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RECIPE FOR THE ECONOMY

# THE SALT OF PUBLIC ENTERPRISE

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The economic system does not work. And the reforms required to make it work—to make it work uniformly and for individuals, not the corporations—are far more fundamental than anything contemplated by the cheap and soft and easy-going liberalism of these last years.

*John Kenneth Galbraith in  
Who Needs the Democrats? (1970)*

Two years ago, during the worst period of the inflation and recession, *Business Week* ran a cover story, illustrated with portraits of the great economic thinkers of the past—Marshall, Marx, Smith, Keynes and others—speculating on when, or whether, a new theorist would appear to unravel the economy's conundrums. But an explanation of current difficulties is not apt to be found in some new, all-embracing theory. To find answers to the basic flaws in the American economy, we must look beyond economics to political economy.

For example, most economists agree that inflation could need not mean total or even extensive public ownership, particularly of the nationalization variety. "The objective is not wholly to destroy private ownership," wrote British Labour Party Minister C.A.R. Crosland, "but to alter its distribution."

Ownership of business enterprise should be more heterogeneous and diffused, with the government—state and local, as well as federal—unions, churches, pension funds, workers, community groups and private families all participating. If the United States is to approach such a pluralist economy, it must effect a dramatic increase in public enterprise, as well as in cooperatives, community development corporations and worker-owned enterprises.

Public control of the economy will also entail more explicit economic planning. Establishment figures ranging from economist Herbert Stein to investment banker Robert Roosa have recently recognized the limitations of Keynesian policies; they advocate the creation of a national economic planning agency.

However, the experience of European countries suggests that national economic planning works only where there is a large public sector. Andrew Shonfield concludes in *Modern Capitalism*:

What is called "indicative planning," that is a system which relies on pointing out desirable ends rather than on giving orders to achieve them, can be relied upon to work effectively only in a situation where there is a central core of important enterprises which are more responsive to the desires of the state than ordinary private firms.

In France, where the major banks and insurance companies, an auto firm (Renault), an aviation firm, as well as coal, electricity, gas, railroads and telephones are publicly owned, national economic planning of the noncoercive variety has worked with a good measure of success. Attempts at similar planning in Britain, which has a

smaller public sector and one concentrated in utilities, have not produced very good results. Recognizing this fact, the current Labour government has proposed that planning agreements be drawn up between the government and the leading corporations, and that a state holding company called the National Enterprise Board be established to purchase controlling shares in twenty to twenty-five of the major firms in the country.

The existence of public firms in the leading sectors of the economy means not only that planners will be in touch with enterprises that are responsive to their signals but also that, because these firms are public, planners will have access to data from which they can judge the performance of private firms. Without such information, planners are in the position of American regulatory agencies that passively receive information provided by private firms, with little basis for judging the economic soundness of the information or of the investment plans which the private companies propose. Where such data exist the public has almost always benefited. It was the public disclosure by TVA of identical bids for electrical equipment that broke the G.E. price-fixing scandal.

The best explanation of the necessity for a large dose of public enterprise in a privately dominated economy has been expressed by Pasquale Saraceno, chief economist of Italy's Industrial Reconstruction Institute. IRI is a state holding company which owns three of Italy's largest banks, the national airline Alitalia, the main shipping companies, Italian radio and television, and most of the telephone system. IRI has built more than half of the country's highways. In manufacturing, it produces 60 per cent of Italian steel, owns the Alfa Romeo company and has interests in a number of engineering companies.

Saraceno argues that, as capitalist development progresses, competition is retarded by oligopolistic tendencies, and growth itself is restricted and distorted by structural deficiencies which the market mechanism alone cannot solve. Nor will these structural problems be resolved by Keynesian demand management. They manifest themselves in three basic conditions: structural unemployment, regional unemployment and underemployment, and sectorial underinvestment.

All these conditions exist in the American economy. Signs of uneven development are all around us. Some areas of the country are relatively rich in income and services, while others are poverty-stricken. Within regions, sections of cities are decaying while life in upper-class suburbs is the most affluent in history. Throughout American society, the distribution of wealth and income is grossly unequal and has changed little since the beginning of the century.

Not only are the benefits of growth unequally distributed, but the very content of economic growth is distorted. The social costs of growth—such diseconomies as pollution, industrial injuries, destruction of neighborhoods—are little considered. Far from being provided with a marketplace of numerous goods and services, consumers actually

enjoy smaller and more trivial choices. We are offered hundreds of colors of lipsticks, but have no choice between the private auto and adequate mass transit. There are more medical shows on TV than there are decent health plans to choose among. In most cities, you can't shop at a farmers' market or a co-op; there is only the giant shopping center, which offers the same brand products from coast to coast.

Public enterprise combined with noncoercive planning can be used to bring much of the economy under public control without resorting to Soviet-style command planning. But the structure of activities within enterprise will decide whether workers enjoy democratic participation, whether external diseconomies are considered as costs of production, and whether consumers have a voice in the economics of the state. It is in such internal structure that the public enterprises of Western Europe have been deficient.

