Neither Revolution nor Reform:

A New Shape for Progressive Politics

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For over a century, liberals and radicals have seen the possibility of change in capitalist systems from one of two perspectives: the reform tradition assumes that corporate institutions remain central to the system but believes that regulatory policies can contain, modify, and control corporations and their political allies. The revolutionary tradition assumes that change can come about only if corporate institutions are eliminated or transcended during an acute crisis, usually but not always by violence. But what happens if a system neither reforms nor collapses in crisis?

Quietly, a different kind of progressive change is emerging, one that involves a transformation in institutional structures and power, a process one could call "evolutionary reconstruction." At the height of the financial crisis in early 2009, some kind of nationalization of the banks seemed possible. "The public hates bankers right now," the Brookings Institution's Douglas Elliot observed. "Truthfully, you would find considerable support for hanging a number of bankers…" It was a moment, Barack Obama told banking CEOs, when his administration was "the only thing between you and the pitchforks." But the president opted for a soft bailout engineered by Treasury Secretary Timothy Geithner and White House economic adviser Lawrence Summers. Whereas Franklin Roosevelt attacked the "economic royalists" and built and mobilized his political base, Obama entered office with an already organized base and largely ignored it.

When the next financial crisis occurs, and it will, a different political opportunity may be possible. One option has already been put on the table: in 2010, thirty-three senators voted to break up large Wall Street investment banks that were "too big to fail." Such a policy would not only reduce financial vulnerability; it would alter the structure of institutional power.

Still, breaking up banks, even if successful, isn't the end of the process. The modern history of the financial industry, to say nothing of anti-trust strategies in general, suggests that the big banks, would ultimately regroup and reconcentrate and restore their domination of the system. So what can be done when "breaking them up" fails?

The potentially explosive power of public anger at financial institutions surfaced in May 2010, when the Senate voted by a 96-0 margin to audit the Federal Reserve's lending (a provision included ultimately in the Dodd-Frank legislation, which was designed to protect American taxpayers and consumers from financial corruption and to make the financial system more accountable)—something that had never been done before. Traditional reforms have aimed at improved regulation, higher reserve requirements, and the channeling of credit to key sectors. But future crises may feature a spectrum of sophisticated proposals for more radical change offered by figures on both the left and right. For instance, a "Limited Purpose Banking" strategy put forward by conservative economist Laurence Kolticoff would impose a 100 percent reserve requirement on banks. Because banks typically provide loans in amounts many times their reserves, this would transform them into modest institutions with little or no capacity to finance speculation. It would also nationalize the creation of all new money as federal authorities, rather than the banks, would directly control systemwide financial flows. A variety of respected liberal as well as conservative economists have welcomed this strategy—including five Nobel laureates in economics.

On the left, the economist Fred Moseley has proposed that for banks deemed too big to fail "permanent nationalization with bonds-to-stocks swaps for bondholders is the most equitable solution..." Nationally owned banks, he argues, would provide a basis for "a more stable and public-oriented banking system in the future." Most striking is the argument of Willem Buiter, the chief economist of Citigroup no less, that if the public underwrites the costs of bailouts, "banks should be in public ownership…" In fact, had the taxpayer funds used to bail out major financial institutions in 2007-2010 been provided on condition that voting stock be issued in return for the investment, one or more major banks would, in fact, have become essentially public banks.

Unknown to most Americans, there have been a large number of small and medium-sized public banking institutions for some time now. They have financed small businesses, renewable energy, co-ops, housing, infrastructure, and other specifically targeted areas. There are also 7,500 community-based credit unions. Further precedents for public banking range from Small Business Administration loans to the activities of the U.S.-dominated World Bank. In fact, the federal government already operates 140 banks and quasi-banks that provide loans and loan guarantees for an extraordinary range of domestic and international economic activities. Through its various farm, housing, electricity, cooperative and other loans, the Department of Agriculture alone operates the equivalent of the seventh largest bank in America.

