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Financial Meltdown

Canada, the Economic Crisis
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Part 1: Explaining the Crisis

From Global Finance to the Nationalization of the Banks:

Eight Theses on the Economic Crisis

Leo Panitch and Sam Gindin

1. *The current economic crisis has to be understood in terms of the historical dynamics and contradictions of capitalist finance in the second half of the 20th century.* Even though the spheres of capitalist finance and production are obviously intertwined (in significant ways today more than ever before), the origins of today's US-based financial crisis are not rooted in a profitability crisis in the sphere of production, as was the case with the crisis of the 1970s, nor in the global trade imbalances that have emerged since. Although the growing significance of finance in the major capitalist economies was already strongly registered by the 1960s, it was the role finance played in resolving the economic crisis of the 1970s that explains the central place it came to occupy in the making of global capitalism. The inflation that was the main symptom of that crisis had a strong negative impact on those holding financial assets and destabilized the international role of the dollar. Under the guidance of the US Federal Reserve, financial markets used very high interest rates to drive up unemployment, defeat trade union militancy and restrict public welfare expenditures in the early 1980s – all of which had come to be seen as the source of the intractable profitability and inflation problems of the previous decade. Yet it was precisely the contradictory ways finance contributed to global capitalism's successes in the closing decades of the 20th century that laid the foundation for the massive capitalist crisis that now closes the first decade of the 21st century.

2. *The spatial expansion and social deepening of capitalism in the last quarter century could not have occurred without innovations in finance.* The development of securitized financial markets and the internationalization of American finance allowed for the hedging and spreading of the risks associated with the global integration of investment, production and trade. This provided risk insurance in a complex global economy without which capital accumulation would otherwise have been significantly restricted. At the same time, finance penetrated more and more deeply into society, integrating subordinate classes as debtors, savers, and even investors through private pensions, consumer credit and mortgages for private housing. This became especially important in facilitating the maintenance of consumer demand in a period of wage stagnation and growing inequality. In terms of directly fostering capital accumulation, finance was not only an important site of technological innovation in computerization and information systems, but also facilitated innovation more generally in high tech sectors through venture capital, especially in the US. The central role of the US dollar and Treasury bonds in the global economy as the key store of value and the basis for all other calculations of value, alongside the global institutional predominance of US financial institutions, acted as a vortex for drawing the global surplus to American finan-

cial markets and instruments. This allowed for the mobilization of cheap global credit for the US economy, and sustained its place as the major import and consumer market in the global economy. The lowering of US interest rates was important to the macroeconomic stability reflected in the fewer and milder recessions within the US in comparison with the post-war era ('The Great Moderation,' as economists refer to the 1983-2007 period).

3. *The competitive volatility of global finance produced a series of financial crises whose containment required repeated state intervention.* Global financial competition for higher yields led to institutional and market innovations that allowed greater leveraging and therefore more credit relative to the capital base. This in fact amounted to a vast increase in the effective money supply, but rather than yielding the price inflation that monetarists predicted, the defeat of labour and the increased corporate ability to fund investments with internal funds meant that increased liquidity translated into asset inflation. This asset inflation was uneven across sectors, producing financial bubbles from stock markets to real estate at various times, while the size of these bubbles was expanded by virtue of the material expansions in the real economy related to each of these areas. The bursting of these bubbles became a common feature of capitalism and the state interventions required to contain them reinforced the confidence that supported future bubbles. The alleged withdrawal of states from markets amidst the globalization of capitalism was a neoliberal ideological illusion: states in the developed capitalist countries pumped more liquidity into the banks in the face of financial crises, while they ensuring that crises in the developing countries were generally used to impose financial discipline. The neoliberal American state played the most active role as the imperial guarantor, coordinator and fire-fighter-in-chief for global capitalism.

4. *Both finance's central role in the making of global capitalism and the American state's role in sustaining it produced the bubble that emerged inside the US housing sector.* Rising demand for home ownership at all income levels, partly reflecting limits on public housing since the crisis of the 1970s, was encouraged by US government support for meeting housing needs through financial markets backed by mortgage tax deductions. And, reflecting the increasingly unequal income distribution that was the consequence of the defeat of labour generally and the restructuring of production and employment, a broad stratum of the working class population also sustained their consumption through



taking out second mortgages on the bubble-inflated values of their homes, But all this was really only made possible by the acceleration of financial securitization and the creation of a broader market for mortgage-backed securities in particular. This developed amidst rising house prices that apparently increased the wealth and credit-worthiness of those borrowing, and gave rise to the acceptance of lower standards (including for 'teaser' subprime mortgage rates) by regulatory agencies, largely supported by both parties in Congress. The Federal Reserve's low interest rate policies, especially in the wake of the bursting of the dot-com bubble, reinforced by the high demand for US Treasury securities as the safest store of value in a highly volatile global financial system, intensified competitive pressures on finance everywhere to get higher yields through greater leveraging of assets and innovative securitization to stretch the boundaries of risk. The historical safety of collateralized home loans (with such a large portion having been backed by the US government) reinforced the confidence in perpetually rising home prices and made housing debt the most attractive arena for the systemic exercise of arbitrage between low-interest US Treasury bonds and high-interest mortgage-backed securities.

5. *The inevitable bursting of the housing bubble had such a profound impact because of its centrality to sustaining both US consumer demand and global financial markets.* The eventual bursting of the housing bubble was inevitable once, as was the case by 2005, housing prices peaked. By this time, not only had the Fed's low interest rate policy come to an end, but teaser rates on many subprimes had run out. The rise in foreclosures and the number of houses offered for resale had immediate effects on housing prices, new home construction and furniture and appliance sales. Moreover, by virtue of the loss in value of the primary asset figuring in workers' perceptions of their personal wealth, this in turn led to an overall decline in US consumer spending and import demand in a way that the bursting of stock market bubbles had not. At the same time, since the spreading of risk in subprime mortgages had been effected through their packaging into derivative securities with more highly-rated tranches of debts, the housing crisis undermined the econometric equations that valued these assets in global financial markets. Mortgage-backed securities became difficult to value and to sell, and this produced a contagion throughout financial and inter-bank markets that spread the collapse internationally. Taken together with the impact of the housing crisis on mass consumption behaviour, and thus on the US economy's ability to function as the key global consumer, illusions that other regions might be able decouple from the US in this crisis were quickly dispelled.

6. *The crisis reinforced the centrality of the American state in the global capitalist economy while multiplying the difficulties entailed in managing it.* The rise of the US dollar in currency markets and the enormous demand for US Treasury bonds as the crisis unfolded reflected the extent to which the world remained on the dollar standard and the American state continued to be regarded as the ultimate guarantor of value. Treasury bonds are in demand because they remain the most stable store of value in a highly volatile capitalist world: illusions that foreign states were previously doing the US a favour by buying Treasury securities may finally be dispelled by this crisis. The

American state's central role in terms of global crisis management – from currency swaps to provide other states with much needed dollars to overseeing policy cooperation among central banks and finance ministries – has also been confirmed in this crisis. Yet despite its very active interventions, the American state has proved unable to contain the effects of this particular crisis. The massive drops of liquidity that it has helicoptered onto the financial system since August 2007 have not restored the banks' capacity or willingness to lend at anything like previous rates – even to each other, let alone to firms or to consumers. The whole system of securitized finance that has grown up over the past few decades – whereby the risk on mortgages, consumer credit and business loans is sliced, diced, repackaged and traded around the world – has imploded.

7. *The scale of the crisis today is such that nationalization of the financial system cannot be kept off the political agenda.* It is increasingly apparent, that monetary and fiscal stimulation alone are unlikely to succeed in ending the crisis since the banking system's dysfunctionality today undermines the multiplier effect, just as new regulations are supposed to make finance more cautious and prudent in their lending. Indeed, there has been an increasing realization that it may not be possible to keep off the political agenda much longer the issue of bringing large portions of the financial system into public ownership. This is advanced today along the lines of the temporary nationalizations that took place in Sweden and Japan during their financial crises in the 1990s whereby the state took on the banks' bad debts and then passed the banks back to the private sector. It is a measure of the severity of the crisis that nationalization is now being quite generally proposed even within the US although it poses a host of problems as a way of saving global capitalism. It is highly significant that the last time the nationalization of the banks was seriously raised, at least in the advanced capitalist countries, was in response to the 1970s crisis by those elements on the left who recognized that the only way to overcome the contradictions of the Keynesian welfare state in a positive manner was to take the fi-



nancial system into public control. Now that bank nationalization is back on the political agenda (albeit now coming from very different sources), it is very important to contrast the type of band-aid nationalization now being canvassed with the demand for turning the whole banking system into a public utility, which would allow for the distribution of credit and capital to be undertaken in conformity with democratically established criteria. And it is necessary to point out that this would have to involve not only capital controls in relation to international finance but also controls over domestic investment, since the point of making finance into a public utility is to transform the uses to which it is now put.

8. *The call for nationalization of the banks provides an opening for advancing broader strategies that begin to take up the need for systemic alternatives to capitalism.* The severity of today's economic crisis once again exposes the old irrationality of the basic logic of capitalist markets. As each firm (and indeed state agency) lays off workers and tries to pay less to those kept on, this has the effect of further undercutting overall demand in the economy. At the same time, the financial crisis exposes new irrationalities, not least those contained in the widespread proposals for trading in carbon credits as a solution to the climate crisis, which involve depending on volatile derivatives markets that are inherently open to the manipulation of accounts and to credit crashes. In the context of such readily visible irrationalities, a strong case can be made that – to save jobs and the communities that depend on them in a way that converts production to ecologically-sustainable priorities during the course of this crisis – we need to break with the logics of capitalist markets rather than use state institutions to reinforce them. We need to put on the public agenda the need to change our economic and political institutions so as to allow for democratic planning to collectively decide how and where we produce what we need to sustain our lives and our relationship to our environment. However deep the crisis, however confused and demoralized are capitalist elites both inside and outside the state, and however widespread the popular outrage against them, making this case will certainly require hard and committed work by a great many activists, many of whom will see the need for building new movements and parties to this end. This is what is really needed if this crisis is not to go to waste.

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Global Finance, the Current Crisis and Challenges to the Dollar

David McNally

It is not often that we find ourselves living through financial turmoil so serious that the International Monetary Fund (IMF) calls it “the largest financial crisis in the United States since the Great Depression.” Yet that is where we are today. Already, commercial banks have collapsed in both Britain and Germany, as has the fifth-largest investment bank on Wall Street. A series of hedge funds have gone under or are teetering on the brink of ruin. And it is a near certainty that more financial institutions will fail before the crisis burns out.

It is clear that the Left needs serious analysis of just what is happening to world capitalism at the moment. Too often, however, our assessments are stuck in the past, revolving around debates as to whether or not this crisis represents a repeat of 1929 and the Great Depression.

Such debates detract from the hard work of analysis that is needed. On the one side are those who assume that history tends to repeat itself. On the other side are those critics who so exaggerate what has changed (particularly the ability of central banks to dampen tendencies to financial collapse) that they present a picture of a capitalism whose contradictions have been so muted that the system is no longer susceptible to severe economic slumps.

The real challenge for radical analysis, however, is to grasp both the changes and the enduring economic contradictions within capitalism in order to understand how capitalist transformation displaces and reorganizes crisis tendencies without eliminating them.

In the absence of such analysis, much of the radical commentary on offer tends to focus on the blatant deceit and corruption of financial players who have contributed to the market upheaval. This has its purposes. But it runs the risk of downplaying the structural features of late capitalism that breed financial meltdowns – and in so doing of suggesting that the Left focus on issues like financial regulation rather than class struggle against capital.

Trying to make sense of this crisis is one important step toward developing both an analysis of late capitalism and some of the tasks that confront the Left. To be sure, any assessment of unfolding events will necessarily be partial and incomplete. Nonetheless, it is possible to offer some crucial guidelines for making sense of this crisis.

A BANKING CRISIS, NOT A LIQUIDITY CRISIS

It is critical to recognize at the outset that, contrary to the claims of central banks, this is not a liquidity crisis, i.e. financial turmoil caused by insufficient supplies of money flowing through the financial system. Instead, we are dealing with an insolvency crisis caused by the fact that many financial institutions are effectively broke. The result is a trauma in the banking sector.

This trauma persists because a myriad of lending institutions hold billions of dollars in massively depreciated paper that nobody is interested in buying from them. There is a host of exotic names for this paper, but essentially it is an array of debt obligations – titles to payment of interest and principal on a vast array of loans. Until the crisis broke, investors had been treating this paper as a pile of assets that they could always sell, i.e. as real wealth. Yet, the value of a debt rests in the first instance on the capacity of the borrower to pay. If the borrower can't pay, the alternative is for the creditor to seize the asset. But if the asset itself is losing value, then it may not cover the loan – and there might not be anyone out there who wants to buy it. In short, it may not be convertible to cash.

And that is precisely what is happening on a larger and more complex scale today. Economic reality is demonstrating that much of this paper – tied in the first instance to tens of millions of U.S. mortgages – is worth billions of dollars less than what was paid for it. So much of it is being written off or written down (revalued at amounts that involve enormous losses). It is as if you once had \$1,000 in the bank, against which you'd borrowed many times that amount (say, ten times that amount or \$10,000) and you have now learned that you only have \$500. Once your creditors discover that, they'll scramble to collect in the knowledge that there's no way you will ever pay off all that you owe. But your \$500 will be gone pretty fast. And since you owe \$10,000, a lot of your creditors (including people who bought fancy paper called "Collateralized Debt Obligations" which includes some of your loans) won't be able to collect. And they won't be able to sell off your debts to anyone else either.

Precisely such dynamics are at work when an institutional "run on a bank" occurs, of the sort that rocked Bear Stearns in mid-March. In the course of 48 hours, Bear's holdings of cash and liquid assets plummeted from \$17-billion to \$2-billion as investors pulled their funds from the bank. So the root problem is not a lack of liquidity in the system. It's that there are all kinds of institutions out there that nobody wants to lend to and whose ostensible "assets" nobody wants to buy. Worse, none of the players in the system are entirely certain as to who is holding increasingly worthless paper, or how much of it they have. As a result, the flow of funds between banks, and between banks and other lenders (like mortgage companies), keeps seizing up.

This is the reason that injecting cash into the system doesn't restore confidence. In fact, despite deep cuts to interest rates by central banks, particularly the U.S. Federal Reserve (designed to encourage borrowing) and massive injections of money into the

banking system, American banks have continued to tighten lending to consumers, corporations and other banks (*Financial Times*, May 6, 2008).

When investors lost confidence in Bear Stearns, they did so for a fundamental economic reason, not a simply psychological one: Bear's actual assets, particularly those tied to real estate loans, had been losing massive amounts of value for months. In fact, in June of last year, two of the bank's hedge funds, which were deeply invested in sub-prime mortgages, effectively collapsed.

FROM HOUSING BUBBLE TO . . .

And it is there, in the housing sector, that we find a key link between the financial crisis and material assets in the wider economy. For, central to this crisis is the collapse of a manic bubble in U.S. house prices.

For a hundred years after 1895, as Dean Baker has noted, U.S. house prices increased at the rate of inflation. Then, from 1995 to 2007, they rose 70% more than the cost of everything else. That created an extra \$8 trillion in paper wealth for U.S. homeowners. And, with that ostensible wealth in their sights, American consumers ran to the stores, often after taking out loans against the increased value of their homes.

Bubbles eventually burst, of course. In this case, the pop came last summer, with a rise in the number of mortgage holders starting to default. And it just kept getting worse. U.S. housing prices dropped about 13% last year and have continued tumbling this year. As the houses they've taken mortgages on fall in value, the cost of buying them has risen for millions of Americans. Huge numbers are just putting the keys in the mail and sending them back to the mortgage lender. Others, unable to make payments, are suffering foreclosure. In March of this year, foreclosures jumped 57% in the U.S., while house repossessions by banks more than doubled compared to a year earlier. Many analysts now expect U.S. house prices to decline by another 10 to 20% over the next year.

Meanwhile, investors who "bought" those mortgages – through a variety of schemes known as mortgage-backed securities – are discovering that the value of what they own is plummeting. The borrowers



can't pay and the underlying assets are in freefall. No one is interested in buying these toxic debts from them.

This is why the asset-backed commercial paper (ACPB) market has been frozen in Canada for the last six months. And now the same thing has happened to the \$300 billion auction rate note market in the USA. Holders of these "assets" can no longer find buyers.

Yet housing is just part of the problem. Equally dubious junk is now being found in commercial paper tied to credit card loans, commercial real estate, auction rate notes, leveraged buyout loans and much more. This is why estimates of the total damage of the crisis to the financial system keep rising. Initial predictions had the figure between \$50 and \$100-billion. Then, as bank after bank wrote off billions more, estimates in the range of \$400-billion and even \$600-billion emerged. In April, the International Monetary Fund calculated that the meltdown would result in losses of nearly \$1-trillion. One analyst writing in the *Wall Street Journal* suggests the global damage will hit \$1.4-trillion.

Whatever the ultimate figure – and it is likely to be at the higher end of the predictions – it represents a very large hit for the system. It also means that there are huge losses still to be recorded before the financial system recovers. Nouriel Roubini, among that very small minority of economists who saw the sub-prime meltdown coming and one of the few who have consistently warned that its consequences would be extremely serious, has argued that "the worst is still to come" for the U.S. and global economies.

GLOBAL SLOWDOWN

Just how deep and prolonged the slowdown in the global economy will be remains to be seen. But in recent years as much as half of all U.S. economic growth has been housing-driven. Borrowing against rising home values, American consumers fed the engine of the world economy, particularly in their enormous purchases of manufactured goods from around the world. During this round of credit-driven growth, U.S. household debt more than doubled, increasing from \$6.4-trillion in 1999 to 13.8-trillion in 2006.

Between 1980 and 2000, U.S. imports increased 40%, accounting for 19% of world imports and roughly 4% of world GDP. Now, as the housing bubble bursts, as consumers hold off on big purchases and try to pay down debt, world exports to the U.S. will decline and global growth will taper off. In fact, imports into the U.S. dropped by over \$6 billion in March, a clear sign that the global slowdown is spreading. Moreover, even a modest move by U.S. consumers to rebuild their savings will knock about 1.5% off U.S. economic growth per annum.

