ARTICLES.

HARDHEADS AND BISHOPS

How to Talk About Economic Strategy

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With the next presidential election a mere twenty months away, the opinion pages have begun to creak under the weight of political candidates hawking bold ideas, fresh starts, new beginnings and kindred route maps to a better America. Buoyed by the sudden decline in the President's fortunes, the Democrats are exuberantly contemplating the possibility of victory and trying to figure out what economic strategy would least endanger the likelihood of their return to power.

Unquestionably the most vocal group of Democrats thus far has been the so-called Democratic Leadership Council, which used to be more informally and accurately known as the rich white male caucus until its members had the prudence to recruit to their ranks Barbara Jordan, the black former representative from Houston, and some other black politicians. Leading lights of the Leadership Council are from the South and the West, and its best-known spokesmen (and self-proclaimed presidential timber) include former Virginia Governor Charles Robb, former Arizona Governor Bruce Babbit, Senator Sam Nunn of Georgia and Representative Richard Gephardt of Missouri.

In mid-December the Leadership Council held an extremely well-publicized conference in Williamsburg, Virginia, in which it unfurled a "working draft" of its economic plan for the nation's future. Full of clamorous talk about making America number one again, it is essentially a retread of the neoliberal manifesto, stern on how "we are using foreign savings to pay for an unprecedented consumption binge," tactful about military spending and disinclined to say much about the malfunctioning of the capitalist system beyond blaming unemployment and almost every other economic failure on President Reagan. There is plenty of ripsnorting talk about the Japanese challenge, the high-tech future and, emblematic of the all-important bolder thought and fresher start, something called democratic capitalism, of which more later.

Three weeks earlier a body of somewhat greater weight in the nation's social and spiritual life, the National Conference of Catholic Bishops, voted its final approval of "Economic Justice for All," a pastoral letter six years in gestation. Grappling with the realities of the U.S. economy in the mid-1980s, the bishops discussed with passion the problems of high structural unemployment, increasingly lopsided income distribution, spreading poverty, the most savage farm crisis since the Depression, plant closings, unparalleled levels of military spending and the full-throttle attack on unions and workers' rights. Surveying this cratered economic terrain, the bishops did not shirk the fundamental question of what promise capitalism could offer millions of Americans: "Hard working men and women wonder if the system of enterprise that helped them yesterday might destroy their jobs and communities tomorrow."

The press coverage of these separate expressions of economic policy was predictable and instructive. The Leadership Council got rave reviews across the country, with copious editorial blandishments about its merciful lack of nostalgia for the throw-money-at-it approach of the old days. There was due regard for the Leadership Council's thoughtful language on the need for a low-consumption, high-savings economy, based on high-tech industry. In lock step with the Leadership Council's reproaches of an "unprecedented consumption binge," none of the commentators bothered to point out a rather obvious flaw in the group's analysis, richly indicative of its limitations. There has been no consumption binge for blacks, the unemployed, farmers, Rust Belt communities or indeed the average American household. The binge has been confined to the rich, notably those in the healthful purlieus of Wall Street or in the arms business.

The bishops' pastoral letter did not get nearly so respectful a welcome. Its authors may have been prepared for that by the reception given to an earlier draft, put out in 1984. Then as now their work was widely denounced: "vapid" (William F. Buckley), "often irrelevant or, worse, immoral on its own terms" (Robert Samuelson in *The Washington Post*). A *Wall Street Journal* editorial said the pastoral letter "profoundly . . . misapprehends the nature of capitalism," and in *The New Republic* the ineffable Charles Krauthammer gravely reflected that "no one has yet accused the Catholic ethic of being a source of economic dynamism."

Both in 1984 and in 1986 the commentators reserved much of their attention for the rival report of a group calling itself the Lay Commission on Catholic Social Teaching and the U.S. Economy, whose chief adornments are the self-described theologian Michael Novak and the Wall Street operator and former Treasury Secretary William Simon. Much deferential coverage was given to Novak and Simon's central beef with the bishops: that they insufficiently honor capitalism as the greatest wealth-producing, liberty-enhancing, poverty-crushing mechanism in the history of the world.

This response to what is probably the most radical document on political economy to have come out of a mainstream American institution in living memory tells us much about the level of public economic debate in this country today. The bishops were roughed up as a bunch of woolly-minded do-gooders with no grip on the brute facts of economic life. The premises of that assault can be traced to

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the Chicago school philosophy associated with Milton Friedman and, more recently, Robert Lucas: government is the source of social injustice; "growth-oriented policies" must be associated exclusively with "market forces." Such is the lingua franca of most public economic discussion today, in which the highest compliment paid to a strategy is that it is "hardheaded," and thus in pleasing contrast to the sentimentality of churchmen whose nostrums would, if put into practice, further depress the very people they profess to champion.

