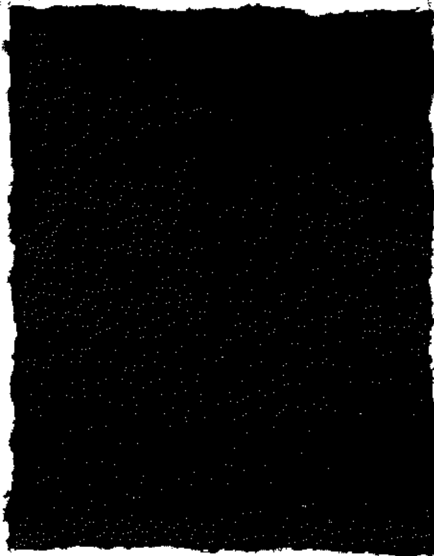
SOCIAL PHILOSOPHY TODAY

POVERTY, JUSTICE, AND MARKETS

VOLUME 27



Edited by Nancy E. Snow

Reading *Legitimation Crisis* During the Meltdown

DAVID SCHWEICKART

In 2003 Robert Lucas, professor at the University of Chicago and winner of the 1995 Nobel Memorial Prize in Economics gave the presidential address at the annual meeting of the American Economics Association. After explaining that macroeconomics began as an intellectual response to the Great Depression, he declared that it was time for the field to move on: "the central problem of depression prevention," he declared, "has, for all practical purposes, been solved, and has, in fact, been solved for many decades."[1]

Paul Krugman, a more recent Nobel laureate, points out, in his 2009 best seller, *The Return of Depression Economics and the Crisis of 2008*, that Lucas was hardly alone in holding this view. Indeed, it has been the prevailing wisdom of the profession for nearly half a century. As you may surmise from the title of his book, Krugman dissents. "Looking back from only a few years," he writes, "with much of the world in the throes of a financial and economic crisis all too reminiscent of the 1930s, these optimistic pronouncements sound almost incredibly smug."[2]

"All too reminiscent of the 1930s." Let us recall for a moment that momentous decade, which began with a bang and then got really ugly. As John Kenneth Galbraith remarked, "The singular feature of the Great Crash of 1929 was that the worst continued to worsen."[3] The world was transformed.

For one thing, the Great Crash seemed to confirm Marx's theoretical conclusion that capitalism is inherently prone to economic crises, and that these would tend to worsen over time. This confirmation invigorated the international communist movement, which developed active parties in virtually every country in the world.

The economic crisis also invigorated the fascist movement, whose virulent anti-communism garnered the support of wealthy, threatened backers throughout Europe, and gave us, not only a vicious anti-semitism that resulted in the Holocaust, but World War II as well.

The Great Depression also set the stage for a new form of capitalism, eventually called "welfare-state capitalism, or "social democracy" or by Jürgen Habermas, in the work I happened to be teaching in the fall of 2008, "advanced" capitalism.

I. Legitimation Crisis

Before diving into *Legitimation Crisis*, some background. In 1923 in Frankfurt, Germany the Institute for Social Research was established, which brought together a remarkable collection of independent Marxist intellectuals, among them Max Horkheimer, Theodor Adorno, Herbert Marcuse, Erich Fromm, and, as a member of the Institute's outer circle, Walter Benjamin. Most relocated to the United States, following the accession of Adolf Hitler to power in 1933. (Benjamin was not so fortunate. He remained in Europe, then committed suicide in 1940 to avoid being taken prisoner by the Nazis.) Horkheimer and Adorno returned to Frankfurt after the war.

Several key questions dominated the thinking of these "first generation" critical theorists:

- Why had Communism, which held out such hope for liberation, degenerated into rigid, dogmatic, ruthless Stalinism?
- Why had the working class *not* emerged victorious from capitalism's most severe crisis—as Marx had predicted?

Then later, after the war,

- Is technology truly liberating, as Marx believed, or is it, having greatly enhanced the ruling elites' powers of mass indoctrination, ushering in a new, "happy" totalitarianism, creating a "one-dimensional man" so captivated by advertising, mass entertainment and the titillating sexualization of everyday life as to be incapable of revolt?

The first-generation critical theorists, apart from Marcuse in his later writings, tended to answer this latter question in the affirmative—a grim, disheartening conclusion. Jürgen Habermas, who had been a "Hitler Jugend" during the war, and who later became Adorno's assistant, was not so pessimistic.

Legitimation Crisis came out in 1973. (The English translation followed two years later.) Although Habermas self-identified as a Marxist at the time, he didn't think Marx had gotten everything right.[4] Marx is right, he thinks, that there is a direction to history, and that there are various stages of development. Marx is right that technological development and class struggle are key factors in explaining the development and transformation of social systems.

Marx is wrong, however, to think that moralities and worldviews are simply reflections of underlying, more basic, economic conditions. Worldviews and

moralities, Habermas insists, have their own rationally-reconstructable, stage-like development trajectories, which set limits on the range of options available to particular societies when they come under stress. In his words, the change from one social system to another is "a function of forces of production and degree of systems autonomy, but [such change] is limited by the logic of the development of worldviews, *which is relatively independent of political and economic forces*" (8, my emphasis).[5]

Marx is wrong, also, to think that a severe economic crisis will more or less automatically generate a revolutionary class consciousness among the working class, inspiring them to bring down the old system and set up a new one. The transition from an "objective" crisis to a "subjective" one is more complicated than Marx supposed. For a socio-economic system to be radically transformed, a "systems crisis" must become an "identity crisis," that is to say, an economic crisis must ultimately change the self-identity of enough people in such a way as to allow/compel them to become agents of change. Whether or not this happens depends on an array of psychological and cultural factors quite distinct from the severity of the economic crisis.

Habermas is not only critical of Marx. He is also critical of certain tenets of first-generation critical theory. Advanced capitalism has not solved the problem of economic crisis, as the first-generation theorists (along with virtually all mainstream economists) seem to have concluded. More precisely, "I do not exclude the possibility that economic crisis can be permanently averted—but only in such a way that contradictory steering imperatives that assert themselves . . . would produce a series of *other* crises" (40).

Habermas is also less pessimistic than first-generation theorists as to the efficacy advertising, mass entertainment and mass communication in turning us all into mindless robots incapable of questioning the legitimacy of the given socio-economic order. This *might* happen—but it hasn't happened yet. For a very important reason. Certain crucial areas of life are highly resistant to administrative control. Habermas emphatically insists: "*There is no administrative production of meaning*" (70).

For Habermas, it is crucial to distinguish "systems" from "the lifeworld." There are two basic "systems" in a modern society, an economic system, where interactions are mediated by money, and a political system where interactions are mediated by hierarchical power. A very different set of interactions characterizes the "lifeworld." The lifeworld is the realm of personal interactions mediated by language. It is the locus of our normative structures and our sense of meaningfulness. It is the source of personal identity. Although the systems regularly attempt to "colonize" the lifeworld, the latter tends to resist these attempts.

