

# American Economic Policy

---



Problems and Prospects

---

Edited by Gar Alperovitz  
and Roger Skurski

# AMERICAN ECONOMIC POLICY

## *PROBLEMS AND PROSPECTS*

*Edited by*  
Gar Alperovitz and Roger Skurski

UNIVERSITY OF NOTRE DAME PRESS  
NOTRE DAME, INDIANA

Copyright © 1984 by  
University of Notre Dame Press  
Notre Dame, Indiana 46556

**Library of Congress Cataloging in Publication Data**

Main entry under title:

American economic policy.

Proceedings of the 1982-83 Graduate Public Policy Workshop held at the University of Notre Dame and sponsored by its Dept. of Economics.

Bibliography: p.

1. United States—Economic policy—1981- —  
Congresses. I. Alperovitz, Gar. II. Skurski, Roger.  
III. Graduate Public Policy Workshop (1982 : University of Notre Dame) IV. University of Notre Dame.  
Dept. of Economics.

HC106.8.A44 1984 338.973 83-40592

ISBN 0-268-00612-1

ISBN 0-268-00613-X (pbk.)

## AMERICAN ECONOMIC POLICY

## Contributors

GAR ALPEROVITZ is co-director of the National Center for Economic Alternatives, a Washington-based research organization. During 1982–83 he was guest professor of economics at the University of Notre Dame. He has a Ph.D. in political economy from Cambridge University, an M.A. from Berkeley and a B.S. from the University of Wisconsin. A Marshall Scholar, he has also been a fellow of King's College at the University of Cambridge, a guest scholar at the Brookings Institution, and a fellow at the John F. Kennedy Institute of Politics at Harvard University. Dr. Alperovitz testifies frequently before U.S. House and Senate committees, including the Joint Economic Committee, the Senate Subcommittee on Economic Stabilization, and the House Committee on the Budget. He has authored several books and a variety of professional and other articles. Dr. Alperovitz's latest book is *Rebuilding America*, co-authored with center co-director Geoffrey Faux.

RICHARD D. BARTEL has been the executive editor of *Challenge, The Magazine of Economic Affairs* since 1980. Before that he served as a staff economist for the Joint Economic Committee of Congress, and from 1969–1978 he held several research positions with the Federal Reserve Bank of New York, including a year with the Bank for International Settlements in Basel, Switzerland. Dr. Bartel was born in Wisconsin where he attended Ripon College, graduating with a B.A. in mathematics and economics. Later, he earned an M.A. and a Ph.D. in economics at Columbia University. A specialist in international and monetary economics, Bartel has published articles in journals, magazines, and government publications.

JOSEPH BLASI is director of the Project for Kibbutz Studies, Center for Jewish Studies and lecturer in social studies at Harvard University. Dr. Blasi began his higher education in a Jesuit seminary and continued it at the University of Pittsburgh where he completed a B.S. in psychology. He then earned both a master's and doctorate in education from the School of Education, Harvard University. Along the way, Blasi worked with the Pittsburgh YMCA as an organizational consul-

tant and coordinator of a drug abuse program; as an intern teacher at the Cambridge Pilot School; as an intern therapist at the Boston State Hospital; as an instructor in anthropology at Massachusetts Bay Community College; as an instructor in sociology at Brandeis; and as a research associate, Project on the Kibbutz and Collective Education, School of Education at Harvard. Dr. Blasi has authored or co-authored several books, including *The Communal Future: The Kibbutz and the Utopian Dilemma*, and numerous articles in a variety of publications on the kibbutz, cooperatives, and worker participation.

MARTIN CARNOY is professor of education and economics at Stanford University, where he has taught for the last 14 years. He received his B.S. degree in electrical engineering from the California Institute of Technology, and his M.A. and Ph.D. from the University of Chicago economics department. Before his present tenure at Stanford, he worked at the Brookings Institution in Washington, D.C. in the foreign policy division. He is a specialist in Latin America and Africa, as well as the economics of education, labor economics, and the U.S. economy. Carnoy has published extensively in economics journals, *The Nation*, *The New Republic*, and *In These Times*. His books include *Industrialization in a Latin American Common Market*, *Education and Employment*, *Education as Cultural Imperialism*, *Segmented Labor Markets*, *Economic Democracy* (with Derek Shearer), and *A New Social Contract* (with Derek Shearer and Russell Rumberger). He has just completed *Theories of the State in Modern Marxism*, to be published by Princeton University Press in 1984 and *The Dialectics of Education and Work* (with Henry Levin), to be published by Stanford University Press in 1984.

