HOW TO SAVE CAPITALISM
Fundamental Fixes for a Collapsing System

USEFUL AMATEURS
How the Smearing of Barack Obama Got Crowd-Sourced
By Ken Silverstein

Also: David Means and David Foster Wallace
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If the financial debacles of the past decade—the enormous bubbles, the credit collapse and its trillion-dollar consequences—have taught us anything about the American economy, it is that capitalists have done a remarkably poor job of safeguarding the future of capitalism. Our system became so dominated by finance, insurance, and real estate, and by the complex derivative securities these industries generated, that the most eminent financiers (and their unsleeping computers) were unable to protect us from economic shocks. For a number of years, farsighted commentators—including in this magazine—warned of the looming credit collapse, and yet the masters of our economy took no action until the crisis was already upon us. Now we must not only repair our tenuous financial system but shore it up to withstand two great, gathering storms: dwindling energy supplies and accelerating climate change. To this end, Harper’s Magazine asked a group of leading economic thinkers to offer sweeping but concrete proposals for the rescue of capitalism, and capitalists, from doom.
REALIGN THE INTERESTS OF WALL STREET

By Joseph E. Stiglitz

From the seventeenth-century tulip mania to this century’s housing bubble, economies have been susceptible to the quest for the easy buck. Clever people will invariably circumvent regulations and accounting standards; they will seize opportunities to prey upon the poor and the ill-informed, to profit by selling the notion of the free lunch. By now most people are aware that over the past five years the financial sector has made bad loans and extremely risky bets, that defaults on the loans and record losses on the bets have seriously damaged the nation’s (and the world’s) economy. The downturn is likely to be so severe partly because we have succumbed to the opinion that markets work best by themselves, unfettered by government regulations. But the people making this argument are the ones who have been served well by it. We can do far more to protect against self-interest. In particular, we need to improve the incentives that drive those in the finance industry, so that their interests align with those of the society and economy they are meant to serve.

The financial sector is supposed to allocate capital judiciously, making sure that it goes to areas where returns, when adjusted for risk, are highest. When capital is well distributed in this way, the economy is more likely to flourish in the short term and grow steadily over time. Capital markets are also supposed to manage risk, transferring it from those parties less able to bear it to those that are more able to do so; distributing risk in this manner encourages entrepreneurship and stabilizes the economy. In return for performing this public service, the financial markets are generously rewarded—in recent years they have garnered nearly a third of all corporate profits.

The financial system is supposed to do these things. But it is clear that America’s financial institutions have not managed risk; they have created it. The industry allocated hundreds of billions in bad loans to an inflated housing market, resulting in the greatest number of foreclosures since the Great Depression. With economic growth currently at a dreary 1 percent, there is already an immense gap between what we are now producing and what we could be producing if this crisis had not occurred—a cumulative loss I estimate will be in excess of $2 trillion.

Too many bankers and other lenders have been focused on trying to beat the system by getting around accounting and banking regulations (through what is called accounting and regulatory arbitrage). Indeed, with bonuses based on short-term profits, they had every incentive to gamble and connive. And now that there’s a bust, no one is being asked to pay back the hefty bonuses earned during the boom. On the contrary, even as they are dismissed, those who helped send their firms and the American economy into a tailspin are rewarded with generous severance packages. They are enriched regardless of what happens to investors, homeowners, and others who lost so much. Unless we reform incentives, the financial sector will only try to circumvent whatever new regulations are put in place. We will simply have a short respite before the next crisis.

One major problem with incentives involves securitization. The selling and reselling of mortgages, with payments chopped into thousands of pieces, creates a new set of information asymmetries, as buyers of securitized mortgages have less information than the originators of the mortgages. To be sure, both investors and regulators should have recognized the scam. But as mortgage originators realized that buyers of securitized mortgages paid little attention to who was taking out the loans and on what terms, they pushed through as many loans as they could, regardless of their risk, and they invented ever more complex and pre-

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carious financial products that no one—not even the originators themselves—fully understood. Loans requiring that less interest be paid than the rate at which it accrues, so that the level of debt increased over the course of a year, were sold on the premise that housing prices were only going to rise. A simple regulation requiring mortgage originators to put their own money at risk in each transaction—say, 20 percent of the loan amount—could curb these abusive practices.