In assessing the relevance of Marx's critique of capitalism, it is important, Habermas insists, to keep in mind the fact that "advanced capitalism" is significantly different from the "liberal capitalism" of Marx's day. One difference, noted

by Habermas, is particularly important to our present concerns. The state now assumes responsibility for the economy. It is held responsible by an electorate that demands government intervention when the economy sours. We are certainly witnessing this demand today.

But will these interventions work? If not, how might things play out? These are the questions we are facing at the present moment. They are also the questions with which Habermas grappled thirty-eight years ago.

According to Habermas, we must distinguish various kinds of crises. He delineates four distinct "crises tendencies in advanced capitalism": economic crises, rationality crises, legitimation crises and motivation crises. The economic crises are the ones with which we are all familiar: serious inflation and/or deep recession. A "rationality crisis" occurs at the political-administrative level, when, given the conflicting demands of various constituencies, the government is unable to resolve the economic crisis it is expected to handle. A "legitimation crisis" occurs when the people lose faith in their government and begin to raise deep questions about the political or economic structures of their society. A "motivation crisis" occurs when motivational patterns important for the functioning of the system break down.

As a striking illustration of these various crisis tendencies, consider a world-historic example that occurred more than a quarter-century after *Legitimation Crisis* was published. Consider the collapse the Soviet Union.

First we had an economic crisis: seemingly permanent stagnation. Rather than overtaking the West, as its citizens had hoped, and as many in the West, among them influential economists, had feared, the gap between the Soviet Union and the West, which had narrowed significantly from the time of the Russian Revolution to the mid-1970s, suddenly began to widen, becoming ever larger—and, due to enhanced communication technologies, ever more apparent. (My 1973 edition of Paul Samuelson's *Economics*—by far the most widely used undergraduate economics textbook of the time—includes a graph, based on "plausible assumptions," showing the Soviet economy overtaking our own by 1990.[6]) The government responded by attempting various reforms. The basic economic structure—centralized planning instead of markets—had produced some triumphs, particularly in nuclear catch-up and the "space race," but it was realized that its earlier period of rapid economic growth had been due mainly to "extensive development" (building more factories, moving more labor from the countryside to cities), and that this source of growth had been exhausted. "Intensive development" (grounded in technological innovation) lagged far behind the capitalist West. So the state tried to change the incentive structures, first trying to get managers of state-run enterprises to run their enterprises according to profit and loss criteria, as opposed to simply fulfilling mandated quotas, then introducing more direct market mechanisms. The political structure was also opened up. We had both *perestroika* (restructuring) and *glasnost* (openness)—but nothing seemed to work.

The system became engulfed in a full-blown rationality crisis, which rather quickly devolved into a legitimation crisis. I got a first-hand taste of the latter when I visited Russia (my first and only visit) in 1987. I was startled by the virulence and extent of the criticisms now openly expressed in the newly freed press. (I remember in particular a column denouncing, of all things, Russian food: communism, it was claimed, had destroyed the fine traditions of Russian cuisine.) This legitimation crisis coincided with a motivation crisis. Factory production continued to deteriorate. The Russian joke at the time: "They pretend to pay us. We pretend to work." Soon enough, the Soviet system came crashing down.

II. The Current Economic Crisis

Let us leave Habermas for awhile. We'll come back to him. Let us now take a closer look at where we are today. We're in an economic crisis. Why?

Let us set aside the immorality and illegality that have garnered so much attention:

- Unscrupulous real estate brokers enticing people to sign contracts they didn't understand,
- Corrupt rating agencies giving triple-A ratings to high-risk securities,
- Lax regulators,
- Investment banks concocting securities they knew were rotten, then buying "credit default swaps" so as to bet against them.

Let's begin with the standard story: the subprime mortgage debacle caused a general liquidity crisis, which, in turn, provoked a recession. But what is a "liquidity crisis"? Let us back up for a moment. As everyone knows, the stock market collapse on that notorious "Black Tuesday," October 29, 1929 ushered in the Great Depression. But how could a collapse of the stock market—the devaluation of pieces of paper held mainly by the rich—lead to an economic collapse that lasted a decade? After all, this was not a natural disaster. We are not talking here of war or pestilence or drought, but of pieces of paper suddenly losing value. How could this "accounting fact" lead to massive misery?

The answer lies with banks—where the rubber meets the road, where finance meets the "real" economy. A stock market crash, in and of itself, need not cause much damage. Witness the Crash of 1987, which saw the stock market plunge 23 percent on October 19—nearly twice the 12 percent drop on Black Tuesday. The real economy barely blinked this time. The Federal Reserve rushed cash to the banks. Within a couple of months the stock market itself had recovered.

It is when banks get in trouble that the real economy is affected. Businesses need regular access to credit, since, typically, labor and raw materials must be

purchased before the finished product is sold. Consumers, too, need access to credit, particularly for big-ticket items like homes and cars. If access to credit dries up, spending contracts, production contracts, workers are laid off, effective demand contracts further—the now-familiar downward recessionary spiral.

Back to the present: the standard story. A "housing bubble" led to a proliferation of subprime mortgage lending. (With house prices going up, where's the risk? Who cares if the borrower can't afford the mortgage? If the borrower defaults, the house can be resold—for even more.) These subprime mortgages, along with most other home mortgages, were sold to investment banks, which sliced and diced them, repackaged them as "mortgage backed securities," and sold them to eager investors everywhere. (A "mortgage-backed security" is essentially a contract to receive small pieces of the repayments of a great many loans.) These mortgage-backed securities were highly liquid, i.e., easy to sell on short notice if the buyer needed cash—at least they were before the crisis.

When housing prices stopped rising, and when "teaser" interest rates gave way to market rates, homeowners began to default in large numbers, especially those who had insufficient income in the first place, those to whom the "subprime" mortgages had been granted (NINJA loans, for example: no income, no job). Suddenly no one could tell what mortgage-backed securities were worth, since it was virtually impossible to ascertain, for a given security, how much income it could be expected to generate, given that many of its many-thousand pieces (how many?) were in or near default. So the markets for these securities, and indeed for most other "collateralized debt obligations," froze. There were no buyers at all for these particular pieces of paper.

Okay, but so what? Investors can't sell certain pieces of paper. So what? Now we get to the banks. Commercial banks, which make loans to individuals and businesses, held many of these "pieces of paper." When money is deposited in a bank, as you know, it is not simply stashed in a vault. A bit of it is (as is required by law), but most of it is either loaned out to customers *or* used to purchase securities. (After all, it makes no sense for a bank to keep idle cash on hand, when it could be "put to work" making more money.) If extra cash is needed to make new loans or to return to depositors who want to take their money out, the banks can simply sell their securities to raise the cash. Or at least they could *before* the crisis. Suddenly they couldn't. No one would buy these "toxic" securities (unless the taxpayers agree to assume the risk). Thus a "liquidity crisis." (I'm oversimplifying some, but this is the basic picture.)

