

Radical America, vol. 16, #5

REINDUSTRIALIZATION: A DEBATE AMONG CAPITALISTS

GOETZ WOLFF

In the past few years business leaders have shown increasing concern about the state of the US economy. They see stagflation, insufficient productivity, decreasing profit levels, lagging technology, too little investment in productive capital, and lack of competitiveness in world markets. And they don't like any of it.

At the same time, business leaders are careful to distinguish between these serious problems and other problems which they accept philosophically. Plant closings, in their view, are merely manifestations of a period of change and disruption for older, declining industries. The frost belt is losing to the sunbelt; the US is losing to Japan and to industrializing Third World nations; steel, rubber, textiles, and autos are losing to computers, aerospace, and machinery.

Integral to this process of change are the impetus of capitalists to increase their profits in order to enlarge the reproduction of capital (i.e., increase capital accumulation) and a concomitant class struggle in which workers tend to resist increased exploitation. In order to increase accumulation, a variety of strategies are pursued, including the disciplining of labor in order to keep wages low (and to reduce wages if they have risen) and the replacement of demanding and unruly labor with machines. In addition, capital seeks out cheaper, more docile labor. Thus the growth in manufacturing jobs has taken place in regions and countries where wages tend to be lower, and where unions are less evident and/or less militant.

Opposite: *Edward Steichen*, The Maypole (Empire State Building) 1932

Comune di Padova
Sistema Bibliotecario

ALF - SLD

Sez. 6

Sottosez. 8

Serie 8

Sottos.

Unità 246

PUV 55

123

But capital doesn't only strike out geographically in search of higher profits. There also exists competition for investment among sectors of the economy (and within sectors). As was noted above, in the area of manufacturing, there are sectors that have been growing ("sunrise") while others have been declining ("sunset"). In addition, the goods-producing sector as a whole has been giving way to the services sector.¹

For many economy analysts, this is but a natural process resulting from the births and deaths in the corporate species. They conveniently overlook the human costs that are involved in these changes. For them, a readjustment and restructuring will work itself out as corporations and individuals seek out the more profitable sectors and regions in which to invest. As this happens, the less profitable regions will adjust their business climate so that they will become more attractive to investment in the future. The process will result in a "convergence of regional incomes," according to one study by the American Enterprise Institute.²

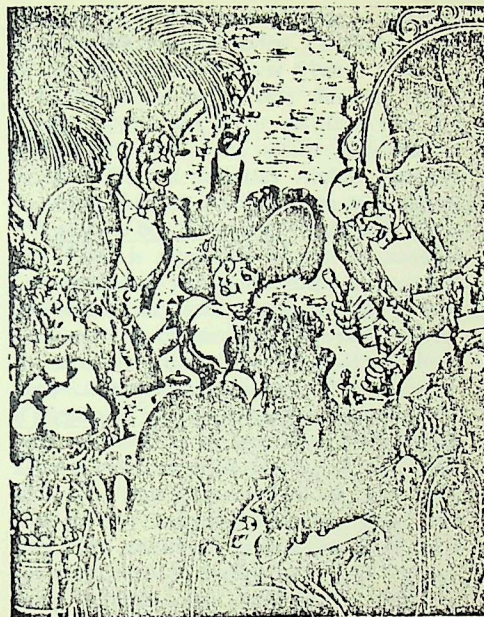
Nevertheless, even the businessmen and their economists are concerned with the way in which these structural changes are going to come about. From their point of view: will the changes come soon enough, or will America be left in the lurch while other countries surge ahead? How disruptive will this working out of "natural" market forces be? What corporations will suffer the greatest losses? Will the US risk losing some basic industries that are critical to military production? Their primary concern is how their own economic positions might be adversely affected by the economic changes brought on by the dynamics of capitalism.

This is where the idea of reindustrialization comes in. It's a single name given to a number of different policy proposals for dealing with

the economic maladies manifested by the United States. Credit for coining the name is claimed by Amitai Etzioni, a sociologist and former Senior Advisor to President Carter.³ Because the economic problems are so complex, there isn't any agreement yet among business leaders as to which route is the best way out of the economic crisis. But if we are going to understand what business has in mind for the nation, we have to be able to distinguish among the various plans which are being proposed.