Multiple conflicts of interest in our finance industry also have led to the rewarding of socially destructive behavior. The worst culprits have been the rating agencies, which are paid by the companies whose financial products they were supposed to be evaluating and which make money by consulting with their clients on how to get AAA designation. These financial alchemists announced that the lead of subprime mortgages had been transformed into golden products safe enough to be held by pension funds. Without this collusion, the whole system of deception would not have worked; there would not have been the flow of funds that sustained the subprime mortgage industry. Neither banks (including now investment banks) that can borrow from the Federal Reserve nor pension funds that are responsible for managing other people’s money should be allowed to buy or sell risky and non-transparent products.

Finally, we must change how financial executives are personally compensated. We should require that stock options be subject to “expensing” (a more transparent accounting that makes clear their full costs). The present stock-option payment structure encourages CEOs to take actions that bloat the short-term reported profits of the firm, thereby inflating the share price, and everyone (except the executives in the know) eventually loses as a result. Their pay must be based on long-term performance, and they should share the losses, not just the gains.

Certain masterminds of Wall Street exhibited great ingenuity in creating new, highly complex products capable of evading accounting rules and taking full advantage of the housing frenzy. But as they were getting rich off these innovations, they failed to design products that help reduce the risks faced by most people in the housing market. Mortgages that would make it easier for Americans to keep their homes as interest rates rise or the economy spirals downward can be developed. But those in the financial sector have been fixated on their own annual bonuses.

Adam Smith argued that in serving their own interests individuals were led “as if by an invisible hand” to serve the interests of society as a whole. But once again we see that only with the right rewards can these interests actually be joined.

What is the purpose of a corporation? In America today we generally believe that corporations exist to generate profits for their shareholders, who “own” them. Indeed, we have structured much of our economy—and often staked our retirements—on this idea.

Not many years ago, though, most Americans would have found such thinking absurd. From the nation’s earliest days until the 1970s, Americans saw the business corporation mainly as a practical tool of development. The aim might be to build a bridge, or to manufacture steel, or to transport people from one city to another. The private corporation was simply the institution best suited—usually, but not always—to organize and govern such work. Profits were a part of the system. After all, the only way to attract capital is to pay for it. But the manufacture of cash was a distinctly secondary goal.

ABOLISH STOCK OPTIONS

By Barry C. Lynn

Our society lives with many fictions, and most do us little harm. But there is a big problem with viewing corporations as private sources of paper “wealth” rather than as public sources of goods and services. It’s not that the former idea is technically wrong, though American law is very clear that the business corporation is not a property and cannot be “owned.” The problem is that our efforts to extract cash from these corporations leads us increasingly to degrade—and in some cases to destroy—some of our most important production and service systems at the very moment we should be making them more robust and open to new ideas.

I thought of this problem recently when investors pushed General Electric CEO Jeffrey Immelt to put up for sale his firm’s Consumer & Industrial Division, the heart of GE’s business since 1892. I don’t own GE stock, but if I did I would wonder which best served my interests—for the company to sell its 125 years of expertise in electrical systems to some lesser firm, and thereby to direct a few dollars into my accounts; or for GE to retain that know-how, perhaps depressing its stock price in the near term but enriching us all through the improved efficiency of our refrigerators, transformers, and light bulbs.

In fact, I’ve been forced to think about the destructive powers of shareholder “activists” all too often over the past year or so, as fund managers claiming to be “owners” (or agents for “owners”) have burst into the decision-making processes at all sorts of firms on which we depend—Motorola, General Motors, Yahoo!, Boeing, The New York Times, Hertz, and Freescale Semiconductor, among others. The problem is not change: every enterprise must adapt to its day. The problem is one-sided dictatorship we see today. We should be making them more robust and open to new ideas.

This balance was upset by two actions. The Reagan Administration’s overthrow of antitrust law in 1981 freed investors and managers to create larger firms less regulated by horizontal competition and hence less compelled to refine their products and systems. The explosion of options and the linking of earnings to short-term stock-price fluctuations compelled the transformation of the CEO from tribune of the industrial arts to Shareholder #1.

