



**ECONOMICS**  
FOR THE 99%

**Center for Popular Economics**

## 2012 Summer Institute

If you are interested in a more in-depth, in-person exploration of the issues included in this booklet, come and join us at our week-long Summer Institute, Economics for the 99%, July 23-27, Columbia University, NYC.

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# **Economics for the 99%**



# Acknowledgements

Economics for the 99% has been a collective effort of members of the Center for Popular Economics who have generously volunteered their time on a demanding schedule. We would like to recognize the hard work of the whole team that has done the coordination, writing, editing, layout, and production:

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# 1. Introduction

*The* Occupy Wall Street (OWS) movement has brought about a remarkable change in public consciousness. Until the movement began in September 2011, it was rare to hear politicians or the mainstream media acknowledge such huge problems as the gap between the rich and the rest of us or growing poverty. OWS has shifted the conversation.

Not only has the movement drawn attention to these long-ignored injustices, it has given all of us new ways to talk about them. OWS has turned “the 99%” and “the 1%” into household terms.

For decades, we have been told that “there is no alternative” to an economic system in which hundreds of thousands are homeless while millions of houses stand empty, in which truckloads of food are wasted while 20 percent of all children live in poverty, in which ever-increasing resources are devoted to war while schools and hospitals fall apart. But now, in the United States and all across the world, a new chant has arisen: “another world is possible.” This chant challenges us to imagine a world in which all human beings have access to a decent education and health care, to a good job and housing. We can imagine a world in which the economy is not a force of nature beyond our control, working for the enrichment of a few, but something we create for the well-being of all.

At this historic moment, there is enormous potential for change. The current economic system is not delivering the goods—its inability to meet the needs of the vast majority is plain for all to see. The crisis that set the stage for the emergence of the OWS movement has made major change in our economy and society not only desirable but possible.

This booklet is intended as a contribution to the growth of the OWS movement. It is designed to serve as a resource for anyone working in any of hundreds of ways—organizing, writing, teaching, discussing with neighbors, protesting—to build a more just and sustainable economic system. The struggle for a new world requires many things, and one of them is an understanding of the current economic system. How does it work? Why does it work the way it does? Why does it produce the problems we see all around us? How did it arise? What are the short-term and long-term alternatives?

*Economics for the 99%* was produced by the Center for Popular Economics (CPE), a collective of economists based in Amherst, Massachusetts. CPE was formed in 1978—another time when the economy was in crisis—by economists who were actively engaged in the social struggles of the 1960s and 70s. Now, as then, our purpose at CPE is to demystify the economy so that advocates for justice in all parts of society can better understand the context of their struggles, and so better organize and target their efforts.

This 15-part booklet seeks to present a coherent analysis that is developed step by step for the reader. It starts by addressing major economic problems—by no means the complete list!—and looking at their dimensions and their roots in the economic system. It then introduces some economic alternatives—visions of a different kind of economy. The booklet includes an insert with a timeline of the period since 1900 and an accompanying narrative. The booklet can be used as a complete resource in itself or as a source of short leaflets on individual topics. Each numbered section was designed to be usable on its own, to be copied or emailed to those interested in the particular topic; they may be copied and distributed freely.

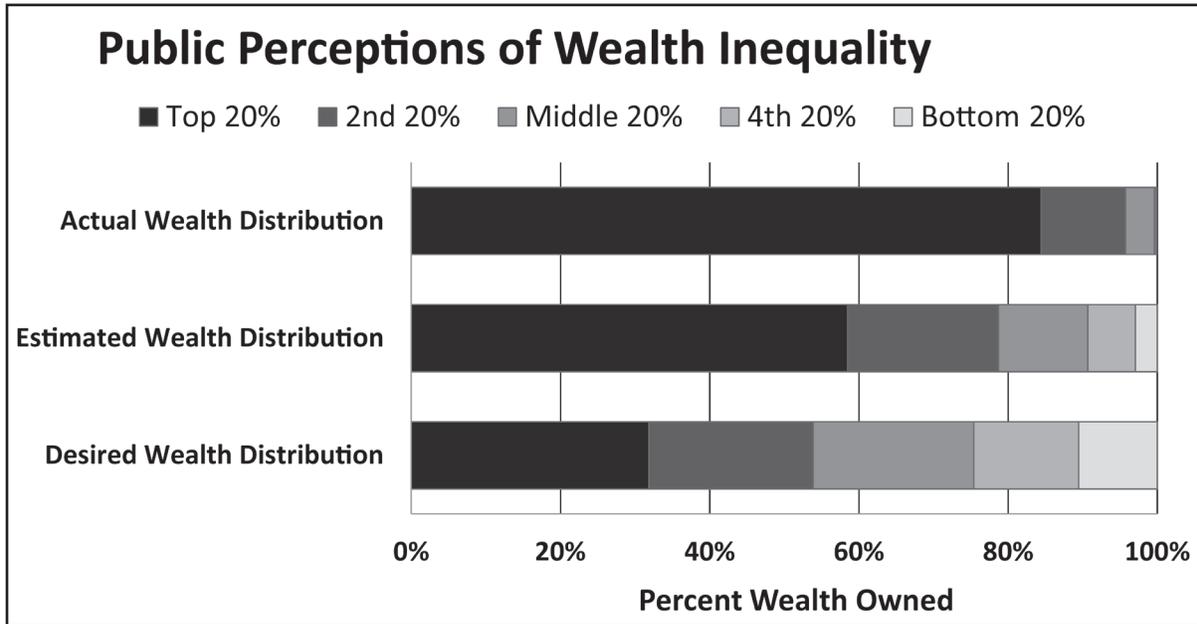
Education is a two-way street. We hope we have created something useful for the OWS movement. However, we do not have all the answers, and we can benefit from your suggestions and comments, which can be incorporated into later versions.

*Economics for the 99%* is available in print and electronic form. To get the print version, or to learn more about CPE, go to:

<http://www.populareconomics.org>

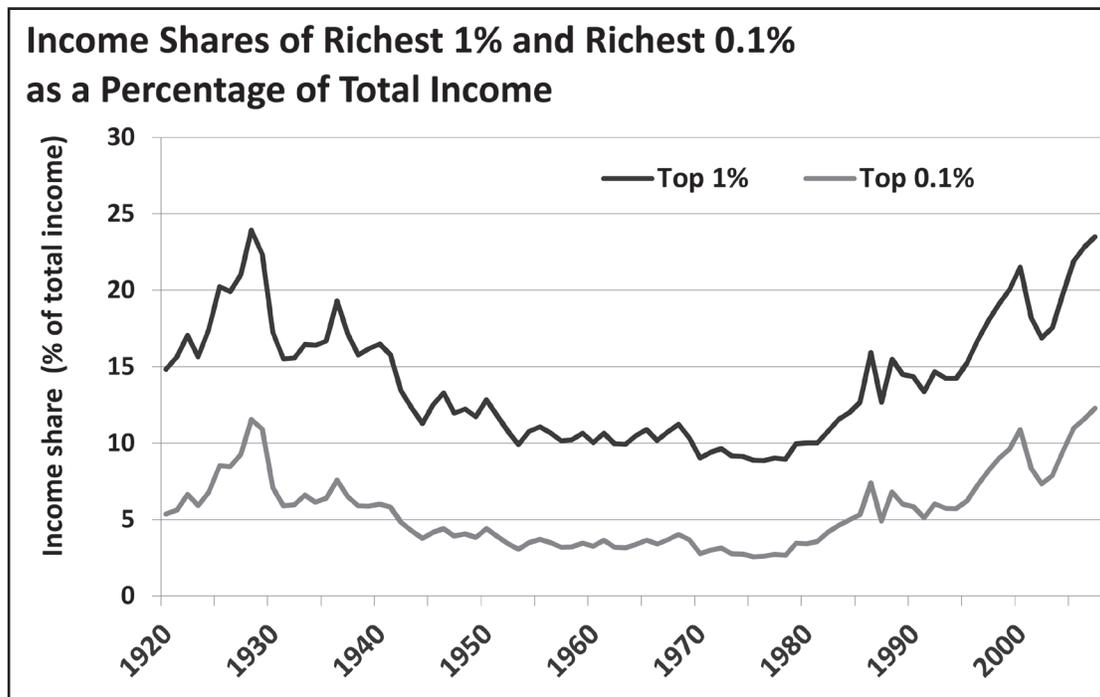
You can contact us in the following ways:

Email: [programs@populareconomics.com](mailto:programs@populareconomics.com)  
 Telephone: 413-545-0743  
 Mail: Center for Popular Economics  
 P.O. Box 785  
 Amherst, MA 01004



A recent survey of 5,000 Americans, conducted by Michael L. Norton of Harvard Business school and Dan Ariely of the Duke University Economics department, showed that the actual distribution of wealth is more unequal than most people's estimation, and far more unequal than most people's ideal. Graph reproduced from data courtesy of Norton and Ariely.

## 2. The Inequality Society: Why Are the 1% So Rich and Powerful?



The series constructed here is based primarily on income tax statistics. Full details on the series, constructed by Thomas Piketty and Manuel Saez, are available at: <http://www.econ.berkeley.edu/~saez>. Graph by David Kotz.

*In* the United States, the richest 1% of households have seized a growing share of the total income. The richest 0.1% (the richest one tenth of one percent, that is, the top one out of every 1,000 households) have seen their incomes rise still faster. What is behind this shift in income distribution and what does it mean for democracy? The Occupy Wall Street movement has forced these urgent questions of inequality onto the public agenda.

### How Much Do the Top 1% Get?

In the 1920s—a decade of free-market capitalism much like the period since 1980—the share of income going to the richest 1% rose rapidly, reaching 24% in 1928. Then changes in American capitalism after the Great Depression of the 1930s and World War II lowered the share to 9.9% by 1953. After 1980, another period of free-market capitalism led to the share of the rich rising again. By 2007, inequality in the United States reached the level of the late 1920s, with the richest 1% receiving 23.5% of income. The share of the richest 0.1% rose even higher than it had been in 1928.

Another measure of inequality is the ratio of the pay of CEOs of large corporations to the pay of the average

worker. In 1973, the average big corporate CEO was paid 27 times as much as the average worker—by 2005 it had risen ten-fold to 277 to 1!

### Capitalism and Inequality

While the very rich have grabbed a rising share in recent decades, they have taken a big share ever since capitalism arose in the United States in the early 19th century. Capitalism necessarily brings a high degree of inequality. While there are some medical doctors and star entertainers among the super-rich, business executives make up more than 60 percent of those in the top 0.1%. A small number of people own the bigger businesses, while the majority work for them, which enables the owners to take for themselves a large share of what is produced. In addition, clever financial operators find ways to grab a particularly large share of what is produced by working people, as we have seen in recent times. When capitalism is free of any constraints, inequality is high and keeps rising.

### Why Does Inequality Get Lower at Certain Times?

Certain institutions can reduce the inequality that capitalism produces. These include strong labor unions;

progressive income taxes; government social programs such as Social Security, Medicare, and unemployment compensation; government regulation of the financial sector; and government controls over the “freedom” of big companies to relocate their businesses around the world so as to play off workers in each country against one another.

The New Deal that emerged from the Great Depression and World War II included all of the above institutions. Lo and behold, the degree of inequality declined significantly from the late 1920s to the 1950s, and it remained at historically low levels through the 1970s.

However, the relatively low degree of inequality in the 1950s-70s was still not so low. After all, at its lowest point, the richest 1% got just under 10 times as much as the average household income and the richest 0.1% got 30 times as much as the average income. Even the most egalitarian outcome under capitalism leaves the rich very rich and powerful.

#### **Why Did Inequality Rise So Fast After 1980?**

After 1980, the above-mentioned institutions that reduce inequality under capitalism were all weakened or eliminated. Big business and government together attacked labor unions, which declined in membership from 35% of the work force in the early 1950s to 12% today. Taxes were shifted from the rich and big corporations to the rest of the population. The top personal income tax rate in the 1950s was 91–92%; it has fallen to 35% today. Most social programs were cut back. And far from least, the banks were turned loose from government regulation, allowing them to engage in an orgy of speculation and fraud that enriched their executives while doing nothing useful for the economy. Global trade and investment rules were changed to allow big companies to more easily shift production anywhere in the world, undercutting hard-won living wages for millions of U.S. workers in manufacturing. While the 99% as a whole lost ground, these changes hit people of color and women particularly hard. The economic crisis that began in 2008 was the straw that broke the camel’s

back, bringing even greater economic decline for the 99%.