JAMES K. GALBRAITH is executive director of the Joint Economic Committee, United States Congress. Earlier he served as an economist with the House Committee on Banking, Finance, and Urban Affairs, research assistant at the Joint Economic Committee, and visiting lecturer in economics at the University of Maryland. Dr. Galbraith received his A.B. in social studies from Harvard University and his Ph.D. in economics from Yale University. In between, he was a Marshall Scholar at King's College, Cambridge University. His fields include: economic policy, industrial organization, history of economic thought, and the economics of poverty and discrimination. Galbraith has authored several articles which have appeared in such publications as *Working Papers for a New Society*.

LEONARD A. RAPPING, professor of economics at the University of Massachusetts at Amherst and director of the Project on Economic Restruc-

turing, graduated from the University of California, Los Angeles and received his Ph.D. from the University of Chicago. He was trained in the fields of economic theory and econometrics. He then turned his attention to the study of social and political institutions as they related to economic theory. Professor Rapping has been a consultant to numerous federal and private agencies including the RAND Corporation, Budget Bureau, Department of Defense, Maritime Administration, Center for Naval Analysis, Department of Transportation, and the Labor Department. He was a member of the economic advisory board of the Progressive Alliance and a past member of the editorial board of the *American Economic Review*. He has published extensively in the areas of labor economics, transportation economics, political economy, and the economics of inflation and unemployment. Presently his special interest is in problems of national and international banking as they relate to industrial policy.

COREY ROSEN is executive director of the National Center for Employee Ownership (NCEO), a private, non-profit clearinghouse and research organization. He was formerly a professional staff member in the U.S. Senate, where he worked on employee ownership legislation prior to founding the center in 1981. He received his B.A. from Wesleyan University and his Ph.D. from Cornell University. Dr. Rosen has authored many papers and books available through the NCEO, including: *Employee Ownership: A Handbook* (1982), *Employee Ownership: A Reader* (1983) and *Employee Buyouts: A Handbook* (1983).

A. ALLAN SCHMID is professor, Department of Agricultural Economics and Department of Resource Development, Michigan State University, where he specializes in land economics, rural development, public finance, and public choice. He has spent leaves from Michigan State with the Systems Analysis Group (Civil Works), U.S. Department of the Army, and with the Economic and Social Research Institute, Dublin, Ireland. His undergraduate degree in agricultural economics was earned at the University of Nebraska while his M.S. and Ph.D. in the same field were received from the University of Wisconsin. Dr. Schmid has served on the editorial boards of *Land Economics*, *The Journal of Economic Issues*, and *The American Journal of Agricultural Economics*, and has written many articles for a wide variety of journals, including the *American Economic Review*. He is the author of *Converting Land from Rural to Urban Uses* (1968) and *Property, Power and Public Choice* (1978), as well as the co-author (with Warren Samuels) of *Law and Economics: An Institutionalist Perspective* (1981).



GAIL GARFIELD SCHWARTZ is president of Garfield Schwartz Associates, Inc., an economic and development consulting firm in Washington, D.C. She earned her Ph.D. at Columbia University, a master's degree in planning and public administration from New York University, and a B.A. in government from Smith College. Previously, Dr. Schwartz was senior research scientist and visiting professor at Johns Hopkins University. She served four years as senior fellow and director of economic development at the Academy for Contemporary Problems in Washington, and earlier she was director of economic planning and development for the New York City planning commission. She also has been a research associate at Columbia University's Institute for Urban Environment as well as an advisor to local, state, and federal government bodies. Dr. Schwartz has authored and edited numerous books and articles on economic policy, economic and community development, and public administration. Among them are the first book on U.S. industrial policy, *Being Number One: Rebuilding the U.S. Economy* (1980), *Advanced Industrialization and the Inner Cities* (1981), and *The Work Revolution* (1983) with William Neikirk.

DEREK SHEARER is director of urban studies at Occidental College in Los Angeles. He is also vice-chair of the planning commission of the city of Santa Monica. During the Carter administration he was a presidential appointee to the Board of Directors of the National Consumer Cooperative Bank. He has also served as special assistant to the director, State Department of Employment Development, in California during the administration of Governor Jerry Brown. He is the co-author (with Martin Carnoy) of *Economic Democracy: The Challenge of the 1980s* (1981), and co-author (with Martin Carnoy and Russell Rumberger) of *A New Social Contract: The Economy and Government After Reagan* (1983). His articles have appeared in the *New York Times*, the *Los Angeles Times*, the *New Republic*, the *Nation*, and numerous other publications.