Across the U.S., construction spending, industrial production, private employment and manufacturing output are all falling. The U.S. economy is clearly in recess-

sion. It remains to be seen just how significant the accompanying global slowdown will be.

THE DOLLAR, WORLD MONEY AND THE CURRENT CRISIS

Alongside the turmoil in financial markets, the current crisis also poses major challenges to the U.S. dollar as the dominant form of world money today. World money is necessary to the measuring and allocating of value – prices, profits, wages, etc. – within and between regions and nations. In order to do this efficiently, global money must be considered to be effectively "as good as gold" – something that everyone will accept because it is a stable and universally recognized means of payment.

For most of the history of capitalism, gold has anchored the system of world money, either through an actual gold standard (in which international payments were made in gold) or a gold convertibility standard, under which the leading currency could be converted into gold by the world's central banks.

Since 1971, however, when U.S. President Nixon broke the dollar's tie to gold, the U.S. dollar has operated as *inconvertible* world money. This has produced two tendencies: first, a significant long-term decline in the value of the dollar relative to other major currencies; and, secondly, a new volatility in world currency markets, as investors try to avoid holding on to currencies whose value may plummet. But in the absence of any other viable candidates for world money status, the dollar continued its reign.

Indeed, throughout the last decade or more, the status of the dollar seemed to be rising. Despite huge deficits in the U.S. current account – the balance between what economic actors based in the U.S. owe the rest of the world and what the rest of the world owes these U.S. actors – the dollar kept riding high. This led some pundits to argue that current account deficits (i.e. debts to the rest of the world) are irrelevant where the dominant imperial power is concerned. Even as the U.S. economy started to run deficits of \$500 billion per year and more with the rest of the world – deficits that are essentially paid for by printing and shipping off dollars – these commentators insisted that there would be no meaningful consequences for the economy of the United States.

The reality is much more complex. It is true that the world money-issuing state can get away with deficits that would not be tolerated in the case of any other nation-state. But it is not true that it can do so infinitely. Sooner or later, as more and more of the currency floods into world markets to cover these deficits, a point must be reached at which some of those holding dollars become tempted to unload them in favour of other currencies or assets. And at that point, an inevitable decline in the dollar's value would set in, increasing the pressure on others to dump it as a depreciating financial asset.

In fact, precisely this process has been underway for some time now. Beginning in 2001, private investors began to dump dollars. What prevented a major collapse in the value of the dollar at that point was central banks in Asia, particularly China and Japan, who stepped into the breach and invested massively in the USA.

These Asian central banks have been effectively returning to the U.S. the dollars it ships overseas to pay for its current account deficit (this is done by making foreign investments in the U.S., be it in U.S. treasury bills or the stocks of banks and corporations). Some commentators have held that this process could continue for decades, dubbing it “Bretton Woods II,” after the original Bretton Woods agreement that created the post-World War II dollar-gold regime.

But there have always been three inherent flaws in this arrangement. First, this massive recycling of dollars back to the U.S. only fuels speculative bubbles, as U.S. financial institutions try to make profits by finding borrowers for this money, be it investors in dotcom stocks or low-income home buyers. Yet, when these bubbles burst, as has the most recent one in housing, it makes the U.S. national economy a less attractive place for investment (since investments have become highly risky and unprofitable). Secondly, as the Federal Reserve lowers interest rates to prevent the bursting bubble from becoming a full-fledged crisis (as it has been doing in recent months), it makes dollar-denominated assets less and less attractive, since higher interest rates are available elsewhere. Finally, as low U.S. interest rates provoke a flight from the dollar, investors holding the U.S. buck have a greater and greater incentive to get out of it.

And even foreign central banks are doing so, albeit incrementally, under the byword of “diversifying” their holdings – i.e. reducing the percentage of international reserves they keep in dollars. In recent years, China, Russia and South Korea have all reduced the proportion of international reserves they hold in dollars. Russia, for instance, has gone from 30% to 50% of its reserves in currencies other than the dollar. More recently, a number of Middle East oil-exporting states have done the same. So worried are U.S. officials by these moves that, when the United Arab Emirates was musing about dropping its currency peg to the dollar, U.S. officials visited the UAE central bank governor to lobby against the move.

Why does the U.S. government care about countries reducing their dollar holdings? Put simply, the ability to print dollars to pay debts is a huge imperial privilege. It is, in the words of the *Economist* magazine, as if you could write cheques that no one would ever cash, a privilege known as *seigniorage*. This has allowed the U.S. great flexibility in financing imperial wars and it has provided an enormous boost to the U.S. national economy, which has paid for goods with paper.

But now private investors and central banks are becoming increasingly reticent about taking ever-growing amounts of these blank cheques. Furthermore, for the first time in several generations, they now have a meaningful alternative to the dollar with the euro. And many signs indicate that the euro is starting to play a larger world money role.

When it was first introduced in 1999, for instance, the euro comprised 18% of all global reserves. Today it represents 25% of international reserves. As a means of payment for cross-border operations, the euro now figures in 39% of all such transactions, versus 43% for the dollar. And in international bond markets, 49% of all debt was denominated in euros in 2006, compared to 37% for the dollar.

None of this is meant to suggest that the euro will simply displace the dollar. The European Union economy is not large and dynamic enough for that to happen and the dollar is still the world’s dominant currency by a considerable measure. But these trends do suggest that the dollar’s role is diminishing now that there is a viable alternative. With this in mind, Deutsche Bank predicts that the euro will constitute between 30 and 40% of world reserves by 2010.

Certainly, recent trends suggest a declining global appetite for the dollar among investors. In 2007, for instance, foreign residents borrowed \$596-billion in long-term stocks and bonds in the U.S., down from \$722-billion the year before (*Wall Street Journal*, April 15, 2008). Yet, this relative decline in the dollar poses a real dilemma for the U.S. state. In order to prop up the dollar, and retain the seigniorage privileges that boosts its national economy and underwrites the financing of imperial militarism, it would have to raise U.S. interest rates. But interest rate hikes would deepen the recession in the U.S. (making it harder to borrow and pushing many indebted Americans into bankruptcy and default) and they might topple more indebted corporations and banks.

For the moment, the U.S. state has chosen to try to offset the recession by keeping interest rates low. But this only depresses the value of the dollar and weakens its world money status. And this gives the U.S. state less financial means to maneuver on the world stage.

And so, the U.S. state confronts a dilemma: to prevent a deep slump it must pursue policies that weaken the world standing of the dollar. In the medium to longer term, however, a diminished dollar will create tighter constraints on the financial capacities of U.S. imperial operations. This is a real and abiding contradiction and the U.S. state is not able to wish it away.

PERSISTENT CONTRADICTIONS

If the current financial crisis illustrates anything then, it is the persistence of fundamental contradictions of neoliberal capitalism. With an enormous “dollar overhang” sloughing through the world economy, asset bubbles regularly form – in Japanese real estate, in East Asian stock markets, in dot-com, or in U.S. real estate. And each time, central banks intervene to *monetize* debt obligations, i.e. to give legal tender for junk. And the end result is to flood the financial system with money that will flow into yet another speculative bubble, as seems to be happening at the moment in commodities

such as oil, gold and foodstuffs. Meanwhile, global dollar surpluses will continue to exert downward pressure on the value of the greenback.

Thus far the U.S. Federal Reserve has offered up \$500-billion in U.S. treasury bonds, effectively as good as cash, for junk on the books of banks and investment houses. The bank of England is proceeding along the same lines.

But as they flood the system with money, these central banks also prime the pump of their nemesis – inflation. This has prompted the International Monetary Fund to issue a stern warning about rising inflation. As soon as central banks think they have stabilized the financial system, they are likely to heed the warning by turning to anti-inflation policies that will trigger corporate bankruptcies, job losses and declining living standards.

Of course, capitalist classes the world over will try to make sure that working classes and the global poor bear the brunt of the inflationary hardship. And the weakness of the international left is not promising in this regard, despite important and inspiring movements of resistance in much of Latin America.

Too often, however, sections of the Left imagine that their role is to offer policies that will avert crises of capitalism. In so doing, they gravitate to a kind of Keynesian politics designed to boost demand and consumption.

It is not the job of the Left to save capitalism from itself, however. To be sure, we have an obligation to advocate and agitate for policies to protect the victims of the crisis, policies that cut against the very market logic of neoliberalism. A case in point would be campaigns for publicly-funded social housing programs at a time when, in the U.S., millions face foreclosure. Equally important are campaigns to raise social assistance rates in order to protect the most vulnerable.

But equally vital is a Left that names the actual contradictions of capitalism, one that addresses the disasters of the neoliberal model and publicizes the inherent conflict between capital accumulation and the satisfaction of human needs. And this requires a Left that speaks openly of *socialism* as the alternative.

We now confront a significant crisis of the neoliberal reorganization of capitalism. And every crisis represents an opportunity – for both the old order and the forces of the new. The Left is not especially well-equipped in this regard. But we must do what we can so that the Left is better prepared when the next crisis breaks, as surely it will. To this end, it is incumbent on us to seek to understand this crisis, to agitate to protect its poorest victims and to do the patient work of socialist education about real alternatives to the logic of the market.

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Comparing Crises: The 1930s, the 1970s, and Today

Ingo Schmidt

Boom or bust, Wall Street keeps people busy. Everybody debates the U.S. government's \$700 billion bailout plan these days. After the bankruptcy of the Lehman Brothers investment bank, who's next was last week's big question. Last month, it was speculation whether falling oil prices and a resurgent U.S. Dollar would indicate the next boom. Last year, we were where we are now: fearful considerations whether financial turmoil would push the U.S. and world economies into recession. Over the course of the year, oil prices hit record highs (\$143.73 per barrel in July), the U.S. Dollar hit record lows (\$1.60 per 1 Euro in April) and the former flagship of U.S. finance capital – investment banking – went completely under.

Bear Stearns and Merrill Lynch were taken over by JP Morgan Chase and Bank of America respectively. Unlike investment banks, the latter two are commercial banks. This means they are subject to bank regulation and can refinance their business through central bank money instead of issuing and selling securities on capital markets as investment banks do. Goldman Sachs and Morgan Stanley sought the Federal Reserve Bank's shelter after Lehman Brothers went unprotected down the capital market drain. The disappearance of investment banking in the U.S., and global financial instability more broadly, was accompanied by government and central bank intervention in Washington, Frankfurt, Tokyo and London. Large-scale bailouts and government takeovers of financial and mortgage companies, Fannie Mae, Freddie Mac and AIG being the most prominent but by no means the only cases, along with public spending packages prompted disgruntled comments from fiscal conservatives who see the U.S. marching into socialism. These folks must have a hard time, really.

A CRISIS OF IDEAS: NEOLIBERALISM, NEW KEYNESIANISM, SOCIALISM

In the late 1940s, neoliberal mastermind Joe Schumpeter gave the American Economic Association a wakeup call by portraying economic development as an unstoppable 'march into socialism.'^[1] Milton Friedman pulled a number of Schumpeter's younger disciples together to train cadre who could become, and as it turned out since the 1970s really were, a vanguard of the neoliberal project that was meant to engineer a u-turn on the socialist Road to Serfdom.^[2] These cadres would lead mankind back to the realm of freedom, entrepreneurial spirits, private property and profit. Along with many other leading political and economic figures, George Bush's Treasury Secretary, Hank Paulson, the architect of today's \$700-billion bank bailout, and Robert Rubin, one of Barrack Obama's key economic adviser and a former Treasury Secretary under Bill Clinton, were brought up as members of that vanguard.

Rubin earned an economics degree from Harvard in 1960 before he started a career as Wall Street banker and politician. Paulson missed a solid neoliberal education as he earned a BA in English from Dartmouth College in 1968, but shares Rubin's dual character as Wall Street banker and politician. Biographies like these are fairly common in today's political class. The critical question, however, is: what caused these character masks of neoliberal capitalism to turn to state intervention? Did they fall prey to chief central banker Ben Bernanke who, instead of serving Wall Street as a man of practice, spent much of his career studying the Great Depression of the 1930s at Stanford and Princeton Universities before he became Governor and later Chairman of the Fed? Has the self-confidence of conservatives and neoliberals taken such a blow from the current crisis that they desperately grasp a Bernanke New Keynesian straw?^[3]

Probably not. As an academic fashion of the last two decades, New Keynesianism updated neoliberal economics from the fairly naive 'perfect information version' to the more realistic version that assumes incomplete and unevenly distributed information among market agents. As a guide to economic policies, this kind of thinking was adopted during the heyday of neoliberal capitalism in the 1990s under Clinton.

In the 1990s, Joe Stiglitz, the most prominent advocate of the New Keynesianism, first became Clinton's chief economic adviser and then the World Bank's chief economist. It was only then that he started to blend his New Keynesian economics with social democratic political ideas, an undertaking that soon cost him his job. New Keynesianism had firmly established itself as the most applicable version of neoliberal policy-making. Lawrence Summers, who was Rubin's successor as Clinton's Secretary Treasurer and the driving force behind Stiglitz's ousting from the World Bank, as well as Greg Mankiw, who was Bush's chief economic advisor from 2003-05, also adhere to the New Keynesian branch of neoliberalism.

The unacknowledged fear of hardnosed conservatives is that neoliberalism, after turning its long-time competitor Keynes into a subordinated branch of its own intellectual world, will make socialism the only available policy alternative in times of severe crisis. Such an implication may take socialists by surprise. Many socialists have hardly finished their analysis of the rise of a transnational capitalist class and neoliberal hegemony, drawing the conclusion that finance capital has emerged as dominant. And now this all-powerful historical bloc is supposed to be falling apart? Isn't there good reason to believe that conservative fears about an end to neoliberalism are vastly exaggerated?

Financial turmoil and an economy on the verge of recession are not necessarily a reason to lose faith. Financial troubles shook Wall Street in 1987, 1990, 1998 and 2001-03. Only the financial turbulence of 1990 and 2001 were accompanied by recession. Compared to the profound crises that have shaken almost every other part of the world since the rise of neoliberalism, the U.S., and its friends in Canada and Western Europe, have had a relatively quiet time.

Even now, it is by no means certain that a recession will hit. U.S. gross domestic product growth was negative in the fourth quarter of 2007 (-0.17%), it barely reached 0.87% in the first quarter of 2008 but jumped to 3.27% in the second quarter. Yet, unemployment also jumped, from 4.9% in January to 6.1% in August. This latter development, however, could simply indicate that businesses in the U.S. got rid of their least productive workers and thus paved the way for a recovery based on increasing productivity. As well, as a consequence of the financial crisis, firms may also have been freeing themselves from burdensome debt and deflated paper wealth.

Is there a reason to revive Schumpeter's fear – which was once the hope of socialists – of marching into socialism? Or are we witnessing another round of 'creative destruction,' which Schumpeter recognized as the innovative law of motion of market economies?

In an attempt to answer this question it may be revealing to compare the current crisis not to its fairly mild predecessors in this period of neoliberalism, but to the rough rides of the 1930s and 1970s. The reason for this intellectual journey through the past is threefold.

(1) Economically: the current crisis has a much more profound effect on financial institutions than any crises since the 1970s. Though Wall Street has seen financial turmoil since then, it also proved to be a safe haven for international capital seeking refuge from financial meltdown in other parts of the world.

(2) Politically: the Fed cut its lending rates since the outbreak of the current crisis in the summer of 2007 as aggressively as it did in 1990 and 2001. In the two latter cases, these cuts translated into lower market rates that helped to lubricate the domestic and international circulation of capital. Currently, banks keep market rates up and thus credit-supply to the non-financial sector short.

(3) Ideologically: the state did not retreat from economic intervention after neoliberalism replaced Keynesianism as the dominant ideology. But neoliberal ideology covered up this intervention by talk of the necessity of adapting to globalization and the new economy. This façade of the neoliberal state is now dropped as it openly re-funnels tax dollars into the coffers of propertied classes.

THE 1930S: CRISIS OF A LOOMING SUPERPOWER

The Great Depression that followed the stock market crash of October 1929 came after the U.S. just had started to dominate the world's politics and economy. In 1918, it was then-president Wilson who suggested capitalist internationalism, led by the U.S., as an alternative to the proletarian internationalism that just was spreading from St. Petersburg and Moscow to Berlin, Vienna and Budapest. Neither the British nor the French, exhausted from the war and confronted with a rising tide of working class militancy, had the power, courage and imagination for such a farsighted undertaking. A few years later, capital imports from the U.S. contributed to the, albeit modest, recovery of European economies. However, at that time the U.S. was not able yet to shape

the capitalist world after its own image. Not all factions of the U.S. bourgeoisie shared Wilson's project of American internationalism. There were still those who weren't interested in world, at least not in European, politics and others who thought the quest for U.S. hegemony was premature.

On the other side of the Atlantic, the British ruling class, though seriously weakened by rising competition from the U.S. and Germany and also the costs of war, was still clinging to its Empire and the idea of being the world's leader. This is the situation that the Italian Communist Gramsci aptly described as one where one class, the British bourgeoisie, was no longer able to exert hegemony, and another, the American bourgeoisie, was not yet able to do so. This 'hegemonic vacuum' became apparent when British and American central bankers failed to cooperate in containing the October 1929 Wall Street crash. As a result of this non-cooperation financial meltdown did not only trigger a crisis but could cause a drying up of credit along with competitive devaluations that destroyed the world market. Today's situation is very different. Central banks in the financial centres of the world do cooperate, but their impact on stabilizing the international circulation of capital is more limited than it has been at any time since the 1970s. This does not indicate a hegemonic vacuum but the hollowing out of U.S.-led capitalism.

There are also other aspects that distinguish the current crisis from the 1930s. The financial crisis of 1929 led into a depression because circulation had proven to be the weakest link of the process of capitalist accumulation and because politics had failed to fix that link. In the course of the depression, however, a set of factors evolved that eventually established U.S. hegemony. The first was a wave of labour unrest in the new mass production industries that led to industrial unionism and the New Deal. The second was the rise of Nazi Germany, which proved that the German bourgeoisie was not able to contain the labour movement by itself but had to seek the support of a radicalized



middle class that had economically been destroyed by the depression. At the same time, European powers, notably Britain and France, proved to be unable to stop Nazi aggression and the 'threat' that was represented by Communist Parties and the Soviet Union.

