INDUSTRIAL DISEASE

~ SOFT CURES in the NEOECONOMY ~

~ Scott C. Addison ~

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Foreword, 2009

I) ORIGINS, OPENINGS:

"INDUSTRIAL DISEASE..." was conceived and written in 1992-93, at a juncture in American politics similar to today's, though far less dire: A new Democratic administration was elected in the wake of a recession, riding a wry bumper-sticker slogan – *"It's the Economy, Stupid"* – and came in with promises of policy change. Republicans had run the White House for 20 of the prior 24 years... this was the fifth major downturn under their Presidencies during this time, and the third in only 10 years. There was a broad public consensus that their corporate crony "Supply-Side" precepts were finally exhausted and disgraced, and it was an opportunity to restore and renew democratic principles in our economic life.

The incoming Clinton Team was indeed promising: The President-elect had campaigned against NAFTA ('North American Free Trade Agreement'), the first of the trans-national pacts sanctioning capital export to Mexico & beyond, proposed as a boon to American consumers. In opposing this he garnered support of organized labor in the name of preserving American jobs. During the transition they conducted two televised 'economic summits', drawing in perspectives from a variety of experts & advocates on public-interest economics. The agenda encompassed an intriguing range of visions, from New Deal to New Age, and the Team seemed receptive. I took special note of comments by Clinton and Gore indicating that they were fairly well-versed on the erosion of the manufacturing sectors, and responsive to these concerns.

As a planner, I had already been working on industrial retention & redevelopment problems since 1982, proffering site-focused strategies and sustainable models of productive economics – albeit against the winds, bucking the white-collar bias of local agencies and mercantile trends of business & government. I had launched this research seeing the patterns of industrial loss and dislocation already ongoing in U.S. cities, knowing the need of this work, forewarning the consequences of neglect with our economic base exported abroad. Ten years later, for the first time in these endeavors, there was the prospect of a real 'Industrial Policy' of Federal sweep, and of putting such strategies to work in supportive programs.

They invited new ideas, and I had some to offer... so I contacted Clinton's transition office, and then the newly-formed 'National Economic Council', and agreed to present them in writing. However what I had to say was not going to fit in a short polite letter of opinion and appeal. The real issues could not be narrowly pegged amidst the polyglot of liberal interests, vying for reapportioned 'pieces of the pie'. And where prevailing policy influences drift in habitual logics, presupposing more of the same and an ever-bigger 'pie', these ideas were different in kind & scale.

What that auspicious moment needed was a new analysis of the whole 'bakery'. Macroeconomic theory *as-applied* had seen no major advances since Keynes, and endured political setbacks in guises of market fundamentalism, deregulation, & 'Free Trade' ideologies. The sway of the Chicago School was little more than a throwback to *laissez-faire* capitalism in the patronage of the Reagan years, a long rationale for corporate license. In a time of unprecedented capital mobility, concentration, and market power, such policies would inevitably push the system to imbalance. Ongoing trends and foreseeable outcomes called for holistic re-thinking and saving innovations, drawing upon discoveries and awakenings of recent decades – while there was still time for incremental measures, graceful transitions.

This is what a real planner is supposed to do. It was going to be an ambitious piece of writing in this purpose, and fittingly took over two months to complete.

What emerged was an *economic research and policy essay* – a concise structured tome covering a lot of ground, not my ideas alone: First, it was an integrative survey of new economic literature, pulling in advanced scholarship and insights in four broad areas – *sustainability, regionalism, investment, urban design*. Innovators had put out good ideas under these themes, challenging prevailing economic views; each was provocative on key points, some tied the issues together, but none of this had yet posited an embracing alternative model.

The writing attempted to synthesize these ideas and themes in the big picture, as conceptual grounds for an evolved theory of *"NeoEconomics"* – a purposeful coinage to suggest a clear break from the past. Where social & environmental impacts were treated as 'externalities' in economic decisions, this could not persist... and with political diatribes fixed on macro-formulas and trans-national commerce, economic health was more truly measured by local livelihoods and regional diversity. Here these concerns, and our interconnectedness in economic life, became core principles in a new working model, with incentives aligned in a global systems view.

Then it went further, bringing a pragmatic agenda to the new administration, following the same broad themes: It proposed specific policy actions and program initiatives in due balance – viable transformative steps to restore the primacy of productive work, align supports and incentives, and stabilize the economic future. In the exploratory nature of real change, it set forth pilot projects to develop new methods, and lines of research for new analytic tools in accord – mindful of the need to build NeoEconomics as an evolving science & art of the public interest.

Hence, *"INDUSTRIAL DISEASE – Soft Cures in the NeoEconomy"*... it was presented to the White House in February 1993, and followed up with phone calls & correspondence over the ensuing weeks. The plan was to meet with staff of the National Economic Council when I traveled to Washington in July, but it didn't work out that way.

ii) POLITRIX:

As the new administration settled in, there were signals of backpedaling and 'business-as-usual', with corporate players from the finance & technology sectors getting entrenched, wielding influence, and being important. Then in June Clinton reversed his campaign positions and endorsed NAFTA – apparently a political ploy to endear Republicans and woo support for his health care agenda. Of course it did not work to those ends either, but in its immediate effects, this move blew off the labor/progressive constituents who had elected him, and made real economic change a moot point: He bought into the religion of the 'Global Economy', embraced financial deregulation, extended "most favored" trade status to China – then rode the built-in booms of the 1990's, in speculative real estate, mass retail, deep finance, and high technology.

As U.S. factories kept shutting down and manufacturing imports flooded in, the 'Free Trade' debate raged on – over domestic job losses as before, and with new reactions against incursions of commercial 'monoculture' upon local customs and sovereignty around the world. |Its proponents assured that it was good for American business & consumers, that new markets would open up and prices would be low – not to worry. U.S. trade deficits kept increasing, but monetary impacts were deferred as the dollar was propped up artificially in the currency trade, keeping imports cheap. Meanwhile with spending cuts and new revenues, the Federal budget went to surplus for the first time in decades, so the fiscal conservatives were placated too.

The Clinton era was a natural historic moment of demographic growth, new technology, expanding markets and apparent prosperity... the policy call was for evermore of the same:

There was no political will to examine core structural flaws & trends in the economy, to preserve production capabilities, discern phantom wealth, foresee crisis, or to contemplate alternative models. The policies, windfalls, and pie-eyed optimism of the 1990's did not invalidate or disprove these ideas, or make them passé – they were only deferred for some later time of inescapable necessity, now upon us.

It's not like there were no warning signs – the Japanese real estate collapse, swelling Third World debt, the Mexican bank bailout, the leveraged buyouts & stripped assets, and finally the "dot.com" tech-sector bust in 1999. That year also saw the 'Battle in Seattle', with major protests against World Trade Organization pacts, and our deepening complicities in global imbalance. These situations were cast as passing localized problems, peripheral 'market adjustments', and the opposition as protectionism and 'disruptions' against progress. But they foretold in microcosm the forces in the 'global' economic system, and the stresses in world culture, that would be amplified in the ensuing years. Unfortunately there were no political incentives in such foresight.

After the 2000 election, arguably there was little will or capacity to foresee anything:
The Bush administration was bent on restoring the 'supply-side' agenda, re-cranking the ideologies of corporate tax cuts and financial deregulation, and plunging the country into war.
Its business was to divert the treasury to no-bid, cost-plus patronage, and stand by as profiteering and profligate fraud got entrenched in the energy, finance, mass retail, and housing sectors.
The Enron collapse was a harbinger of economic events to come; the scandal revealed the predations of the leverage brokers, their power to manipulate markets – and Ken Lay was the President's good buddy. Meanwhile Bush tried to privatize Social Security, crowed on the "Ownership Society", and sacked finance restrictions & oversight. The mortgage crisis was brewing and fully anticipated for several years, and blithely ignored by policymakers.

Following the sloppy but comfortable excesses of the 1990's, the Bush years spawned the perfect storm... the resurrection of 'voodoo economics' milked the cash flows, sapped consumers, drained the coffers, and piled up empty assets built on debt. The pump price of gasoline more than tripled, bumping well over $4 a gallon last year. The world's richest country could no longer put shirts on our backs or shoes on our feet, with such industries gone from our shores -- and with continuing record trade deficits, at some point the U.S. dollar had to drop. The pro-trade pundits forgot mention this effect, with currency devaluation erasing the prior advantage to consumers, pushing prices up in a time of recession and duress. In the nature of compounding error in flawed systems, and Murphy's Law, everything that could go wrong Was Going Wrong.

By mid-2008, the American/Global economic system had nowhere to go but Down.
As the financial giants began to fall with cascading economic effects, the headlines shocked the public and the political campaigns – but for me the themes woven in the news were ruefully familiar, all the perils foreseen in 1993: "Welcome to my Nightmare...." *(Alice Cooper).*

Of course Bush suddenly woke to the "crisis", demanded urgent action on massive finance-sector bailouts, and got his way again. So as a parting shot, this lame-duck President managed to pilfer $750 Billion from the U.S. Treasury for the aid and sustenance of needy bankers.

Apparently socialism for the rich was OK... it seemed no accident that our money was going to save the institutions that had caused our problems, upon the new dictum *"too big to fail",* with little accountability for its use. In the political heat, they stopped calling it a 'bailout', and sold the public on the need for 'rescue' and 'restoring liquidity'. As events devolved, behind the glib banter from media wonks, familiar experts, and high policy circles, one heard a palpable bafflement, and sensed a gnawing fear that Everything We Knew Was Wrong.

Thereupon this economic time-bomb was handed off to the new Obama administration. Fortunately this team is talented, canny and whole in their views of the commonwealth... though not immune to old influences and bad advice, they avow a commitment to new thinking and real solutions for the long haul. Finally, as if a spell has been broken, the U.S. President espouses elements of a progressive economic policy 40 years in the making. He calls upon a constellation of insights that were valid preventive medicine decades ago, and by their neglect have become essential surgical fixes today. *The 'NeoEconomy' is a big idea whose time has come.*

iii) UN-EDITING:

In republishing *"INDUSTRIAL DISEASE..."* and bringing it forward 16 years later, there is a tactical judgment call: To edit and re-craft the narrative for this moment, to appease new terms & tastes of scholars & wonks who might hear it – or NOT, at the risk of not being heard at all.

I've taken the latter course, mainly: The main body of the piece is left intact in its original scope and purpose, timeless anyway as topical R&D, and still timely as schematic thinking. Only the Epilogue is substantially amended with parting shots on the current economic collapse, and a new sense of urgency. Other than that, a few references are cleaned up, and this new Foreword is added on the front end, to give it historical context and re-direction.

A minimum intervention – of course because it's less work, and needs no further corroboration from politics or academia of the intervening years... such scholarship is left for others. This also gives respect to savvy readers & policymakers this time around – who don't need to be patronized, and are smart enough (we hope) to reframe these ideas in the current economic moment.

There are also solid reasons of substance for this approach:

Most compelling are *authenticity and historicity* – this essay needs to stand as a 1992-93 composition, because it was written *back then,* and this is part of its meaning and force.

In a sense it is an artifact of that moment in political economics, to be preserved true to form – but not to be stigmatized as 'period piece', because these ideas are more relevant now than ever. They foresaged an evolution of economic theory, no longer a matter of pipe dreams or distant conjecture: As events have exhausted supply-side liturgies and neoliberal postures, this evolution is nascent in the hard lessons of 2008-09, and essential to any real solutions.