#### **Effects of High and Rising Inequality**

Growing concentration of income and wealth leads to growing concentration of political power. As the share of income of the top 1% has grown, so has their ability to get their way with government at all levels, from Congress and the White House to city councils. Regardless of which is in office, both major political parties must get funding from the rich to get elected and re-elected. This makes politicians especially careful to enact policies that favor the rich and protect their interests. Large corporations and wealthy individuals are thus able to dominate the world of politics, shaping everything from tax codes to regulatory agencies. All of the biggest banks would have gone bankrupt if the taxpayers had not bailed them out in 2008, but after being saved by the taxpayers, they emerged as the most politically powerful segment of the rich and powerful. The rest of big business also has enormous political clout.

Research has shown that inequality has negative effects that reach into all spheres of life. Higher levels of inequality are associated with higher rates of violent crime, worse health for those with relatively lower incomes, greater levels of environmental pollution, and increases in political corruption.

#### **What Can Be Done?**

What can be done to reverse the high degree of inequality? There are two options. One is to reform capitalism along the lines of the reforms enacted in early post-World War II decades, which would lessen inequality but still leave big business taking the lion’s share of income and holding political power. Option two is to replace capitalism with an egalitarian economic system in which income is shared equitably among those who do the work and those who should not be working because of age or condition. Such a change would end the concentration of political power in the hands of the rich. The last chapters of this booklet explore possible solutions to inequality of income and power.

### 3. How We Got Here: A Brief History of 20th Century Capitalism in the United States

*The* previous chapter discussed the huge share of income and economic and political power held by the top 1% today. It linked this inequality not only to the capitalist system as a whole but also to specific changes in the structure of American capitalism that began around 1980. How and why did these changes take place? An understanding of this history can help point the way toward an economy that serves everyone instead of just the few at the top.

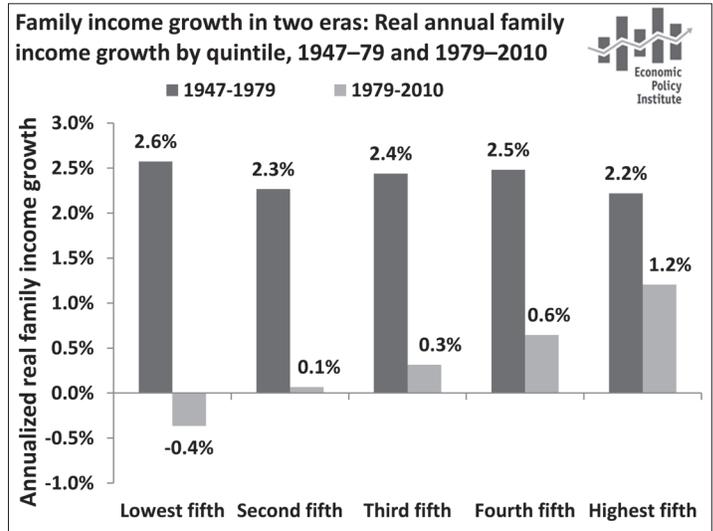
#### What Came Before Neoliberal Capitalism?

After the Great Depression of the 1930s and the Second World War that followed it, capitalism in the United States and Europe changed in ways that substantially improved conditions for the 99%. These improvements were the result of successful struggles by working people in the 1930s and 40s. Labor unions and other popular groups fought for an economic system that provided jobs for all at wages that assured a decent living standard, dignity in the workplace, and economic security.

The rich were terrified by the economic collapse in the 1930s and the popular anger that arose against them and the economic institutions that secured their power. Socialist and Communist parties had many supporters in the developed capitalist countries, and suddenly a big bloc of countries in Eastern Europe and Asia were run by Communist parties. Under intense pressure from popular uprisings, the rich decided the time had come to compromise, hoping that by giving up some of their privileges, they would be able to preserve most of them.

In the United States, as well as in other countries with capitalist economies, a new political compromise emerged between the 99% and the 1% in the 1930s and 1940s. Big corporations began to bargain with labor unions instead of trying to crush them. Important social programs such as Social Security, unemployment compensation, and later Medicare and Medicaid, were created and expanded. The marginal income tax rate on the rich rose to 92% on the highest incomes in the early 1950s. The federal government actively regulated key sectors of the economy, including banking, transportation, electric power, and communication.

Not least, the government abandoned the old “free market” belief that recessions and depressions would



Source: Economic Policy Institute analysis of U.S. Census Bureau, Income, Poverty and Health Insurance Coverage in the United States: 2010 Historical Income Tables, Table F3: “Mean Income Received by Each Fifth and Top 5 Percent of Families.” © 2011 EPI, used under a Creative Commons Attribution-ShareAlike license: <http://creativecommons.org/licenses/by-sa/3.0/>.

automatically cure themselves. Inspired by the ideas of the British economist John Maynard Keynes, the government began to use changes in public spending, taxes, and interest rates to stabilize the economy, keep the unemployment rate low, and prevent another Great Depression.

#### How Did Regulated Capitalism Work Out?

Many economists call the period 1948–73 the Golden Age of capitalism. The new form of regulated capitalism or social democracy brought faster growth in the United States and other capitalist countries than had been seen before or since. The economic conditions of most of the 99% improved steadily in that period. The American family in the middle of the income distribution saw its purchasing power almost double between 1947 and 1973. Inequality plummeted: the share of income going to the top 1% fell from a peak of 24 percent in 1928 to about 10 percent in the Golden Age. Public services such as education expanded, and public higher education grew rapidly with very low tuition rates. Not all was rosy. For example, the incomes of people of color remained well below that of whites, and women were paid less than

men. But the economic progress of the bulk of the population in this period was impressive.

### **The Crisis of the 1970s**

No form of capitalism works smoothly indefinitely. Starting in the late 1960s, problems arose from the viewpoint of the 1% that eventually adversely affected most Americans. The average rate of profit for business began to fall and kept falling through the 1970s, the inflation-adjusted value of stocks declined substantially, and the banking system entered a crisis period in the late 1970s and early 1980s. Conflict between labor and capital increased starting in the late 1960s, with many long strikes, as employers, facing heightened competition from foreign firms, tried to push their labor costs down. Inflation became a serious problem in the 1970s, partly due to big oil price increases that led to rising conflict between employers and workers over their shares of the income pie. Employers raised prices to sustain high profits in the face of inflation, while unions demanded wage increases to maintain workers' purchasing power.

The nation thus faced a choice. It could transform the system of regulated capitalism so that it would even better serve the needs of the bottom 99% under the changed economic conditions, or it could see the 1% move the nation back toward the unregulated capitalism of the 1920s.

### **Neoliberal Capitalism Is Born**

At the end of the 1970s, the 1% decided that compromising with the 99% was over and went on an offensive to destroy all important aspects of the system of regulated capitalism. The government and big corporations attacked the labor movement, symbolized by President Reagan's firing of thousands of striking air traffic controllers in 1981. The 1% demanded cut-backs in important government social programs such as Social Security and Medicare that benefitted the 99% and in crucial public-sector investment; an end to the regulation of banking and other industries; a drastic reduction of taxes on corporations and the rich; the privatization of public services; the destruction of the union movement; an end to government

policies aimed at securing the low unemployment rates that strengthen workers in their struggle with big business; and freedom for corporations to shift investment, production, and money around the world to maximize their profits.

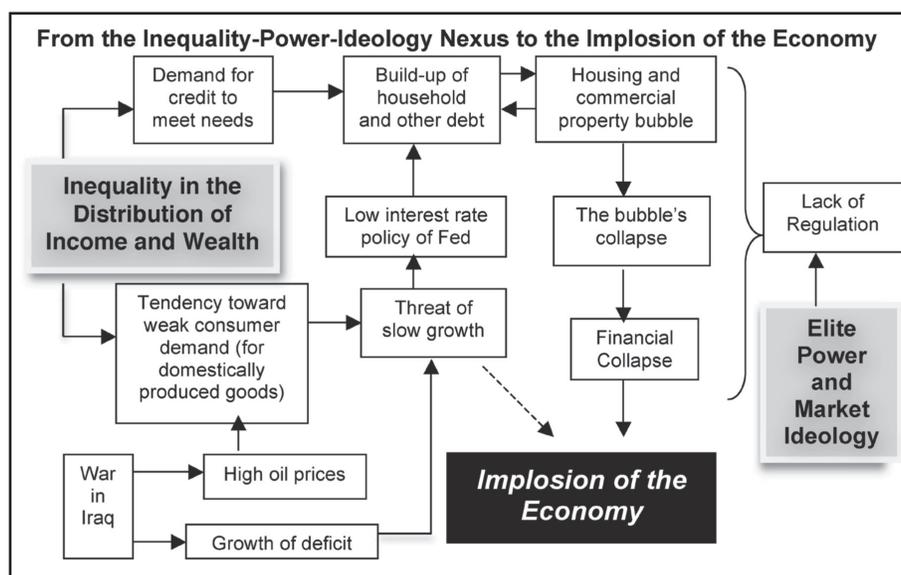
At the dawn of the 21st century, it was clear that the 1% had achieved all their objectives. They had replaced regulated capitalism with a system called neoliberalism or neoliberal capitalism. Of course, the 1% needed right-wing economic theories to try to convince the country that what was good for the 1% was good for everyone. Thus was born "trickle down" economic theory, which claimed that if the 1% got everything they wanted, economic growth would accelerate and the benefits would trickle down to everyone else. In fact, the rate of economic growth slowed substantially after 1980s in the United States and other developed capitalist countries, while income and wealth flowed up to the 1% as intended. The rich grew richer as incomes for most families stagnated or declined.

### **Today: Crisis of Neoliberal Capitalism**

Unregulated capitalism is exceptionally unstable. After three decades of good times for the 1%, the radically deregulated financial system collapsed in 2008, pulling the global economy down with it. This sequence of financial collapse followed by economic implosion was reminiscent of the process leading to the Great Depression of the 1930s that followed the previous period of so-called free-market capitalism in the 1920s. The next chapter examines the ongoing economic crisis. This crisis is so severe that it will inevitably produce fundamental changes in our economy and our society.

The kinds of changes that will take place are not predetermined. Their form will depend on the actions taken by various groups in society. Resistance to right-wing austerity policies imposed by the 1% has broken out in various forms across the country and around the world. Energetic, well-organized struggles for an economic system dedicated to serving the needs of the 99% in the 1930s and 1940s achieved significant success during the last crisis of unregulated capitalism. If the 99% effectively organize to fight for a better world now, we can get one.

## 4. What Caused the Financial and Economic Disaster?



From Arthur MacEwan and John A. Miller, *Economic Collapse, Economic Change: Getting to the Roots of the Crisis* (Armonk, NY: M.E. Sharpe, 2011), 87. Copyright © 2011 by M.E. Sharpe, Inc. Used by permission.

A financial crisis means that banks and other financial institutions suddenly get into deep trouble. An economic crisis means the so-called real sector—the production of goods and services by non-financial businesses—has a big decline in output and profits. Along with this goes rising unemployment.

### Whopper of a Crisis

The current crisis, which really got going in the fall of 2008, has been much more severe than any in the United States since the Great Depression of the 1930s, although there was another severe one in the 1970s. All of the biggest banks suddenly were about to fail. The gross domestic product (GDP) fell by 5.1 percent at its low point in 2009, and the recovery has been very sluggish. Business investment, which is supposed to power a recovery, is still 8 percent below its 2007 level. Officially measured unemployment jumped up from 4.8 percent in February 2008 to 10.2 percent just 20 months later in October 2009. Today, 13 million are officially unemployed while fuller estimates find 24 million who want full-time work but are unable to find it. More than two million homeowners have suffered foreclosure, while 22 percent of home mortgages are “under water,” meaning more money is owed on the home than the home’s market value. As state and local tax revenues declined, 668,000 public employees lost their jobs from mid-2008 through January 2012, which has disproportionately affected African-American workers.

### Crisis Happen in a Capitalist Economy

Since capitalism arose in the United States in the early 19th century, there have been severe economic crises about every 20 to 30 years, as well as frequent milder ones. The basic reason for capitalist crises is the profit motive that is the centerpiece of capitalism. Business will not invest or hire people unless they expect enough profit. While capitalism can bring economic growth, every period of growth leads to problems that threaten continuing high profits for business. This threat can come from rising costs or lack of demand for what is produced. If business thinks profits are becoming “inadequate,” they cut back production and lay off workers.