We can identify at least three major strands in this reindustrialization debate among business leaders and their spokesmen. One might be called the unfettered-capitalism version of reindustrialization because it is advanced by those who still have a great deal of faith in the free market. They believe that most of the economic problems of the US have their roots in excessive government-business interdependence. A second strand, called the Business Week version because of the now-famous issue which delineated the problems facing the US economy as well as provided a strategy for rebuilding the economy, is advocated by those who believe that, for better or worse, government and business are linked to each other's fates.⁴ A third version of reindustrialization, pragmatic state capitalism, agrees with the second, but goes one step further and suggests that it is in the long-term interests of capitalism for government to take a guiding role in reindustrialization. It also holds that the most pressing needs of labor, minorities, women, and the poor should be taken into serious account in the restructuring process.

Although the three reindustrialization plans aren't as sharply distinct as I'm portraying them, it is necessary to recognize that with each version different tactics and strategies are being proposed, and consequently working people will be affected differently. This means too,



Fritz Eichenberg, 1937

that different responses may be called for, depending on the version of reindustrialization which is being promoted.

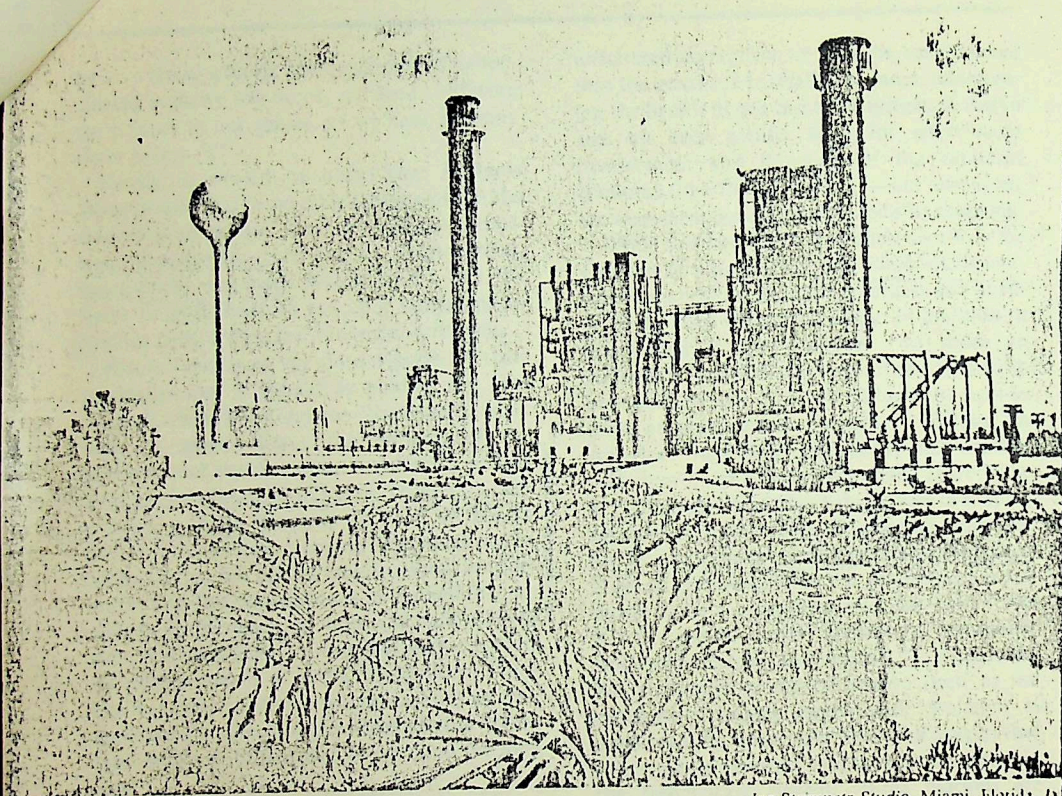
"Unfettered Capitalism"

Reindustrialization by unfettered capitalism relies upon a perspective of free enterprise which sees government as an impediment to the success of capitalism. Of course, this is the perspective that dominates the rhetoric — and to a surprising extent the actual policies — of the Reagan administration.⁵ The solutions that make up this reindustrialization approach can be capsulized into a strategy of less government and more capitalism.