But we know how to resolve a liquidity crisis, don't we? Isn't that what Robert Lucas was telling us? Here's Krugman again:

> Most economists, to the extent that they think about the subject at all, regard the Great Depression of the 1930s as a gratuitous, unnecessary tragedy. If only the Herbert Hoover hadn't tried to balance the budget in the face of an economic slump, if only the Federal Reserve hadn't defended the gold standard . . . if only officials had rushed cash to threatened banks, . . . then the stock market crash would have led to only a garden variety recession, soon forgotten. And since economists and policymakers have learned their lesson . . . nothing like the Great Depression can ever happen again.[7]

But consider: We're not defending the gold standard anymore. We didn't try to balance the budget—at least not then. We did rush cash to threatened banks. So, from the point of view of current orthodoxy, we did everything right. Yet the unemployment rate remains painfully high and shows no sign of coming down. To be sure, the panic seems to have subsided, and the stock market has rebounded, but as Mortimer Zuckerman, Editor-in-Chief of *U.S. News and World Reports* wrote two years ago, in a prescient article entitled, "Nine Reasons the Economy is Not Getting Better, "The appropriate metaphor is not the green shoots of new growth. A better image is to look at the true total of jobless people as a prudent navigator looks at an iceberg. What we see on the surface is disconcerting enough. . . . The job losses are now equal to the net job gains over the previous nine years, making this the only recession since the Great Depression to wipe out all employment growth from the previous business cycle."

Beneath the surface, things look even worse—people not counted as unemployed who are, people working part time who want full-time work, people taking unpaid leaves, little prospect of job creation, etc. As a result, "we could face a very low upswing in terms of the creation of new jobs, and we may be facing a much higher rate of joblessnesss on an ungoing basis."[8]

Why haven't the standard remedies worked? It's time for a deeper, more Marxian-Keynesian analysis. From this perspective, the fundamental problem is not the housing bubble, or subprime lending, nor is it Wall Street greed nor excessive speculation nor even deficient regulation.

Let's begin with Marx's basic insight: The seemingly irrational "overproduction" crises of capitalism are rooted in the defining institution of capitalism: wage labor. The commodification of labor gives rise, over time, to a contradiction. Since labor is a cost of production, capitalists strive to keep its price (the wage rate) low. At the same time capitalists need to *sell* their products, so they need wages to be high. Hence an ever-present crisis tendency: if workers don't have the money to buy what is produced, production is cut back, workers are laid off, demand drops further . . . the downward spiral.

"But wait!" you might say, "Not so fast. Workers aren't the only ones that purchase goods. So do capitalists. If the gap between what is produced and what workers can buy is filled by the purchases of capitalists, recession can be avoided."

We are touching here on a key difference between Marx's analysis and Keynes's. Whereas Marx focuses on the constraints to workers' consumption, Keynes focuses on the behavior of the capitalists. Let's follow the Keynesian trail at this point.

What do capitalists buy? Consumer goods, to be sure, but not nearly enough to close the gap. It is a fundamental feature of a capitalist society that capitalists do *not* simply consume the surplus that workers have created. Feudal lords might have routinely consumed all the surplus their peasants produced, but what gives capitalism its fundamental dynamic is the fact that capitalists routinely *reinvest* a portion of their profits, so that they can reap even greater rewards in the future.

But what does "reinvestment" mean in real, material terms? Well, it means buying capital goods, not consumer goods—the extra machinery and raw materials to be utilized during the next production period to produce more than was produced in the preceding period. So long as the capitalists keep reinvesting, the economy can keep growing, can remain healthy, can avoid recession. But if the capitalists don't invest, then the economy slumps.

Moreover, as Keynes emphasized, the market's invisible hand will not automatically turn things around. To the contrary, market incentives often make matters worse: if the economy begins to slump, prices drop, companies go bankrupt, workers are laid off, demand drops further, etc. The downward spiral has no built-in countertendencies. An external event, or series of events, can sometimes turn things around, something that inspires investors to begin investing again, but there is no guarantee that such events will occur. Therefore, governments must intervene when a recession threatens. If government action isn't swift and substantial, a recession can turn into to a full-blown depression.

What can governments do? The received wisdom of the past three decades has focused on monetary policy: keep the money supply growing so that credit for business expansion is always available. When a recession threatens, cut interest rates, so as to make business and consumer borrowing (and hence business and consumer spending) more attractive, and provide structurally sound banks with liquidity (cash) in times of trouble so they can keep lending.

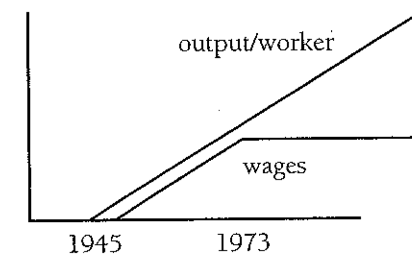
This is suitably Keynesian, but as Keynes himself pointed out, monetary policy alone may not be enough. Making money available to banks or to consumers doesn't guarantee it will be loaned out or spent. Monetary policy may amount to pushing on a string. Keynes—and his more radical followers—also argued for something more, namely fiscal policy: large-scale government employment and purchases, the costs of which should be allowed to exceed tax revenues when recessions threaten. Governments should provide the stimulus of public employment and purchases when private employment and purchases fall off. This, of course, was a significant part of the Obama stimulus package. It was also Paul Krugman's recommendation—although Krugman argued that the package should be much larger and more aggressive than it was.[9]

But notice, neither monetary nor fiscal policy addresses Marx's insight. What if wages are too low? Habermas has characterized "advanced capitalism" as involving a "quasi-political class compromise" that permits labor to organize and bargain

collectively, so that workers can share in the productivity gains. For several decades following WWII, this development, combined with Keynesian monetary and fiscal policies, worked. It produced what is sometimes referred to as capitalism's "Golden Age." Here's Krugman's description:

> Postwar America was, above all, a middle-class society. The great boom in wages that began with World War II had lifted tens of millions of Americans—my parents among them—from urban slums and rural poverty to a life of home ownership and unprecedented comfort. The rich, on the other hand, had lost ground. They were few in number and, relative to the prosperous middle, not all that rich. The poor were more numerous than the rich, but they were still a relatively small minority. As a result, there was a striking sense of economic commonality: Most people in America lived recognizably similar and remarkably decent material lives.[10]

Soon enough, however: trouble in paradise. In the mid-1970s, real wages stopped rising—and have been flat ever since; that is to say, right about the time *Legitimation Crisis* was published, the social democratic compromise came to an end (at least in the U.S.). Median household income has grown only modestly since 1973, up only 16 percent in thirty-five years—and this increase is due primarily to the large influx of women into the workforce, greatly increasing the number of two-income households. As Krugman notes, "For men ages 35–44—men who would a generation ago, often have been supporting stay-at-home wives—we find that inflation-adjusted wages were 12% *higher* in 1973 than they are now." Yet worker productivity has increased steadily. "The value of the output an average worker produces in an hour, even after you adjust for inflation, has risen almost 50% since 1973." GDP has more than tripled.[11] Here's a picture of what has happened, taken from a lecture by then U. Mass./Amherst (now New School) economist Richard Wolff:[12]



Where has all the money gone—the difference between those productivity gains and workers' wages? Who has been buying the products? Why hasn't the economy been in recession for the last quarter-century or so—as the Marxian analysis would suggest should have been the case?

