Shuman started his talk by pointing out that communities across the country — whether run by Democrats or Republicans, progressives or conservatives — have embraced three strategies for economic development:

(1) Get big corporations to locate in your backyard.
(2) Export your goods as widely in the world as possible.
(3) Lobby for more than your fair share of federal pork.

The virtual consensus around these three strategies is remarkable, because each is demonstrably a dead end. In brief:

(1) To chase and seduce globally mobile firms usually forces a community to steadily erode its labor and environmental standards in order to maintain an attractive business climate.

(2) To promote export-led development tends to saddle a community with a weaker economic multiplier and increases its vulnerability to forces far beyond its control.

(3) And as defense-dependent communities have recently discovered, to rely on federal pork typically sets a community up for a terrible round of cold turkey later on when the outside dollars are reduced or eliminated.

Fortunately, there are alternatives to each of these wrong-head strategies.

(1) Rather than chase disloyal firms, a community can grow and nurture locally owned
small business.

(2) Instead of promoting exports, a community can target economic development efforts into import-replacing development that increases its self-reliance.

(3) And a smart community can demand from state and federal authorities, not more pork, but more power.

Shuman proposed several alternative principles for community development:

(1) Ownership

A sustainable community with sustainable businesses must be mindful of three things: The WHAT of production, the HOW, and the WHERE.
- The WHAT of production asks whether you're producing energy and healthy food, or Pet Rocks and machine guns.
- The HOW of production insists that workers and ecosystems be treated well.
- And the WHERE of production asks whether the firm is locally owned.

Virtually all of the discourse on sustainability these days - for example, the President's Commission on Sustainable Development - focuses on the

WHAT and HOW of production, but not the WHERE. In an era of economic globalization, this is a disastrous oversight.

(2) Self-Reliance
A development policy that conscientiously attempted to nurture locally owned and import-replacing businesses eliminates all the problems with export-led development. A more self-reliant community is less vulnerable to misfortunes and misdeeds originating outside the community. It also has a higher economic multiplier, and more and more varieties of business can help support one another. And it generates a more powerful stream of tax revenues that can support the public sector.

It's true that not every good can be made cost-effectively at the local level. But as MIT economist Paul Krugman argues in his book, Pop Internationalism, the vast majority of goods and services that the typical American city dweller consumes can be made locally.

(3) Power
A third alternative principle for community development is to secure power instead of pork. If more money is needed for your community agenda, the right approach is to change your own tax base: from vanilla-flavored property taxes, to split-level taxes advocated once by Henry George, which tax land but not improvements and thereby encourage development and discourage speculation; from regressive sales taxes to progressive local income and wealth taxes; from taxes on labor and capital, which discourage investment, to green taxes on pollution and materials use, which encourage conservation.

Six Steps Toward Community Sustainability

(1) A Community Bill of Rights
The first step is to have a community-wide conversation. What should be the relationship of business to the community? What are the appropriate standards for the WHAT, HOW, and WHERE of sustainable business? These standards should be defined on paper, and become essentially a Community Bill of Rights.

(2) A State of the City Report
A second step is to compile a good database for the city each year. This should contain three kinds of information: indicators, assets, and import dependencies. Indicators, like those the city of Seattle now use, attempt to measure parts of the community quality life that people really value. For example, is the rate of literacy growing? What about teen pregnancy? How are various endangered species doing?

(3) Community-friendly Business Schools
Step three is to teach a new generation how to run community-friendly business. Today, society is made up of business pragmatists, who understand the bottom line but little else, and nonprofit idealists, who have little appreciation for the bottom line but know what's right and wrong. Like Dr. Frankenstein, we need to stick electrodes into homo economist and homo activist, flick the switch, and create a new breed of socially responsible businesspeople.

(4) Community Reinvestment
Once a community knows what kinds of import-replacing businesses are needed, and it trains people to manage and build them, it also needs loan and equity capital. With regard to loan capital, there are more than 400 federally designated community-development financial institutions which reinvest most, if not all, their capital in community loans. The bad news is, however, that there are 36,000 communities in the United States. And the even worse news is that most savings no longer go into any depository institutions. Instead, savings flow into stocks, bonds, mutual funds, and insurance funds, which have no legally mandated responsibility to reinvest locally.

