In the earlier parts of this series (REHW #461, #460, #459, #458),[1] we asked the most basic political question of our time: Does the economy control us, or do we control it? Is the purpose of the economy to promote prosperity with stability, or is it to create wealth for the few at the expense of the many? The so-called "conservative" majority in this Congress has its own answer to that question. As the NEW YORK TIMES pointed out in an editorial, "The Republicans are rushing through Congress the greatest attempt in modern history to reward the wealthy at the expense of the poor." (10/22/95, pg. E12) We think the TIMES is mistaken in blaming only Republicans; Democrats who call themselves "conservative" are snuffling and drooling at the same trough.

But the liberals deserve their share of blame as well. In this series, we have seen that the economy is being deliberately restructured along lines we call the "low road"[2] --the choice that seeks profit and increased competitiveness by laying off workers and replacing them with temporary workers; by intentionally increasing job insecurity for almost everyone; by reducing the availability of health insurance; by speeding up environmental degradation; by cutting social spending; by reducing regulation; by cutting training; and by reducing taxes on corporations and on the wealthy, shifting the tax burden onto the middle class and the working poor. Both Republicans and Democrats, conservatives and liberals alike, are promoting this low-road restructuring, which cannot lead to either prosperity or stability.

Corporations are selling us the low road, saying it is required by 2 factors: globalization of the economy, and increased competition. Globalization is being greatly exaggerated, to give the impression that the economy is now out of our hands. In actual fact, only about 20% of the American economy involves any foreign trade; roughly 80% of the economy is entirely domestic, and these numbers have not changed much since the early 1980s.[3] It is simply not true that globalization is preventing people from having a say in the economy.

The second factor that supposedly "requires" us to take the low road is increased competition. Competition HAS increased during the past 20 years as the huge mass-production monoliths (Ford, IBM) have been overtaken by a new industrial regime. The low road is one possible response to competition --to turn the U.S. into a country with wages so low that our workforce can compete head-to-head with workers in other countries. Goodbye middle class and goodbye stability.

The alternative choice --the "high road" --centers on high-quality competition and the inputs that make such competition possible: worker involvement in decisions; worker training; timely information about new technologies and about markets; economic cooperation between firms, and between firms and communities; moral standards on the treatment of people; environmental standards requiring clean production; high quality public goods (which glue urban society together: schools; hospitals; libraries; mass transit; recreation opportunities, etc.); and the use of state purchasing power, and other public mechanisms, to reward high-headers and punish low-headers.

We will describe the "high road" approach at another time. For now, let's continue examining the low road. Typical economic development leads to the low road because of six errors, commonly made by both conservatives and liberals:

Error 1: Typical economic development promotes job growth without regard for the kind of jobs generated. This does nothing to promote the general welfare, and often actually reduces it. Through competition, new low-wage jobs drag down wages elsewhere. This erodes the overall tax base, leading to cutbacks in needed public services (transportation, libraries, schools, hospitals, etc.), which in turn causes people to move to the suburbs, leading to metropolitan decline, absolute job loss, and all of the social problems linked to a chronically unemployed, uneducated inner-city population. All of which, in turn, confirms the typical view that jobs --any kind of jobs --are what is needed.

Error 2: Typical economic development focuses on attracting new businesses rather than retaining and renewing existing ones. Yet the best evidence from the U.S. and abroad shows that metropolitan economies thrive when their core businesses upgrade, or link to one another to realize new economies of "scope," or attract or spin off related businesses, which benefit from being near industry leaders. Upgrading, networking, and incubating local firms, however, requires support in the form of technical assistance, training, and the efficient supply of modern public goods (schools, libraries, etc.). And providing all of these is more difficult, although in the long run far more satisfying, than simply "doing a deal" to attract another Walmart.