ROGER SKURSKI is associate dean of the College of Arts and Letters and professor of economics at the University of Notre Dame. He earned his Ph.D. at the University of Wisconsin where his areas of specialization were Soviet economics and comparative economic systems. He has published a number of articles on the Soviet economy in journals such as *Slavic Review* and *Soviet Studies* and has recently published a book titled *Soviet Marketing and Economic Development*. In addition, he is the editor of another book in this series, *New Directions in Economic Justice* (1983). He was a Fulbright-Hays Fellow at the University of Birmingham and is currently the executive secretary of the Association



for Comparative Economic Studies and consultant to the National Institute for Trial Advocacy.

ROBERT A. SOLO is professor of economics at Michigan State University, where he specializes in organization, policy, and planning. He has taught at Princeton, Michigan, McGill, Rutgers, Johns Hopkins, City College of New York, and several universities in France. Dr. Solo has worked in Washington with several government agencies and has served as a public sector consultant there and elsewhere. He graduated from Harvard University and received his M.A. at American University. After studying at the London School of Economics, he earned his Ph.D. in economics at Cornell University. Solo is the author or co-author of thirteen books and more than 75 articles in a wide spectrum of journals and books. His most recent book is *The Positive State* (1982).

JAMES M. STONE is chairman and chief executive officer of the Plymouth Rock Company, a newly formed corporation founded to engage in the property-casualty insurance business in the New England area. He received both his B.A. and Ph.D. in economics from Harvard University, where he was then appointed lecturer in economics. In 1971, Dr. Stone began work as a part-time consultant for Fairfield and Ellis Inc., a Boston insurance brokerage firm, and in 1974 was promoted to vice president-economist. In 1975, he was appointed commissioner of insurance for the Commonwealth of Massachusetts, a position he held until 1979 when President Carter nominated him to become commissioner and chairman of the Commodity Futures Trading Corporation. Stone is the author of the book, *One Way for Wall Street* and numerous articles on finance, insurance, and economics.

WILLIAM FOOTE WHYTE is professor emeritus, New York State School of Industrial and Labor Relations, Cornell University. His A.B. is from Swarthmore, where he majored in social sciences and economics. He was a research fellow at Harvard University and attended the University of Chicago, from which he received a Ph.D. in sociology. Dr. Whyte has spent most of his professional life with Cornell University, but prior to that he taught at the University of Oklahoma and the University of Chicago. He has also directed a research project on human relations problems in Venezuela and was a Fulbright Fellow in Peru. Dr. Whyte was one of the early proponents of the concept of worker participation, and he recently helped found the Cornell Program for Employment and Workplace Systems—a program which will offer business and labor a set of tools to help increase productivity, forestall plant closings, and thereby save jobs. Professor Whyte has

authored or co-authored more than a dozen books, including *Street Corner Society*, now in its third edition. Most recently he co-authored *Worker Participation and Ownership: Cooperative Strategies for Strengthening Local Economies*.

## Preface

The papers in this volume are the end product of a process which began in the spring of 1981 with the conception of a speakers' series on new directions in economic policy. The Department of Economics at the University of Notre Dame has sponsored such a program annually since 1976, and its faculty have organized the lectures and edited the volumes emanating from them. This is the sixth book in the series, all of which have been published by the University of Notre Dame Press.

This year the basic premise suggested to potential participants was that neither traditional Keynesian policies nor the pure free-market approach would constitute a necessary and sufficient economic policy for the United States. The speakers were challenged to offer workable alternatives to these policies which were humane and democratic. The response was tremendous: during the 1982-83 academic year twenty speakers addressed the Graduate Public Policy Workshop; most were economists, but the group also included a lawyer, businessman, political scientist, sociologist, and psychologist. Each in his or her own way attempted to respond to our challenge and break new ground in the debate about economic policy.

The workshop participants were also invited to prepare and submit formal papers based on their presentations. Nine of them were able to do so within the time limits we set; the subject is both current and important, and therefore, we aimed for publication within approximately one year of the last visitor to Notre Dame in May 1983. The published papers represent very well the spectrum of all those given in the workshops, and do, we feel, contribute valuable ideas and analyses which push the policy debate forward. In some, issues are raised which clearly must be added to the research agenda before policy options can be evaluated.

We wish to thank all the participants in the Public Policy Workshop whether or not they were able to contribute a paper to the volume. A special word of thanks is due to Charles K. Wilber, chairman of the Department of Economics. The original idea for this annual visitors' program and the series of books built on it is his, and he has continued to supply inspiration and encouragement to these endeavors. Finally, without

the cooperation of the University of Notre Dame Press and especially of its director, James Langford, this book would not have been possible.

Gar Alperovitz  
Washington, D.C.

