

Re-democratizing the economy:

The implications of infusing community-mindedness into the marketplace

Kelly Ernst, Ph.D., Sheldon Chumir Foundation for Ethics in Leadership,

May, 2013

Introduction

The economy has an inherent “public interest” and an over-focus on mere economic self-interest is actually risky for societies. The trend to accumulate wealth and power among a few must be reversed for our current economic and democratic systems to survive. Without challenging this trend, other measures of societal success will also not be achievable, such as a livable and basic income for all.

One fundamental change to help re-democratize our society is to change how we measure economic success. This includes measuring how many in societies have a basic income that sustains themselves or their family. However, to get there, the philosophy about the economy and the way we discuss the economy in public must change. Distributing wealth and power among as many as possible in our societies, not as few as possible, must be the ideal.

The following paper describes what is driving the need to re-democratize the economy then suggests a philosophical shift toward a public community-minded economy. It argues that specific actions can be taken to move toward a public sense about the economy. Critical to the notion of a community-minded economy is the measurement of a healthy middle class, including a basic income for all. It requires a reorientation away from minimizing disparity. A re-democratized economy means that public interest in the economy is acknowledged and openly discussed in a number of different ways.

Background

Since the 2008 economic meltdown, there is something very unsettling about our society. There is growing public awareness that fewer and fewer people are receiving society's economic benefits. At the same time, there has been a sharp decline in democratic participation.

In many countries, the middle class is shrinking and social mobility in some of the richest countries is declining. The health of the middle class is ailing and disparity is growing, to the point where seven economic classes are now being used to describe the United Kingdom.¹ It is the preoccupation of many writers including Joseph Stiglitz, Guy Standing, Jacob Hacker, Paul Pierson, and others. The United States is often used as the exemplar, but the same problem is recorded in many other locations.

There is a corresponding decline in democratic participation rates. According to the International Institute for Democracy and Electoral Assistance, voter participation in the last U.S. presidential election was just 54%, for the voting aged population, and around 40% for its previous parliamentary elections.² Voter participation was similar in the last Canadian federal election. This trend is also evident in countries like the U.K, France, Mexico, Costa Rica, and Finland. Democratic health is at worrisome levels and as disparity grows so does skepticism about our society and participation in the democratic process. As democratic participation declines, the voice of the most privileged is increasingly viewed as the voice of all.

If we are to believe the rhetoric of the extreme free market philosophers, then we should not worry about the accumulation of wealth and power with a few individuals. They are ultimately free to do so. Celebrating the extreme wealth and power of a few billionaires would seem to be the ideal state of a free market. Or, is it?

When the majority of citizens no longer have voluntary control or power to exert their own free economic will or dissent against the powers that have it, and instead are obliged to a life of servitude to these few, then a free market no longer exists. If the free market ideal is to

¹ Savage, M. et al. (2013). A New Model of Social Class: Findings from the BBC's Great British Class Survey Experiment. *Sociology*, 0(0), 1-32. On-line version: <http://soc.sagepub.com/content/early/2013/03/12/0038038513481128.full.pdf+html>

² International Institute for Democracy and Electoral Assistance (2013). Voter Turnout. Stockholm, Sweden. On-line database: <http://www.idea.int/vt/index.cfm>.

accumulate wealth and power only in the hands of a few, or worse if functionally this ideal becomes the actual state of affairs, then either the ideal state of a truly free market is an oligarchy or our societies have become one. I fear our societies are quickly moving toward oligarchic states.

The Elite as an Ideal

Evidence of the move toward this oligarchy is well described in Chrystia Freeland works.³ She describes a rising plutocracy, or “super-rich” and a corresponding move away from greater economic equality. There is a concentration of wealth at the top and extreme end of the economic scale with a corresponding accumulation of political power in these people’s hands.

Freeland notes that we have become mesmerized by the super elite. Being self-made (truly self-made or not, often not) is central to the self-image of the rich elite. Our societies have been blinded by the luxuries and status of a few and forgotten the impact that the rush toward an oligarchic state has had on everyone else.

She notes the golden age of the middle class, from 1940 to the late 1970s when the gap between the top 1% and everyone else shrank, is gone. We are back at the point before this age and we have lost the gains of the mid-20th century. In 1980 the average top CEO made 42 times the average worker, it is now 380 times in the US and about 200 times in Canada. Clearly, the average worker’s wage has not made the same gains as the rich elite.

