

Governing Economies in the Twenty-First Century

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Changes in economies at the local, national, and global levels are creating enormous new challenges for America's citizens, communities, and their leaders—and enormous opportunities as well. The current crisis dramatically highlights and drastically alters our situation and prospects. It also further illuminates underlying patterns.

How and where Americans work, what they need to know, what skills they need to have, whom they compete with for jobs and business, what rules govern behavior—all of these are changing. It is way past time for the nation's people and their elected officials to think and act differently in response to these changes. Our conclusion is that *to do better economics, we must do better politics*.

The U.S. and global economies are characterized by their dynamism, by what Joseph Schumpeter called the “creative destruction” that fuels innovation, opportunity, and growth. However, that same dynamism, as it plays out in communities across the nation, is an ongoing source of insecurity and turmoil for many Americans (during times of trouble and even during times of growth). The members of the National League of Cities—mayors and city council members across the nation—hear their constituents' concerns *every day* in town hall forums, community meetings, and coffee shops.

Although we must work to address the continuing fallout from the current economic and financial crisis, we also need to get a better handle on the under-

lying, structural changes buffeting local, regional, and national economies, and on how to respond to those changes in effective ways.

The nation's citizens, communities, and leaders must create:

- *A new social contract* among the American people that encourages and enables individual responsibility and constructive civic engagement, and that brings a “common good” framework to public and policy discussions of the economy and other issues.
- *Shared understandings* of the fundamental economic issues confronting America today, understandings that are not clouded by partisan considerations and that recognize the importance of strong local and regional economies to U.S. economic success.
- *A well-functioning intergovernmental system* that enables and demands that all levels of government—federal, state, and local—work together effectively to strengthen the economy and address other priorities.
- Now is not the time to wax nostalgic for the “old” economic system or “old” forms of leadership. Rather, it is a time to follow the words of President Abraham Lincoln's second annual message to Congress in 1862: “As our case is new, so we must think anew and act anew.”

The Common Good and an Engaged Citizenry

Too many of America's leaders have largely abandoned the common good as a framework when discussing the economy and other key issues. As a society, we have lost a shared sense of why government exists, and in what instances it can be a force for good.

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As a society, we have lost a shared sense of why government exists, and in what instances it can be a force for good.

In a 1996 report, “Connecting Citizens and Their Governments,” the NLC Advisory Council contrasted two models of democratic governance. The first model is the vending machine: people put in their taxes and fees and expect that much back in services. In the second model, which we referred to as “barn raising,” people focus instead on what they can achieve collectively, both through government and by working together in their communities. (See the 1996 NLC Futures Report, *Connecting Citizens and Their Governments*, at <http://www.nlc.org/ASSETS/9D783734A7D44776BB84AC2410BD3B58/Inclusive%20Communities%20for%20All%202005%20Futures.pdf>.)

Delivering basic services efficiently is critical to good government, but the vending machine model can contribute to a sense among citizens that they are merely customers of government. The needs of the community as a whole become secondary to people’s interest in knowing they are getting at least their fair share of services and attention.

As a result, people can lose sight of government’s role in protecting and advancing the common good and of their own role as citizens in influencing government actions and decisions. In fact, many public officials—the leaders of our local, state, and national governments—have often fallen into the trap of *demeaning* government as a force for collective problem solving.

“People no longer understand what taxes have to do with their lives. There is a lack of understanding that only government can solve certain problems,” said Stuart Comstock-Gay, director of the Democracy Program at Demos, in a 2008 presentation to the NLC Advisory Council.

Bringing back the common good as a focus of public discussion and government policy, whether on the economy or other issues, requires elected officials at all levels to embrace a fundamental shift in how citizens and governments work together.

Local, state, and national leaders must embrace new strategies for involving citizens in the work of identifying key challenges and opportunities facing cities and the nation, and how the government and other sectors should respond. The result of this work: solutions that can credibly and realistically promise to reap rewards not for a limited few but for entire communities and regions and the nation as a whole.

How to engage citizens in the work of public problem solving is the focus of the work of NLC’s CityFutures Panel on Democratic Governance. The panel defines “democratic governance” as “the art of governing a community in participatory, deliberative, and collaborative ways.”

In the course of its deliberations and research, the National League of Cities identified a number of successful principles that can guide leaders at all levels as they set out to restore a common-good framework to the crafting of public policies. These principles are the following:

- Reaching out through an array of groups and organizations is critical for mobilizing large numbers of citizens, and many kinds of people.
- Most public problems cannot be solved without the effort, energy, and ideas of citizens and their organizations (churches, associations, businesses, and nonprofit groups).
- Large-scale, open-minded deliberation, where citizens consider a range of policy options, results in public decisions that are fairer, more informed, and more broadly supported.
- Giving people a sense of “political legitimacy”—a sense of status and membership in their community—promotes individual responsibility and leadership.