Some of the money has been invested in the real economy—hence productivity has continued to grow. Much of the "surplus," however, went into paper assets

(stocks and bonds) and real estate, inflating asset values. As a measure of these paper "investments," consider the following sequence: in 1956 the Dow Jones Industrial Average reached 500; sixteen years later, 1972, it reached 1000; fifteen years later, 1987, it hit 2000, then exploded to 8000 ten years later (1997), then to 14,000 ten years after that (2007). That is to say, the Dow only doubled during the "Golden Age" (during which period wages doubled as well); it then increased fourteen-fold between during the flat-wage period.

The real estate boom was later in coming. Housing prices increased only 1 percent per year between 1975 and 1997,[13] but then the rate of increase jumped six-fold, to 6 percent/year between 1997 and 2006.[14]

This explosion of asset values produced what economists call the "wealth effect." When people feel richer, they spend more. And major asset holders have become very much richer in recent times. Between 1995 and 2004 the number of millionaires (in 2004 dollars) more than doubled, as did the number of households worth more than $5million, more than $10 million, more than $25 million. Krugman notes that if we define a "billionaire" as someone whose wealth is greater than the output of 20,000 average workers ($1billion in mid-1990s), there were 16 in 1957, 13 in 1968. There are 160 now.[15]

In recent years, the wealthy have increased their own consumption dramatically, purchasing private jets, ever larger yachts, ever more spectacular villas, etc., creating what *Wall Street Journal* reporter Robert Frank has labeled "Richistan," a separate country within our country. (Three unnamed members of this country provided Frank with their annual expense statements. To cite but one: yachts—$20 million; air charters/private jets—$3 million; house staff—$2.2 million; personal beauty/salon/spa—$200,000, including $80,000 for massages.[16])

But still, even with their yachts and villas and private jets and massages, the upper one or two percent of the population can't consume nearly enough to keep the economy humming. Another large portion of total surplus—far more important than the portion consumed by the *über*-rich—has been loaned to working people. In effect, instead of raising wages, the capitalist class has lent out a large piece of their profits to the working class—to be repaid with interest, of course. The "debt explosion," which parallels the asset-value explosion, has been striking. Consider two statistics: (1) In 1975 outstanding household debt stood at 47 percent GDP. It currently stands at 100 percent. That is to say, the amount of debt people are in, adjusted for inflation, is twice what it was thirty years ago. (2) Personal outlays as share of disposable income was 88% in 1981—i.e., the average household saved 12% of its income). Today it is 100%—i.e, zero net savings.[17] (This doesn't mean that nobody saves. It means that massive amounts of the social surplus have been loaned out to finance consumer spending.) Over the last several decades there has been a massive increase in debt: home equity loans, credit card debt, students loans, automobile loans. Never before have so many borrowed so much.[18]

Consider this logical truth: What can't go on, won't. This applies full force to the situation in which we find ourselves today. Debt levels cannot keep increasing indefinitely when incomes are stationary, especially when compound interest begin taking its toll. Moreover, as we have begun to realize, when debt levels are high, monetary stimulus doesn't work. Tax cuts or rebates are used to pay down debts, not buy more stuff. Banks may be given cash, but they are reluctant to lend it out, since borrowers are already over-leveraged.

Might we be able to reform the system so as to return to a high wage, social democratic, post-WWII-type economy? This possibility would seem to be out of reach. We are now living in a global economy. High wages drive businesses abroad. Indeed, this need to stay globally competitive was a key factor in ending the social democratic "class compromise" in the first place.

What is to be done? It is sobering to realize that Keynesian stimulations of the standard sort, the kinds undertaken by the Roosevelt administration and now by the Obama administration, did not bring an end to the Great Depression. Although the recovery officially began in March of 1933 as the economy began to expand again, the unemployment rate, which had dropped from 25% in 1933 to 14% in 1937, shot up again to 19% the following year. (It had been 3.2% in 1929.) It wasn't Roosevelt's welfare and employment provisions that ended the Great Depression. As Krugman reminds us, "it took the giant public works project known as World War II—a project that finally silenced the penny pinchers—to bring the Depression to an end."[19]

But for us—there isn't going to be a World War III. Nuclear war is too destructive for even our most jingoistic to contemplate seriously, and our embarrassing, tragic debacles in Iraq and Afghanistan have demonstrated unequivocally the limits of conventional warfare. This is not bad news—for us as human beings, that is—but it does close off another Keynesian route out of the current crisis.

So—if traditional Keynesian monetary and fiscal policies can't end this recession, and if there's not going to be another major war to pull us out, what are we going to do? Frankly, it is not clear to me that there is anything we can do to get us out of the economic mess we are in—short a restructuring of our basic economic institutions that goes well beyond anything currently contemplated by even the most radical elements of "respectable" opinion.

Of course I may be wrong. Perhaps a combination of judicious policies and good luck will pull us out of this recession. But even if this should turn out to be the case, we are far from home free. For there is another major crisis waiting in the wings, one presciently foreseen by Habermas thirty-eight years ago.

III. Back to Habermas

As the present crisis makes clear, a healthy capitalism requires economic growth. When growth falters, we don't glide smoothly to a steady-state economy. We

crash. So, when growth slows, we scramble madly to "stimulate" the economy, to get people buying again, consuming more. But this growth imperative presents us with a profound problem. Habermas called it the "ecological balance."

> The established mechanisms of growth . . . are faced with two important material limitations: on the one hand, the supply of finite resources—the area of cultivatable and inhabitable land, fresh water, . . . and non-regenerating raw materials . . . ; on the other hand, the capacities of irreplaceable ecological systems to absorb pollutants, such as radioactive byproducts, or *carbon dioxide*.
>
> Even on optimistic assumptions *one* absolute limitation on growth can be stated (if not for the time being, precisely determined): namely, the limit of the environment's ability to absorb heat from energy consumption. If economic growth is necessarily coupled to increasing consumption of energy, and if all natural energy that is transformed into economically useful energy is ultimately released as heat . . . then the increased consumption of energy must result, in the long run, in *a global rise in temperature*. (According to the present state of knowledge the critical interval is about 75–150 years.) (42–3, my emphases)

These words were written nearly forty years ago. I do not need to tell you that they are not dated. Of course, not all growth stresses the environment. If unemployed people are put to work installing solar panels on rooftops, the economy grows. But no one pretends that most of the growth will be of this sort.

My argument thus far is this: (a) The current tools available to the government are insufficient to bring us out of the current economic crisis and back to a social democratic "advanced capitalism" that appeared to have found a solution to such crises. (b) Should this claim prove to be false, we would soon be confronted with another, even less tractable, potentially more devastating, crisis. One the one hand Uncle Sam urges to "spend, spend, spend"—before it is too late. On the other hand, environmentalists scream that our over-consumption is killing the planet. To use Habermas's terminology, we in the midst of a full-scale rationality crisis. What follows?

