How to Save Global Capitalism From Itself

Decentralizing decision-making can help left-behind regions get back on track.

A s new technologies integrate markets across the world, making them more competitive and more demanding, small manufacturing towns in industrial countries are bearing the brunt of the resulting economic disruption. They have been devastated as big employers move factories overseas or automate operations and reduce workforces. While this trend started decades ago, the volume and speed of expansion of Chinese manufacturing and exports in the past 20 years have significantly accelerated the process.

Historically, markets have created new jobs as they destroyed old ones. Unfortunately, the new jobs today are typically emerging in the service sectors of flourishing megacities like London and New York, not in the small single-employer-dominated manufacturing towns where job losses have been most acute. And even among these jobs, the ones paying good salaries require higher education or cutting-edge skills. Naturally, those who have slipped from comfortable middle-class employment into the ranks of the precariat are angry, focusing their ire on an economic system they think has pummeled them unfairly.

In response, politicians across the political spectrum have proposed barriers to immigration, trade, and even doing business with certain foreign companies. A clamor for deglobalization seems to have begun. And
as a result, the world is becoming less open. Yet none of these responses will help against the inexorable march of automation.

Indeed, technologies already exist to replace even the low-skill service jobs that have emerged in urban areas, such as driving for Uber or putting together packages for Amazon with an earpiece telling you which shelf to go to next. Border walls do little when they are being undermined from the inside.

Moreover, aging industrial countries will need immigrants to supplement the shrinking workforce and to help pay for retiree entitlements. At present, there are three workers in Germany for every person over the age of 65. By 2035, the ratio will be 1-to-1, according to a 2018 study by the Bertelsmann Foundation. Without reforms, spending on older people will push the country’s public debt to over 200 percent of GDP by 2060. The foundation also found in a separate study in 2019 that Germany will need 260,000 new immigrants per year to meet its labor needs.

Aging countries will also need to export goods and services to younger populations elsewhere as their domestic demand shrinks. Allowing trade relationships to deteriorate, as some politicians advocate, is a form of self-harm whose effects will be even more pronounced in the future. And imposing bans on foreign corporations will lead to the dismantling of global supply chains, making products costlier everywhere.

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Even as countries turn inward, the ongoing coronavirus pandemic and the very visible signs that climate change has arrived suggest the world will require global cooperation to a degree it has never seen before. The further closing of the world would make this kind of cooperation virtually impossible. Fortunately, there are ways to restore faith in the liberal open market system that has brought the world so much prosperity—and many of the answers lie in reviving the very communities that have suffered under modern globalization.
Left-behind communities face a Catch-22. New jobs do not come to these areas because people do not have the required skills—and there is widespread poverty, substance abuse, and sometimes crime. Continuing economic devastation means these areas lack good local schools and training institutions that could help people get skills. These communities therefore need to work on a variety of fronts to revive themselves. Top-down solutions devised in remote capitals do little, however, to tackle the impediments to economic and social recovery. Locals typically know far more about what needs to be fixed—and they must be empowered to help their communities pull themselves up.

**Technological change is disruptive, not just because it has destroyed old jobs but because it alters significantly the capabilities needed for new ones.** A high school diploma is no longer enough for a good job. Advanced training in science, technology, engineering, math, or highly developed interpersonal skills have become necessary to succeed in today’s world.

In her book *Janesville: An American Story*, Amy Goldstein describes how some of the workers laid off when the General Motors plant in Janesville, Wisconsin, closed in 2009 did not even know how to use computers. These workers clearly needed an enormous amount of retraining to get similarly compensated jobs elsewhere. Older unemployed workers, held back by their more dated knowledge and tied down by family obligations, have always found it difficult to retool. Even younger workers find it difficult to upskill when the entire basis of economic activity disappears from their communities. Local institutions that can impart these skills are also dragged down as a community experiences job losses: Unemployment is just the beginning of a vicious cycle of decline.

In a 2017 study of areas in the United States that suffered large trade-related unemployment, primarily in states in the Midwest and Southeast, the economists David Autor, David Dorn, and Gordon Hanson found that as economic opportunity declines, social disintegration increases. Unemployed workers are unattractive long-term partners; consequently,
there are fewer marriages, more divorces, and more single-parent families. Broken families, hopelessness, loneliness, and the associated despair often lead to alcoholism and drugs and sometimes crime. The opioid crisis was not caused solely by greedy doctors eager to overprescribe; economic decline contributed, too.