As local fiscal conditions continue to spiral downward, for example, many cities are combing their budgets, trying to find the “right” balance among service cuts, fee increases, hiring freezes, and delaying capital projects. The right balance, however, is not easy to pinpoint and requires placing values and making judgments about particular services, activities, and amenities. Many communities are using the opportunity to approach tough, complex, and controversial budget decisions by seeking input from the community about their wants and needs, their evaluation of services, and their priorities.

Engaging the community in the budgeting process is one way to help make more informed decisions, strengthen trust with constituents, and ease some of the political risks that come with budget cuts.

Although a process to solicit and incorporate the visions and expectations of the community-at-large is more time-intensive and costly and requires greater demands on city staff, the process has longer-term positive consequences, such as a greater sense of community and shared responsibility. The process requires that residents not only offer input but also help implement and support changes, creating a situation where residents engage with local government to protect and advance the needs of the community as a whole, instead of a vending machine model of government.

Local governments should be prepared to demonstrate how community input was used and continue the engagement process. Communities can incorporate initial input into a budget and then conduct ongoing engagement to measure citizens’ support for the plan and continue community engagement.

For example, the City of Eugene, Oregon, actively engages with the community on an ongoing basis in a number of ways, including citywide surveys, targeted questionnaires, community forums, and project workshops. The city has several standing citizen

commissions, including a citizen budget committee, and a network of additional advisory panels of community members.

This ongoing, multifaceted dialogue with the public furnishes the city with an understanding of community needs and priorities that the staff and city council rely on to help in the budgeting process. Last year, the council adopted a budget that maintained a stable level of services by finding savings and efficiencies to cover a few carefully considered changes to address the community’s priorities.

Even with a larger challenge this year due to the current economic environment, the city expects to be able to move closer to a long-term sustainable budget by implementing a combination of efficiency measures, user-fee increases, and service adjustments based on staff and community input.

“We benefit from actively engaging many residents in our budget process and service delivery,” said Eugene City Manager Jon Ruiz. “Because of the involvement of the public and the good decision-making of our city council and Citizen Budget Committee members, we know our budget reflects the community’s current priorities and we are in a better position now to handle the current economic crisis.”

Understanding Economic Change

American workers and their families and employers are operating on a different economic playing field from what they knew in much of the twentieth century, with different rules and requirements, players, and expectations.

Making matters still more challenging, America has been adrift amid these changes. The nation lacks a fresh, constructive, and actionable *shared* understanding of the fundamental economic issues confronting America today. Working with residents, political leaders at all levels need to create a new narrative about what is happening in the

economy—and what it takes to produce better outcomes for people, not just for financial mechanisms and institutions.

It is not enough to rely on national statistics to show what's changing in the economy—because national averages do not reflect the wide variety of day-to-day reality where people live in America's cities, towns, and regions.

Prior to and beneath the current crisis, fundamental shifts are occurring. Here is how we see what's changing, on the basis of what we see and hear in the communities we serve.

The Geography of the Economy Is Changing

The globalization of the economy and the advance of technology have made national and state boundaries less important. But contrary to conventional wisdom, the world is *not* flat. Place still matters. In many ways, place matters now more than ever before. The real contest today is among communities, not nations.

Over the years, research by NLC and others has affirmed the existence of local economic regions that encompass center cities, surrounding suburbs, and contiguous towns and rural communities. The “national economy,” NLC has asserted, is not one gargantuan, homogeneous entity but rather a “common market” of these local regions. What happens in these regions to strengthen *their* local economies, in turn, is what drives the overall economic success of the United States.

All politics is local, the saying goes. Well, it's time for America's leaders to remember that economics is not solely a national or international phenomenon; it's local, too. It is time to ground both political and economic conversations in a real sense of what is happening to people in America's cities and towns.

The Nature of Economic Activity Is Changing

What matters to local and regional economies is not what national statistics say about the status of manufacturing versus services as a focus of economic

activity. Rather, local, state, and national leaders should be focused on bigger questions such as:

- *How can we support high-growth, high-wage jobs?* Jobs themselves are changing in both the manufacturing and service sectors, and they will continue to change. In today's knowledge economy, the education, skills, and capacities of workers, entrepreneurs, and managers are crucial to success for businesses, communities, and nations alike.
- *How can we develop the infrastructure that will ensure the economic prosperity and vitality of America's cities and towns?* We can no longer ignore the role of infrastructure—our nation's roads and railways, air and sea ports, transit and water treatment systems, even broadband access—in enabling us to compete economically as cities, regions, and a nation.
- *How can we support innovation and home-grown, entrepreneurial businesses and help them grow?* According to the U.S. Small Business Administration, small businesses in the United States employ half of all private-sector employees and generate 60 to 80 percent of net new jobs. Even though economic development at all levels traditionally has focused on the “great buffalo hunt” of attracting and retaining large employers, today it is equally if not more important to support home-grown, entrepreneurial businesses.

Raising these questions, and seeking answers, will help elected leaders and their constituents go beyond the headlines to develop a better sense of how the nature of economic activity is changing in America today, and how government and others can best respond.

