

# **Letters to President-elect Barack Obama**

**a dialogue to solve the economic dilemma as  
the U.S. begins a new administration**

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**The Global Political Economy Commission of the  
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# Economic stability and instability: a prologue to the Obama victory

The inherent stability of a gift economy and the instability of our economy

October 1, 2008

I have lemon trees while my neighbor Sergio has grape vines. I give Sergio lemons just about all year because my lemon harvest is nearly continuous. He lives on a small pension and cannot afford to buy lemons. Sergio knows how to make a drink called *chicha*. It is like an incomplete sweet wine. Like the potato and the Swiss chard, it lends itself to a local economy, since it does not easily travel long distances or wait long times. When you put it in a bottle, you have to put a hole in the bottle cap to let air in. You have to keep the bottle upright. Sergio gives me *chicha* when grapes are in season.

There is no reason that our gifting pattern cannot go on as long as both of us live. As long as my trees produce lemons I will have something to give. As long as I have friends, they will keep giving me something or other.

Let me now flash back ten years to one of my former existences as a lawyer in California specializing in bankruptcy. I had a client named George who owned a wholesale fruit and vegetable business. He came to me because his business was as he put it “upside-down.” He claimed to be sure that if I could work out a compromise with his creditors so that he could get “right-side up” by paying them dimes on the dollar, then he could run his business forever after so that it would never again be “upside down” and would always be right-side up.

What George meant by upside-down was that his accounts payable exceeded his accounts receivable. What he meant by right-side up was a condition he considered normal. He meant receivables exceeding payables. All my clients wanted what George wanted. They wanted their receivables to exceed their payables.

Indeed every firm and household in the world wants what George wanted. If they do not get it, they become unstable, as George’s fruit and vegetable wholesale business became unstable, prompting him to make an appointment with a bankruptcy attorney. If we can wind back our clocks and calendars to think not about the stage when business people came to my office, but about the time when a business begins, if the founders of the business do not expect to get it, they do not start the business; they lack confidence. As John Maynard Keynes eloquently demonstrated in his book, *General Theory*—an economy runs on confidence.

I give Sergio lemons. He gives me *chicha*. But, to make our system work somebody has to grow something sweeter and brew something stronger. Millions of firms and households have to believe that normally they will be right side up. They have to believe that being upside down is a passing aberration that will go away some day if they just keep investing, advancing operating funds, consuming, etc., and in one word: buying. Confidence is supposed to create jobs. Thus, when Sergio brews his *chicha* or I prune my lemon tree we no one presumes that we have jobs because nobody hired us; indeed according to some economists we are not even producing anything since in their theories, production only exists when its object is sales.

There is no honest way to brew the confidence the system needs. The reason is that one firm’s receivable is another firm’s payable. To promise them all that they will all be right-side up is to promise a mathematical impossibility.

It is impossible to have a normal economy when you define normal as a stable relationship with the biosphere in which all the juridical subjects inhabiting it own receivables exceeding their payables. For this reason, our system cannot possibly become stable. Its history shows that it never has been stable. The rules by which it operates imply that it never can be.

Some people may still remember, contrary to what I just heard a liberal economist imply on CNN, that Roosevelt's New Deal measures did not end the Great Depression, World War II did. After the war, the Keynesian "priming of the pump" in fact did finally end the depression, mainly by continuing the government spending to promote consumer purchasing power that had begun during the war. It worked more or less until about 1980. Since 1980, the economy has experienced an ever-growing speculative bubble.

Now people are calling for more regulation of financial markets to stop the making of unpayable loans. From now on federal regulation is supposed to assure that lenders and their associates will allow and make safe loans—exclusive of risk. Thus, only people who can afford to repay will have the ability to borrow. Regulation will supposedly bring us back to normal.

There is no normal. What do normal people expect to attain by undoing the de-regulation that brought us a stock market with previously unheard of ratios of share value to company earnings? What do normal people expect to attain by a never-ending series of employment opportunities in a financial services industry producing a never-ending series of exotic promises to turn money into more money? Are we going to turn back the calendar to the Keynesian policies before 1980 or 1973? Does anybody remember that we abandoned those policies because they led to stagflation, and that we hailed Ronald Reagan's getting us on the road again as the solution to what were then our economic woes? Are we going back to the war economy of World War II? Yet, today we are already in a war economy and, so, we are already doing what wars do to end depressions, namely running up huge debts. Are we going to go back to the Great Depression and vindicate again Roosevelt's policies of the time? But, a depression is what we are trying to avoid by the measures being taken to promote confidence. Was the 1920s the "normalcy" to which we aspire, or was it part of a series of booms alternating with busts that goes back to the 18<sup>th</sup> century? History suggests an affirmative answer to this question, and logic compels it.

A gift economy is inherently stable. The system we have is inherently unstable. The system we have is what Aristotle called chrestomathy: a game in which all the players try to trade their chips in such a way that their receivables will exceed their payables.

I am aware that Leon Walras, updating Say's Law, thought he had demonstrated that a general equilibrium was mathematically possible in which all goods produced would sell at cost-covering prices. But, I agree with Keynes that if such a possibility exists it is logically a special case (that is why Keynes called his book, *General Theory* to distinguish it from a classical theory that applies only to the special case). Historically, the special case is rare and fleeting. I am also aware that some people use Keynes himself to promote a theory of endless growth in which everybody makes profits because the products for sale keep increasing in quantity and value and the money supply is managed to correspondingly expand to reflect an expanding real economy. Keynes himself never claimed that Keynesian policies either of the "priming pump" or of the endless growth kind would work for the long run. He did not know what would work in the end. When the Age of Keynes ended around 1980, the world did not turn to any new solution to the problems he posed, but rather to old-fashioned free market fundamentalism. It had failed before, and it was inevitable that eventually it would fail again.