Hope of economic renewal rides on the necessity of transformation. These principles are now self-evident, these inquiries are now imminent, and must inform our courses of action.

iv) PREVIEW:

The topical scope of this essay is transparent in the Contents, laying out the broad outlines. Its structure and the topology of ideas warrant some explanation, to show where it goes.

The three major sections follow the sense and sequence of an engaged policy conversation – intros positing the situation and posing questions, scholarly expositions exploring best knowledge, pragmatic options for enacting the state-of-the-art. The writing is not meant for hypothesis or idle speculation... its movement resolves in doable discrete actions, in a creative policy view.

Accordingly, the first section is a set-up, with the latter two sections comprising the body of the inquiry, each carrying four broad themes in parallel development – *Logos to Praxis,* economic research to policy formation. In brief sum:

I. Introduction: GOOD NEWS & BAD NEWS

Taking stock of the moment as 1993 brought in the Clinton administration... the overture wryly recaps some economic & political history to explain how we got there, then inquires into the potentials and pitfalls of the situation thenceforth. Seeing interest in new economic ideas, but knowing the predictable course of discussions, the first step is to check our premises: Looking at common themes in the commentaries – *"Infrastructure... Rust Belt... Technology... Trade..."* – we tend to lean on rote rhetoric, piecemeal approaches, and habitual programmatic responses that never worked well, and offered no new answers for the future.

II. THE NEO-ECONOMY

A scholarly survey of breakthrough ideas, following four main disciplines of progressive economic critique – <u>*sustainability*</u>, <u>*regionalism*</u>, <u>*responsible investment*</u>, <u>*urban planning/design*</u>*:* Innovations have arisen independently in these contexts, each posing valuable counterpoints to dominant practices, while presupposing dominant theories. Yet cumulatively they embody the principles and dynamics of a new model in gestation, and find coherence as it evolves: The *'NeoEconomy'* transcends the post-colonial mercantile system in its iniquities, waste, graft, and debt – redefining capital wealth, marshaling resources, restoring real value to labor & land. It demonstrates higher benefits and efficiencies in a *diversified regional model*... it deploys new microeconomic tools to assess needs of sites & sectors, target reinvestment to expand local capabilities, and build balanced living-working communities.

III. POLICY FOR PRODUCERS

A strategic prospectus on policy solutions, following the same disciplines in sequence, putting the good ideas into action – practical reforms and schemes, making near-term remedies and restructuring for the future, with social, environmental, and economic interests in concert. They are presented in expanded outline format, a necessary compromise of scope and detail – showing the cohesion of these principles in a full policy perspective, and the elements of each as live programs & projects on the ground; only the WorkHabs© agenda is solely my proposition. The intent is to create a range of solid tactics, to engage policy & enterprise in needed transitions. The outlines are spare and terse, and the conversation seems incomplete – left open to elaborating reply, as befits an essay that is also a call for new economic dialogues and alliances.

The EPILOGUE speaks for itself, with its original 'soft' invocation for 1993, and a new urgent one for 2009 – on imperatives of the present crisis, and why there's no turning back.

~ Scott Addison, St. Louis MO
March 2009

Dedicated to Victor Steinbrueck, Robert Swann, Jane Jacobs – esteemed rogue pioneers in the stewardship of our towns, lands & commonwealth, and heroes of mine.

I. Introduction:

GOOD NEWS & BAD NEWS

It is a striking irony that *industrial policy* should finally enter the political debate this year... How slow can you go?

The manufacturing sectors have been under attrition for a long time. The historic pattern of disinvestment began to take hold under the Nixon recession and the ensuing 'stagflation' era, and it got serious with the real estate boom of the late 1970s. In the Reagan Era it turned into a state of siege – the union-busting, junk-bonding, trickle-down vogue assaulted the guts of the middle class and left the value-added sectors high and dry.

It was no accident. Reaganomics was never more than a Boomtown Boondoggle; the real agenda was always to entrench the Pentagon with a big cut of the revenue stream, drain currency and capital values by borrowing and brokerage, and indenture the public to generations of debt. Industrial policy should have been the bulwarks of Mondale's campaign in 1984, but he trapped himself trying to out-schmooze and out-gladhand Ronald Reagan, the biggest Gladhand Schmooze in history. The chance was blown; since then all the talk has been about *"competitiveness",* enshrined as the dominant policy theme, and the pressure on producers has mounted.

So, as industrial fixes hit public discourse at last, we have to ask *what is being said*. In synopsis, there are four major themes – "Infrastructure, Rust Belt, Technology, Trade" – all well-worn agendas in policy parlance and familiar Economismo buzzwords in media exposure, all gathered up into a neat package.[1] With the implied symbiosis, it's hard to argue, yet the logic is vulnerable to fallacies of the past. Listening closer, we should hear *what is not being said* – old proverbs built-in as precepts, and new ideas that are ignored.

American policy ventures have been plagued by bad jobs on good ideas – the intent is there, but the implementation is not. Murphy's Law is a ruling force in such matters:
A lot can go wrong, and worthwhile notions can fall to discredit from simple ineptitude.
The prospect of long-term initiatives on the industrial economy also entails the risk of blowing it.
We have to look hard at the pitfalls in the path.

In this light the overall program is like the old 'Good News/Bad News' joke lines, albeit dark humor… the *good news* is that we are engaging some positive ideas on the industrial base, the *bad news* is that we could screw them up and miss important opportunities.

-- Infrastructure:

The longstanding needs of transit, bridges and utilities should be addressed, but the likely public works channels won't get much bang for the buck. Pitching taxpayers' money at these

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1 Judis, John. "Candidates Seek Cure for Industrial Disease"; In These Times, July 8-21, 1992 (16:29; pp. 3,10).

porkbarrel pickings would be throwing a lot of it away on administrative waste, featherbedding and patronage. The means and priorities need some creative thinking… about which projects will count most and spread the benefits, whether they connect with broader local design goals, and how quality and cost-effectiveness can be assured in getting the work done. The thinking should also stretch its contexts, looking to the capabilities of the *social* infrastructure in delivering health, learning and family services to people in working communities.

-- Rust Belt:

Getting the smokestacks belching again is a beatific vision through the prism of patriotic hindsight... 'Productivity in the American Heartland'. However Federal policy toward industry has a legacy of financial bailouts for mega-corporations and elbowing military exports – the 'Good Old Boy/Big Fix' approach. Support for small business and community development agendas has slid; local agencies have hung on old programmatic strings tied to worn-out social service precepts, putting out mostly rhetoric without resources. There have been some modest successes in community-based industrial retention and lending, but overall little in the way of active development of capacities in the low-scale local economy. This is where innovation and revenues are needed most, and where the real opportunities may lie. The great manufacturing monoliths may be a passing breed; new species of smaller, more agile and adaptable producers are the vitality of the future.

-- Technology:

'High-Tech' is clean and sexy, and the idea of targeting investment on critical sectors is promising: It recognizes the obstacles to R & D outlays and the long-term public interest in overcoming them in support of good ideas. But "good ideas" for whom? Historically the technology sectors have been volatile and austere – erratic on boom-bust cycles, narrow in spin-offs for needy communities and secondary sectors. Their importance as economic generators has been overstated as a panacea. Moreover the primary motive of 'competitiveness' in world markets will tend to favor ventures that are very capital-intensive, putting more strain and risk upon financial resources and offering few job-entry opportunities. And once again, the R & D program will tend to favor big firms and strong lobbies.

-- Trade:

"Free Trade" has become a holy icon. The unchallenged theory of market efficiencies has come down to simplistic self-evident axioms against "barriers", and it has been heavily politicized. Despite all the glib polemics, the pending agreements would accelerate capital flight, override environmental protections, undermine resource conservation, and reduce the third world to a string of low-wage labor camps. And the logic breaks down in light of the record; specialized export economies have been more part of the problem than the solution, and the 'Balance-of-Payments' game always has losers. In the local outlook, people know this already. Local agencies in this country – as well as small nations abroad – are pursuing policies to diversify their economies and reduce reliance on goods and services from outside. This is a logic of enlightened self-interest, from hard experience; against it the Free Trade jargon stands in stark paradox and cross-purposes.

Up to now, political responses have been slow and predictable.
The Republicans have droned the diatribe on 'competitiveness', something of a red-herring legacy of supply-side myopia. It is a buzzword that has worked jawbone policy in two ways – explicitly

cheerleading the 'market shakeout' of American productivity (cutting jobs, health & environmental protections), implicitly validating the wild flight of capital worldwide.
Of course they have set up a handful of high-sounding Institutes and Councils with big jobs for their friends; these have served more as ideological hit squads than as forums for real solutions. The "Council on Competitiveness" headed by Vice-President Quayle was the classic case, spearheading attacks on domestic wages and pollution regulations in the name of market parity for favored firms and contributors.

It is encouraging that the new Democratic administration has lent priority to the industrial base and embraced some good alternatives more sympathetic to the American public. But there is a lurking risk that the dominant lines of thinking might still ride the soiled coattails of the liberal tradition. The New Deal introduced the Keynesian notion of 'deficit-financed social services', which ultimately brought on the crises of cumulative inflation and debt. In the Great Society they assumed that problems are solved by setting up agencies – 'economic development by public administration' – which was its failure. These tendencies are almost knee-jerk in economic policy-making, despite all the good intentions and incantations from the Clinton Camp.

Either way we are feeding the fat. For all the budgets and brouhaha, scant little would reach the real places where real resources and skills are needed, nor any vision of real change for an economy that can endure in the future.

II. THE NEO-ECONOMY

If there is finally an emerging political will for an industrial policy that works, it is a hot and telling issue for mainline economists. They have espoused in policy a failed economics of cash extraction and resource exploitation over real production. If we keep talking to the same people, we keep finding no new solutions, a retarded conceptual know-how. We sense that some important things are missing, that somehow we must break through the humdrumming of old themes that preoccupy the press.

The paradox is that some real alternatives have been gestating with scant exposure. Several constellations of new thinking are in the air and beginning to merge. What will evolve is "Neo-Economics", an amalgam of ideas like the 'Unified Field Theory' of productive life – perhaps as ephemeral in economic theory as the one in physics, and no less compelling for the future. These are the big ideas that can raise the stakes on the debate:

❑ SUSTAINABLE DEVELOPMENT:

[A SYNTHESIS]

Historically the polemics of economies and environments have been polarized the interests of one played off against the other. Here they are bound together in purpose, where long-term ecological costs become a first feasibility test and guiding principle for economic activities. Working from this premise, growth strategies build upon (1) new enterprise niches in environmental remediation and full-cycle product/waste processing, and (2) traditional livelihoods in symbiosis with natural systems and resources, enhanced by appropriate technologies.

It is no small irony that pioneering work in this field is now underway in Eastern Europe and Russia, where problems of production breakdown and pollution impacts are severe and concurrent, and where the entire institutional framework is restructuring. They are grappling for new policy directions that link the health and wealth of the land. In China, the agricultural economy is turning to new practices: Where rapid desertification and erosion of *loess* soils has threatened upper basins, massive reforestation has been undertaken to stabilize the landscape and secure farms.

The second mode of "sustainability" is at issue in developing nations, where population pressures and the aggrandizement of cash economies have combined to radically alter traditional land use patterns and disrupt indigenous cultures. The social costs are increasingly evident, along with the loss of ecological knowledge embedded in local ways of life. Experiments in rural resettlement, land reclamation, and forest stewardship are gaining recognition as viable economic strategies, and community land trust principles are being adapted in new ways to secure native tenure and stewardship.