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A declining community is unable to support local institutions like schools and community colleges. This is not just because of a shrinking tax base but because parents in stressed families cannot provide their children with a good learning environment at home, let alone help out in school activities, while the few distressed firms left in the community have little ability to provide mentorship, financial support, or apprenticeships to students attending community colleges.

As institutions deteriorate in quality, they cannot help unemployed workers retool—a necessity if new jobs are to be attracted to the community or if the workers are to find jobs elsewhere. Worse, without good schools, children have bleak prospects in a world where education has become so important. People who have the means to go leave for thriving areas elsewhere, taking their children with them. This secession of the successful leaves the rest further mired in poverty and unemployment.

A similar exodus has occurred in northern England, eastern Germany, and parts of Spain—places that once had an industrial base centered on small towns.

Workers in stressed communities could, in theory, move to richer cities to retrain and get good jobs. The reason many do not is because those places are expensive to live in and congestion is making them costlier (and environmentally less viable). Going back to school is challenging in the best of environments. In addition, if a worker has to move for a few years to an expensive city to get that schooling, earning no income while supporting a family, it becomes more daunting still. So,
many workers seem to cling on to nearby and progressively less well-paid manufacturing jobs as long as they can. And when there are no jobs available, they drop out of the labor force entirely.

In the past, the United States was famous for easy mobility. “Go west, young man,” the New-York Tribune editor Horace Greeley supposedly exhorted when the West was still unsettled. Later, the Great Migration of African Americans out of the South between the 1910s and 1960s, and its more moderate reversal after the civil rights movement, attested to the continuing importance of mobility in improving the lives of Americans. Most recently, mobility has been in decline. Census data suggests that even as late as 2000, 1 in 10 Americans made a significant move (out of their county) over the previous five years. By 2010, only 1 in 15 were doing so.

Ambitious progressive solutions—for example, free college education for all—are expensive and largely ineffective in helping people in these left-behind places. How do you get into college when you are competing with middle-class kids who went to good public schools in prosperous cities? And even if you are accepted, how do you benefit from college when your schooling has been grossly inadequate? Even today, far too many students drop out of college, not just because of the high fees but because they are unprepared for it.

In a world with limited mobility, policies ought to be directed at reversing these vicious cycles, resurrecting communities wherever possible so that there are more jobs there and capability-creating institutions like schools and community colleges thrive again. Fortunately, technological change, which created the imbalances in the first place, can be instrumental in the resurrection, helping to build a more sustainable capitalism.

Location-based policies such as the U.S. government’s “opportunity zone” tax incentives for job-creating investment attempt to address the problem of stressed communities more directly. However, such
centrally determined proposals can flounder on the hard-to-map shoals of local conditions.

Amazon’s decision to build a second headquarters across the river from midtown Manhattan in Long Island City, Queens, promising 25,000 jobs paying an annual average salary of at least $150,000, seemed the ideal outcome of such tax incentives. Yet local politicians rejected it. Too few in the community may have had the skills to get the jobs, and the influx of skilled outsiders could have raised rents and property taxes, pushing out longtime residents. Clearly, a proposal better tailored to the community’s needs could have persuaded it, but because the decision was negotiated by high-ranking company and city officials without really taking the community into confidence, these alternatives were left unexplored. Community leaders could only protest against the decision, not shape it.

At one level, this is not surprising. As markets have integrated, first spanning regions, then countries, and then the world, the power to make decisions has also moved steadily away from local political entities and toward national and international structures. Take, for instance, support for the unemployed. In many industrial countries in the 19th century, this used to be provided by the local parish. Community solidarity, coupled with local knowledge and information, made it work—the community helped families that had fallen on hard times.

However, as markets became more integrated and recessions became deeper and more long-lasting, communities were overwhelmed. Only regional or national governments had the resources to provide support. Naturally, if they were called on to provide support periodically, they wanted the power to set the rules and even take over the entire function. Today, across the industrial world, unemployment insurance is typically provided by the central or regional government, with local community-based support, including from churches and charities, kicking in only when official support is exhausted.