It would be wrong to view the old way as perfect. The New Dealers, like the progressive-era reformers before them, failed to resolve the huge constitutional questions posed by the often necessary concentration of immense power within industrial corporations. But the ad-hoc balances they achieved were far safer than the one-sided dictatorship we see today. We should not allow investors to scatter the people, machines, and ideas entrusted to our great industrial firms any more than we would allow them to shutter or sell off the physics departments at MIT and Caltech. The time is long past to shift enterprises entrusted to their care, because the best way to keep the plush office and perks was to invest in the people and ideas necessary for the company to grow.

There is one easy way to get the managers of our corporations to focus more on making next-generation products and less on piling up cash for themselves and the fund managers they serve. And that is to eliminate, or at the very least to alter radically, the stock options that since the early 1990s have become such a huge part of executive pay packages. Back then, options were promoted as a way to bring the self-interest of managers more in line with that of shareholders. This is exactly the problem. The old antagonism between “professional” managers inside the firm and the masters of capital outside it helped ensure a balance between acts of creation and acts of destruction.

In America, the modern manager emerged during the late nineteenth century in tandem with the limited-liability corporation. As these private governments grew bigger, so too did fears that a largely self-selecting corporate elite would abuse their authority, economically and politically. The New Dealers’ aggressive use of the IRS, antitrust law, and other state powers seemed to solve this problem, and by the 1950s managers were wont to present themselves as “corporate stewards” whose job was to serve “stockholders, employees, customers, and the public at large.” These managers knew their companies intimately: in 1950 nearly 40 percent of CEOs had forty or more years of experience with their firms. And they had an incentive to ensure the long-term health of the activities entrusted to their care, because the best way to keep the plush office and perks was to invest in the people and ideas necessary for the company to grow.
PROTECT FINANCIAL CONSUMERS

By Elizabeth Warren and Amelia Warren Tyagi

Go into any appliance store in America and look for a toaster with a one-in-five chance of exploding. You won’t find one. But at any mortgage brokerage in the country it has been possible to purchase a loan with a one-in-five foreclosure rate, and the broker doesn’t even have to tell you the odds. Why the difference? Toasters—like every product you touch or taste—are tested for safety. When a baby stroller or an eyeliner is discovered to be dangerous, it is removed from the shelves. Yet financial products go unmonitored for basic safety. When shopping in the complex and constantly evolving financial market, where actual costs and unfavorable terms are regularly concealed, consumers are on their own.

For most of the country’s history, state and local usury laws imposed modest consumer protections by setting caps on interest rates and fees. But in 1978, a federal statute was used to bypass these laws. Creditors quickly rewrote the rules, issuing unintelligible contracts that increased fees, penalties, and interest rates. The fragmented financial regulatory bodies that remain have operated as if their main goal was lender profitability. Real oversight has been left mostly to a handful of consumer advocates who struggle to examine and review hundreds of complicated financial products and publicize problems while financial institutions spend about $100 million each year lobbying Congress for less regulation and more privilege. The ever-widening information imbalance between consumers and creditors has only made borrowers easier marks. In a Federal Trade Commission study conducted last year, for instance, nine in ten mortgage customers examining relatively straightforward fixed-rate loan agreements could not figure out the up-front costs on the loan; half could not identify the loan amount. Of all the borrowers who were sold subprime mortgages in the past five years, nearly 60 percent would have qualified for prime mortgages if brokers had offered them; the subprime mortgages carried so many rate escalators, prepayment penalties, and other traps that even would-be prime borrowers defaulted.

It is time we created the equivalent of a Consumer Product Safety Commission for financial products, an agency whose purpose would be to protect homebuyers and investors from the finance industry’s most dangerous offerings. The Financial Product Safety Commission could model itself after the best from the consumer regulatory agencies. For instance, the head of the new agency would be appointed by the president, and its staff of professionals would have civil-service protection and thereby be immune to changing political winds. Although the FPSC would have no hand in setting prices, it would be able to require that companies reveal the true cost of credit. This seemingly small requirement would force into public view essential information about terms and risks that has long been masked and withheld. To achieve this end, the agency could do something as basic as reviewing product disclosures, making sure they were easily comprehensible to the average reader.

