

Chapter 1

Capital vs. Community

ON JUNE 30, 1980, *Business Week* finally sounded the alarm. The decline of the American economy had become so serious that the nation's leading business journal decided to devote an entire special issue to detailing a comprehensive plan for revitalizing the U. S. economy. In a tone of uncharacteristic dismay, the editors concluded:

The U. S. economy must undergo a fundamental change if it is to retain a measure of economic viability let alone leadership in the remaining 20 years of this century. The goal must be nothing less than the reindustrialization of America. A conscious effort to rebuild America's productive capacity is the only real alternative to the precipitous loss of competitiveness of the last 15 years, of which this year's wave of plant closings across the continent is only the most vivid manifestation.¹

The average person did not have to read *Business Week* to know that America was in trouble. Since the early 1970s every day had brought yet another sign of how bad things were becoming.

In Detroit, Polish factory workers, who had been among the hardest hit by wave after wave of automobile plant shutdowns for three straight years, were told that the world's largest car company was willing to

In Pittsburgh, the U. S. Steel Corporation called a press conference to announce that it would permanently close down fourteen mills in eight states (principally in Pennsylvania and Ohio) within the year, thus laying off over 13,000 workers. Its reward was an \$850 million tax break from the federal government, which it later put toward the down payment on the purchase of Marathon Oil.

In southern California, the conglomerate that acquired a nationally known cosmetics firm decided to shut down its entire Los Angeles operation and move it to Tennessee. Although the new acquisition was profitable in Los Angeles, it was not profitable *enough*, according to the standards established by the new owners.

By the beginning of the 1980s, every newscast seemed to contain a story about a plant shutting down, another thousand jobs disappearing from a community, or the frustrations of workers unable to find full-time jobs utilizing their skills and providing enough income to support their families. Despite the ballyhoo surrounding the opening of new high-tech firms in the North and the West, and the expansion of boomtowns in the South, nearly everyone was coming to recognize that something was dangerously amiss. The system that seemed so capable of providing a steadily growing standard of living during the turbulent 1960s had become totally incapable of providing people with a simple home mortgage, a stable job, or a secure pension.

One thing is certain. The economy has, for all practical purposes, ceased to grow. During the 1960s, overall real U. S. economic growth averaged 4.1 percent per year. As a result, the nation's gross national product (GNP) expanded by a hefty 50 percent over the decade. This permitted the average family to enjoy one third more real, spendable income at the end of the decade than at the beginning. People complained about the war and persistent inequality, but—with the notable exception of millions of black, brown, and teenaged workers—few among the great middle class could grumble about the rate at which we were becoming, in Galbraith's words, "the affluent society."

The 1970s were different altogether. GNP grew by only 2.9 percent per year. By 1979 the typical family with a \$20,000 annual income had only 7 percent more real purchasing power than it had a full decade earlier. Ten years had brought a mere \$25 more per week in purchasing power for the average family. Moreover, every bit of this growth came between 1970 and 1973, before the first OPEC price shock. Since 1973

there has been virtually no real income gain. Thus even before the 1980s began, the American standard of living no longer placed us first among the developed nations of the world. In fact, the best we could do was tenth, not counting the Middle Eastern oil sheikdoms of Kuwait and Abu Dhabi. By 1980 Switzerland, Sweden, Denmark, West Germany, Luxembourg, Iceland, France, the Netherlands, and Belgium had all surpassed the United States in per capita GNP.²

That the average Swiss or Danish family enjoys a higher standard of living than that of the average American is disturbing to a generation raised on the unchallenged perception of America as Number One. But the U. S. standard of living does not need to be compared to that of the Swiss or the Danish to recognize the depth of the economic crisis. When he was campaigning for the presidency in 1976, Jimmy Carter suggested the use of a "misery index" to judge just how badly the economy was performing. To compute the misery index, you simply add the inflation and unemployment rates. In 1980 it reached nearly 20 percent, nearly three times its average level during the 1960s.³ Today the mortgage rate might be included in the misery index. If so, the index of misery now common in communities all over the country would be closer to 40 percent—a quantum leap in this measure of distress.