I am not a pessimist. Although this brief didactic piece may give the contrary impression, I am not a simplifier. All the simple solutions have been tried and found wanting, and all the possibilities left are complex. Although I endorse the gift economy and Riane Eisler's concept of a caring economy as the right fundamental principle, and as an indispensable ingredient of

the complex mix needed, I do not believe it (I regard the two as one) will work without being integrated into older traditions of social democratic economics. Even though it is simple enough to keep giving Sergio lemons, and even though I think doing so is a meaningful gesture worth writing about, I do not think individual gift giving is all that the world needs to make it work. Let me be clear too that I do not believe that the ATTAC, or the Nation Magazine, or Joseph Stiglitz, or Mohammed Yussuf, or George Soros, or plans for worker ownership of industries offer more than steps in the right direction. People who want to know my ideas about how to transform the basic structures of the modern world in order to make them work for everybody in harmony with nature will have to break down and read the books I have written and published. All the ideas and methodology are there within the books and do not improve by repetition.

Peace and all good,

Howard Richards, October 1, 2008

# Understanding our deal letter 1

November 6, 2008

Dear President-elect Obama,

OK Barack, this is me speaking. I am one of the 52 million people who voted for you, one of the three million in your database who contributed small amounts of money to your campaign. Do you remember me?

I am writing to make sure that I understand our deal. I watched your acceptance speech at Grant Park in Chicago. I watched many of your speeches. You said together we are going to transform America and the world. Is that right? We are going to transform not from the top down but from the bottom up. Did I get that right? And, that it won't be you who will transform America, but *we*. Is that the deal? You are calling for a spirit of service and sacrifice. That's what I heard.

In a speech to financiers on Wall Street, you said the economy has a higher purpose. The higher purpose is that we are all in this together. From time to time, we change the rules of the economic game to make the economic machine serve its purpose better (I read the speech on your web site). Your Wall Street friends voted for you even though you told them you would raise their taxes. That sent a message.

So then, here is my conclusion, my message: I am not supposed to be just watching TV waiting to see whom you will name to cabinet posts. I am supposed to be out on the street transforming my town and neighborhood. Is that right?

This afternoon I will donate twelve bottles of cooking oil to our neighborhood food pantry. I will talk up cooperation. I will also work on changing our irrigation system from spray to drip, which helps the environment by producing more food with less water.

I will copy this to my lists of transformers. If I am missing something or if I have misunderstood something, then I hope someone will set me straight.

Peace and all good,

Howard Richards, November 6, 2008

# To Barack from the global south: letter 2

November 8, 2008

Dear President-elect Obama,

OK Barack, I sent out a thousand copies of my first letter to you. Several friends responded by correcting my number: You got nearly 65 million votes, not 52 million. Nobody questioned the concept, which I propose, that together we are going to transform civil society. In the campaign, your opponent sang the rancid old Republican theme song: Get the government off our backs. He repeated the perennial liberal utopian ideology: He assumed there is nothing wrong with civil society. He said that too much government is the problem and less government is the solution. You put together phrases from Lincoln, Roosevelt, Dr. M.L. King Jr., JFK... stirring old roots with Spring rain. You emphasized some relatively new dimensions: bottom up, service, transform, higher purpose, save the world.

Some people say you won our votes by appealing to our emotions, and then less than 24 hours after the polls closed confirmed that although your words expressed crowd-pleasing sentiments they referred to nothing concrete by the fact that you appointed a no-nonsense conservative Democrat as your chief of staff. I say that behind the emotion there is the outstanding conceptual thread of transforming civil society.

People are as ecstatic about your victory in Asia and Africa as they are in Chicago and Los Angeles because you touched their hearts with a dream of change. Although you are legally the president-elect of the USA, and only in some people's imagination the president-elect of the world, you are for billions—the incarnation of hope. The world's billions may harbor an enthusiasm that has no clarity; but, what they feel in their hearts is very clear and practical.

You made a promise in your campaign that John McCain did not understand. You are not the tax and spend Democrat he was attacking. Thus, Amitai Etzioni aptly refers to you as a communitarian. Change and hope have an operational meaning above and beyond Rooseveltian social democracy: above and beyond stronger government, above and beyond defending the economic interests of the middle and working classes, and above and beyond reversing the dismantling of the welfare state. They mean a groundswell of social responsibility in the private sector; they mean a culture shift. Without the second, the first is unfeasible. Without the transformation of civil society, change and hope will deflate to gas-less plastic balloons.

I appreciate the difficulty of keeping track of your 64 million electors and your three million contributors, even though you have promised to listen carefully to what we have to say. I imagine myself as number 32,641,211 among the electors and number 1,025,986 among the contributors. If you look up number 1,025,986 on your database you will find a California address, but actually, I am an expatriated yank. I live on the continent of hope: South America and vote by absentee ballot. Usually, I vote for third-party candidates. I made an exception in your case because your background as a community organizer suggests that you would know in practical terms what it would take to give concrete meaning to your words. I thought that someone who had imbibed anthropology with his mother's milk, and who had lived as a child in Indonesia, would be capable of rising above the ethnocentrism of his father's profession. I



thought that you could facilitate turning the culture shift that the masses vaguely dream of and desire into an operational reality. I thought the other world that is happening at thousands of sites around the planet would find in Barack Obama a leader who symbolized it and understood it because of his personal history.

Today I went to a meeting. You know about meetings. Participation sounds good but meetings are, well... er... indispensable. If you cannot endure the boredom and petty quarrels that typify the average meeting, you cannot change the world. You are like a soldier who flunked boot camp.

