7. Figures for public sector compensation do not include retirement benefits. For McDonough's salary, see "Are CEOs Worth Their Salaries? As Firms Founder, Critics Question the Pay Formula," *Washington Post,* October 2,2002, p. E1. Private sector CEO compensation numbers are from the AFL-CIO Paywatch data-base, which catalogs executive compensation from SEC filings: www.aflcio.org/ corporateamerica/paywatch/ceou/database.cfrn (accessed 06/10/03) and Louis Lavelle, "Executive Pay," *Business Week,* no. 3829 (April 21, 2003), p. 86. Bill Wallace, "CalPERS Names Interim CEO," *San Francisco Chronicle,* August 22, 2002, p. B1; Arthur M. Louis, "CalPERS Investment Chief to Resign," *The San Francisco Chronicle,* November 14, 2001, p. B2;TVA Office of the Inspector General, *30th Semiannual Report, October 1, 2000-March 31, 2001* (Knoxville, Tenn.:TVA, 2001), p. 8, www.oig.tva.gov/semiannu.htm (06/11/03); and Nancy Zuckerbrod, "Wamp-Requested Report Examines How TVA Pays Execs," *The Oak Ridger,* Thursday, March 1, 2001, www.oakridger.com/stories/030101/stt_ 0301010025.html (accessed 06/11/03). On the weak relationship between pay and performance for corporate CEOs, see Gretchen Morgenson, "The Rules on Bosses' Pay Seem Written with Pencil," *New York Times,* May 25, 2003, p. C1.

8. Michael S. McPherson and Morton Owen Schapiro, "Reinforcing Stratification in American Higher Education: Some Disturbing Trends," Paper written for the Macalester Forum on Higher Education

Conference, Diversity and Stratification in American Higher Education, Macalester College, June 1999, p. 15, www .macalester.edu/president/MACFORUM99+stats.pdf (accessed 12/02/02).