

Not So Wild a Dream

Hey, look it over—public ownership is the most effective way to fix America's economy.

by GAR ALPEROVITZ AND THOMAS M. HANNA

It's time to put the taboo subject of public ownership back on the progressive agenda. It is the only way to solve some of the most serious problems facing the nation. We contend that it is possible not only to talk about this once forbidden subject but to begin to build a serious politics that can do what needs to be done in key sectors.

Proposals for public ownership will of course be attacked as "socialism," but conservatives call any progressive program—to say nothing of the modest economic policies of the Obama administration—"socialist." However, many Americans are increasingly skeptical about the claims made for the corporate-dominated "free" enterprise system by its propagandists. A recent Pew Research Center poll found that a majority of Americans have an unfavorable view of corporations—a significant shift from only twelve years ago, when nearly three-quarters held a favorable view. At the same time, two recent Rasmussen surveys found Americans under 30—the people who will build the next politics—almost equally divided as to whether capitalism or socialism is preferable. Another Pew survey found that 18- to 29-year-olds have a favorable reaction to the term "socialism" by a margin of 49 to 43 percent.

Public ownership in certain sectors of the economy is the only way to solve some of America's most pressing problems. Take the financial arena, where the current recession was hatched. Today, five giant banks control more than one-third of all deposits. Wall Street claims this makes it more efficient; but even if the Big Five banks were efficient (which is open to question—how "efficient" are institutions that didn't know they were carrying a huge backlog of underwater loans?), they were all deeply involved in creating the meltdown that cost taxpayers billions in bailouts, and the overall economy trillions. Numerous economists, left and right, believe that these unbridled operations will inevitably lead to another crisis. JPMorgan Chase's recent speculative loss of at least \$2 billion should be fair warning.

The traditional liberal approach calls for more regulation. But, important as it is, this tool for controlling corporate behavior has been increasingly undermined by fierce lobbying. As Senator Dick Durbin observed, "The banks...are still the most powerful lobby on Capitol Hill. And they, frankly, own the place." Most of those who created the mortgage crisis went scot-free, and the financial reforms that have since been enacted are flimsy in many areas and easily evaded. Nearly two years after the Dodd-Frank legislation was approved, only 108 of 398 necessary regulations have been written, 148 deadlines have been missed (67 percent) and nearly two dozen Congressional

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bills scrapping parts of the law proposed. The draft measures implementing the Volcker Rule (which limits proprietary trading by banks) are so full of holes as to be almost meaningless.

The underlying problem is that the economic and political power of corporations in general, and banks in particular, has grown dramatically. On the eve of the Great Depression in 1929, 250 banks controlled roughly half the nation's banking resources. Now, a mere six banks control almost 74 percent of the nation's banking resources. The steadily increasing concentration of power occurred, not surprisingly, as progressives' power declined. Organized labor, the institution that has given progressive politics its muscle, has shrunk from a 1954 peak of 34.7 percent of the workforce to a mere 11.8 percent—only 6.9 percent in the private sector. As unions have grown weaker, conservative politicians at the state level, backed by right-wing-funded lobbying groups like the American Legislative Exchange Council, have launched drives to pass a raft of "right to work" and other anti-labor laws, further undermining the liberal-left's key institutional power base.

That corporations can undo the regulations affecting them has been demonstrated time and again. Starting with trucking, airlines and railroads, since the 1970s deregulation has gone forward in sector after sector under Democratic and Republican administrations alike. The trend has continued in the energy, communications and, to a lesser degree, food and drug industries. The big coal and oil companies have resisted comprehensive curbs on greenhouse gas emissions, including spending millions in 2009–10 to defeat cap-and-trade legislation in the Senate after

it passed the House. This is in addition, of course, to concerted efforts, year in and year out, to discredit climate change science.

The other traditional progressive response to concentrated corporate power has been stronger enforcement of antitrust laws. In the wake of the mortgage crisis, demands to “break them up” were made as a way of bringing under control banks deemed “too big to fail.” These demands were ignored, but even if they were to succeed, within a few years the most aggressive of the broken-up banks would likely find ways to regroup, just as AT&T did recently (and as Standard Oil did after it was broken up in the early part of the twentieth century). After banks were deregulated in the 1980s and ’90s, the majors gobbled up the small fry, eliminating 7,000 banks and increasing average bank size 400 percent. The institutional power imbalances guarantee that the banks will likely overcome any temporary effort that does not strike deep when the next crisis opportunity arises.