Adding to the economic despair is America's apparent inability to compete in the global marketplace. Our share of the world's manufactured exports has fallen from more than 25 percent to less than 17 percent in the last twenty years, and relative to our strongest competitors, it could easily be argued that we are being rapidly pushed to the sidelines. It is disturbing to learn, for example, that the 1980 trade deficit with Japan reached over \$10 billion. Even more shocking is a listing of the two countries' major exports. In terms of dollar value, the number one Japanese product sold to America was passenger motor vehicles, followed by iron and steel plates, truck and tractor chassis, radios, motorcycles, and audio and video tape recorders. In contrast, America's top seven exports to Japan, in order of dollar value, were soybeans, corn, fir logs, hemlock logs, coal, wheat, and cotton.⁴ The trade deficit hides the disconcerting fact that, at least with respect to our most important competitor, the United States has been reduced to an agricultural nation trying desperately to compete with the manufacturer of the world's most sophisticated capital and consumer goods.

Deindustrializing America

Underlying the high rates of unemployment, the sluggish growth in the domestic economy, and the failure to successfully compete in the international market is the deindustrialization of America. By *deindustrialization* is meant a widespread, systematic disinvestment in the nation's basic productive capacity. Controversial as it may be, the essential problem with the U. S. economy can be traced to the way capital—in the forms of financial resources and of real plant and equipment—has been diverted from productive investment in our basic national industries into unproductive speculation, mergers and acquisitions, and foreign investment. Left behind are shuttered factories, displaced workers, and a newly emerging group of ghost towns.

The traces of widespread disinvestment show up in an aging capital stock at home and in the diversion of investment resources to American corporate subsidiaries operating abroad. In 1979 the average age of the capital stock, from sprawling factories to intricate machine tools, was 7.1 years.⁵ Hence, much of our productive equipment was put in place when oil prices were much lower. As a consequence, much of the capital stock is energy-inefficient and, for this reason, outmoded. In the steel industry, the capital situation is particularly serious. According to industry experts, the steel companies are modernizing their equipment at less than half the rate needed to keep plants up to date on a twenty-five-year cycle.⁶ Across all sectors in the economy, the average rate of new investment has not even kept pace with the growth in the labor force.⁷

This does not mean that corporate managers are refusing to invest, but only that they are refusing to invest in the basic industries of the country. U. S. Steel has billions to spend, but instead of rebuilding steel capacity, it paid \$6 billion to acquire Marathon Oil of Ohio. General Electric is expanding its capital stock, but not in the United States. During the 1970s, GE expanded its worldwide payroll by 5,000, but it did so by adding 30,000 foreign jobs and reducing its U. S. employment by 25,000. RCA Corporation followed the same strategy, cutting its U. S. employment by 14,000 and increasing its foreign work force by 19,000.⁸ It is the same in the depressed automobile industry. Ford Motor Company reports that more than 40 percent of its capital

budget will be spent outside the United States, while General Motors has given up its plans to build a new multibillion-dollar plant in Kansas City, Missouri, and instead has shifted its capital spending to one of its facilities in Spain.⁹

The movement of capital can take many forms that progress from the virtually invisible to the drastic and dramatic. The most subtle policy consists of the redirection of profits generated from a particular plant's operations without management tampering with the establishment itself. For example, the managers of a multibranch corporation may decide to reallocate profits earned from a particular plant's operations to new facilities or for new product development. Such "milking" of a profitable plant turns out to be especially common among conglomerates, whose managers are trained to treat certain of their acquired subsidiaries as "cash cows" (a term they themselves use). The older plant is not run down or dismantled in the short run. However, the loss of control over retained earnings increases the subsidiary's chances of encountering trouble in the future. A step beyond the milking operation is the conscious decision to reallocate capital by running down a plant simply by failing to replace worn out or obsolete machinery. In this case, management not only uses the profits from an existing operation, but its depreciation reserves as well, for investment elsewhere. Of course, this type of capital reallocation produces a self-fulfilling prophecy. A plant that is not quite productive enough to meet the profit targets set by management will very soon be unable to make any profit at all.