The U.S. experience stands in paradox: The theory of sustainability arose largely from discourses of the American environmental movement, but the practice here has not come very far. The historic contexts have something to do with this: Environmental initiative was vested heavily in the regulatory flurries of the '70s, followed by the enforcement hiatus of Reagan's '80s – in short, the system of compulsions and incentives is weak. Some large firms have instituted changes in production processes and materials to reduce the waste stream[2], but no support has been available for the hands-on research and feasibility work needed to bring this idea into broader application.

Thus *environmental investment* – supporting the needed R&D and special leadwork – is the starting point in a sustainable industrial policy. This is a key thrust in the "Green Plan" concept, advocated by Huey Johnson and the Resource Renewal Institute. They have brought it into play as a high-level policy initiative toward government and business. The model is set forth to guide and enable public agencies in comprehensive management of natural and productive resources, and to encourage corporate practices that are responsive to this mandate. Green Plans have already been enacted in regions and nations abroad, creating a track record of new ideas and actions, showing how environmental and economic goals can be integrated.

[BEYOND ECONOMISM]

But underlying this is a more problematic issue: *America's consumptive gluttony.* Our way of life sucks up a vastly disproportionate share of world resources, and in the last 20 years it has spawned the most rapid rate of land absorption in history. Patterns of resource and land use are linked in a serious bottom-line question: What really needs to be made, how much can we take before the well-being of future generations is compromised any further? Technology has deferred the planet's Malthusian limits, but it has not eliminated them. Real long-term solutions seem to lie in a radical economic notion: LESS ECONOMY, in a sense… meeting needs efficiently, simplifying our wants, measuring progress by quality (vs. quantity) of life and place.

This point is important, and not without antecedents; a number of futurists have looked at the trends and potentials. In their masterwork Communitas, Paul and Percival Goodman envisioned a more even and intimate balance of production and consumption on a local basis, in environments that lent dignity to the simple task and intertwined living and working habitats.[3] Buckminster Fuller foresaw the effects of technology in relieving more and more human work from necessary production, thereby debunking the 'full employment' model of conventional economics. His ideas were driven by the precept of 'doing more with less' – he called it "ephemeralizing" – as a working principle of geodesic design and his view of technology in the world.[4] As this sensibility moves into economic theory, it seeks out ways of meeting needs that have gone unmet, securing things that money can't buy.

It is now widely recognized that 'Gross National Product' is a poor indicator of economic welfare. *"Beyond Economism"* is a major theme in the work of Hazel Henderson, who advocates a variety of parameters that disaggregate the numbers to reflect regional and sectoral conditions,

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2 3M Corporation and THE SILICON VALLEY GUYS were prominent in this discussion at -------, a symposium of the Renewable Resource Institute in March 1992; they talked about policies adopted to mitigate the full spectrum of production-related impacts, and measures ranging from recycled solvents, biodegradable packaging, chemical substitution, and quality control have helped to cut disposal and discharge significantly.]

3 Goodman, Paul and Percival. Communitas – Means of Livelihood and Ways of Life. New York: Random House, 1947, 1960.

4 Fuller, Buckminster. Intuition.....(+ other?)

and to differentiate between 'wealth vs. illth', information vs. disinformation, production vs. parasitism as income factors.[5] These are contributions to a clearer understanding of what economic progress means: Ultimately, what people need should be getting cheaper, leaving more free income and time. This justifiably extends the notion of economic sustainability, from the land to human lives.

❑ BIOREGIONAL ECONOMICS –

[THE LIMITS OF TRADE]

Over the last decade the Bioregional Movement has grown up around a new syllogism: Just as natural land areas and ecosystems are defined by regional watersheds, so do human settlement and social systems work best on a natural regional scale. It has fostered an ethic of living with your land and people – and some challenging ideas on economics, emphasizing native resources, cooperative methods, local exchange systems, and diversification for regional stability and self-sufficiency. This last point is pivotal, with a direct challenge to the mercantile premises of conventional economic thinking:

> Export-based development is under growing critique from local and regional advocates, who see greater self-reliance within the region as the key to a sustainable economic life.

The idea has plenty of history and connections. Regional self-sufficiency goes back to the Jeffersonian vision of America, reverberates through the Utopian movements and communities of the 1800s, echoes in the tomes of theorists and futurists through this century. On a more pragmatic note, it is also the way it was until the transportation explosion of the modern era. Before that, people got all they needed from fairly close by; cities served immediate rural regions with markets and special products, and locales were economically diverse by necessity.

Trade theory assumed that there would be some exchange of goods between regionally specialized sectors – e.g., northern apples for southern oranges – but it did not anticipate such massive mobility of goods and capital, to the extent that whole regions and nations are reduced to cash-crop cogs in a global trade machine, and cannot support themselves. Nor did it foresee the iniquity of wealth and dislocation of peoples that would result.

[BUILDING A NEW MODEL]

An alternative economic vision is evolving. It ties together ideas dealing with the scale of institutions, the relationship of technologies and natural systems, the role of currencies and their source of value, and the pattern of production and exchange. The theory builds upon some germinal perspectives:

- E.F. Schumacher pioneered the progressive response, drawing from local development experiences in poor countries. He chronicled the *diseconomies of scale* that have plagued such efforts in the past, and brought the Gandhian model of community self-help into

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5 Henderson, Hazel. "Beyond Economism," INTERNATIONAL SYNERGY JOURNAL, #9 (Santa Fe, NM, Summer, 1990).

economic science. In this context he demonstrated the application of more accessible *"Intermediate Technology"* solutions, and spawned a generation of new inquiry.[6] In this tradition, the New Alchemy Institute was early and notable; for twenty years they have explored appropriate technologies for restoring natural systems and generating new approaches to *resource-based livelihoods*.

- Jane Jacobs has studied the microeconomics of city development throughout history, from the primal craft and trade in the earliest settlements to the complex divisions of labor in today's metropolis. In this inquiry she deduced that a national economy is only aggregate concept for the *city-regional economies* that compose it – these are the real working entities. In this light she derived the principle of *import replacement* as the driving force in their development.[7] Since the early 1980s the idea has caught on, spawning a number of "buy local" and "homegrown economy" projects that have shown promise as successful pilots. Jacobs also showed how national currencies undercut city-regional economies, preempting the value adjustments and local capital formation that independent currencies would provide.

- In this line of thinking she converged with the work of Robert Swann, Shann Turnbull, and others.[8] As its Director, Swann has moved the Schumacher Institute to pick up the gauntlet and create a *regional currency,* to fill the cash-&-capital gap in western New England. The original thought was to tie its value to a key natural resource of the area – the price of cordwood – but the development took a different course:
  They found untapped equity reservoirs in local labor and business assets. Notes were issued by local firms and farms, selling discounted shares of future production to generate capital. Then an association was formed to pool the value of member skills and resources, and the "BerkShare" was adopted as a consensual currency to be used in local exchange. In effect this network is demonstrating how to capitalize without dollars, and it is the first step in gaining wider acceptance and trust for a new kind of money.

In the goal of bringing the economy back to the land, these ideas coalesce with the Bioregional movement and the holistic framework it offers. But 'Bioregional Economics' *per se* has not yet come around as a real science.

The evolution of these ideas is stuck on two points: [1] The bioregional view has a strong agrarian tilt, with positive images of cities and factories lagging in the vision. [2] They abide as a set of principles built on small-scale experiments and speculation, but there is no rigorous application in macroeconomic theory to demonstrate how bioregional economies would work. A wish list is not a working model.

However with the emergence of new analytic tools, both stalemates can be addressed: There is a growing cache of "Input-Output" and econometric data assembled on a metropolitan or

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6 Schumacher, E.F. Small Is Beautiful: Economics as if People Mattered. Harper and Row, New York; 1973. Good Work. Harper and Row, New York; 1980.

7 Jacobs, Jane. "Cities and the Wealth of Nations." Adapted prior to book publication for The Atlantic, 253:3, March 1984. Earlier development of these ideas appeared in The Economy of Cities (Random House, New York; 1969).

8 Benello, C. George, Robert Swann and Shann Turnbull. Building Sustainable Communities. Bootstrap Press, New York; 1989.

regional scale, showing explicitly how different sectors are related economically – who buys what from whom, and how they are mutually dependent.[9] By linking these models into a *Geographic Information Systems (GIS) analysis,* tiers of demographic, environmental, and economic data can be stacked behind a map to make it come alive as a complex spatial system.

The power of this information can move in a number of practical ways: Linking knowledge of the economy and the environment, it shows how the city and its region are intertwined, which sites and resources are under pressure; and it projects the costs of impacts and remedies, strengthening the rational basis for *regional investment and land use* choices. In local development, new enterprise strategies can be devised by looking at which import sectors can be replaced by local production, what kinds of businesses are growing or needed, where they need to locate, and why – connecting this to data on available sites and their suitabilities. This opens new avenues of insight through a *critical mass analysis* of the local economy, understanding the economic elements that must be brought together for the place to be self-sustaining.[10]
Overall, it is an analytic approach that could actually work for *real* community development.

In a broader sweep, this kind of analysis would allow alternative regional and trans-regional scenarios to be tested. The core inquiry would break down sectoral relationships, profile regional strengths and reciprocities, and determine the optimal *balance of self-sufficiency and trade.* This is an issue that affects the whole footing of industrial policy in the coming years.
It also proffers a new departure in macroeconomic theory, for it is the pivotal motif in defining a Bioregional Economic Model as a workable guide to future choices, and as a bigger way of thinking. Factoring in both Economic and Ecologic effects, and integrating the knowledge, there is conceptual marriage pointing the way to a true *'Ecosophic' science...* something long-awaited.
If future choices are to put these tools to work, the leadwork research needs broad-based support and collaboration.

❑ RESPONSIBLE FINANCE:

[PUTTING OUT THE F.I.R.E.]

The Reagan-Bush economic era never quite faced a jarring paradox:
Even at the peak of the statistical boom of the mid-1980s, manufacturing firms kept shutting down and things kept getting worse for most folks. The media have been slow to acknowledge; it was

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9 The aggregation of economic data on a *regional* basis is a fairly recent innovation; ten years ago such information was not around, and this was a major obstacle to the emergence of usable analytic tools. The "REMI" model (*Regional Economic Models, Incorporated;* Amherst, MA) was the first one in place that could look at sectoral changes and predict regional employment and income effects. Over the past few years a refined model has emerged from the *Regional Economics Applications Laboratory,* a collaborative program of the University of Illinois and the Federal Reserve Bank of Chicago. It goes further in a more detailed breakdown of SIC sectors, and especially in combining input-output *and* econometric iterations in the workings of the model.

10 Addison, Scott C. <u>WorkHabs – Preservation and Reuse of Workplaces</u>. Master's Thesis, University of Washington; April 1984 (pp. 133 - 36). I developed the concept of 'local critical mass' in the course of research in 1982-83, building inferentially upon case studies in many places. This theme was tied into my Master's thesis, documenting fieldwork in Central Montana and the Sacramento Valley of California. This was a key premise in the *physical design approach* to economic development that the thesis offered.

not until the '92 election campaigns that the erosion of the middle class and polarization of incomes have gotten serious play in the coverage. Yet it never got down to looking at WHY this was occurring, where breaking the picture down by sectors would have told a big story. The accumulation of wealth in the "F.I.R.E. Sectors" – Finance, Insurance, Real Estate – was observed as a parallel or symptomatic phenomenon, but never analyzed as a cause of the dilemma.