The internationalist faction within the U.S. bourgeoisie used these domestic and international factors to forge a welfare and warfare economy.^[4] Unions, many of them built and led by communists, were first drawn into the struggle against fascism, which, based on

the idea of a totalitarian identity between Hitler-Germany and Soviet-Russia, was then continued as anti-communist crusade. This became possible economically because mass production techniques and Keynesian demand management helped to turn a war economy into a money making machine.

Whereas the British Empire and Germany's attempts of empire building suffered from the economic costs of war, the U.S. was able to push this burden to a considerable extent onto its allies, including Britain. Moreover, mass production in vertically integrated companies proved to be more productive than the ways production was organized in other countries. This competitive edge allowed U.S. companies to pay their workers higher wages without causing a profit squeeze and to become a role model for capitalist production in other countries.

None of these factors applies today. The financial crisis and the escalating tax burden of wars^[5] that can't be won and, more recently, the bailouts of failed financial companies hit working and middle classes in the United States. Treasury Secretary Paulson's attempt to share the burden of the financial crisis with the U.S.'s G7-partners has been a non-starter. His colleagues simply declared the crisis to be an American problem, and continue to assemble smaller versions of bailout packages in their respective home countries. More generally, the war economy isn't an engine of growth any longer and U.S. corporations do not enjoy the same margin of advantage in efficiency they once held and in many sectors are now lagging. To understand why the leader of the capitalist pack is so much less glamorous and successful today than it has been during and after WW II we have to look at the turbulent 1970s.

THE 1970S: CRISIS OF TRANSITION FROM MANUFACTURED HEGEMONY TO PENTAGON WALL STREET CAPITALISM

Cracks in the U.S. model of capitalism became apparent in the 1970s. Domestically, civil rights and women's movements protested against their subordinate position in the American Way of Life. Workers of all colours and both sexes rebelled against the degradation of work, speed-ups and the inflationary hollowing-out of their wages' purchasing power. Though similar movements appeared in all capitalist centres, the U.S. was particularly hard hit because it was also faced by the competition from the rising export power houses Germany and Japan and the escalating war effort in Vietnam that, for the first time since WW II, proved to be a drag on the economy instead of being a growth stimulus. Neoliberalism was the response to these challenges.

The black civil rights movement was, along with brutal repression of its radical wing, namely the Black Panthers, neutralized by allowing a small number of blacks to become middle class and an even smaller number to rise to leading position within the U.S. bourgeoisie. The majority of African-Americans, though, remain at the bottom of U.S. society and they increasingly compete with immigrant, particularly Hispanic, workers for good blue-collar jobs as well as low-paying ones. The same divide and

conquer tactics were used to neutralize the women's movement: some moved into middle class positions and while economic pressure on the rest increased as maintaining standards of living required longer hours at work. The bargaining power of unions was undermined by relocating companies to southern right-to-work states within the U.S. or to capital-friendly locations overseas.

Offering cheap credit to everybody but the most desperate underclass, and a surge of cheap imported consumer goods, softened the full effect of these attacks on labour and living standards. Taken together, these two factors contributed to the rise of Pentagon Wall Street Capitalism.^[6] Cheap credit, complemented by the accumulation of financial, mostly fictitious, assets, turned Wall Street into the hub of world capitalism's circulation processes. This did not only allow the reaping of enormous profits from financial activity, but it also turned claims for such profits into an effective weapon to enforce the relocation and reorganization of production processes. The result was not only a higher rate of surplus value, though still not high enough to satisfy Wall Street's appetite for financial gain, but also the emergence of global supply chains.

Managerial will alone was not enough to set up such supply chains. They required political support that would open up foreign markets and protect private property. Though this could partly be accomplished through diplomatic pressure and trade deals

from NAFTA to the World Trade Organization, the U.S. military-industrial complex has always been the last resort of such efforts. The ensuing accumulation by possession caused crisis and hardship in many countries of the world, but it also allowed the U.S. to maintain social peace on its home front. Financial crisis overseas regularly led to capital flight to Wall Street, which has been perceived as a safe haven, particularly from the financial turbulences of the 1980s and 1990s. Thus, the accumulation of paper wealth could go on. Industrial restructuring, fiscal consolidation and privatization, which the International Monetary Fund prescribed as remedies to financial turmoil, put more assets under the command of Wall Street and more cheap consumer goods onto the shelves of U.S. shopping malls.



THE END OF PENTAGON WALL STREET CAPITALISM?

Pentagon Wall Street capitalism rested on two beliefs. First, that the U.S. military would be able to protect private property anywhere on earth. Second, that the dollar would be a reliable store of wealth. In the 1970s, the U.S. bourgeoisie could restore these beliefs, which were shaken by the defeat of the U.S. Army in Vietnam, Dollar depreciation after the abandonment of the Bretton Woods system of fixed exchange rates and domestic inflation, through a determined move to neoliberalism and aggressive foreign policies. This move promised more effective profit and property protection than the wavering policies of many European countries whose leaders were still seeking compromise with the leaders of unions at home and developmental states in the periphery.

Thirty years later the belief is gone. Though U.S. foreign policies are more aggressive than ever and government efforts to prop up Wall Street are reaching unprecedented levels, the results are mortifying. In Afghanistan and Iraq the world's largest military proves that it can destroy regimes that it declares – most often unilaterally – inhumane and undemocratic. But the U.S. also proves that it can't contribute to the establishment of a free market society in its own image. On Wall Street, investor confidence can't even be restored by the injection of enormous amounts of central bank money and tax dollars. Moreover, many working and middle class folks are confronted by the loss of jobs, pension plans and houses. The 'American Dream' is over for them. The U.S. has ceased to be a role model for international capitalism. The reason that they are still in the driver's seat is that there are neither alternative models of capitalism that could establish a new capitalist hegemony nor oppositional movements that could claim to represent a non-capitalist future.

German finance minister Steinbrück received considerable media attention when he stated a couple of days ago that the U.S. is going to lose its "financial superpower status."^[7] Governments in other countries express similar sentiments. Considering the arrogance that U.S. governments and Wall Street bankers displayed before the current crisis broke out last summer, a bit of *schadenfreude* in other countries is understandable enough. It doesn't mean much, though. In no other country, or group of countries, governments and capitalists are anywhere near to inventing an alternative to the dwindling Pentagon Wall Street capitalism. Accomplices of the U.S. Empire that they were, and still are, they are busy trying to contain the effects of the U.S.-triggered crisis on the countries they rule. The Brits are still grappling with the fall out from the Northern Rock debacle last year; the Germans are struggling with the losses of IKB; ruling classes around the world are preparing for a recession. Unlike during the crises in the early 1990s and 2000s, they are not bragging about a quick recovery. Instead of that, they paint a pretty bleak picture of the future, preparing subordinate classes for an onslaught on their working and living conditions.

So far, there hasn't been much reaction on the side of unions and other social movements. Stuck to the idea of omnipotent financial markets, it is difficult to adjust to

a situation in which the confidence of those who presented themselves as master of the universe until very recently is deeply shaken. The New York City Labor Council has just organized a rally on Wall Street to protest against Paulson's generous bailout of the rich at the expense of the not so rich and poor.^[8] This may have been just a symbolical act, but it points into an interesting direction: Main Street folks reclaiming, and hopefully changing, Wall Street, Bay Street and other financial centres around the world. Money doesn't make the world go round, workers do.

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Notes

1. J.A. Schumpeter (1949). "The March into Socialism," in *Capitalism, Socialism and Democracy* London 1976.
2. F.A Hayek (1944). *The Road to Serfdom* Chicago 1994.
3. The term New Keynesianism became popular among economists after the publication of two volumes of journal articles written by, among others, Ben Bernanke, Lawrence Summers, Joseph Stiglitz and Gregory Mankiw. See: N. G. Mankiw and D. Romer, eds. (1991). *New Keynesian Economics*, 2 volumes, Cambridge, MS.
4. P.A. Baran and P.M. Sweezy (1966). *Monopoly Capital: An Essay on the American Social Order* New York.
5. J. Stiglitz and L. Bilmes. (2008). *The Three Trillion Dollar War: The True Cost of the Iraq Conflict* New York.
6. I. Schmidt (2008). "Aufstieg und Fall des Pentagon Wall Street Kapitalismus" *Sozialismus*, June.
7. "US will lose financial superpower status," *Financial Times*, September 25, 2008.
8. "Union leaders denounce bailout plan," *New York Times*, September 25, 2008.

Part 2: The Crisis in Canada

The Credit Crisis in Canada: The First Six Months

Fletcher Baragar

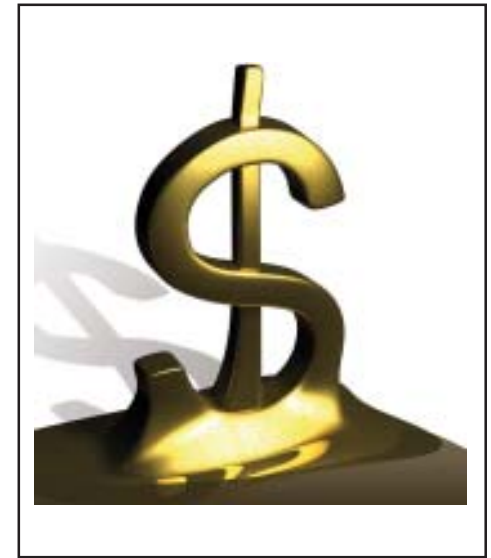
The 2007 credit crisis irrupted in Canadian financial markets in mid-August. The immediate backdrop to this was the growing concern in financial markets about the value of assets underlying commercial paper, and especially the extent to which these assets were connected to a deteriorating real estate market in the United States. The subprime mortgage sector in particular was facing increasing degrees of delinquency, and growing appreciation of the extent of increasingly problematic mortgages. In conjunction with great uncertainty about the extent to which commercial paper and other securities were exposed to this troubled mortgage sector, confidence in the quality of a wide range of financial assets dramatically eroded.

The greed that underpinned the search for yield was quickly displaced by the fear that fuelled a need for liquidity. With the irruption, the risk premium on short-term commercial paper zoomed upwards and non-liquid asset prices plummeted. For some securities, the market froze and trading ceased. Non-market crisis options were hastily arranged, most notably the Montreal Accord which sought to convert the short term assets of 23 commercial paper trusts into longer term assets through a negotiation process under the auspices of major banks and other institutional investors, such as the Caisse de dépôt et placement du Québec.

THE GROWTH IN CREDIT MARKETS

It is significant that one aspect of the larger economic environment underlying these events is the relatively sustained period of solid economic growth. Beginning in 2004, the real annual growth rates of the Canadian economy have been slightly better than 3%. For capital, however, profitability, rather than growth per se, is the objective. By this measure, recent years have been especially rewarding. Net corporate profit, after recovering from the slowdown of 2001 and 2002, jumped to a record \$102.6-billion in 2003 and then continued to new heights of \$132.3-billion, \$157.6-billion and \$168.2 billion in 2004, 2005 and 2006 respectively. Figures for the first three quarters of 2007 show a further \$131.5-billion (unless noted, data is from Statistics Canada). The return on capital employed, which had fallen to 5% in 2002, has rebounded strongly and has averaged better than 8.5% between 2005 and the 3rd quarter of 2007. The return on equity in 2005, 2006 and the first 3 quarters of 2007 was 12.6%, 12.5% and 11.9%, respectively, levels which had not been realized since 1988. The figures suggest that, in Canada at least, these have been good times for capital.

A breakdown of the aggregate figures shows that the finance and insurance sector has in fact done even better than the Canadian average. After virtually no growth between 1995 and 2002, the net profit of the finance and insurance sector in Canada has increased sharply. The \$25.6-billion in net profit received by this sector in 2003 appears quite modest beside the \$43.8-billion recorded for 2006. A further \$35.5-billion were racked up in the first three quarters of 2007, with the \$12 billion sum for the third quarter being the highest on record. Beginning in 2006, the return on capital employed has been at its highest level since Statistics Canada began compiling those returns back in 1988. For the second and third quarters of 2007, the return exceeded 10%, markedly better than the 8.5% average for the Canadian corporate sector as a whole. Finance and insurance also did better than the national average when assessed by the return on equity. Through the first three quarters of 2007 the sectoral returns have been consistently 0.4% to 1% higher.



Although low and falling profit rates can directly contribute to increased economic instability and increase the probability of some disturbance or miscalculation precipitating a crisis, the 2007 credit crisis underlines the point that a bout of low and falling rates are not necessary preconditions. Simply put, high and rising profit rates are no guarantees against the outbreak and spread of economic crisis. Economic instability and the possibility of crisis are rooted in the structure of capitalist production. The development of the credit system, and the increasing complexity of financial markets incidental to the development of capitalism, offer flexibility and considerable elasticity for the agents involved in the myriad circuits of capital. These developments offer new opportunities for favoured agents to appropriate portions of newly produced value, but they cannot guarantee that the atomistic decisions of private participants will necessarily be appropriate or timely. There is always the possibility that purchases will not smoothly follow sales, that sales will not be followed by payments, and that any of the many individual circuits of capital may be ruptured.

CREDIT CYCLES AND FINANCIAL INSTABILITY

The strong economic conditions for capital that preceded the crisis of 2007 induced behaviour in the financial sector of the sort identified and analyzed by theorists and critics ranging from Karl Marx and Thorstein Veblen to John Maynard Keynes and Hyman Minsky. The expectations of agents representing financial capital are essen-

tially endogenous and are powerfully shaped by yesterday's events. Rising profits and profitability induce expectations of further rises, resulting in increased demands for financing on one side, along with the relaxation of credit standards and risk assessment on the other. An expansion of credit is the result. To this general tendency, then, is added the specific elements that characterize the setting of financial markets today in Canada and worldwide.

First is the regime of low interest rates, nationally and globally, which settled in after national governments and their central banks, supported by the interests of wealth holders, successfully lowered inflation rates in most of the leading industrialized countries from the mid-1980s onward. The success of this initiative – waged at the expense of the working class through slow employment growth, attacks on unions and workers' rights, and repressed real wage gains – was visible by the mid-1990s. Low interest rates encouraged private sector demand for credit. Much of this demand, especially in Canada and the USA, emanated from consumers. Upper income and economically well-off households availed themselves of the more favourable borrowing rates. But the growth in credit demand was not confined to the privileged strata. The harsh regimen imposed on workers through the 1980s and 1990s had not nullified their desires to at least maintain the standard of living identified with the 'middle-class.' Nor in many cases had it sufficed to negate the material success associated with the American dream. Extended credit at lower rates offered an attractive means by which income restraints imposed by a more austere labour market could be relaxed, if not altogether transcended.

On the supply side, the financial sector was more than forthcoming. Through a combination of instruments, including personal loans, personal lines of credit, credit card balances and primary and secondary mortgages, household credit in Canada more than doubled between 1996 and 2006, and exceeded the \$1-billion mark for the first time in 2006. More than two-thirds of this total is mortgage credit, although the fastest growing component is the non-mortgage portion (referred to as consumer credit by Statistics Canada), which tripled in size over the same period. Similar expansion of household debt occurred in the U.S., where total outstanding values of household mortgages doubled between 1999 and 2005 and increased a further 10% in 2006 (Federal Reserve Bank, *Statistical Supplement to Federal Reserve Bulletin: January 2004 and October 2007*).

Falling interest rates tend to reduce interest rate spreads. One response of credit issuing institutions to the fall in rates and spreads was to try to increase volumes, which meant aggressively seeking new clients. And as the pool of prime customers is drained, those with less sterling credentials are courted.

The Minskyian theories of financial fragility mentioned above emphasize the subjective shifts of the demanders and issuers of credit as the expansion phase gathers momentum. As noted above, on the supply side, conventional valuations of risk are revised downward as credit is extended. The run-up to the 2007 crisis, however, added to this by introducing new financial instruments. These new instruments constitute the

second specific ingredient distinguishing the current credit crisis. These financial innovations are a subset of the larger market of financial derivatives – a market which has been growing rapidly since the liberalization of financial markets in the early 1990s. Taken as a whole, the market for derivatives is approximately \$516 trillion (U.S.) and comprises about 75% of global liquidity (“Knowing the known unknowns of a possible market disaster,” *Globe and Mail* 24 November 2007).

THE CREDIT DERIVATIVES MARKET & SUBPRIME MORTGAGES

A subset of this market consists of credit derivatives – marketable securities that have been cobbled together from a smorgasbord of smaller assets such as various consumer loans and mortgages. Financial innovators perceived that the relatively high risk that was attached to some of these components could be diluted and spread widely through the bundling and marketing of these new derivatives. Furthermore, by tagging them as short-term securities and identifying an active market for those securities, their higher risk could be rendered more acceptable to buyers due to the belief that the securities possessed high liquidity. For the issuers of high-risk credit, the possibility of creating and then selling a credit derivative offered the tempting prospect of removing that risk from their balance sheets.

Gabriel Kolko (“Weapons of mass financial destruction,” *Le Monde diplomatique*, October 2006) has pointed out that the credit derivatives market was virtually nonexistent as recently as 2001. Up to 2004, it expanded slowly, but rapid expansion occurred over the next couple of years and by June 2006 these new derivatives were valued as \$26-trillion (U.S.). As of November 2007, estimates value this market in the neighbourhood of \$51-trillion (U.S.). Underlying the expansion, however, was the more fundamental effort by financial institutions to deliver more and more credit to less and less well secured segments of the market (“Explosive derivative growth expected to withstand credit crunch shockwaves,” *Globe and Mail*, 23 November 2007).

