SIX SUGGESTED MODIFICATIONS TO DAVID SCHWEICKART'S SUGGESTED INSTITUTIONAL STRUCTURES IN HIS *AFTER CAPITALISM*

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I am putting these six suggested modifications forward as supplemental to David Schweickart's basic theory and institutional proposals as outlined in his *After Capitalism* (Westview Press, 2001) since I think that they are reasonable and may allay some objections that some people may have to his theory and proposals and, thus, make that theory and set of proposals more reasonable and more widely acceptable.

(1) Schweickart's suggested transformation to economic democracy includes the policy that although pension funds for workers will be protected and paid out upon maturity or termination (as current arrangements dictate), for investment wealth that is not part of pension funds "the government exchanges all stock certificates and corporate bonds for government annuities – guaranteeing a steady income to each holder until the value of his investment portfolio [set at a pre-crash date level] has been redeemed" (174) which will last for 30 years. There will also be "a sharply graduated tax on annuity income" (175) (from which pension funds will be exempt). (The money for these payments will come from the capital assets tax.) (176) **My first suggested modification (actually suggested by Schweickart in some papers written after <u>After Capitalism) is</u>** *that the level of these yearly annuities (paid for 30 years) is to be set at the average (reported) income of the individuals for a five year period before the presumed economic crash.* This modification is necessary because it would be virtually impossible to pay back the entire assets of multi-billionaire families over a 30 year period. But since the income taken out of their assets by extremely wealthy people for purposes of consumption is always much less than the part of their assets that they keep invested in one form or another, the new policy (modification) will give them back each year what they are used to taking as expendable incomes, not 1/30th of what their total assets were actually worth at fair market value (before the presumed economic crash). For example, an individual (or taxable family unit) which has 30 billion dollars in assets would have to be repaid one billion dollars per year under Schweikcart's policy in *After Capitalism* – which seems totally unreasonable – whereas if they reported an average income for those

five years before the presumed economic crash of 10 million dollars, this is what they would be paid yearly over the 30 year period, an amount that seems more "reasonable" or at least feasible.

(2) **My second suggested modification comes from economist/philosopher John Roemer.** *It is that individuals or groups of individuals be permitted to start new businesses from their own savings (or money they can borrow from other individuals) and to own and profit from these businesses until (and unless) they grow to a certain maximum economic size at which time they would be bought by the public sector of the economy* <u>*at fair market value*</u>*. Although the individual owner or owners would have to pay taxes on this profit income, they could use their after tax profits for anything they liked: spending it, saving it, or investing it in a new start-up business*. About 15 years ago Roemer gave a ball-park figures of 40 million dollars per year in the sales of goods or services, but with inflation *let's say that we set the buy-out threshold at $50 million per year in the sale of goods or services or employing over 1000 people.*. For individuals or families who wanted to run a small (or medium-sized) business this would allow them to do so perpetually so long as they kept their business within the economic size limit specified. The purpose of this policy is to permit and encourage entrepreneurship while at the same time making sure that the private sector firms (which would not be required to have the type of workers democracy and quasi-ownership that exists in the market sector of the public economy) and wealthy individuals do not become so economically powerful as to be able to significantly control the economy and/or the political process. In particular, the goal would be to make sure that another entrenched capitalist class did not evolve since, if it did, it may have the motivation and power to challenge and possibly destroy the democratic market socialist system.

(3) By the way, I believe that, in Schweickart's system, economic enterprises given start-up funds by the investment divisions of the public banking system are all required to be worker self-managed rather than individual or family owned and run. Nevertheless, many Mom and Pop small businesses – e.g. corner grocery stores,

restaurants, carpentry shops, construction contractors, etc. – would presumably be "grandfathered" into the new socialist economy from the old capitalist economy and others would be able to start up from the savings of individuals or groups of individuals. *Although there will be steep inheritance and estate taxes in the new system, small family run businesses should be allowed to pass down from generation to generation so long as anyone wants to run them that way.* **(This is my third modification.)**