It is not a new story. Census data over the last fifty years show these sectors in a steady pattern of accretion in their shares of GNP income and employment; this is also true of the government sector, as reflected in taxes and public payrolls. This trend has accelerated rapidly since 1975.

When Harvard political economist (now Secretary of Labor) Robert Reich railed against the "Paper Entrepreneurs" in the mid- 1980s, he surely sniffed something big in the wind.[11] That decade witnessed the junk bond boom, the S&L debacle, skyrocketing personal and public debt, and the fastest polarization of personal incomes since the late 1920s. Recent studies by Robert Swann at the Schumacher Institute indicated that at least 40% of the cost of everything we buy goes ultimately to interest payments on debt service.[12] This offers a sense of all the economic strings that tie us back to the bank, and how pervasive they are in raising the costs of livelihood. It also opens the sober question of whether these sectors have exceeded their legitimate mandate and limits of power, and suggests a deep rift in the structure of the economy.

In our view of the Free Market System, we are conceptually fixed upon a monistic ideal built around the old 'industrial capital' model, with gritty entrepreneurs competing for market share and profiting on their margins over costs. But the reality is dualistic; *finance capitalism* has become a thing apart. In theory and tradition, the F.I.R.E. sectors served the economy in a key role: Vested with aggregated savings, risk, and property, they managed capital to seed enterprise and reinvest on loss or obsolescence. But the role of service in the economy has given way to one of *control over it*.

The basic cause is simple: These sectors operate on entrenched percentages and 'cost-plus' pricing rather than margins. This makes for entirely different incentives in the conduct of business, a fixation upon *moving* money around regardless of where it goes, taking an assured cut of a bigger gross. Moreover the F.I.R.E. sectors are fundamentally different in nature and function:

Where the traditional locus of economic strength lay in owning the 'means of production', controlling the *'medium of exchange'* represents a quantum leap. In net effect, they have penetrated many aspects of our economic and social life – they either have your money now or know how to get it soon. By their fast mastery of data technologies, sophisticated techniques of accounting and market management, and chronic political inertia, this rapid structural shift has been possible for the first time in history. This has positioned F.I.R.E. players for profit regardless of actual service or productivity, and it has concentrated an extraordinary amount of economic power in very few hands.

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11 Reich, Robert. ***** (paper entrepreneurs)

12 Robert Swann brought up this point in a July 1991 personal interview.

[LAND & MONEY]

By various measures it is clear that incomes have polarized rapidly during the Reagan economic era, and this is even more true of the distribution of *wealth*. This distinction is pivotal in the work of NYU economist Edward N. Wolff, who found that from 1983 to 1989 the top 0.5% of American families garnered 55 percent of the growth in household assets, and increased their share of the national total from 26% to 31%. During the same period, "the average wealth holdings of the lower-middle and bottom classes actually declined in real terms."[13]
It is no coincidence that in recent years the U.S. has also seen the most rapid rate of land absorption in history. In most metropolitan areas the urbanized land mass has more than doubled since the early 1970s, and city core densities have skyrocketed as well.

According to Wolff, real estate investment accounts for a big piece of new wealth accumulation, and there are shocking corollaries in how asset holdings have shifted in an historic perspective over this century. A comparison from 1912 to 1989 showed some revealing long-term patterns:

- Gross *housing* wealth as a share of the total increased from 13% to 19%; this does not include the effect of *commercial* real estate, held directly as unincorporated Business Equity or indirectly as Financial Assets.
- Debt is a key indicator: Mortgage debt on real property grew from 11% to 50% over this time-span; and, the overall Debt/Equity ratio burgeoned from 5% to 26%, with the most rapid rise of 6% occurring after 1983.
- As shares of gross assets, Business Equity (including small farms, firms, and properties) declined from 40% to 23%, and Financial Assets increased from 18% to 32%. In effect, the dominant role in overall wealth has reversed over this period, and again the most dramatic changes (-6%, +5%) took place from 1983 to 1989.[14]

In this overall picture, the pattern of Real Estate vesting is pivotal: That portion of 'Business Equity' has shown the most drastic increases over the last thirty years – 24% in 1962, 44% in 1983, 45% in 1989 – and much of the capital growth in the 'Financial Assets' category is also sunk in Real Estate, as indirect holdings through various investment instruments.[15]

The major shift corresponds to the land development boom of the 1970s; from a planning perspective, that is the historic breakpoint, when metropolitan sprawl and downtown densities were pushing the limits. The pattern was sustained through the 1980s as the returns came in, and the 1989 peak may have been the saturation point, beyond which the economy could no longer sustain this diversion of capital.

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13 Moberg, David: "National Wealthcare", In These Times, 11/30/92 (17:1, pp. 8-9). The article reports and quotes a 1992 study by Edward N. Wolff for the Economic Policy Institute.

14 Wolff, Edward N.: "Changing Inequality of Wealth", Papers and Proceedings of the Hundred and Fourth Annual Meeting of the American Economic Association. American Economic Review, May 1992 (v. 82, pp. 552-58).

15 Interview with Edward N. Wolff, 2/12/93. Information on Real Estate as a portion of 'Financial Assets' was not readily available, but he confirmed that it has become a major factor.

The land use perspective reveals a lot about how incentives have been working in the economy overall. First of all, we have to recognize that property appreciation has historically outstripped the general inflation rate; when the real estate market has flattened out, it was only because it had overstretched peoples' ability to pay. In 1989 the National Board of Realtors touted the fact that their industry had passed a benchmark, now accounting for more that 25% of GNP. They offered this as good news to justify continued tax advantages in those sectors.

In fact it was bad news: It meant simply that it was costing everyone more than ever to BE somewhere. It is no coincidence that the latest recession assumed its stubborn grip at about that time. Nor is it an accident that the bubble has finally burst in California and other extremely inflated markets. Customarily the breakdown is blamed on the recession; it is worth a serious look whether it was really more the other way around.

One of the problems in talking about the real estate market is that it is *not a market*, as we understand the term. In the rigorous sense, a 'market' is defined by two tests: (1) Something is bought and sold; (2) price and supply respond directly to demand, and inversely to each other. Surely land is bought and sold, but that is as far as it goes. The Law of Supply and Demand affects micro-economies in terms of comparative locations, costs and users, but it is secondary in the macro big picture because land is intrinsically different from gizmos as an item of trade.

Land is a *finite resource;* where historically accessible open space provided a control on land prices, the 'market' has now created false scarcity by its rapid push to the metropolitan margins, infill saturation, and price ripple effects. But it is an *elastic commodity* in that development multiplies areal space and cash flows in the locale. Because a big part of a property's 'value' is derived from other peoples' money – i.e., the public infrastructure, services, and mainly the other buildings around it – there is a constant pressure to commodify more land and intensify use. When realtors quip glibly about the three major factors in land value ("Location, Location, Location"), they speak quite literally. Development is drawn to cash flows that exist already or are growing rapidly, with the net effect that more space means more money per unit of land area AND floor area.

In short, supply and price are related directly, not inversely; demand plays a modifying role after the fact, but not a controlling role in the structure of land economics. Nor can demand alone explain Suburban Sprawl and Downtown Glut as the dominant behaviors in the real estate sectors over the last twenty years. The boom has been driven by capital, drawn to the extraordinary no-lose bet that real estate has presented, different from all other investment options. The combined forces of market-induced scarcity, density, tax breaks and appreciation have created investment conditions of low risk and high return unmatched in any other sector – at least on paper.
The collapses of the past few years should not be taken as the natural self-regulation that a true market would provide; on the contrary their magnitude testifies to the inherent tendency toward excess in the dynamics of the real estate business. And it suggests how profound its effects have been on the economy overall.

First of all, the mechanisms of *property appreciation* are an aberration in the market system: Financing on property deals is always advanced on speculative value growth; the logic extrapolates on local 'comparables' and assumes continuing appreciation to cover debt service. In effect debt and other soft increments (commissions, fees, inflation bumps, etc.) are rolled into valuation and treated as assets rather than liabilities. And this effect is compounded over time to the extent that property appreciation over the long haul consists largely of interest and percentages taken *from* the land, rather than real value added. This indicates a powerful and pervasive 'cost-push' factor in the overall inflation rate of the economy; in fact, compounded real estate costs are probably the single greatest inflationary force.

Moreover it is evident that real estate has become a black hole for capital, skewing investment incentives throughout the financial world. The crisis of the S&L's, the squeeze on insurance assets and pension funds – all with heavy land leverage in their portfolios – may be traced to the speculative real estate boom gone bust, and this is only the tip of the iceberg. Considering all the capital that has been diverted from productive investment, the cumulative opportunity costs have been huge, and we will be paying for a long time to come.

[INVESTMENT AS RESOURCE]

In light of the 'Capital Squander Quandary', the economy's long-term slide and stratification makes jarring sense, and the solutions need some rethinking.
Policy-making has to understand that the pattern of investment has been distorted:

By *location*, inner-city communities and rural areas have been systematically bypassed; and by *sector*, manufacturers and small businesses have been left out of the high-percentage game. Whether we use money to finance productive enterprise or leveraged buyouts makes a real difference in real effects.
Most fundamentally, we need to recognize that capital is a limited resource – no less than oil, water, soil, or bauxite – to be allocated in the public interest, and to find creative ways of defining and exercising public prerogatives in investment choices.

There are ample precedents, an historic patchwork of public policy supports for fair *neighborhood* investment practices.[16] When the redlining scandals hit the news twenty years ago, a number of cities put controls into ordinances, and some states enacted provisions enabling local banks to set up community development 'Holding Companies' as non-profit subsidiaries.

These measures never had teeth; regardless of the policy strictures, lending criteria still preempted most borrowers in need, and moreover they were swept under the burgeoning interest rates and boomtown incentives in downtown and suburban investments. Local planners have invoked various tools to compensate for core development glut and divert capital to housing and other neighborhood needs – investment "linkage", transfer of development rights, density bonuses, etc. – but these tools are hard to use, subject to challenge, and of varying effect only on a case-by-case basis.

The precedents also work on the *business* side of the picture, where the need to supplement conventional lending channels has long been recognized; subsidized loan programs have operated for years under the Small Business Administration, Economic Development Administration, and other agencies. Facing continuing factory flight, local development organizations have linked loan packaging with industrial retention programs, targeting the needs of existing firms for facilities capital, public services, and improvements. In a few places Community Development Block Grant money was set up in a revolving loan fund in order to augment the

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16 Here we are talking about domestic finance at the local level. As applications of political ends to economic means, there are obvious international precedents as well, notably the *divestiture movement* which has played a key role in moving South Africa beyond apartheid, and of course *trade sanctions,* which the State Department has wielded like a stick for years. The Clinton Administration has already indicated a strong policy on human rights in China, with its 'Favored Nation' trading status at stake.

local financing pool. These efforts have met some success in seeding reinvestment and stabilizing the business community, but again the hard results tend to be case-specific, and the general drift is one of attrition.

The passage of the Community Reinvestment Act should have set a strong standard for local lenders nationwide, but enforcement has been lax and the recourses it provides are arduous and flawed; there have been few real tests.[17] In sum, the political will for equalizing local investment opportunities has been affirmed in a lot of ways, but the means have always fallen short. In responding to the major disequilibrium in the FIRE sectors, the few public counterventions have been ambivalent in scope, stopgap and symptomatic in effect.