Richard Wilkinson and Kate Pickett points out the wealthy feel the effects of too much accumulation of wealth.⁴ The rich begin to segregate from others, gate themselves into communities, and fear their poorer neighbours. Their world becomes smaller and anyone unlike himself or herself becomes increasingly vilified.

Not only do the wealthy entrench themselves to protect their wealth, but they start to hoard power to do the same. Hacker and Pierson point out that this is not a recent trend, but a worry of philosophers throughout past centuries.⁵ The results for the people outside of their

³ Freeland, C. (2012). *Plutocrats: The Rise of the New Global Super-rich and the Fall of Everyone Else*. Toronto: Random House of Canada.

⁴ Wilkinson, R. & Pickett, K. (2009). *The Spirit Level: Why Equality is Better for Everyone*. London: Penguin Books.

⁵ Hacker, J. & Pierson, P. (2010). *Winner-Take-All Politics: How Washington made the Rich Richer and Turned its back on the Middle Class*. New York: Simon & Schuster.

group are of course predictable. They are not included in decision-making about society and they are not included in the distribution of wealth. As the rich elite hoard their power and set-up their society to entrench it, the risks it poses to everyone increases.

The Ultimate Consequence of Doing Nothing

How societies react to inequality throughout the centuries has been variable and some argue at the extreme ends predictable. A historical pattern repeats itself, rich and poor begin to pit themselves against one another, trust among groups decline, and civil strife grows. In the extreme cases, revolution occurs and old regimes implode.⁶ Extreme accumulation of power and wealth in a small group has historically been the fuel for revolutions.⁷ Rather than a crazy notion of history, recent research suggests that support for revolt is higher when incomes are widely different and when inequality is high.⁸ The implication is that if we allow the inequality to continue to polarize our society the consequences for all of us might be grave.

If major developed nations want sustainable capitalist democracies and do not want to simply become a collection of oligarchies, or worse, then the present trend must be challenged.

Ayn Rand wrote that a hallmark of a capitalist state is the ability of individuals to give dissent.⁹ However, she forgot to stress that collectively, a society must allow for this dissent. A society must be arranged in such a manner that dissent from the most powerful can easily occur, be sanctioned, and that arbitrary rule favouring one over another does not take hold. It means that all of us must be accountable to others in our society so that dissent can happen, so that it can be meaningful, and so that equitable participation occurs. If not, then true democracy and capitalism will cease to be. The “other” that fosters this type of accountability is “the public.”

⁶ Tilley, C & Wood, L. (2012). *Social Movements 1768 - 2012, 3rd Edition*. London: Paradigm Publishers.

⁷ Davies, J. C. (1962) Towards a Theory of Revolution. *American Sociological Review*, 27 (February): 5-19.

⁸ MacCulloch, R. (2001). *What Makes a Revolution?* London: London School of Economics and Political Science.

⁹ Rand, A. (1967). *The Unknown Ideal*. New York: Penguin Books.

Reinserting “Public” into the Economy

Rather than assuming a free economy is oligarchical by nature, there is a different way of thinking about the economy. Peter Ulrich,¹⁰ suggests the following definition of the economy,

“Economic activity based on division of labour is a *societal* process designed to satisfy the human need to preserve and sustain the quality of life. It seems to lie in the nature of the things that a rational social form of economic activity must be oriented toward the *service of life* (p.1).

Re-democratizing the economy. Re-democratizing our economy is fundamentally infusing “the public” back into it and moving away from viewing those that ought to, and do, benefit are only those with the greatest resources. It requires a community mindedness about the economy to sustain us all.

Key to this idea is the notion that the *economy is a public interest*. The notion of “public” acknowledges that both the interests of community and of individual members’ agency are addressed simultaneously.¹¹ It allows people and organizations to pursue their interests in a minimally restrictive environment while recognizing the need for common minimum standards of accountability.

As a concept intimately tied to the notion of life within a community and human networks, notion of the economy require an understanding of community, that of common public concern, a concern for all humanity. The economy has, “common public concern, of interest to everyone, not owned by anyone, and its use does not deter from anyone else’s use of it.”¹² In fact, individual agency can only be measured in relation to the community within it exists.