Another method for shifting capital involves physically relocating some of the equipment from one facility to another, or selling off some of the old establishment's capital stock to specialized jobbers. The plant remains in operation for the time being, but often at a much lower level of production. Indeed, the equipment may not even be moved or sold, but simply turned off when the managers decide to subcontract (or "outsource") to another firm part of the work that used to be done in the plant. The physical capital is still there, but from the point of view of production this is also a case of disinvestment.

Finally, management can move capital by completely shutting down a plant. It can sell as many of the old facility's assets as possible. In a few cases it may even load some of the machinery onto flatcars or moving vans and set up essentially the same operation elsewhere. This

last option earned the epithet "runaway shop" in the 1930s, and again in the 1950s, when industries such as shoes, textiles, and apparel left New England for the lower-wage, non-unionized South.

A Trivial Problem?

Because so much disinvestment is invisible to all but those who work on the shop floor or to the managers who actually plan it, there has been a tendency by academic researchers and journalists to recognize deindustrialization only when the plywood goes up over the windows and the "Out of Business" sign is posted, or when a plant is actually relocated physically to another community elsewhere in the country or abroad.

As a consequence of this narrow definition of the problem, there has been a tendency to depict the widespread concern over capital flight and disinvestment as essentially groundless.¹⁰ And, indeed, if only plants that are physically moved from one place to another are counted, the problem does appear trivial. Using data from the Dun and Bradstreet Company (D & B), a well-known private business credit-rating service, David Birch of M.I.T. has shown that between 1969 and 1976 only about 2 percent of all annual employment change in the private sector in the United States was the result of runaway shops.¹¹

Perhaps because of such statistics on capital "flight," some analysts believe that the pace of capital transfer (particularly out of the older "sunset" industries) has not been rapid enough. M.I.T. economist Lester Thurow is probably the most highly respected advocate of this position:

To have the labor and capital to move into new areas we must be able to withdraw labor and capital from old, low-productivity areas. But . . . disinvestment is what our economy does worst. Instead of adopting public policies to speed up the process of disinvestment, we act to slow it down with protection and subsidies for the inefficient.¹²

Thurow believes that unless we learn to disinvest more rapidly, America will never again be able to compete effectively in the international marketplace.

This idea is certainly not a new one. Forty years ago Joseph Schumpeter wrote that capitalist economies can only evolve to higher levels of prosperity through a "process of Creative Destruction."¹³ According to Schumpeter, a healthy economy requires perpetual reincarnation. The old industrial order, like a forest with its cycle of decay and renewal, must undergo constant transformation to provide the material sustenance for fresh enterprise. If this fails to occur, the economy and the entire society surrounding it will stagnate and eventually crumble. In essence, burgeoning modern industries, such as those that produce sophisticated mini-computers or fast-food chains that annually spew out billions of identical cheeseburgers, arise from the remains of pre-viously obsolete textile, steel, and automobile plants. Disinvestment, and lots of it, provides the only engine for reinvestment somewhere else.

Is it possible that America's real problem is not enough disinvestment? Certainly, looking no further than Birch's famous 2 percent figure, one would probably have to agree with Thurow. But looking just below the surface and taking into account *all* the ways that capital moves, a very different conclusion is in order.

Using the same data base that Birch uses, one finds the amount of job loss due to disinvestment is anything but trivial. In fact, once all the ways that a plant (or store or office) can be closed down (or made obsolete) are accounted for, it is evident that somewhere between 32 and 38 million jobs were lost during the 1970s as the direct result of private disinvestment in American business. The chances of even a large, established manufacturing plant closing down within a given seven-year period during the last decade exceeded 30 percent. The life of smaller firms has become so precarious that only two out of five establishments that existed in 1969 were still in business under the same owners in 1976. As a result of plant closings in New England industries such as shoes and apparel, anywhere from two to four jobs were eliminated for every single new job created by new capital invested elsewhere in the region. And this disinvestment phenomenon was hardly limited to the old mill-based industries. In the New England aircraft industry, 3.6 jobs were destroyed for every new one created; in the metalworking machine industry the ratio was 1.6 to 1.0.

