



*the magazine of the
Democratic Socialists
of America*



inside—

*Election Statements from DSA Honorary Chairs
Labor Issues
DSA Locals on the Move*

The Financial Crisis: Roots and Remedies

By Bill Barclay

During the week of September 15-19, 2008, both the Dow Jones and the S&P 500 indices dropped almost 10 percent – they were already down about 20 percent from their October 2007 records – and then recovered as the U.S. Treasury and the Federal Reserve decided that markets can't always be trusted to do the right thing, at least not without a little help. Since the peak, home foreclosure rates reached their highest level since the 1930s, two major investment banks were wiped out, and a recession has probably already begun.

What happened, and why? And what should progressives be saying and proposing in response? This article argues that the economic problems the U.S. now faces are long term and not readily amenable to the usual policy fixes; that the crisis is rooted in a convergence of three trends, two long-term and one more immediate; and that there are important policy ideas that progressives should be proposing, although their adoption will occur only as the result of political struggle and pressure.

I. The Crisis: How Serious is It?

As late as the 1970s, manufacturing accounted for a larger portion of GDP than did services, but that is no

longer true. By 2005, finance in all its forms – banking, insurance, mortgage brokers, etc. – represented 22-23 percent of total U.S. economic production. A crisis in an industry that accounts for almost one quarter of GDP is a crisis in the “real economy.” Finance is essential to the functioning of the rest of the economy

in myriad ways. For example, the housing sector – consisting of mortgage lenders, construction, furnishings and related industries – accounts for a similar quarter of U.S. output.

Second, it is clear that the crisis is not restricted to the financial sector. One in ten homeowners is or will be facing the threat of foreclosure over the next two years – a level not seen since 1933. Defaults on corporate debt are rising, with the second quarter of 2008 being the tenth consecutive quarter of increasing business bankruptcies. U.S.

auto makers are on the ropes as demand drops for their large, energy-intensive vehicles. The companies – they used to be called the Big Three – just received a federal bailout of \$25 billion. Retail stores are already cutting back on sales staff, and nationwide the



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What's Happening to America?

By Frances Fox Piven

The list of our problems in the United States is long. The economy is sliding into recession, and turmoil in the financial sector resulting from reckless antics by managers is spreading, threatening something much worse than recession. Meanwhile, as at the end of the 1920s, the illusion of prosperity is parting to reveal the facts of staggering increases in inequality as the rich become fabulously richer and most working and poor people work harder and longer for less. The corruption of our politics worsens markedly, the result of massive increases in the graft called lobbying, the manipulation and stealing of elections, and the ever-louder din of propaganda, much of it stemming from government itself. Daring reinterpretations of the constitution whittle away at restraints on presidential power in order to allow the pursuit of rash and unpopular wars, by whatever means necessary, including the use of mercenaries and the practice of torture. The always inadequate regulatory measures of the New Deal that went part of the way toward constraining market actors are chipped away, and so are the economic security programs for the poor, the aged, and the unemployed that were inaugurated in the 1930s and expanded in the 1960s. Environmental safeguards are given short shrift as a predatory government allied with corporate power proceeds to privatize the public weal. I could go on, and so could you. We are reaping consequences of four decades of political domination by big business and its rightwing populist allies. The nation as we imagined it is no more, and this means vast uncertainties about our future and, because the U.S. is so powerful and its footprint so large, the future of humankind.

But wait! A glow of light is on the horizon. It is, of course, the approach of the 2008 election. Don't misunderstand me. I'm not making fun; in fact, I'm desperate for the 2008 election. I think the sheer scale of public disillusion with the Bush administration guarantees large margins of victory for the Democrats in the congressional contests. Of course, the Democratic majorities yielded by the 2006 election led to only feeble efforts to control the bellicose and delusional team in the White House. But larger majorities, especially a veto-proof majority in the Senate, would surely help. So, at the very least, the head-long rush over the cliffs of financial breakdown, spreading war, and ecological disaster may be cushioned and slowed. But our problems are truly serious, and we need a president to lead in reversing course and setting new directions, a strong president with good sense and democratic inclinations. Even more urgently, we need to get rid of the Bush administration, and as soon as possible before yet more harm is done. But public dismay with current policy directions notwithstanding, I don't think Obama's victory is by any means assured. I hope, of course, but I am worried about stolen votes and rigged computers, the right-wing rumor network, the formidable propaganda machine, and also the residual racism and xenophobia of lots of Americans that this apparatus will tap.

Push all that aside for a moment. My ruminations are after all about what we don't and probably can't know. Maybe Obama and his team can pull off a victory. Think of the excitement, the exhilaration of the campaign they've run so far. Was there ever a better slogan than "we are the ones we've been waiting for?" Bush and Cheney can be routed! If they can, it will be in significant part because Obama's youthful charisma, his mantra of change, and his campaign's ground strategy are changing the shape of the electorate, making it younger, and darker. This is no mean feat, and a step toward making American politics more democratic.

Americans take pride in being the world's leading democracy. But, in fact, we have very low levels of voter participation compared to other developed democracies, and turnout is skewed to over-represent older and better-off whites. The reasons for this are embedded in a history of party competition that relies not only on the fabled democratic process of mobilizing voters, but also on party strategies for deterring prospective opposition voters from casting their ballots. Election contests can be won either way, by bringing more voters to the polls or by preventing the voters who support the opposition from casting their ballots.

The strategies by which vote suppression is accomplished have been crystallized over time in obstructive voter registration and balloting procedures and are rejuvenated at each election by party machinations to suppress unwanted voters. The result is a constricted electorate that under-represents the young, the poor, blacks, and other marginal groups. In effect, not only do the voters pick the parties, but the parties pick the voters. The enormous turnouts of the young and African-Americans in the primary races argue that is changing, spurred by the excitement of the Obama campaign. Grit and enthusiasm can go far to helping people hurdle the barriers created by well-known tactics of long lines, broken machines, obstructive voter registration requirements, and harassment at the polls by party operatives and off-duty cops. Moreover, the campaign is not relying on enthusiasm alone but has fielded a massive grassroots voter registration volunteer effort.

Okay, so he wins. But once an election is over, voters are not much of a force. In office, anyone with the ego and ambition to run for president is likely to look to accumulate political capital (and star status) in the usual ways, and this means bending toward those who have influence, wealth, prestige. Indeed, we've seen some of this already in the general campaign, as Obama backtracks and compromises, on FISA, on Iraq, on health care, for example.

However, I think fastening on Obama's policy statements may miss the point. Think about Franklin Delano Roosevelt's historic campaign in 1932. His speeches were memorable and replete with attacks on the "economic royalists" who had brought us the Great Depression. But his platform was overcooked mush, not distinguishable from the platform of 1928. Nevertheless,

his rhetoric and the swell of voters surging to Democratic columns energized social movements and set in motion a process that changed the United States, whether FDR intended it or not. The emerging but still unstable electoral alignment of 1932 created a big new political space in which insurgent movements flourished, nourished by the sense that the new administration could not afford to ignore their demands. It was these movements of the unemployed, of the aged, of industrial workers and farmers that actually forced Roosevelt to act on relief and public employment, labor rights and farm supports, and old age pensions. They pressed FDR hard, and because they did, they helped to forge the policy initiatives that we now know as the New Deal.

If turnout remains high, an Obama victory could mean a realignment of American electoral politics around a majority coalition similar to the one forged in the New Deal era, with African Americans and Latinos replacing the white South as the reliable core of the coalition. The composition of this new coalition would encourage presidential rhetoric that in turn could spur movement activism. It would simultaneously generate the hope that is always the fuel of movements from the bottom of society, and it would put in place a regime that is vulnerable to those movements. If there is political salvation in the American future, it can only be forged through the dynamic interplay between progressive social movements and elected politicians.

Frances Fox Piven is an Honorary Chair of DSA. This piece was originally published in The Advocate, <http://gcadvocate.org>, and is is reprinted with permission.