Ulrich points out that the modern economy is no longer focused on service of life for all of us, and instead is re-oriented toward rational means (such as productivity and self-interest).

¹⁰ Ulrich, P. (2008). *Integrative Economic Ethics: Foundations of a civilized market economy*. Cambridge, UK: Cambridge University Press.

¹¹ Bell, J. (2002). *Community Values in an Age of Globalization*. Calgary, Alberta: Sheldon Chumir Foundation for Ethics in Leadership.

¹² Ernst, K. (2012). *The Basics of an Economic Rights Movement: The Public Economy*. A paper presented at the 14th Annual Basic Income Earth Network Congress, Munich, Germany.

He reminds us that ethics needs to be injected into the concept and that a sense of “civilized” needs to be minimally viewed as important as “free.” We cannot have one without the other.

The economy as public interest. An “economy” that serves a public purpose, is more closely related to creating *a society in which we live well together*. If this is the case, then at least four notions follow¹³:

- 1) The “public” refers to all of us in our society. No one is exempt. Decisions on the economy must have a community-mindedness as its starting point.
- 2) The economy ought to reflect the very best that a society can be (i.e. a civil democracy, free from poverty; one that is equal, trusting, safe and so on),
- 3) It furthers the public (those involved in the economy) toward engaging in an understanding of, and commitment to, the ideal life a civil democracy, &
- 4) It furthers a society in which we live well together, are civilized, where harm to its members is minimized and ideally eliminated.

Doing Something About it

A question flowing from the notion of the economy as a public interest is, “how does one inject the concepts of *civilized* and *community-mindedness* into a discourse on the economy.” This begins with changing how we discuss and debate issues within the economy. It includes putting back into place key structures that we have lost from our society in the past few decades. It involves measuring more than just the elite wealth in our society. We need to focus public attention elsewhere, including measuring how well the middle and lower incomes are doing, especially in relation to a lifelong basic income.

Challenging Polarized Views

Writers on market liberalism, often suggest the private sector, private industry, or private markets as innately good and anything referring to public as inefficient or bad.¹⁴ This polarized view does not describe the economy adequately within the human context and is overly simplistic. The human situation is fundamentally relational. From this perspective, the marketplace is closer to the idea of a public place wherein all people have the right to

¹³ Private letters with Dave King, a former minister of a number of portfolios under former Alberta Premier Peter Lougheed, September, 2012.

¹⁴ Stein, J. (2001). *The cult of efficiency*. Toronto: House of Anansi Press.

participate and interact, one in which the interaction or participation is voluntarily but necessary, and whereby ideally the process and outcome of participation is equitable.

We must get away from discussing polarized views about the economy. Networks of people comprising the “public” are not innately bad or good; it is simply descriptive of the human situation. As long as people are equitably participating and everyone does well, perhaps this is said to be good. If collective participation and interests are similarly equitable, then one cannot describe a public economy as innately bad. When people are not equitably participating, cannot participate, held back from equitably participating, or the result from participation is not equitable, then humanity is much worse off (as we are experiencing with the rise of disparity and inequality within our societies). These descriptions of various economic structures and related concepts of justice are closer to what might be “bad” in the economy. Sweeping generalizations of a system cannot be made. A more reasoned and refined debate about what is working, or not, in relation to the public is required.

Beyond self-interest. We can no longer ignore the idea that society is held together by something greater than one’s individuality, it also includes a community and fraternity with the other.¹⁵ An accurate conception of an economy is related to self-in-relation nature of humanity and community.¹⁶ An over-focus on individuality as the solution to all economic issues is limiting. This point is very clear in an interview with Alan Greenspan by a US congressional committee after the near market collapse of 2008. He stated the following,

“I made a mistake in presuming that the self-interests of organisations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms.”

Henry Waxman, congressional committee's chairman asked: "You found that your view of the world, your ideology, was not right, it was not working?" Greenspan replied:

"That's precisely the reason I was shocked because I'd been going for 40 years or so with considerable evidence that it was working exceptionally well."

¹⁵ Gereluk, D. (2006). *Education and Community*. London: Continuum.

¹⁶ Frazer, E (1999). *The Problems of Communitarian Politics: Unity and Conflict*.

