



After Capitalism 2nd Ed.

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"*After Capitalism* is a book full of hope for the critics of capitalism and a book that must be read by all socialists. It shows that there is a valuable alternative to capitalism and argues that the labor-managed firm is better than the capitalistic one for a number of reasons, all of great importance. A system of democratic firms is the realization of socialism according to a Marxist vision and, after the breakdown of central planning in Eastern Europe, may contribute to the revival of Marxism in a new democratic form. *After Capitalism* is an accessible book for students and anybody who is interested in politics and explains also the way we may follow to realize the new system."
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—J. Todd Wilson, California State University

In *After Capitalism* David Schweickart moves beyond the familiar arguments against globalizing capitalism to contribute something absolutely necessary and long overdue—a coherent vision of a viable, desirable alternative to capitalism. He names this system Economic Democracy, a successor-system to capitalism that preserves the efficiency strengths of a market economy while extending democracy to the workplace and to the structures of investment finance. Drawing on both theoretical and empirical research, Schweickart shows how and why this model is efficient, dynamic, and superior to capitalism along a range of values.

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For orders and information please contact the publisher
Rowman & Littlefield Publishers, Inc.
A wholly owned subsidiary of
The Rowman & Littlefield Publishing Group, Inc.
4501 Forbes Boulevard, Suite 200
Lanham, Maryland 20706
1-800-462-6420
www.rowmanlittlefield.com

COVER DESIGN BY NEIL D. COTTERILL
COVER IMAGE © THIERRY BRIAULT
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ISBN 978-0-7425-6498-5



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billion spent that year. (This amount was a midterm election record, and yet, as conservative *Washington Post* columnist George Will rightly pointed out, “That is about the what Americans spend in one year on yogurt, but less than they spend on candy in two Halloween seasons, and . . . much less than they spend on potato chips, \$7.1 billion in a year.”³⁵) To match the publicly funded contributions of ordinary voters, the wealthy would have to double their current campaign spending, and yet, in light of Part 2 of the reform proposal, have no guarantee that recipients of their largesse would even know who had given them the money.

Not only would such a reform greatly reduce the power of the wealthy to dominate the political realm (without in any way restricting the amount of money they can contribute), but it would doubtless revitalize citizen participation in the electoral contests. With fifty dollars to contribute to whichever candidates, of whatever party one chooses (including third parties³⁶) a major incentive exists to pay attention to politics, follow the news, and scrutinize the candidates—as is supposed to happen in a genuine democracy.

6.3 From Reform to Revolution

The reform agenda outlined above, even if fully implemented, would not be Economic Democracy. These reforms would give us a kinder, gentler capitalism, but it would still be capitalism. It would be an unstable capitalism, however. With it becoming ever clearer that workers could run enterprises effectively and that investment funding could come from the state, the role of the capitalist class would be subjected to increased scrutiny. Workers would likely become ever more assertive, capitalists ever more nervous. With worker participation and profit sharing widespread, a capital assets tax in place, and with capital’s freedom of investment ever more circumscribed, the stage would be set for a decisive confrontation. But how can we imagine such a confrontation working its way through to a happy ending? How can we imagine “revolution”?

Let me tell three stories. The first I’ll call “radical quick”—an imaginary, abrupt transition from contemporary capitalism to Economic Democracy. The second story modifies and complicates the first by taking into account the fact that, at least in the United States, millions of ordinary citizens now have ties to the financial institutions that would be abolished in the “radical quick” transition. In both cases, the result is Economic Democracy—the successor-system to capitalism. The third is more gradual, not presupposing a major financial meltdown. In all three cases, I am thinking of the United States.

One of the “conditions,” if there is to be a relatively peaceful transition from capitalism to socialism, is the coming to power of a Left political party with a radical agenda. This condition will be presupposed in the stories I will tell.

6.3.1 Radical Quick

Suppose, perhaps as a result of a severe economic crisis that destroys the credibility of the existing ruling class, a Left political party is swept into office in a landslide election and is thus empowered to enact whatever reforms it deems necessary. Let us set aside concerns about constitutional protections of property rights. We have an overwhelming mandate to move beyond capitalism to something better, to this “Economic Democracy” we have been promising. What would we do?