The most telling instance of this was the recent increase of non-prime mortgages in the USA. In 2003, non-prime mortgages for U.S. households comprised 21% of all new household mortgages issued and about 40% of these (or 8.5% of all household mortgages) were of the subprime variety. Over the next 3 years, the total value of newly issued prime mortgages in the U.S. fell, while the value of nonprime mortgages increased. In terms of numbers, the non-prime share rose to over 50%. Subprime mortgages continued to comprise about 40% of the nonprime category. But in 2006 they made up 20% of all new mortgages issued (Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2007*).

The speed at which new credit was extended was, from 2004 well into 2007, matched by the eagerness with which the newly minted securities were snapped up. Any lingering reservations by potential buyers about the downside dangers that might be lurking in the higher risk securities were significantly offset by various “insurance

policies” in which large institutions, primarily banks, were prepared to buy back the securities in the event of serious market disruptions. The consumer-supported economic expansion continued despite growing polarization of income and wealth. As long as debt payments were current, financial capital had opened up an effective new channel through which the circuit $M - M'$ (money begetting more money) could, with the assistance of workers’ consumption, seemingly bypass the necessity of production altogether.

Mainstream economic theory stood to provide intellectual support for these developments by emphasizing the improved efficiencies associated with the proliferation of derivatives. Specifically, innovation and the introduction of new financial instruments could be understood as meeting the demands of the market for ever more nuanced ways to manage and distribute risk. As various investors place derivatives in their portfolios, the availability of these new assets and the evident desire of agents to acquire them imply superior outcomes for profit maximizing or utility maximizing agents. The intertemporal maximization of consumer utility is, according to theory, impaired by credit market imperfections. The extension of credit to consumers and homebuyers, especially those who otherwise faced credit limits or even the denial of credit altogether, is interpreted by theory as evidence of the market overcoming these imperfections. In the derivative market, the pricing of securities is understood as the pricing of risk and, given the buyers’ willingness to bear risk, optimal financial portfolios can then be assembled.

A second and newer strand of mainstream economic theory emphasizes the presence of asymmetric information between buyers and sellers in markets. This is especially relevant to financial markets, and even more so when the growth of new derivatives results in composite securities with significant degrees of opaqueness. However, faith in the market’s ability to price assets appropriately, combined with an impressive flow of profits to financial sector firms, favoured the positive efficiency-based assessment of new financial developments over the more unsettling implications of the dissenters from the alternative camp. Consequently, it was the former assessment that informed the outlook of various spokespersons for financial capital. As expressed by Finance Minister Jim Flaherty in a speech on June 27, 2007 to the Conference on Securities Law Enforcement: “The evidence is clear: economies with the most dynamic capital markets enjoy the strongest growth over the long run.”

THE OUTBREAK OF THE CREDIT CRISIS & THE CENTRAL BANKS

The outbreak of the crisis in August 2007, and its persistence and subsequent spread, has rocked the complacency of the financial elite and their political bagmen. The Finance Minister was compelled to issue a statement on August 16 acknowledging that “Canada is not immune to fluctuations in global financial markets. Clearly there are stresses in some corners of the Canadian money markets.” The dissolution of complacency, however, did not imply a rejection of the underlying ideology. The Finance

Minister pointedly issued a call for private sector players in the financial sphere to “pursue orderly market solutions to this liquid situation” (available at www.fin.gc.ca/news07/07-065e.html). The Minister reaffirmed this position in a speech to the Canada West Foundation on August 30, 2007: “But the Canadian economy is the strongest it has been in a generation. That fact, along with important initiatives taken by the Bank of Canada and the private sector, have supported the functioning of the market. ... Our government and the Bank of Canada continue to monitor the situation closely as it unfolds.”

The Bank of Canada’s support of the functioning of the market amounted to more than rhetoric and monitoring. As early as August 9, the Bank publicly announced that it was willing to provide the necessary liquidity “to support the stability of the Canadian financial system and the continued functioning of financial markets,” emphasizing that this was part of the Bank’s “normal operational duties relating to the stability and efficiency of Canada’s financial system.” The commitment to provide liquidity was continually re-affirmed in the weeks that followed. Events have required the Bank to act on this pledge.

The Bank had undertaken a number of liquidity interventions in the overnight market in June and July, with injections totaling \$5-billion and \$7.5-billion respectively. An additional \$1.3-billion was provided in the first week of August, followed by a further \$4.3 between August 9 and 15. This seemed to stabilize pressure on the bank’s overnight lending rate for a while, but another \$4.3-billion infusion was provided in the September 27 to October 3 span. The Bank attributed part of this to routine increased liquidity requirements at the end of the third quarter.

However, in its *Monetary Policy Report: October 2007* the Bank provided data showing that these interventions continued well into the middle of the month. Another wave of liquidity injections were unleashed in mid- to late-November, totaling at times up to \$2-billion per day (“Bank urged to extend liquidity provisions,” *Globe and Mail*, 27 November 2007). These developments suggest first of all that the liquidity problems confronting Canadian financial institutions and, implicitly, the liquidity problems of other businesses and institutions that lie behind those in the financial sector, has become a chronic rather than episodic problem. Liquidity interventions have been undertaken by the Bank of Canada’s counterparts in the U.S. and Europe over this period as well. Unlike these other central banks, however, the Bank of Canada has confined its interventions to the overnight market (less than 24 hours).

While these actions help keep the overnight lending rate close to its desired target, they have been less successful in pulling down the short term and midterm interest rates. Spreads have widened, forcing the Bank to reconsider not just its means of providing short-term liquidity, but also its entire monetary policy stance. It is significant that the bank reacted by not raising its target for the overnight rate through the fall of 2007, and that it then felt compelled to actually lower this rate by a quarter of a percentage point on December 4, 2007. This is the first reduction of interest rates delivered by

the Bank since early 2004. The fact that it comes at a time when employment levels are rising, when unemployment rates have fallen to a 33-year low, and when wage gains have exceeded increases in the CPI (Statistics Canada, "Latest release from the Labour Force Survey," November 2, 2007) signals that suddenly the Bank is more worried about a recession and the consequences of a deepening crisis than about inflationary pressures.

Loathe as the bank may be to admit it, this is a change in its monetary policy stance. The belated reaction of the Bank in terms of significant rate cuts reflects its reluctance to renounce its previous contention that, given time, the markets will correct the mispricing of risk with minimal fallout. The deepening crisis, however, also points to the real possibility that there are limits to what monetary policy can do to stabilize an economy.

In the USA, the Federal Reserve has been much more aggressive in reversing its pre-crisis policy of raising and sustaining interest rates. After rising sharply from mid-2004 to mid-2006, the U.S. federal funds rate had been held at 5.25% from mid-2006 through the emergence of the crisis in the summer of 2007. Heightened concern about the seriousness of the crisis precipitated a 50 basis point reduction in September and a further 25 point reduction at the end of October. Minutes from the Fed's Open Market Committee meetings of October 30-31 reveal that the Fed believed that these reductions should serve to "forestall some of the adverse effects" of the credit and housing crisis on the broader U.S. economy."

THE DEEPENING CRISIS

This more vigorous action on the part of the U.S. central bank, in comparison to the Bank of Canada, reflects in part the larger and more direct exposure of U.S. financial institutions to the problems associated with American real estate markets. However, recent events suggest that the 'adverse effects' have not been mitigated, but are in fact gaining momentum. The woes in American real estate market have continued to deepen. The October figures revealed another drop in existing home sales – down 1.2% from September (seasonally adjusted) and down 20% from September 2006 (at www.realtor.org). Lenders reported another 225,451 foreclosures in October, with estimates reaching 1.4 million for 2008 ("Foreclosures like 'one Katrina' a month: economist," *Globe and Mail*, 1 December 2007).

THE SUB-PRIME ICEBERG

In its mid-November Beige Book report on the U.S. economy, the Federal Reserve Bank noted lower construction levels and falling prices for both new and existing homes. It called the residential real estate market "depressed" and identified "only a few tentative and scattered signs of stabilization amidst the ongoing slowdown." Moreover, problems emanating from the subprime and nonprime mortgage markets were poised to escalate further in the months ahead, due to the fact that many of these mortgage

rates are scheduled to be reset at higher rates. The November OECD report, *Financial Market Trends*, indicates that the bulk of mortgage resets are slated for the first seven months of 2008. These adjustable rate mortgages comprise about half of the entire U.S. subprime mortgage market, and the total value of subprime and nonprime mortgages slated for resets in 2008 amounts to \$1.9-trillion (U.S.). The delinquency rate for subprime resets is already 16% and the report calculates total losses in the subprime and nonprime markets that could run into the \$200-billion to \$300-billion range (Adrian Blundell-Wignall, "Structured Products: Implications for Financial Markets," *Financial Market Trends*, No. 93, 2007).

Through November, newspaper reports recorded the cumulative effects of the deepening crisis at the apex of American financial capital. Significant write-downs of the values of financial assets on their balance sheets were announced by a number of leading financial firms, including Bank of America (\$3-billion), Bear Stearns (\$700-million) and Merrill Lynch (\$8.4-billion). Citigroup, which had just announced a \$5.9 write-down in October, warned of the possibility of a further write-down for the fourth quarter in the range of \$8-billion to \$11-billion. Freddie Mac, the second largest buyer and guarantor of home loans in the U.S., announced a \$2-billion third quarter loss. The carnage extended to the resignation of the CEOs of both Citigroup and Merrill Lynch.

The deteriorating situation and the prospect of more damage ahead underlined a growing appreciation of the need to exert some control over the crisis. Central bank provisions of short-term liquidity and recent and expected future reductions in the bank rate, combined with the 'normal' efficient functioning of markets, could no longer be relied upon to protect the interests of capital. Reality punctures ideology and non-market alternatives are called upon. The Montreal Accord, initiated back in August by some of the most heavily exposed financial institutions to the Canadian commercial paper crisis, is one notable and early example of players opting to transcend the market in the management of the crisis. It is significant that both the Bank of Canada and the federal government explicitly voiced their support for this private sector initiative.

The belated U.S. counterpart was the formation of the so-called multi-billion dollar 'super-fund,' orchestrated by Citigroup, J.P. Morgan and Bank of America, to buy securities that were formerly viewed as being highly liquid, but which had become virtually impossible to sell at anything more than a fraction of their original value. Equally significant have been the efforts of the U.S. government, led by Treasury Secretary Henry Paulson, to work with some of the largest banks, mortgage investors and consumer groups to freeze mortgage rates for existing homeowners who have mortgages that are in line for rate escalation in the upcoming months. A plan involving a five-year rate freeze for eligible households was announced by the administration on December 6, 2007 ("Mortgage freeze has critics dreading thaw," *Globe and Mail*, 7 December 2007).

Such extra-market initiatives hope to effectively "freeze" certain market developments in a joint quest for stabilization and an orchestrated and voluntary apportioning

of the costs and losses. Such arrangements cannot, however, transcend the vested interests of the parties seated at the table, so the inherent economic and political power of the parties will shape the contours of the agreement. Furthermore, without a single dominant player or one with coercive power, agreement can remain elusive. The Montreal accord, which froze the assets of some 23 commercial paper trusts, was initially scheduled to produce its asset management plan in mid-October. As of early December, only one of the 23 trusts has had its situation resolved.

PROGNOSIS

The development of the credit system can, in ‘normal’ times, provide welcome flexibility for agents in the sequence and timing of their many buying and selling activities. The credit system is, however, prone to escalation which amplifies the economy’s expansion, and capable of sharp contraction, ushering in a period of cold economic reckoning. In capitalism, however, the implied optimality and tranquility of ‘normal’ times are best understood more as a convenient fiction redolent in abstract theory than as a description of an actual state of the world. Turbulence is the rule, not the exception, but the interplay and outcomes of these economic forces have their own conjunctural characteristics and implications.

The weakening of the U.S. housing market has been apparent throughout 2007, but the crisis is dated in the summer of 2007 due to dramatic reactions and adjustments in financial markets, hence the label ‘credit crisis.’ The adverse effects of the crisis on the balance sheets of financial corporations have become increasingly apparent. As noted above, the November news was less favourable than the reports from previous months, and the downside risk for the months ahead has been rising. Nevertheless, 2007 was an exceptionally good year for the financial sector.

The credit system is, however, prone to escalation which amplifies the economy’s expansion, and capable of sharp contraction, ushering in a period of cold economic reckoning.

In Canada, fiscal year-end financial statements for the big six Canadian banks show that their combined profits exceeded \$19.5-billion (up from the \$19-billion for fiscal 2006), despite their incurring credit market-related writedowns of more than \$2-billion (“At CIBC, the bad old days are back,” *Globe and Mail*, 7 December 2007). Wall Street and Bay Street firms also had a good year, aided by lucrative fees and commissions from record levels of mergers and acquisitions has characterized the first six months of 2007. Shareholders, as whole, will be unhappy only insofar

as the excellent financial performance over the first two quarters had led them to anticipate even higher earnings.

The major financial institutions appear to be sufficiently well capitalized to be able to sustain their current credit woes into the first half of 2008, although this may result in some reduction in share prices and earnings per share. Lower grade bond holders are more at risk as the credit crisis spreads, and the markets have already witnessed the flight to quality. The majority of wealth holders, however, have diversified financial portfolios, so the accumulation of losses from assets directly implicated to troublesome real estate markets will be offset by other portfolio holdings. Their larger concern is the weakening of the macroeconomy as a whole, as the contagion effects from the real estate/credit crisis spills over to the wider components of domestic demand. This can be sure to adversely affect profits in 2008.

For the working class, especially in the U.S., the prospects are bleaker. They carry the bulk of home mortgages, especially those in the nonprime category. The cuts in central bank lending rates have not trickled down to their mortgage rates, or their credit card rates, and, as noted above and notwithstanding the U.S. government’s new mortgage freeze proposal, many homeowners will be facing rate rises in the months ahead. The negative demand effects emanating from the crisis have yet to run their course, but already it looks as if the rate of job creation of previous years is unlikely to be replicated in 2008.

Wealth holders can and do protect themselves to some extent from risk and unexpected shocks through a strategy of asset diversification. For much of the working class, their only real assets are their home and their capacity to work. This is a portfolio which cannot be diversified. They are not protected from a crisis that hits residential real estate markets and the exposure imposes considerable hardship on many and extreme hardship on some. Furthermore, a slowdown in job creation, and the real possibility of net job losses, at least in the U.S., as the spectre of a U.S. recession looms ever larger, implies that for workers the value of their other asset – their capacity to labour – will also take a hit. Inevitably, the distribution of this burden will be felt unequally across working class households and communities.

The costs of adjustment are likely to escalate in 2008 and the potential severity of the credit crisis is also likely to widen the range of state involvement. It is imperative that labour and other progressive organizations mobilize in order to avoid assuming most of the burden and to ensure they secure a leading role in constructing a way out.

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Canada's Big Five: Banking on the Crisis?

Roger Rashi

On the eve of the G-20 summit in London, Prime Minister Harper sang the praises of Canada's big banks to the UK financial press: "[we have] the most free-enterprise financial sector in the world. We're the only one not nationalising or partially nationalising or *de facto* nationalising [the banks]." According to the *Financial Times*, which gave this interview front page treatment, Harper went on to state that Canada's banks should capitalize on the relative strength of their balance sheets by acquiring assets in the U.S. and other countries and added that he would support such efforts as "an opportunity for Canada to expand its role in the world financial sector."^[1]

Indeed, Canada's big banks are doing just fine, thank you. Taking advantage of the huge losses weighing down their U.S. competitors, burdened as they are with toxic assets and mountains of debt incurred in the sub-prime crisis, the big five have aggressively moved up the ladder: the Royal Bank (RBC) is now seventh in North-American rankings followed by the Toronto-Dominion Bank, Scotiabank and the Bank of Montreal (BMO) in the eighth, ninth and tenth spots respectively. The last of the "big five" Canadian banks, the CIBC, is also among the top 50 on the continent.^[2]

Why, then, extend an estimated \$125-billion bailout package to these behemoths? Remember that this is the amount that Ottawa has earmarked for the chartered banks in the past 6 months through its scheme to purchase "secure" bank mortgages called the Insured Mortgage Purchase Program (IMPP). Although this transaction, implemented through the CMHC, is not taking the form of a direct injection of capital or buyout of toxic assets as government bailout programs in the USA or the UK have done, it is nonetheless **a massive handout to the local financial sector**.^[3]

Furthermore, it is seen as such by the relevant international institutions. Quoting a study published on February 18 by the International Monetary Fund (IMF), the French weekly *Le Point* calculated that **Canada ranks third in the world in terms of percentage of GNP allocated in public aid to national banks**. Canada's program amounts to 8.6% of GNP, ahead of the USA which is at 6.3% and well behind the UK which has sunk no less than 19.8% of its GNP into various bank bailout schemes.^[4] Disguised as a market transaction, the Canadian aid package is nonetheless a form of government bank bailout, and by international standards, a huge one at that.

According to Federal Finance Minister Jim Flaherty, this public aid program only aims to create a "level field" for Canadian banks as they struggle internationally with competitors benefitting "unfairly" from massive governmental bailouts. Of course, he hastens to add, it must also be seen as a gesture of public interest since the federal

government, by injecting massive liquidities into our financial system, aims to avert a credit crunch which would strangle consumers and corporations, leading to widespread economic hardship in the land. However, Harper's chest-thumping in London gives the lie to the Finance Minister's claims and reveals the naked truth behind this so-called "public interest" action. It aims to provide Canadian banks with additional firepower in their efforts to raid troubled competitors south of the border – all at taxpayers' expense. It should be noted that Canada's banks have not been shy about using their financial muscle during the past few years: Toronto-Dominion Bank has expanded so aggressively in the past four years (spending no less than \$15-billion (U.S.) in the process) that its U.S. branches now exceed its Canadian network; RBC has acquired a Raleigh N.C.-based subsidiary thus helping it to reach its vaunted number 7 status; Scotiabank, BMO and CIBC have also expanded southward in significant manner.

Fearing a public outcry in the wake of the PM's careless statements, Ed Clark, CEO of Toronto-Dominion now proudly ranked 8th in North America, has tried to dampen the politician's enthusiasm by reminding the public that the local banks are also suffering from the crisis and that their good showing is only relative to their American and international competitors exceedingly bad form.^[5] Other apologists rush to point out that Canada's financial institutions have so far used only \$40-billion of Ottawa's aid package. Yet, none of these facts detracts from the undeniable reality that this disguised bank bailout program is **three times the size of the economic stimulus package** contained in the Federal government's January '09 budget.