The economic crisis has also produced widespread interest in the Bank of North Dakota, a highly successful state-owned bank founded in 1919 when the state was governed by legislators belonging to the left-populist Nonpartisan League. Over the past fourteen years, the bank has returned $340 million in profits to the state and has broad support in the business community as well as among progressive activists. Legislative proposals to establish banks patterned in whole or in part on the North Dakota model have been put forward by activists and legislators in Washington, Oregon, California, Arizona, New Mexico, Montana, Illinois, Louisiana, New York, Maryland, Virginia, Maine, and Massachusetts. In Oregon, with strong support from a coalition of farmers, small-business owners, and community bankers, and backed by State Treasurer Ted Wheeler, a variation on the theme, "a virtual state bank" (that is, one that has no storefronts but channels state-backed capital to support other banks) is likely to be formed in the near future. Campaigns to create similar institutions have been launched in Maine and California. How far the various strategies may develop is likely to depend on the intensity of future financial crises, the degree of social and economic pain and political anger in general, and the capacity of a new politics to focus citizen anger in support of major institutional reconstruction and democratization.

That a long era of social and economic austerity and failing reform might paradoxically open the way to more populist or radical institutional change—including various forms of public ownership—is also suggested by emerging developments in health care. Here the next stage of change is already under way. At first, it is likely to be harmful, Republican efforts to cut back the mostly unrealized benefits of the Affordable Care Act, passed in 2010. The first stages, however, are not likely to be the last. Polls show overwhelming distrust of and deep hostility toward insurance companies. We can also expect public outrage to be fueled by stories like that of fifty-six year old James Verone who attempted to rob a bank in Gastonia, North Carolina this year—but only, he made clear, for one dollar. The reason: unemployed and without health insurance, Verone simply saw no way other than going to jail to get health care for a growth on his chest, foot difficulties, and back problems.

Cost pressures are building, in ways that will also continue to undermine corporations facing global competitors, forcing them to seek new solutions. A recent report from the federal Centers for Medicare and Medicaid Services ("National Health Expenditure Projections, 2009-2019") projects health care costs to rise from the 2010 level of 17.5 percent of GDP to 19.6 percent in 2019. It has long been clear that the central question is to what extent, and at what pace, underlying cost pressures ultimately force development of some form of single-payer system—the only serious way to deal with the underlying problem.

A new national solution is ultimately likely to come either in response to a burst of pain-driven public outrage or more slowly through a state by state build up to a national system. Massachusetts, of course, already has a near universal plan, with 99.8 percent of children covered and 98.1 percent of adults. In Hawaii, health coverage (provided mostly by nonprofit insurers) reaches 91.8 percent of adults in large part because of a 1970s law mandating low cost insurance for anyone working twenty hours a week. In Vermont, Governor Peter Shumlin signed legislation in May 2011 creating "Green Mountain Care," a broad effort that would ultimately allow state residents to move into a publicly funded insurance pool—in essence a form of single-payer insurance. Universal coverage, dependent on a federal waiver, would begin in 2017 and possibly as early as 2014. In Connecticut, legislation approved in June 2011 created a "SustiNet" Health Care Cabinet directed to produce a business plan for a nonprofit public health insurance program by 2012, with the goal of offering such a plan beginning in 2014. In California, there is a good chance a universal "Medicare for all" bill may be on the governor's desk for signature by mid-2012. (Similar legislation passed by both the House and the Senate was vetoed by then-Governor Schwarzenegger in 2006 and 2008.) In all, nearly twenty states will soon consider bills to create one or another form of universal health care.

One can also observe a developing institutional dynamic in the central neighborhoods of some of the nation's larger cities, places that have consistently suffered high levels of unemployment and underemployment, with poverty commonly above 25 percent. In such neighborhoods democratizing development has also gone forward, again paradoxically, precisely because traditional policies—in this case involving large expenditures for jobs, housing and other necessities—have been politically impossible. "Social enterprises" that undertake businesses in order to support specific social missions now increasingly make up what is sometimes called "a fourth sector" (different from the government, business, and nonprofit sectors). Roughly 4,500 not-for-profit community development corporations are largely devoted to housing development. There are now also more than eleven thousand businesses owned in whole or part by their employees; five million more individuals are involved in these enterprises than are members of private-sector unions. Another 130 million Americans are members of various urban, agricultural, and credit union cooperatives. In many cities, important new "land trust" developments are underway using an institutional form of nonprofit or municipal ownership that develops and maintains low- and moderate-income housing.