Moreover, contrary to popular belief, the deindustrialization process has not been limited to the "Frostbelt." Almost half the jobs lost to plant closings (and relocations) during the 1970s occurred in the Sun-

belt states of the South and the West. In fact, the odds of a southern manufacturing plant shutting down were actually a little *higher* than for establishments in the North. Bankruptcies were responsible for some of the job losses, but a great many of the shutdowns occurred in establishments owned and operated by profitable companies. Traditional business failure may explain a substantial proportion of the closings of very small, independently owned businesses, but in an era of huge conglomerates and multinational, multiunit enterprises, the major reason for disinvestment lies elsewhere.

The Personal and Social Costs of Deindustrialization

It would be convenient if there were some simple way to define, let alone measure, the optimal amount of disinvestment. Then there would be a standard against which to test the actual amounts of "creation" and "destruction" associated with the capital investment decisions of corporate managers. A possible estimate could be made as to how the victims of deindustrialization should be compensated for their losses. Unfortunately no such simple balancing of costs and benefits is even remotely possible. At best what the process of creative destruction is supposed to do for the economy can be compared with its actual consequences.

Doing this reveals an enormous amount of evidence that the economic reincarnation process is not working according to the book. Disinvestment is supposed to free labor and capital from relatively unproductive uses in order to put them to work in more productive ones. But very often this is not the case. Virtually all studies of workers who lose their jobs as the result of a plant closing show that a large proportion of the unemployed take years to recover their lost earnings and many never find comparable work at all. For example, automobile workers who lose their jobs in this high productivity industry are found two years later to be in jobs that pay on the average 45 percent less. Even six years after losing their jobs, these workers have recovered only about five sixths of the salaries they would have been earning had they not been laid off. Similar long-term earnings losses are recorded for steel

workers, meat packers, aircraft employees, and those who refine petroleum, produce flat glass, and make men's clothing.¹⁴ These are not merely personal losses, for when a worker is forced out of a high productivity job into a low productivity job, all of society suffers. Real productivity goes down when the experienced, skilled autoworker in Flint, Michigan, ends up buffing cars in the local car wash.

The same is true for investment capital. Moving resources out of an obsolete textile mill into a new high-tech factory may increase the productivity of those working with the new equipment, while society may benefit from the products of the new industry. But this will almost definitely not be the case when the resources that are released are used merely to acquire another existing business, to speculate in real estate or pork bellies, or to shift investment abroad.

The costs of disinvestment go well beyond lost wages and foregone productivity. Workers and their families suffer serious physical and emotional health problems when their employers suddenly shut down operations, and the community as a whole experiences a loss of revenue needed for supporting police and fire protection, schools, and parks. Entire cities and towns can be brought to the brink of bankruptcy, as has happened in Detroit, Cleveland, and a host of smaller municipalities throughout the industrial Midwest. The creative destruction process breaks down in an obvious way when deindustrialization produces permanently elevated levels of unemployment. The U. S. Bureau of Economic Analysis has estimated that each one-point increase in the unemployment rate, sustained over an entire year, costs the American economy more than \$68 billion in foregone gross national product, \$20 billion in federal tax revenues, and \$3.3 billion in added expenditures for unemployment benefits, food stamps, and other forms of public aid.¹⁵

What about the bright side of the Schumpeterian process—the newly developing sectors and regions that benefit from the vast influx of fresh capital? Do these "sunrise" sectors make up for the losses elsewhere and make the whole process worthwhile? The evidence from the growth areas is not auspicious.

Boomtowns like Houston, Texas, that have doubled in population since 1960 have had their highway, water, sewer, and school systems stretched to the limit, as capital has rushed in to take advantage of the "good business climate." The lopsided development that goes along

with such frenzied capital investment almost invariably leaves its mark: abject poverty counterposed to extravagant wealth, a despoiled environment, and crime rates that eclipse even those in the deindustrialized regions from which capital is fleeing.