Specifically, this strategy wants to strip away or reduce virtually all social buffers (e.g. unem-

ployment insurance, food stamps, COLA, the minimum wage) which have made life more tolerable and secure for workers and their families in the past half-century. The complaint by these free-enterprise economists and politicians is that the labor force has extracted a "cushy" existence which discourages productivity and keeps market forces from allowing wages to fluctuate with the demand for labor. Another proposal is the creation of enterprise zones, recommended by the Heritage Foundation⁶ and presented to Congress as the Kemp-Garcia Urban Jobs and Enterprise Zone Act,⁷ which has some disconcerting similarities to the export platforms (Free Trade Zones, or FTZs) that are most common in Asian nations which border on the Pacific Basin.⁸ Closely related is the proposal to drop the minimum wage for young people — a first step toward a more widespread modification of the minimum wage, and thus the wage structure in general. Another tactic focuses on unions for they are to "be considered an obstacle to the optimum performance of our economic system."⁹ The thrust of these proposals and tactics is to make American labor cheaper, and thus more competitive with Third World workers.

Direct benefits for industry are also advocated in this approach to reindustrialization. Here the assumption is that as government "gets out of business," business will be able to choose the most efficient strategies to compete in the world economy — unrestricted by so-called costly health, safety, and environmental regulations. (The costs will not go away — they will be borne, not by business, but by the workers in the form of injury and illness.) It is believed that the most profitable directions for investment will somehow be the ones that meet the needs of the nation. Thus the way forward is to cut taxes drastically through accelerated depreciation for capital purchases such as



Joe Steinmetz Studio, Miami, Florida. 15

equipment and buildings, through decreased corporate tax rates, and through decreased personal income taxes in the upper brackets.

Unfettered capitalism does not ignore the poor, the minorities, and “the truly needy” — in its rhetoric. One repeatedly encounters references to the concern for the less well off, and how workers and job seekers will gain with the soon-to-come booming, restructured, revitalized economy. But as the Reagan program takes shape, it becomes increasingly clear that

this rhetoric was never anything more than a perfunctory window dressing.

Business Week

The second version of reindustrialization, the *Business Week* approach, includes some related proposals coming from other sources. For example, the Time-Life empire has jumped into the fray with a special project on American Renewal in which *Fortune* advocates a slightly more cautious, and somewhat more broad-

brushed, set of proposals.¹⁰ However, to avoid complicating this brief review, I will focus most of my attention on *Business Week*.

It should be noted that *Business Week* doesn't oppose the labor sacrifices that are explicit strategies in the unfettered capitalism version. Thus it endorses Amitai Etzioni's statement that reindustrialization will require “10 years of belt tightening.”¹¹ Likewise, *Business Week* is supportive of cuts in personal income taxes as well as liberalized depreciation allowances, increased investment tax credits, and cuts in the corporate income tax. However, the somewhat more “liberal” *Business Week* perspective acknowledges that the government, if dominated by the appropriate business interests, can serve as an important coordinating agent in overcoming the anarchy of the capitalist system. Thus a key aspect of the approach is that *selective* budgetary and tax policies will strengthen industry by rewarding investment in the production of capital goods, by encouraging research and development, and by promoting exports. It is not simply a matter of putting money in the hands of investors, as in the unfettered-capitalism approach to reindustrialization.

Business Week wants to forge a “new social contract,” a tripartite consensus among business, labor, and government in order to achieve the needed climate for restructuring American industry. In particular, the worker-versus owner adversarial relationship (class struggle) is to be replaced by a partnership which *Business Week* calls a “collaborative relationship” in shops and factories. By such an arrangement, policies would emerge that represent the needs and contributions of all the economic elements, according to this approach. And among the first to “contribute” to the “needs” of business will be labor. “As part of the new social contract, unions will come under pres-

sure to limit wage gains in the first phase of reindustrialization.”¹² *Business Week* attempts to balance this bargain by affirming the need for “high employment and decent wages” — the point being, nevertheless, that business is the implicit decisionmaker about what is needed and how the needs are to be fulfilled.

The *Business Week* position still fears government as potentially unmanageable, because the electorate is made up of more workers than capitalists. Thus it says “It will be legitimate for government to work with the private sector in developing a road map for healthy industrial development, showing which industries should be encouraged to grow and which have only a limited future.” But “it will not be legitimate for government to legislate a new industrial structure. Nor will it be legitimate for government to take over sick industries to preserve obsolete jobs.”¹³ This principle has been taken to heart by Governor Jerry Brown who wants to “go with the flow” of industrial growth. In California he has proposed a state reindustrialization program which would aid research in microelectronics, encourage new firms in high-technology “sunrise” industries as well as create an “industrial reinvestment fund.”¹⁴ Whether these new industries will provide accessible and well-paying jobs to those being displaced by reindustrialization is open to question.