Let me say at the outset that I do not propose this as a realistic scenario. The “revolution” is not in fact going to happen this way, at least not in the United States. However, imagining an abrupt transition will give us a simple model, which can later be modified and made more credible.

In fact, the basic institutional reforms are not hard to specify, nor is it hard to imagine their peaceful implementation. We don’t have to talk about seizing the estates of the wealthy, or replacing capitalists by dedicated cadre, or creating hosts of new institutions. We do not find ourselves in Lenin’s predicament, trying to figure out how to create a wholly new society. Four simple reforms would bring us to Economic Democracy.

- First, we issue a decree abolishing all enterprise obligations to pay interest or stock dividends to private individuals or private institutions. This decree will need no enforcement, since enterprises are not going to insist on paying what they are no longer legally obligated to pay.
- Second, we declare that legal authority over all businesses employing more than N full-time workers (where N is a relatively small number) now resides with those workers, one-person, one-vote. Workers may keep the same managers that they now have, or replace them. The authority is now theirs—to determine what to produce, how to produce it, at what price to market it, how to distribute the profits among themselves, and so forth. Guidelines will be issued concerning the formation of worker councils (in those companies where such councils do not already exist), but the only restriction placed on the workforce is the obligation to keep intact the value of the capital assets of the business. These are now regarded as the collective property of the nation and are not to be looted or squandered.

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- Third, we announce that a flat-rate tax will be levied on each firm's capital assets, all the revenue from which will go into the national investment fund. Firms may object to this new tax, but it will be pointed out that they are no longer paying dividends to their stockholders or interest on loans they have accumulated. This tax is the rent they pay for the use of assets now regarded not as the private property of owners but the social property of the nation. (If a capital assets tax has already been implemented under capitalism, as a part of the reform process, the mechanisms for calculating and collecting the tax will already be in place. The rate need merely be raised.)
- Fourth, we nationalize all banks. These now-public banks will be charged with reviewing applications for new investment grants and with dispensing the funds generated by the capital assets tax according to the double criteria of profitability and employment creation. Nationalizing banks is not as "revolutionary" as one might think. Both Norway and Sweden nationalized theirs (temporarily) during crisis periods in the early 1990s. The decidedly non-left *Far Eastern Economic Review* proposed nationalization to resolve Japan's banking crisis.³⁷ Nationalization was discussed by various economists and policymakers in the United States when the financial system began to melt down in 2007. In our scenario, commercial banks would no longer be viable as private institutions anyway, since there is no longer any interest revenue coming in from their loans, so the government would have no choice but to take them over. These institutions, which now oversee the distribution of the investment fund, will still have a vital role to play under Economic Democracy, although they will no longer be profit-making institutions.

That's it—four simple reforms. The day after the revolution, virtually all businesses keep doing exactly what they did before, so the production and distribution of goods and services need not be disrupted. Workers still work, managers still manage, businesses still compete. Enterprises begin setting up new governing structures; the IRS puts into place a new tax code; banks begin the process of restructuring. The Federal Reserve may have to provide these banks with some liquidity to tide them over, but since it is authorized (even now) to create new money, it can readily do so.

Of course, the financial markets will crash—if they haven't already. Capitalists will try to cash in their stocks and bonds, but these will be worthless, since there will be no buyers. Huge amounts of paper wealth will evaporate—but the productive infrastructure of the nation will remain wholly intact. That's the lovely part. Producers keep producing; consumers keep consuming. Life goes on—after capitalism.

6.3.2 Radical Slower (with Concern for Stockholders)

Too simple? Of course. The above is not meant to be a realistic scenario. Above all, it fails to take into account the fact that millions of ordinary citizens (not only capitalists) have resources tied up in the financial markets. People with savings accounts or holdings in stocks and bonds have been counting on their dividend and interest checks. (Nearly half of all American households have direct or indirect holdings in the stock market, mostly in pension plans.) Eliminating all dividend and interest income—which is what Radical Quick does—will not strike these fellow citizens as a welcome reform. Let us run through our story again, this time complicating it to take into account their legitimate concerns.