### Major Crises and Economic Change

The occasional big crisis occurs when a particular form of capitalism, such as free-market capitalism or state-regulated capitalism, stops working effectively to maintain high profits. This causes a severe, long-lasting economic crisis, and in some cases a financial crisis as well. Such severe crises have occurred in the United States in the late 19th century, the 1930s, the 1970s, and again today.

Every such severe economic crisis in U.S. history has been followed by a major restructuring of the economy. The crisis of the late 19th century brought us the big Wall Street banks and giant corporations that started dominating the economy. The Great Depression of

the 1930s eventually gave rise to a new state-regulated capitalism, with government regulation of banking and other industries, government efforts to promote high employment, social welfare programs, high taxes on the rich, and strong labor unions. The economic crisis of the 1970s brought us the free-market, or neoliberal, form of capitalism we have had since the early 1980s.

### So What Caused This Crisis?

Neoliberal capitalism has had three features that both explain how it promoted 25 years of economic expansions and why it led to a massive crisis in 2008. First, inequality grew rapidly, as profits rose while workers' wages actually fell. From 1979 to 2007, the average inflation-corrected hourly wage of non-supervisory workers declined by 1 percent, while inflation-corrected nonfinancial corporate profits after taxes rose by a remarkable 255 percent. While surging profits pleased the capitalists, it brought a problem: who could buy the growing output that comes with economic expansion? The solution was debt. Somehow, people would have to borrow more and more if a form of capitalism that brings skyrocketing profits and falling wages was to function.

The second feature of neoliberal capitalism has been a banking sector, now free of significant government regulation, that pursued ever-riskier activities. Banks and other financial institutions were looking for ways to make profits from lending to ordinary people, while millions of working people, whose wages were falling, had to borrow if they were to pay their bills. The banks invented new ways to lend money through credit cards and exotic home mortgage loans that were combined together and sold to investors for a big profit. The banks made a fortune from these practices. But all of this lending could not go on unless the borrowers owned something valuable as security for the loan.

The third feature of neoliberal capitalism was a series of big asset bubbles, such as the real estate bubble of the 2000s. An asset bubble occurs when speculative buying drives the price of some asset, such as real estate, far above its true economic value. The 2000s housing bubble created an estimated \$8 *trillion* of bubble-inflated real estate value, which was about 40 percent of the market value of homes in the United States. The real estate bubble created "fictitious" wealth that enabled people to borrow from banks to pay their bills, with their home as security.

These three features enabled neoliberal capitalism to bring 25 years of long economic expansion. However, it created unsustainable trends. Household debt grew and grew, from a manageable 59 percent of household income in 1982 to an unmanageable 126 percent of

household income by 2007.

Every asset bubble eventually deflates. When the real estate bubble collapsed starting in 2006, the whole house of cards tumbled down. The banks held trillions of dollars in exotic assets that lost their value when home prices plummeted—suddenly they were bankrupt. Working people suddenly could not borrow more but had to start repaying their debt in 2008, and so demand for output fell sharply, leading to a severe economic collapse. The big crisis had begun.

### Inequality and Debt

Inequality and debt are two sides of the same coin. If wages had risen as labor productivity rose over time, working people would not have been forced to borrow to pay their bills. As the rich seized a growing share of society's income and their tax rates fell, state governments cut the funding of public universities, so they raised tuition and fees. This accelerated after 2008, and students now are saddled with huge educational debt averaging about \$25,000 upon graduation.

### Why Is This Crisis So Severe and Persistent?

The capitalism of the 1920s was much like today's neoliberal capitalism. As a result, the current crisis has similarities to the Great Depression of the 1930s. The big difference is that today there is a federal government and active Federal Reserve that have been able to intervene. They bailed out the banks and passed a stimulus bill that stopped the initial freefall in the economy. However, the government did not do much to solve the problems of the 99%: high unemployment, low wages, unpayable debt, homelessness, and underwater mortgages.

Neoliberal capitalism has been discredited—but it is still with us, and there is no way for the economy to recover without major changes. Business has plenty of funds but will not invest since it sees no increase in demand from cash-strapped or unemployed consumers. Government is cutting spending as tax revenues decline. The housing sector lies prostrate.

### Possibilities

History teaches that periods such as this will eventually give rise to major economic changes. The big banks and corporations will push for changes that will secure their profits. The 99% have a huge opportunity to demand changes directed instead at solving their problems and meeting their needs. While neoliberal capitalism was working well on its own terms, it was difficult for the 99% to have much impact. If we don't act now, with neoliberal capitalism discredited and change in the air, the 1% may impose on the rest of us something even worse than neoliberalism.

## 5. The Great Austerity War Waged by the Top 1% Against the Rest of Us

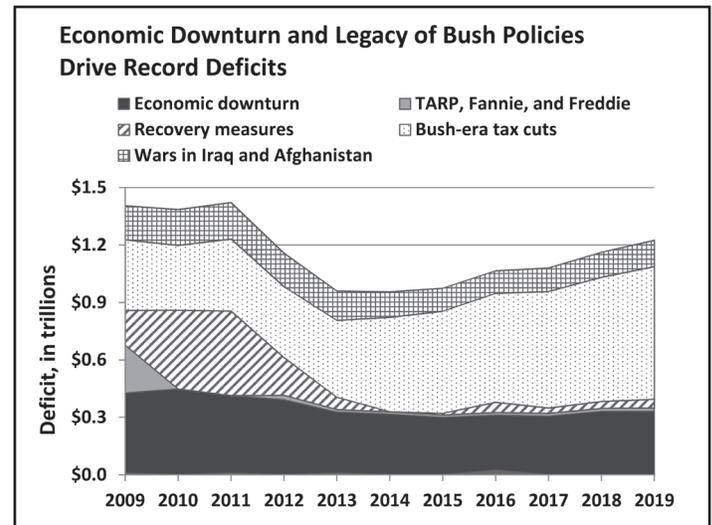
*Since* the beginning of the 2008 economic crisis, politicians in both major parties, pundits, and business leaders have been sounding the alarm about the dangers of the government deficit. They claim that the government's continuing to spend more than it brings in poses a long-term threat to the country's economic well-being, and they call for austerity programs that reduce spending—mostly on social services. But just how big a problem is the government deficit, and are there other ways to solve it?

### Background

In the Great Depression, Americans revolted against a capitalist system in which the richest 1% of the population captured a quarter of all income and controlled the political system. The economic policies of the 1% led to a financial and economic collapse in the early 1930s that created massive poverty and high unemployment in a system without a government safety net. The resulting rebellion led to President Roosevelt's "New Deal." It regulated the banks, supported the rising union movement, raised taxes on the rich, and created a government support system that eventually included Social Security, unemployment compensation, and Medicare and Medicaid. These changes brought the income share of the top 1% down to 10 percent after World War II. In response, a right-wing coalition of business interests, wealthy families, and conservative politicians dedicated themselves to the overthrow of the New Deal. It had little success until the Reagan Administration in the 1980s began to replace the New Deal with a modern version of the 1920s economic model called global neoliberal capitalism. This coalition is now pushing for final victory.

### What Caused the Rise of Government Deficits?

The right-wing economic regime that arose in the 1980s lowered the rate of economic growth. Slow growth and regressive tax cuts slashed tax revenue while military spending rose, leading to rapidly rising government deficits. Federal government debt as a percentage of national income was at a post-World War II low of 26 percent when Ronald Reagan took office. When George Bush, Sr., left office in 1992, it had almost doubled to 48 percent. It fell to 33 percent under Bill Clinton, but slow growth under George Bush, Jr., along with tax cuts targeted to the wealthy and heavy



The Center on Budget and Policy Priorities' calculations, based on data from the Congressional Budget Office, show that the extension of Bush era tax cuts contribute more to deficit projections than TARP, Fannie, Freddie, and other recovery measures combined. Reproduced by permission from CBPP, "Economic Downturn and Bush Policies Continue to Drive Large Projected Deficits," by Kathy A. Ruffing and James R. Horney, May 10, 2011.

borrowing to pay for two major wars, raised the ratio to 40 percent by 2008. During this time, inequality also rose to its late-1920s high. The financial crisis and economic collapse after 2007 forced the government to increase spending and cut taxes in an attempt to prevent the outbreak of a depression. As a result, the debt ratio is projected to hit 75 percent in 2012.

Although their policies created the deficit problem, the right-wing coalition demands that the problem be resolved by cuts in social spending so large that they threaten to destroy the foundations of the New Deal. However, with unemployment and under-employment at post-World War II highs, precisely the opposite policies are needed. We need a sharp increase in productive government investment and spending on crucial social programs to stimulate growth and employment. The longer-term deficit problems can be fixed by progressive tax increases, cuts in military spending, and further reforms to the health care sector.

### Republicans Want to Use the Deficit Problem to Destroy the New Deal

One part of the attack on the New Deal centers on Social Security and Medicare. Both of these vital social support programs face long-term problems, but these

problems are not as severe as the right-wing coalition would like people to believe.

Social Security is funded by payroll taxes and by law cannot borrow, so it cannot add to the deficit. However, long-term projections suggest that payroll tax revenue will eventually be inadequate to fully fund the program. Conservatives want to use this problem to privatize the program, or at least weaken it by raising payroll taxes, increasing the age of Social Security eligibility, and lowering payments to recipients. Yet 80 percent of benefits go to families whose other income is less than \$20,000. Social Security could be adequately financed over the long-term by eliminating the current \$107,000 cap on taxable compensation. This would pay for 86 percent of the 75-year projected shortfall.

Likewise, there is a long-term crisis in health care, but there is only one effective solution to the problem of rising costs and increasingly unequal access. The United States must adopt a system like those used in other rich countries that do not allow private insurance companies, drug companies, and hospital conglomerates to take a huge share of health care spending. In 2009, Canada's health care spending, as a percentage of national income, was 6.9 percent less than that of the United States, yet it enjoyed health care results that were at least as good.

The radical budget bill passed by the Republican-controlled House of Representatives in April 2011 demonstrated that the party is committed to the total destruction of New Deal programs. It called for non-defense spending cuts of \$4.5 trillion dollars over ten years. Cuts in low-income programs would be almost two-thirds of the total. If enacted into law, federal spending other than on Social Security, Medicare, Medicaid, and interest payments would drop from 12 percent of national income in 2010 to 3.5 percent by 2050. This would have disastrous consequences for low-income workers, children and the elderly, and others who rely on these programs.

The bill also calls for the privatization of Medicare and a sharp reduction in Medicaid. Seniors would receive a grant to help buy private insurance that by 2030 would pay for just one-third of the cost of a Medicare-equivalent private insurance policy. By 2030, federal funding of Medicaid would be just 51 percent of its 2010 level.

The House bill also shifts costs from the rich to the poor. It makes the Bush tax cuts permanent at a cost of over \$5 trillion in lost revenue over a decade. It cuts the top tax rate for both individuals and corporations from its current 35% to 25% and drops the tax on capital

gains to zero. The tax cuts could be so large that the bill would actually add \$2.5 trillion to the deficit over the next decade, continuing the pressure for yet more spending cuts. Meanwhile, Republicans have slashed public spending at the state and local government levels and are trying to destroy public-sector unions.

### **Democrats Agree to Shrink New Deal Programs**

When the Republicans threatened to shut down the government in August 2011, President Obama and the Democrats signed off on a law that will cut at least \$2.3 trillion in government spending over the next decade but does not generate a single dollar in new tax revenue from corporations or the rich. Nondefense discretionary spending as a percentage of national income is projected to fall from its current 3.5% level to 1.7% in 2021, leaving nondefense spending at its lowest level in over a half century. A *New York Times* editorial called this law "a nearly complete capitulation to the hostage-taking demands of Republican extremists."

### **How Should We Resolve the Deficit Problem?**

To resolve the current deficit problem over the coming decade and lower both inequality and unemployment, we should begin by taking the following five steps. First, we must end the Bush tax cuts by using Clinton-era tax rates; this would raise \$5.4 trillion in tax revenue over the next decade. Higher rates on top incomes would generate even greater revenue. Second, we must tax dividends and capital gains at the same rate as wages and salaries to add \$1 trillion in revenue. Third, we must eliminate business tax loopholes that allow the large corporations to pay less than their share. Closing just three quarters of these loopholes would create \$1 trillion in new revenues. Fourth, we must institute a small tax on stock and derivative sales that would generate \$1.5 trillion and decrease financial sector gambling. Finally, we should reduce military spending by at least \$1 trillion dollars in the coming decade.

