

## Turbo-Capitalism, Economic Crisis, and Economic Democracy

GARY DORRIEN\*

My subject is the economic calamity of our time, the vision of economic democracy expounded by the social gospel movement of a century ago, and the relevance of economic democracy today.

The field in which I teach, social ethics, was invented in the early 1880s by the social gospel movement, the greatest surge of social justice activism ever waged by the mainline churches in this country. It was based on a doctrine of social salvation, which was based on the emerging ideas of social structure and social justice. The key to the social gospel was its novel claim that Christianity has a mission to transform the structures of society in the direction of social justice. Social justice became intrinsic to salvation; salvation had to be personal *and* social to be saving.

This social gospel was above all a response to a burgeoning labor movement. Trade unionists blasted the churches for doing nothing for poor and working class people. The founders of the social gospel realized it was pointless to defend Christianity if the churches took an indefensible attitude on this issue. Virtually all social gospellers took for granted that if modernity was a good thing, it had to have a stage beyond capitalism. The predatory spirit of capitalism had to be transformed or replaced by the cooperative ethos of economic democracy. Here, as usual, Walter Rauschenbusch put it best: "Political democracy without economic democracy is an uncashed promissory note, a pot without the roast, a form without substance. . . . Capitalism has overdeveloped the selfish instincts in us all and left the capacity of devotion to larger ends shrunken and atrophied."<sup>1</sup>

---

\* Gary Dorrien is the Reinhold Niebuhr Professor of Social Ethics at Union Theological Seminary and Professor of Religion at Columbia University. An Episcopal priest, he is the author of fourteen books in social theory and ethics, theology, philosophy, and politics. An expanded version of this article will be published in his forthcoming collection of social ethical lectures to be published by Columbia University Press, *Economy, Difference, Empire: Social Ethics for Social Justice*.

<sup>1</sup> Walter Rauschenbusch, *Christianizing the Social Order* (New York: Macmillan, 1912), 353, 369; see also Gary Dorrien, *Social Ethics in the Making: Interpreting an American Tradition* (Chichester, West Sussex, U.K.: Wiley-Blackwell, 2009).

The social gospel had many faults and limitations, beginning with its moralistic idealism, but it paved the way for modern ecumenism, social Christianity, and the deep involvement of the churches in the civil rights movement. It created the ecumenical and social justice ministries of American denominations, and expounded a vision of economic democracy that is as relevant and necessary today as it was a century ago.

To put it in contemporary terms, the social gospel was a response to the first historic wave of economic globalization, the one that started in the 1870s and faltered in the 1930s. The second historic wave began in the 1980s and faltered in 2008. Karl Marx, foreseeing the first one, famously predicted: “All that is solid melts into air.” That sounds familiar, but Marx was not warning merely that the stock market might vaporize your pension, mortgage, or job. His point was that global capitalism commodifies everything it touches, including labor and nature, putting everything up for sale and at risk.

Nothing is exempt from the pressure of competition. Social contracts and places of rest have vanished under threats of obsolescence and ruin, while the global market exploits resources, displaces communities, and sets off wealth explosions in wild cycles of boom and bust. Political journalist Thomas Friedman, a celebrant of the second wave, calls it “turbo-capitalism.” Economic globalization—the integration of national economies into the global economy through trade, direct foreign investment, short-term capital flows, and flows of labor and technology—has “flattened” the world, Friedman says. In a flat world you either compete successfully or are run over.<sup>2</sup>

In Friedman’s telling, global capitalism reduces national politics to minor tweaks. There is no third way in political economy anymore; there isn’t even a second way. Any nation that wants a growing economy has to wear a one-size-fits-all “golden straightjacket” that unleashes the private sector, keeps inflation low, minimizes government, eliminates tariffs, sustains a balanced budget, deregulates capital markets, and allows direct foreign ownership and investment. Once a nation takes this path, Friedman says, “its political choices get reduced to Pepsi or Coke”—to slight nuances of taste or policy, tiny alterations to account for local traditions, a bit of loosening here or there, but never any real deviation from the core golden rules. Friedman wants

---

<sup>2</sup> See Thomas L. Friedman, *The World Is Flat: A Brief History of the Twenty-First Century* (New York: Farrar, Straus and Giroux, 2005).

the U.S. to spend more on green technology and science education; he's quite good on environmental issues, especially recently. But he tells his millions of readers to give up on nostalgic dreams of social justice. Right up to the meltdown of 2008, he marveled at the wealth-breeding ingenuity of what he called "the electronic herd."<sup>3</sup>

He had plenty of company in either cheering for neoliberal globalization or assuring that nothing can be done about it. Many celebrants of globalization and neoliberal theory repeat Friedman's assurances that globalization shrinks our politics. *The Economist*, the *Wall Street Journal*, and Columbia University economist Jagdish Bhagwati are especially active in this field, aggressively defending neoliberal policies. Like Friedman, they exaggerate the futility of political attempts to channel economic forces. Often they ignore that unionism and government intervention have globalizing capacities, too. Routinely neoliberals take a "don't worry about it" attitude toward huge unbalances racked up between economies relying on debt-financed consumption and those promoting over-saving and production-oriented exports. For twenty years they were far too credulous about the self-correcting capacities of the market, which supposedly made it unnecessary to regulate banks and investment firms. Above all, they wrongly supposed that America's ever-widening chasm between productivity and wages could be bridged with more and more borrowing.