This Election is Different – a Potential Catastrophe

By Bogdan Denich

For some, all elections are important. Democratic socialists, burned by repeated shifts to the right of the Democratic Party and the growing marginalization of third parties, tend to be more skeptical. This Presidential election, however, has the potential of doing immense damage to the United States and, given the United States' superpower status, the world. While the Democratic ticket deserves our support, any criticisms notwithstanding (and there is much to criticize in the relentless drift to the center of Obama and Biden), the irresponsible Republican gamble on raw cultural politics at the expense of substantive debate on social, economic and foreign policy represents an urgent and real danger. It is not quite true that the Republicans have given up on politics. They occasionally go beyond the pseudo-macho posturing of McCain and Palin (who knows all she

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Our next issue continues our labor coverage with reviews of Bill Fletcher's Solidarity Divided: The Crisis in Organized Labor and a New Path Toward Social Justice, co-authored with Fernando Gapasin, and David Bacon's Illegal People: How Globalization Creates Migration and Criminalizes Immigrants.

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The State of U.S. Labor & Building Union Power

By Elaine Bernard

The State of Organized Labor in the U.S.

It is sobering to note that U.S. unions have been in decline for the entire worklife of the vast majority of today's workers. It was long ago, in 1955, when unions reached their highest density (that is, the proportion of the total workforce which are union members). Back then, one out of every three workers was a union member. Leaders of the autoworkers, steelworkers and other industrial unions were nationally recognized spokespersons for the majority of working people. At this level of representation, unions set the standard for wages and working conditions not only for their members but also for the non-union sector as well.

Today, unions have been in steady decline for over a full 50 years. In 2007, only one in eight workers was a union member nationally and less than one in 12 is a union member in the private sector. Whole regions of the country and sectors of the economy are virtually without unions. With unionized establishments only a tiny minority in many industries and services, employers have a free hand in setting wages, benefits, and working conditions. And increasingly, the non-union majority is chipping away at the standards of the shrinking union minority.

Unions, it seems, grow by leaps, such as the last great organizing explosion in the late 1930s and 1940s when the U.S. labor movement grew from a small, exclusive club of skilled craft workers to a more inclusive movement of millions of industrial, manufacturing, and service workers. This historic upsurge not only transformed labor but also transformed American society. Unions as institutions and union members as skilled organizers, supported and provided resources, activists and inspiration for many other social movements. As well, unions sought through public policy initiatives and political action to practice social solidarity, winning benefits first for themselves through collective bargaining and then spreading them to the rest of the workforce through political action and support for government social programs.

From their peak density in 1955 to the mid 1970s, unions continued to grow, but not as quickly as the workforce as a whole. As union density declined, however, the ability of the organized sector to set the standards for all workers in a given industry waned and employers became emboldened in resisting organizing efforts by unions. For many years, this decline seemed insignificant, and union leaders often dismissed the fall in numbers as simply the normal ebbs and flows in hiring, retirements, and changes in business and the economy. Union secretary treasurers duly reported modest growth in membership each year, but labor's strength in setting the standard for wages, benefits, and working conditions for American workers was being whittled away. By the mid 1970s, the weakness became even more apparent as union membership started to decline absolutely – not only density but also the total number of union members in the U.S. started to decline.

Further contributing to disguising the overall decline in the labor movement was the unionization of public sector workers and education workers. While private sector unions were declining, many public employees were winning bargaining rights and transforming their organizations from supervisor and management dominated societies and associations to democratic unions that strongly advocated for the interest of their members. However, the constant incremental decline in union membership overall was not offset by the growing organization of public employees. With public employees only 13 percent of the workforce, the continuing decline in unions in the remaining 87 percent eventually impacted the whole movement.

Today, union density stands at a dismal 12 percent nationally – with 36 percent of the public sector organized, but only 7.5 percent of the private sector organized – that's one in 13 workers in the private sector. This decline in unions has contributed to the stagnating wages of the majority of workers and aptly demonstrates that workers in one sector can not expect to maintain their standards if workers everywhere are seeing their wages and conditions eroded.

Why the Decline in Unions Hurts Everyone

The decline in strength, density and influence of the labor movement as a whole must be a concern for everyone – whether a union member or not. The decline in unions has led to stagnating and/or declining wages and benefits of private sector workers, undermining the entire community. In a Hobbesian world of labor markets, no one sector or group can remain an island of good wages and working standards in a sea of declining standards and conditions.

In addition to the economic impact, the decline in unions has also had a detrimental impact on our democracy. Rights at work, including freedom of association and the right to form unions and bargain collectively are key underpinnings of a democratic society. Alexis de Tocqueville observed that “in democratic countries, knowledge of how to combine is the mother of all other forms of knowledge; on its progress depends that of all the others.” Where, but through the labor movement, do millions of American workers learn how to democratically combine, not with an exclusive community of their choosing, but with a workforce hired by an employer and molded into a community through union organizing?

The workplace is a unique location in which most of us spend many of our waking hours and where important decisions are made that impact our lives and the lives of our neighbors. Without a union as a vehicle for collective voice and action, individual workers are powerless. How can workers spend eight or more hours a day in workplaces where they have no right, legal or otherwise, to participate in crucial decisions that affect them, and then engage in robust, critical dialogue about our society after hours? Eventually the strain of being deferential servants with few rights from nine

to five diminishes our after-hours liberty and sense of civic entitlement and responsibility.

A crucial, but little appreciated role of the labor movement, is that it builds democratic communities. By bringing together workers who have few rights, who are isolated as individuals and often compete against each other, unions forge a community in the workplace. They help workers understand that they have rights, and they provide a vehicle for exercising those rights. Beyond the defense and promotion of individual union members' rights, unions also provide a collective voice for workers. They provide a powerful check to the almost total power of management in the workplace. And they fight for the right of workers to participate in decision-making in the workplace.

But labor movements and other communities of common interest don't just happen. They have to be consciously constructed with a lot of hard work, discussion and organization. Constructing democratic communities in the workplace or anywhere is an ongoing process, rather like democracy. And like democracy, it's a process that can be rolled back or reversed.

The decline in union strength and influence can also be seen in a wide variety of public policies. States with strong union influence (through greater union density) generally contribute considerably more annually per student to education. They also have significantly higher levels of support for workers who are unemployed and for injured workers collecting workers' compensation.

Workers who are union members also have many other advantages. They are far more likely to have employer-paid health insurance and guaranteed pensions than non-union workers. Union workers have a wage premium of almost 30 percent more than those doing the same work in a non-union environment. But the union advantage is a two-edged sword. A large union advantage is a large incentive for employers to resist union organizing and even to invest in undermining unions where they exist. By one measure, the 30 percent union premium, the U.S. union movement is the most successful in the world. No other labor movement has such a large union premium. But by another measure, the failure to socialize the gains of unions – whether through legislation, regulation or extension of collective bargaining standards throughout the country – has resulted in the U.S. having the weakest labor movement of any advanced industrial country.

Stopping the falling labor density and turning around the decline in organized labor in the U.S. will be a very difficult task. To get a sense of the pace and scale of organizing that is required, consider the following: In 2007, unions had a very good year and managed to organize approximately one third of a million workers. Yet, to raise union density by a modest 1 percent, unions would need to organize more than four times that many workers, or about 1.5 million workers. To return to the 22 percent union density that labor enjoyed in 1981, when the only union president ever to be elected president of the United States, Ronald Reagan, was beginning his first term, unions would need to organize more than 10 million workers.

To reach the 1950s level of 35 percent union density, unions would need to organize more than 25 million workers.

If Organizing is the Answer, What's the Question?