Some of the revenues generated by these changes must be used to fund productive public investment and essential government services to create jobs in the immediate future. Remaining revenues would keep the deficit problem under control over the coming decade. Removing the cap on Social Security taxes and adopting an alternative health care system would resolve long-term deficit concerns. What we need most is the replacement of global neoliberal capitalism with a progressive economic model that can generate full employment and rising wages while dramatically lowering inequality in America.

## 6. A Brief History of the Federal Reserve



Federal Reserve headquarters in Washington, D.C., © 2005 Dan Smith, used under a Creative Commons Attribution-Share Alike 2.5 Generic license: <http://creativecommons.org/licenses/by-sa/2.5/>.

*When* a business wants to expand, a family wants to buy a house, or a government wants to increase public spending, they need to borrow. The financial system is supposed to be the plumbing of the economy, letting credit flow where it is needed. But this plumbing is defective—it's a source of instability and crisis, as the supply of credit is either cut back to a trickle or pours out in floods. And it is also a site of political conflict: the majority of us, as borrowers, want credit to be cheap and abundant, while creditors (those we owe money to) want to keep it expensive and scarce. Thus, there is a fundamental conflict between people who borrow money and people who lend it. The Federal Reserve was set up to adjust the supply of credit to meet the needs of the real economy and manage this conflict, but in practice it serves the interests of creditors.

### Debtor Versus Creditor: An Old Conflict

Conflict over debt is as old as the United States. Shays's Rebellion, an armed uprising against the new government in the 1780s, was a rebellion of debtors against creditors. When banks and moneylenders cut off credit to small farmers and demanded repayment, farmers who could not pay their debts saw their land seized and sold at auction to pay off their creditors.

Rather than accept the loss of their homes, hundreds of veterans took up arms and marched on courthouses to halt the foreclosures.

One hundred years later, another period of rising debt burdens gave birth to the Populists, a movement of farmers, small business owners, and workers. At that time, the United States was on the gold standard, so bank lending was strictly linked to the supply of gold. Many people thought this was normal and natural. But it meant that as the economy grew, unless there were lucky gold discoveries, there was no way for the supply of money to grow with it. When something is scarce, that's good news for whoever owns it and bad news for whoever needs it. Under the gold standard, money was scarce. That was good news for the owners of money—banks, creditors, and the rich in general—and bad news for everyone else. So the Populists demanded a government-issued “people's currency, elastic and cheap, based on the entire wealth of the country.” For that, the country needed a central bank.

### Enter the Fed

The central role of a central bank—the Federal Reserve, or “the Fed,” in the United States—is to control the availability of credit and the amount of money in

circulation. It does this mainly by buying and selling short-term government bonds. The details of these open-market operations aren't important; what matters is that they make it easier or harder for banks to borrow from other banks. When it is easy for banks to borrow, they should be willing to make more loans to households and businesses, and to accept lower interest rates. In theory, this allows the Fed to increase lending when the economy needs stimulus and to reduce it when demand is too high.

When the Federal Reserve was established in 1913, its mission was set by law as ensuring an “elastic” currency, just as the Populists had called for. The Fed was supposed to end bank panics and crises, and to regulate the supply of credit so that it grew steadily in line with the needs of the economy. Since the big banks couldn't stop the creation of the Fed, they did everything they could to control it. The Fed is unique among government agencies in that it is legally accountable to the same industry it is supposed to regulate: the Board of Governors that runs the Fed includes members chosen by private banks. And even though the Fed chair is appointed by the President of the United States, that doesn't mean our vote matters—each of the last three Fed chairs has been appointed by both Republican and Democratic administrations. The result is that the Fed is always divided between the interests of the real economy—the need to ensure sufficient credit for the economy to expand—and the interests of finance—the desire to keep credit artificially scarce. Most of us benefit from strong growth and low unemployment, even if that means moderate inflation (that is, rising prices or a falling value of money). But finance wants to preserve the value of money at all costs, even if that means mass unemployment and the waste of the economy's productive potential.

### **Unemployment and Inflation**

For years after World War II, the Fed seemed to have learned its lesson and recognized the importance of keeping unemployment low. For three decades, it was committed to maintaining a low unemployment rate, even at the risk of inflation. As a result, for thirty years, prices rose, but unemployment stayed low and incomes rose faster. This period saw steadily rising wages, and some of the strongest growth in American history.

Unemployment is frightening for people who live on their labor. But inflation is frightening for people who live on their money. The high inflation of the 1960s and 1970s convinced the banks and other money-owners that things had gone too far, and they began pushing for tighter monetary policy. They scored

their first big victory when, under President Carter, Paul Volcker became chairman of the Fed. Volcker was obsessed with reducing wages. To do this, he raised interest rates to unprecedented levels, deliberately provoking the deepest recession of postwar history (or at least the worst until the Great Recession). As historian William Greider puts it in *Secrets of the Temple: How the Federal Reserve Runs the Country*, “Volcker believed that inflation would not be securely defeated...until workers and their unions agreed to accept less. If they were not impressed by words, perhaps the liquidation of several million more jobs would convince them.” When a delegation of legislators from farm states came to Volcker to plead for easier money, Greider reports that he bluntly replied, “Look, your constituents are unhappy; mine aren't.” Volcker's constituents were the banks.

Under Volcker and his successor Alan Greenspan, “job insecurity” became a goal of Fed policy instead of something to avoid. Many industries, like steel, never recovered. But for Volcker and Greenspan, the important thing is that loans are no longer paid back in cheaper dollars. For lenders, the past quarter century has been the best of times. But for borrowers—homeowners, students, people with medical bills or who are in between jobs, small businesses—it has been a period of steadily growing debt burdens.

### **More Debts, More Problems**

In the current recession the Fed seems to be doing more to support employment, with unconventional policy like quantitative easing, in which the Fed tries to stimulate economic growth by injecting more money into circulation. So why hasn't the Fed been able to fix the economy? Some economists think it hasn't really tried—that it is still working for its real constituents in finance, taking advantage of high unemployment to push down wages and prices. Other economists think it's because the Fed can't control the supply of credit—even when the Fed loosens, banks still won't lend. Still others think that even if banks are willing to lend, businesses don't want to borrow because there is little demand for their products. For these economists, while scarce credit has been a disaster for the real economy in the past, it's not the source of our problems today. There is controversy over how hard it is currently for households and businesses to get new loans; but whatever the answer, existing debt remains a huge problem for the majority of us who are debtors. If monetary policy can't or won't alleviate that burden, then debtors may have to take a page from Shays's Rebellion and challenge creditors directly.

## 7. A Plan for Financial Reform

*The* performance of the financial system leading up to the financial crisis of 2008, and in the aftermath of that crisis, demonstrated the ways in which the system operated to benefit primarily the richest 1%. Some of these ways were not just the result of bad luck or irresponsible individuals. Rather, they were features of the entire financial system that had developed over time. If these problems in the financial system are not addressed, responses to the current crisis will be incomplete at best, and future crises will be that much more likely. Any plan to reform the financial system needs to address the following problems that were highlighted by the recent crisis.

**Predatory Lending.** To maximize fees, home mortgage lenders made as many mortgages as possible. In the process, some borrowers were improperly charged higher, subprime interest rates when they actually qualified for lower-rate prime loans, and loans were pushed even though some borrowers had no ability to repay them and eventually lost their homes.

**Opaque Derivatives.** So many subprime mortgages were extended because mortgage lenders could immediately sell them to Wall Street firms. The firms demanded them because the mortgages were used as building blocks for the complex, opaque, and risky financial instruments known as derivatives.

**Conflict of Interest.** The risky derivatives, which eventually exploded and caused havoc in the financial system, were rated AAA—the highest rating possible—by the rating agencies, Moody’s, Standard and Poor’s, and Fitch. But the agencies were being paid by the firms that created the derivatives, causing a significant conflict of interest.

**Excessive Risk.** In creating derivatives based on subprime mortgage loans, Wall Street firms assumed that the speculative bubble in home prices would continue. They financed portfolios of risky derivatives with volatile short-term financing. They traded for their own accounts (proprietary trading) using federally insured deposits.

**Outrageous Pay.** Wall Street executives and traders paid themselves enormous bonuses based on the short-term profits they achieved from excessive risk. When the speculative house of cards collapsed, they did not give back their bonuses.

**Too Big to Fail.** Following the crisis, too-big-to-fail banking institutions claimed they had to be bailed out because their failure would disrupt the entire financial system.

### Fixing the Financial System

The major legislative attempt to address these problems is the Dodd-Frank Wall Street Reform and Consumer Protection Act. This massive, 800-plus-page document covers a wide range of issues—all of the problems listed above, and more. It was signed into law in July 2010 and is the clearest piece of financial reform in the wake of the financial crisis. But there are two major problems with the legislation. First, although it is generally an important step forward, it falls short of what is really needed in a number of ways. Second, it provides only a general framework for financial reform. Many of the specific details of how the legislation will be implemented are left to the interpretation of the regulatory agencies. Below are the ways that Dodd-Frank addresses the problems discussed above.

**Consumer Financial Protection Bureau.** This agency, the idea of consumer advocate Elizabeth Warren, is perhaps the strongest element of Dodd-Frank. The Bureau has the authority to stop or limit many of the predatory lending practices that were so evident leading up to the crisis. However, opponents of the Bureau in Congress are still fighting it and are refusing to approve the appointment of any director of the Bureau unless the Bureau’s powers are weakened.

**Trading of Derivatives.** Dodd-Frank would require all “standard” derivatives to be traded and cleared via clearinghouses, thus bringing some transparency to these opaque instruments. But just what is a “standard” derivative is open to interpretation.

**Credit Rating Agency Objectivity.** The Franken Amendment requires the Securities and Exchange Commission (SEC) to create a new mechanism to prevent issuers of derivatives from picking credit rating agencies so as to achieve the highest ratings. However, Dodd-Frank requires the SEC to undertake a two-year study of the issue, so the exact mechanism that will be used to address the conflict-of-interest problem is unclear.

**The Volcker Rule.** Named after former Federal Reserve chairman Paul Volcker, this rule limits the ability of

banks to make risky proprietary bets for their own accounts with federally-insured deposits. However, it does not do what is really needed here: the reinstatement of the Glass-Steagall Act, which had separated commercial banks that take in insured deposits from investment banks that engage in riskier activities since the 1930s. The Glass-Steagall Act was effectively repealed by Congress in 1999.

**Say on Pay.** Dodd-Frank establishes shareholder votes on compensation packages of top executives. However, the votes are non-binding and need to be held only every three years. There seems to be little change in the culture of greed that has contributed to the outrageous wealth of the top 1%.

**Resolution Authority.** This authority would theoretically allow bank regulators the authority to take over, rather than simply bail out, any financial institution that posed a systemic risk to the stability of the financial system. But the failure to do this in the wake of the financial crisis allowed the biggest banks to grow so large and powerful that taking them over in the future would be difficult. Their size and power enabled them to influence Dodd-Frank and to pose problems for the future implementation of the law. What this presents, though, is a challenge; it means that we need to continue to be active and engaged in the process of financial reform if the interests of the 99% are to be addressed.

## 8. Housing and the Economic Crisis

*The* US housing crisis of the mid-2000s is often identified as the domino that first precipitated the recession that began in 2008, and a wave of home foreclosures has been one of the recession's most visible consequences. However, the connections between real estate markets, home foreclosures, and general economic crisis are not always clear. What caused the “housing bubble”? Why did it burst, and how did it have such devastating effects? This chapter will provide a brief analysis of the housing crisis and an overview of some of its effects.

### Bursting Bubbles

In the early 2000s housing prices began to rise very rapidly, producing a “housing bubble,” which means that home prices rose far beyond their true economic value. By 2006, the average home value, adjusted for inflation, was nearly double what it had been in 1996. Why did this happen?

The housing bubble, like the stock market bubble of the 1990s, was mainly a product of two features of neoliberal capitalism. First, the huge amount of wealth going to the 1% was more than they could spend on luxuries or use for productive investments. Some of those billions found their way into speculative real estate investments, which started home prices rising. Second, the giant banks, freed from government regulation, were looking for high-profit loan opportunities, and they were happy to lend money to speculators in real estate, which propelled home prices up even further. The banks created mortgage-backed securities, which are financial instruments that derive their value from housing prices and mortgage payments. These became the hottest thing on Wall Street. The riches offered by trading mortgage-backed securities prompted a lot of predatory mortgage lending and outright fraud.