The FPSC would also “test” products for safety before they had a chance to reach consumers. When the commission found undisclosed fees or bait-and-switch credit modeling, it could allow the offender a period of time to fix the problem, giving lenders the opportunity to minimize government interference. But if a lender failed to act within, say, six months, the agency could impose its own regulations: eliminating confusing paperwork, requiring effective disclosures, and, when necessary, banning outright the most dangerous traps. Standards would evolve over time, with the agency employing financial experts...

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capable of keeping pace with the industry’s ability to constantly create new and dauntingly exotic products.

Because risk is an intrinsic part of most financial transactions, a Financial Product Safety Commission would not—and should not—prevent every financial mistake. But the agency would allow consumers to make informed decisions about the amount of risk they want to take and would protect them from unscrupulous practices that disguise the dangers. The FPSC might evaluate loans and credit-card agreements using standards similar to ones employed by other agencies concerned with consumer safety: Is a reasonable consumer likely to get hurt by this product? Is the information provided complete and helpful, or is it designed to create a false sense of safety? Will this aspect of the product’s design provide a meaningful service to consumers, or will it confuse and mislead them? Is the malfunction rate—that is, the default rate—reasonable, or is it unacceptably high? Each year millions of credit-card offers go out with tiny print detailing “double-cycle billing” and “trailing interest,” terms that have enormous financial implications but are meaningless to most people. Likewise, such products as mortgage prepayment penalties are slipped surreptitiously into agreements for the sole purpose of trapping people into loans that they otherwise would not likely take on.

Industry advocates claim that any safety regulation would constrict credit, particularly to the poor. But the FPSC would restrict only a financial company’s ability to profit from deception and obfuscation—practices that lenders more frequently employ on low-income borrowers. Unlike the hard cap on total charges set by usury laws, which if too low actually does squeeze off credit to those who really need it, these regulations would merely require honest risk-based pricing, with all the costs and terms made clear up front. Consumers who can see the total cost of a financial product before purchasing it are no doubt better able to determine whether it is something they can really afford.

The ingenuity of the past thirty years has led to astonishing changes in our consumer goods. Frozen foods, televisions, and plain old toasters have been made not only more efficient, user-friendly, and varied than they were but also less expensive. And all of this was accomplished even as the products were held to increasingly higher standards of safety. But over the same period of time, innovation without sensible regulation in the financial sector has brought a subprime mortgage meltdown, credit-card contracts that have expanded from one page to more than thirty, and payday loans that charge annual percentage rates of over 900 percent. The world of physical products has become safer, while the world of financial products has become far more dangerous. That’s a problem that can be fixed.

TAX THE LAND

By Michael Hudson

To save industrial capitalism, we might begin by looking at changes sought by classical economists. Reformers from Adam Smith to John Stuart Mill to Thorstein Veblen hoped to streamline industry and increase economic competitiveness by doing away with the special privileges inherited from feudalism: namely, “economic rents” earned from longstanding land, monopoly, and banking rights. Income from these entitlements added to the cost of doing business but neither produced anything tangible nor spurred technological innovation. Classical economists contended that the tax burden needed to be shifted off of industry and labor and onto that which was taken from nature or granted by government decree—what Mill called the “unearned increment” that landlords extract “in their sleep.”

In the United States, progressive-era reforms advanced many of these ideas, and by World War I the nation was well on its way toward achieving what John Maynard Keynes would call “euthanasia of the rentier.” The federal government passed its first income tax in 1913, at a time when even more wealth than today was either inherited or derived from insider dealings. Steeply progressive, the tax was levied on only the wealthiest 1 percent of the population (households earning more than $83,000 in today’s dollars), with their income taxed at a marginal rate of 77 percent by 1918. Capital gains were taxed at the same level, on the reasoning that they added to net worth just as earnings and savings did. These policies

helped create a middle class in America, while similar measures did much the same in Europe.