A challenge of this magnitude may explain why "organize or die" has become a mantra for the U.S. labor movement. But questions about organizing who, into what, and how have led to countless hours of debate on strategy, tactics and structure, which, ultimately, led to a split within the U.S. labor movement. Unfortunately, neither the union center, the AFL-CIO, nor the unions that split from the AFL-CIO to form the "Change to Win" federation, have been able to stem the decline in U.S. union membership through organizing.

At least part of the problem is that organizing the unorganized one workplace at a time through the bureaucratic and cumbersome procedures set out in 1935 in the National Labor Relations Act (NLRA) will not be sufficient – as is evident in 2007's disappointing high membership increase.

Modest labor law reform, such as the proposed Employee Free Choice Act (EFCA), which is vehemently opposed by employers, would help to restore a degree of fairness to the NLRA, but even the adoption of these reforms would leave labor rights in the U.S. well short of internationally recognized standards of freedom of association and the right to collectively bargain.

Organizing is important, but it also needs to be more than signing up new members. Rather, the future of unions and their power rests with an informed, committed membership who understands that they are the union and that the power of the union rests with them. Today, the vast majority of union members were not won to the labor movement through their participation in organizing campaigns. Rather, they became union members by getting a job in a unionized workplace, with membership seen as simply one more automatic deduction from a dwindling pay check. Occasionally, workers might purposely seek out a unionized workplace because they are aware of the union advantage. However, just as often, they associate the "good job with good benefits" as simply a feature of the industry or company. So, a further "organizing" challenge for unions is learning to transform these inactive and potentially reluctant "dues payers" into informed, committed union activists.

What is the ultimate role of labor?

Why are workers who come to the labor movement thorough an organizing campaign different from those who simply join an existing union? Because when workers decide to organize, they are deciding to take a stand and to transform their workplace. And, in the process, they transform themselves and their co-workers. An organizing drive may start with a few workers talking about specific problems and grievances, but before long they are broadening their critique to include general issues of dignity and their right to a say in the workplace. Successful organizing campaigns are not just an explosion of grievances against the employer; they are also a positive assertion by workers that they are more than

hands for hire and that they have a right to negotiate the terms and conditions of their employment. Not surprisingly, union members gained through new union organizing are among the most committed and enthusiastic activists.

And for all of the discussion about density and structures, the key place where this transformation happens is in the local union. New members don't join the national office or even the regional body. The union local is

- where members join the union;
- where members experience the union;
- where members become involved in the union; and
- where members shape the character of the union.

The thousands of local unions in the U.S. are the keystone of the labor movement because they're the springboard for membership participation and leadership development (whether in unions, politics or the community). It's the experience members have at the local level that determines whether they will see their union as just an agency, or whether they will grow to understand that the power of the union is not in its full-time staff and officers (with the power entering and leaving the workplace with the visits by the staff reps) but rather is embodied in the membership and is in the workplace at all times whenever union members are present. And it is committed activist members who are the best promoters and organizers of unions.

This raises an important challenge: As unions seek to centralize resources and build regional and national capacity, do they weaken locals and their role as a vehicle for membership engagement? Unions must build quantitative strength through growth, but, equally, they must meet the

challenge to build qualitative strength through involving greater numbers of members in the activities of the union. To succeed, unions must be more than instruments for winning wages and resolving workplace grievances. The vital role of unions is as schools for democracy in a society where there are very few places where we actually get to practice democratic decision-making. And there is not a more important place for workers to be able to exercise their rights than at the center of the production of goods, services and caretaking – the workplace.

In short, unions are the premier institution of a free, democratic society, promoting democracy in the workplace, as well as economic and social justice, and equality. They have this role because they are instruments of transformation of members and of society at large. In this wonderful transformation rests the real power of unions.

Is the goal of unions merely to build lobbying power, the political influence of its leaders to get a little more for its members? Or is it to transform power in society as a whole by extending democracy to the workplace and the economic sphere and ultimately to break up concentrations of power, influence, and wealth? If labor's goal is the transformation of power, then this goal means leading a democratic struggle throughout society and within workplaces. It means constructing democratic unions and moving beyond a strategy of simply seeking to lobby those in power, whether by militant or cooperative strategies, and instead, building a democratic alternative to the concentration of power and wealth.

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Chinese Labor: Epic Struggle in the Pearl River Delta

By Paul Garver

While Americans are focused on the important electoral choices coming Nov. 4, equally momentous decisions are being made in the Pearl River Delta area of China's Guangdong Province. The industrial belt stretching from Hong Kong north through the cities of Shenzhen and Dongguan to the provincial capital city Guangzhou (formerly Canton) has become a crucible for an epic struggle over the future direction of Chinese society.

In the 21st century the fate of the American and global labor movements is increasingly linked to the future of workers' organizations in China. By 2010, 60 percent of the world's labor force will be concentrated in Asia, with 25 percent in China alone. China already comprises one-eighth of the global economy, and its economic growth rate is the highest of any major economy. China is fast becoming the "workshop of the world," exporting not only mass-produced consumer goods to North America and Europe, but also highly sophisticated industrial products to all the world's markets.

China's 700 million-member labor force includes a vast reservoir of relatively inexpensive migrants from rural areas to sprawling industrial districts as well as a growing number of highly educated and skilled workers in urban centers. The workforce's size, coupled with the rapid growth of Chinese industry and its increasing role in the global economy, means that whatever happens in China greatly influences developments affecting workers elsewhere.

Key to the future of the Chinese working class is whether the All China Federation of Trade Unions (ACFTU) can reform itself into a genuine labor movement. Although 200 million of the 700 million Chinese workers are already members of its enterprise-level unions, the majority of those unions are controlled by management, and few engage in effective collective bargaining with the employer. Although the ACFTU might be regarded as part of a ruling trinity in China, its senior partners at all levels – government and the Communist Party – have clearly overshadowed its role. But the Chinese

media, international labor, international business, and even its harshest critics are reporting significant developments within the ACFTU. *Business China* noted (5/26/08) that “the ACFTU is gradually evolving beyond its previous role as a lapdog for the Communist Party.” *China Labour Bulletin’s* Han Dongfang noted (8/26/08) a “critical turning point in the history of China’s trade union movement” as union officials are openly stating that the union should represent the workers and local governments are enacting ordinances implementing new national legislation concerning labor contracts that places collective bargaining at the core of union activity.

Because of its proximity to the semi-autonomous regions of Hong Kong and Macao, developments in the Pearl River Delta are often viewed as portents for changes in other regions of China. Mingling and often colliding in the Pearl River Delta region are giant restless streams of internal migrant workers, entrepreneurs from Taiwan, Hong Kong and other regions of China, international representatives of global capital, and a smaller number of labor rights campaigners based mainly in Hong Kong. This maelstrom challenges the abilities of the Communist Party, local government, and officials of the ACFTU to maintain political stability while managing needed change.

Experiments to reform labor federations already underway in the Pearl River Delta region of Guangdong province are now widely reported in Chinese newspapers, publicized on the Internet, and may indeed be emulated throughout China. In the Dalian Economic Zone of northern China, the local federation of the ACFTU is experimenting with direct election of union officers by the rank and file. The ACFTU’s *Bulletin* reports with some excitement that of the thirteen union elections conducted under the new system, incumbent chairmen were ousted and replaced in all thirteen!

The ancient city of Guangzhou is now home to more than 11 million people, including nearly 4 million internal migrants seeking work in its burgeoning workplaces. In Guangzhou alone, 464 plants are operated by the top 500 global companies. Thirty miles to the south, Dongguan’s population of 8 million includes 6 million internal migrants who staff factories owned by or producing for most of the Fortune 500 global companies. Another 55 miles south lies Shenzhen, whose skyscrapers rival those of adjacent Hong Kong, and which is home to China’s first great export-processing special economic zone.

International media coverage has intensified since the ACFTU, following a directive from the Communist Party, announced its intention to increase trade union coverage of Fortune 500 companies’ factories operating in China from some 50 percent to 80 percent by the end of September 2008. This goal would entail requiring untrained officials to establish thousands of local unions in a short time, and self-evidently might lead to setting up more of the management-dominated “Potemkin Village” unions that now prevail in most private sector workplaces in China.