Not revolution—at least not immediately or automatically. According to Habermas, a necessary precondition for systems change is for the rationality crisis to provoke a legitimation crisis. That has not yet happened. To be sure there is widespread distrust of the elites who govern us, more now than at any time in recent history. The general public has long been cynical about politicians. The travesty of the Bush Administration deepened this cynicism. Corporate CEOs, who have seen their pay skyrocket from 40 times the average worker in the 1970s to nearly 400 times now, are also in disrepute. (Witness the reception accorded the CEOs of Ford, Chrysler and GM when they appeared before Congress.) The "Masters of the Universe," those Wall Street wizards who made so much money because they were (presumably) so much smarter than the rest of us have also tumbled from their pedestals.

What follows? Conventional wisdom does not envisage fundamental change. Even so perceptive a thinker as Joseph Stiglitz, while predicting "most likely a

long and extended downturn," is sure that "we will recover eventually. That's not a question."[20] But suppose conventional wisdom proves wrong. Suppose the current rescue efforts fail—as FDR's failed—and that no World War comes along to save capitalism. Suppose more and more people come to see the present system as inherently flawed, in need of *radical* restructuring. What if we do wind up with a full-blown legitimation crisis? What then?

According to Habermas, the next stage is a "motivation crisis." But what exactly is that? Habermas's discussion of this stage is intriguing in its details, but murkier than his discussion of the other crisis stages regarding outcome. His basic thesis is that the motivational patterns essential for the functioning of advanced capitalism—civil privatism and familial-vocational privatism—are being systematically eroded, while at the same time the emergence of functionally equivalent motivations are precluded by the developmental logic of normative structures. This developmental logic points to universal values derived from a communicative ethics, and—his key claim—these values are incompatible with capitalism.

Advanced capitalism is formally democratic, but it depends for its existence in the passive acquiescence of the citizenry to rule by those who will protect the interests of the capitalist class.[21] But there is a deep tension here, for "the political theories of the bourgeois revolutions demanded *active* civic participation in democratically organized will-formation" (76). According to Habermas, this tension has been contained by the authoritarian residues of pre-bourgeois culture. We have long been conditioned to accept elite rule, rule by "the fathers," who always know best. But patriarchal ideology, and with it the "authoritarian personality" that so worried first-generation critical theorists, is disappearing. The authoritarian father has largely vanished, in part because of the women's movement, in part because of more egalitarian patterns of child rearing, in part because fathers (and middle class parents generally) can no longer protect their children's economic future as they once could (a point made eloquently by Barbara Ehrenreich in her classic *Fear of Falling*[22]).

There are other motivational problems. Education no longer guarantees commensurate employment. More and more young people are receiving more and more education, but "the connection between formal schooling and occupational success [is becoming] looser" (81). Moreover, "fragmented and monotonous labor processes are increasingly penetrating even those sectors in which an identity could previously be formed through the occupational role. Intrinsic motivation to achieve is less and less supported by the structure of labor processes in spheres of labor dependent on the market" (82).

Suppose we do experience a profound "motivation crisis." How might the motivation crisis be resolved? Moral chaos and societal breakdown would seem to be the logical result, although Habermas does not say this explicitly. (That's what happened in the Soviet Union.) He worries about the replacement of the current

system by "an administrative system shielded from parties and the public," one that no longer needs ethical legitimation, and hence is no longer threatened by a motivation crisis. But Habermas is not willing to accept the anti-democratic claim that this is the only choice for highly complex societies.[23]

Habermas's hope lies with the young—better and more highly educated than ever before, less susceptible to authoritarian (patriarchal) leaders, more imbued with universal values.

But what are the "young radicals" to do? They should not "retreat to a Marxistically embellished orthodoxy," for we must have "theoretical clarity about what we do *not* know." The orthodox left thinks it knows more than it does. The young are called upon instead to "expose the stress limits of advanced capitalism to conspicuous tests" and to take up the struggle against "the stabilization of a nature-like social system over the heads of its citizens," a system that would give up on a concept Habermas refuses to relinquish: "old European human dignity" (143).

And then? *Legitimation Crisis* stops cold at this point. We are left hanging. The book ends. We are left with critique, with protest, with struggle—but no indication whatsoever as to what positive program these "young radicals" might advocate, no guidance as to what their ultimate vision might be.

IV. Beyond Habermas, Back to the Present, On to the Future

I don't think we should fault Habermas for not providing us with a theoretical sketch of a better alternative. There was so much (as he realized) that we did not know then. Think for a moment of the economic "experiments" going strong in the mid-1970s: The Soviet Union's centrally-planned economy had not yet entered its terminal decline; the East German planning model appeared promising to some; Maoist China was promoting a distinctive "Chinese road to socialism;" there were experiments with markets under socialism underway in Hungary; there was an experiment with both markets and worker self-management in Yugoslavia. How was this all going to play out? No one knew at the time. No one could know.

That was then, 1973, and this is now, 2011. We know more now than we did back then—and we are in the midst of an economic slump more serious than anything heretofore experienced in the postwar West. What are the alternatives facing us now?

- A return to neoliberalism? For a quarter of a century, since the Reagan-Thatcher "Revolution," neoliberalism has reigned supreme—and it has brought us to the present catastrophe (and wreaked havoc throughout the global south). To be sure, there are idiots who never learn (most of the Republican Party), but, should they be successful at turning back the clock, "the worst will continue to worsen."

- Fascism, friendly or otherwise? Despite the perennial fears of many on the Left, this option would not seem likely either. Fascism as an economic model (authoritarian capitalism) has been tried, not only by Mussolini and Hitler, but also by a large number of anti-communist military and civilian dictatorships since WWII. None of these economies has flourished. None of instigating regimes has survived. I don't see fascism as a threat, at least not at this point in time.
- A return to social democracy? This was the Obama promise: a revitalization of the "welfare state," including universal health care, a return to an active fiscal policy, with tax cuts to stimulate consumption and a large federally-funded jobs program. It remains the program of most Left forces. I see these as important steps in the right direction, but, as I have argued, they don't address the underlying problem: massive indebtedness due to low wages. I have argued that there would seem to be no way to return to that "Golden Age" of ever rising real wages, certainly not in the Age of Globalization. Moreover, an economy that requires ever increasing consumption to stay healthy is ecologically unsustainable.
- A new form of socialism. Hmmmm. Let's think about that.