Contrary to neoliberal apologists, the U.S. did not ensure its prosperity by donning the golden straightjacket and relinquishing its manufacturing base. From the late 1940s to 1975, productivity and wages soared together in the United States, creating a middle-class society; meanwhile there were no bank crises, as New Deal reforms kept commercial banks out of the investment business. But wages flattened in the mid-1970s and have stayed that way ever since, while productivity kept soaring and commercial banks got deeply into the investment business. The rich got fantastically richer in the 1980s and 1990s while everyone else fell behind, taking on debt to keep from drowning. During this period nearly every manufacturing-oriented society outperformed the U.S. in income growth *and* did so with more equitable distributions of income. Then the global integration of two radically different models of growth—debt-financed consumption

---

<sup>3</sup> Thomas L. Friedman, *The Lexus and the Olive Tree: Understanding Globalization* (New York: Anchor Books, 2000), 104, 106. See also Thomas L. Friedman, "The Great Unraveling," *The New York Times* (December 17, 2008), A39.

and production-oriented export and saving—created a wildly unstable world economy featuring asset bubbles and huge trade imbalances. In the United States, credit card debt increased sevenfold (adjusted for inflation) from 1975 to 2008, and outstanding household debt exploded from 47 percent of the GDP in 1975 to 100 percent in 2005.

Manufacturing is concrete and rooted in communities, whereas the non-manufacturing “new economy” depends on skill premiums, opposes unionization, and is vulnerable to outsourcing, all of which exacerbate inequality. The U.S. cannot write off manufacturing and wage equity without shredding its social and economic fabric, exactly the path it took in the “prosperity” of the Reagan, Bush, Clinton, and Bush years. Most world trade is still in goods, especially manufacturing goods. The massive trade deficits of George W. Bush’s presidency were fueled by policies, some preceding his administration, which favored the financial industry and real estate over manufacturing.

First the U.S. hollowed out its industrial base that paid decent wages, providing incentives to firms that made things to make them elsewhere. Then it rang up enormous trade deficits that left the U.S. dependent on China to finance its debt. Then the nations that built up the deficits came with sovereign wealth funds to buy up U.S. companies and factories. Then the entire economy cratered after the debt resort reached its outer limit in the U.S. housing market, the mortgage bubble burst, and world credit markets froze. Huge financial firms perished or were bailed out; stocks worldwide lost 42 percent of their value in 2008, erasing more than \$29 trillion; in the U.S. the Dow Jones industrial average fell 33.8 percent and the broader Standard & Poor’s index fell 38.5 percent, the worst stock losses since 1931.<sup>4</sup>

Contrary to Friedman and other celebrants of the global market, governments were far from passé in this area before the global economy crashed; after the crash, governments stepped up dramatically, spending trillions of dollars to save capitalism from itself. By March 2009 the governments of Europe, North America, and the leading Asian capitalist powers had spent or guaranteed over \$11 trillion to prevent global economic suffocation. All of this was impossible to foresee or imagine in Friedman’s picture of an electronic herd of global investors zipping capital around the world with no regard for

---

<sup>4</sup> David Jolly, “Worldwide, A Bad Year Only Got Worse,” *The New York Times* (January 2, 2009), B1, 5.

governments or nations, taking orders from no one, guided only by economic attractions that he likened to laws of nature.

The neoliberal boosters overlooked that governments played huge roles in setting up this system, defending and perpetuating it, deciding whether to regulate it, and dealing with its implications for equality, trade agreements, human rights and the rights of workers, immigration, and the environment. They overlooked that economic oligarchies in emerging and advanced economies entrenched themselves in national governments, rigging the game whenever possible. They played down the roles of the International Monetary Fund (IMF) and World Bank in enforcing the golden straightjacket. They overlooked that lacking strong institutions and policies regulating capital flows, turbo-capitalism everywhere is vulnerable to the kind of meltdown that occurred in East Asia in 1997, which was a prelude to the crash of 2008.