(5) Local Purchasing
Once community-friendly businesses are up and running, responsible residents will try to purchase as much as possible from them - and not from the chain stores. The municipal government can help by buying goods and services as much as possible from locally owned firms. It also could set up, as the state of Oregon did, a brokering service that attempts to link local sellers with local buyers.

(6) Real Devolution
Step six requires that every community take devolution seriously. Today, devolution as defined by Gingrich Republicans means a lot more responsibility to the states and communities, a tad more money, and less power. This, of course, is a
recipe for destroying public policy at all levels of governance. A sustainable city will seek to dismantle the enormous number of federal rules and laws that deny communities the basic powers they need to become more self-reliant.

CREATING SELF RELIANT COMMUNITIES IN A GLOBAL ECONOMY

by Michael Shuman

Across the country local elected officials&emdash; whether Democratic or Republican, progressive or conservative&emdash;have embraced three strategies for economic development: get Toyota to locate in your backyard; export your goods and services as widely in the world as possible; and lobby for more than your fair share of federal pork. The virtual consensus around these three strategies is stunning, because each is clearly a dead end.

In brief:

€To chase and seduce globally mobile firms usually forces a community to steadily erode its labor and environmental standards to maintain an attractive business climate.

€To promote export-led development tends to deny a community the economic benefits associated with a diverse economic base and to increase its vulnerability to forces far beyond its control.

€And to rely on federal pork, as defense-dependent communities have discovered, typically sets a community up for a terrible bout of Cold Turkey when the monetary umbilical cord is severed.

"Going Local: Creating Self Reliant Communities in a Global Age" (Free Press, 1998) sketches alternatives to each of these wrong-headed strategies.

Rather than chase disloyal firms, a community ought to grow and nurture its own small businesses. Local ownership of the economy means that as a community raises labor and environmental standards, firms tend to adapt rather than flee. Local owners also are more likely to be satisfied with a modest positive rate of return on investment, and less tempted to move to Mexico or Malaysia to maximize profits. Most corporate models can be locally owned, but the ones most consistent with other progressive values are non-profits (which represent 6.5 percent of the U.S. economy), municipally-owned enterprises (6,300 nationally), cooperatives (47,000 nationally) worker owned firms (2,500 in which workers hold a majority of shares through ESOPS) , and community stock held firms.

Instead of promoting exports, a community ought to focus economic development efforts on firms that replace imports and increase local self-reliance. A steady process of import-replacement, as Jane Jacobs has argued, reduces a community's vulnerability to global events beyond its control (like deflations, oil embargoes, or capital flights), pumps up local economic multiplier (that is, the recirculation of locally spent dollars, which augments local income, wealth and employment) and increases the flow of local tax revenues that can finance a healthy public sector.

Mainstream economists counter that local production for local needs is not cost effective, and point to the proliferation of mergers as evidence that bigger is almost always cheaper. In fact, however, the economies of scale needed to meet most people's basic needs are dropping. Increasingly, Americans will buy the most essential goods locally: food through community supported agriculture and farmers' markets, electricity from local wind-generators and rooftop photovoltaics, basic materials (like wood, plastic, paper, and metal) from regional recyclers, and financial services from well-run community banks.

Finally, "Going Local" suggests that a smart community ought to demand from state and federal authorities, not more pork, but more power. For example, a community might insist that state authorities provide the home-rule powers to replace ineffective property taxes with split-level property taxes (which tax land but not improvements and thereby penalize speculative land holding), or to replace regressive sales taxes with progressive income taxes. Or it might press the federal government for a congressional decree that local "green" taxes on pollution, waste, materials, or energy do not violate constitutional requirements for the free flow of interstate commerce.

A community that followed these principles might ensure that every public dollar&emdash; whether from grants, loans, tax abatements, or bonds&emdash;went only to locally owned, import replacing businesses. To help insure the success of these businesses, it might create systems of local business training, local finance (including credit unions and labor-sponsored investment funds), local input replacement (like the Oregon Marketplace) , and local purchasing (through local currency systems and Time Dollars). It might lobby the federal government to revise the enormous number of federal laws&emdash; concerning, for example, corporate welfare, banking, insurance, and trade&emdash;that make global commerce unfairly cheap and local commerce expensive.

