

## Chapter Seven

### Socialism is Good for Business

© Howard Richards (2007)

This is an English translation of chapter seven of  
*Solidaridad, Participacion, Transparencia*

Rosario, Argentina: Fundacion Estevez Boero, 2007.

This book has not yet been published in English. The full Spanish text can be found online at <http://lahoradelaetica.wordpress.com>.

Hypothetical Interlocutor: With every day that passes, people take less interest in politics.

Howard Richards: Why?

Hypothetical Interlocutor: Because every day it makes less difference who wins. For example, it would take a microscopic examination to discern any difference between the economic philosophy of Michelle Bachelet the socialist candidate, and that of Sebastian Pinera the conservative candidate, in the presidential election runoff in Chile in 2006. Almost the same can be said concerning the socialist candidate Gerhard Schroeder and the conservative candidate Angela Merkel in the 2006 German elections. After the elections the socialists and the conservatives formed a coalition government. In India and the USA in 2004 it was not economic philosophy that distinguished the candidates from each other but cultural issues. I could go on to cite Italy in 2006 and many other cases.

Howard Richards: The increasing application to practice of the theories and the empirical research of the social sciences may partly explain the convergence of the center-left and the center-right. The economists, the lawyers, the political scientists, and the sociologists who write the policies and staff the governments of all the parties are graduates of the same universities. They read the same books. They subscribe to the same professional journals and attend the same conferences. They do similar research with similar methodologies. Looking at the same data with through the lenses of the same or similar paradigms tells them that there is only a narrow range of feasible policy options. The electoral proposals of both sides then fall within that range.

© Howard Richards (2007)

Hypothetical Interlocutor: I would add the increasing power of the media. The media frame the issues. The candidates know they need to speak inside the frames the media have crafted. Otherwise the voters will not understand them.

Howard Richards: I would also cite the considerations discussed in Chapter Two. Governments today accept that everyone lives in the same global economy. Economic trends are things governments adjust to, not things governments determine. All parties know that the sums available to pay for social programs are constricted by forces beyond national control. In some cases downsizing government is a philosophy; in all cases it is a necessity. That is to say, it is a necessity given the liberal logic of the basic cultural structure of the modern world as it has recently evolved.

Hypothetical Interlocutor: Since the traditional socialist parties have accepted the market as the primary decision-maker in the economic sphere, and since they have accepted the private ownership of the means of production, would you agree that the word “socialism” has lost its meaning ?

Howard Richards: No. I would add that the conservatives have also gravitated toward the center, especially in the last few years. It is true that in the last decades of the twentieth century there was a spate of neoliberal extremism, identified here in Argentina with the figure of Carlos Menem. But at this point the Joseph Stiglitzes and the Ricardo Ffrench-Davises of the world are being heard. The weight of the facts is sinking in. The election of David Cameron as Tory leader signaled that in the UK Thatcherism is over. Conservatives like Pinera in Chile and Merkel in Germany echo their social democratic opponents on the need to eradicate poverty, to improve public health care and education, to develop alternatives to fossil fuels, to enforce environmental standards, and to take an active stance in promoting democracy and human rights in the world.

Hypothetical Interlocutor: Would you add the United Nations and the World Bank to this picture of emerging consensus you are painting ?

Howard Richards: Certainly, and also the regional banks like the Inter American Development Bank. Even the International Monetary Fund today requires its borrowers to have an anti-poverty policy and to monitor its implementation. Everybody today is in favor of growth with equity, ending

poverty, a sustainable human relationship to the natural environment, ethics in government and in business, and human rights.

Hypothetical Interlocutor: How do you explain that with so much agreement about where we should be going we are making so little progress in getting there ?

Howard Richards: I thought you were going to ask me why I answered negatively when you asked me whether the word “socialism” had lost its meaning.

Hypothetical Interlocutor: I was.

Howard Richards: It takes more than agreeing with one’s former opponents on some important questions to make a word defining a political practice lose its meaning. It takes more than several centuries of abuse. The meaning of a word also draws on its etymology and its historical origins.

Hypothetical Interlocutor: The word “socialist” has certainly been abused.

Howard Richards: It is a word that was abused by so-called “really existing socialism.” Social democrats always insisted that those authoritarian regimes were not socialist at all because socialism is by definition a matter of working together to build a better life for all, not a matter of imposing institutional change by violence. The word was also abused by Hitler when he called his movement “National Socialism.” The word was and still is further abused by the right-wing media when they denounce collective bargaining and national health care, for examples, as “creeping socialism” and therefore closet Communism, and therefore evil. It was also abused by the Christian Socialists of Vienna who were anti-semites.

Hypothetical Interlocutor: But socialist ideas have not just been abused. They have also been trenchantly critiqued by serious thinkers like Ludwig von Mises, Friedrich von Hayek, Milton Friedman, Raymond Aron, Isaiah Berlin, Karl Popper, Robert Nozick ... to name a few.

