1/ The Runway

Boeing Drops a Bomb

One of the ironies of history is the tendency toward contradiction. . . . A social or historical contradiction involves producing the means of its destruction or transformation to its opposite, simultaneously with (and as an integral part of) producing an intended achievement. The more people, institutions or entire political economies succeed in achieving desired goals, in other words, the more that very success produces resistance or other forces or conditions that threaten to transform such achievements into their opposite.

—Kenneth M. Dolbeare, 1988

Frank Shrontz is not, at first glance, a remarkable man. His well-cut suits would set him apart as a person of above-average but not ostentatious taste and means; the warm confidence of his gaze and slight smile might suggest a certain degree of happiness. Before his retirement in 1996, his speech in public tended to be measured and restrained. At press conferences he often seemed to be bemused by all the attention. Before he became the chairman and chief executive officer of the Boeing Company, neighbors knew him as a guy who got more barbecue sauce on his apron than on the steaks. Near the end of his tenure as head of the world’s largest commercial aerospace firm, in 1996, Shrontz admitted that, at heart, he was still a kid from Idaho.

But a very successful and important one. It was Shrontz who, earlier in his career, got Boeing market forecasters to tweak projected sales numbers a bit for a new version of the 737, helping to convince Boeing’s board to OK the project. It went on to become the world’s best-selling jetliner. Elevated to CEO in 1985 and chairman in 1987, Shrontz helped guide Boeing to undisputed status as the world’s number one commercial aerospace firm. Boeing sales and employment climbed, and its new 777 model, by the early
1990s, promised to be one of the company’s most successful products ever. Sales had risen from $16.3 billion in Shrontz’s first year as chairman to $29.3 billion in 1991, with profits climbing from $665 million to $1.5 billion.

Shrontz was tabbed to be the keynote speaker for the Greater Seattle Chamber of Commerce’s annual luncheon on September 20, 1991, where he was introduced by Seattle Mayor Norm Rice. “When we think of Boeing, we think of a company that has risen to the pinnacle of success despite stiff competition,” Rice said. “We also think of a company that has given back to its community,” he added, citing a recent national United Way award for Boeing, and its support for education and the arts. Because he was following 1990 keynote Bill Gates (the founder of Microsoft), Shrontz, then sixty-one, quipped, “I’m glad to see the chamber is continuing its tradition of bringing in successful, brilliant young men to speak.”

Shrontz showed a Boeing-produced video about what the company was up to as it headed toward a record year for sales and profits. He praised the area for its work ethic and for its strong political leadership. And he talked about the company’s future. Amid those comments, he dropped a bomb: Boeing was unhappy with the cost of doing business in Washington State. Given the choice, it would seriously consider producing its next product somewhere other than hard by the shores of Puget Sound. “It takes us as long to get a permit here as it does to build and design a new airplane,” Shrontz said, citing the nearly $50 million the City of Everett wanted as mitigation for expansion of its plant there.

In a press conference following, Shrontz reiterated his comments. “We have some concerns about the time that it takes for us to build new facilities and the cost of building them. For future expansion we’re going to have to look elsewhere for alternatives,” he said. “If the rates of increase and costs of doing business here don’t come down, it’s unlikely we’ll increase our presence here.”

Shrontz cautioned that Boeing was not flying away. “Short of a major downturn in the market or other considerations, we do not intend to pack up and go anywhere,” he said. But the company had decided to build its new wind tunnel out of state, concerned about what it would cost to get through the local process. “Could Puget Sound turn into an aerospace rust belt in the 21st century, complete with padlocked factories, unemployment lines and urban blight? It certainly could.”

The timing of Shrontz’s speech lent more than a little drama to the proceedings. It was becoming apparent by then that the aerospace business
cycle was about to ebb and that Boeing employment was likely to fall. That in itself is usually enough to send ripples of worry across Puget Sound. Anyone who had lived in the area for any length of time knew that as Boeing went, so went the region’s economy. “When Boeing gets the sniffles, Seattle catches a cold,” was the common refrain.