A fully integrated strategy is needed, one which can balance the living and working capital needs of whole communities, and reach the economic base with new infusions. In part, it will be done by tying together innovative programs to level the field: *Investment tax credits* and *enterprise zones* are already on the table, *community development banking* and *regional asset pools* are on the near horizon. Yet individual investors are taking a stronger lead by choosing *socially responsible* investment channels, where companies are screened for environmental and labor practices before capital is placed.[18] This movement has picked up steam, and it is setting a standard of performance in finance that should be applied on an industry-wide basis.

On the downside, an urgent caution has to be heard: The mechanisms of capital squander are still very much at work in the financial world, and the bleeding must be stopped. This means applying strong medicine in some key areas of continuing drain:

-- *managing national debt*... There is an emerging case for debt relief on the international scale; this logic can apply to the domestic economy in creative approaches to restructuring it under more manageable terms.[19] This is not an attack on the financial system, but rather an innovation to make it sound.

-- *grounding capital flight*... We have glamorized Global Capital, but we have not come to grips with it costs and the realistic limits that are needed. This is a serious issue underlying the Free Trade debate: The pending pacts carry a hidden high-finance agenda, a new ploy for sure-fire high-return venture capital on cheap cash cropping abroad.[20]

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17 Lehman, H. Jane. "Loan discrimination watchdogs graded below par"; *Chicago Tribune,* 2/21/93 (§16, ppl 1,5L). CRA enforcement falls to four agencies: Commercial banks are overseen by the Federal Reserve, Comptroller of the Currency, and the Federal Deposit Insurance Corp.; the Office of Thrift Supervision monitors savings-&-loans.

18 [referral: Calvert, Working Assets]

19 Where developing economies have been saddled with unbearable debt burdens, policies of debt forgiveness have been necessary to relieve the load; the same is true here. Interest rates do not come from God; there is nothing sacred about guaranteed returns for big bets on bad economics.

20 In the context of international finance and its recent history, the North American Free Trade Agreement has the scent of a mega-scam. For decades the World Bank and International Monetary Fund have placed huge loans with the governments of emerging nations, and the strategy failed: The development didn't happen, and the payoffs didn't come back. Now NAFTA comes along to open the doors for private investment. Implicit in this is the motive of removing capital control from the hands of corrupt Third-World bureaucrats, and putting it firmly in the hands of corrupt Western executives. The goal of securing investment returns preempts the needs of indigenous economies.

-- *controlling rural sprawl*... Land development remains a major factor in the investment picture; there is a continuing real estate pressure to capitalize suburban infill, even in an overbuilt commercial market with high vacancies. More ominous is the new "ExUrban" vogue, a trans-regional development concept that would extend the grid of urbanized, commodified land use over vast rural areas between existing nodes.

These issues stand out among many that call for creative advocacy, based on our common stakes in the workings of the financial system. This idea should not be confounded with arguments about 'socializing' the private banking business; the purpose is simply to make it work responsibly, and this is a legitimate and realistic arena of public policy.

❑ LOCAL ECONOMIC DESIGN --

[POLICY WITHOUT PLACE]

Since the days of Urban Renewal and Model Cities, the 'Community Development' mandate has resided mainly in public and non-profit agencies, and the legacy is weak. Historically the modus operandi is top-down and programmatic; agencies are fragmented in narrow purposes disconnected from related needs, and staff performance is more accountable to funding cycles and reports than any measure of real effect.

As a public-interest agenda, 'economic development' has been like a rhetorical banner hung over various tangential concerns – housing programs have commonly marched under it, and it has been waved wildly over new retail franchises and strip malls, often disrupting and undercutting traditional storefront trade. Very few efforts have reached to the productive base of the local economy: Industrial programs have been scant. Only a fraction of these have been pro-active to any extent, and means are often mismatched to ends. While the goal of creating new jobs is held in common by many advocates and galvanizes assent on all sides, there is a paradox in real practice. By far most agencies run vocational and social programs on the *demand* side of the jobs issue, very few work on the *supply* side where new enterprise is made. In essence, we have done a lot of employment training for jobs that were disappearing.

Local governments have vested heavily in 'marketing & promotion' programs for attracting new businesses. From small towns to big cities, the same agenda arises in alliance with lenders, realtors, and other Chamber of Commerce interests… touting the 'good business climate' and playing a diffuse boosterism spiced with tax abatements, cheap land and free money.
In effect this has only put locales in competition with each other for footloose firms, giving away leverage on public subsidies.* Little discretion goes into what kinds of businesses should move in; prospect companies are usually just danced by local officials and property agents, then come what may. The harder issue of what kind of business would *fit in* economically is hardly touched. At the local level these market decisions are left to guesswork and voodoo.
More important, there is no *development* going on; plants are transplanted, but there is no net gain in value-added work, no new divisions of labor by which real growth occurs.
At best it is a zero-sum game: When my town wins, yours loses.

The biggest fallacy is that the programmatic view does not look at *the place* – the uniqueness of each neighborhood and town, its people and what they do, its special settings and identities. The *'local critical mass'* concept takes on meaning and dimension in this context: The network of economic relationships is embodied in the pattern of buildings and activities that define the livelihoods of a place. From the street, the strengths and gaps in the system are evident, we see either vitality or inertia in the workplaces of the community. We can look at the sectoral composition of the locale and discover niches of opportunity for new enterprise; and this insight can be linked to the known character of available sites in order to guide unified investment strategies for buildings and businesses. In this sense *the local economy is a design problem*... seeing factories as positive elements in the fabric of neighborhoods and assets in the economic base, visioning the potentials.

[WORKHAB STRATEGIES]

In the goal of local economic development, a new approach is implied.
It views good workspace as a primary resource of the built environment, to be marshaled for the community's productive livelihood rather than squandered in blight or speculation.
And it offers a site-oriented method that is pragmatic and promising… taking new looks at underutilized buildings and sites in terms of their unique suitabilities and potentials, assessing rehab and prehab needs, generating new enterprise well-fit to available locations and needed niches in the economic base. It is a *'targeted sites and sectors'* approach that *builds into* the community, not over it, and lends to strategies that are tangible and doable.

It helps to roll these perspectives into a clear syllogism:
This is what the WorkHabs© agenda is all about.[21]
It sees the townscape and locale as a living and working *habitat*, it deals with physical *rehab* needs and potentials, and it seeks to enable or *habilitate* productive work.

As an applied method in community development, the WorkHabs approach operates at the juncture of urban design and economics. Above all it is concerned with creating good workplaces as essential parts of good communities, assets to local environments and their livelihoods. At the project scale, the method puts a range of development tools to work in well-integrated strategies…
Recognizing all the things it takes to make buildings and businesses go, it pulls them together into a coherent process of site *and* business planning. Each element has to be supported in a project funding/financing package:

• <u>Predevelopment</u>...

Industrial projects need extensive leadwork on site status and feasibilities, before a full development program can be finalized. In dealing with factory sites there are intrinsically more variables and risks than residential or commercial projects present.

Given the range of possible uses and their diverse operating demands, the *facilities* questions are formidable in their own right. These and other issues of local design context, environmental conditions, and use suitability must be resolved in a site plan and pro forma. A lot of technical, market and design details must be assessed upfront to show how a project will be done and how much it will take, before major financing can be

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21 "WorkHabs" – I invented the word in 1983. It served as a tag to unify the disparate themes of my research on local industrial sites and issues, and the syncretic approach that was called for.

committed. Many good projects never get done because support for this critical phase of work is chronically lacking.

- Infrastructure...

This means more than fixing pipes and pavement . If industrial locations are to made viable and vital, we have to look at some broader issues:

~ Where older districts face transportation constraints, there are new options in emerging intermodal freight technologies; shared facilities and creative re-use of canal and rail corridors can ease cost pressures upon local firms and traffic loads on local streets.

~ A variety of public improvements can enhance image, amenity, and use; business and government can collude on local design solutions to landscaping, pocket parks, facades, transit access, and buffering impacts to create positive environments.

~ The social infrastructure must support workers and neighbors; more than just schools and hospitals, real needs call for a variety of active services – local clinics, daycare, adult education, recreation, etc. – for the sake of healthy industrial neighborhoods.

- Dedicated Lending...

Manufacturing sectors and sites have suffered a long pattern of disinvestment, and past programs have barely touched the needs. The lessons point to blending public & private money in creative new ways. There are ample administrative precedents for public lending, and a few innovations with revolving funds, but overall the tools have not been applied coherently.

The idea of "dedicating" finances is a natural corollary of the 'targeted sites and sectors' rationale – first of all in assuring that capital resources are allocated to the industrial sectors, and moreover in supporting all the elements of complete development strategies for buildings and businesses. In this way it differs from the piecemeal tendencies of conventional lending: It is a planning method that brings funding and financing to the location in an optimum mix, bundling construction capital with much-needed small-user loans and innovative process/facilities investments in cost-effective larger packages.

- Nurturing Enterprise...

No single business assistance program can show real results; addressing only one of many user needs, the rest go unanswered. The business incubator movement of the mid-80s made strides in recognizing the range of supports that new enterprise must draw upon at once, yet it did not go far enough. The incubator concept worked upon a key incentive in cheap space, offering new firms a low-overhead environment with shared facilities and flexible terms, and in many cases providing clerical and other services.
But availability of other special supports was hit-or-miss, and small users struggled with planning, running, and capitalizing their businesses.

Now we need to go further, bundling space incentives with technical and management assistance to help them set things up so they can do their work. This means concurrent leadwork on product R&D, marketing, and methods engineering on one hand, and management and employment training on the other.

[DESIGN FOR LIVELIHOOD]

We talk about *Design* as opposed to Planning for a good reason: To distinguish this approach from the programmatic, two-dimensional posture that public sector planning has come to represent. Design is physical... it deals with places and people, builds visions of forms and activities, finds ways to make them happen. The WorkHabs concept is a four-dimensional, adaptive view of the built environment, and the *method* works that way as well.

In this sense, the process itself is an object of creative design in each new case – mapping the strategic terrain and the implementation steps to be taken. This is a political reality not to be understated: By its nature this process has to engage a full complement of public, private, and community players, and they have to buy in for it to work.

It is the character of design solutions that they respond to changing constraints and potentials, and local development faces many. Of course physical design tasks on sites, buildings, and facilities are affected in this way: Workplaces must accommodate smaller firms in multi-user schemes, updated freight access and materials handling, higher standards of environmental quality and landscape amenity, and energy-efficient utilities and operations.

Some problems can be approached at the district level, bringing companies into cooperation on waste processing and recycling, cogeneration of power and process heat, and shared transportation and social support facilities. And industrial districts can diversify in overall composition, in contrast to the single-use bias of zoning codes; selective infusion of live-work studios, business services, suppliers, and retailers can bring new vitality and depth to the streetscape.

There is also a changing field of possibilities for business planning, as innovative FORMS of enterprise evolve: Labor and management are finding ways to work together, offering models for structuring and running companies to broaden participation in decision-making and equity.

The role of cooperative enterprise will grow, as hard-won management lessons foster new micro-enterprises and breakthroughs in the grassroots economy. Markets are changing as well, as small firms are learning to collaborate in flexible joint ventures that can be agile in moving to new niches and effective in putting strengths together on bigger projects.

If WorkHab projects are to open these doors and expand opportunities, they must support new kinds of business and technical assistance for new kinds of ventures; it is part of the design solution to help them operate in new ways. In turn, this means educating lenders on how to capitalize them, and tying in well-coordinated public and community programs .

There are vast needs and opportunities for this creative work, and the WorkHabs framework is geared to get it done.

All the policy and program tools we devise must come to bear at the project scale: By blending and focusing solutions on the locale, it works to revitalize industrial sites and districts and germinate new enterprise.

