Glenn C. Altschuler: The Public Option

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"Don't look back," Satchel Paige, the great pitcher of the 1930s and 40s, warned in "Rules for Staying Young," because "something might be gaining on you."

Well, something is gaining on the United States in the twenty-first century. The greatest economic power in the world, America faces competition from "developing countries," one of which, China, may take the lead around 2050. If the United States (and other "developed" countries) want to remain prosperous, they had better ignore Paige's advice -- and look back to understand the dramatic shift in patterns of growth in order to manage an increasingly complex and interdependent global economy.

In The Next Convergence, Michael Spence, a professor at New York University's Stern School of Business and a senior fellow at Stanford University's Hoover Institution, does just that. Cogent, comprehensive, and compelling, his book sorts out the issues, forces and trends driving "the Inclusiveness Revolution," the challenges facing China and India, and the impact on incomes, natural resources, and the environment.

Because it comes from a Nobel Laureate in Economics and a political centrist, a key theme of The Next Convergence is especially trenchant and timely. Sustainable wealth creation, Spence indicates, depends on human capital, knowledge, and structural change. But favorable economic conditions in trade and technology are insufficient. Governance -- and political organization -- are "crucially important" in the productive deployment of assets in "free market" economies. The public option, Spence seems to be reminding us, is the only viable option.

In developed and developing economies, he asserts, growth comes from a complementary interaction of public and private sectors: "writing the government out of the script" is, literally as well as figuratively, counter-productive. While private investment is "the proximate driver" of innovation and job creation, government must step in when the benefits from investments, primarily in education, information transfer, and infrastructure, are too diffuse and delayed to attract private capital.

Governments must also overcome domestic political resistance from "special interests" to the liberalization of trade. And they must find a balance between accommodating structural changes amidst rapid technological change, while supporting displaced workers and their families by expanding and extending unemployment benefits. Advanced countries, Spence observes, "really haven't faced up to this yet."

Although Spence does not believe that financial stability can be achieved through external regulation alone (because investors always find ways to create systemic risk), he believes that regulatory failures "surely contributed" to the economic crisis of 2008-2009, and that damage can be limited by increasing the capital, reserve, and margin requirements of financial institutions, and through oversight of the shadow banking system, rating agencies, and derivatives markets.

For the global economy, as well as for the economies of nation-states, Spence claims that the pursuit of individual or collective private interest, without the mediation of government acting in the common interest, will produce instability and harm to more vulnerable people. The lesson of 2008-2009 -- that without powerful and "legitimate supranational political institutions," including the IMF, the World Bank, the World Trade Organization, the G7, and the G20, the global economy cannot be effectively integrated -- has not been learned by many influential politicians.

Doctrinaire economic libertarians (who are much more influential in developed than in developing countries), Spence reminds us, tend to confuse means and ends. The end, of course, is growth -- and our conceptual and empirical understanding of how to get there is "far too incomplete to permit confidence in a single, one-size-fits-all formula," especially one that assigns no role for government in "the growth recipe."

That government does not have all the answers is equally true. Indeed, Spence is convinced that the response of politicians and policymakers in the United States to the economic crisis has been "in the direction of too much remedial action, even when the marginal returns are low." Americans would be far better served by a carefully considered deficit reduction plan (that exempts strategic investments) and "truth-telling" about the dim short and medium term prospects for economic growth.

But let's be clear. What Americans need least is what they are now getting: trash talk about government as "the problem," cuts in the social safety net, layoffs of teachers, reductions in appropriations for research, and a claim, never before asserted by a major political party, and now inflated to infallibility by Republican zealots, that tax increases never -- ever -- promote the common good.