Error 3: Typical economic development uses generic tax abatements and other fiscal giveaways, rather than targeted breaks and regulation, as magnets for development. Again, the best evidence is that traditional "enterprise zone"-type developments (i.e., tax abatements and other giveaways with no prior conditions on them except perhaps "best efforts" to create X jobs of any kind) simply do not work, and eventually erode a city's fiscal base.[4] The jobs created in a more-or-less fully deregulated economy are seldom high-paying or associated with significant capital investment. On the other hand, there is good evidence that the gradual tightening of controls over production --requiring a livable minimum wage for labor, or curbing toxic emissions --can push business to innovate in ways that improve productivity and improve the quality of community life. The productivity increase is achieved by boosting the cost of factors of production (e.g., increasing wages), thereby creating incentives for their more efficient and productive use. Regulation can be oppressive and inefficient, or it can be the opposite, depending on the match to the problem regulated. [5] But this requires a willingness to impose, from a weak bargaining position, significant costs on business. And it requires a willingness (and the ability) to insulate those same businesses from ruinous competition from non-complying competitors. This is the crucial policy step that most city governments have been unwilling or unable to make --especially when faced with the loss of high-wage jobs caused by Errors 1 and 2, above.

Error 4: Typical economic development sees greater public control and accountability as bad for the economy. It proceeds from a largely correct idea that government and the general public (if not workers within the firm) are ill-prepared to tell business how best to achieve goals. However, this correct idea gets carried over into the false assumption that the public is incapable of specifying what our economic goals should be, such as full employment for the able-bodied; decent housing, education, and health care for all; an economy that is not obscenely unfair nor massively wasteful of natural resources. Again, however, all evidence shows that modern economies operate best when they can rely on a fair degree of public support for business goals. Public support for business goals is strongest when the public has significant say in setting those goals. And such public support is especially crucial for the modern production systems that cities should be trying to attract. Here we return to a characteristic weakness of liberalism.

Error 5: Typical economic development sees a necessary tradeoff between environmental improvement and jobs. Of course, taking the environment seriously will involve considerable dislocation, resulting from the disruption of many traditional habits of production. But environmental values, like others, can be incorporated into the economy itself. Environmental values should have no effect on the availability of employment at a family-supporting wage. Indeed, the experience of all sorts of metropolitan regions, which once relied on highly polluting industries, suggests that enormous job gains can be reaped by paying serious attention to the market for "green" goods and clean technology. Germany's Ruhr district and Sweden's Smaaland are...
good examples. And there is compelling evidence that environmental regulation has forced regulated industries to achieve enormous efficiency gains and a raft of profitable spinoff products. To realize any of these gains, however, government and the rest of society must be willing to impose some terms on economic deal-making, while at the same time investing in people’s ability to monitor, enforce, and negotiate in the most efficient ways to achieve those values. People’s ability to monitor, enforce, and negotiate is pretty much taboo to a liberal government, especially one driven to passivity and fear by Errors 1 through 4, above.

Error 6: Typical economic development neglects the critical role played by public goods of all kinds—transportation, recreation, education, public safety. Here, local economic development efforts lag behind the learning of many businesses. Many businesses now recognize the importance of easy movement of labor, products, and information; a well-trained workforce; and a nice place to live. These things are important because they help attract highly skilled personnel. Of course, no individual firm wants to pay for these—even though all businesses benefit from them. (Economists call this the ‘free rider’ problem.) If economic development is seen largely as a firm-by-firm ignore-the-social-cost project, this free-rider problem cannot be solved. But if development is aimed specifically at solving these collective action problems, it can solve them—using state requirements and, even more, by greasing the wheels for private actors. However, to do this, government must be willing to invest directly in popular, cross-firm, coordinating institutions (such as training programs), which liberal governments are often not willing to do. As a result, even conventional investment becomes less likely, given the shrinking tax base of a city that has given up its good jobs through Errors 1 through 5.

If typical economic development seems to be a dead end, have we got something better? Yes, and this is what Sustainable America[6] is about. [To be continued.]

--Peter Montague

[1] All Rachel back issues, and hundreds of other documents, are now available via E-mail; send a one-word E-mail message (“info”) to info@rachel.clark.net.

[2] Once again, we are relying heavily upon—a euphemism for stealing shamelessly from—Joel Rogers, Joshua Cohen, Dan Luria, Wolfgang Streeck and others.


[6] To learn about the project, Sustainable America, phone Elaine Gross at (212) 727-4407 or send E-mail to egross@igc.apc.org.