Howard Richards: Serious critics have made some valid points. (Popper, by the way, identified himself as a social democrat until the end of his long life, although an increasingly conservative one.) I think what we have been

saying about the gravitation of contemporary socialists to the center tends to show that the valid points of serious critics have been heard.

Hypothetical Interlocutor: If a word has been historically abused, theoretically refuted, and abandoned in practice, why keep it ?

Howard Richards: One can make a case for disregarding the abuse. If one delimits socialism from Communism, and if one disregards how anti-socialists have distorted the word's meaning, and then considers only what democratic socialists and social democrats have done, the word has really not been abused much at all. Suppose we group "socialism" so limited with some other important idée's-forces: "God," "love," "freedom," "cultural identity," "rational economics," "development," "modernization," "democracy." Suppose we make lists of the monstrous historic crimes and genocides that have been committed in the name of each of these ideals. Socialism's list would be short. God, love, freedom, cultural identity, rational economics, development, modernization and democracy would easily outdistance it in a race to determine what word has been most abused to justify heinous acts.

Hypothetical Interlocutor: I would not call it heinous when socialists support markets and private business but I would call it unprincipled.

Howard Richards: But don't you believe that markets and private businesses often serve important social functions ?

Hypothetical Interlocutor: I do. I just do not believe that socialists should agree with me.

Howard Richards: Do you think that socialists should lie and deny that markets and the private sector make no contributions to the common good when in fact they do ?

Hypothetical Interlocutor: No. I do not think they should lie. I think they should stop calling themselves socialists.

Howard Richards: How do you define "socialist"?

Hypothetical Interlocutor: I do not think that I should be the one to define the term. I do not identify with it and I do not see that it has any clear or useful meaning. How do you define “socialist”?

Howard Richards: First, it is the name of an honorable tradition that produced the European welfare states. Anybody should be proud to be associated with that tradition.

Hypothetical Interlocutor: A tradition can be honorable in the sense of not being reprehensible, but still not intellectually coherent, and still not a valid name for a political and economic philosophy suitable for the times we live in.

Howard Richards: Agreed.

Hypothetical Interlocutor: Earlier you said that the meaning of “socialism” draws on its etymology and on its historical origins.

Howard Richards: The word comes from the late 18<sup>th</sup> century together with the related words “social,” “society,” and later “social science.” All these words came to English from French. Their French root is Latin.

Hypothetical Interlocutor: What is their Latin root ?

Howard Richards: Socius.

Hypothetical Interlocutor: What did socius mean ?

Howard Richards: Ally, friend, or partner. Thus the point of coining the word “society” was to conceive of a human group living together as a partnership, as an alliance of people who are on the same side struggling against the conditions imposed on human life by nature. The same meaning is inherent in Gesellschaft, the German word translated as “society.”

Hypothetical Interlocutor: So “socialism” as an “ism” is a philosophy that advocates conceiving of society as an alliance of friends working in partnership for their mutual and common benefit.

Howard Richards: It also has a scientific aspect. It conceives of institutions as social constructions, not as natural.

Hypothetical Interlocutor: But somewhere I read that socialism is about class struggle. I read that Marxist theories of society are conflict theories, sometimes called dialectic. Somewhere I read that Durkheimian theories of society are consensus theories, sometimes called harmony ideologies.

Howard Richards: Marx's writings are not the historical origin of the word "socialism." He wrote mainly a critique of political economy, which was a critique of the ideology of capitalism, which is a class-divided society. He portrayed its conflicts as eventually tending toward a classless society, which would be a socialist society—a concept he endorsed but did not invent, and one which he deliberately refrained from analyzing and elaborating in detail. One of Marx's great lasting contributions was the practice of carefully studying reality as it is in order to provide a solid basis for working to change it.

Hypothetical Interlocutor: So "socialism" as a word naming an ideal is not equivalent to any scientific theory about presently existing social reality ?

Howard Richards: It is not. There can be more than paradigm for social science, and more than one plausible theory about how to get from here to there.

Hypothetical Interlocutor: And you are advocating a Durkheimian theory ?

Howard Richards: To a certain extent, yes. A key premise of common versions of the theory of class struggle, the premise that it is to the interest of the rich to keep the poor poor has never been proven. It is false.

Hypothetical Interlocutor: What do you see as Durkheim's main contributions ?

Howard Richards: He and people influenced by him have given us the ideas of "role" and "function." People in society play "roles." Institutions have "functions." A Durkheimian revolution would be one where everybody, for example an executive or an owner of a private business, comes to see herself or himself as playing a social role and as called upon to play that role responsibly. It would be one where all institutions are evaluated and revised according to their performance in serving their functions. That is to say, in meeting needs. That is to say, according to criteria of social efficiency. The

Durkheimian tradition has also given us the idea of “social integration.” It suggests that Argentina could have “modernización integradora” instead of “modernización excluyente.” (a path to modernization, or development, that is integrating rather than excluding)

Hypothetical Interlocutor: But is it not the great error of structural-functionalism to mystify and conceal conflicts of interest? It pretends that social structures perform functions, when in reality they divide society into haves and have-nots. I am thinking of property, which is the quintessential social structure.