Greenspan went on to say. "I have found a flaw," referring to his economic philosophy. "I don't know how significant or permanent it is. But I have been very distressed by that fact."¹⁷ "

Closer examination of the past few decades' history is a reminder that the policies created without attention to the public have been misguided.

Greenspan's comments are telling. The assumption that the markets were working well has to be referenced to something. The period after the Second World War in Western Europe and in North America until the 1990's saw a relatively stable period, decreasing disparity in most regions, and with few economic upheavals remotely close to revolution. It was only after the Thatcher/Regan economic forces took hold of unabated self-regulated liberalized economies, which Greenspan helped to push forward and which disproportionately helped a small elite, did the stability unwind.

The reference point moved from a valued public to its condemnation and value place upon the unrestricted self-interest of a few. The markets ending in 2008 highlighted that the economy was not working for the public interest. A market void of public interest ultimately led to the near economic collapse for millions, including that of the wealthy elite.

A truly public economy is not based on models of polarized economic ideology. A community-minded public market is best described as one that truly serves us all, one that allows individual opportunity while in relation with others. It is a market philosophy whereby one is free to achieve but acknowledges one's responsibilities to do so within a larger community. It understands that pushing toward a polarized ideology of any sort is ultimately harmful and as such has no ethical basis.

Champions that change language

Decades ago, Ayn Rand noted that capitalism was at risk from socialism because its proponents were not asserting themselves and speaking about it.¹⁸ She wrote about the risks of silence, the dearth of champions that were undermining capitalism, and that an assertion of [her] ideals was required. In the same manner, inserting the "public" back into the mindset

¹⁷ Leonhardt, D. (2008, October 23). *Greenspan's Mea Culpa*. New York Times. On-line: <http://economix.blogs.nytimes.com/2008/10/23/greenspans-mea-culpa/>

¹⁸ Rand, A. (1967). *The Unknown Ideal*. New York: Penguin Books.

about the economy must be assertively discussed. The continual unchallenged use of language such as “free market” (and variants of this) with concepts of “self-interest” does not serve humanity well. Associating the two concepts without necessarily being justified or descriptive of a healthy economy must be challenged.

Language needs to change to acknowledge how the human individual contributes to and benefits from the relationships that surround us. The idea that achievement, entrepreneurship, private enterprise, or free enterprise occurs exclusively from individual effort is incorrect. We must acknowledge that all these only exist within relationships in a community, “the public.”

Some authors note that when people or economies flourish, they are inevitably associated with endeavours of high social capital, and high social mobility.^{19 20} In today’s socially connected world, the question, “if you achieve in isolation, does anyone hear (take notice or buy it)?” becomes increasingly rhetorical. In the socially networked world, “the other” who notices achievement is fundamental to a healthy marketplace. Creating economic transaction can only occur in a network of relationships or within a community. The new social networked world may be an opportunity to make this point salient to all in this public.

Words like economy, market, and marketplace need to be associated with the relational and co-operative nature of humanity. Words such as public, community-minded, or a relational economy are more descriptive of an interrelated human economy. Stressing this point must begin before any policies start to shift away from the mindset of mere self-interest.

Challenge the Achievement Myth

Joseph Stiglitz writes that we have built a society that views those with large incomes as more deserving in an “achievement” model of income determination.²¹ He notes that income determination is not as simple as creating the conditions for hard work. There are far more forces at play, and “. . . inequality is, to a large extent, the result of government policies that shape and direct the forces of technology and markets and broader societal forces.” He notes

¹⁹ Putman, R. (2000). *Bowling Alone: The collapse and revival of American Community*. New York: Simon & Schuster.

²⁰ Musai, M., Abhari, M., & Fakhr, S. (2011). *Effects of Social Capital on Economic Growth* (International Comparison). *American Journal of Scientific Research*, 16, 107-116.

²¹ Stiglitz, J. (2012). *The Price of Inequality: How today’s divided society endangers our future*. New York: W.W. Norton and Company.

that 70% of people that begin in a lower class are likely never to leave this class. For these people, a lifetime of servitude to those in the highest class is far more likely than hard work leading to riches.