But the class that Franklin D. Roosevelt called “economic royalists” fought back and over time (and particularly after 1980) reversed these progressive tax policies. The top marginal tax rate for personal income has been slashed, from a high of 94 percent in 1944 to roughly 35 percent today. Capital-gains taxes are now capped at 15 percent, and this tax is not even collected on the vast majority of real estate sales, since commercial owners are not taxed if they use their sales proceeds to buy new property. As a sop to homeowners, residential price gains have been made tax-free for the first $500,000. Rental income also has been rendered free from taxation by the accounting sophistry that property is depreciating rather than rising in value, even when actual market prices are soaring. At the state and local levels, prior to 1930 some 70 percent of public revenue came from property taxes; today, only 21 percent does, with the difference made up primarily in increased taxes on income and sales.

These tax breaks on property and capital gains, along with the tax deduction for interest payments, provide a powerful incentive for buyers to go into debt; that is, to pay mortgage interest to bankers for property they hope to sell at a gain. Thus, the income that governments have relinquished through property-tax cuts ends up being paid by new buyers to banks as interest. Rather than funding new development projects, most savings have been turned into bank loans for housing that already exists, “post-industrializing” the economy and burdening it with an overhead of non-production costs. We are far from the wealth of nations that Adam Smith imagined.

As reform-minded economists have long argued, we must tax the rentiers. Taxing their privilege would yield as much as the present income and sales taxes combined, without eating into the earned income of wages and profits. For example, roughly half of the estimated $1.4 trillion rental value of all residential and commercial real estate comes from the land on which buildings sit. The idea is to tax not the buildings but this land value—sites that are provided by nature and that increase in value incidentally when a rail line or a Starbucks is built nearby. By taxing only the land, we would no longer be penalizing new construction and would discourage speculative hoarding. Indeed, in both 2006 and 2007 the market price of land went up by $2.5 trillion. This increase in balance-sheet valuation was not earned, since landlords did not have to make an investment to create it; moreover, taxing these sites could help cover the costs of new development and would not reduce the supply of land.

A related reform would abolish the tax deduction for interest payments. In 2006, property owners paid $742 billion in mortgage interest, accounting for 84 percent of the total interest collected by the financial sector. Assuming a 33 percent overall tax rate, this deduction alone cost the Treasury a quarter trillion dollars. (By encouraging debt financing rather than equity investment, this subsidy to mortgage lenders helped fuel the real estate bubble.)

The public also should own—or at least be able to collect rental revenue on—the nation’s infrastructure and the monopolies for which only one provider makes economic sense. The broadcasting and communications spectrum is just one example of immense private wealth that has been carved out of the public domain. (As with England’s land barons, broadcasters received their right on the condition that they fulfill specific public obligations, which, over time, they came to resist.) I estimate that the broadcasting spectrum, recently valued at $480 billion, accounts for another $100 billion in free economic rent. Other privatized natural resources lose perhaps $250 billion more.

The total lost tax revenue on property, capital gains, interest, and infrastructure is likely upwards of $1 trillion, a significant share of America’s $12.4 trillion national income in 2007. Instituting these taxes on land would make it harder for property buyers to take on large loans for homes they cannot afford, a re-
Can Capitalism survive? No. I do not think it can.
—Joseph Schumpeter, 1942

The problem is not how to save capitalism but how to save the unique and successful mixed economy built in the United States over the eighty-five years since the New Deal. Our system is not capitalism. Our economy has a large public sector, which at its best was competently concerned with research, defense, financial stability, environmental safety, social security, and large measures of education, health care, and housing. Today, after thirty years of attack on government, all these functions are damaged and in peril.

In our country and elsewhere, the transition from a feudal economy to a modern one remains incomplete. Hereditary estates and monopolies still retain huge privileges; taxes on property and rents remain at historic lows. Taxing these “unproductive” incomes would help to unburden labor and enterprise, and these changes would go a long way toward fixing what ails our economic system.

PLAN
By James K. Galbraith

The rot comes from predators posing as conservatives and mouthing the rhetoric of “free markets.” They are not actually interested in free markets. Their goal is to use the government to build monopolies, to control resources, to block regulation, to crush unions, to divert as much as possible from taxpayers into private pockets. They have a reckless attitude toward war-making and they put the financial system in peril by failing to enforce standards of ethics and transparency. As a result, they imperil the country’s credit in the world. True conservatives recognize this, which is why they defected from Bush and McCain long ago.