Both *Business Week* and *Fortune* take note of minorities, women, the needy — and they are quick to emphasize that reindustrialization must be fair. But not very well hidden in this rhetoric are statements such as: “each social group will be measured by how it contributes to economic revitalization.”¹⁵ “The drawing of the social contract must take precedence over the aspirations of the poor, the minorities, and the environmentalists.”¹⁶ “In the 1970s, however, the egalitarian thrust went too

far... Now, without overreacting and subordinating equality too much, we need to restore the balance in our values, as we have so many times before."¹⁷

Finally, it should be noted that *Business Week* is not blind to possible failings within the leadership of capital. They are critical of business management itself for its short-sighted, quick-profit approach which hasn't had the nerve to grab hold of the long range opportunities confronting the American economy.

Before turning to the third version of reindustrialization, it should be pointed out that while *Business Week* did the "outreach" work with its special issue, the outlines of the problem and the strategies for dealing with it were already formulated by the Trilateral Commission in 1979. There is no need to leap to assumptions of conspiratorial machinations to acknowledge the role of multinational corporations and financial interests in formulating the agenda for discourse on industrial policy. However, it is significant to note that such a powerful configuration of economic/political interests was concerned with this issue. Thus we may speculate that the *Business Week* version will be most likely to be adopted as policy in the long run.

Pragmatic State Capitalism

To the left of *Business Week* is an approach to reindustrialization which places even greater reliance on government involvement and includes an explicit strategy for dealing with the problems of the disadvantaged regions and sectors of the US. Felix Rohatyn — an investment banker and chairman of New York City's Municipal Assistance Corporation — best typifies the pragmatic state capitalism approach to reindustrialization.¹⁸ Although this approach causes distress at the *Wall Street Journal* and heart failure among some of the advocates of

unfettered capitalism, it must be remembered that the goals are basically the same: maintaining the health of the capitalist system. Rohatyn sees an even greater need for government involvement and direction of the capitalist economy than *Business Week* — but always for the long-term benefit of the capitalist economy.

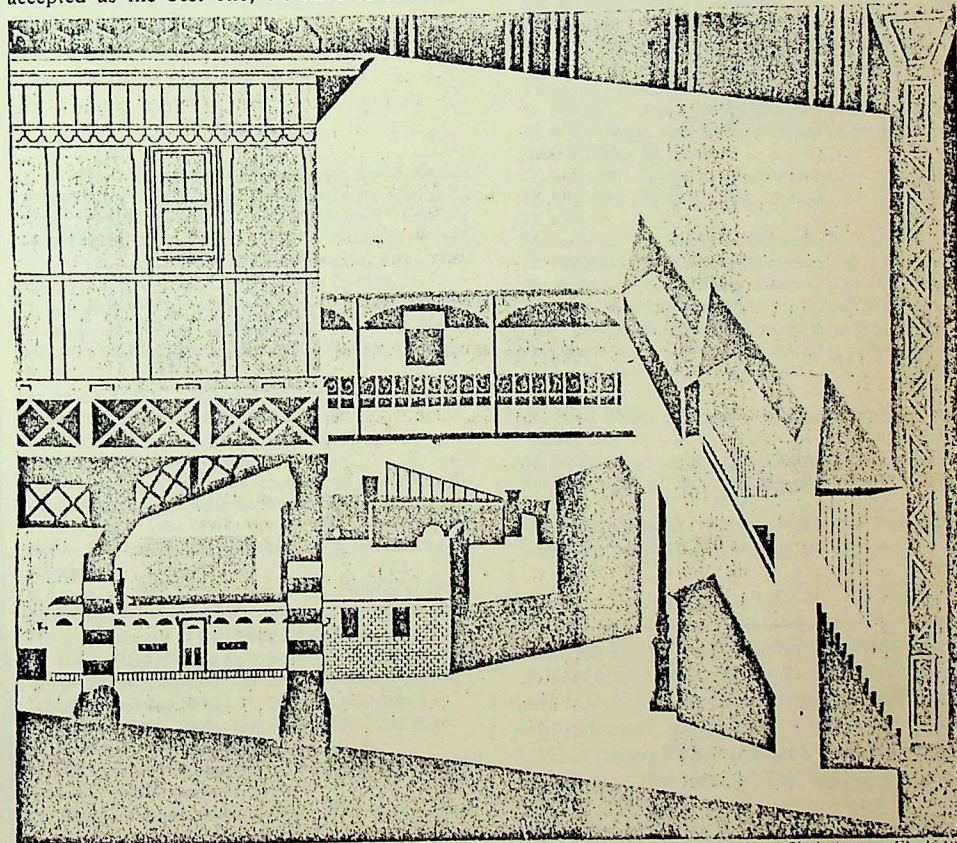
While *Business Week* hesitantly considers the creation of a Reconstruction Finance Corporation as an option, Rohatyn embraces and advocates the idea without apology: in addition to intervening in the economy "to shore up America's troubled older industries by providing equity capital... it would have the right to insist on management changes."¹⁹ Because an America "half rich, half poor; half suburb, half slum... is a recipe for social strife," the R.F.C. could "also play a major role in shaping regional policy," aiding regions and cities that are hit particularly hard by economic changes.²⁰ Such an intervention by the government is not meant to be a permanent one, however. "The R.F.C. should never become a permanent stockholder in any corporation."²¹ Rather, the R.F.C. would gradually remove itself as the economy becomes regenerated. Rohatyn is undaunted by those capitalists who suggest that this strategy involves excessive interference in the free-market system: "Free markets are clearly desirable, but we do not in fact live in a free-market economy and never will; we live in a mixed economy in which prices and capital are, and will be, subject to governmental influence."²²