At the peak of the hardhead graph is Reaganomics, and the results are scarcely encouraging. Six years of trickle-down have yielded reduced economic growth, higher taxes for the bottom 80 percent of the population, another 8 million people below the poverty line and—traditional sources of horror and alarm to the hardheads themselves—sluggish investment, low savings and, of course, record trade and budget deficits. The one hardhead triumph, reduction of inflation, has been achieved through continued high real interest rates, falling wages, the collapse of OPEC and with it the economies of the Southwestern states.

Undeterred by this dreadful record, the Leadership Council takes the hardhead road once more. The only provocative idea in its program of democratic capitalism is a plan to replace a certain percentage of wage payments with a bonus system that would reward workers according to productivity and the firm's performance. That idea, which originated with the Massachusetts Institute of Technology economist Martin Weitzman, in his book *The Share Economy*, has been hailed by *The New York Times* as the "best idea since Keynes." In a political economy in which labor held substantial power, that approach might have some beneficial aspects, as a mechanism to prevent layoffs during economic downturns—compensation rather than work forces could be reduced—and as a way to give workers a cut of profits during a boom. But in the present U.S. economy, in which labor's power is under constant attack, the scheme would simply be another technique for extracting concessions from working people.

Beyond Weitzman's idea, the Leadership Council's vision of democratic capitalism consists primarily of hardhead talk: cut social spending as a way of reducing deficits, leave the military budget alone, raise taxes. Insofar as it touches on the idea of sharing the means of production, democratic capitalism turns out to mean little more than a common lunchroom and parking lot for management and workers.

The central feature of the Leadership Council's draft plan is the quintessential Democratic contribution to hardhead thought: the average American is spending too much for either her, his or the country's good. Spend less, save more. Aside from the fact, noted above, that the average American is not spending more, the notion that high savings bring prosperity met a deserved death fifty years ago in Keynes's *General Theory*, and now leads a spectral afterlife, clanking its chains through conservative academic journals and the editorial columns of the national press. The higher the savings rate, Keynes showed, the lower the level of demand in the economy and, with it, a corresponding weakness in the propensity of capitalists to invest. Contemplating these difficulties, Keynes—a serious-headed economist if ever there was one—started talking about "socialization of investment," which brings us back to the supposedly soft-headed bishops.

The pastoral letter does not offer a precise blueprint of how a socially responsible economy would work, and that absence provoked the scorn of the bishops' critics, who had no such strictures for the cryptic injunctions of the Leadership Council and who have forgotten that supply-side economics received its most famous expression in the form of a scribble on the back of Arthur Laffer's table napkin. But a blueprint has to come from a sound general philosophic scheme, and that is what the bishops provide. Fundamental to their approach are the principles of full employment at decent wages, workplace democracy as an expression of a vigorous labor movement, substantial cuts in military spending and, harking back to Keynes, partial socialization of the means of production with overall economic planning. Sensible of the alarm this last portion of their program might evoke, the bishops point out that such planning is already pervasive in the United States in the form of military spending and that this practice often "departs from the competitive model of free market capitalism." In contrast to the Democratic hardheads, who recognize the outside world only in the form of economic war with Japan, the bishops also make the elementary concessions to planetary economic priorities in their call for significant concessions and "perhaps outright cancellation" of Third World debt.

In the months to come, the bold new visions, fresh starts and similar hymns to entrepreneurial innovation will come thick and fast. All of them boil down to the illusions of hardthink. On the other hand, the approach of the bishops, stemming from moral and religious imperatives, could translate into a robust economic program. Taking the bishops' call for partial socialization of the means of production, let us see how some of their imperatives might work out in practice. Such socialization would require public control over investment and thus a public investment bank. Its aim would be promotion of industrial renewal, widening of opportunities for high-wage employment and lowering of the present dangerous level of corporate debt. (Debt, not necessarily bad per se, is socially noxious if used largely toward speculative ends or if interest burdens become excessive.)

To be effective, such a bank would need a budget of roughly $25 billion, which is a lot of money but amounts to only 2.5 percent of the current government budget and 8 percent of what the Pentagon got last year. Of that total, about $15 billion should be spent on direct subsidies to firms and on outright government equity purchases; $7 billion on civilian research and development, not only for products but also for improvements in methods of production; and $3 billion on training and relocation, making it easier for workers faced with redundancy or plant closings to move on with less hardship.

The subsidies and equity funds would go to firms whose projects best supported the bank's commitment to full employment at decent wages and to industrial renewal. Companies receiving the funds would then be substantially relieved of the pressure of having to issue private debt (bonds) and equity financing (shares), and of later having to pay out commensurate levels of interest and dividends. In return the firms would agree to permanent public review through the bank.