Our postwar system was built on technological leadership, financial stability, and collective security. The world gave us credit and used our currency. Why? Because we gave it back the public goods of peace and economic progress. We were the bulwark during the Cold War. Our system wasn’t imperial: we spoke instead of community, of freedom, of common purposes and common values, and the world took us seriously because we had paid our dues.

The next successful system should be built on that model—that is, on the basis of regulated finance, collective security, and, above all, a national purpose. Since energy and climate change will dominate the global agenda for the next generation and perhaps even the following, dealing with these issues must become our generation’s purpose too. Although America is the world’s great energy wastrel, among developed countries we are the best positioned to change, to reduce our own fossil-fuel use and help the world do likewise. We have the science, the technology, the engineering, and the educational capacity to take the lead.

What we do not have is the capacity to figure out, in advance, a coherent national strategy to-
ward this goal, and for using our government to advance that strategy. We have no capacity to plan, and that is what we need now.

“Planning” has been a dirty word in American politics for decades. For the hard-line right, planning destroyed freedom: it was the “road to serfdom.” Anti-planners also thought it a failure; for them the collapse of the U.S.S.R. was due to “central planning.” But without public planning, who is in charge? Lobbyists who represent the private planning of the great corporations. The public interest ceases to exist, and the public sector becomes nothing more than a trough at which private interests come to feed.

What the government needs most today is to regain an independent capacity to think. The government needs a way to imagine the future that is not dominated by lobbies or even by Congress so long as Congress is dominated by lobbies. Planning is a process: thinking, coordination, action. What is the long-term national interest? What specific targets must be met? What is the best way to do it, and who plays what role?

For instance, carbon prices and cap-and-trade systems will help to deal with the climate crisis, but they cannot do the whole job. Markets do not design new systems—new patterns of transport and housing, new technologies for electric power, for vehicles, for heating and cooling. To design a system, to put the pieces together, to identify the most promising lines of attack and take steps to achieve them: that is the planner’s role.

Imagine a Federal Department of Energy and Climate with real independence. It could make an honest evaluation of ethanol. It could review the prospects and assess the dangers of next-generation nuclear power. It could make a judgment on carbon capture. It could consider all the serious conservation proposals, such as Joe Kennedy’s program to retrofit housing in the snow belt. It could fund new research centers in the major universities, so that in a decade the country will have trained the experts we will need to implement the plans we make.

Planning is not coercive, but it should be privileged. Once Congress approves a plan, budgeting and appropriation rules should favor public capital spending that implements the plan. For instance, such investments would not be subject to “pay-go” restrictions; as long-term improvements, they properly should be funded by issuing long-term debt. The planning process would thus parallel the budget process, superseding it in the areas of infrastructure, technology, and environmental management that would be the main arenas for the plan. Dealing with the energy and climate crises will require direct public action and the cooperation of the private sector, which will be achieved in part by regulation and standards. Clearly, the challenge is daunting. But it’s not hopeless. If the country gets it right, all of us can have work for a generation, a better living standard afterward, and leave the planet more or less intact. And in addition, we stand a chance, otherwise improbable, of persuading the rest of the world to keep our line of credit open.

For twenty-five years, our economy has

REINDUSTRIALIZE

By Eric Janszen

Here, in brief, is the state of the Union. Home sales and prices have declined more in the past year than in any year during the Great Depression. Credit contraction has spread to corporate borrowing and student loans. Unemployment is rising in every state in the nation—except for tiny declines in Arkansas, Oklahoma, and West Virginia, which benefit from higher energy and food prices but together account for only one fortieth of the U.S. population. Unemployment in California, the most populous state, reached 7 percent in June, up from 4.9 percent just two years ago, at the peak of the housing bubble. Debate continues over whether the United States as a whole has been in recession since the GDP contraction during the fourth quarter of 2007. But data ranging from retail sales to declining tax revenues serve as clear warnings that the recession may be ongoing. Evidence of economic contraction has been obscured, ironically enough, by the rising inflation that has been spurred by record energy prices.