The basic thrust of Rohatyn's proposal is that the US has to maintain its basic industries, for both national security and the economy as a whole depend on these industries. "Is it rational, in the name of the mythical free market, to let our basic industries go down one after the other, in favor of an equally mythical 'service society' in which everyone will serve

everyone else and no one will be making anything?"²³ Furthermore, rather than waste precious capital by having to build new plants and the related infrastructures in one part of the nation while the other sections die "natural deaths," the reindustrialization project he envisions "will provide work enough for everyone as far as the eye can see."²⁴

Before this approach to reindustrialization is accepted as the best one, we have to remind

ourselves how Rohatyn arrives at his solution: it involves business interests dominating government policy making and it involves "belt-tightening" which means that the workers will pay for most of the changes he advocates, even though he claims that everyone will pay a price. It is the workers who bear the greater burden with frozen wages or givebacks, with higher energy costs, with reduced social services, with cutbacks in unemployment bene-



Francis Criss, Sixth Avenue El, 1938

fits. Thus the price of *pragmatic state capitalist* reindustrialization involves giving up the "padded society," as Rohatyn characterizes it.¹¹ The problem is that this "padding" is a lot thinner for the workers than it is for the corporate interests who will be deciding where the padding gets reduced.

What does all this mean for the US? It seems pretty obvious that the unfettered capitalism approach wants little more than to convert the US into a Milton Friedman-approved Hong Kong free-market economy. It will rely upon unemployed workers (the "reserve army") forcing labor to become cheaper and more productive, thus encouraging new plant openings and expansions in the US. And too, as the declining industries die off, it is assumed that a new set of suitable replacement "sunrise" industries will be ready to take their place. Whether the laid-off workers will have the skills to fit into the sunrise industries and the "freedom" to move to the location of the new plants seems more certain in supply-side economic texts than in the real world.

The *Business Week* approach would keep government in the picture as an agent of general direction ("indicative planning"), and there would be some concern with having labor included in the planning for shifts that take place. The question, though, is which elements of labor will be speaking for the workers? Although *Business Week* wants to avoid major disruptions in declining industries, at the same time it doesn't want to maintain "sick industries to preserve obsolete jobs." And while on the one hand *Business Week* talks of labor nestling in *with business* as a way to improve communication and achieve a "collaborative relationship," it should be remembered that *Business Week* doesn't oppose corporations' attempts to dismantle unions and prevent

workers from organizing independently of management.

Pragmatic state capitalism may hold out for those sectors and regions where industries have been in decline because this approach seems to be aware that you don't simply throw away investment in capital and skilled human beings. In addition, the Rohatyn approach seems to be more concerned with the "less fortunate" in our economy, although the reason for concern appears to be based on the pragmatic concern with the adverse consequences arising from "social strife" — i.e., disruption and disorder. In that sense, it appears that the Rohatyn approach is far more sensitive to the nature of the struggle between the classes. But as has already been noted, the cost of the strategy will ultimately be borne by the workers who will have to accept pay cuts, givebacks, and declining social services. And in the long run, the strategy of pragmatic state capitalism may create an even closer bond between business and government, resulting in what Bertram Gross has called "friendly fascism."¹²