From the perspective of Economics 101 every bubble mania is basically alike, but from the beginning this one has been harder to swallow, because it started with people who were just trying to buy a house of their own; who usually had no concept of predatory lending; and who had no say in the securitization boondoggle that spliced up various components of risk to trade them separately. It seemed a blessing to get a low-rate mortgage. It was a mystery how the banks did it, but this was their business; you trusted that they knew what they were doing. Your bank resold the mortgage to an aggregator who bunched it up with thousands of other subprime mortgages, chopped the package into pieces, and sold them as corporate bonds to parties looking for extra yield. Your mortgage payments paid for the interest on the bonds.

For twenty years securitizations and derivatives were great at concocting extra yield and allowing the banks to hide their debt. Broadly speaking, a derivative is any contract that derives its value from another underlying asset, such as buying home insurance. More narrowly and pertinently, it is an instrument that allows investors to speculate on the future price of something without having to buy it. Modern derivatives were developed to allow investors to hedge their risks in financial markets—essentially to buy insurance against market movements. In each case they quickly became major investment options in their own right, allowing executives to claim “earnings” for contracts in which money exchanged hands only at a designated, sometimes far-off future date.

Option trading—paying for the right to exercise an option in the event prices move in a set direction—soared in the 1970s, aided by the growth of computers, which helped to gauge the volatility of assets. The more prices move, the more buyers exercise their options. Currency swaps, and then interest-rate swaps, emerged in the 1980s. Currency swaps exchange bonds issued in one currency for another currency, enabling both parties to seek lower interest rates; interest rate swaps pair variable rate borrowers with borrowers on a fixed rate, as both parties try to manage their risk exposure.

From there it was a short step to the credit-default swaps pioneered in the late 1990s, in which parties bet on, or insured against, defaults. Credit-default swaps are private contracts in a completely unregulated market that allow investors to bet on whether a borrower will default. In theory they are a form of insurance, because sellers guarantee to pay investors if their investments go bad. In reality, the credit default mania of the 2000s was pure gambling exempted from standard insurance reserve requirements and state gaming laws.

For ten years credit default swaps were fantastically lucrative. In 1998 the total value of credit-default contracts was \$144 billion; by 2008 it was \$62 trillion, and at the very heart of the financial crash. The derivatives market as a whole was equally spectacular and remains highly concentrated. In 2003 seven banks owned 96 percent of the derivatives in the banking system, which had a total value of \$56 trillion; by 2008 the market was estimated to be \$520 trillion. These instruments offered dangerous incentives for false accounting and made it extremely difficult to ascertain a firm's true exposure. By design, they generated huge amounts of leverage in which investors controlled assets far exceeding the original investment. The financial products unit of American International Group (AIG), a corporation of U.S.-based insurance companies, virtually bankrupted the conglomerate by trafficking in derivatives tied to subprime mortgages. In the aftermath of the September 2008 meltdown AIG consumed four government bailouts totaling \$175 billion and doled out \$165 million of bonus payments without finding a bottom to its sinkhole of toxic debt exceeding \$1 trillion.

Despite the warning signs, greed and historical amnesia prevailed. Banks got leveraged up to 50-to-1 (Bear Stearns's ratio at the end) and kept piling on debt, stoking the mania for extra yield. In some cases subprime mortgage bonds were actually created to allow investors, using credit-default swaps, to bet against them. There was

so much money to be made that firms could not bear to leave it aside for competitors to grab. The mania for extra yield fed on itself, blowing away business ethics and common sense. So many plugged-in bankers, investors, brokers, and traders rode this financial lunacy for all it was worth, caught in the terribly real pressure of the market to produce constant short-term gains. Speculators gamed the system and regulators looked the other way. Mortgage brokers, bond bundlers, rating agencies, and corporate executives made fortunes selling bad mortgages, packaging them into securities, handing out inflated bond ratings, and putting the bonds on balance sheets. At every link in the chain, every time a loan was sold, packaged, securitized, or re-sold, transaction fees were charged and somebody's "wealth" increased. Bonuses were paid for short-term paper gains on money held up for as long as ten years. The chief rating agencies, Moody's and Standard & Poor's, instead of exposing financial risk, handed out Triple-A ratings that stoked the lunacy, being paid by the very issuers of the bonds they rated.

