Coda: “There Is No Alternative”

My intention in this book has been to use the lessons of recent history to illuminate the policy of the Clinton administration and Congress and to warn against the single-minded commitment to balance the federal budget that Nobel Prize–winner William Vickrey called “Financial Fundamentalism.” Many readers, even if persuaded by the evidence and arguments presented, will wonder if there are any viable alternatives to the policies of Volcker-Reagan and Greenspan-Clinton-Gingrich.

I believe that strategies aimed at increasing incomes and reducing unemployment are viable alternatives, not pie-in-the-sky absurdities. Serious proposals for a high-wage, high-employment strategy have been and continue to be developed by various academics and public-interest groups as well as by labor unions and other community-based organizations concerned about the incomes and futures of their memberships. I can merely sketch the elements of such a reform strategy and provide the readers with sources where they might pursue them further.

In 1985, at the high tide of the Reagan Revolution, the United States Conference of Catholic Bishops published a detailed pastoral letter on the economy entitled Economic Justice for All. In it, the bishops proposed that the goodness of an economy should be judged by how well it takes care of the poorest and most downtrodden people. The specifications of the qualities of a good economy stemming from that ethical premise included recommendations that the economy guarantee certain things to people. These guarantees, according to the bishops, ought to go well beyond full employment and some minimal level of income. The bishops called for treating certain goods and services differently from mere commodities to be bought and sold in the market. Food, housing, and medical care were examples of necessities
to which people were entitled as a matter of right, not just if they could afford them. The bishops topped off their analysis by calling for a requirement that all people affected by business decisions have a voice in those decisions, in effect calling for some official role in business decision-making by the people who work for businesses and by others affected locally (hence local governments), not only by those who own businesses. 3 This raises a serious question. Can an economy dependent on individual incentives for most investment (and therefore growth) decisions function well while maintaining full employment, promoting real wage increases, and guaranteeing food, housing, and medical care as well as education and public safety? Furthermore, is this likely to happen with an expanded role in corporate governance for employees and local citizens?

First of all, polling data indicates that the proposals by the bishops are not outside of the mainstream of public opinion in the United States. For example, the majority of Americans believe unemployment ought to be minimal and the economy should be growing faster. In fact the supposed support for the conservative economic agenda of cutting taxes, reducing regulation, and balancing the budget occurs because in the minds of most supporters, these will be means to the desired outcome of creating more jobs and increasing incomes. Support for the food stamps program and other efforts to guarantee nutrition to all Americans (such as the Women, Infants, and Children program) indicates that Americans also agree with the bishops about the right of all citizens to eat well. Similarly, as was clear during the failed campaign for the Clinton health insurance proposal, large percentages of the population believe health care is as much a right as is education. It appears that the only thing lacking is some coherent policy proposals for a high-wage, high-growth economy coupled with these guarantees. One could make the case that the public would react very favorably to such a set of proposals. It is the political and intellectual leadership of this country that seems to lack the will to make it happen. 4

Throughout this century, whenever proposals have been made to constrain the operation of the private sector—for example, the introduction of mandatory collective bargaining and the Social Security system during the 1930s—the opposition has trotted out the tired old arguments that this is an effort to repeal the laws of nature. So it was when the bishops made their proposals in 1985. Former British prime minister Margaret Thatcher used to assert that “there is no alternative” to her (and by implication President Reagan’s) policies of letting the mar-
ket rule when it came to issues of poverty and unemployment. The goals set by the bishops and other reformers could be accomplished, so the argument goes, only by a vast expansion of the role of government in the economy, and history shows that government involvement creates more harm than good. At the extreme, such reform proposals are ridiculed as “socialistic,” and readers are reminded that the world has recognized the superiority of markets and freedom to the drab world of central economic planning under Communist dictatorships.

Of course neither the Catholic bishops nor any of the various public-interest and special-interest groups developing proposals for a high-wage, full-employment economy want to re-create the planned economy of even Brezhnev’s Soviet Union, let alone Stalin’s. What these groups are arguing is that a market economy can be constrained politically to guarantee certain economic rights to its citizens (such as food, education, medical care), to reduce unemployment to the bare minimum, and to speed up the rate of economic growth beyond that deemed sustainable by the current spokespeople for the financial sector. Furthermore, they argue that such political interference will not necessarily harm the ability of the economy to function well.

The typical argument that such a strategy is economically impossible starts with the assertion that full employment (say a rate of 4 percent) would be inflationary. However, full employment would be inflationary only if production involved no improvements in productivity and if businesses had the freedom to raise prices at will. Neither of these need come to pass. Let us consider increasing productivity first. Full employment with significant government investment in reconstruction of roads, bridges, and schools will improve productivity. Investments to wire every public school and public library for the Internet will likewise improve productivity. In the area of health care spending, guaranteed preventive health care for all Americans, including wholesale childhood immunizations and regular checkups to catch problems before they require emergency room treatment, will in the long run reduce health care expenditures and also increase the lifelong productivity of the average American. The same could be said for public investment spending to remove asbestos and lead paint from public buildings, particularly schools.