What is quite puzzling is that this flagrant favouritism toward the banks has gone relatively unnoticed by Canada's media and business press. Among the few courageous voices raised in opposition to these handouts are York University professors Leo Panitch and Sam Gindin. In a recent publication they have formulated the issue in very stark terms: if the banks are to be considered "public interest utilities" worthy of such massive governmental support, why not nationalize them and set-up a truly publicly-owned and democratically-controlled financial sector?^[6] Michel Chossudovsky, an Ottawa University-based economist, has been outspoken in his criticism of the bank bailout and has warned, as far back as last November, that these aid programs would be used by the big five to finance acquisitions in the United States.^[7] The Quebec-based NGO, ATTAC-Québec recently put out a call to social movements and progressive individuals to support the following demands: one, to establish public control of the banks and the financial sector and two, to end stock-market based pension plans (such as RRSP's) in favour of state-guaranteed comprehensive retirement programs.^[8] A few critiques of the usurious fees and interest rates levied by the chartered banks on credit cards are finally being aired.^[9] At a time when the Bank of Canada has lowered the interest rate to a record 0.25%, it is absolutely scandalous for financial institutions to charge consumers anywhere from 10 to 20% on credit card debt.

As debate continues among left-wing forces and social organizations on the crucial issue of a fightback strategy against the crisis, the question of radically transforming the financial sector, and not merely regulating it, should be at the heart of these

discussions. Many voices in Quebec have angrily denounced the \$40-billion losses incurred by the Quebec pension fund (la Caisse de dépôt et de placement du Québec) through speculative market and real-estate investments, but that anger must be directed at the plundering financial system as a whole. Its main institutions, the big chartered banks as well as the large investment funds, should not escape critical scrutiny and condemnation. In fact, people's anger must be turned into a lever to build movements and parties capable of proposing radical social change.

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Notes

1. "PM tells Canada's Banks to expand Overseas," *Financial Times* on 30/03/09.
2. "Canada's banks climb in rankings as U.S. giants stumble," *Financial Post*, 16/03/09.
3. "Canada's 75 Billion Dollar Bank Bailout" by Michel Chossudovsky, *Global Research* 25/01/09; and also "Canada: Opération relance économique" by Michel Chossudovsky, *Mondialisation.ca* 28/01/09.
4. "Déchiffrage - Le prix exorbitant du sauvetage des banques," *Le Point.com* 12/03/09.
5. "Banks facing new challenges: TD's Clark," *The Gazette* 6/04/09.
6. "From Global Finance to the Nationalization of the Banks: Eight Theses on the Economic Crisis," Leo Panitch and Sam Gindin, *The Bullet*, 25/02/09.
7. "The bailout is a handout to the banks. It contributes to financing the restructuring of the banking system leading to a massive concentration of wealth and centralization of banking power. The bailout money will be used by Canada's chartered banks to consolidate their position as well as finance the acquisition of several "troubled" financial institutions in the US." by Michel Chossudovsky, in "Canada's 75 Billion Dollar Bank Bailout," *Global Research* 25/01/09.
8. "Des idées citoyennes pour contrer la crise. Appel soumis à la signature des individus, organismes, syndicats et mouvements sociaux," Attac-Québec.
9. "Retailers want Ottawa to regulate debit and credit card fees," CBC 21/04/09; as well as "CBC Poll suggests Canadian want a credit card 'bill of rights'" CBC 19/02/09.

Bank Bailouts and the 2009 Federal Budget: The Untold Story of Canada's \$275-Billion Financial Bailout

Steve da Silva

The Insured Mortgage Purchase Program (IMPP) and the Extraordinary Financing Framework (EFF) is to the Canadians what the Troubled Asset Relief Program (TARP) is to Americans: A cover for hundreds of billions of dollars – trillions in the U.S. – of public funds being dumped into the coffers of parasitic monopoly financial interests.

If you're still scratching your head with bewilderment trying to understand how the 'free-market' Conservatives could make an overnight turn to Keynesianism – from promising budget surpluses during the October 2008 Federal election to deficits in the 2009 Budget and into the future – then you've bought too much into the terms of the public debate set by the media and Parliamentary forces. The Conservatives have not broken with their old neoliberal ideas, even as they engage in last-ditch attempts to hold onto power in Parliament.

The Conservatives remain shameless representatives of monopoly capitalist interests in Canada. Over the last three months, the Conservatives – taking the lead from Bush and Obama Presidencies in United States and most other imperialist countries – have begun to implement one of the largest transfers of wealth in Canadian history to private interests. The Budget and other policies are channeling untold amounts of public funds into the coffers of the banks and other monopoly interests. Several accounts suggest this amounts to at least \$275-billion in 'bailout' money.

The loyal 'opposition' Liberal Party and New Democratic Party have gone along with the ruling party's proposals, actively supporting the Budget in the case of the Liberals and largely calling for even more of the same by the NDP. Neither are shifting the terms of the debate into questions of distributional policies, and certainly not anti-capitalist criticisms. While the attention of Canadians was being diverted by the political theatrics of the last months – the October 2008 election, the doomed foray at an NDP-Liberal coalition, the British Crown's representative to Canada Michaëlle Jean shutting down Parliament, and the slow release of Finance Minister Jim Flaherty's 'leaky budget' through January – a conspiracy of silence has prevailed over the Canadian government's swapping hundreds of billions of dollars for questionable assets held by Canada's banks.

This financial subsidy to the still profitable Canadian banks was being made while millions of working-class Canadians were being walloped by wage cuts, hundreds of thousands of lost jobs, pension funds suffering historic losses^[1] and the Employment Insurance failing to pay out to workers what they had paid into it.^[2] As the economic crisis is unfolding, government policies are reinforcing the worst features of the inequalities produced by neoliberal policies.

‘CASH FOR TRASH’ UNDER THE COVER OF ‘CREDIT FOR CONSUMERS’

In October 2008, with the current crisis of monopoly finance capitalism in full swing and the U.S. government preparing to implement its controversial \$700-billion ‘Troubled Asset Relief Program’ to buy junk assets from financial corporations – only one of a series of bailouts that estimates now suggest is reaching some \$8.5-trillion^[3] – the Government of Canada was in the process of implementing its own bailout.

Just four days before the 2008 Federal Election in Canada, Prime Minister Stephen Harper announced that the Government of Canada, through the Canadian Mortgage and Housing Corporation (CMHC), would purchase “\$25-billion in insured mortgage pools as part of the Government of Canada’s plan, announced today, to maintain the availability of longer-term credit in Canada.”^[4]

Either the Liberals or the NDP could have generated a groundswell of popular dissent going into the vote by exposing and opposing this bailout. The two parties did not oppose the bailout then, and their continued silence over subsequent measures to bolster the banks and companies shows the degree to which these parties accommodate monopoly capitalist interests.

Emboldened by the success of the first phase of the bailout scheme with almost no dissent, Bay Street continued to push the Canadian government to expand the plan to beyond \$200-billion.^[5]

On November 12, the Department of Finance announced that it would buy up another \$50-billion in securities by the end of the fiscal year through the CMHC as part of its Insured Mortgage Purchase Program (IMPP), bringing the total of the programme up to \$75-billion. This was justified as part of the government’s efforts to maintain the availability of longer-term credit in Canada.^[6] Simultaneously, the government announced that they would indeed “guarantee... more than \$200-billion to pay back new loans made to Canadian financial institutions.”^[7]

With no mass public opposition to this massive transfer of public wealth to the banks, and not even nominal opposition from any of the main federal political parties, there were no forces standing in the way of the Canadian government buying up another \$200-billion of bad assets from Canada’s chartered banks and other financial

institutions. In relative terms, this would make the potential Canadian bailout of the financial industry parallel to the U.S. proposals.

THE 2009 FEDERAL BUDGET

Unbeknownst to most Canadians, this \$200-billion program has already been moved ahead by the Canadian government in the form of the 2009 Federal Budget.

The devil is in the details – Table 4.7 of the Canadian Federal Budget (2009), reproduced here:

	Actual	Projection					
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
	(billions of dollars)						
Budgetary balance	9.6	-1.1	-33.7	-29.8	-13.0	-7.3	0.7
Non-budgetary transactions							
Pensions and other accounts	6.1	3.6	3.4	3.5	3.2	3.1	3.1
Non-financial assets	-2.0	-1.4	-1.7	-1.7	-0.6	-0.4	-0.4
Loans, investments and advances							
Enterprise Crown Corporations	-4.6	-25.5	-24.3	-7.3	-7.0	2.7	-8.7
Insured Mortgage Purchase Program (net)		-74.6	-45.2	4.6	4.1	3.6	50.9
Other	-1.1	-0.5	-0.5	-0.3	-0.2	-0.1	-0.1
Total	-5.7	-100.6	-70.0	-3.0	-3.1	6.2	42.1
Other transactions	6.5	-4.2	0.8	0.3	2.1	2.3	1.8
Total	4.9	-102.6	-67.5	-0.9	1.6	11.2	46.6
Financial source/requirement	14.5	-103.7	-101.2	-30.7	-11.4	3.9	47.3

In the first line, one can find the budgetary numbers that sum up to the much discussed \$85-billion cumulative deficit over five years. The line entitled “Insured Mortgage Purchase Program” lists the \$75-billion CMHC buyout, and indicates that another \$45-billion is being provided to further backstop mortgage lending. At the very bottom of the table, in the line entitled “Financial source / requirement,” one finds the \$200-billion in additional funds. How does the Budget explain this massive financial expenditure?

The Budget states: “significant financial requirements are projected from 2008–09 to 2011–12, respectively of \$103.7-billion in 2008–09, \$101.2-billion in 2009–10, \$30.7-billion in 2010–11, \$11.4-billion in 2011–12, as well as financial sources of \$3.9-billion in 2012–13 and of \$47.3-billion in 2013–14. The requirements result largely from government initiatives to support access to financing under the Extraordinary Financing Framework (EFF).”^[8]

And there it is: The “Extraordinary Financing Framework” (EFF) – a mere footnote buried in the 2009 Budget to account for one of the greatest financial raids of public funds to subsidize financial institutions in Canadian history. The consequence of this financing will be to massively expand the public debt through non-budgetary financial supports. The servicing of this debt will build pressure for further mass privatization and further gutting of Canadian social programs. It is shocking how little attention this measure has received. Simply google Canada’s “Extraordinary Financing Framework” and you get under 300 hits. By comparison, google the U.S. \$700-billion “Troubled Asset Relief Program,” and you get more than a million hits.

The Budget attempts to reassure us, claiming that “the large increase in market debt associated with the Insured Mortgage Purchase Program (IMPP) does not affect federal debt or the federal government’s net debt levels as the borrowings and associated interest costs are matched by an increase in **revenue-earning assets**” (emphasis added). With some differences, this is also seen to be the case for the EFF.

But these are astonishing claims. If the financial assets purchased under the IMPP or the EFF are indeed revenue-earning assets, why are financial institutions attempting either to liquidate them or receive financial support to maintain them? We are told by the government that this is only for providing short-term liquidity, so the banks and other financial institutions can get on with their lending. But if these assets are capable of generating profitable revenue streams, then banks and other financial institutions would have little need to dispose of them. This is effectively denying the existence of the very asset and credit bubbles that have triggered the wider economic crisis unfolding. It is to contend that the asset inflation from the financial bubbles has not really occurred and these assets will soon realize their nominal book value again. This is utter nonsense, and it is a willful misleading of the public on the financial crisis for the purposes of bolstering financial capitalists.

In the current climate of economic crisis, hundreds of thousands of jobs are being

wiped out in Canada; the default rate on consumer and household debt is set to soar; and household and financial assets will be hit hard. This is just what has taken place in the U.S. as the sub-prime mortgage debacle has unfolded and spread into other financial sectors and across the economy. As the price of assets falls in the portfolios of the IMPP and the EFF programmes, Canadians will be left to foot the bill.

What are in fact Canadian banks and other financial institutions planning to do with all of the ‘liquidity’ that the Conservative government, backed by the Liberals, is offering them? In response to the January 27th budget, Ottawa-based economist and editor of globalresearch.ca, Michel Chossudovsky, wrote “We are not facing a budget deficit of Keynesian style, which encourages investment and demand for consumer goods and leads to increased production and employment.” Rather, he points out: “Canadian chartered banks will use the money to salvage the time to consolidate their position and fund the acquisition of several U.S. financial institutions’ problem... For example, in 2008, TD Canada Trust has acquired Commerce Bancorp of New Jersey, making it the second largest transaction of a Canadian mergers and acquisitions valued at \$8.6-billion U.S.”^[9]

The massive deficit as accounted for in the overall financial requirements in the 2009 Federal Budget is *not* directed at ‘stimulus spending’ to create jobs for unemployed workers in the ‘real’ productive economy, invest in public infrastructure to renew decaying and underfunded public services, or increase accessibility to Employment Insurance and welfare benefits. Instead, it is restoring the balance sheets of the financial sector during the credit crisis and helping fund future international expansion of Canadian banks and financial companies. This is one of the boldest moves ever by the Canadian state to support monopoly capital interests in the financial sector, while undermining social programmes directed toward the vast majority of Canadians.

The players may have changed, but the game remains the same. V.I. Lenin for one made the point nearly a hundred years ago, in *Imperialism, The Highest Stage of Capitalism* and other works, that capitalist crises are an opportunity for increasing the concentrations of wealth and monopolization of industry. The present experiences with the IMPP and EFF in Canada are evidence of these same trends as the Canadian state facilitates, in response to the economic crisis in its budgetary policies, the further concentration of financial power and wealth in Canada.

ECONOMIC CRISIS AS PRELUDE TO SOCIAL AND POLITICAL CRISIS

The economic crisis is demonstrating that there is no shortage of resources in the Canadian economy, or that might be mobilized and put at the disposal of the Canadian state, to meet the needs of capitalist interests in Canada. But there is a lack of resources being put toward the social and economic challenges that the majority of Canadians are facing in the current economic crisis. There is, moreover, a shortage of political organization among the Canadian working classes so that we might have a meaningful

say over how these resources are allocated and, for that matter, over the operation of the entire economy.

It may seem striking that in an ‘open and democratic’ liberal society like Canada that there is not a single dissenting political current in the electoral realm to the massive subsidization and transfer of wealth to the monopolies in the financial sector. Not a single voice of opposition amongst the ‘free press’ has emerged (Canada, of course, has one of the most concentrated private medias in the industrialized world). With only a handful of Canadians critically writing about Canada’s bailouts, and the private and state mass media defending them, only a small fraction of Canadians understand fully the devastating social and economic consequences of the measures. What does this tell us about the nature of political power in Canada?

Left to the devices of Canada’s monopolistic ruling-class, and its control of the Canadian state, the solution to the current economic crisis will continue to be a mass transfer of funds to the private monopolies in the financial and industrial sector, the further gutting of social spending, a new round of attacks on organized labour and the real wage, an increased dependence on imperialism for profits for Canadian companies, and a continuation of the militaristic campaigns that the internationalization of Canadian banks and capital necessitates. (In the midst of the economic crisis, we shouldn’t be holding our breath to see cutbacks in the \$500-billion military budget pledged by the Conservatives in the summer of 2008.)

The depth and form of the current economic crisis is proving the moral and political bankruptcy of capitalism. We need to come to terms with this, and the economic and social priorities that have been revealed in the Federal Budget of 2009 and the associated funds being transferred into the financial sector via the IMMP and EFF programmes. Canadian monopoly capitalism is a parasitic system. It can’t persist without the constant expansion of war, the intensification of exploitation, further environmental destruction, new territorial conquests, and new wars to redivide the world’s people and resources among the major imperialist powers. As international crisis of capital unfolds and as the oppressed countries and peoples of the world intensify their struggles for self-determination and in many cases for socialism – such as in places like Venezuela, Philippines, India, and Nepal^[10] – it should be increasingly evident to Canadians that our interests lie in the success of these anti-imperialist and socialist struggles. The most recent Federal Budget and the continuing economic crisis indicate clearly that the time has come for working-class Canadians to join the fold of their brothers and sisters internationally in the struggle against imperialism and for socialism.

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Notes

1. See Steve da Silva, “*Canada’s Bailouts: A Whole New Round of Attacks on the Working-Class*,” BASICS Free Community Newsletter (Issue #12, Jan/Feb 2009).
2. See J.D. Benjamin, “*The Great Employment Insurance Rip-Off*”, BASICS Free Community Newsletter (12 January 2008).
3. See Kathleen Pender, “*Government bailout hits \$8.5 trillion*,” *San Francisco Chronicle* (26 November 2008).
4. CMHC News Release, “*Canada Mortgage and Housing Corporation Supports Canadian Credit Markets*,” CMHC (10 October 2008).
5. Paul Vieira, “*Ottawa’s steps have worked so far: Flaherty*,” FinancialPost.com (22 October 2009).
6. “*Government of Canada Announces Additional Support for Canadian Credit Markets*,” Department of Finance Canada (12 Nov 2008).
7. Ann Miller, “*Banks get all their wishes fulfilled*” *National Post* (13 November 2008).
8. “*Chapter 4: Fiscal Outlook*” of Canada’s Economic Action Plan: Budget 2009, Government of Canada (27 January 2009).
9. Michel Chossudovsky, “*Canada: Opération «Relance économique», \$200 milliards pour les banques*,” globalresearch.ca (28 January 2009).
10. For day-to-day updates about the revolutionary movements in Asia, visit southasiarev.wordpress.com.

Gendering Democracy, Democratizing Social Policy

Tammy Findlay

There has been a lot of talk from governments about the need for greater ‘citizen participation,’ ‘civic engagement,’ and ‘public dialogue.’ Superficial commitments have been made to involve citizens in the social policy process, such as in the neoliberal/New Public Management-inspired Social Union Framework Agreement (SUFA) and through ‘partnerships’ with the voluntary sector. But the pressing need for genuine democracy continues to be painfully evident in recent social policy debates, especially for under-represented groups.