Every bubble must eventually burst, since the speculators who drive the price spiral will sell as soon as prices stop rising—and they cannot rise forever. The housing bubble came to an end in 2006-07. The fragile structure on which the housing bubble grew—belief in an ever-growing asset, regulators and bankers turning a blind eye to risky and even criminal behavior on the part of bankers and hedge funds, predatory lending practices—began to crumble. It became more difficult to refinance mortgages, and so the rate of foreclosures began to increase. The mortgage-backed securities that had so enticed the big banks suddenly plummeted in value, pushing the banks to the edge of bankruptcy.



Tim Simons

### Private Gain, Public Risk

The damage caused by the housing crisis enormous. As much as the giant banks such as Goldman Sachs and Bank of America lost, the damage to homeowners was immeasurably worse. Throughout most of the 20th century, most Americans' wealth, if they had any at all, was in their homes. When the real estate bubble burst, many Americans saw their primary store of wealth decline sharply in value or disappear entirely.

The bursting bubble's shockwaves traveled through the economy: construction fell to a fraction of its early-2000s level, consumption spending declined as people sacrificed to make house payments, pensions and retirement funds connected with mortgage-backed securities

withered. More and more borrowers found themselves unable to meet their mortgage payments, and home foreclosures skyrocketed. All told, Americans are estimated to have lost upward of \$14 trillion in wealth between 2006 and early 2009. As of March 2012, more than 13 million Americans owed more on their mortgage than their homes were worth.

The loss was not borne equally by all segments of society, however. Wealth inequality, which had been increasingly steadily for nearly three decades, grew at an unprecedented rate between 2005 and 2009. Banks and insurance firms were bailed out by the Bush and Obama administrations—the largest such bailout was the Troubled Asset Relief Program, or TARP—to the tune of trillions of dollars lent or pledged by the government. Even with repayments, the total direct cost to taxpayers is estimated to be several hundred billion dollars. Banks like Citigroup and Goldman Sachs were soon collecting record profits and awarding their executives fantastic pay packages.

### **Inequality and Dispossession**

Workers and people of color, on the other hand, were among the hardest hit. In addition to the growing inequality between the 1% and the 99% outlined in chapter 2—especially the most vulnerable of the 99%—the unequal share of economic hardship also fell along racial lines. While median net worth for white households fell from about \$135,000 to \$113,000 between 2005 and 2009, a decline of about 16 percent, for black households it fell from about \$18,000 to \$6,000, a loss of more than 70 percent. In other words, while the median white household had about 8 times more wealth than the median black household in 2005, by 2009 this gap had grown: white households had some 18 times more wealth than black households.

So while hedge funds, insurance firms, and banks were quickly rescued by the government, ordinary people were left to face unemployment, reduced social services, and crushing debt. Perhaps the most visible and most poignant symbol of the crisis's unequal effects on the 1% and the 99% has been the wave of home foreclosures. Banks foreclosed on and seized an average of about 1 million homes per year between 2007 and 2010, with an additional 1 to 2 million subject to foreclosure filings, default notices, and other legal action. Many of these actions by banks and creditors are illegal. Many states permit banks to foreclose on homes with no judicial oversight, and the enormous resources at

many banks' disposal makes enforcement of proper foreclosure procedures difficult. Audits across the country conducted by consumer advocacy groups, and city and state governments, have found a large majority of foreclosures clearly illegal, with many more displaying "irregularities." A recent report released by the city of San Francisco, for example, found that approximately 80% of all foreclosures in the city were illegal.

We in the United States now find ourselves in the perverse situation in which hundreds of thousands of families have been illegally turned out from their homes while the government swings into action to protect gigantic financial corporations from bankruptcy.

### **Next Steps**

At a national level, it is important to advocate for the broader policy changes discussed in the financial reform section so that we can build a stable financial system. More specifically, fighting for principal reduction—cutting back mortgage payments to more accurately reflect a property's current value—could make an enormous difference. Principal reduction is a way to make banks pay for some of the mess they helped cause and stop the dramatic looting of wealth from communities of color and the working class. At a grassroots level, fighting foreclosures and evictions has also been a powerful method for Occupy activists to get involved in community organizing and movement-building. This kind of organizing has taken many forms across the country.

A foreclosure and eviction defense model developed by City Life/Vida Urbana in Massachusetts is called "The Sword and the Shield." This strategy combines legal defense of families and individuals at risk of eviction—the shield—and direct action and resistance—the sword. The shield can consist of informing tenants of their rights and working with progressive lawyers to force banks to reconsider foreclosure evictions or even pay settlements. The sword takes the form of encouraging residents to stay in their homes and make their stories public, organizing eviction blockades, vigils, and other actions to exert public pressure on the banks.

Legal challenges and direct action to prevent the often-illegal eviction of families is just the beginning. The momentum built by actions like these and OWS may lead to more fundamental change—it is entirely possible to create for the 99% the kinds of basic security that have so far been reserved for the 1%.

## 9. Unemployment

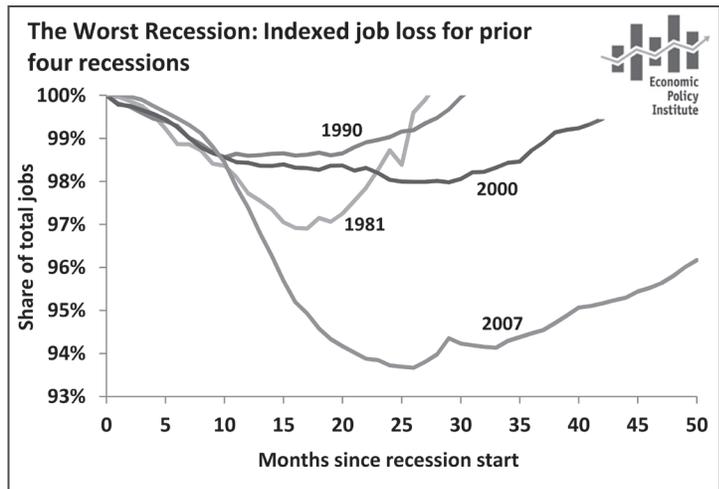
*When* the recent economic crisis exploded in 2008, the unemployment rate increased dramatically to levels last seen three decades ago, in the early 1980s. Unlike the sharp downturn at the beginning of the 1980s, unemployment caused by the recent financial debacle has remained high, at around 9 percent, for several years. Persistently high levels of unemployment represent one of the most costly consequences of Wall Street's excesses in economic and human terms. However, it is important to keep in mind that even in relatively good times, the U.S. economy has frequently failed to generate enough jobs for everyone who needs paid work.

### What Is Unemployment and How Is It Measured?

Official statistics only consider someone to be unemployed if he or she (1) is economically active and (2) lacks employment. Only those who are able to work and have or are looking for work are considered economically active. Under the official definition, an individual is considered to be actively looking for work if he or she has taken concrete steps to find a job over the past four weeks. The unemployment rate is the number of unemployed divided by the economically active population.

The official unemployment rate does not reflect other significant employment problems. For the employed, part-time work and temporary employment count the same as having a full-time, relatively permanent job. Therefore, the unemployment rate fails to capture shifts from high-quality to precarious or temporary jobs. To give a concrete example, the number of individuals in part-time work due to economic conditions increased by over 3 million from August 2008 (before the full impact of the crisis became clear) to October 2011, but this increase in part-time work is not reflected in the unemployment rate. Discouraged workers—individuals who have given up looking for work because employment prospects in their area are dismal—represent another challenge to measuring unemployment. Discouraged workers are not included in unemployment rate calculations, leading to an underestimation of the true level of unemployment.

For these reasons, many argue that statistics on underemployment and discouraged workers should be used to present a more complete picture of the employment situation. The U.S. Bureau of Labor Statistics generates indicators that take these factors into account. For example, while the official unemployment rate has hovered around 9 percent in recent years, indicators of



'Share of total jobs' represents the number of jobs in the country as a percentage of the total number of jobs at the start of the recession. Source: Economic Policy Institute analysis of Bureau of Labor Statistics data, *Current Employment Statistics*, public data series (data current as of March 9, 2012). © 2012 EPI, used under a Creative Commons Attribution-ShareAlike license: <http://creativecommons.org/licenses/by-sa/3.0>

labor underutilization, which make allowance for discouraged and part-time workers, averaged about 16 percent.

### What Causes Unemployment?

A number of factors contribute to sustained unemployment. The overall level of demand—the amount consumers are willing and able to spend on goods and services—in an economy directly influences the level of employment. When demand from consumers, businesses, and other countries is weak, firms cannot sell all that they produce. Inventories start piling up and companies cut back on production, laying off workers. A vicious cycle develops with growing unemployment reducing demand further and leading to still higher levels of unemployment. Insufficient demand is a major cause of the high levels of unemployment experienced after the financial collapse of 2008. Falling housing prices, declining retirement accounts, high levels of indebtedness, shrinking investment among non-financial firms, and rapidly increasing unemployment all contributed to a dramatic decrease in overall demand.

Slack economic conditions are not the only cause of unemployment. Unemployment frequently persists even when the economy is growing. When unemployment is low, the ability of workers to demand higher wages improves. However, higher wages squeeze profits. Businesses respond to profit squeezes by looking for ways to cut labor costs or reduce the number of workers

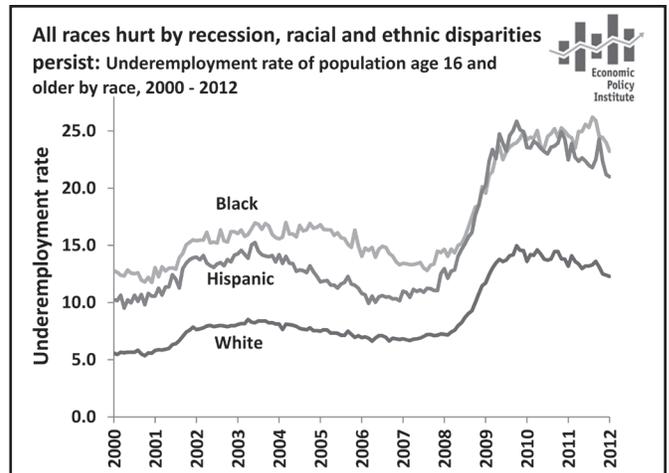
they employ. Employers may adopt a number of different strategies: they may implement labor-saving technologies, subcontract production to overseas producers, pursue strategies to get the existing labor force to work harder and longer for the same pay (instead of hiring more employees), and lobby to reduce government safety nets that soften the economic blow from losing a job (thereby weakening workers' bargaining power). Many of these strategies result in fewer jobs being created and they contribute to ongoing unemployment, even when the economy is recovering or otherwise performing well.

**Macroeconomic Policy and Unemployment**

Government policies also affect the level of unemployment. In some cases, the policies chosen have a built-in biases against full employment. Macroeconomic policies—that is, the government's role in the economy as a whole—represent an indispensable tool for getting out of an unemployment trap.

Take the example of the policies pursued by the Federal Reserve. The Federal Reserve, also called the Fed, is responsible for U.S. monetary policy and has a dual mandate: to maintain the maximum possible level of employment while also keeping inflation low. The weight given to these two goals—inflation and employment—affects unemployment. In recent decades, before the financial crisis, the Fed has narrowly focused on controlling inflation. Inflation refers to increases in the average level of prices in the economy. When the Fed deems that inflation is getting too high, it takes steps to raise interest rates and reduce the availability of credit—maneuvers that tend to slow economic activity. Demand in the economy grows more slowly, unemployment rises, and, as a result, pressures to increase prices and wages become weaker. These efforts to control inflation often come at the expense of employment—there's an anti-employment bias to monetary policies that focus primarily on inflation.