Mainstream opinion still finds this option incredible. In his *The Return of Depression Economics and the Crisis of 2008*, Paul Krugman asks,

> Who now can use the words of socialism with a straight face? As a member of the baby boomer generation, I can remember when the idea of revolution, of brave men pushing history forward, had a certain glamour. Now it is a sick joke. . . . The truth is that the heart has gone out of the opposition to capitalism.[24]

This is the mainstream view, to be sure, but then, surprisingly, Krugman strikes a different note, just a paragraph later:

> Capitalism is secure, not only because of its successes—which have been very real—but because no one has a plausible alternative. This situation will not last forever. Surely there will be other ideologies, other dreams, and they will emerge sooner rather than later if the Great Recession persists and deepens.[25]

Perhaps the time is right for dreams and dreamers. Perhaps philosophers can make a contribution here. We shouldn't forget our roots. Plato wasn't shy about dreaming of an ideal society, a just society—however daunting the transition question. John Rawls urged us to be "realistically utopian." "Political philosophy is realistically utopian," he says, "when it extends what are ordinarily thought of as the limits of practical political possibility." Such philosophy, following Rousseau, "takes men as they are, and laws as they might be" as the basis for constructing and defending an ideal that exists as yet "nowhere," but is in fact within our reach.[26]

It is important to realize that we could have a full-employment, democratic economy that is immune to financial speculation and the havoc such speculation can wreak, and—at least as significant—an economy that does not need to grow to remain healthy. This aspiration is a "dream"—but not an impossible dream.

Let us begin, not with an abstract model, but with what we now know in light of the economic experiments of the past century.

- We now know that competitive markets are essential to the functioning of a complex, developed economy. This is the *negative* lesson of the socialist experiments of the twentieth century. Markets cannot be replaced wholesale by planning.
- We now know that some sort of democratic regulation of investment flows is essential to rational, stable, sustainable development—for individual countries and for the world economy as a whole. This is the *negative* lesson of the neoliberal experiments of the last thirty years, now culminating in a global meltdown. Financial markets are not to be trusted. They are not benign. We need some sort of "investment democracy" to complement the "consumer democracy" of the goods and services market.

There is something else we know—at least those of us who study such things. Actually, most people do not know this important fact. It is not something talked about on television or in polite company. It is too embarrassing.

- We now know that productive enterprises can be run democratically with little or no loss of efficiency, often with a gain in efficiency, and almost always with considerable gain in employment security. This is the positive lesson of a great many recent experiments in alternative forms of workplace organization.

This fact is embarrassing, because it raises an awkward question. Why is it that in a country such as ours that celebrates, indeed almost deifies, democracy, that allows us to elect our mayors, our state and local legislators, the national leaders that can send us off to kill or be killed . . . why is it that in such a country we can't elect our bosses?

The obvious answer is that workplace democracy doesn't work, that ordinary workers don't have the competence or self-discipline to select good managers. The problem with this obvious answer is that it is empirically false. There are thousands of successful worker-run enterprises operating around the world. These have been extensively studied. To my knowledge there does not exist a single comparative study that finds the authoritarian (i.e., capitalist) model superior to the democratic one.[27]

For students of democracy this result is not surprising. To be sure, there are problems with democracy. Excessive debate can be time-consuming, hindering timely action. Good leadership can be stifled it doesn't have adequate autonomy.

Majorities can oppress minorities. These are standard problems in all democracies, for which there are standard solutions. Representative structures must be put in place; management must be given sufficient power and autonomy to make difficult decisions without being second-guessed at every turn; laws must protect minority rights.

With the right structures in place, workplace democracy works. Not perfectly. Bad managers are sometimes appointed. Bad decisions are sometimes made. Democratic firms sometimes fail. But Winston Churchill's dictum appears to hold: "Democracy is the worst form of government—except for all the others that have been tried from time to time."[28]

Given what we now know, how might we structure an economy such as our own to give us a Rawlian "realistic utopia"? Let me give you a picture of what I like to call "Economic Democracy. Let's start with the three basic institutions.

The first is the market. Economic Democracy is a competitive market economy. Incentives remain in place for firms to use their resources efficiently, to innovate and to respond effectively to consumer demand.

The second basic institution is workplace democracy. Most (but not all) enterprises are run democratically by workers, whose incomes are no longer wages, but shares (not necessarily equal) of profits. Workers elect a workers council, one worker, one vote, to fill the role currently filled by a corporation's Board of Directors, namely, to select upper management and to oversee major enterprise decisions.

The third basic institution is what I call "social control of investment." Private financial markets are replaced by a public investment banking. Investment funds come, not from private savers, but from a flat-rate capital-assets tax levied on all business enterprises. (It is important to break the link between private savings and investment funds if we are to gain democratic control over the latter.) All of these revenues are returned to state and local investment banks, each region receiving its per-capita share. All the collected taxes are reinvested in the economy. Loans are granted only to those projects that promise to be profitable, but priority is given to those that create the most employment.

To these three basic institutions (the market, workplace democracy and social control of investment), let us add three supplements:

- The government will serve as an employer of last resort. All able-bodied people who want to work will have a job.
- A network of private and cooperative Savings and Loan associations will exist to provide home mortgages and other consumer loans. (In Economic Democracy, the allocation of capital for business investment is kept sharply distinct from providing credit for consumer purchases.)
- Economic Democracy will retain a capitalist sector, comprised of small businesses and larger "entrepreneurial firms." (An "entrepreneurial firm"

is one whose founder remains actively involved in its management. When the entrepreneur retires, or wishes to cash out, he sells the firm to the state, which then turns it over its employees to be run democratically.)

Let me ask you to take it on faith (or at least to suspend disbelief) that such a system is economically viable. I have argued the case at length in both *Against Capitalism* and *After Capitalism*.[29] The important point I wish to make here is that Economic Democracy is not vulnerable to the kind of economic crisis we are now experiencing.

The basic reason is quite simple. Apart from locally-based savings and loan associations, there are no private financial markets in Economic Democracy. Markets for goods and services remain, but there are no stock markets, bond markets, hedge funds, private equity firms, or investment banks concocting collateralized debt obligations, currency swaps and all the other sorts of derivatives. So there's no possibility of financial speculation, no possibility of "irrational exuberance."

The financial system is quite transparent. A capital assets tax is collected from businesses, then loaned out to enterprises wanting to expand, or to individuals wanting to start new businesses. Loan officers are public officials, whose salaries are tied to loan performances.

Consider the crisis we are now experiencing, the proximate cause of which was the bursting of the housing bubble. Such a housing bubble, fueled by the massive demand for mortgage-backed securities, couldn't happen under Economic Democracy, since there are no such securities. Home mortgages are still issued, but these stay with the Savings and Loan of origin, who have every reason to scrutinize potential loan recipients with care. They aren't sold off to be "securitized," (thus relieving the banks of all risk). Nor is there a vast pool of money, (wealthy investors, pension funds, etc.) out there looking for speculative opportunities, eager to make lots of money with their money. (It is interesting to note that Krugman, in spelling out his own plan for economic recovery projects that "it will come close to full temporary nationalization of a significant part of the financial system"—though he is quick to add, "this isn't a long term goal, a matter of seizing the economy's commanding heights: finance should be reprivatized as soon as it is safe to do so." He doesn't say why. Clearly, he wants to reassure everyone that he is not a closet socialist, "for nothing could be worse than failing to do what is necessary out of fear that acting to save the financial system is somehow 'socialism.'"[30])

Economic Democracy is vulnerable neither to speculative excesses nor to the deeper problem confronting a capitalist economy, namely, insufficient effective demand, due ultimately to the fact that wages are a cost of production. Wages are not a cost of production in a democratic firm. Workers get a specified share of the firm's profit, not a wage—so all productivity gains are captured by the firm's workforce. There are no excess profits seeking an investment outlet.

