READERS
WRITE

On "Democratic Investment"

To the editors:

A common theme of each of the three articles that *democracy* has published on the subject of American economic policy is an attack on the concept of "reindustrialization." In his lead article in *democracy*'s third issue (July 1981), William Connolly interprets the call for reindustrialization as a sign of the inadequacy of the historic American approach to capital accumulation. He argues that it represents a public admission that the pattern of private economic growth as we commonly define it is no longer capable of "providing the populace with steadily increasing affluence, happiness, freedom, and security." What is instead being proposed is a division of the population between those constituencies whose private pursuits are consistent with the "reindustrialization syndrome" and those whose are not; the latter would be relegated to second-class economic status.

This leads Connolly to conclude that there is an irreconcilable conflict between the "illusionary pursuit of growth" by the American populace and the future of American democracy. He writes: "If the program for the reindustrialization of America were converted into practice . . . it would place the most critical economic decisions beyond the reach of public accountability. . . ." Discussing the same subject in the next issue (October 1981), Sheldon S. Wolin reaches an identical conclusion. According to Wolin, the use of large "powerful corporations" as a vehicle for the pursuit of growth is essentially "apolitical because, inherently, it contains no principle for transcending conflict to find common ground. There is no reconciliation, only winners and losers; there is no basis for common action, only threat, inducement or corruption."

In *democracy*'s April 1982 issue, Maurice Zeitlin again repeats the argument. We are now, according to Zeitlin, "at a critical historic turn," confronted with a stark choice: "democracy or the corporate state." What distinguishes Zeitlin's piece is that he goes substantially beyond the somewhat abstract critiques of the status quo offered by Connolly and Wolin. He advances a detailed blueprint for enabling the citizenry to "participate in making the most crucial investment decisions . . . that are now almost entirely the domain of a few giant banks and corporations." Zeitlin offers a possible means of implementing the political vision of Wolin and Connolly: instead of the power of the state being used to serve the interests of private capital accumulation, it could become a vehicle through which the citizenry could express their collective values and realize their common interests.

His piece deserves to be taken seriously not only for this reason but because it goes a step beyond the familiar and predictable laundry-list of reform proposals that by now must be programmed into every progressive writer's word processor (control corporate flight, mandate full employment, restrict takeovers, place price controls on large companies, encourage conservation, etc.). Instead, Zeitlin outlines a structured reform designed to fundamentally alter the mechanism through which our nation makes its most important economic decisions.

Zeitlin proposes that the citizens of California establish a Public Investment Research System (PIRS), with funding from four sources: idle public funds, state and local employee pension funds, private union pension funds, and "security deposits" given by companies that want to invest in California. According to Zeitlin's estimates, this would amount to at least $75 billion. The money would be selectively allocated to firms that "reinvested in new plant and equipment . . . expanded productive, healthful, and job-creating employment . . . and met other *democratically designated* public priorities." The firms eligible to receive PIRS resources, either in the form of equity or loans, would be selected by a governing board publicly elected by both the residents and communities that received or distributed PIRS funds, and the representatives of the public employees and private union pension funds that agreed to pool their resources. The former would be selected by a two-stage process involving district-wide elected councils who would in turn elect representatives to the statewide PIRS board. The state board would thus be fully accountable to "an electorate able to scrutinize, debate, and judge" their policies.

What is most striking about Zeitlin's scheme is that, like Rohaytn's proposal to reestablish the Reconstruction Finance Corporation, it completely bypasses existing democratic institutions. Aside from union participation, there is nothing about his plan that could not be just as easily implemented through the existing structures of California state and local government. Why have specially elected district PIRS councils when local governments already have elected councils? There is a compelling democratic argument for taking critical economic decisions out of the hands of unelected corporate and pension fund managers and giving them to elected officials, but what is to be gained by substituting one form of democratic representation for another?

I must assume that Zeitlin believes that his democratic structures would represent a substantial improvement over the ones that currently govern California. He informs us that the decisions of the PIRS board would be debated in terms of "specific allocation and investment policies," in marked contrast to the "personality, vague generalities, or rhetoric" that currently characterize electoral politics in the state. But why should this be the case? What is to prevent individuals seeking election to the PIRS board from making the same sort of vague and manipulative appeals they currently make when they run for office? And why should not the same business interests that currently play such a large role in California state and local politics dominate PIRS elections as well?

Indeed, there are grounds for suggesting that the electoral mechanisms Zeitlin envisions would be even less democratic in spirit and substance than those that currently exist in California. We already have several experiences with functionally specific electoral districts. Communities throughout the United States directly elect school boards, and during the 1960s many communities elected representatives to antipoverty boards. In northern California, the board of directors of the Bay Area Rapid Transit System is elected directly. None of these experiences has been particularly encouraging to those with faith in democratic accountability. In every case, turnouts average significantly below those for regular elections and few voters appear to have any understanding of the issues at stake. Typically, a handful of insiders controls the outcome.

It is true that the local PIRS would be different because of the enormous effect that the decisions of the statewide PIRS board would have upon each community. This certainly represents a significant contrast from the antipoverty boards or even from existing state and local governments; indeed, when measured in terms of control over the allocation of capital, a California PIRS would have more power than all but a handful of the world's largest corporations. But instead of being used to promote democratically designed investment policies, what is to prevent this gigantic concentration of capital from turning into the world's largest pork barrel, with each community in the state vigorously competing and making deals to make sure that they receive as large a share of these resources as their locally elected and trade union officials can possibly accumulate for them?