(4) **My fourth modification is along similar lines.** It is that since many people are strongly motivated to be able to leave their children (or loved ones) a "nest egg" (so to speak), *people should be able to buy (or leave) each of their children (or spouse or domestic partner) one home worth, let us say, up to 150% of the median value of a home in the area in which the children live, or give them the cash equivalent of that value. In an area in which the median price of a home was $500,000 the children could be given either $750,000 in cash or left a home worth up to $750,000. Progressive estate or gift taxes would not apply to homes gifted or bequeathed under these conditions but would be applied to cash gifts so a person taking the $750,000 in cash might get, say, only $200,000 or $300,000 net.* This way family homes can be more surely guaranteed to pass down from one generation to the next, if that is what the family wishes, and people will have the satisfaction of giving their children (or spouses or domestic partners) such "nest eggs." However, since for the vast majority of people the ownership of homes will be their primary financial asset in such an economic democracy (democratic market socialist society), probably not many people would be able to give a large number of loved ones (i.e. close relatives) such "nest eggs" (at least in the full amount). But this, in turn, might be a motivation for many people to limit their offspring to one or two children, which would be hugely beneficial for the natural environment in the long run.

However, one should not assume that this fact – of most parents not being able to provide a full-sized "nest egg" to their children (or spouses to their spouses or domestic partners to their domestic partners) means that anyone in the proposed social system would be unduly economically burdened or desperately poor. Remember that the social system proposed would make employment a top priority, would not allow capital flight, would aim at eventually making investment on a per capita basis in each different area of the country, would have well-financed job training (and re-training) programs, would have free comprehensive health care for all (along with other reasonable social benefits), and would guarantee those unable to work a reasonably decent minimum standard of living.

(5) Moreover, **my fifth proposed modification** is that *home ownership – whether of houses or condos – also should be a top priority of such a social system. This would entail reasonable mortgage loans at reasonable interest rates for qualified individuals and families and – if there is a relative shortage of housing – it may also require a limitation of ownership of homes to either one or two, depending on economic and social realities.* (I'm not sure how cottages or cabins would fit into this schema.) But even if individuals or families were allowed to own two homes they presumably would not be able to rent one of them and realize rental income or, if this were allowed, such income would probably be heavily taxed since one of the general goals of society is to limit economic inequalities, especially inequalities that would arise from investment wealth rather than work or effort. This leads to the next proposed modification.

(6) Finally, let us talk about **morally allowable differentials of wealth in such a society**. First note that, in theory, differentials of income and wealth would be governed, on both Rawls's theory and my modified Rawlsian theory of social justice, by the Difference Principle – i.e. the principle that inequalities of income and wealth are justified if and only if they are to the maximum advantage of the least well off (i.e. poorest) members of society, consistent with the just savings principle, but (on my version of the principle) are not to be so great as to undermine either the good of self-respect or the approximate equal worth of the political liberties and due process … and, in fact, a lexical (or reiterative) application of this principle among economic strata is required. However, what this would amount to in present day societies (or the new society at the same level of economic development) is not very clear. Moreover, if the allowable inequalities turned out to be very small when the Difference Principle was applied it might be very difficult in present day societies (or even the new society) for people to completely support this principle. Therefore, in order to give an approximate idea of what differentials in income and wealth might be allowable in economically well-

developed societies I will propose a structure of allowable income differentials in such societies that will give us a more concrete idea of what they may be and which may also allay the worries of those who think that the Difference Principle would be too stringent. This is not to admit that the Difference Principle is not the correct principle to govern allowable differentials of income and wealth that we should aim to comply with over the long run but, rather, to say that in the real world it may be reasonable to settle for something less stringent, at least in the short term. I don't know the details but, apparently, some Scandinavian countries already have such an income differential scheme in place (although they also allow huge investment income to be made, since they are still capitalist societies). For economically well developed societies like the U.S., Western European nations, Japan, etc. the allowable differentials of income and wealth I propose are as follows.