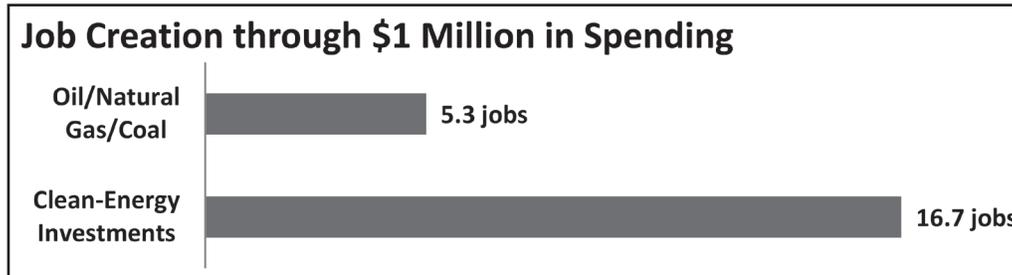
Alternative approaches to macroeconomic policies can encourage fuller employment rather than sustaining



'Underemployment' includes the unemployed, those not working as many hours as they'd like ('total employed part time for economic reasons') and those who have given up looking for work ('discouraged workers'). Source: Economic Policy Institute analysis of Bureau of Labor Statistics data (data current as of March 20, 2012). © 2012 EPI, used under a Creative Commons Attribution-ShareAlike license: <http://creativecommons.org/licenses/by-sa/3.0/>.

unemployment. For example, when private demand is weak, leading to high rates of unemployment, government spending can step in to bolster total demand in the economy. This is the idea behind a fiscal stimulus (such as the American Recovery and Reinvestment Act of 2009). To give a second example, the bailout of the financial sector during the recent crisis stopped at the corporate level and did not reach out to help homeowners. However, high levels of mortgage debt and low housing prices have been significant contributors to weak demand and high unemployment. In this situation, a rescue package for low- and middle-income homeowners represents another example of how economic policy could help address the problem of widespread joblessness. The broader challenge is to shift the focus of economic policy away from the needs of the financial sector and towards the goal of creating and maintaining decent employment opportunities for all.

## 10. Job Creation



More than three times as many jobs can be created by investing \$1 million in clean energy (building retrofits, smart grid, solar, wind, etc.) rather than in fossil fuels. Source: Input-Output tables of U.S. Commerce Department. Reproduced by permission from Pollin, Heintz, and Garrett-Peltier, "The Economic Benefits of Investing in Clean Energy," Political Economy Research Institute, 2009, 30.

*One* of the most obvious and damaging aspects of the economic crisis that began in 2008 is the growth in unemployment—millions of people who are unable to find adequate work to support themselves and their families. The long-term consequences of this unemployment, however, may not be so obvious. What can be done to create decent jobs for those who want them?

### Unemployment Hurts

As of November 2011, 13.3 million people were unemployed by the narrowest definition of the term. Unemployment has negative consequences both for the individuals who wish to work but cannot, as well as for society more broadly. Individuals who can't find a job may have difficulty paying their bills and often experience physical and psychological stress. Society suffers as crime rates rise along with unemployment. The economy drags as its resources—people—are left idle. Furthermore, unemployment can create a vicious cycle, as unemployed workers have less money to spend, reducing demand for goods and services throughout society, which then causes businesses to lay off workers resulting in more unemployed people with less money to spend. And so the cycle continues.

### Fiscal Policy Can Interrupt the Cycle of Unemployment

Fiscal policy is the government's ability to use taxes and spending to change the level of economic activity. The federal government has many tools it can use to increase demand for goods and services and thus to increase employment, including direct spending and tax incentives for individuals and businesses. When unemployment is high and consumer spending falls, these

fiscal policy tools can increase the level of employment by increasing overall spending in the economy, which in turn leads businesses to expand and to hire more workers. The federal government can directly purchase goods such as vehicles or can purchase services such as weatherization of public buildings. It can also stimulate private spending by offering tax incentives to individuals and businesses, for example, by offering a tax rebate to home owners who install energy-efficient windows. Direct government spending and incentives to increase private spending lead to job creation as demand grows economy-wide.

The federal government can engage in so-called "deficit spending" during a recession to lift the economy out of a slump and put people back to work. If the government increases its spending without also taking in more tax revenues, the budget deficit grows. However, increased employment means that government spending on unemployment insurance will fall and tax revenue from income taxes on newly employed workers will rise, in turn reducing the deficit.

### There's a Precedent: The New Deal

The economic crisis that began in 2008 is not unique in our history. During the Great Depression, the unemployment rate in the United States rose to 25%. Franklin D. Roosevelt was inaugurated President in 1933 and shortly thereafter he and the Congress instituted a series of reforms known as the New Deal. The New Deal included regulation of the financial sector, enactment of certain labor standards and minimum wages, and policies to increase employment. Various organizations and agencies were established to directly put people to work, such as the Civilian Conservation Corps (CCC) and the Public Works Administration

(PWA). The CCC directly hired young men to work on rural conservation projects while the PWA built major public works projects such as dams and bridges using private contractors. The New Deal included many types of direct public spending that effectively created millions of jobs for unemployed workers.

### **Creating Jobs with Social Benefits**

Increasing employment is not an end in itself, but a means to an end. Individuals benefit as employment opportunities increase and they have an easier time finding a job and paying their bills. Workers as a whole benefit as they gain bargaining power and are able to demand better working conditions and higher wages. The effects on society, however, depend on what type of employment is created. Pursuing strategies to create employment in targeted areas such as clean energy, education, health care, or infrastructure can have social payoffs that go beyond the employment itself.

Greenhouse gas emissions are at damaging levels within the United States and globally. Reducing these emissions will require a variety of strategies, including increasing the energy efficiency of our buildings and vehicles and shifting from an energy system dominated by fossil fuels to one that relies on renewable sources such as wind, water, and solar power. The federal government can promote employment in the clean energy sector both directly and indirectly, including by purchasing fuel-efficient vehicles, weatherizing buildings, putting solar panels on schools, and offering discount loans or tax incentives to people buying renewable energy technologies such as solar panels or geothermal heat pumps.

Employment in the clean energy sector encompasses a wide variety of educational backgrounds and levels of experience, and it spans a range of occupations and wages. Engineers and architects with college degrees are needed to design buildings and technologies.

Production workers with credentials ranging from less than a high school education to a college degree will be needed in the manufacturing sector. Construction workers ranging from electricians with some college education to insulation workers with less than a high school education will be needed to install the renewable technologies and energy-efficient materials. By stimulating spending in the clean energy sector, the federal government can create a wide variety of employment opportunities in sectors that have been hit hard by this economic crisis, including construction and manufacturing, at the same time that it addresses environmental needs.

Likewise, there are other priority areas for channeling public spending and stimulating private spending that can both create decent jobs and meet social needs. These include, but are not limited to, health care, education, and infrastructure. For example, the federal government could expand health insurance for low-income children (the CHIP program), could channel more education funds to cities and towns to prevent teacher layoffs, and could directly invest in infrastructure projects to update our electrical grid and expand public transportation. Targeting spending in these areas will address social priorities and at the same time will expand employment for medical professionals, teachers, construction workers, and all of the occupations that in some way support these industries—textbook manufacturing, editing, medical equipment design and manufacturing, accounting and administrative services, and so on.

Creating job opportunities is one of the roles of our federal government, as codified by the 1978 Full Employment and Balanced Growth Act. By increasing public spending on clean energy, health care, education, and infrastructure, the federal government can create a wide range of employment opportunities for the millions of people who are ready to go back to work.

# 11. Environmental Policy for the 99%



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*The* imminent threat of climate change and pervasive toxins threatening our health and well-being are forcing people to become more aware of our vast environmental problems. But in order to take a hard look at the challenges we face and devise ways to ensure the future of our planet and the health of our communities, we need to look beyond the usual environmental debates and begin asking new questions: who benefits from environmental degradation and who bears the costs? The Occupy movement's emphasis on economic and political inequality in the global economy has created the unique opportunity to put these two questions front and center in key debates about how to solve our current environmental challenges.

## New Environmental Questions

Most economists and policymakers think of economic activities that harm the environment in terms of whether they reap an overall net gain. The identities of the people who either benefit from these activities or who pay the cost are rarely considered in this basic calculus. It will, of course, come as no surprise to the Occupy movement that those with the most wealth and political power are usually the beneficiaries of economic activities that pollute people's environments.

And who bears the highest cost of environmental

degradation? While we all suffer from the presence of toxic substances in our air, soil, water, and the materials that surround us, a large body of research shows that low-income communities and people of color live in the midst of the greatest environmental hazards. For example:

- The poorest, who have contributed the least to its causes, will suffer the most from climate change, specifically from impacts like water shortages, desertification, rising sea levels, and extreme weather.
- Urban residents most exposed to toxic air pollution tend to be people of color.
- Children of color who live in poor areas are more likely to attend schools filled with asbestos, live in homes with peeling lead paint, and play in contaminated parks.

Without understanding and changing how these standard socioeconomic fault lines distribute environmental toxins to the already disadvantaged, we cannot go about solving our environmental problems. There will always be the opportunity and incentive to force less powerful people and communities to bear the majority of the environmental costs of economic activity.

## Identifying Problems

One place to begin making these changes is the environmental policy arena. The Reagan administration mandated that cost-benefit analysis would be the primary tool for making environmental policy decisions, like allowable use of pesticides and levels of resource extraction. The belief was, and still is, that cost-benefit analysis is always the most objective, transparent, and efficient method for making these kinds of decisions.

What is cost-benefit analysis? The basic idea is that it measures the impact of government regulation by imitating the workings of markets. In other words, if the total costs of a potential decision outweigh the benefits, then it is not a desirable decision (just as it would not be for a private business). In the abstract, the idea of weighing a policy decision's costs and benefits sounds like a reasonable endeavor, but in practice, it's fairly problematic. Here's why:

- The ways in which economists measure costs and benefits are often inaccurate and implausible. There are a wide variety of technical problems in measuring, for example, the impact of preventing a child's brain impairment from lead poisoning. We simply do not have a solid monetary metric for measuring the value of protecting human life, health, and the environment, which renders the results of cost-benefit analysis inherently unreliable.
- It systematically trivializes and downgrades the future. Economists utilize a technique borrowed from investment accounting called discounting. Costs that occur in the future are considered less important than costs occurring today and are discounted—assigned lower values—in the analysis. Why? Discounting reflects the assumption that people value things more today than in the future, because we're impatient and because we'll be richer then. This philosophy may make sense when we're talking about a short-term monetary investment, but when we're talking about the lives of our children and grandchildren, discounting becomes ethically questionable.
- While objective in theory, cost-benefit analysis is often performed with pre-determined results in mind. The coalbed methane debate in the American West is one example of this. The Montana Department of Environmental Quality promoted a cost-benefit analysis on their website that was

commissioned by the Montana Coalbed Natural Gas Alliance. The report provided elaborate and specific quantitative estimates of the benefits to the region but included no costs. It was more of a benefit analysis than a cost-benefit analysis. There are many examples of these kinds of arbitrary "studies" that have a real impact on policy decisions.

- It exacerbates inequality. This returns us to our questions about who wins and who loses in harmful economic activity. Cost-benefit analysis adds up the total costs and the total benefits, with no questions about equity and distribution of resources. Benefits are often valued by the willingness to pay for environmental improvements. When surveyed, the rich say they are willing to pay more than the poor for keeping a landfill incinerator out of their communities. Thus, despite the fact that common sense tells us impoverished and disempowered communities would just as much like to live in a clean and safe environment as the more wealthy and powerful, cost-benefit analyses typically say otherwise.

## Finding Solutions

What, then, is the alternative to cost-benefit analysis as a policy tool? One alternative is to choose our environmental objectives democratically (in the political arena) and then proceed with a cost-effectiveness analysis to help determine the least-cost way to achieve those goals. This method would allow the people who typically are most impacted by environmental degradation to have a voice in how these decisions are made. Of course, with the vast influence of corporate funds in politics, this is not a perfect solution. However, measuring people's opinions by their vote rather than their earnings is a major step in the right direction.

Our environmental problems are vast, and they may feel overwhelming. But in devising solutions to climate change and the presence of toxic substances in our air, water, and soil, we cannot forget to ask the questions that are too often ignored: who benefits the most from environmental degradation and who is most harmed? The smartest environmental policy we can design is one that is framed with those questions in mind. If the poorest and most disadvantaged among us come to enjoy a clean and healthy environment, that is the best indicator that all 99% of us are on the right path to a sustainable future.

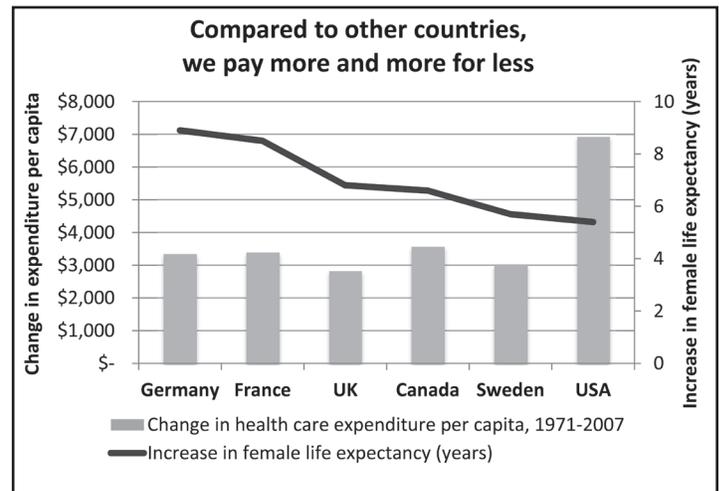
## 12. Health Care for People or for Profit?