Given the power Zeitlin's plan places in trade unions, union elections would then also become the setting for bitter conflict as each local competed to make sure that funds went to provide employment and housing and health care for the members residing in *its* community. The opportunities for corruption inherent in such a scheme are mind boggling. Certainly it is not a coincidence that the most corrupt unions are precisely those that manage their own pension funds, and the most scandal-ridden federal agency is the one whose functions most closely parallel those of PIRS. By merging both public and union pension funds into one pool of investment capital, we are liable to wind up with a system that combines the worst features of both the Central States Teamsters Pension Fund and the Small Business Administraion.

Like any democratic reformer, Zeitlin's proposals carry with them a substantive agenda. His effort to give the citizens and workers of California control over their economic future stems not simply from his faith in democracy, but also because he believes that his reform, when implemented, would produce more socially beneficial outcomes—at least when compared to those provided by our current market-based arrangements. Zeitlin specifically refers to such "social goods" as decent, affordable housing, energy-efficient mass transit, community recreation centers, renewable energy systems, etc., as among those he anticipates a *democratically designed* investment program (his italics) would further. These clearly define Zeitlin's vision of a good society, but do they accurately describe that of the people of California—a citizenry that after all overwhelmingly approved Proposition 13 and strongly supported the candidacy of Ronald Reagan on the three occasions on which it had the opportunity?

Obviously, the last thing many California communities, particularly the more affluent ones, want to encourage is more "affordable housing." It places additional pressure on public services, undermines existing property values, and creates congestion. Does Zeitlin believe that the majority of the citizenry of Los Angeles would choose to spend the investment funds placed under their control on mass transit rather than on additional freeways and parking garages? And might not the workers employed in the aerospace and defense sector, which are among the state's largest industries in terms of employment, demand that PIRS funds be used to enable California companies to compete more effectively for additional federal contracts in these area? Why would not the owners and employees of those firms and cooperatives that already had received significant PIRS funds band together in the time-honored tradition of American economic regulation and seek to prevent additional monies from going to competitors, particularly to those coming from out of state or overseas?

But there is an even more fundamental difficulty with Zeitlin's scheme. Like many proposals to "democratize" pension-fund capital, the rhetoric of democracy and public responsibility obscures a political vision that is fundamentally both selfish and parochial. Instead of promoting civic virtue, it duplicates and reinforces the worst features of both commercial competition and geopolitical rivalries.

Just as the decisions of a corporation are motivated by the economic self-interest of its stockholders, so would the decisions of the state PIRS be determined by the self-interest of the citizens and workers of California—irrespective of their impact on the residents and workers of the other forty-nine states. So in addition to each corporation competing with every other enterprise for control of the world's limited pool of capital, we would, assuming that other states followed California's lead, be faced with the spectacle of fifty more institutions joining the fray. Zeitlin's plan would certainly politicize economic decision making, but at the price of making our political institutions more economically competitive. And imagine what it would do to the solidarity of the trade union movement if each local in the United Auto Workers were to compete with one another to determine which share of the auto industry's pension funds belongs to *them*, and therefore should be used to maintain *their* jobs, rather than those of workers in other states and nations. The result would be a degree of regional and political polarization that makes Rohatyn's reindustrialization program look consensual by comparison.

As Zeitlin recognizes, a significant share of the $75 billion that would constitute PIRS's resources is currently invested outside of California; indeed he explicitly deplores this fact. The consequences of a "California first" policy are therefore not difficult to predict. Communities throughout the nation and the world would immediately experience the very capital flight that Zeitlin currently criticizes when it hurts the state in which he resides. As investments flow back into California, non-California residents would then suffer from a rash of plant closings, which they would be helpless to control. And if they established PIRS in their own states, the effect, in turn, would be to drain capital from California. This is hardly an inspiring vision of civic harmony.

Moreover, such an approach to solving our nation's economic difficulties seems particularly inappropriate when it originates from the citizenry and workforce of one of the wealthiest regions in the world. If firms and plants in a state as productive as California are not going to generate investment capital to be used by the rest of the world, then from where is it going to come? Whose funds are going to finance the revitalization of the industrial heartlands of both Great Britain and the United States, or the industrialization of Mexico and China? Does Zeitlin really believe that what is good for California is good for America, let alone for the rest of the globe?

Nor is the kind of geopolitical selfishness implicit in Zeitlin's vision simply a global or a national problem. Zeitlin is encouraged by the electoral success of progressive forces in a number of communities in California, including Santa Cruz and Santa Monica. Activists, such as those associated with Tom Hayden's Committee for Economic Democracy, have many accomplishments to their credit, but among them is one that should give pause to those concerned about the values of democracy and equality. The policies enacted by progressive forces at the local level in the state of California have systematically favored the interests of current community residents at the exclusion of those who would like to move there. They have accomplished this through policies that have the effect of either preventing or severely inhibiting new construction. I can certainly appreciate the desire of the residents of Santa Monica to preserve the character of their community in which they reside, but what of the interests of those who would like to move to Santa Monica, or to work in a new factory or office building there? How does bringing economic democracy into Santa Monica improve their ability to control the economic decisions that affect their futures? Their political impotence is fundamentally no different from that of the autoworkers in Fremont whose plant GM recently closed.

None of these observations should suggest that there is nothing worthwhile about Zeitlin's scheme. On the contrary, I am attracted to the idea that a share of some of state pension fund resources be allocated to provide capital for new business, co-ops, and worker-run enterprises—though it must be recognized that these ventures also present greater risks to the beneficiaries of these funds. I would, however, want these decisions to be by a group of fiduciaries rather than popularly chosen representatives to avoid the logrolling and the conflict-of-interest problems inherent in Zeitlin's plan. But my basic argument is that fashioning the instrument to make capital allocation decisions as accountable as Zeitlin would like is an extremely difficult and complex undertaking. Unless carefully designed, it is likely to undermine, rather than reinforce, the civic and moral values that *democracy* is committed to fostering.

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