Today's meeting was better than average. It was at the office of our communal union of neighborhood councils. Our little town of 40,000 people splits nicely into 52 neighborhoods, each with its council. On the pretext of preparing for the impact of the world financial crisis, and taking advantage of the opportunities created by our recent success in electing a new mayor with new ideas (a gay man who won in spite of homophobic propaganda against him) we are doing what we should be doing even without the crisis and the new mayor.

Every neighborhood will have a community food pantry run by volunteers, through which anybody who is unemployed can earn food by community service. We are not giving anything away. Those who do not succeed in selling their labor in the labor market work for the local community and the local community pools resources to make sure they survive. We have already organized food security in one neighborhood, and now we are extending the practice to other neighborhoods.

Next time you are in Argentina, you might consider visiting Cordoba or any of several other cities to see ABC (*Abastecimiento Basico Comunitario*). It is a project of the National Institute of Industrial Technology headed by my friend Enrique Martinez. His proposal is that at the neighborhood level, every Argentine have assured adequate nutrition, primary health care (at the neighborhood clinic), and housing. Then let the storms brew as they may at the level of the national economy and the global economy. Please see [inti.gov.ar](http://inti.gov.ar).

More about this will come later. I aim to contribute to the transformation of civil society in the North by making better known some of the seeds of transformation that are already germinating in the south.

Peace and all good

Howard Richards, November 8, 2008



# ABC and ABCD

## letter 3

Nov 11, 2008

Dear President-elect Obama,

OK Barack, it is me again. Here is a question I want to ask you. When you were a community organizer in Chicago, did you ever meet John McKnight and Jody Kretzmann of Northwestern University? [sesp.northwestern.edu/abcd/](http://sesp.northwestern.edu/abcd/). According to the media, you learned some of Saul Alinsky's organizing methods (as did I via Cesar Chavez, who received training from Fred Ross, who received training from Saul Alinsky). Did you become familiar with the less confrontational and more communitarian approach of John and Jody?

This topic comes up because my previous letter sparked interest among readers in Enrique Martinez' vision of food security, primary health care, and housing, which is assured for every Argentine at the neighborhood level, known as ABC— *Abastecimiento Básico Comunitario*.

People asked me where they could learn more about ABC because very little is written about it. There is a chapter about it in a book published in 2007 by the Faculty of Agronomy of the University of Buenos Aires—*Hacia un Nuevo Pacto Social en el Agro*. There is a note about ABC on the INTI website, where there is also a Spanish translation of my paper "Vision of a World without Poverty or Economic Insecurity," which was earlier published in English in *Acorn*, the Journal of the Gandhi-King Society and included as an addition to my book *Understanding the Global Economy* (Peace Education Books 2004). I think my paper expresses INTI's ideas as well as mine since they took the trouble to translate it and upload it to their site [inti.gov.ar](http://inti.gov.ar). My reference is to Enrique's idea of assuring food, primary health care, and shelter in every barrio. His ideas are based on what he told us (rather than a text) at a seminar we presented concerning a methodology for social change at the home of our friend Hugo Arce who teaches economics at the University of Buenos Aires.

John and Jody (and hundreds of collaborators) have invented ABCD. It is similar to ABC and has extensive documentation in English. You can preview their book, *Building Communities from the Inside Out: Finding and Mobilizing a Community's Assets* and buy it from ATLA publishers in Chicago. The book include video. You can sign up for trainings, led by their collaborator Mike Green, at [mike.green.org](http://mike.green.org). Several Earlham College graduates are using ABCD as we speak.

ABCD stands for Asset Based Community Development, invented in Chicago as a response to globalization. Industry had moved to low wage sites in the third world. As a result, most of Chicago had become, in US sociological terms, an *inner city*. As Earlham economics professor Jonathan Diskin once said, "An inner city is a place where there is little or no investment. The standard game of civil society has been lost." That is to say, there are no moves left in the standard game of attracting investors to create jobs. The city is in constant stalemate or checkmate. The residents have no recourse but to make a living by selling personal services to each other, welfare, retail sales to fewer and fewer customers. They are left to government employment, missions and agencies, jail (at least they feed you there), rehab (at least they feed you there), joining the military (ditto), a variety of illegal and semi-legal rackets, and new careers in security and law enforcement spawned by the need to protect everybody from everybody else.

In a Chicago decimated by globalization, the members of an inner city church met to deliberate two questions: Shall we close the church and move to the suburbs? Or, shall we stay here and resurrect our neighborhood? They answered the first question—no, the second question—yes. Thus, ABCD was born.

ABCD starts with taking inventory of (mapping) a community's assets. In the adaptation of ABCD we used in the Roman Catholic archdiocese of Los Angeles, we called the assets *gifts*. As our motto, we said, "Building community is the process of connecting gifts." Everyone has gifts. Busy professionals who have no time usually have money to give. There are gifts of the heart, such as the enjoyment of cooking, gardening, caring for the elderly, working with children, and so forth, gifts of the hands, such as repairing TV sets, playing the guitar, fixing roofs, etcetera, and gifts of the head, such as languages, accounting, engineering, law, etcetera. Institutions have under-utilized assets, such as the church building that is vacant every day but Sunday, or a vacant lot belonging to a hospital that could become a community garden. Sending the Boy Scouts or the Girl Scouts out to map a community's assets may not seem like a method for changing the world. However, a little reflection will show that it opens the way to a constructive and open-minded rethinking of the basic rules of the economic game. ABCD is a different approach.

ABCD is other than what Fernand Braudel called traditional material life. It is other than extended peasant families who raise animals, crops, and occasionally sell a pig at the fair and immediately use the proceeds to buy goods that they do not produce themselves. ABCD goes beyond a money-based exchange society where one must have money to obtain the necessities of life, where everybody has to sell goods or services to survive, which is the type of civil society whose limitations led Hegel to postulate the need for a higher ethic in a public sphere.