But as the region had grown, it had wrestled with the other side of growth—gridlocked traffic, soaring real estate prices, increasing pollution, urban sprawl, and loss of green space—and with the social and economic costs of that growth. Antigrowth forces had been rising for years, landing so-called slow-growth advocates in state and local offices, turning back pro-growth initiatives, and even going so far as to put a lid on the height of buildings in downtown Seattle.

Despite all its success, Boeing appeared to be in the fight of its life against the feisty Airbus consortium of Europe. Airbus had all but put McDonnell Douglas out of the commercial jetliner business and had loudly announced that its goal was no longer 30 percent of the market, but 50 percent. Some of that pie would have to be sliced off Boeing’s piece for that to happen. Airbus trumpeted its products as technologically superior to Boeing’s, but the real fear in Boeing’s offices was that the company would be unable to compete with the substantial government subsidy Airbus had used to survive and grow. While working the political side of that contest in Washington, D.C., at home Boeing was becoming increasingly focused on keeping costs and the time it took to do things as small as possible.

So Shrontz’s speech was shocking news in a region where Boeing had long been not just an employer but a way of life. By this point Boeing engineers and machinists could talk about when their grandparents had worked for the company. The professional basketball team, the Super Sonics, had been named for the ill-fated SST. In the town where the world’s biggest jets were built in the world’s biggest building, Boeing was an employer, and also a point of civic pride.

Shrontz’s bombshell sent into flight an ample flock of hand-wringing and second-guessing. In Renton and Everett, city officials who had only recently argued about why they were not getting more money from Boeing began to back-peddle, at least verbally. The Renton City Council went so far as to pass a resolution vowing to help Boeing however it could, and the Port of Seattle invited Boeing to have a look at its land portfolio to see if anything was to its liking. Within months, Democrat Governor Mike Lowry had convened a blue-ribbon commission on regulatory reform.
It might be tempting to conclude that the story stops there, Boeing and government having proved that big business (in political science jargon, the so-called elite actors) is uncommonly and unhealthily dominant in American politics, especially at the local level. Of course, the story is more complicated than that, and the ending no more clear than a typical gray day in Seattle.

Have no doubt: Boeing is a big company, and a big presence in Seattle and the world. Although at times Boeing is bashed for the troubles it has in increasing production rates (in the late 1980s and again in the mid-1990s, for example), at other times it is freely mentioned in the same sentences as other giants of U.S. business. It is the world’s largest builder of commercial jet transports, the world’s largest aerospace firm, and the leading exporter in the United States. At a time when 60 to 70 percent of Boeing’s sales in any given year might go overseas, a few extra deliveries can make the nation’s trade balance look tolerable or ugly. It is no accident that Seattle and Boeing got so many visits and such support from the Clinton administration. Some two-thirds of the money lent by the Export-Import Bank goes to Boeing, which, in good times, is regularly cited as one of the best and most-admired U.S. corporations.

Commercial aerospace is a viciously cyclical business, where airlines seem to regularly binge and purge when it comes to ordering jetliners. Airplane companies sometimes go a full year without booking a single order, then soon after land hundreds of orders in the same space of time. Despite this, Boeing has been profitable since the 1950s (1997 being the sole exception; operating profits remained solid, but the company took huge write-offs to cover the cost of fixing its production problems). Boeing has built 60 percent of the jetliners ever flown and is the only company to be consistently profitable at that business. It built the first successful jet transport, the 707, and the largest, the 747. It remained profitable throughout the early 1990s, a time when its customers, the world’s airlines, were losing more money than they had made in the industry’s entire history. Paying close attention to the travel business and its customers’ needs, Boeing regularly bets the company on multi-billion-dollar projects which, so far, have paid off.

Prior to its merger with McDonnell Douglas in 1997, Boeing had plants in eleven states and three countries. But its headquarters, the bulk of its operations, and its heart and soul were (and are) in the Seattle area. Since World War II, it has been the single largest private employer in the state, and
the largest employer in the Seattle metropolitan area, with a local payroll of as many as 100,000 at any one time. Its output represents, by one estimate, 18 percent of the state’s gross domestic product and 17 percent of its total personal income. According to that study, by a trio of respected Seattle-area economists, despite the great diversification of the non-aerospace economy, Boeing’s economic impact was as great in 1990 as it was twenty or thirty years before, before Microsoft and biotechnology and everything else that has followed. They calculated that 389,000 jobs in the state are related to Boeing, figuring that each Boeing job is worth 2.8 jobs elsewhere in the economy.2