Warnings of a day of reckoning were not lacking. Chris Dialynas, a managing director at the investment firm Pimco, warned in October 2002 that credit default markets were especially vulnerable to insider-trading abuses, bankers could not be trusted to safeguard their clients' interests, and mere self-policing without regulation would not work. Prominent left-liberal political journalist William Greider warned repeatedly that America's financial system was imperiled by its dependence on fallible computer models and its extreme oscillations between excess and panic. India's Reserve Bank governor Y. V. Reddy, a sharp critic of derivatives and securitizations, limited these instruments for years before banning them outright. Indian bankers howled against Reddy right up to September 2008, when all was forgiven; Reddy saved India from being swept into the worst of the derivatives catastrophe.<sup>5</sup>

Investment guru Warren Buffett was another critic of the derivatives revolution. In 2002 Buffett warned that derivatives were time bombs that threatened to blow Wall Street and the economy apart. His investment group, Berkshire Hathaway, pulled out of most derivatives markets, explaining that derivatives pushed companies into a

---

<sup>5</sup> William Greider, "Waiting for 'The Big One,'" *The Nation* (August 23, 2007); Greider, "A Globalization Offensive," *The Nation* (January 11, 2007); Joe Nocera, "How India Avoided a Crisis," *The New York Times* (December 20, 2008), B1, 8.

“spiral that can lead to a corporate meltdown.” Buffett stressed that the value of a derivative contract usually depended on the creditworthiness of its counter-party and that earnings on derivatives were “often wildly overstated.” Since inaccurate estimates could take many years to expose, executives made off with huge bonuses and options for phony earnings. The problem wasn’t just greed or false optimism, he noted; the deeper problem was that derivatives were opaque, risky, and loaded with destructive incentives. He warned: “The derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear. Central banks and governments have so far found no effective way to control, or even monitor, the risks posed by these contracts. In my view, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal.”<sup>6</sup>

When the housing bubble burst in August 2007, Wall Street gasped but kept piling on debt. The following spring Bear Stearns went down, stunningly, but it was still plausible to many that Buffett had exaggerated about destruction and lethality. In September the crashing and bailing commenced and even Berkshire Hathaway was burned, losing 36 percent of its share value in two months, as Buffett turned out to be deeper into derivatives than advertised.

Thus far, the role of fraud in the financial crisis has revolved around predatory lending and the misrepresentation of risks. Borrowers were lured into taking out complicated loans that they didn’t understand, and subprime lenders sold off the loans to investors in forms that masked the likely risks. In April 2010, the Security and Exchange Commission’s lawsuit against Goldman Sachs raised the prospect of a third kind of fraud—outright stealing masked by deception.

It is not in dispute that Goldman routinely shorted (betted against) collateralized debt obligations (CDOs) that it created and marketed to investors. That is not illegal, however odious it may be. According to the SEC, however, Goldman took a further step in its Abacus 2007 deal, by creating a derivative that was designed to fail at the request of a hedge fund client, John Paulson, who wanted to bet

---

<sup>6</sup> Warren Buffett, Berkshire Hathaway Annual Report, 2002, reprinted in “Warren Buffett on Derivatives,” 1–2; <http://www.fintools.com/docs/Warren%20Buffet%20on%20Derivatives.pdf>; “Buffett Warns on Investment ‘Time Bomb,’” BBC News, March 4, 2003; <http://news.bbc.co.uk/2/hi/2817995.stm>.



against it. The SEC says that Goldman misled investors by not revealing the hedge fund's role in handpicking the bonds, and Goldman says it had no obligation to do so.<sup>7</sup>

No matter how this case turns out, the crucial question is whether this kind of derivative trading should even exist. We are talking about speculative gambling that adds nothing of value to society. The ostensible purpose of Wall Street is to raise money to finance making things in the real economy. But Goldman's CDO deals are not investments; they don't create any actual bonds or mortgages; they are pure gambling on whether somebody else's bonds will succeed. They are like side bets at a casino, except these bets are protected, implicitly, by the Federal Reserve. They inflate the housing bubble without financing a single house, and if they blow up, don't worry, taxpayers will clean up the mess.

Derivatives were developed with virtually no consideration of their broad economic consequences. Two years from now, speculative corporate debt in the U.S. is going to explode, as the reckoning for high-risk loans, bonds, and leveraged buyouts transacted five to seven years ago will occur. In the bond business this is called a maturity wall. This year \$21 billion is coming due for junk bonds that were sold before the credit crisis hit in 2007. In 2012 that number will soar to \$155 billion; the following year it will be at least \$212 billion; and the next year it will be over \$340 billion. This coming avalanche of over \$700 billion of speculative debt was created just like the mortgage crisis, with CDOs that sliced and diced corporate loans, and all of it is going to come due at a time when the U.S. government will need to borrow almost \$2 trillion to bridge its budget deficit and refinance its existing debt. Another credit crunch is coming, and we still haven't resolved the bank problem that the Obama administration inherited.<sup>8</sup>

Today the big banks are still holding about \$2 trillion of toxic debt. But their bailouts have made them feel better, they don't want to be regulated, and they're back to gambling in the swaps market, which pays better than making boring investments in the real economy. The big private equity firms and hedge funds are refusing to pay more than 30 cents on the dollar for the mortgage bundles and the banks can't

---

<sup>7</sup> See Binyamin Appelbaum, "A Difficult Path in Goldman Case," *The New York Times* (April 20, 2010), A1, B5; Andrew Ross Sorkin, "When Deals on Wall Street Resemble a Casino Wager," *The New York Times* (April 20, 2010), B1, 4.