The near collapse of several big banks and mortgage lenders in 2008–09 offered such an opportunity, but it was squandered. The government provided so much bailout money to institu-

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tions like Citigroup and AIG that it could easily have taken them over, turning them into managed public utilities. Instead, it meekly handed voting to trustees who, in the case of AIG, were corporate insiders recruited by the New York Federal Reserve. At the outset of the crisis Willem Buiter—shortly before becoming the chief economist of Citigroup—came much closer to the right approach than many progressive critics when he asked: “Is the reality...that large private firms make enormous private profits when the going is good and get bailed out and taken into temporary public ownership when the going gets bad, with the taxpayer taking the risk and the losses? If so, then why not keep these activities in permanent public ownership?”

There is a second reason that a strategy going beyond regulation and antitrust is essential. Large corporations are subject to Wall Street’s first commandment: grow or die. “Stockholders in the speculation economy want their profits now,” observes Lawrence Mitchell, author of *The Speculation Economy*, “and they do not much care how they get them.” If a corporate executive does not show steadily increasing quarterly earnings, the grim quarterly-returns reaper will cut her down sooner or later.

The destructive “grow or die” imperative of our market-driven system cannot be wished or regulated away. In addition to the overriding issue of global warming, countless studies have documented that limits to growth in such areas as energy, minerals, water and arable land (among others) are fast being reached. The energy corporations are desperately trying to crash through these limits with technological fixes such as fracking, tar sands exploitation and deep-water drilling, which are equally or more environmentally costly than traditional methods.

Yet the trends continue: the United States, with less than

5 percent of the global population, accounts for 21.6 percent of the world’s consumption of oil, 13 percent of coal and 21 percent of natural gas. In the brief period between 1940 and 1976 Americans used up a larger share of the earth’s mineral resources than did everyone in all previous history. At some point a society like ours, which produces the equivalent of more than \$190,000 for every family of four, must ask when enough is enough. Former presidential adviser James Gustave Speth puts it bluntly: “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.”

As a matter of cold logic, then, if some of the most important corporations have a disruptive and costly impact on the economy and the environment—and if regulation and antitrust laws in many areas are likely to be subverted by these corporations—a public takeover is the only logical solution. This argument was put forward most forcefully not by liberals or socialists but by the founders of the conservative Chicago School of Economics.

Nobel laureate George Stigler repeatedly observed that regulatory strategies were “designed and operated primarily for [the industries’] benefit.” Henry Simons, Milton Friedman’s teacher and one of the most important Chicago School thinkers, was even more forceful: the state “should face the necessity of actually taking over, owning, and managing directly...industries in which it is

impossible to maintain effectively competitive conditions.”

The first step toward public ownership is recognizing that it is not the radical departure most imagine it to be. Two of the most cost-effective health providers in the United States—one a far-reaching insurance system, Medicare; the other a direct hands-on healthcare delivery system, the Veterans Administration—are run by the government. So, too, the largest pension manager in the country is a public entity: the Social Security Administration.

The US Postal Service, which employs 645,000 men and women, is another public enterprise that is generally regarded as well run by most experts—despite the recession, a reduction in the volume of mail because of electronic communications and a highly unusual 2006 Congressional requirement that the USPS pre-fund its pension benefits for the next seventy-five years. Recent cost-saving proposals for closing many small-town post offices and reducing services have triggered a popular backlash against the possible loss of an institution the public still values.

Another public enterprise, the Tennessee Valley Authority (TVA), is one of the largest energy companies in the nation. In fact, more than 25 percent of electricity in the United States is supplied by local public utilities and cooperatives. And, of course, though corporate influence has distorted a potentially powerful opportunity, the government owns timber, mineral, oil and other resources on public land covering almost 30 percent of the nation’s territory.

Public enterprises do not spend large amounts on advertising or brokers’ fees to sell their products. They do not add a profit margin to every service they provide or article they sell.

Nor do they pay exorbitant executive salaries. The Medicare administrator made a base salary of approximately \$170,000 in 2010. Stephen Hemsley, CEO of UnitedHealth Group, made a base salary of \$1.3 million and received \$101.96 million in compensation that same year. Because of added expenses like these (along with many other irrationalities), our private healthcare system costs the nation up to twice the share of GDP spent on equal or better care in many other countries—a large-scale “inefficiency” that wastes perhaps a trillion dollars a year! When conservative defenders of private corporations focus on internal efficiency alone, they ignore (or deliberately obscure) not only the demonstrated truth that corporate financial institutions have the power to force the nation to lose trillions of dollars in economic output, but also that our extraordinarily wasteful healthcare system costs twice as much as that of other nations.