*America's* health care system is broken. Despite spending far more per person on health care than any other country, the United States rates below most affluent countries in most aspects of health. No one spends as much as we do but there are 49 countries whose population has a longer life expectancy at birth and 48 with lower rates of infant mortality. Among those enjoying better health than the people of the United States are not only the affluent European countries and Japan, but also Cuba (lower infant mortality) and Jordan (life expectancy two years longer than the United States). We might question why, if we are only to have a life expectancy equal to Portugal's, we should spend over \$4,000 more per person. Or if we are to spend so much, we might ask why our life expectancy is not four years greater.

The problems in our health care system are based on two inseparable problems: rising costs and lack of health insurance coverage. America's health care costs are rising astronomically because of the inefficiency of our private health care system. The share of income allocated to health care has increased from 7 percent of our Gross Domestic Product in 1970 to over 17 percent today. These rising health care costs take funds away from other social needs such as education and infrastructure. Spending is increasing even while growing numbers of Americans are being denied basic care. Even before the crisis of 2008, the share of non-elderly adults without adequate health insurance rose from 35 percent to 42 percent, reaching 75 million in 2007. As the crisis worsened, unemployment rose and the number of Americans without adequate health insurance rose along with it. Those without adequate health insurance are significantly less likely to receive medical care, are less likely to be immunized against infection, and are less likely to receive treatment for both acute and chronic medical conditions.

### Costs in a Private, For-Profit Health Insurance System

When it comes to our health care system, the United States is exceptional. Annually, we spend about \$8,000 per person on health care, nearly twice as much as in countries like France, Germany, Norway, or Canada (all countries where people live longer than in the United States). Alone among affluent countries, we leave the financing of health care to the private sector with public health insurance restricted to the elderly and some of the indigent. This is a system designed to create profits, not health, and it works very well. Private funding



Source: OECD, *Facts and Figures*, 2006-7.

makes health care a great profit center for American capitalists while, at the same time, the drive for private profit denies needed care for the sick.

We have high costs with poor health outcomes because administrative waste permeates our private health care system. Provider offices are filled with employees responsible for billing and dealing with insurance companies whose own offices are filled with more employees responsible for managing the providers and finding ways to deny services and coverage to the sick and needy. The excess burden of paying for all of these administrators contributes to the incredible cost of health care in the United States while reducing the resources, including health care providers' time and energy, available to care for patients.

The extra cost of health care in the United States can be directly associated with private health insurance. As late as 1971, spending on health care, life expectancy, and morbidity rates in the United States were all comparable to those of other affluent countries like Canada, France, and the United Kingdom. Since then, however, universal coverage systems in these other countries have led to dramatic improvements in health at relatively low cost. Since 1971, for example, Canada's single-payer health care system has helped raise life expectancy by nearly seven years while the share of national income devoted to health care has risen by about three percentage points. In the United States, by contrast, the share of income devoted to health care has risen by over twice as much, seven percentage points, with a gain of only four years of life expectancy. Had we behaved like Canada, we either would have gained

an extra nine years of life expectancy for our expenditures or we would have saved five percentage points of income for our shorter life expectancy. Furthermore, all of this greater expense can be directly tied to our system of private health insurance. Medicare costs per enrollee have risen at almost the same rate as in Canada—leading to dramatic savings. Unlike in the private health care system, however, life expectancy has soared for the elderly and health has dramatically improved for those fortunate enough to enjoy America’s age-limited system of socialized medicine.

### **Universal Health Care**

The smartest way to lower health care costs and ensure that people get the care they need is to move to a single-payer health insurance program with universal coverage. A single-payer system would dramatically lower administrative costs not only in private insurance companies, where 15 percent or more of premium dollars are spent on administration and profits, but also in provider offices where the multiplicity of insurers has driven up billing and insurance-related expenses. By reducing administrative waste, a single-payer system could save money while improving care by fostering better coordination of care among different providers and by providing a continuity of care that is impossible in a system of competing insurance plans. In Massachusetts, for example, a state with a fairly efficient health-insurance system, a single-payer system would lower the cost of health care by 19 percent; in Maryland, health care costs would fall by 23 percent. Projecting these savings onto the nation as a whole, a single payer system might save \$500 billion, or \$1,700 per person.

By reducing administrative waste, a single payer system would save resources that could be used to extend coverage to the uninsured and improve coverage for the underinsured. It would also allow the long-term

investments in coordinating care and health promotion that have restrained health care costs in other countries. Here again, the United States stands out for its inability to control health-care inflation. Health care costs have risen throughout the developing world because more affluent populations buy greater longevity by spending on health care. Nowhere, however, has spending risen as quickly as in the private health-care system in the United States. (Our single-payer system for the elderly, Medicare, has controlled costs about as effectively as have other countries.)

In other advanced economies, national and universal health care systems have controlled costs so that each year of increased life expectancy has come at a cost of about \$450 per capita. In the United States, by contrast, costs have risen almost three-times as fast, by over \$1,200 per capita per year of life expectancy gained. If we “bought” increases in life expectancy as efficiently as did other advanced economies, such as Canada, France, Germany, or the United Kingdom, then we would be spending barely half as much on health care, saving over \$4,400 per person. Measured in this way, half of our health expenditures are wasted due to the administrative inefficiencies of our private health care system.

We can do better, and we must. The rising cost of health care is a burden on our economy, eclipsing any gains in wages and forcing unions and working people into desperate struggles even to maintain often inadequate health insurance. Only in the United States have private companies gained control over health care because only the United States government has allowed them to. But what politics has given private companies, politics and social action can take away. The alternatives are clear: we can let private companies use health care as a profit center, or we can transform health care into a social right to be provided to all. Their profits; our choice.

# 13. Visions of Economic Alternatives: Progressive Reforms

## A Starting Point

*As* the Occupy movement has so dramatically emphasized, the distribution of income and wealth in this country is grossly unequal. The top 1% are able to amass so much income and wealth because of their control over the nation's corporations and banks—as top executives, financial traders, hedge fund managers, members of boards of directors, stockholders, and so on. They use this control over resources to maximize their private gain, not the welfare of the broad majority. They also use their economic power to achieve political power through lobbyists, campaign contributions, and their ability to cause economic havoc if the government does not pass laws that further increase their economic power.

In order to break this vicious cycle, we need to articulate a vision of a society that values human dignity for all, not outsized profits for a few. We also need to break the stranglehold of control by the top 1% and enable the 99% to have much greater democratic control over society's resources and much greater control over their own government. Ultimately, we will need to go beyond capitalism to achieve these goals. But the following reforms, by affirming a vision of a decent society and by encouraging the transfer of power to the broad majority, can move us in that direction.

### Meet the Needs of the 99%

A decent economic system begins with policies and institutions that meet the needs of all members of society. Following are some of the policy goals such a system should have.

**Achieve full employment for all.** Create real full employment: a job for every person who wants to work. Institute a direct job-creation program that targets the hard-to-employ and puts them to work meeting community needs.

**Maintain a standard of living that affirms human dignity.** Pass a minimum wage that is high enough to maintain a decent standard of living. Strengthen the ability of unions to be able to negotiate decent wages and benefits (see below).

**Eliminate discriminatory barriers that prevent the full participation of all.** Promote economic develop-

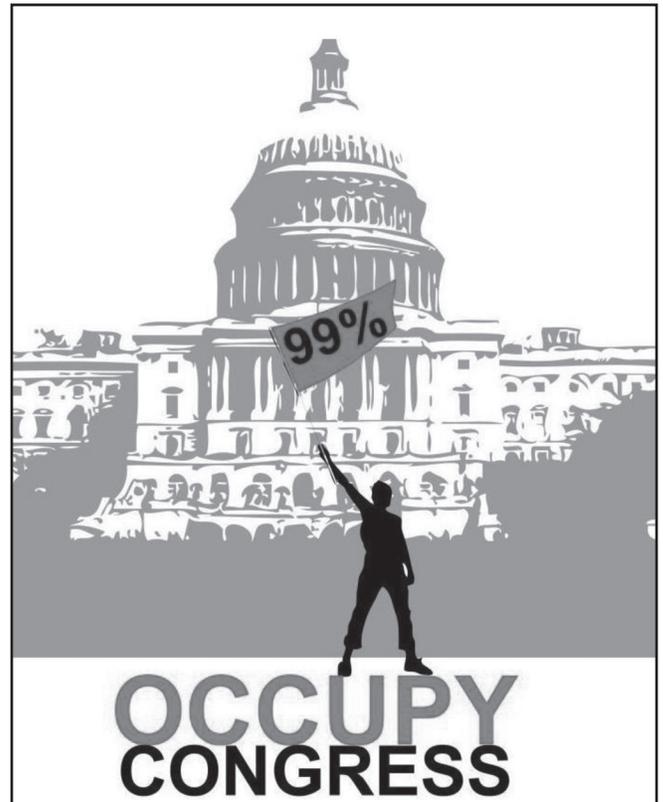


Illustration from a poster for Occupy Congress January 17, 2012 Action, <http://www.facebook.com/events/257373394319167/>.

ment in economically distressed areas. Take affirmative steps to encourage the hiring, promotion, and retention of minority and women employees. Help develop the capacity of minority- and women-owned businesses to bid for contracts and compete for business.

**Provide decent medical care for all.** Implement Medicare for all, or an efficient, “socialized medicine” system like the Veterans Health Administration.

**Preserve fresh air, clean water, safe food, and the planet itself.** Tax corporations that pollute our air, water, and food. Drastically reduce carbon dioxide emissions.

**Establish a first-class education for all.** Fully fund K–12 education and provide sufficient support for teachers to allow every child to reach his or her po-

tential. Make tuition for college affordable so that non-wealthy students are not prevented from attending and so that students are not burdened with debts that cannot be repaid.

### **Limit the Power of the 1%**

In order to achieve these goals and realize a decent economic system, one segment of the population must not have such a disproportionately large share of wealth and power as the top 1% have today.

***Make the rich pay their fair share in taxes.*** Repeal the Bush tax cuts for the rich. Raise the top marginal tax rate beyond 39 percent. (It was 91 percent during the Presidency of Dwight Eisenhower.) Eliminate the cap on taxable wages for Social Security so that income above \$110,100 is not exempted. Close corporate tax loopholes that let some highly profitable companies pay no corporate income tax.

***Make those who caused the financial crisis pay for it.*** Pass a financial transactions tax. Limit outrageous executive bonuses. Prosecute those who commit fraud in financial transactions. Reinstate the Glass-Steagall Act, which limited bank risk-taking with federally insured deposits.

***Support the right of workers to organize unions.*** Allow unions to be recognized on the basis of signed cards from workers. Strengthen the National Labor Relations Board so it can address the unfair ways companies sabotage union organizing campaigns. Eliminate “right-to-work” laws that undermine union financial resources.

***Stop companies from shipping jobs abroad.*** Tax companies that close down plants in the US only to move them abroad. Require companies wishing to relocate to repay all tax subsidies received and to compensate communities for harm caused. Require companies to compensate workers whose jobs are eliminated.

### **Promote Democracy**

The 1% have overwhelming power within the political system just as they have within the economic system. Yet a fundamental principle of democracy is that political power should be distributed equitably and that political participation should be open to all. The power of the 1% undermines these principles.

***Get corporate money out of politics.*** Repeal the Citizens United decision, which allows unlimited corporate money to influence political campaigns. Pass a strong law mandating public financing of campaigns. Prevent Congressional staff members from taking jobs as corporate lobbyists after leaving government employment.

***Eliminate barriers to voting.*** Overturn voter-ID laws and all other laws that create artificial barriers to voting.

***Encourage economic democracy as well as political democracy.*** Put workers and community members on corporate boards of directors. Encourage worker participation in production decisions to boost productivity and enhance safety. Use society’s resources for the betterment of all.

# 14. Visions of Economic Alternatives: Solidarity Economy

## Building an Economy for People and Planet



This mural's subject matter aims to amplify this neighborhood's resolve to embrace green principles and hopes to act as an example to those who view it on what it means to live sustainably in an urban environment. Gregory Aliberti, <http://www.alibertiarttile.com/product.php?productid=17544>. Reproduced with permission from the artist.