Moreover, with industry moving so rapidly, those who lose their jobs in the older sectors of the economy rarely have a chance at employment in the new ones—even within the same region. As a result, the creative destruction process has become synonymous with our conception of the “throwaway” culture. Instead of recycling people and communities through the development process, the pace of capital mobility has become so fast that people and communities are carelessly discarded to make room for new ones.

Supply-Side Metaphysics and Other Explanations for the Crisis

The laid-off steelworker in Ohio and the young couple in California in search of an affordable mortgage experience the current economic crisis in the United States in different ways. But they all share the feeling that something has gone badly awry. Whenever things do go wrong with the economy, even temporarily, there is no limit to the number of explanations that suddenly appear. This certainly was the case during the Great Depression, which in its own time was attributed to nearly everything from prohibition to sunspots. Astrologers and numerologists were then as prominent as economists (and on the average their explanations may have been no more unreasonable!). We are in such a time again.

For a tiny, but influential, clique of self-described neo-conservatives, the root of the current crisis is to be found, not in some technical maladjustment in the economic machinery, but deep in the moral fiber of society. Sociologists like Amitai Etzioni and writers like George Gilder and Irving Kristol warn of an insidious moral decadence that has invaded our affluent society.¹⁶ Gilder, whose book *Wealth and Poverty* became an overnight best-seller when it was rumored that President Reagan kept it at his bedside, sums up this perspective well.

The problem of contemporary capitalism lies not chiefly in a deterioration of physical capital, but in a persistent subversion of the psychological means of production—the morale and inspiration of economic man.¹⁷

Essentially, these “spiritual decay” theorists believe that Americans have lost what Gilder calls the “psychological means of production”—the commitment to innovation, entrepreneurship, and old-fashioned hard work. We have simply become too extravagant, Etzioni warns. In contrast, for example, to the earnest Japanese, the average American has “turned away from hard work, saving, entrepreneurship, self-discipline and deferred gratification—the values and behavior traits that historically underlie our progress.”¹⁸ Simply put, we have no one to blame but ourselves. The crisis of American capitalism is fundamentally a crisis of spirit, requiring a moral solution rather than a purely economic one.

While secular theologians like Gilder, Etzioni, and Kristol have made much of the moral corruption of modern society, a larger band of economists has generated more than a little controversy by blaming the entire demise of the U. S. economy on “big government.” Supply-siders like Arthur Laffer, Jude Wanniski, and (the unreconstructed) David Stockman, the director of President Reagan’s Office of Management and Budget, believe that high taxes, generous welfare programs, and business regulation stand as barriers to economic recovery because they allegedly all but eliminate the reward for hard work and provide a strong disincentive to savings and new productive investment.¹⁹ Workers would love to work more, but after they pay the IRS, they are left with so little that it is not worth the effort. Similarly, investors would be willing to sink more into productive capital, but the after-tax rates of return are so meager that it makes more sense to consume their savings in luxurious living or to speculate in tax-sheltered, often unproductive investments. Shrinking the size of government is practically all that is necessary to get the economic engine running again, if these supply-siders are right.

Those who do not blame the average worker or the government for the crisis often blame the Japanese. The entrance to the parking lot at Solidarity House, the United Auto Workers’ international headquarters in Detroit, bears the sign: “Park Your Import in Tokyo!” With 250,000 members of their union on indefinite lay-off, the union’s frus-

tration at seeing the Japanese share of auto sales reach 2.3 million units, or 22 percent of the total domestic market, is understandable. In 1960 the Japanese sold a total of 38,809 cars worldwide.²⁰ By 1979 the Japanese were exporting nearly \$26 billion worth of cars, stereos, video records, televisions, machine tools, and other goods to the United States, \$450 worth for every American family. The United States, however, exported only \$17.5 billion back to Japan.