Such public-sector capital investment, many suggest, could best be accomplished by creating a separate capital account in the federal budget. Robert Eisner, Alicia Munnell, and David Aschauer, to name just a few, have argued that it makes perfectly good sense to use public debt
to finance public capital investments. The crucial problem, of course, is to clearly identify legitimate public capital investments. Many critics of the idea of a federal capital budget doubt the ability of the federal government to separate true public-capital investments from wasteful pork-barrel spending. The solution, however, is not to tie the government’s hands because, as the “public choice” school argues, it always responds to special interests, not the general public interest. Instead, the solution is to increase public scrutiny of government activity and make politicians more responsive to general citizens’ desires.

Here, of course, we see the important value of public financing of political campaigns and limitations on the ability of the very top of the income distribution to have disproportionate impact on the political process. One of the most shocking facts to come out of the campaign-financing scandals of the 1996 elections is that only two-tenths of 1 percent of the American population contribute two hundred dollars or more to political campaigns, and they are the people to whom politicians must cater. Ever since the Supreme Court ruled in *Buckley v. Valleeo* that the First Amendment has guaranteed the right of anyone to spend as much money as they wish supporting political candidates, the ability of the very rich to influence policy has accelerated. In a strong op-ed piece in the *New York Times*, lawyer-writer Scott Turow argued that only by restricting the campaign contributions of the very rich can we as a society “balance[e] all citizens’ First Amendment rights to speak and be heard.” When those with the largest agglomerations of wealth can seize and dominate the “public square” of debate on policy issues, all of those without the cash-megaphone are effectively silenced.

It is clear that the obvious first step toward making democracy really work in setting government policy about capital budgeting (and everything else, for that matter) is to take large blocks of private money out of political campaigns and provide for complete public financing, as is done in Europe.

The other part of the alleged problem with full employment is the idea that wages will go up and therefore prices will go up, fueling a runaway inflation. First of all, let us recall we are in a very competitive world. American companies will not be able to lever their prices upward, even in response to rising wages, without reducing their competitiveness internationally. There are also a number of policies that governments can institute to control inflationary pressures directly. Some would go as far as to institute wage and price controls, but oth-
ers lean toward more subtle forms of incomes policies, including the use of the tax system to create incentives to moderate price increases. European governments were able to experience faster rates of growth than the United States in the early postwar period while holding unemployment near 2 percent by means of incomes policies that restrained inflation. Again, it requires political decision-making to craft policies that will restrain whatever inflationary pressures arise as a result of rising employment, rising economic growth, and rising wages. Even in the United States there are historical examples, such as World War II, when direct restraint on inflation proved possible and consistent with rising incomes and rapid growth.

However, what if such a policy were to reduce expected profitability? This might happen if the idea that people other than shareholders of corporations should have a say in corporate governance catches on. If wages were rising and full employment created a situation in which it was difficult to get increased intensity out of workers, and, further, if corporate managers now had to answer to workers and citizens as well as stockholders, American business might respond by cutting back on productive investment. Here again, political effort needs to be made to demonstrate that what American businesses lose in control over their workers might be more than compensated by the rising productivity of their workers as a result of increased job satisfaction.

However, let us assume there is a transition period during which the “business climate” does not appear good. What would the alternatives be for suddenly unwilling investors? They might choose financial investments. True enough, but that only points out another important element of this reform strategy. We would have to change the financial system to reflect the democratic desires of the majority rather than the desire of “the bond market,” as is the current approach of the Central Bank. A democratically controlled Federal Reserve System could play the role of reducing long-term interest rates so as not to permit investors the “escape” from the productive sector into lucrative purely financial alternatives. Similarly, by asserting a new role of public credit allocation (much as Japanese and German banks do now) the Central Bank could fund important productivity-enhancing investment projects at low enough interest rates to overcome the reluctance of private-sector investors to pay the high wages that are the centerpiece of this new strategy. In addition, redirecting credit to sectors usually served poorly and incompletely by existing capital markets would provide useful competition for the businesses liable to be participating in the
investment slowdown. The Financial Markets Center, a public-interest organization devoted to increasing democratic control over the financial system, has argued for the development of a National Reinvestment Fund to help redirect the flow of credit.

Another way to reduce interest rates without buying bonds is to create money, as the government did during the Civil War when it issued paper currency known as greenbacks.¹⁴ Had even 10 percent of the World War II deficits been financed by direct money creation rather than by borrowing from banks, over $22 billion in government expenditures on the war would have been interest free.¹⁵ The value of making government payments by the direct creation of money rather than the indirect route of borrowing from banks or the Federal Reserve is that restricting the issuing of new government debt instruments contributes to increases in the price of those bonds, which reduces interest rates.

The next argument against high wages, full employment, and more democratic corporate governance is that investors will take their capital out of the country and create a depression in the United States. Some investors might want to do that, but physical capital in the form of buildings and machines cannot be taken out of the country. In a full-employment, high-wage economy, aggregate demand would be high and growing. Any private-sector firm that desired to close their factories would presumably want to sell its plants. With aggregate demand booming and public capital available from the Fed, it is hard to imagine that there would be no entrepreneurs willing to buy up these factories and machines and have a go at producing for this high-earning, high-spending population.¹⁶ If the National Reinvestment Fund were in place, these factories and machines could be bought by community-based cooperatives and small start-up businesses.