Simply creating more management-dominated unions in Fortune 500 companies will not help the ACFTU win the support of skeptical Chinese workers. For example, Nestlé

operates a large Nescafé factory in Dongguan. For more than a decade the union chairperson has also held a top Nestlé general manager post. The union does not bargain, conducts no union activities, collects no dues, and does not permit workers to run for union office. When one worker circulated a petition asking for new elections for union chairperson and committee members, he was summarily fired the next day for “serious misconduct.” He filed a legal complaint for the illegal failure to conduct periodic union elections, which is pending. Although the Dongguan municipal trade union federation is “investigating” the complaint, in 2006 the same federation had awarded the management-controlled Nescafé union the award for “excellent trade union organization” of the year.

Also in Dongguan, the Nine Dragons cardboard factory, owned by Chinese billionaire Zheng Yin (the richest woman in China), came under fire in a report issued by the Hong-Kong-based Students and Scholars Against Corporate Misbehavior (SACOM), for numerous violations of Chinese labor law. These included dangerous working conditions, extensive systems for fining workers, and replacing permanent workers with sub-contracted workers at lower wages. Thousands of workers at the Nine Dragons Dongguan plant went on strike in December 2007 to protest these company actions, designed to circumvent the new labor contract law supported by the ACFTU that went into effect early this year. Zheng Yin as a prominent member of the Chinese People’s Political Consultation Committee continues to lead employer opposition to the implementation of the labor contract law, calling the requirement to provide workers with permanent work contracts a relic of the “iron rice bowl” and stating that “a nation cannot be rich without the polarization between rich and poor.”

The Guangdong provincial labor federation took the unprecedented and positive step of meeting with SACOM members on May 12 to discuss the report. Although it admitted to the local media that there were violations at the Nine Dragons plant, it denied that these were serious. To be called a “sweatshop,” the spokesman for the Guangdong federation claimed, Nine Dragons had to meet all four of the following criteria: refusing to sign contracts with workers, failing to provide legally required insurance, forcing workers to work overtime and providing unsafe working conditions. SACOM, the federation claimed, libeled Nine Dragons as a sweatshop since it did not meet all four of the conditions set out by the Guangdong labor federation.

Two weeks later the federation denounced SACOM as an organization funded by a “human rights foundation” (actually the Swiss Protestant “Bread for the World”) and supported Zheng Yin’s claim that SACOM was part of the anti-Olympic games boycott movement. Faced with either supporting oppressed workers and their student supporters or backing a billionaire capitalist who was undermining the very legislative reforms sought by the ACFTU, the provincial labor federation sided with the capitalist, who was critically placed in the national and regional power elite.

Officials of regional labor federations are squeezed between directives emanating from certain reforming elements in the

ACFTU and Communist Party at the national level, and their own close alliances at the regional and local level with governments desperate to keep the good will of employers, whether they be foreign companies or native capitalists. Most of the time the labor federations and local governments tend to side with employers against the workers. But fortunately this is only part of the complicated story of the ACFTU in Guangdong. Several large municipal labor federations in Guangdong are beginning to change such entrenched patterns of behavior.

The Dongguan municipal federation supported the enactment of heavy fines against employers who knowingly hire child laborers – this after a crusading local newspaper revealed that more than 1000 children from one poor Sichuan village had been lured to work at factories in a single industrial district in Dongguan.

On August 1, 2008 the Shenzhen municipal authorities enacted implementing legislation for the new labor contract law that defined the major responsibility of trade unions as representing workers in collective bargaining negotiations with management (and did not mention the usual injunction to maintain labor peace). This Shenzhen document on the Rights and Obligations of Trade Unions was welcomed by Han Dongfang of the China Labor Bulletin as an opening making it possible for the Shenzhen Federation of Trade Unions to become a “much more effective representative of workers’ rights and interests,” by allowing it to take “practical steps to create a successful bargaining model that others can follow to make collective bargaining a key part of China’s emerging civil society.”

Of course the various levels of the ACFTU must seize upon the state-sponsored opening of opportunities, or they will remain meaningless. The Chinese labor official who understands this most clearly is Chen Weiguang, chairman of the Guangzhou Federation of Trade Unions (GZFTU). At a conference promoting the establishment of unions in the Fortune 500 TNCs in Guangzhou on July 15, Chen said, “The trade union is a matter for the workers themselves,” adding that the role of enterprise unions must change from “persuading the bosses” to “mobilizing the workers.”

“Unions belong to the workers,” Chen stressed, “so it basically does not matter whether the bosses agree or not.” And Chen has put large numbers of Federation staff into the Guangzhou industrial districts to go into the factories and mobilize workers to set up unions. The “organizers” (the concept is new to the recent history of China) will not as usual demand that the company itself sets up unions, but will demand that the companies provide them with times and places to talk directly to workers.

But the immediate goal of increasing union coverage from 50 percent to 90 percent of the Guangzhou factories is subordinate to wresting existing unions from employer control. As Chen pointed out when visiting the USA in May, more than half of the some 5,000 trade union chairs in Guangzhou are managers. A new Guangzhou ordinance prohibits managers from holding local union office. As elected workers replace managers, it will be necessary to protect genuine worker

chairpersons from retaliation by the employer.

The international labor community is intently observing these developments in the Pearl River Delta region from its Hong Kong outpost just across the border from Shenzhen. The Hong Kong liaison office of the International Trade Union Confederation (ITUC), Global Union Federations and the Hong Kong Confederation of Trade Unions (IHLO) has been using its website to report on positive new developments within the municipal federations of the ACFTU. In December 2007 the executive committee of the ITUC decided to initiate a “dialogue” with the ACFTU. Although the criteria for membership in the ITUC demand that affiliates be free of control by government, political party or employer, none of which the ACFTU meets at this time, the case for increasing international dialogue with the ACFTU is greatly strengthened by the hopeful signs of internal reform.

In an Aug. 28 letter from ITUC General Secretary Guy Ryder to the local labor bureau in Yantai (where the Danish electronics firm Ole Wolff had fired six workers’ representatives of the enterprise union), the ITUC stated: “It has been brought to our notice that your office has been unsupportive of the official Yantai enterprise union, a formal branch of the ACFTU. We wish to remind you of the legality of the enterprise union at Ole Wolff (Yantai).” In a parallel letter dated the same day to Ole Wolff headquarters in Denmark, Ryder supported the enterprise union’s demands not only for reinstatement of the fired worker representatives, but also for “recognition of the officially registered trade union and its members.” Past ITUC protest letters never included demands to recognize an enterprise union affiliated with the ACFTU.

Most representatives of the international workers’ movement fear the negative consequences if the governing Chinese system would collapse in the same way that Communist institutions did in the USSR and parts of Eastern Europe. Building genuine unions and recreating civil society in the aftermath of that collapse has been difficult, and incremental democratic reforms of the ACFTU now underway in the Pearl River Delta and elsewhere might well provide a better alternative for workers in China. In the next period the major tasks for Chinese labor are to eliminate domination of enterprise unions by management, provide for democratic participation of workers in grassroots enterprise unions as chairpersons and committee members, and undertake massive training programs in union building and collective bargaining, both for workers elected to union office and for ACFTU staff at all levels. We should not only welcome these efforts, but also do whatever we can to support those fighting to accomplish these goals.

For a discussion of concrete steps sympathetic foreign unionists can take (and are taking) to support reform of labor organizations in China, see: <http://talkingunion.wordpress.com/2008/02/26/imaging-international-solidarity/>.

Paul Garver is a consultant to the International Union of Food Workers. He thanks Anita Chan, Jenny Chan, Ellen David Friedman and Cathy Walker for their comments on this report.