Recent research also challenges the familiar knee-jerk claims that private corporations are always internally more efficient than government-owned enterprises. Before Margaret Thatcher’s famous gutting of the British public sector, for example, productivity growth in the country’s nationalized mining, utility, transportation and communication companies consistently outpaced that of similar privately owned companies in the United States. To be sure, there are many bureaucratic public corporations, and sclerotic enterprises in the Soviet era were a breed apart. In the modern era, however, as Francisco Flores-Macias and Aldo Musacchio document in a recent *Harvard International Review* article, state-owned enterprises in many areas are, or can be, as efficient as their private counterparts.

Private companies also all too frequently run off to China or Mexico looking for cheap labor, leaving behind unemployed workers and wasted cities. Public enterprises stay here, maintaining jobs and sustaining rather than abandoning our communities. Public enterprises do not force cities and states to pay millions in “incentives” to encourage them to locate in a particular area—often only to move on later, leaving discarded people and deteriorating schools, houses, roads and public services.

Also, public enterprises do not spend huge amounts of money undermining the political process through extensive pro-corporate campaign advertising and lobbying. And public corporations are open to public scrutiny, while private corporations keep most of their internal decision-making secret.

Let’s be clear: we are not calling for public ownership of the vast majority of small, medium-size or even large businesses—and, in particular, not the smaller high-tech industries, where most of the real innovation occurs. Nor are we talking about “democratized businesses” like employee-owned companies, where more than 10 million Americans work. Or the roughly 5,000 neighborhood corporations and another 2,000 local municipal electric companies. Or co-ops that count 130 million members (including credit unions, which have become a popular alternative to too-big-to-fail banks).

Neither are we talking about modern community land trusts, started thirty years ago by Bob Swann, co-founder and first president of the E.F. Schumacher Society, which are also popping up in different forms—hundreds of them throughout the nation. Nonprofit social enterprises whose sole purpose is to contribute to society are similarly emerging around the

country. Municipal ownership of hotels, land development and even energy is on the rise. In more than 700 projects nationwide (many involving direct local public ownership), cities capture the methane produced by garbage and turn it into electricity, jobs and revenue. All these community-based enterprises are part of a growing sector that could and should be expanded.

Most advanced societies have found large-scale publicly controlled companies appropriate in key areas. Take energy: worldwide, publicly controlled corporations produce roughly 75 percent of all oil. Or transportation: high-speed rail systems are run by the government in France, Spain, Belgium, Germany, Italy, the Netherlands, Turkey and South Korea. Public ownership of significant or controlling shares of airlines is common: France holds 16 percent of Air France-KLM; Sweden, Denmark and Norway hold a 50 percent stake in SAS; Israel, 35 percent of El Al; Singapore, 56 percent of Singapore Airlines (ranked as one of the world's best). The European Aeronautics Defence and Space Company—producer of Airbus and other major planes and helicopters—is partly owned by the French and Spanish governments (as well as the city of Hamburg, Germany). Or banking: more than 200 public and semi-public banks, with another eighty-one funding agencies, account for a fifth of all bank assets in the European Union. Japan Post Bank is the world's biggest public bank and one of that nation's largest employers.

Brazil, an economic powerhouse, has more than 100 state-owned or -controlled enterprises, including major banks, utilities and a large oil company, Petrobras, renowned throughout the world for its deep-water exploration achievements. Much better and faster Internet service than ours is provided in many countries where public corporations exist side by side with private companies. (Public telecommunications companies are common around the world, including in Austria, Japan, Sweden, France, Germany, Switzerland and Belgium.) Although, after due consideration, other sectors would likely have to be added if the underlying corporate growth dynamic and the challenge of global warming are to be dealt with, such enterprises function successfully and profitably, again belying the usual claim that privately owned companies are efficient while public ones create boondoggles and waste.

Obviously, some forms of public or publicly related enterprise are not models of efficiency. The failures of Freddie Mac and Fannie Mae have suggested to many critics that these quasi-public businesses need a major overhaul. On the other hand, the highly unusual structure of Freddie and Fannie (which gave implicit government backing to privately owned risk-taking businesses) was a major source of their recent problems. (Indeed, they were not, in fact, public enterprises in any true sense of the term.) So, too, Amtrak has had a variety of problems, some of which derive from inadequate investment. But, again, it is important to remember that private corporations are hardly paragons of efficiency. American steel companies were riddled with inefficiencies until they were compelled to change. American auto companies were forced, kicking and screaming, to catch up with global practices and modern technologies.