Howard Richards: Yes. And a great merit of Marxism is that it corrects that error. You did not mention another great error, which is the cowardice of social scientists in taking refuge in value-free description, interpretation, and explanation; instead of assuming the burden of ethical critique and combining empirical research with constructive work for social transformation.

Hypothetical Interlocutor: You can hardly blame social scientists for taking refuge in value-free social science (Max Weber’s Wissenschaft als Beruf) and in such value-neutral stances as making students think and raising questions, when by becoming activists they would risk losing their funding, their jobs, and under some regimes their lives.

Howard Richards: With all their limitations, the advances we enjoy today in ethics and in social science are treasures we should be grateful for. In the United Nations’ treaties and conventions on human rights we have an ethical framework for the evaluation of institutional performance ratified by the political representatives of the world’s peoples. In most of the mainstream of the social sciences – Marxist, Durkheimian, Weberian, or None of the Above – we have the basic concept that social institutions are historical constructions that can be deconstructed and reconstructed.

Hypothetical Interlocutor: Did you not contradict yourself when you said that it is not in the best interests of the rich to keep the poor poor, and then you said the Marxists were right to object to the harmony ideologies of the neo-Durkheimians?

Howard Richards: I could have added that it is not in the best interests of the rich to destroy the biosphere, or to keep the world in a state of permanent

war. Under the unfortunate institutional arrangements we suffer under it is to the interest of business owners to keep wages low –not so much in the interest of the rich as in the interest of the owners of the marginal businesses that cannot afford to pay good wages. In general there are any number of conflicts of interest at any given time and place and there always will be. Nevertheless, eradicating poverty would confer very great benefits on the rich. Today rich people know that.

Hypothetical Interlocutor: You are not saying that the rich today see a classless society as in their interest, but just that they see eradicating poverty as in their interest.

Howard Richards: Correct. And some of them support idealistic social and ecological causes even when the effect of the success of the cause on their interests would be neutral or negative.

Hypothetical Interlocutor: Do you think that the emerging consensus among the powers that be is to eliminate poverty in general, or just to eliminate extreme poverty ?

Howard Richards: I am not sure. The Millenium Goals of the United Nations only call for eliminating extreme poverty. This is also the focus of Jeffrey Sachs and his rock star friend Bono. This focus on extreme poverty can be interpreted as a way to unravel the social safety net of the majority while simultaneously taking the moral high ground that one is targeting those most in need. I am inclined to believe that it is in the best interests of the rich to end not just extreme poverty but also the economic insecurity of the majority of the people.

Hypothetical Interlocutor: Whatever the breadth of the emerging consensus of center-left and center-right may be, it is in any case clear that there is more talk than walk. This brings us back to the question I asked earlier. How do you explain that with so much agreement about where we should be going we are making so little progress in getting there ?

Howard Richards: I think Hermes Binner answered your question in a few phrases of his speech in honor of the memory of Guillermo Estevez Boero. [at the end of Chapter 5]. We are working with a model that is exhausted. We need a project for getting out of liberal logic.



Hypothetical Interlocutor: But is not liberal logic the same thing as the logic of capitalism, which is the logic of accumulation, and is that not exactly what socialists accept when they accept markets and private business ?

Howard Richards: No.

Hypothetical Interlocutor: Why not ?

Howard Richards: To say that in any future socialist society there will always be roles for markets and for a private sector is not the same thing as saying we must forever remain trapped in the logic of liberalism.

Hypothetical Interlocutor: Why do you say “trapped”?

Howard Richards: Because the only (or the main, or the decisive) way people live is by buying things with money, and the only (etc.) way people get money is by working, and the only way people work is to get a job by being hired by somebody, and people only get hired if it is profitable for some employer to hire them, and it is only profitable for employers to hire if the employee makes something that can be sold, and the product must not only be sold but sold at a high enough price, which means that the volume and the price must be high enough to yield enough revenue to pay wages and other costs and still leave a margin of profit. Consequently governments and everyone else scramble to establish the conditions that keep this Rube Goldberg machine going. It never really works. It never really achieves social and ecological objectives. It is never really stable.

Hypothetical Interlocutor: So the project of breathing new life into an exhausted model, the project of getting out of liberal logic, is not about abolishing the private sector. It is about loosening the grip of the systemic imperatives that limit social choices.

Howard Richards: Precisely. Including social choices about property ownership.

Hypothetical Interlocutor: And it is a project which if successful would benefit both the public and the private sector ...

Howard Richards: ... and the “third sector” which is variously defined by different authors ...

Hypothetical Interlocutor: ... and it will tend to turn a class-divided society into a more egalitarian society...