"Going Local" urges progressives to build an economy consistent with their vision rather than just fight global corporations that oppose that vision. A potential strength of this approach is that it enables the left to reach beyond the political margins and form real alliances with devolution-minded conservatives and small-business proprietors.

A Further Political Analysis of Michael H. Shuman's Going Local

by Howie Hawkins, Syracuse Greens

Michael H. Shuman, *Going Local: Creating Self-Reliant Communities in a Global Age,* 1998. (309 pages. New York: Free Press, $19.)

Community-based eco-socialism is not lacking in a convincing analysis of capitalism's inherent anti-human and anti-ecological dynamic. Nor is it lacking for visions for how an alternative would work. Its biggest problem is developing a viable strategy for getting there. Michael Shuman's *Going Local* suggests many ways to begin. The book is a manifesto for community-based economics that all

Greens engaged in local politics should read, study, and debate.

The book is a manifesto for community-based economics that all Greens engaged in local politics should read, study, and debate.

I argued in the first part of this review (*S/R 22*) that one of the ways Shuman suggests, the community corporation, illustrates the inherent radicalism of community-based economics. By tying ownership to communities—whether through cooperatives, municipals, or simply residential restrictions on stock ownership in otherwise conventional capitalist firms—community corporations undermine one of capitalism's key conditions: capital mobility.

The community corporation is just one of the ways Shuman suggests for building community self-reliance in the face of corporate globalization. I want to focus in this second part of the review on some of the other planks in Shuman's platform for community-based economics.

Import Substitution

The conventional wisdom in the economics profession is that increasing trade benefits everyone because of the theory of comparative advantage. This theory holds that if each locality and country makes the products they are most efficient at producing, then each locality and country will enjoy the cheapest prices for all goods.

In reality, the gaps between rich and poor regions and countries has grown as trade has expanded over the last few centuries. When he originated the theory of comparative advantage in his *Principles of Political Economy and Taxation* (1817), David

Ricardo assumed that capital would be locally owned. But in practice, capital has been mobile, moving production to the cheapest labor markets and reinvesting the profits anywhere in the world to get the highest returns. Thus free trade with capital mobility systematically produces economic polarization between a few wealth centers and poverty for the vast majority.

Furthermore, as Shuman puts it, the theory of comparative advantage "has a very specific meaning given to the term efficiency—the ability of a firm to maximize its profits....the bottom line for a community often differs dramatically from that of a privately owned business" (p. 40). While corporate profits and gross products may grow, these economic statistics do not record the costs to communities—factory closings, resource exhaustion, toxic pollution, ecological destruction—created by mobile corporations that exploit labor and nature for short-term profits while long-term human and ecological costs are shifted to communities.

Instead of seeking absentee corporate investment, Shuman proposes that communities adopt a strategy of self-reliance based on replacing imports where feasible with local production for local use. This strategy has several advantages for communities. It minimizes dependence on absentee-owned corporations, giving communities democratic power to chart their own course. It enhances economic stability by creating a diverse local economy that can withstand depressed conditions in particular industries. It minimizes externalities: community-owned businesses are less likely to exploit labor and despoil the environment because they have to live in the community. It maximizes the local multiplier effect of economic activity as currency circulates within the local community and region, instead of so much of it being siphoned off to absentee-owned corporations, either directly as profits or indirectly in the purchases local people make in national chain stores.

Shuman proposes that communities adopt a strategy of self-reliance with local production for local use.

Shuman suggests starting a strategy for self-reliance by focusing on basic needs industries. He devotes a chapter to "Needs-Driven Industries," showing the potential for developing import-substituting industries such as energy- and water-efficiency service companies, urban farms, food processors, and materials and recycling industries. With regard to the latter, he provides an excellent summary of the potential of biorefineries. Biorefineries are ecological chemical factories. They can substitute the import of ecologically damaging synthetic petrochemicals of the giant oil and chemical corporations with community-owned production of clean, renewable, biodegradable chemicals and materials based on locally grown agricultural feedstocks.

Import substitution requires new ownership structures that tie economic wealth to local communities and that do not compel companies to maximize profits above all other considerations. As Shuman notes, "...if a company only needs to achieve a positive rate of return (whereby revenues exceed costs) rather than a maximum rate of return, many more goods and services can be made and sold locally than are today" (p. 49). So import substitution in linked to the creation of community corporations.