Similarly, as interregional trade increased within a country, firms pressed for seamless regional borders and common national regulation and taxation—after all, a financial firm will find it harder to manage if each locality it operates in regulates compensation, liquidity, and minimum
capital differently, while an automaker would want common nationwide emission requirements.

Through much of the 20th century, the governments of industrial countries centralized power. Emerging markets are now doing so too, with India recently enacting a national goods and services tax that eliminates the discretion of municipalities and regional governments in setting indirect taxes.

In turn, as globalization has accelerated in recent decades, national governments across the world have given up some of their powers to international bodies and treaties. For example, the European Commission limits the regulatory discretion of individual member states so that firms face similar harmonized regulatory environments across the union.

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While some harmonization is beneficial, centralization—indeed globalization—of governance has obtained a momentum of its own. National and international administrators, egged on by powerful large firms that want seamless borders, find restraint difficult. Bank regulators meet in Basel, Switzerland, to set capital requirements and other regulations for the entire globe, arguing that there would otherwise be a regulatory race to the bottom.

The recently negotiated United States-Mexico-Canada Agreement (the successor to the North American Free Trade Agreement) mandates that Mexico ensure internet companies are not liable for content their users post even though this is still being democratically debated in the United States. Top-down imposition is even more common within countries. If a regional or national government supplements a community’s resources, its administrators want to impose standards so that their support is not wasted. Yet these often leave little agency for community members and are insensitive to community views or needs. The desire to constrain localities is especially strong in countries where administrators believe that left to
their own devices, communities will invariably become corrupt, sectarian, or reactionary.

The net effect has been a steady disempowerment of local, and even national, government. And with local governments disempowered, it is hardly surprising that voters have directed their anger at distant authorities and embraced populists closer to home. The Brexit slogan that resonated in the small devastated towns of northern England was “Take back control!”—not just from Brussels but also from London. It was a clear indication that people wanted more democratic control over their futures as they reacted to the market forces pummeling them.

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If governments want to preserve the global integration of markets, they may have to give up the hyperintegration of governance. They must be much more careful about new international agreements that bind countries unnecessarily, especially if they go way beyond low tariffs. The goal should be to bring more powers back to the country level, provided global markets remain open.

Yet the devolution of power cannot stop at the national level. Capitals must devolve power and funding further to the local level so that communities can reinstill a sense of engagement and identity in their members. This is, of course, not to say that global climate change should be tackled only at the community level (though communities can do their bit) or that countries should pass on building national infrastructure.

Delegation should be guided by the principle of subsidiarity, which requires decisions to be taken by the lowest level capable of taking them effectively. So, for instance, communities will clearly not decide their own auto emission standards. That should be a national decision. But what businesses will be licensed to operate locally and choices over minimum
wages, qualifications, operating hours, and benefits (obviously all above the national minimums) should be a community decision.

Switzerland is a small country with extreme population diversity. (It has four national languages, and 25 percent of the population is foreign.) However, it functions efficiently precisely because so many decisions are decentralized to its 26 cantons and further to the thousands of municipalities. Subsidiarity guides education decisions; the federal government is responsible for institutes of technology, the cantons for high schools, and the municipalities for primary schools and kindergarten.

Devolution of powers will not be easy, especially since strong interests—international bureaucracies, administrators and politicians in the national capital, and top management in large firms—prefer centralization. However, sensible devolution on issues such as education, business regulation, local infrastructure, and funding is critical to community revival.

If smaller towns and semiurban areas depend only on local demand, there won’t be many new jobs. However, if the menu includes national or global demand, there are plenty of possibilities. Technology helps connect the local to national and international markets; online platforms allow small enterprises to advertise niche products across the world, as Adam Davidson points out in his book *The Passion Economy: The New Rules for Thriving in the Twenty-First Century*, enabling specialized potential buyers to find them. For instance, the Wengerds, an Amish family in Ohio, have built a flourishing business selling high-tech horse-drawn farm equipment—a niche market if ever there was one. The buyers? Other Amish farms across the United States, of course.