Howard Richards: ...because the method and aim is participatory democracy. As Guillermo Estevez Boero said, when people participate in making decisions at every stage in every institution, they will find ways to defend their interests. Exploitation will become impossible.

Hypothetical Interlocutor: But according to the liberal logic we just discussed, if exploitation is impossible, then production is also impossible. Curbing exploitation unintentionally leading to slowing and even stopping production is the repeated story of failed social reforms in the 20<sup>th</sup> century. Idealism leads to muddle. Muddle leads to fascism. My question is, “How can a political and social movement be transformative and practical at the same time ?”

Howard Richards: That is the question that led me to Rosario. In Rosario it led me to the city’s municipal bank.

Juan Carlos Saavedra: The Banco Municipal de Rosario is an official bank.

Howard Richards: Why do you call it “official”?

Juan Carlos Saavedra: It is owned and run by the city government. It opened in 1896 with the specific purpose of helping the less advantaged citizens of the city who were at the time exploited by pawn brokers who charged usurious rates of interest. Over the years it has become a public bank with social conscience in many ways.

Howard Richards: Who governs the bank ?

Juan Carlos Saavedra: It has four directors. Three of them are named by the City Council. The fourth is elected by the employees of the bank. I was myself the employee-elected director during the time when Carlos Menem made a strenuous effort to privatize us, which we strenuously resisted. There were formerly over sixty official banks in Argentina. Menem succeeded in privatizing all but two, ours and Banco Ciudad in Buenos Aires.

Howard Richards: As the official bank of a socialist city government, is it your objective to eliminate private enterprise ?

Juan Carlos Saavedra: Just the opposite. Our objective is to promote and finance business, especially small and medium-sized businesses. Our charter and mission statement assign us the role of specializing in meeting the needs of small and medium-sized businesses in and around Rosario.

Howard Richards: What do you do for small business ?

Juan Carlos Saavedra: Besides providing credit, both on signature and with collateral, we provide a broad range of support services. We will handle payroll for them and issue the checks to their employees. We can also issue their employees a debit card they can use to access their pay at any of our branches or automated tellers. We finance exports, and put our experience in helping small business take advantage of new opportunities at their disposal. We can facilitate their tax payments. We can arrange for regular automatic payments to their vendors, which saves them much trouble involved in lost checks and complicated paperwork. We have a regular series of educational briefings for small business owners to help keep them up to date on business trends and opportunities. For certain types of business, for example pre-paid medicine, we collect payments from the customers. We want to do everything we can to build relationships with business people who will stay in the city, pay taxes here, and contribute to civic betterment.

Howard Richards: Is supporting small business your only objective ?

Juan Carlos Saavedra: We also support nonprofit organizations. For example, we collect tuition for schools, dues for labor unions and sporting clubs, and condominium fees for apartment buildings.

Howard Richards: Do people find it more efficient to have a municipal bank help them with their finances than to do it themselves ?

Juan Carlos Saavedra: I should have mentioned earlier that the Municipal Bank handles the payments and helps with the tax collection for the city itself. Many of our capacities for offering services for business and nonprofits grew out of our experience handling city funds. It is often easier for us to handle many transactions with our computers than for small firms

to do it by hand or on their own computers. We are big enough to offer economies of scale, but since we are limited to one city we are not far away and impersonal.

Howard Richards: Have you ever considered expanding to the rest of Argentina, or overseas ?

Juan Carlos Saavedra: That is not our mission. Our mission is not to maximize profits by making money wherever it is to be made. It is to serve the city.

Howard Richards: If I were to extrapolate from your small experience a large principle that might be derived from extending it, I would say that you have demonstrated an alternative to what Jeffrey Winters called the Locational Revolution and to what is widely known in development literature as the Swedish Model. I mean the Rehn-Meidner model applied in Sweden roughly 1945-1975, which was regarded worldwide as a successful way to eliminate poverty and generally to achieve a high level of social justice.

Juan Carlos Saavedra: How so ?

Howard Richards: Winters discusses the phenomenon of governments competing to sell their territory as a production site for international capital. Capital selects the laws it will operate under, choosing among the many jurisdictions that make offers to it. On the Municipal Bank model capital does not move. It stays in the same place and operates under the same laws. Not only does the bank itself not move, but it encourages local development of small and medium sized businesses that are not likely to move either.

Juan Carlos Saavedra: I do not know much about the Swedish Model. Why are we an alternative to it ?

Howard Richards: To make a long story short, because the Swedish model favored big business. Small businesses found it harder to pay Sweden's high wages and high taxes. The key to the success of the Swedish model was success in raising productivity for export sales, which was mainly accomplished by large firms like Weyerhaeuser, Volvo, SAAB, Electrolux, and Erickson, working hand in glove with organized labor and with government.