Let us assume that taxes in this society are raised primarily through (1) the capital assets tax on all enterprises (per Schweickart), (2) a value-added tax on all non-basic commodities (per Rawls's suggestion), (3) and estate and gift taxes. In this case, let us assume that income taxes kick in only in those cases in which someone has made more than the maximum income specified below for various sectors of the economy, so that any incomes below the maximum allowable level that we mention will be <u>net</u> incomes as well as <u>gross</u> incomes (from the salaries or wages workers make or the profits that small and medium sized businesses make). *Keeping in mind that there will be universal (free) health care for everyone in addition to efforts a full employment together with generous job training (and retraining) benefits, unemployment benefits, etc. let us stipulate that (1) within a local firm (i.e. a firm located in a particular town, city, or area) allowable differentials of income are set at a 5:1 ratio. That is, the highest paid employee of the firm – perhaps the manager or CEO – can only make five times what the lowest paid employee makes (perhaps the janitor). (2) Within an entire industry or economic sector (like coal mining, steel production, automobile assembly, banking, architecture firms, home construction, education, etc.) allowable differentials of income are set at a 10:1 ratio. (This would mean that the highest paid executive – perhaps a superintendent – in elementary schools across the country could be paid no more than 10 times the lowest* *paid employee in this sector. Or, if education was taken to include all levels of education from elementary through university then the highest paid university president could be paid no more than 10 times the income of lowest paid janitor anywhere in the educational system.) Finally, (3) within the economy (i.e. society) as a whole, allowable differentials of income are set at a 20:1 ratio; i.e. the most anyone can make before having the excess taxed away would be 20 times the lowest yearly income of those who work the whole year (apart from paid vacations and holidays).* **This is my sixth proposed modification.** Needless to say, under these circumstances it would not only be the lowest paid workers who were motivated to set the minimum wage (or minimum income) at as high a level as feasible. This would perhaps be a major source of "solidarity" in a sense, although this "solidarity" with the least well-off people would be at least partially motivated by the self-interest of those capable of making higher incomes if (and only if) the income of the least well off is raised.

For purposes of illustration, let us assume that the minimum wage of such a society would be set at $15.00 per hour. For a year of work – with paid vacations – this would come out to about $31,200 per year. For convenience of application let us assume that some people sometimes take unpaid leaves of absence (for non-health and non-maternity reasons) such that the yearly income for minimum wage workers in such a society averages $30,000 per year. In this case, the allowable yearly income differentials within a local firm which paid its lowest paid workers the minimum of $30,000 would be from $30,000 to $150,000; however, if the local firm was so profitable that it was able to pay its lowest paid employees $50,000 per year then the top earner could make up to $250,000.

Next, the differentials within an industry or sector of the economy that paid its lowest paid workers $30,000 per year would range from $30,000 to $300,000. But if the lowest paid employees were paid $60,000 in this sector then the highest paid ones could make $600,000. However, in a society in which the lowest paid workers make $30,000 per year $600,000 would be the highest income no matter what the differentials in any sector of the economy because of the 20:1 ratio between the lowest and highest income earners in the society as a whole. In this case, the allowable income differentials within the society as a whole would range from $30,000 to $600,000. Any income above these levels would be taxed either at 100% or perhaps at something like 99% (if there was some legitimate reason for choosing the latter). Presumably, many people who would make above $300,000 per year would be individuals who worked outside of established enterprises or firms as "free-lance" economic actors. Those "free-lancers" who earned above $300,000 might, for example, be entrepreneurs (who start and grow a business as specified above); consultants of various sorts whose services are in very high demand (perhaps financial consultants); and individual artists, athletes, and entertainers whose services or products are also in high demand. Thus, a successful entrepreneur like Bill Gates, a successful consultant like Warren Buffet, a successful artist like David Hockney, a successful athlete like Kobe Bryant, and successful entertainers like Jack Nicholson, Angelie Jolie, Brad Pitt, Chris Rock, or Justin Timberlake might all be making $600,000 (year in, year out) so long as they cared to carry on their activities and there was still a substantial market – i.e. demand – for them. If anyone thinks that $600,000 per year would not be enough to motivate people to hone their talents, to work hard at their crafts, to put forward serious effort, etc. I think they are out of touch with reality. The vast majority of people in the world are willing to work extraordinarily hard for a lot less than this! As someone once noted somewhere, even if someone like Kobe Bryant couldn't make any money playing professional basketball he or she undoubtedly would be playing in their local gyms against the best competition they could scare up as often as they could.