Such enterprises need continued easy access to national or global networks. Online platforms like Amazon and Alibaba provide such access today but are also gaining in market power. Clearly, small entrepreneurs can share some of their profits with the platform, but when platforms quickly replicate a successful seller’s products and sell them under their
own brand, while charging high fees off of others, they make it much less attractive for such enterprises to start up. To make the platform space more competitive and friendly to small entrepreneurs, antitrust authorities should be vigilant. Instead of using old-style remedies like breaking up platforms, which will reduce access to global markets, they should instead preserve these networks but make access easier, both for clients and for competitors.

For instance, mandating interoperability across networks—in the same way as a phone on a T-Mobile network can reach a customer on the AT&T network—will allow small networks to challenge large ones, keeping them competitive. Faced with breakup or interoperability, giants like Amazon might well choose the latter. Allowing clients to own their data and to share them with other platforms—as the European Union is in the process of doing in financial services—will also keep clients from getting tied to a provider.

Successful small enterprises can help lift a sinking community, not just by providing jobs and an example but because they belong fully within the community and can help support its activities. In the past, large corporations also provided such help. They found it hard to manage far-flung outposts, so local management was given substantial autonomy, and they worked with community leadership on issues of mutual interest. However, as improvements in communications technology have allowed headquarters today to respond quickly to local developments, more staff resources have moved to the headquarters in the big cities, where they can service corporate units all across the country more efficiently. Each local unit is left with far less autonomy.

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Rather than using antitrust law to keep firms small, which could be a disservice to consumers given the significant scale of production today, it would be better if large corporations decentralized their corporate social responsibility activities. These should be more focused in left-behind
communities where they have a significant presence and can aid community revival. Even a firm like Walmart, often accused of eroding a community’s economic basis, is starting to push local engagement through (still small) initiatives like Walmart Rise, which gives each Walmart store a small amount to spend on community engagement.

Community revival, of course, requires more than decentralization of the relevant government and corporate activities. Left-behind communities in industrial countries face similar challenges to those historically found in underdeveloped countries, but they have an important advantage. They are located in rich countries, which already have thriving economies and strong legal, regulatory, and business institutions. The easiest way to generate economic activity is to restore community links to the thriving national and global economies so they can piggyback on broader growth. While there is no magic formula, four elements that appear repeatedly in successful revival efforts are leadership, engagement, infrastructure, and funding.

Finding effective leaders is difficult because existing leadership is often paralyzed and many capable people have left. Indeed, one of the main arguments against devolving power is that the available local decision-makers are incompetent and corrupt.

Yet, even in seemingly hopeless situations, local leadership can emerge. Chicago’s Pilsen neighborhood was a war zone in the late 1980s; 21 different gangs fought each other on a 2-mile stretch of the main thoroughfare, with horrific death rates. Pilsen needed to bring crime down to have any hope of revival. In Pilsen, new leadership emerged from desperation. When a young man was shot across the street from a local church and the pastor asked his congregation how long they could see it as someone else’s problem, a group of young community members stepped up. They chose one of their own, Raul Raymundo, to lead the suitably named Resurrection Project, and three decades later, he is still there, having attracted hundreds of millions of dollars of investment from government, business, and philanthropic interests into his community.

Such communities need creative ways to draw able people back and increase the talent pool from which such leaders can emerge. Taxes could be reduced for those who live in stressed communities; the college loans of
those who return to stressed communities for a number of years could be partly forgiven so that college becomes a route to training locals, not just a means of escape for the talented; and capable immigrants could be given residence visas if they agree to stay in communities that need them.

Pilsen’s leaders engaged the community to lobby the city licensing authorities to close down seedy bars where criminals congregated. They involved local businesses in creating training opportunities for youth as an alternative to crime. They encouraged locals to report criminal incidents to the police collectively so that gangs could not target individual informants and to come out on the streets after criminal incidents. As Pilsen crowded out crime, businesses started crowding in. While Pilsen is far from rich today, many residents have decent livelihoods, the community is much safer, its schools are better, and its children have a future.

Leaders can draw communities into focal projects, such as reducing crime in Pilsen. They can create focal meeting points. A vacant plot of land can become a communal garden, a volleyball court, or in Tulsa, Oklahoma, a public park such as the Gathering Place, which has done much to enliven the local community and attract tourist interest with landscapes of fantasy and play.

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New technologies like social media help hold leaders accountable. An engaged community can use information technology to monitor its officials, thus curtailing corruption and laziness. For instance, the SeeClickFix app allows residents in Chicago to photograph and upload the location of a pothole, graffiti, or an abandoned car to the municipality website. It stays there until an official fixes the problem.