Juan Carlos Saavedra: We know that the large highly capitalized firms are generally in a position to pay higher wages. However, we also know that they employ very few people. A survey of manufacturing in Rosario showed that less than 15% of employment was in firms with more than 200 employees, of which there were only 8.

Howard Richards: In my judgment two of the reasons why the Rehn-Meidner model proved to be unsustainable and had to be abandoned are connected with the inability of its smaller firms to pay the taxes and wages the model demanded. Many had to close. Big business and generally “sunrise” industries generally oriented toward exports were in the long run not able to take up the slack by hiring all the people who lost their jobs. The Swedish government itself maintained full employment by increasing its own hiring, which proved to be unsustainable. That is one reason. The second reason is that Volvo, for example, found ways to move operations to Brazil, for example, and thus escape the high taxes and high wages.

Juan Carlos Saavedra: Guillermo Estevez Boero always said that the backbone of the Argentina economy, the source of most employment, was small and medium sized business producing for the domestic market. Rosario, however, used to be the exception. It was the Chicago of Argentina, its center of large scale industrial production. Rosario is still the hub of Argentine agricultural exports, which are now largely in the hands of multinational firms like Cargill and Bunge. I think you are telling us that the bank’s mission, and the city’s policies, are smart for at least two reasons. Because small business generates more employment. And because it is less likely to roam the globe in search of lower wages and lower taxes elsewhere.

Howard Richards: They are smart and they are also transformative. The bank’s charter tells it not to follow the logic of the dominant paradigm, which calls for investing wherever in whatever with the objective of maximizing return on capital. Nevertheless, the bank does earn money, even though at least theoretically it could earn more if it were free to invest money in South African diamonds or Japanese electronic firms or wherever the yield was highest. What do you do with profits when you make them ?

Juan Carlos Saavedra: Some of the bank’s earnings are channeled to the Rosario Municipal Bank Foundation. One of the things the Foundation does

is to sponsor professional studies concerning the problems of the city and its people.

Howard Richards: What problems has the Foundation studied ?

Juan Carlos Saavedra: The Bank's foundation has published studies on solid waste disposal, slum dwellers without proper legal title to their land (asentamientos irregulares), the future energy needs of the city and its environs, automobile fuel emissions, employment and unemployment, environmental problems, hospital wastes, Rosario's urban transport system, the feasibility of integrated health services, the Port of Rosario, and the government of the city's districts.

Howard Richards: What do you do with the rest of the profits ?

Juan Carlos Saavedra: Before I answer your question, I should tell you that we do not always make profits. Several times we have gone into the red. The city government has bailed us out with new operating capital.

Howard Richards: What do you lose money on ?

Juan Carlos Saavedra: We work as hard as we can to make sound loans that will be repaid. One of the advantages of having an employee director and thus having the bank employees as part of the bank's ownership is that we as employees have a direct interest and a direct opportunity to make sure every transaction is correctly done and risks minimized. But the bank has other aims as I have been telling you. One of them is anchoring local business here, and avoiding making our city overly dependent on wooing investments by multinational corporations. Instead we want our own businesses to be internationally competitive, especially in MERCOSUR, the South American Common Market.

Howard Richards: Several Italian cities have given good examples showing how well organized locally owned small and medium sized businesses can be internationally competitive. With respect to the objective of avoiding too much dependence on multinational corporations, I think it is an indication of the city's success that when the United Nations gave Rosario a prize for being a "Governable City" in 2003, one of its officials observed that Rosario had made major strides forward on a number of indicators without attracting any major new investments. You said that was one objective. Can you give

me other examples of when your social aims as a bank have diverged from the strictly commercial aims of minimizing costs and maximizing earnings ?

Juan Carlos Saavedra: An excellent example is how we responded to the corralito of December 14, 2001. As you know, at that time the Argentine federal government froze all bank accounts because it no longer had any capability of backing pesos with dollars. It decided that freezing the accounts while it looked for a way out of its impasse was better than any other alternative available to it. The foreign-owned banks in Rosario simply closed their doors. The French staff of a French bank got on airplanes and left. Since they were here to make profits and there were no profits to be made here there was no reason for them to stay.

Howard Richards: What did the municipal bank do ?

Juan Carlos Saavedra: We knew that our customers desperately needed access to their funds to stay afloat. We looked for legal alternatives to the corralito decree of the federal government in order to find ways to get their money to them. For example, we could make a new loan to them for which they would pledge their frozen funds as collateral. We kept many small businesses open that otherwise would have had to close, and many families fed that otherwise would have gone hungry.

Howard Richards: That must have done wonders for the reputation of the bank as a reliable place to keep one's money.

Juan Carlos Saavedra: We have had a large increase in deposits since then. But we still do not handle the big money of the big firms. They were not much affected by the corralito anyway because they could always draw on their accounts in other countries, and they could always use as collateral their assets in other countries.

Howard Richards: Do you also lose money because with the aim of supporting local business you sometimes make loans to businesses that fail ?