It is easy to make scapegoats of the American worker, the federal government, and the Japanese. But it turns out to be very hard to make the argument stick. Looking at the number of workers who hold down two jobs to make a decent living, observing the growing incidence of "workaholism," and taking note that in the last decade overall labor force participation increased from 60 to 64 percent, it is hard to argue that people are working less. In surveys, corporate managers rarely describe their own employees as lazy or unproductive. In fact, one such survey, appearing in *Productivity*, a well-regarded monthly business magazine, reports that top managers at 221 major firms cited poor management, weak capital spending, and poor training programs as the major causes of depressed productivity—not workers themselves.²¹

Blaming the crisis on people's declining willingness to save for a rainy day requires somehow explaining a great deal of evidence that personal savings rates have not changed appreciably at any time since the late nineteenth century.²² If the blame is put on high taxes, welfare spending, and business regulation, an explanation somehow has to be found for how fifteen other countries (including Germany, Sweden, and Italy) collected a higher proportion of GNP in taxes and spent more on social welfare, but managed throughout most of the 1970s to record greater economic growth than the United States.²³ And blaming our troubles on the Japanese hardly takes away from the fact that we buy Japanese products not because they cost less—in most cases they no longer do—but because they have learned how to build more attractive and better quality products. Clearly, the blame for deindustrialization rests elsewhere.

Managerial Strategy and Class Struggle in the Postwar Era

Deindustrialization does not just happen. Conscious decisions have to be made by corporate managers to move a factory from one location to another, to buy up a going concern or to dispose of one, or to shut down a facility altogether. These things never happen automatically nor are they simply a passive response to mysterious market forces. The planning behind such decisions is usually intricate, often costly, and extensive.

Deindustrialization is the outcome of a worldwide crisis in the economic system. The very successes of the long postwar expansion generated conditions that ultimately turned the normal, and often healthy, disinvestment process into a torrent of capital flight and wholesale deindustrialization. During the boom years, U. S. economic expansion abroad generated enormous short-run profits, but in the course of doing this it helped to establish excess (unused) productive capacity in one basic industry after another. Through their multinational subsidiaries and the profitable sale of patents and licenses to foreign enterprises, the leading American firms even helped to generate their own future competition. In the 1970s this competition came back to haunt them in virtually every major industry: steel, automobiles, shipbuilding, and electronics, to name a few.

With no rational way to divide up the international market, U. S. firms found themselves subject to intense world competition and as a consequence, shrinking profits. One possible reaction to this situation would have been to try to meet the new competition in the old-fashioned way—an active search for new markets, increased research and development, and investments in more efficient technology. Some American firms took this route, but many more decided instead to abandon the competition altogether (as in electronics), to reduce their investments (as in steel), or to focus all their energies on reducing labor costs and circumventing public sector taxes and regulations. In a desperate attempt to restore, or preserve, the rates of profit to which they had become accustomed in the halcyon days of the 1950s and 1960s, American corporate managers in the 1970s went to extraordinary lengths to shift capital as rapidly as possible, from one activity, one

region, and one nation to another. In the process, the industrial base of the American economy began to come apart at the seams.

To be sure, capital flight has always been a tactic that management wished to have at its disposal in order to "discipline" labor and to assure itself of a favorable business climate wherever it set up operations. But only in the last two decades has systematic disinvestment become, from management's perspective, a necessary strategy, and from a technological perspective, a feasible one.

It is crucial to view this development in the light of post-World War II economic history. It was not only international competition that was threatening corporate profits. The postwar series of labor victories that successfully constrained the flexibility of management by regulating the workplace and forcing the corporate sector to underwrite part of the costs of the "social safety net" also contributed to the profit squeeze.