There are countless examples where feminist voices in social policy are ignored, marginalized, and silenced. Unsurprisingly, these instances have multiplied as the capacity of communities to engage in public debate has been purposefully undermined by funding cuts to things like Status of Women Canada and the Court Challenges Program and by the general prohibition against advocacy.

WOMEN WARN AGAINST CORPORATE CHILD CARE

Australia provides a rather perverse illustration of disregard for women’s social policy knowledge. There, the federal government undertook a disastrous course of allowing public funding to subsidize private, corporate child care chains. Advocates, based on their experience in the field, warned that the consequences would be grim: low wages for child care workers, poor quality of services, lack of equitable access, and weak accountability for public money. They were ignored. Then women in the child care community and their allies began to question the fuzzy accounting practices of the major child care chain, ABC Learning Centres. They were ignored. Last November, ABC went bankrupt and parents and child care workers in Australia are dealing with the fall out. Even now, calls for public ownership and control of the services, from those who know the most about child care, have yet to be heeded and the marketization of social services has still not been rejected by the Rudd government.

One of the lessons to be learned from Australia is that not only does women’s marginalization represent an affront to democratic sensibilities, it leads to bad public policy. Hopefully the same mistakes won’t be made here in Canada, but the potential seeds have already been planted by the Harper government. Its approach to child care (which actually has very little to do with child care), centered on cash transfers to parents and to the provinces has been roundly criticized by activists (mostly women), including the mass coalition, *Code Blue for Child Care*, to no avail. Provincial govern-

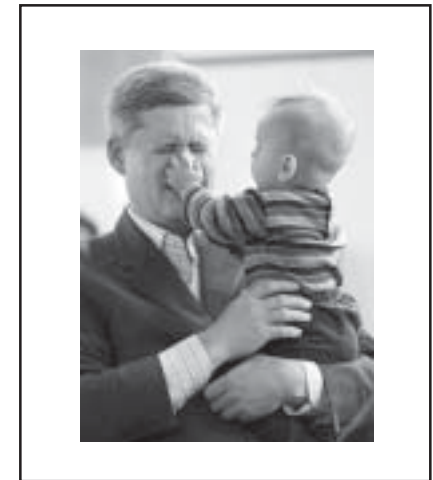
ments have also failed to take a strong stand against ‘big box’ child care, despite broad-based campaigns in Ontario and British Columbia.

Unfortunately, two recent opportunities for substantive consideration of feminist input into social policy demonstrate little reason for optimism.

ALL-DAY KINDERGARTEN IN BRITISH COLUMBIA

In 2008, British Columbia announced it would consider extending half-day kindergarten to full day for 3-5 year olds. Last year, the Early Childhood Learning Agency was created to conduct a feasibility study and to engage in public consultations. Parents, advocates, child care workers, researchers and unions in the province responded, citing overwhelming evidence, and their own experience, that reinforce the need for: direct public funding; non-profit services; community ownership and control; inclusion; universal access and legislated entitlement; decent wages and benefits; and support for parents, particularly women, in the labour force.

The results of a legitimate consultation process would reflect the wide consensus that these are the fundamentals of an early learning and child care program and that government can no longer avoid providing these services to families. However, it is now clear that this will not be the case, at least not any time soon. The Early Childhood Learning Agency report, expected in December 2008, has still not been released and signs of backtracking by Education Minister Shirley Bond re-ignited the fears of a community who had little trust that the Campbell government would actually make the investments, given its record on child care. They were right to worry. Even as the BC Liberals have embraced deficit-spending in the 2009 provincial budget, kindergarten has quietly slipped off the agenda. This was a lost opportunity for the BC government to save community faith in the process and to demonstrate that participatory democracy can work.



GENDERING RESPONSES TO THE FINANCIAL CRISIS

Another democratic opening for feminist analysis exists, strangely, amid the financial crisis. For months, feminist criticism has pointed to the male bias in proposals for economic stimulus in Canada and the U.S. that seem oblivious to the reality of sex

segregation and to the need to promote gender equality. It has been argued that investment in ‘infrastructure’ has been interpreted very narrowly to include repairing and constructing roads, bridges and buildings, and bailing out the Detroit Three. Without discounting the importance of these projects for economic recovery, many have noted that Obama’s promised job creation will be concentrated largely in construction, auto manufacturing, engineering, and forestry. In other words, it amounts to ‘jobs for boys,’ or what feminist economist Randy Albelda calls a “macho stimulus plan.”

Also indicative of the gender bias built into the discourse around the American rescue package is the moral and political outrage mobilized against House Speaker Nancy Pelosi. When she dared to suggest that protection of women’s reproductive rights matters to the economy, she was met with a wave of anti-feminist and anti-choice vitriol and dismissed as an outlandish feminist fanatic. So a perfectly reasonable strategy to improve women’s economic security and access to basic health care (the family planning provisions were part of a proposal for Medicaid expansion) was sacrificed by President Obama who quickly dropped it from the agenda.

At the same time though, the economic situation has created space for progressive arguments about the relationship between the state and the market and for a more expansive understanding of infrastructure. In Canada, organizations, such as the Ad Hoc Coalition for Women’s Equality and Human Rights, the Native Women’s Association of Canada (NWAC), the Canadian Federation of University Women (CFUW), Feminists for Just & Equitable Public Policy, the Child Care Advocacy Association of Canada (CCAAC), the Canadian Feminist Alliance for International Action (FAFIA), the New Brunswick Coalition for Pay Equity and BC CEDAW, have called for investment in *social infrastructure* like health, education, social work, housing, child care, pay equity, Employment Insurance, anti-poverty measures and supports for Aboriginal communities. In fact, the Ad Hoc Coalition outlined such concerns in an Open Letter on the Budget to Prime Minister Harper and the NWAC presented their submission at the January 15, 2009 First Minister’s Meeting. Did anyone listen this time?

Not really. The Federal budget (or “Canada’s Economic Action Plan”) released on January 27, 2009 indicates that the Harper government didn’t quite get the message.

THE 2009 FEDERAL BUDGET

In the budget, there was some very limited attention to Employment Insurance, post-secondary education, the Child Tax Benefit, and social housing. Yet amid repeated dubious assertions from the mainstream media that there was ‘something for everyone,’ in many ways, the Tory budget promises much that feminists have cautioned against. It provides \$5.9-billion in income tax and corporate tax cuts just for 2009-2010, even though it has been shown time and time again that the benefits go disproportionately to men and that the lost revenue further limits women’s access to social programs and public sector jobs. Eligibility for Employment Insurance has not changed, even though women continue to have unequal access to benefits. The attack on pay

equity persists, even though it was one of the most problematic aspects of the December Economic and Fiscal Statement, and the U.S. is finally moving in the opposite direction. There were no investments made in child care services, even though Canada ranks last among industrialized countries on supports to families according to both UNICEF and the OECD and it is absolutely essential to gender equality. The budget has been panned by numerous feminist organizations commenting on the glaring absence of equality measures.

This was rather predictable. Just look at the Finance Minister’s Advisory Council that Flaherty appointed in December 2008. Although the Harper Conservatives claimed that they engaged in broad budget consultations, not a single member of the social policy community sat on the Advisory Council. Instead, it was a collection of corporate CEOs, a former BC Finance Minister, and a CD Howe Institute fellow. These are the opinions that count in the Conservative government.

However, the opposition parties are hardly better. There was amazingly little that was concrete in terms of social policy in the December 2008 Liberal-NDP coalition agreement. And feminist analysis seems to have made barely any impact on the Liberals, except to fuel their hollow rhetoric about women’s equality during Question Period. Their apparent outrage at the silence on gender equality did not stop them from supporting the Conservative budget, and in some cases, even taking credit for it.

GENDERING DEMOCRACY AND DEMOCRATIZING SOCIAL POLICY

All of this speaks to a profound failure of democracy and to the success of neoliberal marginalization of feminist input. The representation of women and other marginalized groups in the policy process has been systematically shut down.

The only way to fundamentally transform the social policy landscape in Canada is to create a *participatory infrastructure* that makes community involvement central to governance at all stages of policy-making. This requires public resources and funding for social policy advocacy, an open and on-going method of engagement, and real accountability to the public, including mandatory gender and diversity responsive budgeting. Let’s hope that the flurry of feminist mobilization around the federal budget’s gender insensitivity is the beginning of a movement to gender democracy and to democratize the social policy process.

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Part 3: The Global Crisis

Making the World's Poor Pay: **The Economic Crisis and the Global South**

Adam Hanieh

The current global economic crisis has all the earmarks of an epoch-defining event. Mainstream economists – not usually known for their exaggerated language – now openly employ phrases like ‘systemic meltdown’ and ‘peering into the abyss.’ On October 29, for example, Martin Wolf, one of the top financial commentators of the *Financial Times*, warned that the crisis portends “mass bankruptcy,” “soaring unemployment” and a “catastrophe” that threatens “the legitimacy of the open market economy itself... the danger remains huge and time is short.”

There is little doubt that this crisis is already having a devastating impact on heavily-indebted American households. But one of the striking characteristics of analysis to date – by both the left and the mainstream media – is the almost exclusive focus on the wealthy countries of North America, Europe and East Asia. From foreclosures in California to the bankruptcy of Iceland, the impact of financial collapse is rarely examined beyond the advanced capitalist core.

The pattern of capitalist crisis over the last fifty years should alert us to the dangers of this approach. Throughout its history, capitalism has functioned through geographical displacement of crisis – attempting to offload the worst impacts onto those outside the core. This article presents a short survey of what this crisis might mean for the Global South.

WORLD TRADE DROPS

This crisis hits a world economy that – for the first time in history – is truly global. Of course exports and the control of raw materials have always been important to capitalism. But up until the 1970s most capitalist production was organized nationally. Throughout the 1980s and 1990s both production and consumption began to be organized at the international scale. Today, all markets are dominated by a handful of large companies operating internationally through interconnected chains of production, subcontracting and marketing. Almost every product we consume has involved the labour of thousands of people scattered across the globe – from the production of raw material inputs, research and development (R&D), assembly, transport, marketing, and financing. At one level this interconnectedness of production expresses the fact that human beings have become one social organism. At the same time, it continually runs up against a system organized for the pursuit of individual, private profit.

This interconnectedness has taken a very particular form over the last couple of decades. The world market has been structured around the consumption of the American (and, to a lesser extent, European) consumer. Goods produced in low-wage production zones such as China and India – using raw materials mostly sourced from other countries in the South – are exported to the U.S. where they ended up in the ever expanding homes of an overly-indebted consumer. Control of this global chain of production and consumption rests in the hands of large U.S., European and Japanese conglomerates.

This structure helped to fracture and roll-back national development projects across the globe. Coupled with the debt crisis of the 1980s, export-oriented models of development were imposed by the International Monetary Fund and other financial institutions on most countries in the South. Many of the elites of these countries bought into this development model as they gained ownership stakes in newly privatized companies and access to markets in the North.

The ever-expanding consumption of the U.S. market was predicated on a massive rise in indebtedness. U.S. consumers were encouraged to take on vast levels of debt (through credit cards, mortgages, ‘zero-down’ financing, etc) in order to maintain the consumption levels that underpinned global demand. The dollars that enabled this growth in debt came from financial instruments that were purchased by Asian central banks and others around the world. These institutions lent dollars back to the U.S. where they were channeled to consumers through banks and other mechanisms.

The U.S. real estate market was just one of the financial bubbles that permitted this treadmill of increasing indebtedness to continue. People could continually refinance their mortgages as real estate prices went up. But with the collapse of this bubble global world demand is suddenly drying up. Because of the interconnectedness of world trade, this will have a very severe impact on every country across the globe, particularly in the South.

One measure of this is shown by a relatively obscure economic indicator, the Baltic Dry Index (BDI). The BDI measures the cost of long-distance shipping for commodities such as coal, iron ore and steel. From June – November 2008, the BDI fell by 92%, with rental rates for large cargo ships dropping from \$234,000 a day to \$7,340. This massive drop reflects two factors: the reduction in world demand for raw materials and other commodities, and the inability of shippers to have their payments guaranteed by banks because of the credit crisis.

Falling commodity prices also demonstrate this drop-off in world trade. Copper prices, for example, have fallen 23 per cent in the past two months. Chinese consumption of the metal, critical to much industrial production, has fallen by more than half this year. ArcelorMittal, the world’s largest steelmaker, stated on November 5 that its global output would decline by more than 30 percent. The World

Bank (which has consistently underestimated the severity of the current downturn) is now predicting global trade volumes to shrink for the first time since 1982.

SOCIAL DISLOCATION

This drop in world trade will have a particularly devastating impact on those countries that have adopted ‘export-oriented’ models of development. This model was heavily promoted by the World Bank, the International Monetary Fund (IMF) and most economists over the last couple of decades. As global demand shrinks, countries reliant on exports will be faced with collapse of their core industries and potential mass unemployment. This will place further pressure on wages as new labour reserves augment already large levels of unemployment.

Standard and Chartered estimate, for example, that Chinese exports could tumble to “zero or even negative growth” in 2009. JP Morgan Chase is predicting that Chinese exports will fall 5.7 percent for every one percent drop in global economic growth. This is not just a matter of getting by on smaller levels of still positive growth. China needs to create 17 million jobs a year in order to deal with the large numbers of farmers moving from the countryside to urban areas. This means that the country must maintain high rates of growth. Even if growth drops from 11-12% annually to 8% the country faces potentially huge social dislocation. Already, workers in China are protesting in the millions as their factories close and owners abscond with unpaid wages.

A collapse in world trade is not the only potentially devastating threat this crisis presents to the global periphery. Like the 1997 Asian Crisis, the rapid withdrawal of foreign funds from stock markets and other investments in the South could cause the meltdown of currencies and the collapse of industries already reeling from slowdowns in trade. A quick survey of a few countries demonstrates the deadly mix of capital outflows, high inflation and drops in export earnings:

- In Pakistan, foreign-currency reserves have dropped more than 74 percent in the past year to about \$4.3-billion (U.S.). The country is teetering on the edge of total collapse and urgently requires \$6-billion in order to pay for imports and service its existing debt. The dire situation of foreign outflows led the German foreign minister to state on 28 October that the “world has just six days to save Pakistan” (at the time of writing it looks like Pakistan will get this money in the form of loans from the IMF and/or countries of the Gulf Cooperation Council).
- Sri Lanka has lost nearly 25% of its foreign reserves since the beginning of August as foreign investors repatriate their dollar holdings from the country. Nearly 50 percent of Sri Lanka’s textile and garments exports (accounting for some 43 percent of total foreign exchange earnings) went to the U.S. in 2007, while another 45 percent went to the EU. These exports will likely be decimated by a generalized collapse in demand. The weakening of the Sri Lankan rupee over the last few years has contributed to a 20% increase in inflation, with high food prices hitting the poorest most heavily.

- India has seen its foreign exchange reserves drop by 17% since March 2008. Over \$51-billion (U.S.) left India during the third week of October, the largest fall in eight years. The Indian textile industry, which makes up the second largest component of the country's labour force after agriculture, exports 70% of its product to U.S. and European markets. It is expected that textile and garment orders will decline by at least 25% over winter and mass lay-offs have already begun. On October 29, the Association of Chambers of Commerce and Industries predicted that companies in seven key industries (steel, cement, finance, construction, real estate, aviation, and information technology) would need to cut 25% of their workforce. This at a time when the country struggles with an immense gap between rich and poor. The wealth of the richest 53 people in India is equivalent to 31 percent of the country's GDP, yet according to the World Bank 42 percent of the population lives below the official poverty line of \$1.25 a day.

These patterns are repeated across the globe. Countries including Mexico, Turkey, Indonesia, Brazil, Argentina, South Korea as well as the poorer countries of Eastern and Southern Europe are faced with collapsing growth rates, capital flight, and declines in the value of their currency. In many cases, these problems have been exacerbated due to a proliferation of low-interest loans taken by individuals and companies that were denominated in foreign currency (such as Swiss Francs, Euros, and Dollars). These loans initially offered a better rate of interest than the domestic currency, but, as local currencies have dropped in value, the amount of money required to be repaid has increased dramatically. *Business Week* estimates that borrowers in so-called 'emerging markets' owe some \$4.7-trillion (U.S.) in foreign-denominated debt, up 38% over the past two years. This is the reassertion of a debt crisis from the 1980s that never really went away, but only partially subsided.

THE IMF RETURNS

This unfolding social crisis has returned the IMF to center stage. Typically, the IMF lends to those countries facing potential collapse and, in return, demands the fulfillment of stringent economic conditions. The scale of borrowing is already immense: Iceland (\$2.4-billion), Ukraine (\$16.5-billion), and Hungary (\$15.7-billion) have been extended loans with Pakistan, Serbia, Belarus, and Turkey likely candidates in the near future.

The conditions that come with this latest round of IMF lending have been particularly opaque. The policies that Ukraine is expected to pass, for example, are not yet known despite the fact the country has essentially agreed to take a \$16.5-billion loan from the IMF. Hungary has agreed to cuts in welfare spending, a freeze in salaries and canceling bonuses for public sector workers yet the final details have not been made public. Iceland was required to raise interest rates to 18% with the economy predicted to contract by 10% and inflation reaching 20%.

We can certainly expect that the conditions attached to loans in the poorer coun-

tries in the Global South will be much more stringent than those imposed on these European countries. There is little doubt that these countries will face massive job losses, intense pressure to privatize public resources, and slashing of state spending on welfare, education and health in the name of 'balanced budgets.' Whether these attacks on the social fabric are successful, however, will ultimately depend on the level of resistance they face.

AUTHORITARIAN STATE

On 11 October, a meeting of progressive economists in Caracas, Venezuela, issued a statement warning that the dynamic of this crisis "encourages new rounds of capital concentration and, if the people do not firmly oppose this, it is becoming perilously likely that restructuring will occur simply to save privileged sectors." This is an important point to understand. Capitalist crisis doesn't automatically lead to the end of capitalism. Without effective resistance and struggle, the crisis will eventually be resolved at the expense of working people – particularly those in the South.