Let me first set the stage a little more fully than I did with Radical Quick. Let us suppose that a genuine counterproject to capitalism has developed, and that, gradually gaining in strength, it has been able to elect a Left government that has put most of the reforms outlined earlier in this chapter on the table and has secured the passage of some of them. Suppose investors decide they've had enough and begin cashing in their stock holdings so as to take their money and run to greener pastures. A stock-market crash ensues. In reaction, the citizenry decide that they too have had enough—and give their Left government an even stronger mandate to take full responsibility for an economy now tumbling into crisis—not to bail out the banks this time (which, they now know will not solve the underlying problem), but to engage in a radical restructuring of the economy.

Our new government declares a bank holiday, pending reorganization (as Roosevelt did following his election in 1932). All publicly traded corporations are declared to be worker controlled. This control extends only to corporations, not to small businesses or even to privately held capitalist firms. It is decided that it will be sufficient to redefine property rights only in those firms for which ownership has already been largely separated from management.

All banks are nationalized, as in Radical Quick. Individual savings accounts are preserved, as are consumer loan obligations, including home mortgages (so long as the institutions making the loans did so conscientiously and without deception). They remain in, or are transferred to, those banks now designated as Savings and Loan Associations. These will continue to accept savings and make consumer loans, paying interest on the former, charging interest on the latter. Other banks are designated as commercial banks. These will facilitate short-run business transactions and will serve to distribute society's investment fund.

Funds for the commercial banks will now come from the capital assets tax. If such a tax is already in place as a result of prior reforms, it need only

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be raised sufficiently to compensate for that portion of the investment fund previously coming from private savings. If no tax is in place, the government can use the total value of a company's stock, as recorded on some specified date before the crash, as the value of the enterprise's capital assets, and set the tax rate so as to generate the desired quantity of funds.

At this point, the basic structure of Economic Democracy is in place. We have what we had with Radical Quick, except that worker self-management has been extended only to corporations, not to the rest of the private sector. One major issue still needs resolution—what to do with all those people who have relied on the income from their stocks and bonds to maintain or supplement their existing incomes, particularly retired people who have been depending on their private pension-fund investments.

In point of fact, most of these people will be desperate at this point, and looking to the government for help, because the stock market has just crashed, thereby wiping out their portfolios. A solution is straightforward. Our government will exchange all outstanding stock certificates and corporate bonds for long-term government annuities—guaranteeing a steady income to each holder for the rest of the person's life. The value of each portfolio will be set at the value of the person's stocks and bonds at a determined pre-crash date. The annuity income will be a fixed percent of the portfolio value, with a cutoff of, say, the salary of the highest-paid public official (at present, \$400,000). In effect, we are nationalizing the corporate sector of the economy with compensation—generous compensation, since the stock market crash has rendered most stock certificates and corporate bonds almost valueless. In effect, our socialist government is preserving the income flows of everyone invested in the financial markets, capitalists included—up to (a rather generous) maximum.

To those who find it obscene that former capitalists should continue to maintain lifestyles far beyond the means of ordinary people (an understandable reaction), we should stress that the capitalist qua capitalist is not an inherently immoral person, deserving of punishment. To be sure, many, perhaps most, will have used their resources to block the coming into being of a genuinely democratic society, but most have made their fortunes by playing by the rules. Of course these rules have been made, for the most part, by that capitalist class (via the politicians whose campaigns they fund)—but not by *all* of the individuals who comprise this class. Economic Democracy has some leeway for generosity.

We should also remember that this annuity subsidy is not open-ended (as is, under capitalism, the income stream from wealth). It ceases with the death of the recipient. It does not pass on to his heirs.

