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In a dark time the eye begins to see.
– Theodore Roethke

WHAT'S WRONG WITH THE ECONOMY?

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"The most sensitive nerve in the body is the pocketbook nerve."

–HARRY TRUMAN

Who is Robert Reich, one of the more interesting talking heads on TV? He is a political economist at Harvard's Kennedy School of Government, and author of' "The New American Frontier" (Times Books, 1983) and "The Work of Nations" (Vintage Books, 1992), among several others. He is Bill Clinton's Secretary of Labor. He was at Oxford with Clinton. He has some hard to take, but inescapable insights into the American economy.

There are several myths and metaphors about the economy which hang on, even though they were more valid thirty or forty years ago. One metaphor, coming out of World War II, was of the economy as a large boat carrying all of us: capitalists, workers, small businessmen, farmers and the poor. We were all in it together, and rose or fell together. There were also implied mutual responsibilities;
if one fell, we would all pull together to help.

One myth, still dear to many hearts, is that pure competition will lead us to the promised land. It misses the point that unbridled competition eventually erodes all profits, causing even the best of businesses to fold. Recall the periodic air fare wars, which usually precede the demise of another airline. A kind of corollary is that government makes its purchases by competitive bidding process. The largest government procurer, the Pentagon, actually awards more than 65% of the dollar volume of U.S. defense contracts without competitive bidding. Routine massive cost overruns undermine the bidding process in many nominally competitive contract awards.

"What's good for General Motors is good for the country" -- the idea that healthy profits for American corporations are vital to a healthy economy is no longer valid. Many companies close plants and move plants overseas, even when their U.S. operations are profitable. Levi Strauss, the very symbol of the American frontier, closed its most profitable factory, the Dockers plant in San Antonio, and moved it to Costa Rica.

"Taxes on the wealthy must be loweredf, public spending reduced, and budget deficits eliminated" -- these were articles of faith for many during the Reagan/Bush years. In fact, reducing taxes for the wealthy as often leads to more conspicuous consumption and investment in fine art, antiques and other "collectables," or investment around the world, as it does to investment which produces good, family-wage American jobs. Reduced public spending, as I will show later, leads directly to the downward economic spiral and reduced quality of life we find ourselves in now. Budget deficits are bad when they are used for government consumption, like most military spending or even welfare. They can be good, as Reich points out, when they are used for investment in our citizens' futures and our infrastructure. These are akin to a business borrowing to invest in future growth.

The last outmoded myth is that government needs only to get out of the way of business for the American economy to flourish. The truth is that every major American industry is deeply involved with and dependent on government. They get government contracts, subsidies, loans, tax breaks, tariff protection or "voluntary import restrictions." The list goes on. I was annoyed by the sight of the CEOs of the Big Three auto makers trooping down to Little Rock shortly before Bill Clinton's inaugeration to ask for protection from Japanese imports and relief from increasing gas mileage standards. What have they done for America lately?

Since investment capital, plants and machinery move around the globe searching for higher profits, what remains of the truly American economy? The workers. The success or failure of American workers in adapting to the new world economy will determine the standard of living which all Americans will enjoy. Labor is us.

First, let's follow Reich's outline of how things got to be so precarious. American industry through the first half of the century was a marvel to the world. We had learned how to make a high volume of standardized production, ever since Henry Ford's invention of the assembly line. Following World War II, a lot of our industrial capacity was allowed to stagnate; corporations depended on the lack of foreign, or even domestic competition to assure profits. They didn't have to innovate or modernize. They could take their time bringing new ideas, new products to market. Slight or cosmetic modifications allowed them to continue running the same basic products off the assembly lines year after year.

Meanwhile, Japan and Western Europe, whose industrial base was largely obliterated by the war, scrambled to get into the industrial market. Their governments and industries acted as teams, intent on rebuilding their economies. Public and private investment supported the construction of state-of-the-art industrial facilities, research and development, coordination and planning. Through the '50s and '60s, American corporations rested on their laurels. Japanese products were a joke in the '50s. By the '60s, they were as good as ours; by the '70s, better than ours. Faced with their first real competition, American business choked. The corporate elite blamed foreigners for unfair competition; they blamed unions for securing middle-class lifestayles for their members; they blamed government for too much regulation, not enough protection, and for too high taxes.

Instead of buckling down, investing in modernization, research and development, and upgrading employees' skills, American corporations focused on short-term profits and whart Reich calls "paper entrepreneuralism." U.S. Steel closed off or sold off much of its steel production capacity and became a diversified, fast-buck, safe conglomerate, USX. American business began to focus on takeovers of other companies, often to the detriment of workers and communities. Lawyers and financiers proliferated. They were clever manipulators, not producers. Theirs was a zero-sum game. Their profits always came at other Americans' expense. Wheeling and dealing for short-term profits was the motif of the 1980s. "Paper-shuffling has its corollate in people-shuffling. All this rearranging of industrial assets and people has made it more difficult for American enterprise to undertake basic change. It has enforced short-term thinking, discouraged genuine innovation and consumed the careers of some of our most talented citizens. It has also transformed many American companies into fearful and demoralized places characterized by cynical indifference and opportunism." * "American industry has used import protection and subsidies...to maintain profits and provide cash for paper-entrepreneural exploits rather than to build new plants, improve equipment, research and product development, or upgrade the workforce. In other words, government assistance has supported a rearguard action to preserve America's old industrial base of high-volume, standardized production, and not (for) a campaign to meet world competition by shifting its industry toward flexible-system production."

Reich sees a parallel with the "conservative, cynical and economically stagnant Italy of the 17th century." Italian manufacturers were gradually driven from markets by new products and new systems of production from Holland. "Italy was still a country of able businessmen and abundant capital. But its social structure had grown rigid; it could not adapt to

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