This could be one of the most serious crises that capitalism has faced in living memory. But we should not be fooled into thinking that the system will somehow be reformed or its contradictions solved through peaceful and orderly means. The most likely immediate outcome is a hardened, more authoritarian state that seeks to restore profitability through ratcheting up repression and forcing people to accept the loss of jobs, housing and any kind of social support. In the South, this will inevitably mean more war and military repression.

If this is not prevented then the system will utilize this crisis to restructure and continue business as usual. This is why resistance – both at home and abroad – will be the single most important determinant to how this eventually plays out. In Latin America, for example, attempts to restrict capital flight, place key economic sectors under popular control, and establish alternative currency and trade arrangements are important initiatives that point to the necessity of solutions beyond capitalism. In the Middle East, popular resistance to the political and economic control of the region has undoubtedly checked the extension of U.S. power.

Any displacement of crisis onto the South means playing different groups of people against one another. For this reason, the ideological corollary of war and military repression abroad is likely an increasingly virulent racism in the North – directed at immigrants, people of color and indigenous populations. This means that for activists in North America the question of global solidarity and resistance to racism must be placed as a central priority of any effective fightback. Any attempt to turn inwards, or dismiss international solidarity as less important in this phase will be disastrous for *all* working people – across the globe.

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The Global Crisis and Mexico: The End of Mexico's Development Model?

Hepzibah Munoz-Martinez

The current global crisis, and the role of the United States in it, has brought into the public light the role of financial derivatives in keeping the global financial system in a constant state of volatility. This, however, is not a new experience for the Mexican economy. These financial instruments were a key factor in triggering the 1995 peso crisis. While international institutions and neoliberal analysts blamed the 1995 crisis on the rigidities of the Mexican economy and the ineffective role of the state in supervising financial institutions, the role of derivatives in causing the collapse of the Mexican economy and setting the conditions for austerity measures and disciplining workers was completely ignored.

This time the role of derivatives as a central aspect causing a global recession and affecting the Mexican economy negatively can not be denied. The derivatives transactions undertaken by Mexican corporations have intensified the effects of the recession in Mexico due to particular structural problems in the Mexican economy compared to other OECD countries. These problems are: the pressures that financial derivatives denominated in U.S. dollars exert on the Mexican peso; the concentration of market power in a few Mexican firms; the heavy reliance on American markets (and remittances from Mexican migrants to the U.S.); and the failures of the development model based on the exploitation of cheap Mexican labour at home and abroad.

CORPORATIONS AND PRESSURES ON THE MEXICAN PESO

Derivatives are often described in economics as a two-party financial contract, the worth of which is derived from the value of some underlying asset. They can be traded in specific market places or by private arrangement called 'over-the-counter' (OTC) transactions.

Some of the derivatives used prior to the 1995 peso crisis were total return swaps. This instrument was mostly used to profit from interest differentials to borrow in U.S. dollars and invest in Mexican pesos. A Mexican bank and a financial firm in Wall Street signed a contract that established that the Mexican firm or bank would pay to the financial institution the 'loan,' and the latter would pay the bank the 'total return' on pre-selected securities. These securities were often short-term peso-denominated public debt.

In this operation, a Mexican corporation agreed to pay the financial firm at LIBOR (the London inter-bank overnight lending rate) plus some additional points on a dollar loan for a short period of time. In exchange, New York investment banks agreed to pay the Mexican entity the return on a given amount of public debt for the same period of time. If the peso did not decrease in value against the U.S. dollar, the returns in public debt remained high and the payment on the dollar loan stayed low.

In this way, Mexican banks could borrow dollars from the Wall Street firm and receive the return from the Mexican bond. When the Mexican peso was under pressure in the mid-90s and devalued, Mexican banks and major firms had to pay their outstanding debt in U.S. dollars. For that reason, they created enormous pressures on the peso when they used lots of dollars to cover their foreign currency obligations. Hence the peso crisis, and the harsh neoliberal austerity imposed on Mexican workers and peasants.

This story is now repeating itself. Over the last years, Mexican corporations did not directly invest extensively in American mortgage-backed securities or credit derivatives linked to those securities. Still, they used derivatives to obtain U.S. dollars at low interest rates, pay these loans with yields in their investment in Mexican pesos and obtain profits from the difference between lending rates in the U.S. and investment rates in Mexican pesos.

For instance, Cementos Mexicanos, the third largest cement in the world reported profits by \$300-million (U.S.) in 2007. With the credit crunch, the shortage of liquidity in U.S. and an increase in interest rates, CEMEX now owes \$500-million (U.S.) in its derivatives operations. Other important Mexican firms that comprise a large portion of the Mexican stock exchange have also reported millions of losses in their derivatives operations. This has also resulted in an increase of these firms' total debt and decreasing share prices. In order to obtain funds to cancel pending instruments in derivatives and make stocks more attractive for investors, Mexican corporations have decided to cut jobs, close plants and decrease production.

Mexican companies also played a crucial role in the downward pressure on the Mexican peso as these firms ran to cover dollar-denominated debt and positions they had taken in exchange-rate derivatives. This created a shortage of U.S. dollars in the economy, increasing the value of the former *vis-à-vis* the Mexican currency. In order to maintain confidence of the peso and prevent a more intense speculative run on the currency, the Mexican central bank supplied a large amount of dollars from its international reserves (e.g. the Mexican central bank used 11 percent of its reserves in less than 72 hours at one point over the last months) and increased interest rates on public debt to guarantee the value of the peso.

The actions of the central bank do not entail a direct bailing out of Mexican companies. Still, the supply of cheap dollars at the expense of the public-owned oil company's earnings and the federal budget can and should be considered as an indirect

socialization of private losses. On the one hand, the supply of these dollars prevents the Mexican peso from depreciating, and as a result, it stops Mexican corporate debt in derivatives from increasing. On the other hand, the foreign currency provided by the federal government is channelled to the central bank as opposed to social spending.

The neoliberal austerity implemented after the 1995 peso crisis, and the profitable conditions it provided for financial businesses, has in general allowed Mexican firms to be able to finance their losses in capital markets. It is also the very reason why Banamex, the Mexican subsidiary of Citigroup, has become a major source of profit for this American bank. In fact, Banamex's profits are key in Citigroup's capitalization commitments with the U.S. government in its 20 000 million bail out program. As current Mexico's President Felipe Calderón declared in the 2008 G-20 Summit in Washington: "The global economy dynamism has only been sustained by the vitality of emerging economies." The role of the Mexican economy in the American bail out program therefore raises questions regarding the new nature of dependency relations in an era of liberalized financial markets.

STRUCTURAL PROBLEMS IN THE MEXICAN ECONOMY

Mexico's President Calderón claims that that Mexico's banks are solid and the Mexican economy is prepared to face the global economic crisis. However, this takes place in a context of slow economic growth, high unemployment and underemployment and increasing prices *vis-à-vis* wages. Real wages have been declining annually by almost one percent while inflation has reached four percent. According to Mexico's National Institute of Statistics, 63 percent of people's income is spent on food, leaving very little money for education, housing and health. Also, levels of poverty have not decreased drastically given that 14 percent of the population still live in poverty. This is the legacy of Mexican anti-inflationary policies that kept minimum wages from rising, implemented austerity measures in social spending, privatized land, removed agricultural and food subsidies and increased interest rates to attract investment in the Mexican peso.

Despite the measures carried out by the Mexican government to maintain a "sound" financial system and public finances, the global financial crisis might have a greater impact on the Mexican economy than on its OECD or other Latin American counterparts. The reasons are threefold. First, the concentration of market power in a few firms has negative effects on job creation and the balance-of-payments. The job cuts planned to fulfill the private sector's debt obligations increases the unemployment rate and depresses wages even more due to the large availability of labour. At the same time, these firms are central to the Mexican balance-of-payments because they are one of the main sources of foreign currency into the country via exports and portfolio investment. The diminishing flow of foreign currency through these firms entails the expansion of public debt in Mexican pesos by the Mexican government in order to obtain the foreign currency necessary to maintain the value of the peso.

Second, the Mexican economy faces greater challenges than other countries because of its dependence on American markets for its exports. The economic recession in the United States will lessen the demand for Mexican products, bringing the manufacturing sector to standstill and further decreasing job opportunities for Mexicans. It is worth noting that this export-oriented model has been based on cheap labour in the *maquilas* – factories that import materials on a duty-free and tariff-free basis for assembly and re-export the final product – under deteriorating labour and environmental conditions and weak backward and forward linkages to the national economy.

Third, Mexico relies heavily on remittances from the United States. In fact, remittances have become a special section within Mexico's national accounting and it has served as a pressure valve for the Mexican government. Remittances have released pressure for jobs and social spending because poor families have relied on the money sent from abroad to overcome the lack of job opportunities and low incomes. Remittances have also helped to maintain the value of the Mexican peso, which is crucial for Mexican firms' transaction in derivatives. In 2006, for instance, remittances became the second single source of foreign currency after oil exports. However, the economic recession in the U.S. has affected the flow of remittances sent to Mexico because employment and incomes for undocumented Mexican immigrants have decreased. The Mexican central bank has reported a drop of 12.2 percent in remittances, which is the largest of these cash payments in a single year. This, in turn, creates greater pressures for job creation and social spending in Mexico in order to counteract the negative consequences of the decline of remittances from the United States.

Overall, the power of few firms, the dependence on U.S. markets for exports and remittances and the continuing reliance on a development model based on cheap labour have not only obstructed but also reduced the potential for an economic growth based on a more even distribution of income. This is crucial for the creation of internal market that keeps production moving regardless of the lack of external demand for Mexican goods. Not only the absence of an internal market threatens with paralyzing Mexico's productive sector and creating further unemployment, but also the lack of a social safety net further aggravates the situation of the working people in Mexico. While the Mexican government has implemented social programs that target extreme poverty in Mexico, there are no universal policies that protect people from unemployment, underemployment and depressed wages. These are policies which could benefit those sectors of the population that do not fall under the category of the extreme poor but still live in poverty.

THE LIMITS TO THE MEXICAN GOVERNMENT'S NEW ECONOMIC RECIPE

The Mexican government has reacted to the global crisis in two ways. First, Mexico's financial regulators have responded to the risky positions undertaken by Mexican companies with an investigation in an attempt to reveal the nature of their use of foreign-exchange derivatives. Second, Calderón has implemented a \$4.4-billion (U.S.)

emergency spending program to cope with the financial crisis. Calderón has announced that this program will target the construction of energy, highway, railway, education, health, and hydro-agricultural infrastructure works. Also, the program involves the allocation of \$12-billion pesos for the construction of a new refinery to reduce dependence on imported refined oil.

The recent measures reflect a policy shift from strict austerity policies, implemented since 1982 and the de-politicization of the 1995 government bail-out program of Mexican banks, toward a government-spending scheme focused on infrastructure. There is also a re-politicization of the financial practices of Mexican firms through an official enquiry. This, however, is not the result of the “good” intentions or the so-called “social democratic” agenda of the Calderón Administration and the current LX (60th) Legislature (Congress of Mexico). Rather, it is the reflection of the social discontent with the political system and the economic model, which has been expressed in several protests, the lack of support for Calderón in the 2006 presidential elections, and the severe crisis of credibility for the country’s electoral institutions and overall political institutions in Mexico, including the police and courts. As such, the federal government could not respond with the usual supply-side economics prescription of tightening government spending. Instead, it decided to implement a demand-side management strategy focused on infrastructure in order to prevent further social disenchantment with the current economic and political system.

However, this new strategy has several shortcomings. It does not change the balance of power between the private sector and workers. The Mexican government still has the lowest levels of corporate taxation within the OECD and has very little control over short-term capital outflows. This is, in turn, reflected in the severe pressure exerted over the Mexican peso by firms in order to settle derivative obligations in U.S. dollars.

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In addition, infrastructural developments do not necessarily translate into the improvement of the living standards of the middle and low income sectors of the population. On the one hand, the infrastructural projects proposed by the Calderón Administration still rely on cheap labour, and therefore only provide a safety valve to unemployment without guaranteeing income redistribution. On the other hand, investment in highways, railroads, energy and hydro-agricultural

While the Mexican government has implemented social programs that target extreme poverty in Mexico, there are no universal policies that protect people from unemployment, underemployment and depressed wages.

projects only benefit a small sector of the population, particularly those firms that benefit from cheaper oil prices, faster transportation and large-scale agriculture. At the same time, the rest of the population is excluded from the planning process of these projects, which usually entail community displacement, environmental degradation and low safety standards for workers.

Indeed, the government has planned to channel funds into education and health infrastructure. Still, the inclusive and democratic use of these facilities to improve the health and education levels of the most vulnerable in Mexico is questionable. The reason is the presence of a corrupt leadership within official teachers’ union, which controls the operation of public schools, including its infrastructure, and the deficient health services offered to Mexico’s poorest through the Popular Health Insurance Program.

The Mexican government’s focus on infrastructural projects only reproduces the weaknesses of the Mexican development model in the current context of the global crisis. This poses a double-burden on Mexico’s poor, who do not only have to suffer the consequences of the economic strategy based on cheap labour at home and abroad, but also the costs of the global crisis, which has already manifested itself through lower wages, higher food prices and unemployment. The Mexican government needs to go beyond infrastructural investment to implement policies that create a social safety net, make food accessible to people, improve the quality of education at all levels and promote inclusive and participatory urban and economic planning. But this is really a question of new political movements emerging and a rupture in the existing Mexican state and power structures.

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Part 4: Dimensions of the Crisis

Economic Crisis and the Poor: Probable Impacts, Prospects for Resistance

John Clarke

Now that the crisis of the financial markets has become a crisis of the 'real' economy, it is already obvious that those who face poverty (or live on the edge of it) are being hit extraordinarily hard. Over the last three decades, social programs that served to partially redistribute wealth or limit the disciplinary power of unemployment on the working class were massively reduced. With this 'social safety net' seriously compromised, a rapid and deep process of impoverishment is taking effect as the downturn unfolds. The scale and severity of this will pose major challenges but open up huge possibilities in terms of mobilizing poor communities.

Since the crisis came to head on Wall Street and scandalous bailouts for the rich ensued, a question has been lurking in the background: who will pay for this crisis of capitalism? That the capitalists and bankers do not intend to pay is more than obvious. That workers and the poor face massive austerity is also very clear. However, in order for this to happen, those in power are going to have to impose their harsh 'solutions' and that will produce suffering and an anger that forms the basis for fighting back. I would like to look at how poor communities may be attacked and at some of the forms that resistance could take. I speak from the standpoint of someone who is active in anti-poverty struggles in Toronto. In some smaller and more heavily industrialized cities, the situation is already further advanced but we may expect a deepening downturn to affect Toronto very seriously. In many smaller centres, systems of social provision are even more inadequate than in Toronto and many people facing conditions of poverty and destitution will be forced to head for the major centre out of necessity.

THE SHREDDED 'SAFETY NET'

In assessing the likely impacts of the downturn, the first important question to consider is the fact that 'employment insurance' (EI) has been so drastically undermined. If all that people have to turn to is the welfare system, they will face a devastating shock. EI, while it has highly restrictive rules, considers eligibility from the standpoint of unemployed status. Welfare, in contrast, is a system of last resort that can only be accessed by those on the very edge of destitution. Those with any other sources of income are ineligible by reason of the welfare means test. In conditions of rapid economic downturn, translates into a whole mass of people who are without work but who cannot even apply for income support until they have exhausted their savings. Once they have reached the required level of poverty, those who were previously working for living wages will be expected to make do with the degrading pittance that welfare

provides. I spoke recently to a man who had just lost his job and wanted to know about accessing welfare if he could not collect EI. He was truly devastated to learn that his very modest bank account would have to be almost emptied before he could go to Social Services. As this kind of thing happens on a major scale, it will send a shock wave of indignation through whole communities.

However, even the miserably low income provided by welfare is not something we can assume will be available. The social assistance system is massively arbitrary in its actual implementation and municipalities have to foot the bill for part of it. Ontario Premier Dalton McGuinty has already made clear that local governments will face cost cutting measures in the months ahead and, in such a situation, it is to be expected that local welfare offices will engage in an intensified drive to deny entitlements by way of a covert process of improper denial. If the crisis becomes deep enough and caseloads reach a high enough level, the very viability of welfare provision will be called into question.

In fact, Toronto's City Council has already set the stage for a disastrous situation to develop in the near future. Under Mayor David Miller and his progressive allies on Council, the City's welfare reserve fund has been depleted to pay for day-to-day operating expenses. From a high point of \$94.4 million in 2003, it has been taken down to a mere \$8.3 million. This means that we have entered a major international economic downturn with the income support system of the largest city in the country ready to collapse at the first test. Aside from generalized demands for increases in welfare rates, we will have to be ready to fight for the very right of people to obtain even a minimum level of income support.

Nor can we forget that, for hundreds of thousands of low-income people, the undermining of social programs has meant that they must frequently access private charity in order to survive. If food banks and other such services face a big increase in demand, while finding it harder to bring in donations, the costs in terms of hunger and illness will be very great indeed. Food banks have become a *de facto* second layer of welfare provision that until now has partly concealed the gross inadequacy of social assistance payments and limited the spread of hunger. If they are overwhelmed, the resulting situation will be tragic.

We can expect other impacts in the area of municipal services. 180,000 public housing tenants in Toronto are living in buildings and units that are in a state of massive disrepair. Infusions of cash from Queen's Park have been well short of the hundreds of millions needed to bring this huge quantity of public housing stock up to a standard that even meets legal requirements. In conditions of funding cutbacks, this process can only intensify. Already, despite a waiting list for social housing of some 70,000, City owned buildings are left vacant for want of resources to restore them to a level where they can be occupied. There are not a few buildings that have been neglected to the point where action must be taken soon if they are to continue to house people. The loss of public housing in conditions where growing numbers of people

lack the means to pay rent in the private market would be a disastrous addition to the overall crisis.