Juan Carlos Saavedra: Not very often. Automobile loans for taxi businesses are, however, a type of loan where our losses have been considerable. We will finance a new car up to 75% of its value, and a used car up to five years old up to 50% of its value. Since the cars are in such constant use they get a lot of wear and tear. If the borrower defaults, it is

hard to auction off the repossessed vehicle for enough to cover what we loaned on it.

Howard Richards: But of course in Argentina's somewhat unpredictable economy you could just not make auto loans.

Juan Carlos Saavedra: That could be our policy but it is not.

Howard Richards: In spite of the Bank's heroic efforts to stand by its depositors in 2001, I would think that some savers would think twice before putting money in a bank whose policies veer somewhat in the direction of social efficiency and away from minimizing risk and maximizing profit.

Juan Carlos Saavedra: You have been asking me on what kinds of transactions we have lost money in the past and I have been answering your questions. I should clarify that although we still get the occasional schoolteacher who falls ill and cannot work and cannot make her mortgage payments, we are not in the red now and we have historically not gone into the red often. We have not been in the red at all since the crisis of 2001, in which many banks and businesses closed permanently. I said that the city bailed us out on that occasion. I should also say that Article 14 of our Charter provides that the City of Rosario guarantees our obligations. Therefore, if we ever defaulted on a payment, which ever since our founding in 1996 we never have, our debt would become a debt of the city.

Howard Richards: If you generally make profits, then I can use you as an example of a principle that helps to resolve the problem of the fiscal crisis of the state.

Juan Carlos Saavedra: What is the principle ?

Howard Richards: The principle that rents should be captured in order to increase public revenues.

Juan Carlos Saavedra: What do you mean by "rents"?

Howard Richards: Income from property.

Juan Carlos Saavedra: Isn't that the same thing as profits ?



Howard Richards: The neoliberals have taught us that it is not. They have condemned the public sector and insisted on privatization precisely because the public sector, their empirical studies find, does not in practice do what it is supposed to do, i.e. it does not operate with criteria of social efficiency. Instead it feathers the nest of a rent-seeking public sector managerial elite. For the same reason they have advocated more competition in the private sector. They have advocated more airlines to bring down airfares. They have advocated more long distance carriers to bring down telephone bills. Less monopoly means lower rent, less rent-seeking behavior, and more efficiency.

Juan Carlos Saavedra: I studied the difference between rents and profits once but I do not remember it very well.

Howard Richards: Sometimes it is convenient to speak generally and treat “profits” as a general category including rent. Sometimes it is convenient to draw on the classic definition of “rent” by David Ricardo to distinguish them. Ricardo defined the rent of a given piece of good land as the difference between the revenue it will produce and the revenue produced by marginal land. The marginal land just barely produces enough to justify the labor and other inputs that need to be applied to it to grow crops. In other words the land itself yields a return over and above the return due to the labor applied to it.

Juan Carlos Saavedra: Then the rent is what the farmer has to pay to the landlord for the use of the land. By extension, it is what anybody has to pay anybody for the use of any property.

Howard Richards: It is income from property, as distinct from the money farmers or entrepreneurs earn by their efforts to make the property produce. A monopolist collects rent because without doing any extra work to produce anything more, he can raise the price because he owns the whole industry.

Juan Carlos Saavedra: Here you mean by “owning” what ancient Roman Law meant, and what modern law still means, controlling the thing and being able to exclude others from it.

Howard Richards: If we follow the advice of the neoliberals, and of the socialists who agree with them, then the rent element in “profits” will tend to diminish and “profits” will be more like a wage. In Schumpeterian terms,

they will be more like a wage payable for innovative services, for the creative talents and hard work required to keep a business competitive in a constantly changing environment. In Ricardo's terms, rent is what the landlord gets. Profit is what the farmer gets. Speaking generally, rent is the income of what the French call the rentier class.

Juan Carlos Saavedra: And you are saying that what the rentier class gets the government should get.

Howard Richards: The neoliberals have argued that rents should be diminished by greater use of competitive markets, so that what the entrepreneur gets is more like what the farmer gets in Ricardo's analysis. In practice, the neoliberal economists, not unlike Karl Marx, have seen things done in their name that they did not intend. Neoliberalism has in practice led to individuals amassing huge fortunes more because of their ownership rights to property than because of their entrepreneurial effort and talent.

Juan Carlos Saavedra: So in principle the way to make the welfare state compatible with economic efficiency is to apply Ricardo's concept of rent, putting the government in the place of the landlord and the entrepreneur in the place of the farmer.

Howard Richards: I think that it is a good idea to work with, which will have many variations in practice. For example, it might be a good ethical policy for some of the rights to rent income to be the endowment of a university, or the capital of a pension fund, not to be income available to the government. Conservatives, by the way, have sometimes argued that rent income should never be available to a government because governments are too powerful already. They have argued that only the painful method of raising funds by imposing taxes on the public should be available to government, precisely for the purpose of creating an antagonism between the public and the government that will tend to weaken the latter and protect the former from it.