Furthermore, new ways to curb efficiency problems in government enterprises have emerged. In Europe, where public telecommunications corporations often compete with private

companies, a “public option” can help keep everybody on their toes. Independent public oversight of public enterprise is another strategy. Since 1970 the independent Postal Regulatory Commission has overseen the USPS to keep tabs on efficiency and transparency and to maintain its historical role of providing affordable service to all Americans. Yet another answer to the ownership “design” question can be found in those mixed private-public structures of many leading international airlines.

And, again, even when private corporations are managed more efficiently than public ones, the massive economic costs they can impose on society make internal efficiency look trivial compared with the waste caused by economic recession, health-care irrationalities, and the truly extraordinary costs associated with unrestricted growth that damages the environment and causes climate change.

As the late liberal economist John Kenneth Galbraith once observed, “The issue is purely a pragmatic one: Is it working now, or would it work better under public ownership?” Further perspective was offered by the late E.F. Schumacher, author of *Small Is Beautiful*, still one of the most influential books for environmental activists and others. Radical decentralization, human scale, participatory control, and a mix of cooperative and private firms are essential wherever feasible, Schumacher held (as do we)—but “when we come to large-scale enterprises, the idea of private ownership becomes an absurdity.”

Publicly owned enterprises also don't have to be national. One important strategy involves focusing on public enterprise at the regional level. Under the New Deal, the TVA gave rise to a proposal for seven major regional public enterprises, and in the 1960s a number of regional commissions were established. A revival of regional approaches to public enterprise might build on modern Chinese experience, where regional competition has helped maintain discipline for publicly owned firms (as well as economic management in general).

Contrary to the conventional wisdom, there are many paths to expanding public enterprise in America. Take banking, where coming crises will once again almost certainly force us to ask basic questions about the industry and remind us that had the government demanded voting stock in exchange for the taxpayer bailout of Citigroup, Bank of America, AIG and other institutions, these firms would have become de facto publicly controlled. Moreover, there is an effort under way to create state-owned banks like the one in North Dakota. Since 2010, legislation exploring or creating such banks has been introduced in seventeen states: Arizona, California, Connecticut, Hawaii, Idaho, Illinois, Louisiana, Maine, Maryland, Massachusetts, Montana, New Hampshire, New Mexico, New York, Oregon, Virginia and Washington.

Relentless conservative attacks on the Affordable Care Act in Congress and in the Supreme Court have also stimulated interest in publicly provided healthcare at the state level. More than fifteen states are considering legislation pointing to some form of single-payer “public enterprise” system. In May 2011 Vermont approved legislation that will allow its residents to move into a publicly funded insurance pool. Universal coverage would begin in 2017 (possibly as early as 2014) if a federal waiver is granted.

This past February in California, a universal “Medicare for All” bill failed in the Senate by just two votes. (Similar legislation approved by both houses of the state legislature was vetoed by then-Governor Schwarzenegger in 2006 and 2008.) Since 2009, Connecticut has been striving toward a system of affordable healthcare for virtually all of its residents—which will likely one day include a nonprofit public health insurance program.

Another road to public enterprise would build on the auto company takeovers in 2008–09. Not only did the government nationalize General Motors and Chrysler; it did so using a joint ownership structure that involved a UAW-linked health-related entity, VEBA, owning 17.5 percent of GM and 63.5 percent of Chrysler. In the future the public should continue to benefit directly from its investment instead of seeing the taxpayers’ stake sold off when serious post-bailout profits begin to flow, as with the auto bailouts.

There is an obvious and growing need for mass transit and high-speed rail in America, yet with the exception of the small United Streetcar Company in Oregon (and some assembly work for foreign companies), the United States has no production capacity for either. A government plan to invest in mass transit and high-speed rail would create jobs, build new capacity

in public worker-owned companies and free the United States from foreign dependence—all the money, after all, will come from taxpayers and commuters. The jobs might be targeted to help rebuild Detroit and other declining auto-producing cities.

Elsewhere we have urged a “new economy,” a community-sustaining vision of the next stage of American development—one made up of public enterprises where necessary, private corporations in numerous sectors, and a powerful and growing mix of small businesses and firms that in general aim to democratize the ownership of capital in a nation where a mere 1 percent at the top owns just under half of all investment wealth (see Alperovitz, “The New Economy Movement,” June 13, 2011; Alperovitz et al., “The Cleveland Model,” March 1, 2010; and community-wealth.org).

Rebuilding the spirit and drive of the next progressive politics calls for developing economic ideas that make sense at every level and scale. The Tea Party, for all its inane posturing, teaches a useful lesson—namely, that saying clearly what you want has a compelling force. When progressives are being called “socialists” no matter what, there is little to lose and much to gain by clearly making the case for a long-term plan that confronts—and ultimately overcomes—the centrality of corporate power. ■