DSA Locals: from the Convention to Election '08

NEW YORK DSA

The New York City local's most successful event since the convention was a forum called "Socialized Medicine? You Bet!" at Judson Memorial Church, with NYS Assembly Dean and Health Committee chair Dick Gottfried and DSAers Naomi Zauderer of the New York Professional Nurses Union, Jeff Gold of the Health Care for All Campaign, and, from the Midwest Academy, organizing legend Steve Max. The local has joined the campaign against the privatization of two health insurance programs (GHI and HIP) that serve 93% of city workers and retirees as well as other New Yorkers. They held a second forum on that issue with YDS and the N.Y. chapters of Democracy for America and Progressive Democrats of America.

BOSTON DSA

Boston DSA kicked off the new year with a members' meeting on presidential politics, featuring a debate between Massachusetts SEIU Political Director and former Boston DSA Chair Harris Gruman, an Edwards supporter, and Brian Corr, founder of Progressive Massachusetts for Barack Obama. The local also joined with Jobs with Justice and Colombia Vive in a forum opposing the Colombia Free Trade Treaty during the International Days of Action.

In the spring Boston DSA co-sponsored a talk by Mark Engler (our last paid staff person) on his new book, *How to Rule the World: The Coming Battle Over the World Economy*, and held another members' meeting on the housing foreclosure crisis, with speakers from *Dollars & Sense* and Massachusetts ACORN. Former Chair David Knuttunen made several presentations on the Economic Justice Agenda to small groups, including a fledgling YDS chapter at Hampshire College in Amherst.

DETROIT DSA

The Detroit local endorsed five candidates for Michigan state representative and canvassed and phone-banked on behalf of two of them, including one who is a young DSA member. Four won their primaries, and the local held a fundraiser for them in September, raising \$6,000.

CENTRAL INDIANA DSA

DSA's Central Indiana local were active supporters and participants with Jobs with Justice in a successful four-year campaign to ratify an historic first-ever, citywide contract in Indianapolis. A DSA member serves on the Jobs with Justice board. The local has also begun in-depth discussions, using the Economic Justice Agenda, in monthly meetings with the local Socialist Party USA.

ITHACA DSA

Ithaca DSAers joined with PDA members, healthcare activists, peace activists and others to hold a series of house

parties raising funds for Eric Massa, who is in a close race for Congress in New York's 29th District. He campaigns on single-payer health care and getting out of Iraq.

They continue to air a weekly community access cable TV series *Ithaca DSA Presents*, chronicling the ongoing struggles for peace in the Middle East, for raising low wages, for immigrant rights and labor rights, for single-payer health insurance, and for survival in Oaxaca, Colombia, and elsewhere in Latin America. The program has presented DSA's Economic Justice Agenda, inquired about the Brazilian MST (landless workers' organization), and explored the similarities between permaculture and socialism.

CHICAGO DSA

Chicago DSA held their 50th Annual Debs-Thomas-Harrington dinner, honoring Les Orear, founding member of and President Emeritus of the Illinois Labor History Society; Laurie Burgess, a labor lawyer with a special focus on workers' centers; and Dr. Marge Cohen, AIDS activist and DSA comrade.

The local has continued to work with the Coalition of Immokalee Workers (CIW) in their effort to earn one penny more per pound from Burger King, as part of a coalition of Chicago and suburban activists.

Chicago DSA has been supporting UNITE-HERE! Local 1's strike against the Congress Hotel in downtown Chicago for over five years – the longest current strike in the U.S.A. Chicago DSA, which continues to be active in a boycott committee and on the picket line, was awarded a plaque thanking the local for its support.

The local was able to place a non-binding ballot initiative on the November ballot in Oak Park, where several members live, calling for the village board to pass a living wage ordinance. Referenda in Illinois are non-binding, so this is both an electoral issue and an educational one. They are reaching out to unions in Oak Park and faith-based communities, as well as to other social justice networks.

Chicago DSA took part in the Progressive Democrats of America's statewide panel discussion on "Better Democrats, the November Election, and Beyond," where DSA comrade Bill Barclay led a breakout session on current economic issues that progressives should focus on.

In October, Chicago DSA, with *In These Times*, sponsored a panel discussion featuring Bill Fletcher, Jr. (*Solidarity Divided*); Richard Berg, new president, Teamsters Local 743; David Moberg, senior editor, *In These Times*; and moderator Kim Bobo, executive director, Interfaith Worker Justice.

CENTRAL OHIO DSA

The Central Ohio local participated in the Comfest festival, getting out the word about DSA's issues, distributing the Renegotiate NAFTA petition, and publicizing Local 1199's paid sick days campaign, and joined with other progressive

groups in fights against sweatshops and the war.

Other programs have included bringing labor organizer Joe Berry to speak about the trend to replace full-time college faculty with part-time, no-benefits contract personnel.

TWIN CITIES DSA

Twin Cities DSA and the DSA International Commission played host to a prominent northern member, Canadian politician/activist Marianne Cerilli, in the days leading up to the Republican National Convention in St. Paul. Cerilli was caucus chair and opposition critic for Environment, Housing, and Immigration and held a ministerial portfolio in Family Services and Housing in the Manitoba Legislature. She also ran second in the 2006 election for mayor of Winnipeg. 120 students and community members at a local community college attended, and there was an informal international talking circle of over 20 DSAers and friends in downtown Minneapolis. These events merited an article in the *Winnipeg Free Press*.

Cerilli's talk focused on recent political changes in Canada and U.S.-Canada relations after Bush, the "Free Trade" integration of the two countries' economies, the militarization of Canada by the U.S.-Canadian Prosperity and Security Partnership, and assaults on Canada's Medicare program and social wage. The conversation concluded with the prospect of developing international Upper Midwest cooperation on renegotiating NAFTA in favor of a more equitable and sustainable future.

Twin Cities DSA joined the large anti-war protest march at the opening day of the RNC – carrying its red banner through the streets of St. Paul.

METRO ATLANTA DSA

At the Georgia Progressive Summit, Metro Atlanta DSA members presented two workshops, on the Employee Free Choice Act and the struggle against privatization of Atlanta's public hospital, and they tabled at the national convention of Historians Against the War. Public forums sponsored by the chapter covered human rights and socialism, the *Economic Justice Agenda* and Venezuela.

This year about fifteen members formed a Socialist Education Circle, which has discussed Harrington's *Socialism, Past and Future*; *From the Folks Who Brought You the Weekend*; Marx's labor theory of value; and *Towards Freedom: Democratic Socialist Theory and Practice*.

SACRAMENTO DSA

Sacramento DSA worked intensely on the Obama campaign through Super Tuesday and continues electoral work with the Sacramento Progressive Alliance. The local held a Democratic Party platform event in July, highlighting DSA's Renegotiate NAFTA campaign, fair trade, and immigration.

The local helped bring DSA Vice Chair Dolores Huerta to American River College during Women's History Month and brought YDS organizer David Duhalde to the campus for three presentations. They also show films monthly and will hold their second Progressive Forum in October at California State University.

SAN DIEGO DSA

San Diego DSA has had several events of its own and participated in a number of events as part of coalitions, including the San Diego Maquiladora Workers' Solidarity Network, which supports the struggles of maquiladora workers and organizes monthly tours of maquiladora sites in Tijuana, including meetings with workers and organizers.

SD-DSA held a forum with about 20 participants on "DSA, the Left, and the Presidential Election." They organized a fundraising event in April for City Council candidate Stephen Whitburn, which was attended by Congressman Bob Filner and raised about \$1000. The local participates in a "San Diego Socialist Unity Network" (SD-SUN) with other organizations including CCDS, Solidarity, and Freedom Road. SD-SUN has been holding a "Socialist Salon" every other month, where it promotes DSA's Economic Justice Agenda and NAFTA petition, attended by 25 to 30 people. The most recent salon was on "Cross Border Solidarity."