Juan Carlos Saavedra: But you are saying that the municipal government of Rosario is stronger, and better able to serve its citizens, because it owns a municipal bank, and directly or indirectly collects the rent portion of its "profits" ?

Howard Richards: For example, if all the technical studies you mentioned earlier, the ones about how to dispose of hospital waste, and how to provide for the city's future energy needs, and so on, had been done at the taxpayer's expense, then there would have been less tax money available for other purposes, such as the city's primary health care clinics. As it was, the studies were paid for by the Foundation of the Municipal Bank of Rosario. I would guess that the professionals who did the studies also contributed to the common good by putting in a lot of volunteer time.

Juan Carlos Saavedra: Your guess would be correct.

Howard Richards: But you still have not finished answering my question about what the bank does with its profits. Here we are going back to a general use of the term profits, bearing in mind the idea that some part of them are not produced by the labor or managerial skill of the bank staff, but simply by the fact that the bank owns a certain amount of capital, which produces rentier income, somewhat as good land produces rent for the landlord over and above what the farmer's efforts and those of the workers the farmer hires produce.

Juan Carlos Saavedra: I do not think that I or the other members of the bank staff would object if some windfall income or some income that we ourselves caused because of our brilliant management of the city's assets went to fund projects for the common good. When our own needs are met, our principle is solidarity. Our principle is not to make an economic analysis to determine which factor of production caused the existence of the surplus. We also have a Solidarity Fund. Its function is to support the economics of solidarity and other programs to eradicate poverty in the city. We are not happy with it because through it we made a lot of loans to start micro enterprises that were not repaid. We are not convinced that the micro enterprise funds were properly administered. We did not enter the field for the purpose of making money, but neither did we intend to lose as much money as we lost. Of course we are ready to contribute to the city's efforts to end marginality and poverty. But we think that the use of the Solidarity Fund requires further study.

Howard Richards: Is the micro enterprise supposed to be a startup business that later becomes sustainable as a business that can hold its own in the marketplace ?

Juan Carlos Saavedra: I do not know. I am not sure the people in the Secretariat for Economic Solidarity know either.

Howard Richards: If we take for example the community organic gardens, they operate with a lot of subsidies. It is a program with United Nations support. The gardeners sell their wares in a free farmers market that the city provides. They get free publicity for their products. They get free courses on how to meet the sanitation code requirements for food products. The land they work is loaned to them free by individuals or by public or private agencies. They get free technical advice from agricultural specialists who are attached to the staffs of the child care centers that dot the suburbs. Jose Luis Coraggio says that the social economy ought to enjoy permanent support from the rest of society. It seems that Rosario is following his principle in practice even though there may be some confusion in theory.

Juan Carlos Saavedra: We do not have a problem with subsidies, but we do have a problem with irresponsibility. There is a culture that encourages people to think that the government owes them a living. We think many of our micro enterprise loans were not taken as loans but as grants. People did not feel responsible for even trying to pay them back.

Howard Richards: But on the other hand we also know, because John Maynard Keynes taught us, that it is normal for there to be a certain number of people who are left out in the cold by a market economy. The labor market generates no demand for their services.

Juan Carlos Saavedra: We know that too. Social solidarity has to step in to do things that the market alone will not do. We are looking for an effective way to do it. Also, to finish answering your question about what we do with our profits, the bank supports the arts. Our foundation has funded performances of Puccini's "Tosca," and "La Boheme"; Mozart's "The Marriage of Figaro"; and Verdi's "Aida", "Othello", and "Rigoletto".

Howard Richards: When I read the cultural calendar on the city's website, I think I am reading about a European city.

Gabriela Filippini: Supporting art is not just an idea we came up with by ourselves. It is a tradition of the city that has been reaffirmed through participatory democracy. The city went through a Strategic Planning process in which everybody was invited to participate in designing our

future. After extensive consultation with people of every sector, a consensus emerged that one of Rosario's main goals is to support its artists.

Howard Richards: There is a similarity between funding anti-poverty programs and funding the arts. In both cases resources are being directed toward objectives that have value in themselves, whether or not they generate profits.

Juan Carlos Saavedra: And in both cases although the motivation is not directly economic there are economic benefits. Both social cohesion and art make the city an attractive place to live, to invest, to do business, and to visit as a tourist.

Howard Richards: And you are funding the artists themselves. Without patrons the artists might be penniless, excluded, marginal. There is no better way to fight poverty than to help people to do something worthwhile in itself that they already feel motivated to do.

Gabriela Filippini: At this point in time the Foundation is beginning to move to a new stage. We are giving priority to the study of economic topics. Our objective is to contribute to the business, commercial and financial development of Rosario, providing the diverse actors of the city with studies that contribute to making good decisions, and bringing in the voices of specialists in this area. For example, we want to invite Bernardo Kliksberg.