From the middle of the 1930s to the 1970s, organized labor in the United States won major concessions on a broad set of issues that ultimately limited capital's flexibility in its use of labor. One indicator of this loss in flexibility and of the subversion of unquestioned managerial discretion can be found in the sheer size of the contract documents negotiated between unions and employers. The initial agreement between the United Automobile Workers (UAW) and General Motors (GM), signed in 1937, covered less than one-and-a-half pages and contained only one provision: union recognition. By 1979 the UAW-GM contract, with its extensive array of provisions covering each of the company's 140 production units, contained literally thousands of pages printed in proverbial small type. In exacting detail the contract specifies hundreds of items from wage scales and a cornucopia of fringe benefits to limits on subcontracting and the pacing of each machine and assembly line; it even goes so far as to establish some rules governing the introduction of new technology.

Each of these rules and regulations was forced into place by labor for the explicit purpose of increasing job security and limiting the discretionary power of management. With the important—indeed absolutely critical—exception of limiting the right of management to reduce the aggregate size of its labor force, these incursions by organized labor were highly successful. As long as management had to deal with labor where workers were well organized, it was constrained to operate within the set of rules that unions had long struggled to secure.

Moreover, using the power of the State, labor won important concessions from industry through the regulatory process. Minimum wages, fair labor standards, occupational health and safety provisions, equal employment opportunity, extended unemployment benefits, and improvements in workers' compensation constitute only a partial list of the gains made by labor during this period. Taken together, these victories limited management's ability to extract the last ounce of productivity from labor and thus the last ounce of profit.

During the heyday of American economic power, from 1945 to about 1971, industrialists were able to reap healthy profits while affording these concessions to organized labor. The so-called social contract between labor and management even proved advantageous to the corporate sector, for it assured some semblance of labor peace needed for continued economic expansion. Corporations did not complain as bitterly in the early 1960s when they were earning an average annual real rate of return of 15.5 percent on their investments. Their attitudes changed dramatically, however, when profits began to slip near the end of the decade. By the late 1960s, the profit rate for non-financial corporations had declined to 12.7 percent. It fell further as the result of increased international competition. By the early 1970s, the average rate had declined to 10.1 percent, and after 1975, it never rose above 10 percent again.²⁴

Management found that it could no longer afford the social contract and maintain its accustomed level of profit. Instead of accepting the new realities of the world marketplace, one firm after another began to contemplate fresh ways to circumvent union rules and to hold the line on wages. Of course, labor was not initially ready to concede its hard-won victories; therefore to accomplish its goal of reasserting its authority, management had to find some mechanism for disarming organized labor of its standard weapons: the grievance process, various job actions, and work stoppages. The solution was capital mobility. If labor was unwilling to moderate its demands, the prescription became "move"—or at least threaten to do so. For one enterprise, this entailed disinvestment. When entire industries adopted this strategy, the result was deindustrialization.

The capital mobility option had always been available to some extent. The early American canal systems and the coming of the steam locomotive allowed the transfer of production to new communities

along the new transportation routes. What is different today is the distance and speed over which that transfer can take place. Satellite-linked telex communication and wide-bodied cargo jets provide a technical environment that has allowed production to become far more spatially "footloose" than ever before. The linking of communications systems to computers permits central management to coordinate worldwide operations at lightning speed, while jet aircraft permit the movement of physical commodities at near the velocity of sound—a far cry from the 3.2 mile per hour of barge traffic on the Erie Canal in the 1840s.

The capital mobility option provided by the new technology has shifted the fulcrum of bargaining power in favor of capital to an unprecedented degree. It gives employers the ability to effectively insist upon smaller wage improvements or, as has been seen in an increasing number of core industries, actual wage rollbacks. In essence, the capital mobility option provides industry with the power to make "take it or leave it" propositions stick. There are some signs in the auto, steel, and rubber industries that the strategy is actually beginning to work. But the cost to workers and communities in the form of plant closings and labor displacement has been enormous.