Ah, but what if investors take their capital and invest it in overseas plants where wages are not high and then export the goods back to the United States? Here is where we would need a new system of international economic relations so that high wages and low unemployment do not translate into rising trade deficits and a flow of financial capital out of the country. A tremendous amount of activity worldwide is attempting to achieve that alternative, even as the conventional wisdom of economists and of public-policy people claims that in the face of “globalization” such efforts are nothing but pipe dreams.¹⁷ The key elements of such a policy involve increasing rather than restraining aggregate demand, introducing significant rules into international
agreements to maintain and upgrade labor and environmental standards, and interfering with speculative flows of capital.\textsuperscript{18} The creation of a world in which private capital flows can damage a national policy of full employment and rising wages has resulted from political decisions such as the new GATT agreements and NAFTA. Such a trend can be stopped and even reversed by political decisions.

If this book is correct, the approach that builds prosperity through budget balance and a shredded safety net will be exposed as a fraud with the coming of the next recession. If this book is persuasive, the public may yet begin to consider the alternatives that Thatcher, Reagan, and others have decried as impossible. When that time comes, let us hope that all involved, caring, concerned citizens will begin the effort to discover for themselves the appropriate alternatives and make common cause to bring them about.

\textbf{It Can Be Done}

Consider the following facts from recent history. In 1964, presidential candidate Barry Goldwater espoused an unabashed conservative philosophy of small government and honestly opposed even most sacred cows of the welfare state as it then existed. He suffered one of the worst defeats in presidential history. In 1965, recently reelected President Johnson combined with a Democratic Congress to give a giant boost to the welfare state with the passage of Medicare and Medicaid. The growth in the redistributionist and regulatory components of the government’s activity in the economy continued to grow through the two Republican administrations of Nixon and Ford. The Nixon administration greatly expanded the food stamps program and created the Environmental Protection Agency. The Ford administration engaged in the most vigorous example of aggregate-demand management ever, in fighting the recession of 1974–75. There was clearly a bipartisan consensus, captured by President Nixon’s comment, “We are all Keynesians now.” One could actually date the high tide of government involvement in the economy to the Ford administration.\textsuperscript{19}

The supporters of Barry Goldwater’s philosophy did not give up after their candidate’s defeat in 1964. In conservative think tanks and publications, they developed their analyses of why the course taken by society during the 1960s and early 1970s was a disaster. A few commentators and politicians popularized the message, none more
successfully than former governor of California Ronald Reagan, with a series of radio addresses and a vigorous, albeit unsuccessful, run for the Republican presidential nomination in 1976. When the economy turned sour in the 1970s, a whole body of analysis was waiting to be drawn upon for political proposals, such as the one by Representative Jack Kemp in 1978 for a three-year tax cut. Meanwhile, in 1979, the Center for the Study of American Business came out with the conclusion that new social regulation was costing American businesses $100 billion per year.

Just sixteen years after Goldwater’s defeat, Ronald Reagan won the presidency and the Republican Party took control of the Senate. The rest is the history we have just revisited in this book. It has been eighteen years since President Reagan’s victory. Admittedly, those with ideas in opposition to the prevailing bipartisanship cannot draw on the same bottomless pits of money that institutions like the Heritage Foundation and the American Enterprise Institute, periodicals like the Wall Street Journal and the Public Interest have at their disposal. However, the vigor in developing new ideas is there in the Economic Policy Institute, the Jerome Levy Economics Institute at Bard College, the Center for Popular Economics, the Financial Markets Center, the education departments of various unions, including the umbrella AFL-CIO, and many other groups as well.

The most difficult task for people who want to reverse the policies of the past eighteen years is to get their message through to the public at large and to press the agenda in Congress and state legislatures in ways that permit a concerned public to bring pressure to bear.

Let us once again recall that agenda. First and foremost, enforce the Humphrey-Hawkins Full Employment and Balanced Growth Act, which amended the Employment Act of 1946 to identify a target level of 4 percent unemployment as the end of policy. If this requires budget deficits, so be it. The sooner we Americans see through the absurd assertion that budget deficits almost always harm the economy, the better. Second, reform the financial sector to bring the Federal Reserve under the control of the elected representatives of the people with a clear mandate to allocate credit to socially productive activities such as housing, infrastructure, and research and development and to keep interest rates down. Third, get big money out of politics. Fourth, reform our international economic relationships to forestall massive capital flight and trade deficits.
This may seem like a tall order, but there are models from our own history and the experiences of Europe during the post–World War II period that indicate that these goals, in purely technical economic and legal terms, can be reached. In the end it will take a political struggle to make these changes, just as it took a political struggle to launch the Reagan Revolution. The major difference is that the Reagan Revolution ended up operating in the interest of at most 20 percent of the population, while these alternative reforms, as proposed by the Catholic bishops, the trade union movement, and various public-interest research groups, will benefit the other 80 percent. It is essential that that 80 percent come together to demand of our political leaders that they change course.