For twenty-five years, our economy has
been dominated by asset bubbles in the finance, insurance, and real estate (FIRE) sector. But now the FIRE-economy era is over. Within two years, the United States will be in the grip of a modern inflationary depression. Look around and you can already get a sense of how it will go: rising unemployment, falling wages, rising prices. This is what happens to countries that become dependent on foreign borrowing to fund current consumption and the operations of government and that rely too heavily on asset-price inflation to produce income. As the system winds down, demand falls and purchasing power is lost. Consider what happened to Argentina: its per-capita income was once higher than that of Japan and Italy and comparable to that of France. But its economy collapsed, in part from the weight of decades of fiscal profligacy—in particular the country's dependence on foreign borrowing to finance government. Fortunately for the United States, our debts are long-term and owed in our own currency; our creditors, now largely foreign central banks rather than private institutions, can merely manage the dollar down, as has happened since 2002, with the dollar depreciating more than 39 percent. Call the process Argentina Lite.

Rather than allowing our government to engineer another bubble (all our bubbles since the 1980s have involved the government creating—through tax subsidies, loan guarantees, and loose regulatory policy—an initial market for speculation that then metastasizes), we should use the government to lay the foundations for a reindustrialization of America. We can do this in two ways. First, get government out of the way of the way of progress by removing subsidies for uncompetitive companies. We can’t expect private capital to compete with, for example, the current proposed $95 billion tax break for the dinosaurs of the American auto industry. Second, and more important, we should remove government subsidies of FIRE industries. This means not just ending the mortgage-interest deduction but also breaking up Fannie Mae and Freddie Mac into parts and selling them on the open market. By removing our structural support for the FIRE sector, we would free up billions of dollars of capital for both the private and the public sectors.

That capital, in turn, could be invested in American infrastructure. We need high-speed railways, ubiquitous high-bandwidth wireless, and nuclear energy, but we currently have a dysfunctional market dynamic that is stopping us from making these improvements. It’s a chicken-and-egg problem: private industry can’t bring more efficient cars (say) to market without significant infrastructure funding to build alternative fueling stations, but meanwhile the delay in these technologies prompts the government to lavish ever more money on the old, inefficient industries in order to preserve jobs. To break that cycle, we need government to actively envision the infrastructure projects we need and then arrange their funding by private investors as well as by public money. The right approach here is one that has already been used to great success in Europe: “public-private partnerships”; i.e., corporations owned partly by private investors and partly by the government, created for the purpose of developing and executing large-scale public works. For each major project announced by the federal government, multiple public-private partnerships could bid competitively for the business (much like prospective Olympic host cities do). Progress on projects, public information reported quarterly, would create incentives for efficiency through the stock price. The best PPPs would be rewarded with the highest stock price for producing the best infrastructure “product” on time and on spec.

Once a bid was accepted, individuals could invest money in the partnerships directly, in a fashion similar to how the Treasury Department and certain states (Massachusetts and California) currently sell bonds to Americans over the Internet, cutting out rent-levying banks. Moreover, citizens’ federal taxes could be deferred, up to a limit, so that they could purchase infrastructure securities. These securities would become a bedrock investment for
Here’s the thing about “capitalism”: in our fixated belief that it represents the way God ordained the universe to be, we forget what powers it. I don’t mean the invisible hand—I mean the coal, the gas, and the oil.

Keynes once tried some back-of-the-envelope calculating to see how much the human standard of living had increased between 2,000 B.C. and the beginning of the eighteenth century. Maybe, he said, it had doubled over all that time, mostly because we had learned very little new—we had fire and wheels and banks and governments and livestock and sails before history was ever recorded. But then we did learn something new. We learned how to take fossil fuel buried beneath the ground and use it to create power, giving each and every one of us (in the West, at least) the equivalent of a few hundred slaves. And so, for a time, we doubled our material standard every few decades.

That time may be coming to an end, because fossil fuel is coming to an end. We’ve got a million equations to explain how to make the economy work, but those equations rest on all that coal and gas and oil. The gas and oil are getting scarce, as anyone who drives by a gas station can see: with supply plateauing and demand rising around the world, the price just keeps shooting up. And if we’re smart, we won’t use much more of the coal, because the carbon it contains is more than enough to once and for all unhinge the planet’s climate. You can see the systems of our economy starting to shudder and lurch—the airlines, say, trying to cut the number of flights by 10 and 20 and 30 percent in a year because their oil costs are spiking much faster than they can raise fares.