ABCD is more than the extended exchange society (following Karl Marx) in which decisions to initiate production depend on the investors' confidence that the products will sell at prices that cover costs and assure profits. Meeting human needs, if it happens at all, might occur as a by-product of turning money into more money. Today, economists and non-economist alike refer this type of society to as the economy. Governments now throw huge sums of money at this economy in a desperate attempt to restore confidence. By the way, the analysis of the concept of confidence is a twist due to Keynes, not Marx.

The philosophy of ABCD contrasts that of a typical welfare state in which there is a needs assessment, which shows a need for clean and adequate water, for low cost housing, for safe streets, etc. followed by public policies, plans, programs, projects, and missions designed to meet the needs of the target population. Thus, ABCD contrasts the planned, central command economy of a welfare state. ABCD represents a higher form of pragmatism. It mobilizes the persons-in-community as resources to meet needs, employing elements of 1 to 5 above, and also elements of 6 to the  $n^{\text{th}}$  not shown, employing what works, discarding what does not work. As John and Jody say, institutions should work to serve communities.

How could all of this have started in Chicago, the same Chicago where Milton Friedman taught his theories of free market utopia at another university a few miles to the south of Northwestern? Meanwhile, did a young community organizer, a worshiper in a socially conscious congregation, a law professor, a state representative, and a Senator from the State of Illinois know nothing about that? It seems unlikely to me, which prompted me to ask you whether you had ever met John McKnight and Jody Kretzmann. Notice, though, that I put my question in the past tense. I no longer need to ask the question because I learned from a little sleuthing on the internet that you did know John and Jody, and that John McKnight wrote a letter of recommendation for you when you applied for admission to Harvard Law School. Small world...

Peace and all good,

Howard Richards, Nov 11, 2008

# The short-term and the long-term letter 4

November 14, 2008

Dear President-elect Obama,

OK, Barack, I admit that I am one of the millions of people who wish they knew how to read your mind, and I admit that my brother Ken is probably not as good at it as your wife Michelle is, but I think he has an inside track; so, instead of using my hunch I will adopt his guess. Ken has some professional political experience and some high-up contacts, thus I believe he can assess what you are probably thinking more accurately than the uninitiated, with the possible exceptions of those who happen to live in Illinois or Hawaii. Yesterday my brother expressed the opinion that your mind worries largely about two questions:

First: How can we save people's 401(k) plans and other retirement assets invested in stocks, assets that lose value when stocks lose value? Second: How can we save the American automobile industry?

One might say—I know people who do say—that until these and other short-term issues that make up the current economic crisis are resolved, the Obama administration will not be able to turn its attention to the long-term and its issues. Indeed, you did say—I watched you say it on television—that before implementing some major parts of your program we need to get past the current crisis. The same day, yesterday, the day my brother expressed an informed opinion concerning what is on your mind, the Secretary of the Treasury, Henry Paulson, reported on what his office is doing to restore confidence in the economy. Treasury Secretary Paulson's office is doing two sorts of things:

1. It is providing cash to banks and other credit-granting institutions. For example, it has bought preferred (non-voting) stock in banks. The bank gets the cash and the government gets a right to dividend payments in the future. 2. It is the guaranteeing of loans.

The rationale is that if credit-granting institutions have more money and/or run less risk they are more likely to make loans. Then people can borrow more easily to meet payroll, to buy an automobile, or for any business or consumer purpose. The Congress has already:

3. Put more money into the pockets of consumers with tax rebates and tax cuts. The rationale is that the consumers will spend their money buying products, thus making it profitable to produce them. To build upon what my brother guessed was most pressing on your mind yesterday, I suspect that you are thinking of three other ways to stimulate the economy:

4. Subsidies for the automobile, green technology, and perhaps other industries

5. Incentives to produce in America rather than overseas, and

6. Massive public works, for example hiring the unemployed to plant trees.

Behind all of these measures is the assumption that the economy runs on profits. When business stops being profitable it stops running. The government then takes measures to restore profitability, in order to restart the economy. Even means #6 is about restoring profitability insofar as it expects the workers employed on public works to stimulate business by spending their pay.

Let the previous serve as an executive summary of the sorts of measures generally expected to get us past the crisis. An element missing in the public debate about these measures is the need for a paradigm shift.

Those who doubt the following should check it out for themselves; the posts on anti-Bush web sites, blogs, and list-serves and eloquent print prose pieces in Nation magazine, articulate many arguments in favor of putting money into the pockets of ordinary people and rescheduling their debts to save their homes. They condemn spending billions to bail out the wealthy. They argue that people-oriented stimulus packages are more equitable and effective. But, there none of these pundits question the paradigm that makes the ineffectual policies occur. We all take for granted that the objective is to generate economic activity by making it profitable.

My humble suggestion is to walk on two feet. One foot moves to restart the economic machine by restoring confidence (not because it is an ideal economic machine, but rather the one we have). The other foot moves to diversify the economy, freeing us from our excessive dependence on expectations of profit to motivate production and distribution.

Don't wait. Don't wait to get past the crisis and then start the transformational agenda. If we wait for stimulus packages to restore investor confidence (if they ever do) if we wait for gradually rising rates of employment to re-integrate society—we will have waited too long. We need to pick up the slack ASAP using civil society efforts and public efforts along with private-public partnerships. A world full of loafers, part-timers, and of people a bit better off who fear crime and despise the loafers and part-timers, is a world that will generate strange and violent ideas. Before government policies bring about economic recovery, (if they ever do) the culture war will be lost. People will hang on to every word Rush Limbaugh speaks. They will be attracted to the worldview of Fox News. In a best-case scenario, their arms will bear tattooed images of Sarah Palin; in the worst case, the image will be a swastika.