Clerks in the publicly owned French banks recently went on strike to protest working conditions and the authoritarian attitudes of top management. The nationalized industries in Britain have had consumer councils for years, but since these depend on the industry boards for staff and budget, they have no independence and can rarely criticize the industry. In Italy, neither workers nor consumers have much voice in the decision making of the firms that comprise the state holding company. In all three countries, public accountability is exercised mainly through parliamentary committees. This has prevented gross inefficiency and corruption in the public enterprises, but it is inadequate for the goal of a really democratic economy.

If new public enterprises are established in the United States, accountability through participation by workers and consumers will have to be built into their structures and operation. It is also necessary to consider the scope of a public enterprise strategy. The policy goal will determine the type and level of an enterprise—whether, for example, it is to be city-owned, rather than owned by the state or federal government. And some tasks will be handled directly by the government in the public interest.

In the short run, for instance, public enterprises need not be primarily concerned with the distribution of wealth and income. Over time, the distribution of income will be improved by more even development. However, quicker results can be obtained by adopting tax reform along the lines proposed by Philip Stern in *The Rape of the Taxpayer*. The Tax Justice Act of 1976, which embodies most of Stern's recommendations, will soon be introduced in Congress.

Tax reform, combined with greater attention to working conditions and workplace democracy, also opens a new approach to inflation. One of the stimulants to inflation is the attitude that everyone must get a share now; unions bid up wages in negotiations because they know how unjust the system is. If workers felt that sacrifices were made equally, they might well be more responsive to a "social contract." They might lower wage demands in exchange for tax justice and more freedom in the workplace, as well as limitations on executives' salaries. But such trade-offs are unlikely until the federal government is committed to real economic fairness.

New public enterprises should certainly be run democratically; but they cannot, by policy alone, eliminate hierarchy and assure participation. Workplace democracy will be introduced in most firms only when the workers themselves decide to exercise control. However, public control of the government, rather than simply the existence of public enterprise, can speed the process.

Through procurement practices, health and safety standards, etc., the government has enormous power to encourage the democratization of work in private firms. For the purpose of broadening consumer choice, public enterprise can break into the "conspiracy of silence" maintained among oligopolistic firms. Competitive public enterprises in major industries can force private companies to be more responsive to the real needs of society.

A combination of competitive public enterprises and a strong reform-minded government could foster the development of alternative economic institutions, thereby broadening ownership patterns. At the national level, a Co-op Development Bank (as proposed by the Cooperative League of the U.S.A.) could lend funds and make available technical assistance to a variety of producer-owned ventures. A national development banking system, currently being researched by Senator Kennedy's staff, could offer "front-end" capital to community development corporations in underdeveloped areas.

Each state could have a state-owned bank and insurance company. The province of British Columbia operates a successful insurance company and a financial institution, the B.C. Savings and Trust. North Dakota boasts the only state bank in this country, a legacy from the days when the Populist-oriented Non Partisan League governed the state.

A state bank could receive all or part of the state's tax money. It would act entrepreneurially, yet on sound financial principles, marketing its services aggressively and seeking customers by providing first-rate consumer services.

Similarly, a public insurance company would provide consumer-oriented service, instead of mystifying customers with fine print, as so many companies do today. The company's capital would be invested primarily within the state, as is done by the Wisconsin Life Fund, currently the only state-run consumer insurance program in the country.

Cities could establish their own banks or development funds, using city tax revenues as initial deposits. They could purchase urban land so as to control rationally the city's development; they would also help to create new city-based businesses, both public and private.

At the same time, the federal government should create a government-owned holding company, which would purchase controlling interest in a major firm in every leading industry. In addition, when a private firm asked for a subsidy, as Pan Am has done, the holding company could exchange the subsidy for some equity and a seat or two on the board. Rather than doling out public money to ailing private enterprises, as is the current practice, the government should see to it that the public gets something for its money. This would not mean that the holding company would automatically bail out every failing private firm; some inefficient firms should fail and other government programs such as public employment would deal with the displaced workers.

The Council of Economic Advisers should be broadened

into a national economic planning agency, as Senators Humphrey and Javits have proposed. Planners would work in close communication with the new competitive public enterprises owned by the holding company, and the data provided by the public firms would give the government a sound basis for serious "jawboning" with private firms over their investment and pricing plans.

There is nothing visionary in this outline of a democratic economy. The policies described are to some extent in

practice in other Western democratic countries or have been put forward in legislation as part of a militant reform program. The only thing novel here is the recommendation that the whole strategy of political economics be put forward in one embracing pattern. It is time that reformers in the United States, particularly the Democratic Party, stop nibbling at problems and heed Galbraith's words that the needed economic changes are fundamental, not cosmetic. □

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