
This note is a response to a request from Representative Kaptur for views from the witness concerning policies for regional development, with special reference to the Great Lakes region.

Regional development strategies have a robust history in the United States, and can be pursued under a number of different organizational umbrellas, including interstate compacts and regional commissions. For a large region unified by the vast inland seas of the Great Lakes, an appropriate precedent is the Tennessee Valley Authority, which laid the foundation for the rise of the New South – once but no longer the most backward and impoverished region of the country.

In addition to water, the Great Lakes region is characterized by rich land, numerous cities of every size and scale, world-class public universities and medical centers, and an anchor in a major metropolitan area with access to global markets. It is blighted by industrial decline and decay, and requires redevelopment and reconstruction on a grand scale. But it is also the region of the future, where one can envision the creation of a unified multi-state economic zone, graced with rapid inter-city transit, livable towns and cities, sustainable energy, a smart grid, and the industries of the future, including advanced technologies and top-of-the-line health care.

Vision and imagination on a grand scale are one necessary element in such a project. A second is region-wide coordination, and the translation of a leap of imagination into practical infrastructure: energy, water, high-speed rail – and roads that are friendly to livable cities. These are the functions of a coordinating agency, which can also finance a visionary project of redevelopment through the bond-financing powers of the federal government, on the model of the TVA or the Reconstruction Finance Corporation, as described by Stephen Fenberg in his book on Jesse Jones and the RFC.

A third key is an appropriate basis of taxation, which brings me back to the virtues of land-value taxation, which was a vital element in the development of mid-western cities in the early 20th century, including Detroit, Cleveland, Toledo and Milwaukee. (see pp. 16 ff at the link) Land-value taxation pays for quality infrastructure, keeping fees and rates low – the phenomenon known as “sewer socialism” in Milwaukee in the mid-20th century. Taxing land value also pressures land-owners to develop and use their land, while penalizing absentee landlords seeking to profit from a rise in values brought on by the work of others. And where landowners default, the cities can take over land and redevelop it themselves, converting defunct industrial zones into new, livable and sustainable neighborhoods and towns.

Response to Chairman Himes, concerning financial regulation.

As stated in my testimony, the financial sector is an especially efficient and ruthless source of the concentration of wealth and power. It is inherently prone to instability and to crisis, as well as vulnerable to abuse. It is therefore particularly important, in this sphere, to have effective, competent, autonomous, well-staffed regulation, vigorous law enforcement, and to reduce the ability of financial institutions to influence the nature and implementation of financial rules.
The achievement of the Glass-Steagall Act and associated New Deal financial regulation, including the creation of the FDIC and the SEC, was to inject a degree of separation between the activities of financial elites and investment bankers in particular, and those of institutions concerned with the far-more-mundane activities of financing homeownership and small and medium-sized businesses, the province at the time of savings-and-loan institutions and of commercial banks. This model worked effectively to reduce financial risks and avoid crises for about 40 years, until it was systematically eroded beginning in the 1970s and ultimately destroyed at the end of the 1990s. From the early 1980s, as well, regulation was also curtailed and later defunded, so that by the early 2000s the system was ripe for abusive practices on a mass scale, leading to the mortgage debacle and general meltdown of 2007-2009, and then to the foreclosure abuses that followed.

As a personal note, during the late 1970s I served on the staff of the House Committee on Banking, Finance and Urban Affairs, mainly concerned with the oversight of monetary policy, and so observed personally the policy and legislative pressures that produced the first series of major crises – the savings and loan crisis of the 1980s. I cannot say that I understood fully the developments as they were happening or foresaw the consequences, but the sequence of events is one with which I had a close association. My own experience with debt crises began with the legislation to rescue New York City in 1975, and continued through the third world crisis of the 1980s and on to the Great Financial Crisis at the end of the 2000s.

With this experience in mind, the way forward has a number of elements. The first is once again to build a firewall between the middle-class experience in America and financial instability, and the way to do this, in part, is to make the critical investments in health care and higher education debt-free for most households, while returning housing finance to a simple, stable model, regulated effectively. It further seems to me that commercial banking should be deconcentrated and regionalized, so that the sector is reconstructed to consist of mid-sized, somewhat specialized institutions, each of a scale capable of more-effective regulatory oversight. Community and regional banks and credit unions should be fostered and encouraged. Inexpensive public banking should be accessible to all American households, for instance through a postal banking system, as an alternative to the entirely privatized payments systems that we have at present; this will set standards for conduct toward consumers and provide a source of funds for regional reinvestment.

Finally, it is vital to ensure that regulations are not eroded merely because those who are subject to them cannot make all of the financial gains that might otherwise be available. Here an element of congressional reform should be considered, and the question of campaign finance has to be confronted and dealt with.

Thank you for the opportunity to extend my remarks.

References:

https://www.newgeography.com/content/005616-the-new-american-heartland-renewing-middle-class-revitalizing-heartland