These considerations lead to a renewed appreciation for the work community activists do, not only because they achieve material goals such as decent housing and food security, but also because they engage people in constructive activities. As Cesar Chavez frequently said, "Organizing, means giving people something to do." A disorganized unemployed population passively waiting month after month for someone to bring them employment is a dangerous population.

Peace and all good

Howard Richards, November 14, 2008



# Obama and the new economic paradigm

## letter 5

November 22, 2008

Dear President-elect Obama,

In your speech today, you said, “In these times of crisis, we have acted boldly, bravely, and above all, we have acted together.” You went on, “That is the chance our new beginning now offers us, and that is the challenge we must rise to in the days to come.” The phrase “above all together” expresses the reason why I voted for you. Your frequent use of this *ubuntu* rhetoric keeps hope alive that you are open to the required new paradigm.

New paradigm: What makes it new is that, in contrast to economics, it works with human nature as biologists and anthropologists have discovered in their respective fields. Economics is the old paradigm. In the new paradigm, economics does not become forsaken. Newton’s physics includes it, as does Einstein’s physics. What makes it a paradigm is that it governs the nominal level of measurement, defining the objects to which mathematical calculations are applied.

Required: What makes it required is that turning back the calendar to the progressive policies of FDR, Harry Truman, and Jimmy Carter or ditching the neoliberal economics of the day and returning to the centrist economics associated with such names as Paul Samuelson, Joseph Stiglitz, and John Maynard Keynes—will not work. There are reasons why free market fundamentalism triumphed in 1980 and stayed in vogue until November 4, 2008. One of the reasons, perhaps the most central, is that in the late 1970s, Jimmy Carter’s policies did not work, nor did similar policies in other places. Centrist economics do not work well in the long term.

Instead of solving the unsolved problems that tanked progressive politics in 1980, the world returned to old-fashioned free market fundamentalism. Everybody with any sense knew that inevitably free market fundamentalism would fail; it failed in 1873 and 1929; it would fail again. Therefore, today’s question is not, how do we get past the crisis and bring capitalism back to normal. The question is how do we make feasible the good intentions of the Jimmy Carter’s in the world. In other words, the question is how do we overcome the structural obstacles that made West European social democracy and its analogues elsewhere stop in its tracks, reverse engines, and then decline?

We do not answer today’s real question by demonstrating the errors of free market fundamentalism. We do not answer it by advocating the standard progressive politics and centrist economics of the past. We do answer it in practice by transforming the structures that create the obstacles that brought social democracy to grief. In other words, we answer it by transforming civil society. Note: readers who find the preceding paragraphs mysterious may wish to use the Internet to look up the *ubuntu* • nominal level of measurement • Thomas Kuhn • *Dilemmas of Social Democracies*, • Amartya Sen, and • *socioeconomics*.

I spent today trying to cooperate with what I take to be your best thinking. I made an exception to my vegetarian principles by donating chickens to a chicken-dinner fund raiser for a local corps of hospital volunteers known as The Ladies in White. I believe that today’s immediate priorities include keeping the hospitals running; they also include making sure everyone has at least one balanced meal a day, a place to live, and something to do.

Howard Richards, Peace and all good—November 22, 2008

# Creating jobs

## letter 6

November 24, 2008

Dear President-elect Obama,

Contrast what the media portrays as an overwhelming urge to take prompt and bold action to restart the economy of the United States, even in the absence of rational grounds for believing that the actions taken will lead to the results desired. Contrast that with our town's systematic creation of five kinds of jobs, which are: 1.) Employment in for-profit business 2.) The people's economy 3.) Public sector work 4.) Working for non-profits, and 5.) Community service jobs.

Our aim is absolute zero unemployment, and history and anthropology teach us to believe that there must be a 6th, a 7th, an 8th and an 'nth kind of job. Here and now we are concentrating on the five just listed. The term *here* in a narrow sense refers to a town in Chile with a newly elected mayor and city council. They have been studying the social innovations that are so plentiful in South America. I will be drawing examples to illustrate our thinking especially from Argentina. The term *we* includes both them and your faithful correspondent, who is one of their academic advisors. The term *now* officially begins on December 6, 2008, when the new city officers begin their four-year terms.

### 1. Employment in for-profit business

In our town of a new economic paradigm, we will concentrate on small businesses because they generate the bulk of employment. (I will write letters later about big business and about the social functions of profit.) We will continue to back entrepreneurs. Like Joseph Schumpeter and the early utopian socialist Saint-Simon, we regard the entrepreneur as a member of the productive classes. We add a fifth factor, *organization*, as contributed by the entrepreneur, to the classic trio of factors of production—land, labor, and capital—and to a fourth factor of *knowledge*, added later.

The Municipal Bank of Rosario, Argentina is an excellent example of local government supporting for-profit business and, thus, jobs creation. That bank's Mission Statement and Charter provide that the bank's function is to serve small business and micro business in the local area. Please see [bmros.com.ar](http://bmros.com.ar).

The Municipal Bank of Rosario does not manage footloose money that roams the globe in a constant quest of the fastest way to make itself fattest. It manages money tied to one place, Rosario. When the Argentine economy collapsed in 2001, the Rosario branches of foreign commercial banks closed. They were there for one reason: profit. When there were no profits that they could make, they had no reason to be in Rosario or in Argentina. They left. The Municipal Bank was there for another reason. It stayed open. It bent every rule in the books to make bridge loans so that its small business clients could meet payroll, save jobs, and survive.