The assumption among many outside observers is that this economic impact and community stature translate into political power. In her research on state-level interest groups, Sarah McCally Morehouse decided that Boeing was the most influential lobbyist in Washington State.3 Consider as well this passage from *The Economist*, tossed off with its usual glib abandon:

In 75 years Boeing has become the largest aerospace company in the world and has come to influence daily life in its home state of Washington—economically, politically, culturally—on a scale unmatched by any other firm in America…. Few bills pass the state Legislature without Boeing’s stamp of approval. A proposal this year that Boeing pay $300 million sales tax on its imports was savagely attacked. Environmental and trade union bills also come under critical scrutiny from Boeing lobbyists.4

By the time that was written, however, the state legislature had passed the Growth Management Act, which Boeing didn’t support and was already much regretting. (And it was, ultimately, the GMA that provided the fuel for Shrontz’s speech.) For all the things it already had—a favorable tax structure, an educational system pointed in its direction, reasonably good labor relations, and its own workers compensation plan—Boeing in the 1990s was finding it very difficult to get anything more.

Although it successfully stalled the City of Seattle for years as the city tried to annex more of that precious Duwamish Basin industrial land, it still could not prevent a city official from stalling a building permit for three costly weeks. He had, it seems, locked it in his desk and gone away on vacation. And although Boeing clearly is the dominant employer in Renton and Everett, it could not dodge $49 million in impact fees levied by the two
cities (for transportation and other infrastructure improvements). This came at a time when other local governments around the country were offering and spending that kind of money to lure businesses their way. And, as we shall see, all of Boeing’s complaints about the miasma of environmental and growth-management laws could not pry much action out of a legislature that was otherwise bent on property rights reform.

The genesis of this story derives in part from the peculiar politics and geography of Seattle and Washington State. But it also reveals a new stage in the evolution of the American political economy. Throughout most of American history, business and government have gotten along. Usually, they have worked together, with government seeking to create the conditions that allow economic success, while business repays the favor by providing jobs and tax revenue. This completely symbiotic relationship describes most of what has happened throughout U.S. history.

But things change. Some combination of relative prosperity and urban in-fill will alter the business-government equation enough to disrupt the traditional concordance that the two sides have enjoyed, at least since the Founding Fathers made property rights one of their chief concerns. Growth drives a wedge between the groups that often make up what many researchers have called “the growth coalition.” While business and government usually march hand in hand in support of economic development, if they are successful enough, that partnership will fray if not unravel, undone by the weight of its success.

The reason for this is a form of the law of diminishing marginal returns, but let’s call it the Paradox of Growth. Growth eventually produces conditions that hinder further growth—rising land prices, pollution, too much traffic, excessive strains on infrastructure and the general quality of life. This erodes the benefits that growth originally produced—jobs, money, a greater community sense of well-being. The public response to growth-related problems can eventually reverse the very growth the community once sought to generate as businesses leave for areas with lower costs and better quality of life. Economic expansion, checked or unchained, eventually ensures its own decay.

Whereas economic growth usually is the primary goal of local business and political leaders, eventually, diminishing marginal returns will set in. Growth is initially favored because it generates jobs, which boost tax revenue, decrease social welfare expenditures, raise living standards, and increase social stability. But growth also generates externalities, unintended
costs that are borne both by governments and their constituents: traffic congestion; pollution; urban/suburban sprawl and attendant loss of open, undeveloped, and green space; rising housing prices; and increasing demands on all sorts of public facilities and services. Ostensibly, growth should pay for itself, but governments in fact have a limited ability to capture revenues from growth, especially when inflation is factored in. Income and property taxes may provide some protection against inflation, rising as incomes and property values rise, but consumption taxes are particularly vulnerable to erosion. (Rising prices, for example, can decrease consumption, with tax revenues falling in step. Even if revenues remain stable, however, inflation will increase the costs of goods and services that government must purchase.) As any investor knows, even moderate inflation can erode the returns on fixed-income assets, driving investors and governments to seek returns that outstrip inflation. Governments run the risk of voter and business disapproval when they raise taxes, however, and so lack a free hand to raise money to accommodate the growth they so often pursue. (At one point in the 1980s, Houston, surely a pro-growth city in a pro-growth state, went so far as to ask businesses to locate outside of the city because the city could no longer provide or support the infrastructure that more growth demanded.)