None of the various reindustrialization advocates consider the fact that state and local government accounted for about one-fifth of the additional jobs in the US in the past twenty years.¹³ The government has played a special role in absorbing employable citizens in a changing economy. But now, obviously, that role will be much smaller. Not only will there be a decline in services by the government, but fewer jobs will be made available in precisely the major growing sector in which wages were higher, and increasing at a rapid rate. The service and trade sectors, also growing during the past twenty years, tend to pay less than the manufacturing jobs that are being eased out. Thus many of the "job opportunities" in the nonmanufacturing sectors are (and will be)

lower-paying, less unionized, and more likely to be dead-end jobs.¹⁴

If, as *Fortune* asserts, reindustrialization has become "an 'empty-bottle' word,"¹⁵ into which various wines have been poured, it should be recognized that whatever the vintage, all have come from the same capitalist vineyard. What needs to be added to this debate on reindustrialization is a perspective which speaks for the workers and progressives, not only for corporate interests.

Footnotes

1. By 1977, only 32 percent of the working population was employed producing goods. Eli Ginzberg and George J. Vojta, "The Service Sector of the US Economy," *Scientific American* 244 (March 1981): p. 48. According to my own calculations from the *Handbook of Labor Statistics, 1979*, the proportion dropped to 29.7 percent by 1979.
2. Richard B. McKenzie, *Restrictions on Business Mobility: A Study in Political Rhetoric and Economic Reality* (Washington, DC: American Enterprise Institute, 1979), pp. 5, 22.
3. Amitai Etzioni, "Reindustrialization: View from the Source," *New York Times*, June 29, 1980.
4. "The Reindustrialization of America," special issue of *Business Week*, June 30, 1980.
5. A book that is taking on the status of a tome for the administration's approach is George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981) — ordered by Budget Director David Stockman for distribution to his colleagues.
6. Stuart M. Butler, *Enterprise Zones: Pioneering in the Inner City* (Washington, DC: Heritage Foundation, 1980).
7. For a discussion of the Kemp-Garcia Bill by its authors, see *Urban Revitalization and Industrial Policy*, Hearings before the Subcommittee on the City, 96th Cong. 2nd Session, September 16 and 17, 1980, pp. 205-224.
8. Ho Kwon Ping, "Bargaining on the Free Trade Zones," *New Internationalist* (April 1980), pp. 12-14.
9. Albert Rees, *The Economics of Trade Unions* (Chicago: University of Chicago Press, 1977)
10. "Special Project: American Renewal," *Fortune*, March 9, 1981.

11. *Business Week*, June 30, 1980, p. 88.
12. *Business Week*, p. 88.
13. *Ibid.*, p. 146.
14. "California's Own Reindustrialization Program," *Business Week*, January 26, 1981, p. 40.
15. *Business Week*, June 30, 1980, p. 86.
16. *Ibid.*, p. 146.
17. *Fortune*, p. 115.
18. Rohatyn has presented his ideas on several occasions: "The Coming Emergency and What Can Be Done About It," *New York Review of Books*, December 4, 1980, pp. 20-26; "Reconstructing America," *New York Review of Books*, March 5, 1981, pp. 16-20; "Putting the US Economy Back on Its Toes," *Los Angeles Times*, February 15, Pt. V, p. 1; "A Matter of Psychology," *New York Review of Books*, April 16, 1981, pp. 14-16.
19. Rohatyn, "Putting the US Economy Back on Its Toes." 20. *Ibid.*, and the same points are made in "Reconstructing America," pp. 20, 16, 19.
21. Rohatyn, "Putting the US Economy Back on Its Toes." 22. Rohatyn, "Reconstructing America," p. 18.
23. *Ibid.*, p. 20.
24. Rohatyn, "Putting the US Economy Back on Its Toes." 25. Rohatyn, "The Coming Emergency," p. 23.
26. Bertram Gross, *Friendly Fascism: The New Face of Power in America* (New York: M. Evans, 1980). Sidney Lens, looking at reindustrialization in general, notes its resemblance to Mussolini's corporate state, "Reindustrialization: Panacea or Threat?" *The Progressive*, November 1980, p. 44.
27. Goetz Wolff, "Trends in Industry and Labor," Figs. 20a and 20b.
28. On this point, see also Emma Rothschild, "Reagan and the Real America," *New York Review of Books*, February 5, 1981.
29. William Bowen, "How to Regain Our Competitive Edge," *Fortune*, March 9, 1981, p. 84.

GOETZ WOLFF has taught political science at several universities. He works with labor unions and is presently the coordinator of a conference on economic dislocation, November 6-7 at UCLA (where he is a graduate student in urban planning). This article was written in April, 1981.