Community corporations that are substituting locally produced goods and services for imported ones need credit to finance their development, but they should not count on the corporate financial industry to provide it. *Going Local* spends a chapter on "Financing the Future" discussing how credit unions, commercial banks and thrifts with community ownership structures, and local currencies can keep community wealth circulating in and working for the community.

Power, Not Pork

Despite its perhaps tactical concessions to the capitalist mentality that is so pervasive in America, Shuman's approach is fundamentally radical. It is a stark alternative to the traditional liberal politics of seeking more federal programs to ameliorate the poverty, insecurity, and environmental destruction that capitalism systematically creates. Instead of more pork from Washington, with its insidious reinforcement of community powerlessness and dependence on the outside forces of corporate enterprise and central government bureaucracy, Shuman demands community empowerment.

> *Instead of more pork from Washington, with its insidious reinforcement of community powerlessness …, Shuman demands community empowerment.*

In a chapter entitled "Bringing Home Power, Not Bacon," Shuman calls for communities seeking self-reliance to develop a common set of demands upon state and federal government. The first demand is General Revenue Sharing.

> There is a legitimate role for the federal government to play in redistributing resources from between rich and poor communities....the federal government needs only one program to address these inequalities, not the complex of 500 separate grant systems spun in the 1960s and 1970s. That program should have been General Revenue Sharing. (p. 153)

General Revenue Sharing would use the efficiency and (relative) progressivity of the federal income tax to collect public funds and then distribute them to municipalities by a formula based on population and—to redistribute resources from rich to poor communities—on need. It combines the efficiency of centralized tax collection with the effectiveness of decentralized administration.

> *General Revenue Sharing...combines the efficiency of centralized tax collection with the effectiveness of decentralized administration.*

Besides more tax progressivity, another benefit of centralized tax collection is that it would reduce tax jurisdiction competition whereby mobile corporations induce local governments to bid against each other in a race to the bottom by offering tax cuts and abatements, subsidies, regulatory exemptions, and other forms of corporate welfare in hope of attracting corporations to locate and invest in their communities.

General Revenue Sharing would bust up this federal patronage and preferment system and enable communities to take back the power to determine how the money is spent from the federal bureaucrats who now decide on categorical grant and contract proposals. Raising the slogan of "Power, Not Pork" in demanding General Revenue Sharing is a way to turn Representative Windbag's and Senator Blowhard's pride in their pork barrels against them.

Home Rule

Shuman's second demand for communities to raise to the state and federal governments is "Home Rule on Local Taxes." Even with General Revenue

Sharing, local governments should retain the right to raise additional revenues locally. But they should not be forced to be dependent on the most regressive taxes, the property and sales taxes, while the state and federal government get the exclusive use of income taxes, which can easily be made progressive.

A third demand for community empowerment is to make federal and state regulations and standards floors, not ceilings. Local government should have the right to set higher than state and federal standards for working conditions, the environment, and trade. Here Shuman runs up against the increasing centralization of state power as the handmaiden of corporate power, as in the corporate-managed trade enforced by the World Trade Organization.

Several sections in *Going Local* discuss fair trade and how communities can practice and promote it. The book concludes with 67 pages of contact information for organizations, think tanks, publications, and government agencies under categories ranging from "Appropriate Technology" to "Worker Ownership."

Shuman knows a lot about community-based internationalism as the founder and former director of the Center for Innovative Diplomacy, which began in the 1980s to publish a newsletter on *Municipal Foreign Policy*. The Center networked thousands of city councilors and mayors around municipal initiatives like the nuclear freeze, divestment from apartheid, nuclear-free zones, sister cities in Nicaragua during the contra war, and ozone protection ordinances. Such initiatives are anathema to the Pentagon and State Department, not to mention the WTO, all the more so because they have been effective in educating and mobilizing the public against US imperialism in service of the corporate world order.

Michael Shuman is continuing to develop ideas and report on projects in community-based economics in a bi-monthly newsletter, Greenprints, *which can be contacted at:* Village Foundation, Institute for Economic Empowerment and Entrepreneurship, 66 Canal Center Plaza, Suite 501, Alexandria VA 22314, 888-326-3089, email IEEE@villagefoundation.org.