The various institutional efforts have also begun to develop innovative strategies that suggest broader possibilities for change. Consider the Evergreen Cooperatives in Cleveland, Ohio, an integrated group of worker-owned companies, supported in part by the purchasing power of large hospitals and universities. The cooperatives include a solar installation company, an industrial scale (and ecologically advanced) laundry, and soon a greenhouse capable of producing more than five million heads of lettuce a year. The Cleveland effort, which is partly modeled on the nearly 100,000 person Mondragón cooperatives in the Basque region of Spain, is on track to create new businesses, year by year, as time goes on. However, its goal is not simply worker ownership, but the democratization of wealth and community-building in general in the low-income Greater University Circle area of what was once a thriving industrial city. Linked by a nonprofit corporation and a revolving fund, the companies cannot be sold outside the network; they also return 10 percent of profits to help develop additional worker-owned firms in the area. (Full disclosure: The Democracy Collaborative, which I co-founded, has played an important role in helping develop the Cleveland effort. See www.Community-Wealth.org for further information on this and many other local and state efforts.)

Another innovative enterprise is Market Creek Plaza in San Diego. There a comprehensive, community-owned project links individual and collective wealth-building through a $23.5-million commercial and cultural complex anchored by a shopping center. The complex has developed a range of social and economic projects that employ more than 1,700 people. Its multicultural emphasis on the arts has helped create several venues for common activity among the local Asian, Hispanic, and black communities.

Significantly, these collectively owned businesses are commonly supported by unusual local alliances, including not only progressives; labor unions; and nonprofit and religious leaders; but also, in many cases, the backing of local businesses and bankers. The efforts have also attracted surprising political support. In Indiana, for example, Republican State Treasurer Richard Mourdock has established a state linked deposit program to provide state financing support for employee ownership. At this writing, Ohio Democratic Senator Sherrod Brownhas plans to introduce model legislation to support the development of an initial group of Evergreen-style efforts in diverse parts of the country. Environmental concerns are also involved; many of the enterprises are "green" by design, increasingly so as time goes on. Cleveland's Evergreen laundry, which uses less than a third the amount of water used by comparable commercial firms, is one of the most ecologically advanced in the Midwest. In Washington state, Coastal Community Action (CCA) operates a portfolio of housing, food, health, and employment programs for low-income residents that uses development and ownership of a $14-million wind turbine to generate income to support its social service programs.

Yet another sphere of institutional growth centers on land development. By maintaining direct ownership of areas surrounding transit station exits, public agencies in Washington, D.C., Atlanta, and other cities earn millions capturing the increased land values their transit investments create. The town of Riverview, Michigan, has been a national leader in trapping methane from its landfills and using it to fuel electricity generation, thereby providing both revenues and jobs. There are roughly five hundred similar projects nationwide. Many cities have established municipally owned hotels. There are also over two thousand publicly owned utilities that provide power (and, increasingly, broadband services) to more than forty five million Americans, in the process generating $50 billion in annual revenue. Significant public institutions are also common at the state level. CalPERS, California's public pension authority helps finance local community development needs; in Alaska, state oil revenues provide each citizen with dividends from public investment strategies as a matter of right; in Alabama, public pension investing has long focused on state economic development (including employee-owned firms).

Although public ownership is surprisingly widespread, it can also be vulnerable to challenge. The fiscal crisis, and conservative resistance to raising taxes, has led some mayors and governors to sell off public assets. In Indiana, Governor Mitch Daniels sold the Indiana Toll Road to Spanish and Australian investors. In Chicago, then-Mayor Richard Daley privatized parking meters and toll collection on the Chicago Skyway and even proposed selling off recycling collection, equipment maintenance, and the annual "Taste of Chicago" festival. How far continuing financial and political pressures may lead other officials to attempt to secure revenues by selling off public assets is an open question. Public resistance to such strategies, although less widely publicized, has been surprisingly strong in many areas. Toll road sales have been held up in Pennsylvania and New Jersey, and newly elected Chicago Mayor Rahm Emanuel recently voiced his opposition to an attempt to privatize Midway Airport as previously attempted by Daley. An effort to transfer city-owned parking garages to private ownership in Los Angeles also failed when residents and business leaders realized parking rates would spike if the deal went through.