III. POLICY FOR PRODUCERS

The Clinton Administration has made a strong call for innovation in economic policy, and the level of the dialogue has been raised. This leadership has left State and local governments playing catch-up – an extraordinary condition in light of recent history.
Although the broad goals for jobs, exports, research and budgets will call for tradeoffs and refinements in some areas, the public appetite for new ideas has definitely been stimulated.
This in itself should count as a big success.

The daunting challenge is to *set these goals upon new programmatic footings.*
The employment training field is a good case in point, as Mr. Clinton has acknowledged: Redundant authorities and overlapping schemes have created an administrative miasma. Questions of *'which programs cover what for how long'* have left service providers and users in a steady state of confusion for years. Clearly the system needs to be made more simple and rational; with the imperatives of budget restraint, a major restructuring and streamlining of the bureaucracy will have to happen anyway.

Yet at this point, *how* institutional lines will be redrawn to reflect new policies is still a 'black box' issue for the public at-large; presumably this is a matter of foreknowledge only in narrow policy-making circles. The precise program mechanisms remain uncertain, and may take awhile to shake out.[22]
What matters here is to talk about *what the programs should do.*

For this reason, the following discussion focuses on discrete recommendations, building on the foregoing perspectives in this essay. There is no pretense of presenting a comprehensive or systematic agenda; important issues of monetary, farm, energy, resource, health and social service policy are outside the scope of this writing, although there are direct corollaries in those arenas.
The emphasis here is on keynote themes, catalytic ideas, and definitive actions to set the course of NeoEconomic policy.

❑ SUSTAINABILITY

➢ ENVIRONMENTAL PERFORMANCE

Environmental problems are economic problems:
The costs of deferred remedies pile up, but at some point they must be paid.
Regulation is needed for a sustainable industrial policy, but it only goes so far; the long-term agenda of pollution abatement and hazard cleanup must be part of the economic renewal package – as a cost factor that will affect all parts of the economy, and as an emerging value-added sector unto itself. *Environmental investment* is the key first step, incorporating a strategy of aggressive tax abatements and targeted funding for special leadwork.

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22 For example, subsidized lending is now disbursed under programs of the Small Business Administration, Economic Development Administration, Health and Human Services, Farmers' Home Administration, and Community Development Block Grants. It is expected that authorities will be shifted and delivery systems revamped and consolidated, but from the outside it is hard to speculate how the channels will line up in two years.

~ Water & Air Quality… Set up strong performance incentives linked to point-discharge and ambient quality standards for air and water. Where enforcement now focuses on maximum allowable outputs on a site or unit basis, the goals should shift toward reducing total waste loading in an industry-wide perspective.

~ Waste Cycles… Higher standards should connect to public research and support for improved waste treatment & handling. Full-cycle responsibility for the final disposition of packaging materials will create industry incentives to standardize them for *recycling or reuse.* In turn, technical assistance and R&D programs can work toward *production methods innovations,* to substitute for hazardous process materials and create 'closed-loop' systems; this will play a preventive role in limiting many byproducts and finding uses for others.

~ Remediation… Cleanup of impacted sites should get top priority. Beyond the legacy of acute hazard sites and Superfund fiascos, conditions of *chronic* pollution are more diffuse and insidious in our communities. Groundwater contamination, radioactive wastes and mine tailings, farm runoff chemicals, chlorinated hydrocarbons, oils and heavy metals in soils and sediments pose critical public health risks that must be met.

Where redevelopment prospects are considered for old factory sites, low-level environmental problems pose major obstacles – in local perceptions, first of all, and especially in the effect of assessment and cleanup costs on overall feasibility. The public sector can support collaborative solutions to make remedial work cost-effective; the resources should go toward applying new technologies and skills to cleanups, not more litigation.

➢ RESOURCE STEWARDSHIP

Move our thinking and means beyond extractive economics, emphasizing long-term yields and reserves for the future. The idea of *stewardship* transcends the polarized polemics of 'use' vs. 'conservation': It conveys access rights *and* responsibilities upon resource providers, with built-in incentives for the continuity of the resource base.

~ Watershed planning… Water is the most critical point of pollution impact. Twenty years of progress in controlling surface discharges have done only part of the job; groundwater accounts for 95% of the U.S. freshwater supply, and documented contamination and continuing chronic threats are serious.[23] This calls for comprehensive management of natural and social water cycles on a regional basis.

Soil-water systems demand an especially complex interpretive and graphic analysis, but advances in computer-based hydrologic modeling are creating better information and putting it to work. Key linkages must be made:

- *Capital Budgets,* where line-item improvements are identified for water supply, storage, treatment, and disposal infrastructure;
- *Land Use Controls,* setting up transport and use limits, performance standards for septic disposal and spill containment, and growth controls to protect aquifer recharge areas.

Other new technologies are evolving for local remediation of spills and contamination. This opens prospects for actually enhancing surface and groundwater quality, and the EPA should help put the tools in local hands.

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23 Staff article: *"The Aquifer" – Jounal of the Nebraska Groundwater Foundation.* Lincoln, NE: December 1992; V. 7:3 (pg. 4).

~ Soft Energy… Consumption must shift to soft energy and renewable material resources, to counteract entrenched depletion economies.[24] Immediate steps are to be taken in the fields of *construction and transportation*: Tax incentives for solar and conservation investments should be restored, along with R&D funding for diversified low-impact energy systems.
It is also essential to look at land use and settlement patterns that have intensified our reliance upon automobiles; this means supporting regional transit strategies and encouraging growth control initiatives to cut oil demand.

~ Mining Cities… More materials – metals, minerals, chemicals, and biomass – must be reclaimed from the waste stream. Seeing urban areas as resource mines expands the notion of *recycling*; the logic calls for more source separation and reuse, industry packaging standards, and better solid waste practices for heat and material recovery. Research is needed on technologies for reusing materials from old tires, plastics, and durable goods, to reduce costs and increase that portion of new product contents. The big goal is to factor resource replacement costs into extraction and consumption, and save long-term reserves.

~ Fields, Trees, Fishes… Agriculture, silviculture, and aquaculture are intertwined as ecologies and economies. Our most land-intensive uses can no longer proceed on one-dimensional premises: Monocropping, clearcutting, and disturbed watersheds have potentiating effects over vast areas.[25] This amplifies the need to advance new practices that are compatible in a broader framework of biome management:

- New farming techniques for rotation, intercropping, contour and 'no-till' cultivation can cut topsoil losses and dependence on chemicals.
- Miles of fast-growth softwoods do not make real forests; improved practices should preserve old-growth stands, support low-impact and select logging, and encourage replanting for natural association and succession.
- Save aquatic and wetland habitats for biotic fertility and cleansing; the health of higher species is a key indicator of long-term impacts.

As a matter of overall policy, genetic stocks must be preserved in accord with the biodiversity agreements pending in the United Nations.

~ PolyCulture… The concept centers on holistic methods in land-based production; it creates synergies of interacting biotic systems, where systems of human livelihood play an active part. On a small site it can concentrate animal husbandry, fish culture, hydroponics, and diverse cultivation, using byproducts to feed and cross-fertilize within a close-knit web. On a regional scale, the idea embraces an understanding of the larger synergies of whole ecosystems, and it grasps the economic sense of *letting nature work*. It points to a range of stewardship roles and opportunities for interactive livelihood and exchange.

This potential stands in stark contrast to extractive resource markets, in their intrinsic long-term logic – to exhaust accessible reserves and push prices up with scarcity – and in their current trends. Since 1981 the U.S. has been "a net exporter of food and raw materials, such as lumber and coal, and a net importer of value added products."[26]
The tradeoff is clear, indicating the value of cutting back on raw export trade and opening sustainable niches of local value-added processing and production.

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24 Lovins, Amory B. Soft Energy Paths – Toward a Durable Peace. Cambridge, MA: Friends of the Earth International, Ballinger Publishing Co., 1977.

25 For example: Monocrop agriculture cuts into forests and alters soil regimes; erosion from logging clearcuts destroys stream habitats; runoff and evaporation change watersheds and affect supplies; etc.

26 Washington State Conversion Project. "Rebuilding Washington – Converting Corporate Tax Relief into Community Development". Seattle, 3/83 (p. 2).

This dubious economic benchmark had been observed in a study by the Energy and Commerce Committee of the U.S. House of Representatives.

➢ Market Sense

At the consumer level, people have been pushed to the limit by saturation pricing and marketing. The President raised precisely this issue with respect to drug pricing for the elderly; that case is extreme in degree, but common in its effect of draining disposable income and savings. This touches the question of *economic* sustainability, relating to the excessive and wasteful margins in retail trade, services, and government.

~ Consumer protections… Strengthen channels for consumer *information and recourse* on poor products or business practices. Set public goals to restrain de facto price-fixing and redundant overhead and advertising costs on staple goods ($4 boxes of cereal, etc.), and improve standards of quality control in cooperation with industry.

~ Real Services… Where services are mandated or virtually essential, people should get what they pay for. The legal, insurance, banking and utility sectors are largely information-based, yet they have bred "*disinformation economies*" vested in non-performance, waste, and institutional bloat. Regulators must examine the practices of 'cost-plus' pricing and guaranteed revenues, and find ways of assuring quality services and accountability to the public.

~ Cost-Effective Government… Politicians make noisy news about budget squeezes, but hardly a whisper is heard about *efficiency.* Bureaucratic flab and sloth are common knowledge, so austerity pleas from the government tend to ring hollow. The public sector has to take up the challenge of 'Doing More With Less':
Agencies must set policies to cut administrative costs and get more money to their tasks, and civil service reforms are badly needed to set standards of performance and accountability and create incentives for competence and creativity in the public service.

~ Time as Value… Reducing the cost-of-living liberates personal time from survival toil, opening possibilities for creative learning, service, art and invention – or just giving leisure and relief from stress. The *free time of citizens* is a NeoEconomic investment, building human capital and cutting losses, and improving the general sense of well-being; its availability and use should be taken as a key indicator of economic health. Governments at all levels can take the lead by encouraging voluntary experiments in job-sharing, shorter weeks, and lag shifts.

❑ REGIONALISM

➢ Trade in Balance

The health of the national economy lies in the aggregate strength of the regional economies that comprise it. In turn each of these benefits by replacing imports and diversifying its activities and skills. The upshot for the future is a world marketplace of semi-independent regional economies in *collaboration,* no longer one of nations in competition. This points to a new policy vision and direction; for now, some ambitious lines of research must be followed in regional economic theory.

~ Native Economies… The logic suggests that each city-regional economy has an indigenous structure by which it is defined. This theory accommodates everything from village subsistence to metropolitan complexes, examining both universal and regionally specialized forms of livelihood. What is distinctive in a native economy hinges on parameters of *location* (relationship to the regional landscape and resource base) and *culture* (special populations, traditions, and skills), playing into a unique *sectoral profile and geographic pattern* of activities.

Where mercantilism imposes a faceless monoculture upon the place, the regional economy has a persona of its own. Its native character does not imply an austere stable state of self-sufficiency, but rather an evolution toward greater *self-reliance* through ongoing invention and diversification.

~ Poly-Currencies… Hard experience undercuts globalist arguments for unified currency. Cash influxes into poor countries spawn dual economies of high commerce and low subsistence, causing social stratification and spirals of inflation; with decline in currency exchange value, there is an exodus of native savings and capital.[27] A larger question reaches deep into domestic issues as well: Poverty is not simply a lack of wealth; its causes lie in systemic failures of access to resources and cash liquidity.