In addition to standing by its small business clients in times of crisis, the Municipal Bank backs entrepreneurs (and through them creates jobs) in many other ways. In its auditorium and meeting rooms, it runs business seminars. Entrepreneurs and would-be entrepreneurs learn of new opportunities, of new legislation, and of new research findings. Hands-on classes teach them skills.

The Municipal Bank uses the information technology expertise it acquired managing the accounts of the city government to help its small-business clients calculate payroll deductions, fill out tax returns, prepare balance sheets, and track progress with management information systems. Entrepreneurs have more time to lead their businesses because the bank's computers do the routine paperwork for them. They can pay their employees with a single deposit or transfer. The employees can withdraw their pay from one of the Municipal Bank's ATMs.

The profits of the bank go to the Municipal Bank Foundation, which gives grants to local musicians and artists. This recycling of profits creates employment in the arts. The Foundation also supports studies on solid waste disposal, housing needs, air quality, public transportation, and other topics of local interest. To some extent, the funds granted by the Foundation to do studies create jobs for scientists, but for the most part the grants only cover costs while the scientists voluntarily donate their time to public service.

## 2. The people's economy

The people's economy creates jobs that do not exist in the for-profit economy. It is defined by the Argentine socio-economist Jose Luis Coraggio (holder of a doctorate from the Wharton School and director of the Graduate Program in Social Economics at General Sarmiento University in Buenos Aires) as an economy where the principal resource is labor and the principal objective is to make a living. Coraggio contrasts it with the larger scale more heavily capitalized and more technologically advanced economy where the principal resource is capital and the principal objective is profit. [coraggioeconomia.org](http://coraggioeconomia.org)

The workers in the people's economy are self-employed, whether as individuals, as partners, as members of cooperatives, or as associates in micro-enterprises. We calculate that about 26% of the jobs in Chile are in the people's economy. Many of them are in mom and pop tiny businesses that barely generate the equivalent of a wage and never generate anything that one might call a return on capital.

In Argentina today, some 300 enterprises that used to be in the for-profit sector are now in the people's sector. They failed to survive as profit-making businesses, but their workers keep them going anyway. They generate enough income to make it possible for the new worker-owners to make a living.

We believe the people's economy deserves the support of the for-profit economy; it sometimes gets it. For example, at the premises of the Chamber of Commerce in Rosario major corporations provide training and equipment for women starting self-help micro-enterprises.

We believe the people's economy deserves the support of government. In Chile, the national government has a program that favors making government purchases from the tiny firms. Like Coraggio, we place the tiny firms in the category of the people's economy. [chilecompra.cl](http://chilecompra.cl)

We believe the people's economy deserves the support of volunteers. I doubt that any of the 300 new worker cooperatives in Argentina could have survived without the volunteer help they received from engineers, lawyers, and accountants—many of whom were associated with universities, political parties, and/or churches. Many retired business people around the world regularly help to people who are struggling to get started in the people's economy and/or in small business.

Among the plans we have for supporting the people's economy in our town are deliberate support for traditional family businesses now on the wane. For example, some beleaguered ones have been making fruit jams and/or raising chickens for generations, which we believe could thrive in today's environment with support from a sympathetic municipality and its associated citizen's movement. We have a plan for city certification of the purity and authenticity of traditional herbal



medicines, which people produce (and could produce more of) on small plots within the town's limits. (Chile is divided into towns as Connecticut is, in such a way that even rural areas are within the towns.)

Employment in for-profit business tops out when it hits the profit barrier. Thus, no profits means no jobs. A for-profit business will only you if the cost of hiring you is less than the value of the product you produce. However much good will and social responsibility an entrepreneur may have, the entrepreneur still has to make a return on the capital invested.

The people's economy breaks the profit barrier. It creates jobs where there are no profits (although revenue still has to be sufficient to purchase inputs other than labor and to amortize equipment). But, the people's economy tops out when it hits the market barrier. No market means no jobs. If the product or service does not sell, then nobody can make a living producing it. The third, fourth, and fifth kinds of job creation break both the profit barrier and the market barrier. I will discuss them in another letter.

Peace and all good,

Howard Richards, Nov 24, 2008

# Working for nonprofits

## letter 7

December 4, 2008

Dear President-elect Obama,

Let me start this letter about working for nonprofits (the fourth of the five sectors in which we are creating jobs here in our town in Chile) by defining two pure types: 1). for-profit business and 2). non-profit business. Provisionally, I omit the businesses that do not fit neatly into one or the other of these two categories.

The purpose of a for-profit business is profit. Academics will notice that I am not distinguishing profit properly so-called from return on capital; in this context, I do not think this distinction pertains. The financial economy drives the real economy. Investment decisions occur by way of the calculation probable yields and considering risks.

Question: What goods and services will business provide?

Answer: Business will offer only the goods and services that can sell at a profit.

Question: What determines whether the economy will go or stop?

Answer: Confidence determines whether the economy will flourish or flounder.

Question: Confidence in what?

Answer: Confidence that the consumers will spend, confidence that credit will be available, and, most importantly, confidence that profits will be made.

You have now chosen an economic team (Paul Volcker, Tim Geithner, Lawrence Summers, Christina Romer and others) and a security team (Hillary Clinton, General Jim Jones, Robert Gates, Admiral Mike Mullen, Susan Rice, and others) whose overall objective is to restore confidence. I suggest that at least a major part of the nation's military objective is the same as its economic objective: confidence. In practice and in official declarations the military and its civilian chiefs seek a world in which business people will have confidence in the safety of their investments, in access to markets, in access to energy and other inputs, and in being able to count on the normal working of the international economy. Please see [dtic.mil](http://dtic.mil) and search the phrase: national interest.