Roger Skurski  
Notre Dame, Indiana  
1983

# Contents

Contributors	vii
Preface	xiii

## PART I: CHALLENGE AND RESPONSE

1. Introduction: The Need for New Directions and a Progressive Response, *Roger Skurski* 3
2. Structural Change and Policy Response in an Interdependent World, *Richard D. Bartel* 15

## PART II: PUBLIC AND PRIVATE ROLES IN POLICY

3. Lessons from Elsewhere, *Robert A. Solo* 43
4. Economic Change, Bureaucracy, and the Innovative Process, *Leonard A. Rapping* 56

## PART III: INDUSTRIAL POLICY

5. The Hard Realities of Industrial Policy, *Gail Garfield Schwartz* 79
6. The Debate about Industrial Policy, *James K. Galbraith* 89

## PART IV: MONEY, CREDIT, AND ECONOMIC POWER

7. Monetary Policy: A Reconsideration, *James M. Stone* 111
8. Broadening Capital Ownership: The Credit System as a Focus of Power, *A. Allan Schmid* 117

## PART V: OWNERSHIP, PARTICIPATION, AND DEMOCRACY

9. Creating a More Participatory Economy, *Corey Rosen, William Foote Whyte, and Joseph Blasi* 141
10. Towards a Democratic Alternative: Neo-Liberals vs. Economic Democrats, *Martin Carnoy and Derek Shearer* 167

PART I

Challenge and Response





# 1

## Introduction: The Need for New Directions and a Progressive Response

ROGER SKURSKI

The purpose of this volume is to confirm the need for new directions in American economic policy and, more importantly, to offer the beginnings of a progressive response to that need. Our basic working assumption is that both traditional Keynesian policies alone and the newly revived free market approach will fail to deliver on their promises. It is our belief that economists must begin thinking about how to construct feasible alternatives to those policies. It is time to go beyond critiques, and to start restructuring a humane, democratic, economic policy.

### I. The Need for New Directions

Why is a new economic policy necessary? Because, in a word, American economic policy is a shambles. To the extent that we have a policy, it is often unfair, ineffective, or inappropriate for dealing with the problems of the last decades of the twentieth century. The American approach to economic policy has been very pragmatic: "If it isn't broke, don't fix it!" Policy, therefore, arises from problems, or our perceptions of problems, just as a fire department responds to emergency calls. In effect, the United States does not have *an* economic policy; it has a large number of policy responses to particular problems. Generally, these are uncoordinated, imbalanced with little attention to their differential effects on different economic classes, and short-run oriented, and they do not add up to a well-

thought-out, consistent, and effective strategy. This failure has been recognized before, and proposals for alternatives such as government planning have been made. For example, in 1975 the Initiative Committee for National Economic Planning, headed by Nobel Prize-winning economist Wassily Leontief and then-president of the United Auto Workers, Leonard Woodcock, recommended the establishment in the White House of an Office of National Economic Planning because they felt planning had become an economic and social necessity (*New York Times*, March 16, 1975, sec. F). Whether or not one agrees that an indicative planning system is appropriate for this country, the committee's perception of the problem appears correct. Yet, nearly ten years later, we are still trying to muddle through with no real economic direction to our policy. A further look at the planning issue may help explain this.

Planning is a misunderstood and mistrusted term in the United States. When Americans think of planning, they usually think of the Soviet Union with a rigid, hierarchial, authoritarian, Stalinist system. They do not think of French or Japanese or Swedish planning. They do not think of their own personal or business planning, and Galbraith (1973), for one, argues that the corporate sector is *already* planned. They do not consider family planning, budgeting, or setting a game plan in the same light as economic planning. They forget about the American space program which was an example of sophisticated and successful planning. Moreover, they do not realize that Stalin has been dead for more than 30 years and that even Soviet planning has departed at least somewhat from their stereotyped image of planning. In any case, Americans seem to have a built-in bias against government economic planning.

We would suggest that the sources of this bias are: ideology, fear, and lack of understanding. The ideological source consists of two components. First: the USSR is our enemy, and it is a planned economy; therefore, we are against planning. Second, we think we have a free market system (which is considered good) and that planning is the opposite of this; therefore, again we are against planning. Next, we fear big government and idealize the laissez-faire doctrine which probably never accurately described the role of the American state, and which even Adam Smith assumed would be applied within the context of a set of moral rules or ethical guidelines (Worland 1983, 1). It is assumed that at best government planning would be bureaucratic and inefficient, and at the worst it would fulfill the Orwellian vision of big brother. Finally, most of us do not understand planning and have not taken the time to consider the possibilities for it in our economy. The reason, in part, is that plan and market are considered polar opposites, that is, alternative allocation mechanisms. Why not plan *and* market? Other nations such as France, Hungary, Japan, and Yugoslavia have found ways of combining both (see Holland, 1979). Planning