Freeland additionally notes that the top few earning individuals in any societies number so few that the possibility of anyone joining this group almost zero. She also points out that a large proportion of the very rich were born into rich families. They were advantaged from birth and had families that could pay for the best education, and mingle with those similar to themselves. Worldwide, these advantages are not available to those people in abject poverty or in the lowest classes. Despite this reality, the myth persists that if the poor were simply not so lazy, then riches would flow in their direction. The myth needs to be exposed, challenged and structures established that hoard wealth to the detriment of a greater public need to be dismantled.

Ensure Markets are Accountable to Others

Ayn Rand was partially correct in noting the human situation includes the strive for self-preservation, but incorrect to assume that self-interest was the only factor motivating humanity. People can also be altruistic, kind, generous, and otherwise. People interact in an endless amount of activities, all with other people in mind. Rand and her followers negated the “other” to everyone’s detriment. Acknowledging that *individual opportunity occurs in relation with others has important implications; it means that we cannot negate the “other.”* We live among others and are accountable to others.

Our society has spent considerable effort eliminating structures within the economy that provide accountability to others. The decline of organized labour and its dismantling is one example (peaking in the 1950’s and reducing to now having similar levels to just prior to the 1930’s depression²²). Another example is the decline of system regulation, as evidenced in banking, to the point of some suggesting that such sectors are no longer regulatory.^{23 24}

²² OECD (2012). *Trade Union Density*. StatExtracts.

²³ Ackerman, B. (2010). *The Decline and Fall of the American Republic*. Boston: Harvard University Press.

²⁴ Block, F. (2012). *Democratizing Finance*. Paper presented at the American Sociological Association 2012 Annual Meeting: Real Utopias, Denver.

The sense of rule of law and accountability needs to be put back into business and market exchange. Stiglitz writes that, “the rules of the game matter not just for the efficiency of the economic system but also for the distribution (p. 267).” Wrong rule, or the lack of rules, lead to a more divided society. Stiglitz argues for a range of laws to be upheld and/or changed. Although, this beyond the scope of this paper, the point is that those rules need to be examined and recommendations from Stiglitz and others to put back market regulations and accountability structures ought be taken seriously.

Pursue Common Wealth

Hacker and Pierson question who is standing up for everyday people in society, especially the middle class, without being able to adequately answer it.²⁵ Two parts of this issue are important. The first relates to who champions for the middle and lower classes, the second is what they champion. Hacker and Pierson note that labour at one time was a powerful force in this regard, but that their power has diminished to become insignificant in many jurisdictions. This has left governments with the task. Unfortunately, in a great many jurisdictions, the governments act on the wishes of an increasingly small elite rather than the broader public.

The second issue relates to how governments encourage the distribution of wealth. It may appear that if one only pays attention to media accounts, governments are merely involved in debt accumulation with no dividend going to the mass of the population. This of course is not true, albeit continuous debt accumulation has proved to be unsustainable.

There is a growing realization that debt in many cases occurs when taxation is reduced to such low levels that it can no longer sustain the services the public demand. Common wealth accumulation is not possible with low taxation or high levels of tax avoidance. It disproportionately serves those with elite levels of wealth. Stiglitz suggests a return to progressive taxation, taxation of bonuses, with fewer loopholes is unavoidable to reverse this trend.

If more taxes are collected, then the group it benefits is important. It is essential to clarify the mandate of government serve all people and to acknowledge government’s role in

²⁵ Hacker, J. & Pierson, P. (2010). *Winner-Take-All Politics: How Washington made the Rich Richer and Turned its back on the Middle Class*. New York: Simon & Schuster.

creating an even playing field; this means to helping lower and middle classes. Stiglitz notes that access to education, access of health care, encouragement of savings, and creating social protection program all contribute to a more equality of opportunity.

To create a long-term even playing field, policy initiatives must move toward this ideal and change toward creating wealth that can sustain middle class initiatives. This means a policy shift for governments to create surplus budgets over long periods and for surplus revenue to be accumulated for the benefit of citizens. It is a policy initiative that is both possible and has many positive benefits.^{26 27} For example, savings placed in sovereign wealth funds were once only common for states that had large excess revenue due to resource royalties, but an increasing number of jurisdictions are creating non-resource based funds.²⁸ The United Arab Emirates, China, and Norway have the largest funds. The total value of these funds exceeds five trillion dollars worldwide. The flexibility that these savings have for governments means that new policies to enhance social protection policies are possible.