I would suggest that if your advisors were to give nonprofits due weight in their deliberations they might well improve the quality of their advice. Nonprofit business is the conceptual twin of for-profit business; the cart becomes the horse; the horse becomes the cart. First, the social entrepreneurs (people who organize nonprofits) have as their motivation their calling to satisfy an unfulfilled social need. Then they raise funds to meet the need, and thus, the real economy now drives the financial economy.

Jose Luis Coraggio and his colleagues at General Sarmiento University have studied nonprofits in Argentina using a concept of hybrid financing developed by a group of Brazilian socio-economists. For example, the club is an emblematic Argentine type of nonprofit, which began as mutual aid societies bringing together people of one or another common ethnic origin who immigrated to Argentina during the 19<sup>th</sup> century. Clubs have proliferated, evolved, and

metamorphosed so that today they do many things, but one thing virtually all of them do is play soccer. The soccer star Diego Maradona got his start in a neighborhood club.

Coraggio studied how Argentine nonprofits piece together their budgets drawing on hybrid sources. Members pay dues. Fans pay for admission to games. Local governments provide subsidies. Tenants pay rent on buildings the nonprofit owns, For-profit businesses donate uniforms for the players. The club runs a restaurant open to the public; it runs a fundraising dinner dance; it auctions off prizes at a silent auction, or conducts a raffle. Decedents leave bequests to the nonprofit in their wills; Volunteers, who need no pay, do much of the work of the nonprofit, etc.

In Argentina as elsewhere nonprofits have shown themselves capable of doing everything for-profits do. They run schools and hospitals; they run banks and insurance companies e.g., the Caisses Desjardins of Quebec; they farm e.g., the farms of the Mormons; they manufacture refrigerators e.g., Mondragon in the Basque region of Spain; they build houses e.g. Habitat for Humanity.

Could we then have an economy without for-profit businesses? Conceivably, such an economy could come into existence if social entrepreneurs organized nonprofits to meet every need. Our plan here in Chile is not so drastic. We think in terms of layered job creation. We support the creation of as many jobs as possible in the for-profit sector. We go on to support another layer of job creation in the people's economy. Government work contributes a third layer of jobs. A fourth layer is employment through non-profits. Anyone who still wants and needs a job can participate in a fifth layer that is community service.

Correction: We do not precisely maximize the number of jobs in the for-profit sector because we insist on decent wages. Since firms unable to comply with labor-legislation must cease to exist, employment in for-profit business falls short of its theoretical maximum. The other four sectors pick up the slack.)

I would suggest that the members of your economic team think in terms of the layered job creation. At present, they seem to think mainly in terms of stimulus packages trying to promote consumer spending, making the government the spender of last resort, loosening credit, and making the government the creditor of last resort. All of this aims to restore confidence in one sector of the economy: the for-profit sector; it aims to persuade investors and business people to advance funds and hire workers in the expectation that there are profits to be made. It may well be the case, as the historical studies by one of your advisors, Ms. Romer, show, that increasing the money supply, especially due to the inflow of gold from politically turbulent Europe, helped to restart the U.S. economy during the Great Depression even before World War II. Nevertheless, no monetary expansion policy is a substitute for a systematic effort to create jobs for everybody, while every monetary expansion policy brings with it the risk of inflation.

I would also suggest to your security team that the current, dominant economic paradigm is not a perfect paradigm. It assigns to the military the mission of protecting stability and order worldwide for the sake of establishing the confidence required by normal business as defined by the paradigm. But the paradigm, which defines and limits current mainstream thinking may not—I would say, indeed, it clearly does not—frame a normal science capable of providing all the needed answers. It may have something civil to learn from the radicals who, at present, are military enemies so-called. Please see [dtic.mil/](http://dtic.mil/) and search the term radicalism.

Peace and all good,  
Howard Richards,  
December 4, 2008

# Community service

## letter 8

December 12, 2008

Dear President-elect Obama,

Since I started writing letters to you concerning how we can all work together to solve our problems, the economic collapse of the United States has become more complete. Opinions differ about its causes and the concern about whether it is permanent or temporary.

Meanwhile, in our town here in Chile we continue to practice a philosophy of social integration. The aim is to include everyone in constructive and affectionate (*cariñosas*) relationships regardless of having employment in the conventional economy. We accomplish this aim rather quietly so to avoid immigration to our town from elsewhere; we know that without a bounded territory, achieving our aim will be impossible. For us, community service is not a government program; it does not rely on public funds. To some extent, it does not rely on funds at all. We organize our neighborhood somewhat as you organized yours in Chicago that is by finding out who has a problem and then looking for ways to solve it with whatever resources we can find or share.

You may recall that Martin Luther King Jr. believed that quite apart from business confidence that profits will occur through hiring employees, at a human level—there is no shortage of demand for labor. Any number of workers can be useful in the field of human services, in caring for the young, the old, and the infirm. In her writings, Mother Teresa expresses the complementary insight that to a considerable extent the young, the old, and the infirm need and yearn for, not so much for specialized services—but for a human being to be there with them.

In most of the world, if one just looks at it objectively, one sees that there is no shortage of basic goods. There is plenty of food, housing, clothes, etc. The challenge is to put the type of labor and livelihood together, which create opportunities to serve others and simultaneously make a living. It advocates the inclusion of everyone in a supportive community that will assure care for all its members. Its goal is to replace basic stress with what Erik Erikson called *basic trust*.

Whatever one's opinion may be regarding the causes of the collapse, it is fair to say that nobody knows how long a cure will take. Some of us believe that the system is terminally ill. That is to say, it cannot be cured in the sense of being made to work once again as it used to work (although badly) prior to its collapse.