<sup>8</sup> See Nelson D. Schwartz, "Tight Credit Seen as Corporate Debts Come Due," *The New York Times* (March 16, 2010), A1, 3.

stay in business if they book such huge losses on their holdings. So the banks are kicking the can down the road, holding out for 60 cents, raking in huge profits, and lobbying against regulations on derivatives. And until April 2010, they had things completely their way.

First we had cash for trash, Henry Paulson's original plan, which was a straightforward giveaway with no public accountability and no annoying demands to do anything in particular with the taxpayers' money. Then we debated ramping up the insurance approach, "ring-fencing" bad assets by providing federal guarantees against losses. But that was a more-of-the-same option that coddled the banks and didn't solve the valuation problem—that no one trusts anyone else's balance sheet.

When the Obama administration took office, there was a lot of talk about the "bad bank" model, which creates transitional banks to soak up bad debt. Here the risk of getting prices wrong is even greater. If the government overpays for toxic securities, taxpayers are cheated; if it doesn't overpay and the banks take mark-to-market prices, many are sure to fail. Some advocates of the bad bank strategy say the government could stall on the price issue, waiting until values rise, which is what Germany did; but FDIC chair Sheila Bair says no, banking is not alchemy; assets can't be floated into the ether. She and Timothy Geithner settled on an aggregator bank that blends the original Paulson plan with some elements of the bad bank topped off with an auction scheme. The government is spending up to \$2 trillion subsidizing up to 95 percent of deals partnered with hedge funds and private equity firms to buy up toxic debt.

Since this is what we're doing, I certainly hope it works. But this plan is the most cumbersome and non-transparent strategy of all. It coddles the banks. It is obsequious to Wall Street. It is based on the dubious hope of finding enough private buyers for rotten goods. It offers a taxpayer guarantee to investors that they won't lose money if they get in. Essentially, this is a scheme to pay fantastic bribes to private investors to buy the bad assets for more than they're worth, which the banks are resisting anyway, since they don't want the government in their business.

I would rather bite the bullet. It's obscene to pay off the very people who created this disaster. At some point moral fairness and accountability have to enter this picture. When a bank goes under, the appropriate response is to take it over, transfer the bad assets to a

reincarnation of the 1980s Resolution Trust Corporation, and sell off the sellable parts to new owners. Nationalization is cleaner and more transparent than the alternatives. It cuts off the gusher of taxpayer gifts to executives and shareholders. It puts an end to mergers between zombie banks, which create more zombie banks that are too big to fail.

That is more or less what will happen if the regulation bill currently being debated in the Senate as this article goes to press is passed. In my view, this is the best thing about the bill sponsored by Senate Banking Committee chair Christopher Dodd. The second best thing is that this bill, merged with the Agriculture Committee bill sponsored by Senator Blanche Lincoln, wrests some control over the derivatives problem by forcing most derivatives to be traded in the open. The biggest nine banks have lobbied furiously against regulation through their joint lobbying powerhouse, the CDS Dealers Consortium—and remarkably, they are losing. The reform bill requires most derivatives to be traded on a public exchange and cleared through a third party to guarantee payment if one of the trading parties goes out of business.

This is a huge step in the right direction, one that looked to be politically impossible for most of 2009. On the other hand, the reform bill relies too heavily on the Federal Reserve, which is very friendly to the big banks, and where a new consumer protection agency will be housed. The bill does not require higher capital reserves, though it authorizes regulators to impose higher mandates. It is loaded with carve-outs for select corporate users of derivatives, exemptions for foreign exchange swaps, and restricted scrutiny of corporate pension funds. It does not abolish gambling with CDOs; it merely authorizes regulators to gather information about abuses and relay it to Congress. It calls for the big banks and Wall Street firms that trade in derivatives to spin off their derivative trading to new subsidiaries, but that part has no chance of staying in the bill, as President Obama is opposed to aggravating Wall Street that much. And above all, the financial reform of 2010 takes a pass on the biggest problem, that the biggest banks are too big.

The big banks have gotten even bigger since they got their bail-outs, yet financial reform is not scaling back the banks that are too big to fail. Today the six largest banks control assets totaling over 60 percent of the country's gross domestic product, a stunning concentration

of economic and political power for an ostensible democracy. But the regulation bill passes this problem to regulators, ignoring that massive banks cannot be controlled with regulations or prevented from setting off another meltdown. Any bank that is too big to fail is too big. The next round of financial reform, which will hopefully occur before another crash occurs, has to face up to that simple truism.