One important policy in this regard could be a basic income, a minimum income level that can support each person or family's need for food, shelter, and basic necessities.²⁹ Without accumulation of public wealth, no benefit that serves the entire public is possible, nor is it sustainable. Basic income can of course occur in a number of forms, but a market oriented to creating elite wealth has yet to prove its ability to provide for all of its citizens. Without concentration of wealth that is distributed to those unable to attract a basic income, income disparity simply grows and its associated problems grow with it. To avoid these problems, and for a civilized society to be encouraged in its place, redistribution of concentrated wealth is a necessity. The basic income is an important outcome that can be produced from accumulated sovereign wealth.

²⁶ Cummine, A. (2011). Overcoming Dividend Skepticism: Why the World's Sovereign Wealth Funds Are Not Paying Basic Income Dividends. *Basic Income Studies*, 6(1), pp. 1-17.

²⁷ Clark, G. & Monk, A. (2010). The Norwegian Government Pension Fund: Ethics over Efficiency. *Rotman International Journal of pension Management*, 3(1), pp. 14-19.

²⁸ For a listing of the largest funds, see: <http://www.swfinstitute.org/fund-rankings/>

²⁹ Sheahan, A. (1983). *Guaranteed Income: The Right to Economic Security*. Los Angeles: GAIN Publications.

Measure Middle and Lower Class Wealth

Larry Summers, a Harvard economist and former US secretary of the treasury, suggests that for first time since the 1930's depression it makes sense to focus on the middle class on distribution of wealth. He notes that growth of the past few decades is so uneven between top and bottom earning cohorts that creating vast new wealth for a few elites is not the ideal, but that now the economic target should be distributing wealth among the middle class.

If societies hope to change the ideal, want to avoid poverty, and want a healthy middle class, then the economic health of the middle class must be monitored. In the same way that the GDP is used as a measure of success, new measures must be communicated to the public and become commonplace. Measures of GDP and average incomes do not say anything about the range of incomes, nor does it comment on disparity; it is too simplistic and too easily perpetuates myths that all is well.

In Canada, the National Council of Welfare, which gathered regular reports on how well lower and middle classes were doing, was dismantled by the Canadian government. It was a policy decision that created difficulties for the public and policy makers to gather and share information about the wellbeing of the middle and lower classes. At the same time, standard measures of wealth continue to be reported and supported. The combined effect gives the impression that poverty in Canada is not a worry. Consequently, it is increasingly difficult for anyone to argue rationales for a basic income, or any variant of it. Such policy decision to stop measuring and commenting about poverty must be countered.

Basic income as a key measure. One key measure of a re-democratized society could be the number of people that have a basic income, regardless how they achieve it. It is unacceptable for many people to work in jobs that do not sustain their household or family, while a small elite gains significantly in their income and accumulated wealth. Mere employment cannot be assumed to note a basic income. Regularly measures and reports on those in society living with and without basic incomes, in addition to those with great wealth, needs to be supported before basic income will be taken seriously.

Conclusion

The point of an economy is to serve the “public” that interact within it. We have walked away from this idea for far too long and it has resulted in a cultural focus on mere economic self-interest. Success is over-focused on accumulating wealth for an elite at the expense of the majority of citizens. History tells us that if this is not countered, then the major economic, the political, and the major power structures may not survive and our current economic and democratic systems will eventually fail.

The trend can be reversed but it requires a re-democratization of the economy. Just as the free market libertarians pushed back against what they saw as their most severe threats of the day, so too can the public today demand fundamental changes to help re-democratize our society. It starts with championing a different philosophy about the economy and changing the way discussions about the economy and the public occur. The ideal must change as well toward distributing wealth and power among as many people in our society as possible.

Re-democratizing our society moves the notion of *economy* to be a *public interest*. Both the interests of community and of individual members’ agency are addressed simultaneously. People are acknowledged to pursue their individual achievements while interacting within community networks. This community-minded economy moves society to take seriously notions of common public concern, interests to everyone, and benefits for everyone.

Societies must get serious about minimizing disparity and opening discussions about the economy away from mere self-interest. Society must challenge the predominant notions of what the economy is and what is important in it, including how overall economic success is measured. Measurements of wellbeing in the middle and lower classes must become commonplace. One of these measures is the distribution of a basic income.