NDP member Marianne Cerilli addresses DSA event in St. Paul

SD-DSA is also part of the San Diego Living Wage Coalition, which regularly participates in City Council meetings to defend the Living Wage Ordinance and to oppose outsourcing of city services to private contractors, and belongs to the San Diego Affordable Housing Coalition, and recently helped organize a forum on the foreclosure crisis.

The San Diego e-blast newsletter has become an unofficial source of useful information to pass on, which enables San Diego residents to become involved with issues that will be voted on by the city council, such as the living wage.

Financial Crisis

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unemployment rate rose to 6.1 percent in August, the eighth consecutive month with a decline in jobs.

Third, today's economic problems come at the end of a long period of global credit expansion and deregulation, constraining policy alternatives. While we can learn from the New Deal, the national and global economic environment and the U.S. relationship to and role in the today's global economic system is quite different. We cannot simply copy New Deal programs.

II. The Causes

There are, I think, three primary causes, which intermesh in many ways but each presents distinct problems and each needs specific policy responses. These causes are the long term trend towards economic inequality in the US; the credit expansion/contraction and debt cycle, primarily driven by housing; and the role and value of the dollar in the international economy, in particular the trade in oil.

A. Growth in Economic Inequality

The long term trend toward increasing economic inequality in the U.S. has been documented so many times that even conservatives acknowledge its reality. One simple measure: if workers' salaries and CEO pay at the largest corporations had increased in tandem since the mid-1980s, the average workers' salary would now be over \$200,000/year.

Less commented upon has been the significance of this growing inequality for the political economy. First, the growing concentration of income and wealth constrains the consumption (purchasing power) of the population as a whole. Savings rates dropped consistently over the past quarter century, actually turning negative in some recent years, as families tried to keep up with the American standard of consumption. But consumption was not financed simply by drawing down or foregoing savings. Don't have the cash? Put it on plastic. As far back as 1977, *Time* magazine had observed that "insistence on buying only what can be paid for in cash seems as outmoded as a crew cut."

Second, the increased concentration of income and wealth reshapes the political terrain. The cost of political campaigns has increased sharply in part because of the possibility of raising more money from people who literally have more than they know what to do with. The importance of large donors has increased with the need for money. Thus, the impact and influence of larger donors eclipsed that of competing institutions such as labor, civic and community groups.

But the political use of concentrated income and wealth has not been restricted to financing campaigns. More significant has been its impact on reshaping the universe of political discourse. Wealthy individuals and families have funded "research" institutes and think tanks biased toward a system that has made their benefactors well off on a scale never seen before.

B. Debt: Financial Deregulation and Credit Expansion

The main debt problem threatening the U.S. economy is not the debt of governments – federal, state, or local. Rather, it is private, financial and corporate debt that poses the greatest risks and that has brought us to the current crisis. Credit card debt has largely been replaced by mortgage debt financing of consumption. The housing sector defines the specific nature of this economic downturn and is a major reason why the outcome will be difficult to control. From the early 1980s to the mid-1990s, housing prices rose more or less in line with general inflation level; however, from that point to 2005, housing prices increased by 30 percent above inflation. Homes, our primary residence, also became our savings vehicles – and our bank accounts.

How did access to home ownership – the "Ownership Society" so beloved by Bush – and rising house prices get us into so much trouble? There are at least three reasons for the foreclosure crisis we face today. First, the banking model changed from a traditional, relatively conservative set of practices to an "originate and distribute" model. Second, as the housing boom continued while incomes lagged for the majority of the population, the standards on which mortgages were based deteriorated. Third, and perhaps most important for the individual home buyer, rising prices allowed the buyer to borrow against the appreciating value of the home.

The 1999 repeal of the Glass-Steagall Act allowed financial institutions such as CitiGroup and J.P. Morgan Chase to combine banking, insurance and real estate for the first time since the 1930s, removing the walls that the Act created. Prior to repeal, mortgage banking was largely a business of making loans and managing the resulting portfolio of loans. Mortgage lenders bore the financial risk and had an incentive to inquire into the long term probable financial resources of the borrower. However, the repeal of Glass-Steagall offered another method of participating in the mortgage business: banks (and others who entered the business of offering mortgages) could make the initial loan ("initiate" in the language of the industry), then "package" loans into a mortgage-backed security (MBS), and sell the new security to investors ("distribute" the security), take the money from this sale, and make more mortgage loans. This model of banking turned out to be very profitable – more so than the traditional approach. In 2006, mortgage lenders originated \$2.5 trillion in loans (3 times the 1997 amount) and 75 percent was securitized.

The "originate and distribute" model of banking (securitizing and selling off mortgages and other loans such as auto loans) provided little incentive for banks and other mortgage lenders to assess the long term financial viability of their borrowers. Put most bluntly, the mortgage lender only faced "pipeline" risk, i.e., the risk that the borrower could not make the payments required before the loan was securitized and sold off. The result was a lowering of standards for mortgage loans. Since housing prices were rising, even borrowers who might have been rejected as near-term risks could be offered "creative" loan packages, perhaps requiring interest-only payments during the initial period of the loan. Alt-A and NINJA (no income, no job, no assets) loans became increasingly popular.

This scope of this accident waiting to happen was enhanced by the increasing draws that borrowers made on the equity in their homes in order to finance other consumption, whether that was a car, vacation, college, etc. In 2005, net mortgage borrowing for purchases other than houses totaled \$600 billion, about 7 percent of total family disposable income. Refinancing commonly included taking out cash in return for taking on a bigger loan amount – after all, houses were worth more so they could support more debt. These home equity loans (HELs) were securitized and sold to investors seeking high yield, high rated investments.

The primary problem with this approach is the old problem of leverage. Leverage is the ratio of money borrowed by a

prices did not have to fall very far before leverage destroyed the buyer's original investment. The result, beginning in earnest in 2007, has been a rapid increase in foreclosures with more to come as the number of borrowers behind on their payments, either original mortgage or home equity, also spirals. Estimates of the eventual default rate on the almost \$1 trillion mortgages securitized are in the 20-25 percent range, but no one really knows. Leverage works just as efficiently on the downside as it does on the upside – it's just scarier.

Subprime mortgages coincided nicely with the politics of the ownership society, the idea that minorities and lower income people could have an economic stake in political stability and that they would thus be more likely to support the Republican Party. Almost all of the net increase in family wealth reported for the bottom 80 percent of wealth holders during 2001-2005 came from increased prices for housing. A large portion of subprime mortgages were made to African-Americans, Hispanics, and single-parent (usually female-headed) families. Thus, the foreclosure boom is draining wealth away from a large number of families who had only just begun to acquire it. Estimates of wealth loss from these foreclosures are in the \$170-190 billion range for African-Americans and \$75-100 billion for Hispanics. These groups were three times as likely to have subprime mortgages as whites, even though the evidence suggests that half or more of those granted subprime mortgages actually qualified for regular mortgages, on terms that would have been more favorable to the borrower.



YDS at Wall Street bailout protest

financial entity to the amount of its own capital used together in investments promising a higher rate of return than the interest owed on the borrowed money. If the deal pays off, after the borrowed money is returned, the remaining profit can be very high relative to the entity's own capital. When deregulation allows this, the temptation to speculate is strong. But if the deal does lose money, some of the borrowed money as well as the capital is lost, and the speculator can become insolvent.

Housing prices cannot rise faster than income indefinitely. When the music stopped, there were many people who were too highly leveraged (by borrowing against their home equity) to continue making payments on their mortgages. With median down payments averaging 2 percent in 2005-2006, housing

C. The Value and Role of the US Dollar

One of the reasons for believing that this economic downturn will be more severe and longer lasting than those of the past three decades is the convergence of a domestic credit and housing crisis with some negative (for the U.S.) international trends. The U.S., an international creditor in the 1930s, is now the largest international debtor.