The capital mobility strategy is not merely aimed at organized labor. The newly enhanced ability to move capital between regions within the same country provides corporate management with the necessary economic and political clout to insist upon reductions in local taxation, and therefore cuts in community services and the social safety net. The competition between local governments to retain existing capital or to attract new private investment is leading to an extraordinary retrenchment in social programs as we have known them. The most noteworthy victories of the corporate sector in this regard are found in Proposition 13 in California and Proposition 2½ in Massachusetts. These substantial tax cuts were actively supported by the banking and business communities of each state, which suggested that failure of passage would seriously undermine the "business climate" in their regions. The interregional rivalry to attract capital, in light of the high degree of threatened or real capital mobility, has led the business press to write that the nation is in the midst of a new civil war—a new "war between the states."²⁵ Without the heightened ability to move capital, this could not have happened.

The election of Ronald Reagan elevated the "civil war" to a new level. To reindustrialize America, the federal government is insisting on creating a "good business climate" in the United States through extreme cuts in corporate taxes, drastic reductions in the government's guarantee of the social safety net, and the virtual deregulation of the private sector. Washington has joined the corporate sector in declaring a class war on workers and their communities.

Ironically, there were those in the business community who foresaw this a long time ago. In a special commentary in October 1974, *Business Week* predicted a slower growing economy in which

some people will obviously have to do with less, or with substitutes, so that the economy as a whole can get the most mileage out of available capital Indeed, cities and states, the home mortgage market, small business, and the consumer, will all get less than they want because the basic health of the U. S. is based on the basic health of its corporations, and banks: the biggest borrowers and the biggest lenders. Compromises, in terms of who gets and who does without, that would have been unthinkable only a few years ago, will be made in the coming years because the economic future not only of the U. S. but also of the whole world is on the line today.²⁶

The editors went on to observe that the idea that income and resources would have to be redistributed to big business would be a hard pill to swallow. To get the American people to swallow it, they predicted, was going to require a "selling job" beyond anything that any country had attempted in modern times.

The Contradiction Between Capital and Community

At the root of all of this is a fundamental struggle between capital and community. In a brilliant paper, planning theorist John Friedmann of UCLA, has developed a particularly dramatic formulation of the contradiction between the imperatives of capital and people's need for community and economic security. It is so beautifully formulated that it is worth quoting at length:

Two geographies together constitute a "unity of opposites." I shall call them *life space* and *economic space*. Although both are necessary for the sustenance of modern societies, they are inherently in conflict with each other. Over the last two centuries, economic space has been subverting, invading, and fragmenting the life spaces of individuals and communities.

Life space is at once the theater of life, understood as a convivial life, and an expression of it. . . . Life spaces exist at different scales [and] are typically bounded, territorial spaces. . . . Places have names. They constitute political communities.

In contrast, economic space is abstract and discontinuous, consisting primarily of locations (nodes) and linkages (flows of commodities, capital, labor, and information). As an abstract space, it undergoes continuous change and transformation.

Economic space is open and unlimited; it can expand in all directions. Indeed, its continuous expansion is vital to the reproduction of capitalist relations as a whole. Expansion occurs ruthlessly. . . .

We can see the result in the dissolution of life spaces and their progressive assimilation to economic space. The capitalist city has no reverence for life. It bulldozes over neighborhoods to make way for business. It abandons entire regions, because profits are greater somewhere else. Deprived of their life spaces, people's lives are reduced to a purely economic dimension as workers and consumers—so long, at least, as there is work.²⁷

What deindustrialization ignores is that "people want to improve their community, not abdicate from it."²⁸ An unfettered investment policy destroys communities and personal assets while it creates an industrial "refugee" crisis of serious proportion—whole subcommunities without life space or work. Ultimately the process of creative destruction is unsustainable, as Joseph Schumpeter himself reluctantly admitted in sections of his classic work seldom cited by his more recent admirers:

Can capitalism survive? No, I do not think it can. . . . its very success undermines the social institutions which protect it, and inevitably creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent.²⁹

In the long run, people simply will not accept the degree of instability, insecurity, and other expressions of "pure rationality" that the process requires. As Schumpeter implied, capitalism and democracy are ultimately incompatible.

The Great Reindustrialization Debate is over precisely these issues. How do we build a stable, humane, equitable community and still have economic growth? And how can we go about the business of constructing a productive economy which produces livelihoods without destroying lives?