Meanwhile the global economy has lacked a system of road rules since the early 1970s, and a new system is overdue. After World War II the Bretton Woods Agreement established a system of fixed exchange rates that limited capital flows from one country to another. In 1971, however, Richard Nixon, struggling with a large trade deficit and a costly war in Vietnam, suspended the dollar's convertibility into gold, which ended the Bretton Woods system. Now currencies could float. Capital flows rushed across national borders, the world changed, and the financial futures business was created, centered at the newly founded Chicago Mercantile Exchange. Currency trading led straight to the electronic herd's free-flowing world of zippy derivatives trading, far eclipsing the commodities market.

That era is over; at least, it should be. The U.S. has a savings rate of almost zero and a skyrocketing national debt equal to the size of its entire economy, plus recent annual trade deficits of \$200 billion with China, while China has a savings rate of nearly 50 percent, a consumption rate of only 35 percent, and a beggar-thy-neighbor policy of subsidizing exports. To attain something resembling a functional global trading system, both sides of this picture have to change. The U.S. has to relearn how to save, live within its means, and get along without cheap money and easy credit. China has to ease up on the very strategy of cheap money and exports that lifted it to superpower status over the past fifteen years; otherwise, the existence of an open global trading system is imperiled.

Every major and middle-sized trading power in the world, except one, allows its currency to float against other currencies, permitting the relative value of its currency to fluctuate depending on market forces. Tactical exceptions and adjustments are commonplace, as when a government limits capital flows to head off a currency run or limits capital inflows caused by excessive speculation. But as a rule, active trading nations keep the value of their currency in line with economic fundamentals.

China is playing a different game, a dangerous one. China keeps its currency, the renminbi, artificially low, mostly by buying hundreds of billions of dollars annually in the currency markets. This strategy keeps China's currency undervalued by 20 to 30 percent, fueling its constant export growth, which is great for Chinese exporters and terrible for weaker trading powers and everyone else trying to crawl out from a depressed world economy. In this situation, it should not have to fall to social justice types alone to demand a new system of global economic rules, though we have this issue pretty much to ourselves thus far. We need a twenty-first-century version of Bretton Woods that upholds principles of fair trade, human rights, and environmental protection.

Today the Obama administration is struggling to fill a \$2 trillion hole in the economy even as Wall Street regains its swagger. We need huge investments in green technology, infrastructure rebuilding, high-speed trains, education, and health care to meet our human and environmental needs and to revive the economy's productive capacity. Deficit spending, in the long run, is inflationary, which lends an economic urgency to things we should have been doing anyway—scaling back the U.S. military empire, breaking our addiction to oil, getting control of health care costs, and restoring progressive taxation.

These are typical progressive reforms, however, and I have a wilder dream that is eminently practical: building a movement for economic democracy that establishes publicly funded venture capital banks. If we can talk seriously about creating bad banks or aggregator banks we ought to be able to talk about creating publicly financed good banks to do good things. Public banks could finance start-ups in green technology that are currently languishing and provide financing for cooperatives that traditional banks spurn. They could be financed by an economic stimulus package, or by claiming the good assets of banks seized by the government, or both.

If we created a public bank that supported green technology and cooperatives, that would be a major breakthrough for economic democracy in this country. I do not believe that the factors of production trump everything. But I do believe that those who control the terms, amounts, and direction of credit play a huge role in determining the kind of society that everybody lives in. We are getting a dramatic demonstration of that today. Gains toward social and economic democracy

are needed today for the same reason that political democracy is necessary: to restrain the abuse of unequal power.

Simon Johnson, until two years ago, was chief economist of the International Monetary Fund. He argues that the finance industry has effectively captured our government. During his early career at MIT Johnson tried to be skeptical about this, but then he went to the IMF and got a close look at the symbiotic relationships between the world's economic elites and its governments. In the U.S. it goes far beyond mere access or even collusion, he says; here the two career tracks of government and high finance are melded together. And that is problematic when the oligarchy screws up and the economy implodes.<sup>9</sup>

Johnson stresses that when the IMF enters the scene of a crash, the economic part is usually straightforward: nations in crisis are told to live within their means by increasing exports, cutting imports, and breaking up bankrupt enterprises and banks. Every country that is not the U.S. would get this prescription. But the U.S. controls the IMF, it has a powerful and well-connected oligarchy, and it pays its foreign debts in its own currency. So our recovery begins by paying off Wall Street.