In the early years of the shift to debtor status, the primary concern was what an ally, Japan, might someday do with all that debt. Nothing, as it turned out. However, the debt is larger now, and the primary holders include nations such as China, whose relationship with the U.S. is quite different, today and over the strategic long term, than Japan's. Further, a major reason for the growing U.S. debt is increasingly costly imports of the largest single commodity in world trade: petroleum. During the Bush administration the cost of oil imports more than doubled, rising from \$130 billion in 2003 to over \$300 billion in 2006.

And what do we have to offer in return? After all, trade is trade. During the period that the U.S. shifted from being a creditor to a debtor nation, we also shifted from making and exporting "things" to buying and selling the representation of things, e.g., claims to income streams from assets. Financialization remade the structure of the U.S. political economy as policy makers made a long term bet – an implicit industrial policy – on the finance sector. As the growing US trade deficit increased the dollar holdings of foreigners,

these investors looked for ways to put this money to work. In response, we exported securitized debt – primarily asset-backed securities (ABS), including their mortgage-backed security (MBS) and collateralized debt obligation (CDO) components. As early as mid-2007, Deutsche Bank estimated that non-U.S. investors held 40 percent of all MBSs, the instrument largely responsible for initiating the crisis. These exports helped spread the negative economic consequences of the current crisis even to small towns in Norway and beyond, as portfolio managers relied on the AAA and AA ratings given tranches (related securities sold as part of one transaction) of ABSs by S&P, Fitch, and Moody's.

So now we face a challenge to the dollar as the world's reserve currency, this time on two fronts. First, as the value of the dollar has declined, central banks have diversified their reserves, adding Euros and other currencies to their holdings. This gradual shift will probably continue. What would more directly impact the average U.S. citizen's standard of living is the possibility that petroleum-producing nations will shift pricing out of dollars and into either a basket of currencies or a specific currency. (Venezuela and Iran have already done so for some of their exports.)

All of this is overlaid with the very real possibility that the age of petroleum is much nearer its end than its beginning. If the peak oil argument is valid, our trade deficit will continue to grow and the costs of transporting people and things in a domestic built environment that is based on the gasoline powered car will become prohibitive. Doubts about the long term economic viability of suburban sprawl are another restraint on the possibility of any rapid recovery of housing and the U.S. economy as a whole.

D. We Believe in the Market – Except When We Don't

The events of September 15-19 offer almost too much in irony, humor and folly to comprehend. The conservative regime most ideologically committed to market outcomes finds itself second- and even third-guessing the market, proposing the greatest-ever political intervention. The Paulson Plan and the decisions reached to date apparently result from several factors.

First, Republicans desperately want to get the economic crisis off the political agenda before the November election, an increasingly unlikely occurrence. Second, institutional memories of the 1930s remind the GOP that, if you let the economy go to hell in a hand basket by waiting for the market to find equilibrium – i.e., doing nothing – voters remember for a very, very, very long time. Third, it appears that Paulson and Bernanke are pragmatists. They certainly think that markets are wonderful things. However, they also recognize that markets may suffer from contagions – when I sell because you are selling and you are selling because she is selling. Thus they came up with a solution designed to simultaneously address the liquidity and solvency problems. Current estimates are \$700 billion cost, but that is undoubtedly low. For perspective, the U.S. Savings & Loan debacle cost about \$275 billion, the Japanese banking collapse almost \$800 billion, and the Asia banking crisis about \$400 billion.

And then the Plan was defeated by the House. The opposition to the Paulson proposal ranged from right-wing Republicans who were willing to sacrifice the economy on the altar of market fundamentalism to left-wing Democrats, some of whom may be willing to socialize the credit and investment function. They could unite to defeat the original proposal but could not create any alternative. Thus, the somewhat revised proposal passed later in the week (with some additions, such as increasing the FDIC insurance level to \$250,000, that are worthwhile). However, the markets were not satisfied. The Treasury and Fed have continued to lurch from one idea to another, most recently using some of the \$700 billion to take ownership stakes in banks in the hope of restarting the flow of credit. This approach was borrowed from the UK authorities who, like others, have discovered that the U.S. export of securitized loans has internationalized the U.S. financial crisis.

So where do we stand? Challenges are also opportunities, and I think there are real opportunities, as well as risks, for the Left. The most significant aspect of politics in the 1930s was the delegitimation of the business elite as the font of economic wisdom. We are potentially on the verge of another such era, and this is not the time for tentative measures. We will not come out of this financial crisis with a socialist political economy. But there is a chance that we can significantly shift the universe of political discourse and also gain important policy victories that lay the basis for further challenges to the dominance of finance in the US political economy. First, we need to emphasize that the current crisis is systemic and piecemeal responses will be inadequate to remedy the situation. Next, we must insist that market fundamentalist approaches of the current administration as well as the Republican presidential candidate fall woefully short of what is needed. This is the task of removing the underbrush before building the new structure.

(1) Any of the securitized, risky assets acquired by the federal government should be at a significant discount to par. It is hard to say what discount is appropriate. However, some price south of 75 cents on the dollar offers taxpayers the possibility of eventual sale (or payoff of the loan) at a rate that will be profitable – for us. Note that this does not insure that the issuers of questionable mortgages will eat the losses, only that current holders of the securitized tranche will. Would they rather be landlords? If so, let them.

(2) Mortgages acquired by the government should then be renegotiated with home owners facing foreclosure and/or significant economic stress. Renegotiation should reflect (a) the reduced face value of the mortgage and (b) the new, lower interest rate environment created by the Fed's flooding the markets with liquidity. Under the Paulson/Bernanke plan, we have the basis for a new Home Owners Loan Corporation – let's use it to the advantage of home owners.

(3) Empower bankruptcy judges to adjust the mortgage terms. This may sound radical, but congressional legislation has already been drafted to grant this power; the Republicans prevented it from getting out of committee. These very same

judges now have that power for mortgages on second homes. This policy would bring additional pressure to bear on lenders to seek accommodation with their borrowers.

(4) Acquire equity in any company to which the Fed provides bridge or other emergency loans or injects cash. When you invest capital, you get a say – that is the way the private market works and that is the principle we should apply to AIG and others. This is today's (October 9, 2008) favorite policy idea and has some real potential for the Left if we can get it done right.

(5) Extend regulatory authority over the financial markets. If we, the people, are ultimately responsible for financing your deleveraging, then we need to insure that you cannot get us into another such mess. This implies (a) limits on leverage for all financial institutions to the 10-15:1 range; and (b) outlawing off balance sheet entities – they're only off balance sheet when things are going well.

Who should exercise this regulatory authority? I want to make two points here. First, we need to combine many of our overlapping agencies that currently try to oversee parts of the financial industry. The problems here are structural, since many were designed for a different era. Second, the new regulatory authority should not reside in the Fed. Too much deference is paid to Fed officials in both their appearances before Congress and in the press. We need regulatory agencies and personnel who can be questioned and whose decisions can be probed. We need a new agency with the same reforming spirit that drove the early New Deal.

III. Conclusion

My reference to the New Deal was deliberate. During most of the year, the presidential campaigns have been short on discussions of our economic crisis. At the Republican convention, McCain barely touched on it. That has changed. But, with respect to Obama, it is useful to remember that FDR did not walk into the White House in 1933 with a program that resembled what we came to know as the New Deal. He only had a commitment to help his fellow citizens. In fact, had he spelled out something that looked like the New Deal during the campaign, he might not have been elected – and that was when the GDP had dropped by more than 10 percent and the unemployment rate was over 20 percent. It was the commitment to bettering the lives of others that drove what came next and, in this campaign that may be the best we can expect.