One thing is certain: traditional liberalism, dependent on expensive federal policies and strong labor unions, is moribund. The government no longer has much capacity to use progressive taxation to achieve the goal of equity or to regulate corporations effectively. Congressional deadlocks on such matters are the rule, not the exception. At the same time, ongoing economic stagnation or mild upturns followed by further decay, and "real" unemployment rates in the 15 percent to 16 percent range—appear more likely than a return to booming economic times.

Ironically, this grim new order may open the way for the kinds of "evolutionary reconstructive" institutional change described here. Since the Great Depression, liberal activists and policy makers have implicitly assumed they were providing one or another form of "countervailing power" against large corporations. But institutional reconstruction aims either to *weaken* or *displace* corporate power. Strategies like anti-trust or efforts to "break up" big banks aim to weaken. Public banking, municipal utilities and single-payer health plans attempt to displace privately owned companies. At the same time, community-based enterprises offer public officials alternatives to paying large tax-incentive bribes to big corporations.

Of course, "evolutionary reconstruction" might fail, as have most kinds of top-down national reform. The era of stalemate and decay might continue and worsen. Like ancient Rome, the United States could simply decline and fall, unable to address its social ills.

However, even during a sustained era of stalemate and decay, it may be possible to develop a coherent long-term progressive strategic direction. Such a direction would build upon the remaining energies of traditional liberal reform, animated over time by new populist anger and movements aimed at confronting corporate power, the extreme concentration of income, failing public services, the ecological crisis, and military adventurism. And it would explicitly advocate the construction of new institutions run by people committed to developing an expansively democratic polity, thereby giving political voice to the new constituencies emerging alongside the new developments at the same time it helped to begin altering underlying institutional power balances.

In connection with environmental issues, at least, some "capitalists" also seem willing to sign onto this vision. New organizations like the Business Alliance for Local Living Economies (BALLE) and the American Sustainable Business Council (ASBC) have been quietly developing momentum in recent years. BALLE, which has more than 22,000 small business members, works to promote sustainable local community development. ASBC (which includes BALLE as a member) is an advocacy and lobbying effort that involves more than 150,000 business professionals and 30 separate business organizations committed to sustainability. Leading White House figures and such Cabinet-level officials as Labor Secretary Hilda Solis have welcomed the organization as a counter to the national Chamber of Commerce. (Jeffrey Hollender, chair of ASBC's Business Leadership Council and former CEO of Seventh Generation, has denounced the Chamber for "fighting democracy and destroying America's economic future" because of its opposition to climate change legislation and its support for the Citizens United decision.) Gus Speth, a member of ASBC's Advisory Board (and former environmental adviser to Presidents Carter and Clinton) offers a more far-reaching general perspective: "For the most part, we have worked within this current system of political economy, but working within the system will not succeed in the end when what is needed is transformative change in the system itself."

At the heart of the spectrum of emerging institutional change is the traditional radical principle that the ownership of capital should be subject to democratic control. In a nation where 1 percent of the population owns nearly as much wealth as the entire bottom half of the nation, this principle may be particularly appealing to the young — the people who will shape the next political era. In 2009, even as Republicans assailed President Obama and his liberal allies as immoral "socialists," a Rasmussen poll reported that

Americans under thirty were "essentially evenly divided" as to whether they preferred "capitalism" or "socialism." Even if many were unsure about what "socialism" is, they were clearly open to something new, whatever it might be called. A non-statist, community-building, institution-changing, democratizing strategy might well capture their imagination and channel their desire to heal the world. It is surely a positive direction to pursue. Just possibly, it could open the way to an era of true progressive renewal, even one day perhaps step-by-step systemic change or the kind of unexpected, explosive, movement-building power evidenced in the "Arab Spring" and, historically, in our own civil rights, feminist, and other great movements.

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