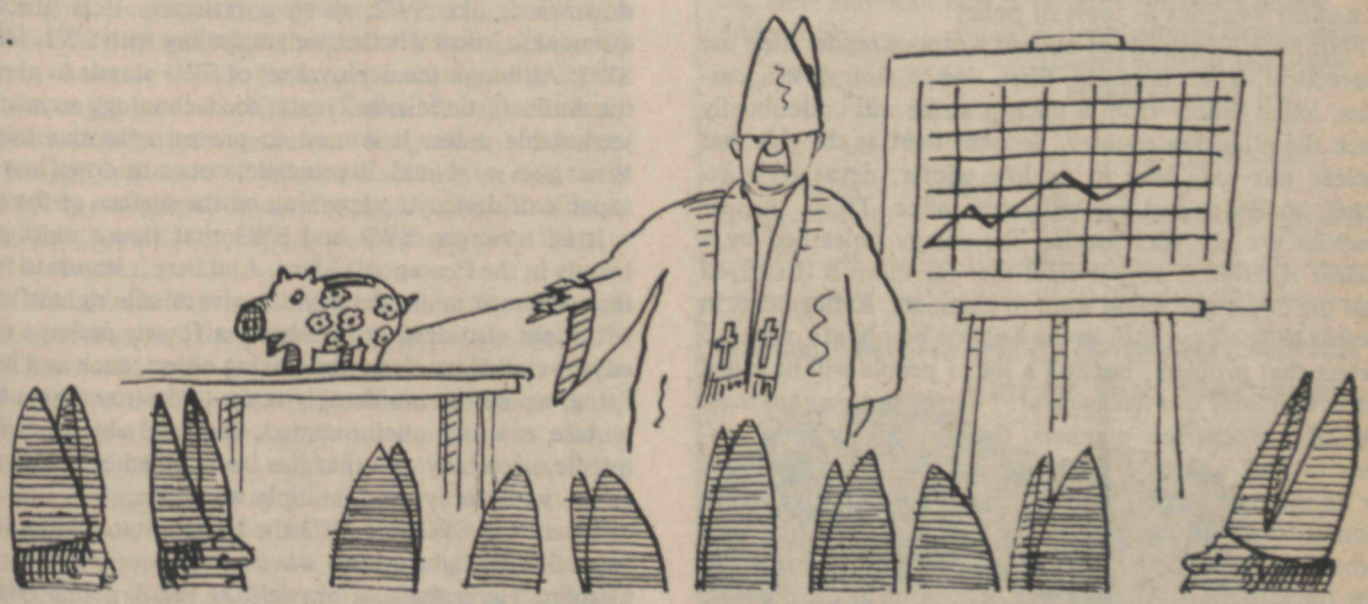
The programs of the public investment bank—direct investment and subsidy, research and development, job relocation—would strengthen the economy in other ways as well. Unemployment, hence the need for unemployment insurance and welfare, would diminish. Tax revenues would rise. Growth in the gross national product would accelerate over the long term for several reasons: an increase in high-wage, high-productivity jobs; the ability of firms receiving public investment to pursue long-range planning objectives, less constrained by the demands of private shareholders for quarterly dividends; a restriction of the adverse swings of the business cycle, as the flow of investment funds and the level of unemployment stabilized; the incentive for firms to stay in the United States rather than run overseas in search of cheap labor.

Finally, and perhaps most important, would be the *glasnost* effect. Decisions on investment—where society should direct its resources—are crucial to everyone's economic well-being. Yet debate over investment has traditionally been confined to the most secluded regions of the private corporate hierarchy. With the procedures consequent upon creation of a public bank such discussion would move into the realm of public, democratic discourse.

In addition to the public investment bank, the increased spending called for by the bishops in the more traditional areas of infrastructure and public housing could also create more high-wage jobs and raise productivity, while improving train tracks, bridges, ports and roads. More spending in those areas would tend to force down the currently unprecedented level of household indebtedness as well: with higher incomes households would not have to borrow as much to meet spending needs, and an increase in the supply of housing would lower its cost and the corresponding level of mortgage finance.

How could all this be paid for? Consistent with the bishops' general framework, the government could expand its revenues and cut back its expenditures as a result of full employment, reductions in the military budget and a properly progressive tax structure.

The more difficult question is whether such programs would degenerate into yet another bunch of handouts for the greedy and undeserving. No set of technical economic policies, even those flowing from left-wing principles, is immune to manipulation and corruption. To survive and flourish in any vital form a proper economic program would have to emerge from an ascendant progressive culture, one in which, to take Pope John Paul II's words as quoted by the bishops, "the needs of the poor take priority over the desires of the rich; the rights of workers over the maximization of profit; the preservation of the environment over uncontrolled industrial expansion; production to meet social needs over production for military purposes."



DRAWINGS BY J-C SUARÈS

If a renewed political culture could prompt the practical expression of the bishops' program, we could expect a more efficient economy and less financial instability, both of which are hardhead priorities, within the utterly unhardhead context of a program that respects human rights and demands social justice. They may not recognize it as such, but the bishops have produced a profoundly radical economic program, one that is unacceptable in today's straitened political environment. To have such a vision promulgated by one of the most prominent institutions in American society offers an enormous opportunity for an onslaught on the parched and mean-spirited thinking that currently passes for original economic analysis and that will, if it is not challenged, set the terms of debate in the months that lie ahead. □