In our town here in Chile, we think in terms of five layers of job creation: 1) for-profit business 2) the people's economy 3) government work 4) non-profits, and 5) community service. Neighborhood and family self-reliance in the form of community service is the last of these five layers. It is the guarantee that nobody will be forgotten or abandoned. There are many ways to accomplish what we do; history and anthropology reveals this to us. Please visit the [gift-economy](#) for a more comprehensive view of this. Attached herein are some eyewitness accounts of the ways some Argentines achieved the meeting of basic needs during their economic crash in 2001.

As the collapse of the U.S. economy deepens, it becomes more and more evident that in the foreseeable future for-profit business will employ only a fraction of the work force. As a result, the social integration of the rest will have to happen in other ways.

Peace and all good, Howard Richards, December 12, 2008

# The Need for a paradigm shift

## letter 9

December 18, 2008

Dear President-elect Obama,

The shift from an economics paradigm to an anthropology (or anthropology/ecology, or trans-disciplinary) paradigm is not complicated or hard to understand. It is a matter of enlarging the field of the human practices studied. When designing policies it is a matter of considering more possibilities, more options, and more actors.

At present, efforts to revive the U.S. economy concentrate on creating conditions under which producers can sell their products at cost-covering prices. For the most part the efforts are even narrower than that: they focus on stimulating demand and cheapening credit to make it profitable for employers to hire employees. Policy makers ignore the fact that human beings lived on Earth for two hundred thousand years without capitalism and the fact that millions still do.

The needed shift consists of taking a broader viewpoint; it consists of the practice socioeconomics as Jose Luis Coraggio, Amartya Sen, and others recommend. It consists of going beyond their recommendations to study basic cultural structures and to develop methodologies for social transformation grounded in such studies. (As I have explained elsewhere, my recommended broader viewpoint is a paradigm shift with respect to some of the ways Kuhn employs the concept of a paradigm although not with respect to all of them.)

Thomas Kuhn's studies in the history of science tend to show that paradigms do not become defunct because facts demonstrate their inadequacies. There are ways to adjust theory to data to save the paradigm even when an accumulation of anomalies strongly suggests that the paradigm is out of touch with reality. For example, when the economy of Indonesia unexpectedly collapsed in 1998, mainstream economists did not question economics. Experts at Harvard, at Oxford, and at the World Bank had been praising Indonesia as an example of correct macroeconomic policy. When reality flatly contradicted what they had been saying, instead of admitting that their science is one that is incapable of accurately predicting future phenomena, and incapable of providing policy advice that works, they attributed the anomaly to crony capitalism. Instead of questioning the basic ethics and dynamics of capitalism, they used the adjective crony to explain after-the-fact why the collapse observed in Indonesia differed from the stable growth, which before the fact they had anticipated. As you recall from your debates with him, Senator McCain similarly used the idea of *greed* as an explanation of the debacle that was unfolding as he spoke.

Thus, an imaginary ideal survives by attributing its real-world failures to flukes. These examples came too late to be included in Kuhn's books, but he could have cited them if they had happened earlier and if he had undertaken to include the history of economic thought within the scope of his studies. Although Kuhn's findings tend toward the conclusion that one cannot refute a paradigm a crucial experiment, it appears that we have a paradigm-testing crucial experiment, or something very like one, underway now.

You have selected a highly competent economics team, backed up by colleagues in the profession who will feed your team even more expertise than they themselves already have. Nobody knows the details of past recessions and the details of past Federal Reserve and



government policies as well as your advisors. I think it is fair to say that if they cannot give you good advice, then mainstream economics cannot give you good advice.

You are approaching the inauguration with nearly a 75% approval rating. You have Democratic majorities in the House and Senate. You have solid friends on Wall Street and in organized labor. If ever there were a United States President positioned to get good expert advice and to implement it, you are the one in that position.

If December 2009 finds the U.S. economy worse instead of better, then we should be able to rule out professional incompetence and political impotence as causes of the phenomena observed. After a year (or perhaps less than a year, or perhaps more than a year) of floundering and sinking in spite of well-advised and capable leadership, the country may be ready to consider the dominant paradigm tested and refuted. More people may come to agree with the author of *Ishmael*, Daniel Quinn, that what we need are new paradigms, not new policies. (

On the other hand, if December of 2009 finds the U.S. economy humming along nicely, producing appropriate goods and services and distributing them equitably, then we should be able to conclude that the paradigm we already have is accordant with reality. We should be prepared to acknowledge the validity of the worldviews of the Paul Samuelsons and the Paul Krugmans and the Joseph Stiglitzes who find the centrist economics of the bulk of the profession to be sound, and attribute the downfall of the economy to the bizarre ideologies of the likes of George W. Bush and his radical conservative clique. Normal science will have its vindication. Professional economists will have been shown to be not only well read in their chosen field of study, but also (because their research paradigms tap the causal powers that produce the phenomena observed) experts on how the world works.

Meanwhile, until the rest of the country is ready to see beyond the dominant paradigm, those of us who know that trying to make for-profit business profitable again is too narrow a focus—will continue to support the people's economy, public-sector employment, non-profits, community service, and usable parts of the many other alternative forms of livelihood practiced throughout history, worldwide. We will support the Rotarians and the American Friends Service Committee, the Salvation Army and Catholic Charities, and whoever organizes emergency relief; expecting that as it gradually dawns on people that the emergency is permanent, the relief will become permanent. Relief here is a word that refers to more than just keeping the food pantries restocked. It refers to social integration—to dignity, discipline, meaning, and useful employment. At an academic level, we will continue to dissolve economics into trans-disciplinary social and natural science.

Peace and all good,

Howard Richards, December 18, 2008