There are significant differences between the South Korean and Indonesian crashes of 1997, the Malaysian crash of 1998, Japan's lost decade, the recurrent crashes in Russia and Argentina, and our current meltdown. But they all have in common the most important thing: a financial oligarchy that rigged the game in its favor, built an empire on debt, overreached in good times, and brought the house down on everybody. When the house collapses, elites do what they always do: they take care of their own. To get a different result, a nation has to take control of the problem and break the grip of the oligarchy. Otherwise you muddle along in a lost decade of your own, further entrenching the oligarchy.

Johnson's analysis is strong and compelling on the latter point. But his prescription is straight out of the IMF playbook: find a bottom, clear out the clutter, get the fiscal and monetary houses in order, and shake up crony capitalism. There is always going to be an economic oligarchy, he says, so the best we can do is shake it up from time to time. To this end he recommends new antitrust laws, though he cannot say what they would look like, and he notes that we will probably try to cap

---

<sup>9</sup> Simon Johnson, "The Quiet Coup: How Bankers Took Power, and How They're Impeding Recovery," *The Atlantic* (May 2009): 55–56.

executive compensation, though he says that won't work. In his new book, *Thirteen Bankers*, co-authored with James Kwak, Johnson makes a case for shrinking the big banks.<sup>10</sup>

If we take the existing system for granted, Johnson's prescription is about the best we can do. Our oligarchy has immense political and economic power, virtually all of us are deeply influenced by commercial advertising and materialism, our economy is based on ever-expanding consumption, and if the U.S. opts for muddling through, we can just print more money. That's the path we're on. But if we democratize economic power and the process of investment—expanding the cooperative sector, investing in full employment and green technology, strengthening social market sectors that serve the needs of communities, and creating public banks and new forms of socially owned enterprises—we get better choices.

Economic democracy, like political democracy, is messy and time-consuming. Producer cooperatives are often too slow, small, and humane to compete with corporations, and they require cooperative habits and values that cut against the grain of American individualism. In the U.S., any strategy to break down concentrated economic power by expanding the cooperative sector confronts difficult trade-offs, political opposition, and cultural barriers. But economic democracy also has pragmatic considerations in its favor. Economic losses caused by worker participation can be offset by gains in productivity made possible by it. People often work harder and more efficiently when they have a stake in the company. The Mondragon network in Spain is spectacularly successful; in the U.S. several thousand firms have converted to employee ownership, thousands of others have been launched with worker-ownership plans, and approximately one thousand companies in the U.S. are fully worker-controlled. These developments are not yet, but have the potential to become, the building blocks of a serious movement for economic democracy.

On the way to a serious movement, economic democracy is about building up institutions that do not belong wholly to the capitalist market or the state. It begins by expanding the sector of producer and consumer cooperatives, community land trusts, and community finance corporations. But merely expanding the cooperative sector is not enough. Cooperatives usually prohibit non-working shareholders,

---

<sup>10</sup> Simon Johnson and James Kwak, *Thirteen Bankers: The Wall Street Takeover and the Next Financial Meltdown* (New York: Random House, 2010).

so they attract less outside financing than capitalist firms. They are committed to keeping low-return firms in operation, so they tend to stay in business even when they can't pay competitive wages. They are committed to particular communities, so they are less mobile than corporate capital and labor. They smack of anti-capitalist bias, so they have trouble getting financing and advice from banks. They tend to maximize net income per worker rather than profits, so they tend to favor capital-intensive investments over job creation. And because cooperative owners often have their savings invested in a single enterprise, they tend to avoid risky innovations.

These problems can be mitigated with productivity enhancing tax incentives and regulations. Cooperative economics and ecological sustainability are naturally linked by the necessity of creating alternatives to the fantasy of unlimited growth—an expanded cooperative sector of worker-owned firms rooted in communities, committed to survival, and prepared to accept lower returns.

But we also need something bolder and more visionary. We need forms of social ownership that facilitate democratic capital formation, have a greater capacity for scaling up, and are more entrepreneurial. Specifically, we need public banks and mutual funded holding companies. This approach can take a variety of forms, but the essential idea is to establish competing banks or holding companies in which ownership of productive capital is vested. The companies lend capital to enterprises at market rates of interest and otherwise control the process of investment. Equity shareholders, the state, and/or other cooperatives own the holding companies or public banks.

Mutual fund models contain a built-in system of wage restraints and facilitate new forms of capital formation. They require no program of nationalization, and investors still seek the highest rate of return. This approach does not rest on idealistic notions about human nature. Economic democracy is a brake on human greed and domination; the whole point of it is to fight the propensity of dominant groups to hoard social goods and abuse disenfranchised people. Neither is there a blueprint for economic democracy. I have theories and favorite models to push, but the key thing is to expand the social market in different ways and find out which models work best in particular circumstances.<sup>11</sup>

---

<sup>11</sup> See Dorrien, *Social Ethics in the Making*, 674–688; Gary Dorrien, *Economy, Difference, Empire: Social Ethics for Social Justice* (New York: Columbia University Press, 2010).