You will recall that capitalism faces two types of crisis: economic crises such as the one we are now facing, due to deficient effective demand, and ecological crises, derived from the fact that a capitalist economy must constantly grow to remain healthy. Economic Democracy is better positioned than capitalism to avoid ecological crises, for several structural reasons.

It is a fundamental fact about a democratic firm, long noted in the theoretical literature, that it lacks the expansionary dynamic of a capitalist firm.[31] Democratic firms tend to maximize profit per worker, not total profits. That is to say, doubling the size of a capitalist firm will double the owners' profits, whereas doubling the size of a democratic firm leaves everyone's per capita share the same. In short, democratic firms are not incentivized to grow. Unless there are serious economies of scale involved, bigger is not better.

Moreover—a second structural reason—since funds for investment in an Economic Democracy come from taxes (the capital assets tax), not from private investors, the economy is not hostage to "investor confidence." So it does not have to keep growing to remain healthy. Economic Democracy can be a stable, sustainable "no-growth economy," whereas, as I have argued elsewhere, "sustainable capitalism" is an oxymoron.[32]

Actually, "no-growth" is a misnomer. Productivity increases under Economic Democracy still occur, but they are more likely to translate into increased leisure than increased consumption. The economy will continue to experience "growth," but the growth will be mostly in free time, not consumption. Hence, we might be able, at long last, to slow down, spend more time with family and friends, read the books, listen to the music, see the films we've long wanted to read, listen to and see. We might even have time to smell the flowers.

Interestingly enough, Keynes himself speculated about the tenor of life in a society no longer plagued by material scarcity. In a remarkable essay written shortly after the onset of the Great Depression, he muses about the "Economic Possibilities for Our Grandchildren."

> We shall use the new-found bounty of nature quite differently than the way he rich use it today, and will map out for ourselves a plan of life quite otherwise than theirs. . . . What work there still remains to be done will be as widely shared as possible—three hour shifts, or a fifteen-hour week. . . . There will also be great changes in our morals. . . . I see us free to return to some of the most sure and certain principles of religion and traditional virtue—that avarice is a vice, that the extraction of usury is a misdemeanor, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. . . . We shall honor those who can teach us how to pluck the hour and the day virtuously and well, the delightful people who are capable of taking direct enjoyment in things.[33]

Keynes wrote these words in 1930, at a time when "the prevailing world depression, the enormous anomaly of unemployment, the disastrous mistakes we

have made, blind us to what is going on under the surface."[34] He was wrong, of course. The grandchildren of his generation may have lived in a post-war social democracy that looks good to us now, mired as we are in recession, but they were still far from the promised land.

Keynes was wrong—or was he? In fact, he was not referring literally to his grandchildren, but metaphorically. His projection was for "a hundred years hence," i.e., 2030. Might there be things "going on under the surface" right now that could bring us to sustainable, democratic, human world?

V. On Revolution, i.e., On Getting from Here to There

Can we even imagine a transition from the deeply irrational, ultimately unsustainable economic system we presently inhabit to a democratic, socialist economy, where enterprises are run democratically, and economic stability no longer requires keeping our capitalists happy?

I think we can. Let's try. Suppose we do get a financial meltdown on the scale of the Great Depression. (That's certainly not hard to imagine. It was a couple of years ago, but no longer.) And suppose we had a government newly elected, determined to effect this transition. What would our new administration have to do?

The first thing would be to assure everyone, à la Franklin Roosevelt, that there's nothing to fear but fear itself. Remind everyone that we are not facing an incurable plague or nuclear war. Pieces of paper have suddenly lost their value, but our resources are still intact; our skill base is still intact. There's no reason for ordinary people to lose their jobs or see their incomes plummet—no material reason, that is.

What next? Well, since the stock market has tanked, let the government step in and buy up those now near-worthless shares of the publicly-traded non-financial corporations. The government can print the money, if need be. (As we know, in a depression it is essential to stimulate the economy by pumping money into it.) Suddenly our government has controlling interest in all the major corporations. Notice, these assets have not been "expropriated" by the government. They have been paid for at full market value. Whatever "expropriation" there might have been was done by those free-wheeling financial markets. (Marx might be amused. The expropriators have not been expropriated by the working class, as he had projected. They've done it to themselves.)

Let's now turn these enterprises over to the employees, to be run democratically. The employees (now voting members of their enterprise) can keep the existing management—indeed, for six months or so, let's insist that they do, while worker councils are set up to replace the boards of directors that used to represent the shareholders and oversee management. After six months, they can keep their managers or replace them as they see fit.

Thus are the "commanding heights" of the economy democratized. The workers don't own the firm. As taxpayers, we'll keep title. But the employees, not government officials, will control it. The firm won't pay dividends to shareholders anymore, for there aren't any shareholders. Instead they'll pay a leasing fee (capital-assets tax) to the government.

What about the financial sector? To begin with, let's nationalize all those financial institutions that are "too big to fail." (Indeed, this has happened already with Fannie Mae, Freddie Mac, and AIG.) Let's go further. Let's nationalize all our banks and other financial institutions.

Let's restructure our banking system, making it into something that more closely resembles the system we had in place before deregulation set in some three decades ago. Let's have a network of Savings and Loan associations that will handle home mortgages and other consumer loans. Funds will be deposited by private savers, and loaned out to creditworthy customers.

Let's also have a system of investment banks. These are the institutions responsible for providing credit to the business sector. This is the economically crucial sector. But let's not generate the funds for these banks by trying to entice private individuals to save. Let's not rely on the "animal spirits" of the wealthy for the liquidity necessary to keep our economy going. Let's generate these funds from a capital-assets tax.

There's another thing we should do. A lot of people have seen their pensions disappear. Let's restore those pensions. We'll pick a date before the crash. Whatever value a person's holdings in a pension fund was at that date will be transferred to that person's social security account, to be paid out as an annuity supplement to that person's basic social security income, when s/he retires.

One final thing: let's make the government the employer-of-last-resort. Decent, if low-wage, jobs will be available to anyone who cannot find employment in the capitalist or cooperative or administrative sectors of the economy.

That's it. The basic structure of our new, democratic socialist economy is in place. We've had a peaceful, productive, non-violent Revolution—not so different, abstractly, from the relatively peaceful, non-violent revolutions of 1989–1991 that so radically transformed Eastern Europe and Russia. Not so different—and yet completely different.

Let me close on a more philosophical note. Let us think of the philosophical tradition embracing Kant, Hegel, Marx and extending through Habermas that regards the human species as engaged in the process of creating an ever more rational world, grounded in freedom. The process is slow, often opaque, often subject to reversals, and yet, ultimately, there is a direction to history, and it is a direction that should give us hope.

I think there are good grounds for endorsing this view. We are, after all, a deeply pragmatic species, with an astonishing capacity for creative development.

When confronted with problems, we try to solve them. We experiment. We learn from our mistakes. If a solution exists, sooner or later we hit upon it.