It’s not just around the margins that the system is beginning to buckle. It’s right at the core, with that most important of commodities—food. We used oil to replace human labor on the farm. Instead of half of Americans growing food, we now have far more prisoners than federal and state governments, which at present have trillions invested in U.S. Treasury bonds: these infrastructure securities would earn a better rate of return at only a marginally higher risk, and a shift toward them would allow the United States to pay down its debt more productively.

Finally, funding of these infrastructure projects would enable thousands of new private companies, whether bootstrapped by entrepreneurs or backed by venture capital, to develop new technologies. New, organic light-emitting diodes that produce as much illumination as current sources with one tenth as much energy; ceramics that allow next-generation nuclear reactors to run safely; biotech-modified microorganisms that convert nuclear waste into harmless materials; nanotech paints that reflect sunlight to make the insides of cars cooler—the list is endless. Such new American technologies would be in demand worldwide, exports would boom, and within ten years the U.S. current-account deficit would reverse. Instead of creating asset bubbles, the nation that invented the Internet—with the help of government, as one must always remember—would finally invent a New Economy deserving of that name.

LOCALIZE

By Bill McKibben
farmers. But farming without farmers requires vast machinery, incredible amounts of natural-gas-based fertilizer, and a globe-spanning transportation system that makes sure your dinner arrives marinated in crude oil.

If the logic of a cheap-energy world has been relentless globalization and specialization, the logic of a post-oil planet points in the other direction: toward increasingly localized economies. Let’s think about the opposite of a huge corporate farm growing soybeans on massive government subsidy to satisfy its pension-fund owners and its ADM overlords. Let’s think instead about a farmers’ market. It sounds quaint, but farmers’ markets may be the fastest-growing part of the American food economy. Sales are rising by double digits every year, and the number of such markets has doubled and doubled again in the past decade (increasingly, even in northern climates, they stay open through the winter, as local farmers start growing more cold-hardy crops). For the moment, some foods are more expensive at farmers’ markets—noticeably meat, because we’ve gotten rid of all the small-scale slaughterhouses around the country. But it’s easy to imagine redirecting government subsidies away from corn syrup and toward sweet corn, away from 500,000-head swine operations (one in Utah now produces more sewage daily than Los Angeles) and toward mobile butchering units.

But already the food at the farmers’ market is fresher and tastes better than the stuff at the supermarket; already it’s better for your body (which in an era of out-of-control medical costs should count for something). And already there’s a key comparative advantage that’s related not to the product but to the process: the farmers’ market is fun to visit. A couple of years ago, a pair of sociologists followed shoppers, first around a supermarket and then around a farmers’ market. They found that at the latter, shoppers had ten times more conversations than at the Piggly-Wiggly. Which brings us to the other defect of the cheap-oil economy we’ve built: it has made us the first people on earth who have no need of one another. Everything we buy comes from an anonymous distance. We eat far fewer meals with family and neighbors than we did fifty years ago; we have on average far fewer close friends. The basic premise of the American economy—that the goal was a bigger house farther apart from other people—turns out to be mistaken, both ecologically and psychologically.

The cold economic logic of the world now dawning is that a relocalization must happen, one way or another: fossil fuels are becoming too expensive for it not to happen. But we can make this process work much more easily. We can subsidize small farms and rooftop solar panels and bus systems. More fundamentally, we can make the cost of energy reflect the damage it does. A strong cap on carbon would steadily and systematically drive up the price of coal and gas and oil, and hence hasten the switch away from them. We’d need to do it in such a way that it wouldn’t beggar the populace—indeed, wise minds have come up with all sorts of formulas to rebate the proceeds of any such indirect taxes to poor and middle-class citizens. But in essence it would drive us toward farmers’ markets, for economic reasons as well as for warm fellow feeling. To a large degree, this is exactly what European countries did after World War II when they enacted stiff and permanent taxes on fossil fuels. It helps explain why our landscapes look so different, and why Europeans perceive the quality of their lives to be higher even though they have less disposable income.

The only thing we’ve asked of our economy for a century has been growth, and it’s gotten us in a world of trouble. Now we need to demand a little durability and a little satisfaction too. We need—to spin a phrase the fantasists of endless growth abhor—a mature economy.