*There* is an historic opening to create and push for a new framework for social and economic development—one that puts people and planet before private profits and power. The solidarity economy is a growing global movement that is building such a world—through solidaristic, cooperative, and sustainable economic practices in production, distribution, exchange, consumption, and finance; through democratic, participatory ways of governance; and by joining with social movements to demand change for justice and sustainability.

### Crisis and Opportunity

Crisis can bring change. The Great Depression spelled the demise of the free market model that recommended that the government should do nothing because the market would fix itself. As the Depression continued with no self-correction in sight, the ruling model was overturned by the Keynesian economic model, which saw that the government must step in to stimulate and stabilize the economy, create jobs, provide a social safety net, create greater equality, and regulate the power and abuses of big corporations and banks. The economic crisis in the late 1970s of stagflation (high

unemployment and inflation together) challenged the effectiveness of the Keynesian model, which was in turn overturned by neoliberalism, which restored the primacy of supposedly free markets and small government.

This current crisis has laid bare the failures of the neoliberal model and may drive another shift in the dominant economic paradigm—if we are able to seize the opportunity. We know what we are fighting against. We need to know what we are fighting for. The solidarity economy offers a broad and pluralistic framework that is grounded in concrete practices.

### What Is the Solidarity Economy?

The solidarity economy is an alternative framework for economic development grounded in the following principles:

- Solidarity and cooperation
- Equity in all dimensions (race, ethnicity, gender, class, sexual orientation, etc.)
- Social and economic democracy
- Sustainability
- Pluralism (not a one-size-fits-all approach)
- People and planet first

While some elements of the solidarity economy have existed for hundreds of years, the theoretical framework is very young and is still in the process of evolving and being defined. There's a growing global movement to advance it as an alternative to capitalism and its current form, the failed model of neoliberal corporate-dominated globalization.

### **The Solidarity Economy Is Grounded in Concrete Practices**

We need not build the solidarity economy from scratch. Many features of existing economies are likely “keepers:” public schools, social security, environmental protections, and minimum wage and labor regulations are some examples of economic institutions worth preserving in some form. The solidarity economy sees labor such as child-rearing, care-giving, and community work as being a crucial and important part of the economy even if no money changes hands. Other elements of the solidarity economy could be characterized as “economic alternatives,” such as cooperatives, community land trusts, alternative currencies, community supported agriculture, credit unions, social investment funds, participatory budgeting, eco-industrialization, fair trade, and the commons movement. Taken together, these offer stepping stones along the path to a solidarity economy. The challenge is to pull these pieces together into a coherent economic system. The solidarity economy offers a framework to do this.

### **The Solidarity Economy Is a Movement**

The solidarity economy is a global movement comprised of solidarity economy practitioners, support organizations, educators, and labor and social movements. For example, the International Labor Organization (ILO) promotes the solidarity economy as a poverty-alleviation strategy; in Brazil, the Landless Workers Movement (MST) is a key player in the civil society Forum on the Solidarity Economy. There are countries that strongly support the solidarity economy: although they all use different terminology, Ecuador and Bolivia have enshrined it in their constitutions, Brazil has a Secretariat of the Solidarity Economy, and Venezuela has implemented features of the solidarity economy. Solidarity economy networks in many other countries

or provinces such as Mali, Luxembourg, and Quebec have forged comprehensive national policy frameworks to strengthen the movement and have leveraged substantial amounts of public funding.

The global movement is linked by the Intercontinental Network for the Promotion of the Social Solidarity Economy (RIPESS). Each continent has a RIPESS network, comprised of national, regional, or sectoral networks. RIPESS has organized an international solidarity economy forum every four years since 1997 to share best practices, theory, and research, create collaborations, build economic ties, and promote cross-cultural sharing. The next forum will be in the Philippines in 2013. For more information, go to [www.ripest.org](http://www.ripest.org).

The U.S. Solidarity Economy Network (SEN) was formed in 2007 to build the solidarity economy movement in the United States and to connect it with the rest of the world. It held the first U.S. Forum on the Solidarity Economy in 2009 and has published two volumes of essays on the solidarity economy. The current work of SEN includes mapping and building solidarity economy supply chains, education and organizing, research, and writing. For more information, go to [www.usesen.org](http://www.usesen.org).

### **The Relationship Between the Solidarity Economy and Socialism**

There are many different paths to get to the same goal of creating an economy for people and planet. Some solidarity economy advocates are market socialists; some favor a democratic, participatory form of socialism; some are anarchists or follow in the tracks of the autonomista movement; some do not have an ideological position but are motivated by ethical principles or the simple need to make a living. The solidarity economy approach rejects the need for a vanguard, a blueprint, or a rigid ideology. Rather, it builds organically on existing and emergent practices, informed by principle as well as theory. It is a humble project that does not presume to have all the answers, and it claims this as a strength, not a weakness. Rather, in the words of the Zapatistas, the solidarity economy seeks to build “a world where many worlds fit.”

# 15. Visions of Economic Alternatives: Socialism

## A Democratic Economy Producing for Need, Not for Profit



Tim Simons

*Capitalism* is in crisis. Again. Ordinary working people across the world, in their millions, have taken to the streets to oppose a system in which the labor of the 99% is used to enrich the top 1%. Again. Occupy Wall Street is a new movement, but the history of popular protest against capitalism is as long as the history of capitalism itself. Socialism has been the goal of many such movements, past and present.

### What Is Socialism?

Socialism is a complete alternative to capitalism, born out of the realization that capitalism has always been an unjust system in which the top 1% get obscenely rich and control most of society's wealth, which is largely produced by other people's work. Capitalism has always caused unemployment, poverty, homelessness, inequality, destruction of the environment, and war. And every few decades, capitalism has a major crisis that makes all of these things much worse than usual.

Socialism aims to get rid of these problems completely, rather than just making them less bad. It

does this by striking at their root causes. The biggest such causes are the private ownership of capital and productive resources, the profit motive, and the impersonal marketplace. Therefore, in socialism, productive resources are owned by the community rather than by the top 1%, economic activity is oriented towards human needs and wants rather than profit, and people democratically plan what they are going to produce instead of letting the marketplace control their lives.

There is room for a lot of variation within socialism, and different socialist societies will make different choices. Socialism is about putting ordinary working people in charge of the economy and their own lives. There are different views of exactly how a socialist system should be structured to achieve this goal. One conception of socialism, supported by many socialists, is based on the following four basic features.

### Equality

Socialism is absolutely opposed to the unjust inequalities of wealth that exist under capitalism, as well as to social inequalities based on race, gender, sexual

orientation, and so on. In a socialist economy, the first priority is to satisfy all people's basic needs on an equal basis. Thus, everyone is guaranteed food and housing to meet their needs, and there is free and equal access to health care and education. When it comes to other goods and services, equality may not be absolute. Some incomes may still be higher than others. But the only source of income is your own work. You can get more if you work more. You cannot get money by having other people work for you. There is no profit, interest, or rent.

### **Social Ownership**

Workplaces, natural resources, and all the machines and equipment used to produce goods and services are socially owned rather than privately owned. This means they are the property of society—they are owned collectively by all citizens. So instead of the 1% owning and controlling most companies, socialism makes every adult person an equal “shareholder” in the economy. And the citizen-owners can decide, by vote, how they want their property to be used. Managers and administrators, when they are needed at all, are the elected representatives of the workers.

### **Economic Planning**

A socialist economy is a planned economy, not one driven by markets and profit-seeking. In capitalism, corporations decide what to produce (and how much, and what price to charge for it) based on what will increase their profits. Every decision is ultimately about the bottom line. Competition forces capitalists to act this way even if they don't want to. Any capitalist who tries to act differently will just end up getting driven out of business by more ruthless competitors. But in socialism, producers are not aiming to get the highest profit. Instead, the socially owned economy works together as one coherent whole, following a plan decided democratically by the people every year (or every few years). These plans won't be perfect, but they will be far better than the chaotic ups and downs of the market.

### **Democracy**

Socialism can only exist as long as society is open and democratic. Every aspect of socialism rests upon democracy in some way. Economic planning requires everyone to say what they need and want, and to openly and freely debate various economic plans. Social ownership means that the citizen-owners make all economic decisions democratically and hold elections for managers. Equality of wealth and social status can only be maintained while we also have equality of political power (in other words: one person, one vote).

In the 20th century, there were some famous attempts to build socialism that de-emphasized the democratic aspect, saying it was less important than the other basic principles. The main example is the Soviet Union. In the beginning, the Soviet Union was intended to be a democracy. But then, less than a year after the revolution, a civil war started and foreign capitalist powers invaded. So the Soviets decided to delay democracy until the danger passed. But the result was that democracy was delayed forever, with tragic consequences. The Soviet Union became in many ways the opposite of what socialists wanted. This serves as a warning from history: without democracy, there can be no real socialism.

### **So How Does Socialism Fix Things?**

The basic features of socialism are designed to end the injustice, irrationality, and instability of capitalism. By eliminating profit, interest, and rent, socialism ensures a fair distribution of wealth. It's not perfect equality, but it's not very far from it, either. Some people may decide to work longer hours or put in more effort and thus get higher incomes, but the differences between the highest and lowest incomes would be very small by our standards.

By replacing private ownership of companies with social ownership, socialism puts the 99% in charge of the economy and ensures that production is guided by people's needs. Capitalism produces whatever increases the profits of the wealthy. Socialism produces whatever the citizen-owners of the economy want it to produce. And each person has an equal say. So instead of building tanks to enrich military contractors, socialism will build homes for the homeless. Instead of private oil and coal corporations deciding where your electricity comes from, socialism will let us use renewable energy sources. And we will never again be dragged into another war for private gain.

By replacing market forces with economic planning, socialism gets rid of unemployment. Most of us are so used to the existence of unemployment that we don't see how absurd it is. There is always more work that needs to be done. Unemployment means that there are people willing to do that work, but they are not allowed to do it. Under capitalism, this ridiculous situation is normal. Under socialism, anyone who wants to work will be able to get work. If we have a plan for the economy, we can always look at it and see which areas and industries could use more workers. There is no reason why we can't have enough jobs for everyone—including immigrants. In socialism, more workers are always better than fewer.

It's only common sense.

Having a planned economy instead of a market economy also means that socialism gets rid of investment banks, hedge funds, the stock exchange, and the economic crises they cause. Socialism will not regulate Wall Street. Socialism will end Wall Street. Instead of a bloated financial sector that allows a tiny group of bankers to decide the future of our economy (and seize a lot of our money in the process), we will have a system in which that future is decided democratically every year by the people themselves. Capitalism is run according to the plans of the few. Socialism will be run according to a plan voted by the many. And a planned economy would not have recessions or depressions, which are the results of a system of production for profit.

### **How Do We Get Socialism?**

There is no easy answer to the question of how to get from capitalism to socialism. Different socialists have come up with different strategies, and there have been many heated arguments about which strategy is best. There are three primary sides in the debate.

One strategy is to create a socialist political party and to work within the existing political system to get socialists elected to every branch of government, with the end goal of having a socialist majority in Congress and a socialist President. People who support this approach are called parliamentary socialists, because they wish to get to socialism by going through the existing political institutions.

Another strategy is to build socialist labor unions, to persuade as many workers as possible to join them, and—when they have grown large enough—to bring down capitalism with a great nationwide general strike. The idea is that if enough workers simply stop taking orders from the capitalists at the same time, the old power structure will become irrelevant and cease to exist.

The third strategy is to use all available forms of popular resistance—strikes, occupations, civil disobedience, and so on—to build momentum for a widespread popular uprising. Those who support this approach are called revolutionary socialists. They envision capitalism being overthrown by large numbers of people confronting the authorities in the streets and occupying buildings and public spaces, as was recently seen in Egypt.

At the moment, no single organization can claim to represent socialism as a whole. There are many socialist groups in the United States. Socialism is a set of principles for building a better world that works for the 99% and the planet we all share. Socialists often work together with other progressives who share similar goals. But they always warn that reforms that do not strike at the root of the problem—reforms that maintain private ownership, the profit motive, and the market economy—can only be a temporary fix at best. Capitalism cannot be tamed or made to serve the people. It must be overcome.



**CENTER FOR  
POPULAR  
ECONOMICS**

PO Box 785  
Amherst, MA 01004

413.545.0743  
programs@populareconomics.org

**[www.populareconomics.org](http://www.populareconomics.org)**