Infrastructure is also important. New physical infrastructure, such as a refurbished downtown, an accessible waterfront, or inviting new trails, can make a community attractive to businesses and young skilled workers. Physical connectivity to economic hot spots helps. The Conservative government in the United Kingdom plans to spend billions of dollars to
link hollowed-out towns through road and rail with flourishing regional centers like Manchester. This shows that not every decision needs to be local but that taking local needs into account when reconfiguring infrastructure is vital and can be economically transformative.

For instance, a 2018 study by the Federal Reserve Bank of Philadelphia found that in northeastern Pennsylvania, 88 percent of low-income worker commutes took over an hour, even though 73 percent of suitable jobs were within a 15-minute walk of a bus stop. Why? Because most regional transit systems first take you to a central hub and then back to where you need to go. More appropriate bus routes linking job-heavy locations directly with worker-heavy residential areas would help low-income workers get to work quickly, which is key to their dealing with recurring personal emergencies and retaining jobs.

Local financial infrastructure is also crucial. For instance, in 2013 Pilsen’s main community bank was at risk of failing. At the time, nearly 30 percent of the bank’s mortgages were delinquent, and many local borrowers would have faced eviction if the bank had closed down or been sold. Vacancies would have pushed house prices down and brought crime back. Together with philanthropic support, the community rescued the bank. Its delinquencies are now down to 4 percent of its mortgage portfolio because it worked with its borrowers and nursed bad loans back to health.

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Finally, digital infrastructure is critical for economic inclusion. Many areas in wealthy countries like Germany and the United States still do not have access to digital broadband. This has to be remedied if economic activity is going to be better distributed geographically than it is today. Better virtual connectivity will also be environmentally friendlier because not everyone will need to move to megacities.

Funding is also important. Communities in economic decline may not have much ability to raise new taxes. The problem is that much financial
support from the regional or national government, or from bodies like the EU or the World Bank, comes with significant strings attached on how it must be used. To facilitate local input into spending decisions, it is better that money come in the form of government grants without strings attached—also known as block grants—or from private philanthropies free from spending constraints.

The community can still be held to performance standards—again, technology can be used to monitor performance—but it should have operational freedom to decide what to spend on. The current U.S. administration’s proposal for tax-incentivized investments into “opportunity zones” could work if investments are designed in cooperation with community leadership to address actual needs. Without any community involvement, however, they may just be an ineffective tax windfall to the wealthy.

A far-sighted community will take ownership of local assets at the outset when they are cheap so it can then obtain greater funding resources as the community revives and local assets become more valuable. In the 1990s, Copenhagen’s city government sold land to private developers and used the proceeds to build out a metro system. This increased the value of the land the municipal government still owned near the new metro line, which was then sold to expand the metro further. The value obtained from such community-owned assets can also be used to help community residents who do not own property but are in danger of being pushed out by the rise in local rents.

Many of these policies can also help residents of historically disadvantaged communities, usually minorities, in urban areas. Healthy local communities are not just necessary to help individuals get good jobs; they can also help mitigate conflict as people from different cultures come together in increasingly ethnically mixed industrialized countries. Populist nationalists inflame majority groups with fears that their culture will be diluted. They want the majority culture to be imposed throughout the
nation, even while immigration is restricted severely so that their culture is not diluted.

There is an alternative embraced by countries like Canada: to celebrate culture within community rather than attempting an impossible national homogeneity. Some communities will choose monoculture, while others will choose multicultural lifestyles. Any choice should be respected so long as everyone is united by shared national values and no one is deliberately excluded. The national government can help, preventing rejuvenated communities from becoming segregated by enforcing laws against discrimination.

Ideally, the community should have boundaries, giving its people a sense of empowerment and belonging, but keep them porous enough that goods, services, and people can flow freely across them. An inclusive localism may, somewhat paradoxically, be the best answer to the challenges from technological change and globalization.

Sustainable capitalism is not just about competitive markets. It is also about the societal underpinnings that allow most people to benefit from them and give the markets their democratic support. Rather than closing borders and abandoning capitalism, the leaders of the industrialized world must fix capitalism—by starting with the communities it has left behind.

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