Hypothetical Interlocutor: Before we adjourn I want to bring us back to the main question. I asked you, "How do you explain that with so much agreement about where we should be going we are making so little progress in getting there?"

Howard Richards: Yes.

Hypothetical Interlocutor: You answered, if I may be allowed to further abbreviate an answer that was already brief, that it is because we are trapped in liberal logic, which is also called the logic of accumulation.

Howard Richards: Yes.

Hypothetical Interlocutor: I was saying, “Socialism makes no difference. Socialism means markets. Capitalism means markets. So it is a choice between markets and markets. In other words, no choice.”

Howard Richards: Yes.

Hypothetical Interlocutor. But you kept explaining and I finally understood you. There is all the difference in the world between a social democracy that chooses to use markets as institutions that achieve certain goals, and our present situation. Imprisoned in liberal logic as we are, we see in the market the chains that bind us. It governs us. We should be governing it. In the words of Ricardo Antunes we live under “the imperative necessity of producing exchange value for the expanded reproduction of capital.” (Antunes, 161)

Howard Richards: Yes.

Hypothetical Interlocutor: There is no single idea or practice that is by itself the key to freedom. There are instead many liberating practices in Rosario and around the world. Together they make solidarity compatible with production. They loosen the grip of the iron laws of the market.

Howard Richards: Yes.

Hypothetical Interlocutor: Is there anything you would like to add ?

Howard Richards: Yes. Actually I think there is a single principle. All the liberating ideas and practices can be regarded as examples of it. It can be named “a culture of solidarity,” or “a love ethic,” or “servant leadership,” or “production for use,” or “de-alienation,” or “mobilizing resources to meet needs,” or “a higher form of pragmatism,” or “economic democracy,” or “concern for money must *serve*, not *dominate*.” (These 9 phrases are offered as some alternative names for the same principle.)

Answer Given by Miguel Lifschitz when asked by a journalist what the city administration has contributed to the growth of business in Rosario in recent years

“I think there have been many factors, not just one. The good dialogue we have with all the productive and business sectors in the city, our ability to

work together, mutual support to carry diverse projects forward, all this is an important element. On the other hand, there is the projection of Rosario at an international level, which is fundamental, since it showcases Rosario. It makes the city more attractive, it generates business, it makes entrepreneurs begin to pay attention to the city. I think that is another important element. In addition, I think the image of the city as an orderly city, without conflicts, without a high level of social conflict, relatively safe, not violent, with a level of cleanliness and maintenance higher than other cities of the country, all of this makes the city more attractive and directly or indirectly contributes to the growth of economic activity.”

Further answer when the journalist pursues the question what the city government has done.

“... we have had massive backing, not just in the middle class parts of the city, such as the center city neighborhoods and the traditional neighborhoods, but also in the neighborhoods that have been most left behind. I think this shows recognition of the tasks we have assigned ourselves and the dynamics we have given to our administration. We have the permanent presence of every neighborhood, permanent attention to social problems, getting concrete works done. This leads to greater commitment, because when one gets this support, then one must redouble efforts to continue keeping the promises one has made to the people.” (Lifschitz 2006, p. 12)

Juan Carlos Saavedra is legal counsel to the Municipal Bank of Rosario.

Gabriela Filippini coordinates the Foundation of the Municipal Bank of Rosario..

Miguel Lifschitz is mayor of Rosario.

Data on the bank.

Data on business in Rosario.

### Bibliography

Ricardo Antunes, *Los Sentidos del Trabajo*. Buenos Aires: Taller de Estudios Laborales, 2005.

Miguel Lifschitz, interview with Miguel Lifschitz in La Gaceta del Puerto. January 2006, pp. 12-13.

Guillermo Estevez Boero y otros, *Para Cambiar el Pais*. Buenos Aires: Partido Socialista Popular, 1983.

Joseph Stiglitz and Ricardo Ffrench-Davis

Neoliberal articles on rent-seeking

Partido Socialist Popular, *Democracia y Socialismo*. Declaracion del Comite Nacional, 27 de febrero de 1987.

Howard Richards and Joanna Swanger, *The Dilemmas of Social Democracies*. Lanham MD: Lexington Books, 2006. Chapters 5 – 8 on Swedish social democracy.

UN study on employment in MERCOSUR. *Generando Trabajo Decente en el MERCOSUR, Empleo y Estrategia de Crecimiento*. Buenos Aires: OIT/Naciones Unidas, 2005

Histories of socialism.



Raymond Williams, Key Words

Small firms in Italy

Max Weber

Peter Drucker

After Capitalism, Post-Capitalism

Emile Durkheim

Max Weber, Wissenschaft als Beruf

C. Wright Mills, The Sociological Imagination

Facultad de Ciencias Economicas, studies of industry in Rosario

#### Websites

[www.bmros.com.ar](http://www.bmros.com.ar)

[www.progress.org](http://www.progress.org)