I submit that we are reaching the point where we it is becoming clear that the old order has exhausted itself and is incapable of solving the problems that it has created. This thought is as yet consciously acknowledged by relatively few, but it is intuitively felt by many more. We may not be far from seeing that there is a better way. We cannot say with certainty that democracy, freedom, and rationality will prevail, but there will almost surely be a struggle. If progressive forces are to prevail, it will involve the efforts of millions. The slogan has already been articulated by the global justice movement: ANOTHER WORLD IS POSSIBLE. The task now is to actualize that possibility.

Impossible? Let me end with a final quote:

> Whoever still lives, should never say never!
>
> The secure is not secure.
>
> So, the way it is, it will not remain.
>
> —*Bertold Brecht*

David Schweickart, Loyola University Chicago

Notes

1. "Macroeconomic Priorities," *The American Economic Review* 93.1 (March 2003): 1.

2. Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* (New York: Norton, 2009), 10.

3. Quoted by Nick Paumbarten, "In For It," *The New Yorker*, November 11, 2008, 44.

4. He doesn't use that self-description in *Legitimation Crisis*, but in an interview published in the special issue of *Telos* honoring his fiftieth birthday, Habermas remarks, "For us, as Marxists, there is the problem of interpreting the experiences of these movements [for black liberation, women's liberation, nuclear disarmament]" (Spring 1979: 165). So far as I know, Habermas has never repudiated that identification.

5. Page numbers given in the text refer to the English translation (by Thomas McCarthy) of *Legitimation Crisis* (Boston: Beacon, 1975).

6. Paul Samuelson, *Economics* (New York: McGraw-Hill, 1973), 883. Samuelson offered other scenarios as well, but did not take sides, claiming the various projections "represent the spread of best expert opinion."

7. Krugman, *Return of Depression Economics*, 3.

8. Mortimer Zuckerman, "Nine Reasons the Economy is Not Getting Better," *U.S. News and World Reports*, July 13, 2009.

9. Cf. the last chapter of *Return of Depression Economics*, which also appeared in the December 15, 2008 issue of the *New York Review of Books*, pp. 8–10, entitled "What to Do About the Financial Crisis." Specifically, he proposes that we (1) get credit flowing again (by getting more capital into the system, (2) engage in "good old fiscal stimulus [by] sustaining and expanding government spending—sustaining it by providing aid to state and local governments, expanding it with spending on roads, bridges and other forms of infrastructure," and (3) rescue developing countries. We should then turn our attention to reform, bringing all institutions that act like banks under regulatory supervision the same as banks. For an overview of Krugman's critique, see *Newsweek*, April 6, 2009, whose cover features Krugman with the caption, "Obama is Wrong."

10. Paul Krugman, *The Conscience of a Liberal* (New York: Norton, 2007), 3.

11. Ibid. 124–7.

12. This figure is taken from a videotaped lecture delivered October 5, 2008, available at http:/tinyurl.com/3pthrx.

13. Barry Cynamon and Steven Fazzari, "Household Debt in the Consumer Age: Source of Growth, Risk of Collapse," *Capitalism and Society* 3.2 (2008): 23.

14. Luci Ellis, "The Housing Meltdown: Why Did It Happen in the United States?" *Bank for International Settlements Working Paper, No. 259* (September 2008), 3.

15. Krugman, *Conscience*, 18

16. Robert Frank, *Richistan: A Journey Through the American Wealth Boom and the Lives of the New Rich* (New York: Crown Publishers, 2007), 151.

17. Cynamon and Fazzari, "Household Debt," 18, 8.

18. Home equity loans became available in late 1980s. In 2005 mortgage equity withdrawals reached $800b, a full 9 percent of disposable income, up from 2 percent in 1995. (See Robert Brenner, *The Economics of Global Turbulance* [New York: Verso, 2006], 321.) Credit card debt is equally substantial, and has also mushroomed over the last several decades from $55b in 1980 to $880b in 2006. Even when adjusted for inflation, the expansion is astonishing—up seven-fold from 1980. (See *2008 New York Times Almanac* [New York: Penguin, 2007], 334.) Student loans have also increased substantially. Some 8.5 million post-secondary students and their parents owe $87 billion. Today the typical graduate of a four-year college or university owes $20,000, more than double what the typical graduate owed a decade ago. (See Lynnette Khalfani, *Zero Debt College Grads* [New York: Kaplan Publishing, 2007], vii–viii.) Automobile loans dwarf student loans. An estimated $575 billion in new and used auto loans are written every year, large numbers of which (100 percent of those originating with the automaker financiers) are repackaged and sold as securities. The average amount financed was $30,738 in 2007, up 40 percent in the last decade. (See Ken Bensinger, "New Cars That Are Fully Loaded—With Debt," *Los Angeles Times*, December 30, 2007, A-1.)

19. Paul Krugman, "Back to What Obama Must Do," *Rolling Stone* (January 14, 2009).

20. Interview with Amy Goodman, following Obama's February 24, 2009 address to the nation. Cf. democracynow.org.

21. This requirement was stated openly by Harvard's Samuel Huntington, in his report on the "democratic distemper" to the David Rockefeller's Trilateral Commission, back in the days

when political activism was beginning to scare political elites: "The effective operation of a democratic political system usually requires some measure of apathy and non-involvement." Michael Crozier, Samuel Huntingon, and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (New York University Press, 1975), 114.

22. Barbara Ehrenreich, *Fear of Falling: The Inner Life of the Middle Class* (New York: Pantheon, 1989).

23. Niklas Luhmann, Germany's leading systems-theorist at the time, was an influential proponent of this thesis. Habermas engages Luhman's argument at length in the penultimate section of *Legitimation Crisis.*

24. Krugman, *Return of Depression Economics*, 14.

25. Ibid. He adds, "But for now capitalism rules the world unchallenged."

26. John Rawls, *The Law of Peoples* (Cambridge, MA: Havard University Press, 1999), 6–7.

27. For a sampling of the evidence see my *After Capitalism*, 2nd Edition (Lanham, MD: Rowman and Littlefield, 2011), 60–2.

28. *The Official Report*, House of Commons (5th Series), vol. 444, 11 November 1947, 206–7.

29. David Schweickart, *Against Capitalism* (Cambridge: Cambridge University Press, 1993), *After Capitalism*, (Lanham, MD: Rowman and Littlefield, 2002), and *After Capitalism*, Revised Edition (Lanham, MD: Rowman and Littlefield, 2011).

30. Krugman, *Return of Depression Economics*, 186.

31. Cf. Benjamin Ward, "Market Syndicalism," American Economic Review 48 (1958): 566–89.

32. David Schweickart, "Is Sustainable Capitalism an Oxymoron?" *Perspectives on Global Development and Technology* 8 (2009): 557–78.

33. John Maynard Keynes, "Economic Possibilities for Our Grandchildren," In *Essays in Persuasion* (New York: Norton, 1963), 368–72.

34. Ibid. 359.

Part II:

The 2010 NASSP Presidential Address