When the costs of growth begin to outweigh the benefits, the usual coalition that favors growth may splinter, or, at a minimum, face serious opposition from groups whose livelihoods do not depend on growth and whose quality of life is threatened by it. Whereas most urban communities now sport “sensible growth” advocates, it is in those places where growth causes more problems than it solves that those advocates succeed.

Business, which plays an important though not exclusive role in generating economic growth, is consequently faced with what looks to it like a two-pronged assault. On the one hand, it faces higher taxes; on the other, it confronts potentially powerful adversaries who want to reduce its decision-making power and to block further growth, which may affect its ability to do business. As a consequence, as has been seen in New York and California, business sometimes relocates rather than fight such battles.

It is a tertiary stage in American political economy. In the initial stage, from the Revolution through the nineteenth century, business was government and vice versa. The city council was likely to be peopled with a community’s top business leaders. Given the largely hands-off nature of government’s attitude toward business, it was not likely the two parties
would find much to disagree on. In the second stage, beginning roughly
with the first half of the twentieth century, business got bigger and more
complicated, and the business people who still got really involved in poli-
tics were not the big players. But government’s role in the economy was still
so small as to leave little chance for serious conflict. In the third stage,
which began to show up in California and New York in the 1960s, govern-
ment got a whole lot bigger even as business became more complicated
and time-consuming. Government became a profession unto itself, featur-
ing full-time city and county councils and legislatures filled with people
who not only did not own businesses, but who often had not worked much
in the private sector before entering public life.

Hence the Paradox of Growth. Observers as diverse as Jürgen Habermas
and Daniel Patrick Moynihan have said as much. In a speech to a group of
business executives, Moynihan put it succinctly: “As capitalism succeeds, as
people in general get to be pretty well off, more and more of them evolve
descartes that are basically normative…. So the success of capitalism is
doing what Schumpeter predicted: It is increasingly diminishing the capi-
talist’s function in the system.”

Even more directly, Theodore J. Lowi dissected the entrails of this
dilemma only a few years later:

Popular rule was all right so long as popular institutions chose to do noth-
ing. As soon as state assemblies and Congress became captured by majorities
favorable to regular and frequent state intervention, the inconsistencies
between the demands of capitalist ideology and the demands of popular-
rule ideology became clear.

Even that might not have produced discordance except for the issue of
growth. Especially in California, and more recently in Western Washington
and Oregon, but also in other large urban and land-constrained areas, the
Paradox of Growth began to raise quality-of-life issues that disrupted the
previously relentless drive of the “growth coalition.” This combination
of such elements as realtors, developers, retailers, and media outlets, the
people who stand to benefit the most from continuing growth, suddenly
finds opposition to what heretofore had been a universally good idea: let’s
make the community grow.

Such growth occurred in the Puget Sound area over the fifty years of
Boeing’s rise to aerospace dominance, and it seems to have affected the
company in two ways. First, Boeing’s growth helped generate the region’s growth, which served to raise the issue of growth itself: How much can we afford? When is bigger not better? Second, the surplus wealth that Boeing produced helped spawn economic diversification, so that there were Seattle people whose daily lives did not appear to cross paths with Boeing’s, people whose jobs did not depend on aerospace (regardless of what they say in The Economist). Remember Sell’s Third Law: Economic interests will be politically dominant only to the extent that they are economically dominant. And although the Pascall, Pedersen, and Conway study showed Boeing is still the wind beneath Seattle’s wings, the public perception may not be the same. When such a perception changes, the wishes of any one economic sector will carry less weight, both among the public and among policy makers.

This is not a theory for all times and all places; if anything, the study of politics should tell the observer that life is a pretty complicated thing, and the saga of Seattle might never repeat as the woe of Wichita (where Boeing also has long been a big employer). But it may suggest patterns that will repeat themselves in cities that outgrow their comfort levels.