Insecurity and Inequality Are on the Rise

Economic change always produces winners and losers. But the changes we've seen in recent years are different. The pace and the nature of these changes have contributed to growing inequality as an increasing number of Americans face diminished opportunities to achieve the American dream.

Wages have stagnated for thirty years. As a result of these and other facts, the American dream of a level playing field where everyone has a chance to succeed remains unfulfilled. In 2006, the top 20 percent of households took home more than half (50.5 percent) of the nation's total household income, and their share continues to grow. Meanwhile, the share of income earned by those at all other income levels has been in steady decline over the last two decades.

The growing disparities in our society hurt the performance of local, regional, and national economies by lowering efficiency and productivity, sapping demand for goods and services, and consuming resources—for public safety, social services, and other needs—that could be used more productively in other ways.

America Is Living Beyond Its Means

Public and private debt in America is at a record level. America is starved of the public resources it needs to invest in infrastructure, skills training for workers, and other priorities that are sure-fire ways to strengthen local and regional economies.

Of course, it is not only government that is living beyond its means. A financial system boom based on high leverage has collapsed, causing widespread pain. Americans themselves have been saving less and taking on increasing debt.

Everybody doesn't have to agree on everything that's happening; it would be foolish to expect they would. People are going to have differing perspectives on the economic challenges facing their communities and the nation. The goal should be to find common ground and common interests. What changes in the economy can everyone acknowledge and understand? On what issues can people see opportunities to work together? What are the outlines of a widely shared vision of success?

During the NLC Forum on Economic Vitality in Denver in 2005, Susan E. Clarke, a professor at the University of Colorado at Boulder and author with

Gary L. Gaile of *Local Politics in a Global Era: Thinking Locally, Acting Globally*, pointed out the importance of “telling stories” to make sense of globalization and other economic trends. We all need narratives that help put events and trends into a local context, that are a foundation for hope, and that create a basis for policies responding to the real economic challenges facing American communities today.

Elected leaders make a difference, Clarke added, by engaging stakeholder groups and citizens in a process of developing an overarching economic strategy. The strategy must make sense in terms of the community's history, its assets, and its goals—its “story.” Articulating this story publicly and persuasively is a key role for leaders.

With public understanding and agreement, America's communities can begin the hard work of crafting proper responses to today's economic challenges and opportunities. Making the needed adjustments in economic policy and our approaches to economic development is not just technical or programmatic work. Mainly, it's about leadership and citizenship, beginning with a commitment to fixing America's broken intergovernmental systems and to resurrecting the common good as a framework for action on the economy and other issues.

The Intergovernmental System

The U.S. intergovernmental system is broken. As NLC concluded in its report “Taxing Problems”: “A decline in a sense of shared responsibilities among federal, state, and local governments for funding and delivering public services is resulting in unproductive, combative, and often-conflicting policy-making” (2006, p. 10). Getting government right and getting the relations among governments right is a key challenge, not only for public officials but also for all citizens. So the urgent need of fixing the intergovernmental system is part of the “shared understandings” that are important for democracy to work the way it should.

If leaders at all levels can come together to address the systemic problems that stand in the way of economic solutions, they also will strengthen their collective capacity to address other complex policy challenges facing America today. This shifts the discussion of how to strengthen intergovernmental relations from a largely academic argument to an urgent priority for all levels of government. It also makes the work of strengthening economies a platform for achieving broader changes in governance.

Limitations in the U.S. intergovernmental system thwart leadership at all levels in strengthening local and regional economies. The unraveling of the intergovernmental system over time is rooted in a number of factors:

- *“Pass-the-buck” federalism.* The federal and state governments have scaled back their responsibilities in critical areas such as affordable housing, infrastructure, and community development. As a result, local governments are left with the responsibility for activities and investments that are crucial to strengthening local and regional economies—and cities and towns lack the resources needed to nurture economic success.
 - *Hyperpartisanship.* All too often in today’s politics, policy debates that could yield true collaboration and action to address problems and opportunities facing our communities and the nation degenerate into electioneering, name calling, and political posturing. National interests are pitted against local interests and party interests are elevated above the common interest.
 - *Divided governance.* There has been a misguided focus in recent years on trying to totally separate functions among local, state, and federal governments rather than finding ways for them to work together. In this environment, examples of intergovernmental collaboration, vertical and horizontal, are viewed as anomalies or as negligible because they are not perfect.
- *Outmoded revenue systems and inadequate public resources.* There is a mismatch between twenty-first-century economic activity (the growing service and knowledge sectors) and a revenue system based on nineteenth- and twentieth-century assumptions of the production of goods. This mismatch has created long-term structural imbalances at all levels of government, while growing antitax fervor among citizens and their elected leaders has constrained the search for new solutions.

Even amidst the current crisis and confusion, with a new administration and Congress in Washington, and with Americans eager for a sense that government can respond effectively to the real needs people see in their communities and their lives, we believe that America has a unique opportunity, right now, to build a better future. It will be a future built on a shared vision for our common well-being, with all levels of government working together, with citizens engaged as active partners in leading our communities and our nation, with local and regional economies driving national economic success.

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