Solutions look to the economic work that can be done if there is a medium of exchange to pay for it. In net effect, centralized currency will make money scarcer and artificially depress native production; in contrast, pluralized currencies more closely reflect the value of local resources and skills, and more efficiently convert this equity into liquidity.

~ Equilibrium Growth… Trade concepts are modified by the logic of regional self-reliance. In the prospect of replacing imports, strategic choices must be made on which sectors to target for the most benefit – maximizing investment returns and multiplier effects, and also adding to the character and amenity of locales. In this sense each region must derive its own science, looking to specific sectors of consumer goods, raw materials, processing and fabrication as appropriate. In a cross-regional view it must also be demonstrated that import-replacement *here* does not cause decline from lost exports *there*:

Existing capacities can adapt, and mutual diversification results in new work and net growth across the board. In this context, trade between regions is refined in scope and effect – driven by native complementarities, accelerating the creation and transfer of innovations.

➢ Regional EconoGraphic Modeling

This is a tag for a new analytic tool, starting with the marriage of economic and geographic information. By bringing regional Input-Output and Econometric models into a GIS framework, huge potentials open up in the realms of local development strategy, regional growth policy, and general 'ecosophic' theory. It is an area of primary R&D that needs forward-thinking support.

~ Setting Up… The leadwork centers on getting the tools in-place and the models operating in a simple first-run form. Where this is done is guided by existing regional economic and physical data, and available skills and resources for doing it. For example, in Chicago there are several economic and employment models currently in use by different agencies, as well as a fairly detailed database on industrial firms and locations. There is also a full range of community development constituencies, whose needs can plug into how the model is designed.
This might be a place to start, and other options should be considered in parallel.

~ Themes & Applications… Phase the process to build incrementally upon the test runs on the core system. The model can achieve fast payoffs by starting at a small scale and responding to immediate issues. For this reason, the initial work follows the logic of three key conceptual themes:

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27 Pre-revolutionary Iran was a classic case of cash stratification: The Shah actively recruited Western capital and corporate presence, creating a polarization of propertied oligarchs and technocrats from a huge low-wage and jobless population. As price increases rippled through the economy, traditional livelihoods slipped. This goes far to explain the unholy alliance of Islamic fundamentalists with the progressive left, who were later betrayed when the Shah was toppled.

Current critique on the North American Free Trade Agreement has documented a pattern of capital drain from Mexico, which parallels the historic rise of the *maquilladoras* and decline of the peso. Firm correlations are hard to draw, but the pattern suggests that NAFTA in its present form would accelerate this trend.

[1] *Local Critical Mass,* to identify import-replacement and new business niches in conjunction with location potentials;

[2] *Employment/Econometric Projections,* to evaluate regional job and income effects in a comparative analysis of development options.

[3] *Regional Trade/Autonomy Balance,* to look at optimum sectoral profiles in a more self-reliant economy and guide policy on regional trade.

~ EcoGraphics, EcoSophics… Further refinements can evolve in applications to the needs of specific districts or sectors, as well as the intuitive directions suggested by the methodology. The connection to ecological and resource data is a major corollary, expanding the scope and sense of the model overall. By accounting for environmental conditions and factoring remedial and infrastructure costs into the model, it can be of great use as a tool for integrative thinking and decision-making.

❑ FINANCE

➢ ACCESS TO CAPITAL

"Them that got are them that get"...[28]

the financial world has been driven for too long by this ethic; the reinvestment needs of whole sectors, territories and populations have been bypassed systematically. Public policy has to acknowledge the tilt of the field and take catalytic measures to level it.

~ Investment Tax Credits… to refocus incentives and encourage value-added enterprise in accord with community priorities; the guidelines must set strong standards of performance to reward truly *productive* investments, optimizing job creation, facilities upgrades, research potentials. The quality of local environments must also carry some incentives: ITC's for historic preservation projects should be restored in recognition of the built heritage and identity of communities, and stronger credits should be available on the *divestment* of land for parks, gardens, and open space.

~ Community Development Banking… to muster local savings into local reinvestment; it is linked to neighborhood-and-business planning capacities to spawn development projects and tie public capital budgets into a coherent long-term framework.[29] The obstacles to small loans can be addressed in this context as well, finding new ways to cut servicing costs, account for sweat-equity, and back up lending with pooled information and networked assistance.

~ Regional Revolving Funds… to blend public seed capital with lender contributions from all parts of a metropolitan area; it is tantamount to an 'affirmative capital action' approach, bringing the purposes of the Community Reinvestment Act to real effect in a sharing of assets between wealthy and poor districts on a regional basis.

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28 "Them That Got" – Ray Charles song lyric, written by Ricci Harper, single released in 1960; the chorus: *"Them that got are them that get, and I ain't got nuthin' yet."*

29 In the summer of 1969, I had been involved in organizing work on housing and lead poisoning issues in The Hill neighborhood of New Haven, CT. I first proposed the formation of Community Development Banks at that time, and wrote about the idea for an Urban Economics tutorial that fall, as a college sophomore.

➢ CUTTING LOSSES

The obvious first step is to solidify regulations affecting securities, thrifts, insurance, and consumer credit. These are areas of continuing excess and direct impact upon peoples' incomes and lending access. The S&L bailout is of special concern, by its failure as a deterrent and its precedent of taxpayer liability for private misuse of assets. Over the long haul, larger issues of capital drain loom for public policy.

~ National Debt… Examine mechanisms for disaggregating and restructuring public debt to make it manageable – by debt retirement, interest writedowns, principal reduction and balloon payment plans, etc. Essentially this is a scheme for national *refinancing.*
However the role of the Federal Reserve Bank warrants special scrutiny:
It is a private entity that holds massive bond debt on the issuance of public currency; as such its legality is seriously questionable on constitutional grounds.[30] And if the public is expected to pay for past excesses, the Government might offer new bonds in a special issue, and extend the option of accepting them as a partial alternative to new taxes.

~ Capital Flight… Maquiladoras are not an economic solution for Mexicans or Americans.
At the same time, the capital needs of poor nations are genuine; the finance mechanisms have to be cooperative rather than colonial in effect. First of all, foreign investment should be responsive to national sovereignties, local control, and equity participation.
Moreover it must be guided by coherent policies for international assistance and development, and balanced with domestic capital needs.

~ Regional Sprawl: Saturation sprawl commodifying vast rural areas is not the answer to the real development needs of farms and small towns, nor should it be the deciding force in the form and character of rural landscapes. Here again capital plays to cost advantages in differential markets – in this case, lower prices and weaker ordinances.
It needs to be controlled for the sake of better environments and investments. In this sense regional land use and finance planning go hand-in-hand: The availability of development capital for reinvestment in our cities may depend on its preclusion from the hinterlands.

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30 Schauf, Thomas D. "The Federal Reserve Act". FED-UP, Inc., Streamwood, IL; 1992

❑ WORKHABS

➤ PILOT PROJECTS

Community development agencies live in a rhetorical world; they are well-geared for handling information and holding position in the administrative hierarchy, but not for practical action at the project scale. Part of the WorkHabs agenda is to adapt to the policy milieu, to set *protocols* for putting available resources to work on sites and businesses. New local development programs must be designed for real implementation, and a well-conceived cluster of pilot projects can help build a model for future initiatives.

~ RUDAT Revival… The 'Rural-Urban Development Assistance Teams' of the early '80s offer a prototype for project level support and leadership. That program brought multi-disciplinary teams into locales for collaborative case surveys and charettes with agencies and community groups. The work emphasized physical design solutions and consensus-building for anchor development schemes, and generated visual concepts and recommendations for followup.

In its revived form the RUDAT modus operandi should go further in two ways: (1) *Continuity* in a Team Leader who carries through on project implementation as an advisor and facilitator; (2) direct *connection* with program resources to make coordinated strategies work.

~ Towns & Cities… Balancing rural and urban initiatives is a key premise. Small towns are laboratories for the *critical mass* approach: By fostering basic elements in the locale, it can hold its own in the regional economy. It is common that rural towns grew up as trade depots anchored by large processing plants; in many cases they have declined due to market changes and obsolescence, and major facilities are abandoned or underutilized.[31] The challenge then is to put these places back to work with diversified value-added activities, drawing upon indigenous natural resources and skills and infusing capital technologies fitting to scale.

In cities the scenario works in parallel ways, but it must respond to the distinct problems of urban industrial districts. The full WorkHabs treatment starts with area-wide surveys and targets critical sites for closer case studies. The demands of each will be unique – there is no way around a site-specific approach.[32] Together they comprise a diffuse strategy of fitting interventions, seeding neighborhoods with revived workplaces and new workforms. These are the tasks that give teeth to community development planning.

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31 The lumber industry in the Pacific Northwest is a case in point. With the prevalence of raw-log exports to Japan and competition from subsidized wood products from Canada, the markets for major plants in regional centers like Centralia and Hoquiam (WA) went soft. In the process, the whole network of tributary small mills throughout the Olympics and western Cascades has gone down, drying up the economic base of many small communities in the region.

32 When I carried out a series of projects for a local industrial council on Chicago's Northwest Side, it worked in precisely this way. Starting with surveys of problem sites throughout its service area, a set of parallel case assessments and strategies arose; even with only partial followup, this set up a number of good outcomes in a very short period of time:

-- new local business contacts and loans, providing guidance on site upgrades;
-- advocacy on needed City services and infrastructure improvements;
-- better ties & collaboration with industrial realtors, developers, and public officials;
-- enhanced data on manufacturing locations and refinements to City policies;
-- effective intervention to retain industrial uses on transition sites;
-- major rehabilitation and reuse of a neighborhood factory building;
-- a Reclamation Plan for an abandoned and contaminated large complex, including environmental analysis and 'planned development' strategy;
-- an Industrial Park Plan saving a large tract of vacant manufacturing land from residential conversion;
-- new ideas on local intermodal freight handling... etc.

~ Post-Military Conversion… The defense sectors represent an enormous cache of technical production capabilities. Yet as Columbia's Seymour Melman has pointed out, it cannot be assumed that they are directly and easily tranferable to civilian work.[33]
This poses an important and promising realm for WorkHabs innovation, where problem-solving of unprecedented scope is called into play.

Starting with an overview of sites and facilities, it links to public goals for new technologies (in transportation, energy, communications, health, etc.) and evaluates the options for retooling and reskilling. There are also formidable management issues in the structure of producer markets – the extent of *vertical integration* in major corporations vs. *diffusion* of production in networks of secondary suppliers. If the public sector provides a clear mandate, new market prospects, and strategic leadership for conversion efforts, these industries will respond to the incentives for re-allocating capacities. Pilot work in this area can set up the programming and logics for a workable long-term transition.

➢ LEAD-LINES

In site development *and* in enterprise formation, a range of problems (design, methods, legal, financial, markets,...) must be dealt with upfront. The answers have to plug into *pro forma* and *prospectus* work before major financing can be secured, and they cost time and money. Small owners and entrepreneurs often cannot cover all the corners or get the help they need; in either case, this is a chronic obstacle in getting new deals off the ground. In a WorkHab process, site planning and business planning are put in close tandem; the odds on success improve, but the front-end stakes go up as well, and there has to be a way to cover them.

~ Pre-Building, Pre-Business… Linking lead tasks creates some natural efficiencies by shortening communication lines between disciplines. A lot of development projects are well-suited to an integrated design-build approach, and the architectural program is streamlined by early feedback on prospective users and facilities needs. On the entreprenurial side, the business plan can link product/methods engineering to refined line-item cost projections, and of course siting issues are already resolved.