Most of our traditions in social theory and Christian social ethics operated with unitary ideas of capitalism and socialism, as though each were only one thing. Economic democracy must be a project built from the ground up, piece by piece, opening new choices, creating more democracy, building an economic order that allows for social contracts, common goods, and ecological flourishing. It nurtures and sustains social trust, a form of social capital that no healthy society can do without. It is a project that breaks from the universalizing logic of state socialism, taking seriously that there are different kinds of capitalism.

The tests of any experiment in economic democracy are pragmatic. To impose something like the Mondragon network on a capitalist society would require coercion over workers who don't want to belong to cooperatives. The U.S. Pacific Northwest has a network of longstanding, highly successful plywood cooperatives. Some plywood workers choose to work in conventional firms instead of the cooperatives. No political economy worth building would force them into a different choice.

The issue of choice, however, is the key to a better alternative. A politics that expanded the cooperative and social ownership sectors would give workers important new choices. The central conceit of neoclassical economics could be turned into a reality if meaningful choices were created. The neoclassical conceit is that capitalism doesn't exploit anyone, because labor employs capital as much as capital employs labor. But in the real world the owners of capital nearly always organize the factors of production. To expand the cooperative and other social market sectors would give choices to workers that neoclassical theory promises, but does not deliver. It would show that there is an alternative to a system that stokes and celebrates greed and consumption to the point of self-destruction.

The earth's ecosystem cannot sustain a U.S.-level lifestyle for more than one-sixth of the world's population. The economy is physical. There are limits to economic growth. Global warming is melting the Arctic ice cap at a shocking pace, as well as large areas of permafrost in Alaska, Canada, and Siberia, and destroying wetlands and forests around the world. We have to find alternatives to a system in which corporate giants like ExxonMobil succeed as businesses and investments while treating the destructive aspects of their behavior as someone else's problem.

A century ago the newly founded Federal Council of Churches issued an historic pronouncement called the Social Creed of the

Churches. The churches could not agree on doctrine; thus there were thirty-two denominations in the Federal Council of Churches. But the social gospel leaders of the Federal Council reasoned that the churches should be able to agree about social justice and do something for it. So they issued the Social Creed, which advocated “equal rights and complete justice” for all human beings; the “abolition of child-labor”; a “living wage as a minimum in every industry”; social security; an equitable distribution of income and wealth; the “abatement of poverty”; and eight other planks focused mostly on economic justice.<sup>12</sup>

A century later the National Council of Churches has a new social creed; I was one of its authors. It calls for “full civil, political and economic rights for women and men of all races.” It demands the “abolition of forced labor, human trafficking, and the exploitation of children.” It supports “employment for all, at a family-sustaining living wage, with equal pay for comparable work.” It stands up for the right of workers to organize, opposes the death penalty, calls for the abatement of hunger and poverty, and endorses universal health care, social security, and progressive tax policies. It commends immigration policies that protect family unity and foster international cooperation. It stresses the necessity of adopting simpler lifestyles, living within our means, protecting the earth’s environment, and investing in renewable energy. It supports equitable global trade that protects local economies, and advocates a foreign policy based on international law and multilateral diplomacy. It calls for nuclear disarmament, reductions in military spending, and the abolition of torture. And it calls for cooperation and dialogue among world religions.<sup>13</sup>

It is no easy thing to get a statement like this through the National Council of Churches, which now consists of thirty-five denominations. Every line of this new Social Creed has a story behind it, and a few lines are taken straight from the 1908 Social Creed. We are living in a terrible time, and there is deep disappointment among many who campaigned for Barack Obama over his performance as president. But getting half a loaf on health care is a tremendous achievement, something that Presidents Roosevelt, Truman, Kennedy, Nixon,

---

<sup>12</sup> Harry F. Ward, *The Social Creed of the Churches* (New York: Eaton & Mains, 1912).

<sup>13</sup> See National Council of Churches, “A Social Creed for the 21<sup>st</sup> Century,” approved November 7, 2007; <http://www.nccusa.org/news/ga2007.socialcreed.html>.

and Clinton tried and failed to do. Gaining health coverage for thirty million people is morally significant, as is abolishing the worst abuses of the health insurance industry. The same thing is true of the 2010 financial reform, which begins to reverse thirty years of policy favoring Wall Street.

For thirty years you had to be a stubborn type to talk about the kinds of issues I have discussed here. Today we are much closer to the spirit and concerns of the social gospel than our country was ten or twenty or thirty years ago. If the stubborn types can seize this terrible moment as an opportunity to build a better social order, we may actually do it.