Appendix: Longer Term Policies to Address the Problems of Inequality and the U.S. Relationship to the World Economy

Empowering the Working Population: The Employee Free Choice Act (EFCA). We will only reverse the long-term inegalitarian trend in the U.S. if we make it possible for working people to build institutions powerful enough to push a political agenda that can effectively mobilize against policies that will increase inequality, e.g., the privatization of Social Security, and for egalitarian policies, e.g., removing the income cap on FICA (the Social Security tax). The EFCA is already endorsed by a majority of congressional

Democrats – but we need a president who will sign it or a two-thirds majority to pass it over a McCain veto.

Increase and Index the Minimum Wage. Opponents of minimum wage increases often claim that the primary beneficiaries would be teenage workers earning extra spending money. Besides the reality that most minimum wage workers are not teenagers, the earnings of teenagers are not simply spending money. For example, when I attended college in the 1960s (at a state university) I was able to pay my own way by working, full time during the summer and part time during the school year, at jobs that paid the minimum or just above the minimum wage. That would not be possible today because of the gap between the growth in college costs and the lag of the minimum wages behind inflation. What should the index be? I am tempted to say congressional salaries but use of the CPI is probably a better political decision.

Reinstate, Index and Make Progressive the Estate Tax. The Estate Tax, which the Left can label the Paris Hilton Tax, will revert back to pre-Bush levels in 2010 if no action is taken by Congress. The complaints against the tax, driven by the financing of a few very wealthy families who seek to found their own dynasties, have made this a tougher issue than it should be. We should tie the proceeds of the tax to the funding of specific programs so that the who pays/who benefits equation is clear. This requires some additional thinking and economic modeling of the expected revenue (United for a Fair Economy has done a lot of the latter), but the Paris Hilton Tax could fund universal health care or a subsidy to help with college costs. The most important point is that it taxes wealth, a concept worth fighting for.

Tax a Surcharge on Incomes Above \$250,000. John McCain may think that “middle income” is anyone with incomes below \$5 million but the reality is that an income of \$250,000 or more puts a family in the top 2 percent of all families. Rather than spend political capital arguing about how to make the existing tax code more progressive, let's just do it the simple way: impose a surcharge on high income recipients.

Develop a Jobs Program. Unemployment is certainly not at 1930s levels and probably will not rise that high; it is, however, a serious and growing problem, particularly when the uncounted unemployed are included. A jobs program should have three foci. First, it should focus on social investment such as schools, roads, bridges, light rail, etc. Second, specific social investments should be made to speed the deployment of alternative energy technology. Third, we should seek to reaffirm the importance of public employment, training and employing people in the health care sector, education, and the recreational environment – we have lived off the wonderful work the CCC did in our parks and trails for a long time.

Bill Barclay is a DSA member and activist from Oak Park, Illinois. This essay is excerpted from a longer version published in Chicago DSA's New Ground newsletter; it was revised by the author after the Treasury/Fed actions of September 18-19 and amended on October 9.

Catastrophe

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needs to know – and by implication all she thinks the U.S. needs to know – about Russia because Alaska is a neighbor of Siberia). Whenever they do, though, their proposals are uniformly terrible and horrify even “normal” Republican conservatives.

In the middle of a major economic crisis, the Republicans waver between advocating even more radical deregulation of Wall Street and urging the government to guarantee that irresponsible sub-prime mortgage lenders lose no funds. They favor further tax cuts for the rich and corporate America, accompanied by a major tax increase for the working and middle class. That tax increase is packaged in their unbelievably reckless and cruel proposal to tax health and pension benefits. This proposal represents nothing less than a conscious attempt to eliminate employer-funded health and pension benefits. Never mind that these benefits are already the most meager in the advanced industrial world.

These reactionary economic proposals alone should be enough to mobilize mass objections to the Republican candidates. To those should be added the brutal “pro-life” demagoguery of Palin. The Palin phenomenon exposes the shallowness of crude identity politics or, rather, the shallowness of those women voters who consider her gender more important than her anti-woman politics.

As dangerous as Palin’s anti-feminist politics are the pro-war politics of the Republican ticket. Their bellicose policies focus on three potential trouble spots: the Caucasus, Middle East and Latin America.

In all three regions, the present Bush administration has brought the U.S. to the brink of catastrophic military adventures. In the Caucasus, U.S. imperial over-reach has gotten us tangled up in Georgia’s conflicts with its separatist minorities. The Bush administration’s support for an irresponsible Georgian nationalist regime has brought the United States into a sharp confrontation with a resurgent Russia. This provocative policy aims to defend an immensely expensive oil pipeline that would provide United States and Western Europe access to Caspian Sea Azerbaijani and Kazakh oil without it having to be delivered across Russian-controlled territory. Such access is now bizarrely defined as a legitimate U.S. strategic interest.

In the Middle East, in addition to postponing any possibility of a real two-state solution in Palestine by supporting Israel’s endless land grab and continuing repression of Palestinians, the Republicans show no desire to leave Iraq. To the contrary, we are told by McCain that we might have to stay there for a hundred years. In Latin America, United States meddling in Bolivia has helped start a revolt by the wealthy ranchers against the popular leftist government of Evo Morales. In addition, the Bush regime’s constant confrontation with the legally-elected Venezuelan government has led to a severance

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of diplomatic relations with both regimes at a time suspiciously close to the U.S. elections.

Republicans clearly hope to gain from a growing pro-war hysteria since they are supposed to be tougher than the Democrats in defending United States interests worldwide. Why they are so considered is another mystery which needs more thorough analysis another time. But why Bush, a Vietnam-era deserter from the Texas Air National Guard

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Catastrophe

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who has never fired a bullet in anger except at some hapless deer or quail, should be deemed a “tougher” candidate than the genuine war hero John Kerry, is hard to comprehend. Just as hard to fathom is why McCain’s genuine suffering in Vietnamese captivity, after being shot down on a mission to bomb Vietnamese civilians, makes him an expert on questions of defense and foreign policy. This “expert” may well lead us into a war in Iran. The sad thing is how lukewarm the Democratic campaign has been in the face of all these wonderful targets. Their shyness in taking on the Republican candidates’ extreme policies could still cost them the campaign.

The point we need to make over and over again is that McCain and Palin would be even worse than the presidency of George W. Bush. Their administration would not only be more aggressive internationally, but also worse (yes, it is possible to be worse) in domestic matters. A McCain-Palin administration would be a disaster for the United States and the world – and a disaster for the standing of the United States in the world.

The current super-low rating of the U.S. in world public opinion is not necessarily a bad thing. The U.S. current policies and government deserve to be condemned. But, unfortunately, it is not just United States imperialism and capitalism that are despised, but also democracy that is being given a bad name. Given that Russia is increasingly both imperial and authoritarian, the inane adage that the enemy of my enemy is my friend leads some who break with United States imperialism to side with other detestable regimes. Enemies or rivals of U.S. imperialism include repressive Islamic regimes, North

Korean and other third world dictators, and rival imperial powers like Russia and China. One of the sins of the Bush administration is that it has strengthened these rivals, and McCain would further exacerbate this trend. By continuing the Bush administration in an even more primitive form, a McCain presidency would endanger democracy throughout the world. This is where the absence of a sane, responsible Left in the U.S. and Europe is especially damaging. In mainstream politics there exist no systematic alternatives to the mechanical formula that “free” markets and private ownership are the only viable environment for stable democracy.

We must insist that politics as usual – and in the U.S. that means *capitalist* politics as usual – are a luxury we cannot afford. We do not have illusions that the politics of this election can go beyond capitalist politics; but there are capitalist politics and then there are politics of reform and healing within that unjust system. The Scandinavian countries and Canada are also capitalist – they also suffer from class inequality and injustice – but incomparably less so than does the U.S. There is far more room in the politics of the possible than the Obama-Biden campaign offers, and far more potential to mobilize the victims of this system. That is what we must insist on. If the Obama campaign does not offer policies to redress rampant inequality, it will not only stagnate but will roll backward – thus visiting a catastrophe upon both the United States and the world. We are duty bound to do what we can to prevent this.

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