Overall, the process generates credibility and commitment by anticipating the network of contracts that will draw parties together; it sets direction through clear working agreements, and oversteps legal pitfalls that might otherwise show up later. Moreover it can build upon these little deals to structure creative investment strategies:
If stepwise financing is tied to do-able short-term work phases, the package holds strong incentives for performance and accountability. In turn, this implies a corollary need to educate lenders on how to capitalize new kinds of interlocked building and business ventures.

~ 'Impresarial' Banking… Develop new protocols for incremental, project-oriented packages of financing and funding, tied closely to the research and planning that sets them up. The best solution is for lenders and technical assistance providers to collaborate during the pre-financing stage. An instructive model is found in the Mondragon Co-op Bank – the heart of the famous network of Basque cooperatives. It was originally set up to include an "Impresarial Division",

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33 Melman, Seymour. Profits Without Production; Knopf, New York (1st edition 1983). Also, The Permanent War Economy: American Capitalism in Decline; Simon & Schuster, NY (1985).

Seymour Melman is a professor in Columbia University's Department of Industrial Engineering. He has been a rigorous analyst of defense industry since the early 1950s, and he is one of the longest-standing advocates of conversion. He has observed that the skills, methods and materials in military production are highly specialized, and moreover it is a different way of doing business: Protracted cost-plus contracts with government are one thing, competing on quality and price in a market is quite another.

composed of specialists whose job was to assist new co-op ventures in technical and business planning, preparing them for financing on behalf of the bank.[34] This goes far to explain the astounding success rate of enterprises in the Mondragon family.

Translating this model into the American banking and policy milieu will take some dexterous footwork. Conceptually, it can be viewed in more familiar terms of the '*soft costs*' that are part of any venture, and how they can be *front-loaded* in the deal. It must also be understood that certain elements of these packages will need public and non-profit subsidy, in the form of direct funding and gap financing; the optimum boundaries and roles in support must be carefully derived and clearly marked early on. This agenda may be a natural adjunct to the 'Neo-RUDAT' strategy, as a framework for working out the impresarial prototypes at a pilot scale.

➢ COMMUNITY EQUITY

Various local groups, public agencies, and private players have a hand in *community economic development,* together comprising a specialized economic sector. Its workings are centered upon community-based organizations [CBO's] where diffuse public interests and resources are amalgamated into common agendas, and where critical capacities for non-profit development and equity-building must operate in close tandem. The means and precedents are in-place... they must be refined with new strategic tools.

~ Community Development Corporations… Historically CDC's are the locus of neighborhood planning and strategy, the depot for information and support, the center of initiative.
In the Model Cities era of 'Neighborhood Corporations', they were set up to administer social services and housing programs, channeling government funding and citizen advocacy.
As they evolved toward autonomy in active building and business development, the status of 'Certified Local Development Corporation' was the key mandate, form-giver, and enabler for CBO's to handle loan money and do development deals. The track record is uneven, ranging from laudable success to disaster. In part, CDC's have suffered from programmatic obstacles, fractious politics, and chronic under-funding; to a great extent they have been simply unprepared for the tough technical and business tasks.

New legislation was introduced last year as the "National Community Economic Partnership Act", designed to set CDC's on a stronger footing and back them with revolving funds.[35]
This should be enacted with beefed-up provisions for CDC training, capacity-building and technical assistance. Refined parameters for LDC certification are a natural corollary;
this would raise standards of performance and build confidence in CDC's overall.
The greater goal is to empower them to *work proactively* in site and business development, as leading partners with public and private players.

~ Community Land Trusts… CDC's have been hampered for lack of means of holding land and building equity in the community interest. The answer traces its geneology to Henry George in the 1870s, who advocated separating the valuation of land from the buildings and

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34 The Mondragon Bank – the "Caja Laboral Popular" – was divested of the Impresarial Division a few years ago. This followed a founding principle of the Mondragon system: When a division or subsidiary grows to a certain size, it must break away as an independent cooperative entity. This serves to keep firms small enough to maintain worker control and equity, and to prevent the top-heavy management and accumulation of economic power in large conglomerates. However it is natural for the working ties to remain close between the parent and child organizations, especially so in this case.

35 Short title: "National Community Economic Partnership Act of 1991" (Senate Bill #1866).
A draft was provided by the *National Congress for Community Economic Development* in Washington, DC; this organization was a sponsor of the bill, and has been an outspoken advocate for the CDC agenda for many years.

improvements on it.[36] This idea was resurrected in the birth of the land trust movement in the 1960s, when legal structures were derived for community landholding in perpetuity. It served to pull the land itself out of market speculation, and to set explicit covenants on long-term use in the public interest.

From early applications with intentional communities and conservation, the CLT Model has matured as a force in community-based housing, changing the economics by lowering cost thresholds for building homes and access to equity. It is the logical next step to move the model into the community economic sphere as a new tool for targeted commercial/industrial development and creative capital formation.

The relationship of development and landholding roles is critical: The jobs of technical enterprise and community stewardship ride on different skills and mandates, and are best entrusted to separate entities. In prototype, this suggests a Community Land Trust working in tandem with the CDC and other local groups – chartered as a non-profit to acquire and hold land, extend user rights and obligations, and represent the public interest in long-term management. Functionally this is related to familiar notions of 'land banks', but it goes further:
The CLT embodies community equity in land. It is a vehicle for combining public, commercial, and private investment – as an actor in the general interest it is fundable, as a holder of substantial land equity it is bankable, and as an arbiter of vested stakeholders it is reliable.

This suggests the potential for the CLT to pool and leverage land equity as community capital, for development projects and further acquisitions.[37] The future direction of this idea is pointed by the "Cooperative Land Bank" concepts of Robert Swann. He has resolved in quite close detail the self-financing mechanisms and the boundaries of private and community equity in this approach, and how it can "free up capital (make it liquid) which otherwise is tied up in land and buildings."[38] In this context the CLT model may hold the key to community equity – first as a means of collateralizing seed money for revolving funds, then as a vehicle of self-sustaining capital cycles in our neighborhoods.

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36 [ref: Henry George, Progress and Poverty]....The separation of land and improvements was the basis of George's "single-tax" concept; it was set forth as a means of achieving a more equitable system of taxation and securing the public interest in how land is used.

37 Addison, Scott C. "CLT's for Economic Development". Unpublished article submitted to the Institute for Community Economics, December 1991.

38 Benello, C. George, Robert Swann and Shann Turnbull. Building Sustainable Communities. Bootstrap Press, New York; 1989 (pp. 40-62).

Epilogue, 2009

These final words were written in 1993, more a benediction than a closing:

....

For many people the emergence of the industrial agenda has animated a dormant feeling, a sense of what America's economic life is supposed to be about.
It goes beyond the bottom line...
It is a visceral connection to what we thought we had, a yearning for the security that links us to the providence of our forebears.
It is a reaching for our identity in the American Myth, the Yankee character of ingenuity, productivity, fair play and grit.

Yet nostalgia is a poor guide to our thinking on our ways of livelihood and industry:
We might harbor old images and dream of restoring it back to what it was, but the core of this vision is simply the primal certainty and sense of doing *real work*.
As an ethic of human survival, this is timeless. The people of our history struggled to live, but they were not looking back; they looked forward to times when great choices would be made in shaping our economic life, the times we now face.
They demand that we act in new ways, to transform it into what it can become.

This is the mission of the NeoEconomy.

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Sixteen years later this essay comes forward again, reaffirmed in that mission.
The passage of time has made it obsolete only in one regard:

In 1993 the economic prognosis looked to an indefinite future... the subtitle called for "Soft Cures", because THEN the "NeoEconomy" could be actualized in an evolving way, building incremental solutions in a conscious transition, averting foreseen excesses, iniquities, and breakdowns.

In 2009 the full Crisis is upon us, with no slack for slow remedies... NOW the Cures will be Hard:
If the Obama administration relies on the same old answers, it will get the same old results –
OR it can make good on its vision and put transformative ideas to work, because it must.

There are dangers in our political parlance, in our penchant for rendering problems in familiar terms, and the obligation to exude assurance – because the perils are then chronically understated, and the unprecedented is never grasped. Typically, the pols & pundits were slow to admit that the economy had gone into 'recession', but now float the term comfortably, for historically this has always been followed by a 'recovery', which is a very popular idea.
And at this vulnerable, volatile moment, lots of vested inertial institutions (and ideologues) want very much to get the economy back to 'the way it was', and are working diligently to that end. There is a widely shared visceral will to 'normalize' things, sadly misguided, and political pressure to restore iconic mega-businesses as we knew them, fatefully flawed.

The overarching reality of this situation is stark and compelling: *There is no going back.*
This is not just a cyclic 'recession', it is a seismic shift in economic grounds, forcing a deep restructuring and permanent changes in our modus operandi. At this point, what is 'sustainable' is

a bigger question than before... where whole sub-sectors have burgeoned on devices to siphon piles of cash from revenue streams, investment channels, and money supply wellsprings, we can no longer subsidize such activities that are basically parasitic and non-productive. Simplistic reforms to curb their excesses are simply not enough, if their incentives remain in place.

In plain terms, this means dumping a lot of middlemen and 'percentage racketeers' out of their jobs. To the extent that those jobs add no value and only intercede in markets, get in the way and extract money, they are dysfunctional. Where assets are tallied on *Funny Money,* based on fees, levies, and margins arbitrarily imposed as costs to consumers, or on the manufacture of nothing but Debt – these are made-up dollars claimed for payment, contrived as 'receivables' for no value created. There is a difference between providing financial 'services' vs. inventing 'liabilities' out of thin air, or as digital artifacts of accounting software.

This is a tough scrutiny to put on the finance, insurance, and real estate sectors – powerful interests, making themselves the most important ones to save from the 'FIRE-storm' they spawned. They have been chastened in business mistakes, but have never disclaimed the methods or market model of export ascendancy and commodified land, resources & debt in which they thrived. Restoring these *diseconomies* would only leave us susceptible to further, deeper meltdowns.

So far the Obama agenda is encouraging, especially in upholding a long-run reinvestment view on energy, infrastructure, education, and communities, and broadly supporting domestic production. For once there is some big thinking, but it takes time to get big programs rolling, and devolving forces persist in the near-term economy, with some key imminent risks –

– *$US inflation by Fed spending, pumping up the 'M1' money supply, and devaluation due to persistent U.S. trade deficits... compounding consumers' loss of buying power in this 'recession'. Note that retail and food prices have kept pushing up despite lower disposable incomes.*

– *Commercial real estate propped up on old leases, with retail oligopolies closely entwined, controlling land development and local markets, vested in high property values & cash flows... they will pass on 'price-pull' to consumers beyond their means, and more stores will close.*

– *Loss of real capital stock and capabilities, as production facilities shut down, machinery is sold or abandoned, and skills are scattered... the auto industry is a prime case for "conversion" on strategic cost-plus contracts for new technologies, as others may require, without much time.*

As a work product in 1993, *"INDUSTRIAL DISEASE"* was candidly prescient, sadly far before its time. Now it is directly adaptable to the economic crisis at hand – not as a singular policy tome to the exclusion of other good ideas, but as a unifying framework in which they converge, and in its pragmatic steps that can be complemented and refined.

Now the *NeoEconomy* must evolve fast... 'industrial policy' is still pivotal, enabling local work in balanced regions, key to the new model. The larger mission remains to engage all these strategies in concert, serving the commonwealth. These ideas are offered in that spirit.

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