Lest our proposal for “the euthanasia of the capitalist class” seem too far-fetched, it should be noted that John Maynard Keynes predicted “the

euthanasia of the rentier” as capital became ever more plentiful,³⁸ and that John Kenneth Galbraith, four decades later, proposed the “euthanasia of the stockholder.” Galbraith’s proposal is quite similar to the one presented here:

Convert the fully mature corporation . . . into fully public corporations. Assuming the undesirability of expropriation, this would mean public purchase of the stocks with fixed interest-bearing securities. This would perpetuate inequality, but it would no longer increase adventitiously with further increases in dividends and capital gains. In time inheritance, inheritance taxes, philanthropy, profligacy, alimony and inflation would act to disperse this wealth.³⁹

Galbraith justifies the nationalization of publicly traded corporations for essentially the same reasons we have offered:

In its mature form the corporation can be thought of as an instrument principally for perpetrating inequality. The stockholders, as we have seen, have no function. They do not contribute to capital or to management; they are the passive recipients of dividends and capital gains. As these increase year to year, so, effortlessly, do their income and wealth.

6.3.3 Slower Still (without a Financial Meltdown)

The preceding two scenarios presuppose a stock market crash that makes dramatic, transformative change economically feasible and politically possible. But a more gradual transformation can be imagined that doesn’t presuppose a sudden, massive financial crisis.

In 1976 Rudolf Meidner, chief economist of the LO, Sweden’s largest trade union federation—and coauthor with Gosta Rehn of the Swedish welfare state—presented a plan to the labor federation for the gradual takeover of the Swedish economy by its working class. It was adopted enthusiastically, the vote result greeted with a standing ovation and the singing of the *International*. The *Meidner Plan* was quite simple. Every company with more than fifty employees would be required to issue new shares of its stock each year equivalent to 20 percent of its profits. Since the issuing of new shares does not cost the firm anything, this does not interfere with operating expenses or investment plans. (It merely increases the number of claimants to the percent of profits the firm sets aside to pay out in dividends to its shareholders. That is to say, it cuts into the income accruing to passive shareholders.)

These shares would be held in a “labor trust,” collectively owned by all wage earners. Shares would not be sold. In due time—Meidner estimated thirty-five years or so—most firms would come to have the majority of their stock owned by the trust, that is, collectively by Swedish workers. The Swed-

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ish capitalist class, as might be expected, was horrified. It launched a counter-offensive that saw the Swedish Social Democratic Party, which had governed Sweden since the Great Depression and was closely tied to the LO, voted out of office.⁴⁰

Some version of such a plan could be adopted by a Left government committed to establishing Economic Democracy—if it was strong enough to get the requisite laws passed and entrenched enough to keep them on the books until their end is accomplished. As individual firms become, over time, majority worker owned (owned by the working class collectively, via the Labor Trust, not by the firm's own workers), the government could purchase the remaining privately held shares, then turn the enterprises over to the workers of those enterprises to be run democratically. (The dividends paid to the Labor Trust over the years could be used to finance the final buyouts.) Following a buyout, the firm would no longer pay dividends but would pay a capital assets tax instead—the leasing fee the firm's workers pay for use of the firm's (now publicly owned) assets. The other institutions of Economic Democracy—a public banking system for allocating investment funds, private or cooperative savings and loan associations, and the government as employer-of-last-resort—could be developed over the several decades the transition to workplace democracy was underway.

As with the original Meidner plan, the capitalist class would certainly oppose such a proposal vigorously, but, to the extent that we are able to move toward genuine democracy . . . who knows? The bad guys don't *always* win.

6.4 A New Communism?

The various programs for revolutionary structural reform sketched above could be brought about peacefully if conditions are right. One of these "conditions" is the coming to power of a Left political party with a truly radical agenda. But how, given the enormous power of the capitalist class, could this ever happen?

Clearly, the ground must be prepared. A sudden economic crisis will not suffice. Unless the counterproject is well developed, the state will simply bail out the capitalists again, squeezing the majority further—which could breed calls for simpler, uglier solutions that will not, of course, be real solutions. Fortunately, the failure of racist, fascist, and militaristic experiments is well known, and this historical memory—which must be kept alive—provides an important counterweight to reactionary tendencies. But without a well-developed counterproject, this counterweight may prove insufficient. Although a moderate economic crisis might provide opportunities for