Even before this downturn took hold, hundreds of thousands of low-income tenants in Toronto could barely keep themselves housed and could pay the rent only by going short on decent food. There were already more evictions taking place under McGuinty than during the Harris years. As jobless rates shoot up and income support systems are further restricted, an epidemic of economic evictions will ensue. Then, as the loss of housing drives people to seek emergency shelter, we see another situation where the course charted before the downturn has horrible implications. Toronto has taken up a relentless drive to remove shelters and services for the homeless from the central part of the city. At present, finding a bed for the night in the overcrowded shelters is a challenge for the homeless. An upsurge in destitution will mean more people trying to access a system that is already inadequate. There will be a great political reluctance to respond to this need. Not only will Toronto City Council want to minimize expenditures but it will also be loath to open facilities in areas it has recently worked to clear of the homeless in the interests of upscale redevelopment. Some of the fights we face ahead will be for the very right to find shelter and stay alive.

MARGINALIZED COMMUNITIES AND THE CRISIS

It would be hard to overestimate the degree to which this crisis will intensify the abuses faced by precarious workers in the most exploitative and low paying sectors of the job market. The level of enforcement of the most basic legal rights for such workers has already sunk to the level of tokenism. A worker who actually receives the protections of the Employment Standards Act enjoys little enough but these protections are a dead letter in many workplaces. The payment of wages below the level of the minimum wage, failure to provide overtime pay, the disregarding of statutory holidays, blatant safety violations – all these things are widespread now. In conditions of rising unemployment, we may expect employers to intensify the abuses very considerably.

There is one 'service' that has been exempt from austerity and, indeed, has had money thrown at it to the point where its budget has swollen to unheard of proportions. That exception to the rule is, of course, policing. This institution and its repressive role will be preserved and pampered no matter how dire the fiscal situation in the period ahead. The role of the police in poor communities will be stepped up in conditions of worsening poverty and destitution. If we look at the history of the Great Depression, we can see how local authorities responded in that period to the explosion of homelessness that took place. The police were used to ensure that those without work and housing received a very clear message that they were unwelcome and should move on.

Over the last few years, the drive to clear the central part of the city of poor and homeless people in order to make way for the process of gentrification, has given the Toronto cops extensive experience in harassing and terrorizing people the merchants,

developers and politicians would rather not have around. Toronto's drive to remove panhandlers has been stepped up greatly in the last couple of years and it has provided the police with a huge training exercise in criminalizing a population and disregarding its most basic legal rights. As pressure on services and the level of visible homelessness increases, we can count on intensified police repression to be a key element of the attack that poor communities will have to respond to.

In every aspect of the unfolding crisis that I have pointed to, it is, very sadly, a given that immigrant communities will face a massively disproportionate level of attack. A few days ago, the Ontario Coalition Against Poverty (OCAP) office took a call from a Central American family who had applied to their local welfare office for a health related benefit. An official informed them that she did not believe they needed the benefit and threatened to make sure they were deported for making false claims. A Somali woman applying for the same benefit was told by another office that she should not expect such assistance because she was already better off in Canada than she had been in Africa. The impending drive to restrict social provision will have a racist, anti-immigrant element that will shape and define it. With immigrant communities already disadvantaged and vulnerable, any movement of resistance to poverty will need to confront racism whether it is sanctioned officially and hides its face or it begins to come out in the open as expressions of political backwardness.

NEW RESISTANCE, BROAD ALLIANCES, MAJOR DEMANDS

There is a danger that this crisis will unfold with such speed and severity that it will create, for a period of time, a numbed passivity in communities under attack. The most effective counter measure to this will be to establish, as rapidly as possible, practical models of effective resistance. Over the last years, OCAP has established a method of work that we have sometimes referred to as 'direct action casework.' This uses collective action to resolve the grievances of individuals and families who face the denial of social entitlements and other injustices. It was established with the methods of the unemployed in the 1930s in mind. Such forms of mobilizing could be developed on a very wide scale in response to the crisis.

If the welfare system tries to cut costs by denying assistance to people in need, then 'mass delegations' of the poor and their allies can be used to challenge such abuses. If emergency shelters offer less space than is needed to deal with the growth in homelessness, appropriate locations can be taken over to press demands and ensure people are not left on the streets. OCAP, on a couple of occasions, invaded the Provincial Housing Tribunal to temporarily prevent it from ordering evictions. These actions were modest political statements that only prevented a few evictions from taking place but, in a worsened situation with a rising capacity for mobilization, more serious forms of challenge to eviction procedures could be organized. A veteran of 1930s organizing in Toronto once told me that the movement of those days could pull out large crowds at very short notice to block the efforts of the authorities to put families out of their

homes. Such actions, linked to a demand for a moratorium on evictions, might well be possible in the not too distant future. Locally based committees, mandated to mobilize in the defence of people in their communities could crystallize and develop a very dynamic life if a lead were given.

There is no doubt that, beyond defensive local community action, the period ahead will call for broad alliances and for major demands to be placed before those in political power. If measures of 'economic stimulation' are to be adopted, we must be fighting for these to be allocated in ways that meet the needs of communities. Not the least of these is the construction of truly affordable housing on a massive scale. The degraded system of federal unemployment insurance must be restored to a level that meets the needs of the unemployed. The undermining of social assistance systems by the Chretien Government in the early 1990s has left communities desperately vulnerable and federal resources must be used to reverse this situation. The Ontario legacy of Mike Harris, especially the 40% cut in the spending power of welfare income, is another area where movements must go on the offensive. It will take very much more than the McGuinty Government's timid and dishonest measures of 'poverty reduction' to meet the need this crisis will create. At the municipal level, a fight will have to be mounted to ensure that access to vital income support and shelter services is not compromised by cost containment initiatives.

STABILIZING CAPITALISM OR ANTI-CAPITALISM?

During this crisis, the priority of governments will be to stabilize capitalism at the expense of poor and working class people. Banks and auto manufacturers may be 'too big to fail' but laid-off workers and the communities they live in will be considered highly expendable. Measures of social provision will be freed up, not in any direct proportion to the amount of suffering that occurs but to the extent that a resistance is mobilized that poses enough of threat to force concessions from governments. In this regard, we go into this situation with a major problem on our hands. There is no generalized movement of social resistance in place and the potential components of such a movement, especially the trade unions, are in a severe state of demobilized passivity.

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Still, the key to moving forward is precisely a working class movement that rediscovers what it is to fight back. Low-income communities and homeless people will play a very important role in such a movement and they may even give an initial lead as the crisis forces them to act out of a sheer need to survive. However, it is hard to see how a movement of social resistance can be strong enough without the labour movement, with its organizational resources and power in the workplace, coming into action. If union leaderships are not willing or able to respond effectively in the face of an attack of staggering proportions, a rank and file challenge is the only possible response. Individual locals with militant leaderships and oppositional groupings of trade unionists must link up with initiatives emerging from communities under attack. It is true that we are starting with very little that is organized on the ground but a period like this can create prospects very rapidly that might take years to generate in more normal times. Unless such an initiative emerges that can begin to organize resistance and to restore the capacity of our movements to fight back, we will be staring at the most shattering defeats imaginable. If we can offer no solutions to this crisis, the capitalists will solve it in ways we have reason to dread.

Finally, let me return to my initial point about determining who will pay for this crisis. This speaks not just to resistance in the poorest communities but to the situation of the broader working class as well. For decades now, our generally retreating movements have faced representatives of capitalism who have exuded great confidence. They felt that capitalism had won over those who might challenge it and that its victory was so complete as to represent the ‘end of history.’ Now, suddenly, we are seeing a system that is in profound crisis and whose political and ideological mouthpieces are much less self-assured. This crisis of legitimacy is an important element in the situation. Not only will it be possible to mobilize on the basis of demanding that the cost of this downturn not be paid by poor communities and the broader working class but growing numbers of people will be drawn to question the very system that has so obviously failed to meet their needs and offer them a future.

In poor communities, this crisis comes after a long process of pushing them down during the decades of neoliberalism. There is already anger and the realization that bad is going to get much worse – and it will make large numbers of people look for answers. The issue is to demonstrate in practical forms of organized resistance that these worsening conditions are not unstoppable and inevitable. That is the starting point for a movement that can respond to this crisis and pose a bold anti-capitalist vision of what it is fighting for.

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Colonialism and the Economic Crisis in Canada

Todd Gordon

The Left in Canada has been quick to point out the shortcomings of the Conservative government’s official response to the recession. Not surprisingly, the response doesn’t mark a departure from their knee-jerk pro-capital and anti-worker reflexes.

Critics have rightly stressed the small size of the stimulus plan; that a significant chunk of the supposed stimulus (50 percent) is actually tax breaks, and thus not really stimulus; that the Tories failed to revamp Employment Insurance rules beyond temporarily extending the length of time a person can receive benefits to a mere 50 weeks, even though less than 40 percent of the unemployed actually qualify for benefits and the most a person can receive is a meagre 55 percent of their wages (capped at \$447/week); and that bailout spending, such as that in the auto sector, is being used to roll back working-class living standards and job security that had been built up over a half century of struggle.

These are indeed serious problems with the way in which the Conservatives, with the largely uncritical support of the Liberals, are addressing the economic crisis: putting the needs of capital ahead of the social needs of Canadians.

But we have to be very careful on the Left about how we advance our criticism of the government’s strategy. As the recession deepens into the worst global downturn since the Great Depression people will quite rightly demand more from their government. Calls will be made for the government to spend more and create good jobs for people. And organizations of the Left will play a central role articulating those demands and mobilizing people for the inevitable struggle that will be necessary for the demands to become actual policy.

However, the government’s response to the recession has a sharply colonial dynamic to it. And if we aren’t cognizant of this dynamic we risk reproducing it in our efforts to build an alternative way of dealing with the crisis. The fight for a more socially just Canada will be an anti-colonial struggle in support of indigenous rights, or it won’t be at all.

EXPLOITING FEAR

The Conservative government’s goal in this recession is clear: exploit the scale of the crisis and the fear and uncertainty it’s instilled in people to intensify an agenda it and business leaders would otherwise have to approach more modestly. The attack on

auto workers is a good example of this; the expansion of capitalism into indigenous territories is as well.

Indigenous land and resources are central to Canadian capitalism, plain and simple. Reports written by Indian Affairs and Northern Development, Natural Resources Canada and various industry organizations make this point plain enough. Most of the mines being explored or dug, oil deposits being developed, pipelines being constructed and hydro-dams imposed on the landscape are on or adjacent to – and thus impact – indigenous territory. All these resources and other industrial developments besides, furthermore, require infrastructural investments, such as roadways or electricity grids, in order to be operationalized, putting even more pressure on First Nation lands.

The otherwise relentless growth of a capitalism steamrolling any obstacle in its path to making profits has been kept in check in Canada, to some degree, by the efforts of First Nations to defend their land. In some instances they've directly stopped developments, while their cumulative struggle over decades, along with environmental campaigning, has led to an oversight system, however very imperfect, of environmental assessments and consultations with indigenous communities, which has slowed the pace of development down somewhat. These oversights, derided by industry organizations and the Harper Tories as nothing more than “red tape,” have long been viewed by these same critics as a barrier to corporate profitability. The economic crisis has given the Tories and business leaders new ammunition to mount a frontal assault on these policies, while stepping up and expediting infrastructure funding that clearly impacts First Nations.

CUTTING “RED TAPE”

Infrastructure spending is obviously an important component of the Conservative government's 2009 post-financial-meltdown budget. Canada had already committed \$33-billion over several years toward infrastructure development in November 2007 with the Building Canada fund. With the additional money earmarked in the new budget, they're planning \$18-billion of infrastructural spending in the next two years.

The government's goal is to fast track new projects and those already planned, arguing that this is necessary in order to keep the recession from worsening. According to Infrastructure Canada, the government “has an opportunity [i.e. peoples' well-grounded fear of recession] to *modernize* its federal reviews by cutting red tape and increasing federal-provincial cooperation” (emphasis added). Things need to move quickly, in other words, and efficiency (spending lots of money minus meaningful oversight) equals progress.

As part of the effort to expedite spending, the government plans on “overhauling” – in the words of Environment Minister, Jim Prentice – the Environmental Assessment Act. While full details of the government plans haven't been released, a leaked government document reveals a goal of cutting reviews by as much as 95 percent. Infrastruc-

ture Canada says the government is planning a “dramatic reduction in the number of federal assessments and regulatory reviews,” adding, to assuage those who might question the wisdom of such a move, that the cuts will be done “without compromising environmental protection.”

Prentice also announced, at a Calgary business luncheon in mid-March, the Tories' plan to simply waive environmental reviews for favoured public projects for the next two years. The waivers will be made regardless of the size of the project.

How fewer reviews or weakened (or “modernized,” as they like to suggest) environmental policy won't compromise the environment and those indigenous communities that rely on it for cultural and material sustenance is a mystery. Tory wizardry, perhaps. After all, this is the government that can apparently turn water into wine: making a Free Trade Agreement with Colombia about improving human rights in the troubled Andean nation, helping the poor by cutting taxes, or supporting immigrants' rights by concentrating arbitrary power in the hands of the Minister of Immigration.

Ottawa claims that it can rely on provincial assessments, but the provinces have different criteria and standards than their federal counterpart. As critics point out, provincial standards in environmental reviews are themselves not necessarily that reliable. In B.C., for instance, indigenous groups have long criticized the provincial government's assessment process as biased in favour of business interests. Moreover, the Ontario Liberal government announced in 2008 in its *Open for Business: Guide to Reduce the Burden*, that it's cutting regulations in every ministry by 25 percent. Like the federal Tories, the Ontario Liberals describe the rollback as “modernization.” At a time when the condition of our environment is rapidly deteriorating and indigenous land claims continue to grow, reviews should be strengthened not weakened.

Environment Canada's response to a scientific study it commissioned on protecting the endangered woodland-caribou – an important part of the livelihood of many indigenous communities – makes crystal clear the government's priorities. Released in early April of this year, the study, conducted by leading woodland-caribou scientists, recommends tightly controlling development in approximately half of Canada's northern boreal forest. But Environment Canada suggests the science in the study is inad-



equate, and doesn't offer sufficient information on how much development can be pursued without undermining the sustainability of caribou herds. Instead of acting on the report, it says it will study the issue further until the end of 2010. Much of the woodland-caribou's habitat is sought after by logging, mining and oil and gas companies. Thus even when a serious scientific study is undertaken, Environment Canada simply ignores conclusions that don't fit with the agenda of the resource industry.

INFRASTRUCTURE SPENDING: MORE MONEY, MORE COLONIALISM

A cursory glance at some of the government's recent infrastructure spending plans – some made before the crisis but likely expedited as a result of it – offers us a clear picture of how stimulus spending will be implicated in the expansion of the domestic Canadian colonial project.

Infrastructure Canada and the B.C. government, for instance, are committing over \$115-million to the expansion of a number of sections of Highway 97 in British Columbia. Both levels of government and the Northwest Corridor Corporation, which includes among its members municipal and provincial governments and private companies, tout the expansion as crucial to the economic development of the region. The expansion is aimed at making the 97 a key part of the corridor linking up NAFTA trade flow through Manitoba with B.C.'s Pacific ports (which are also slated to receive federal funds). Making the 97 a major industrial transit way is also expected to spur further developments in the mining and oil and gas industries in the province, cited as key to the latter's economic future by both levels of government and the Northwest Corridor Corporation. Two major pipelines, the Northern Gateway and the Pacific Trails, are in fact being planned for B.C., both of which will cross unceded indigenous land.

A number of indigenous communities are located along or near the various Highway 97 expansion points and in areas resource corporations are hoping to develop with help from infrastructural enhancements. While some First Nations are supportive of oil and gas and mineral development, hoping for a piece of the pie, others are less enamoured by it. In a 2004 press release, the Treaty 8 First Nations, located in northern B.C., declared that "oil and gas development as currently practiced has an unacceptable adverse impact on wildlife, and on the exercise of traditional hunting and fishing rights through environmental degradation." They also noted "the failure of the government to require cumulative impact assessments in advance of oil and gas development," which "infringes on our Treaty and Aboriginal Rights." The Blueberry River First Nation, a Treaty 8 member, launched a lawsuit in 2003 against the B.C. government and Calgary-based Canadian Natural Resources Ltd., demanding redress for gas-related illnesses suffered by community members and a halt to all development activities within 10 kilometres of its reserve.

In another example of the colonial character of infrastructure spending, Infrastructure Canada and Quebec are committing funds to the expansion of Highway 30. But in

order to undertake the project Quebec plans to appropriate mainly agricultural land on unceded Mohawk territory along Montreal's South Shore. The plan evoked a strong response from the Kahnawake community, including a threat to blockade the Mercier Bridge, invoking memories of the Oka Revolt when Mohawk Warriors shut the bridge (which runs through Mohawk territory) down after the Sureté du Québec attacked a blockade in nearby Kanehsatake. In the face of potential unrest surrounding Highway 30, the province promised to work with the federal government to provide new crown land as compensation for the appropriation.

While the province's offer appeased the Kahnawake Band Council (Band Councils are the colonially-imposed leaderships officially recognized by the federal and provincial governments), which quickly called off protests, not all community members are happy with it. The Mohawk Traditional Council has opposed the appropriation, asserting that the province has no right to take their land, which is used by the community for hunting and planting. Local farmers, who also face displacement because of the project, have opposed the expansion as well.

This past January Ottawa also offered financial assistance to the controversial Mackenzie Valley pipeline project. The offer was announced by none other than Jim Prentice (apparently funding pipelines is a matter for the minister responsible for protecting the environment) during a meeting with oil company executives. The amount of the offer hasn't been disclosed, but one industry observer estimated it could potentially be as high as \$2-billion.

The Mackenzie Valley Pipeline is the largest infrastructural project in Canadian history, with a cost estimated at \$16.2-billion and rising. Some indigenous communities have come on board in the desperate hope that it will provide First Nations with meaningful financial benefits without long-term destruction of the surrounding environment. But it continues to face opposition from indigenous activists and communities not sold on the benefits of a pipeline to their cultures and traditional territories.

A dream of government and the oil and gas industries going back decades, the pipeline is expected to spur significant growth in oil and gas and mineral exploration along its route, all of which will inevitably impact First Nation lands in and beyond the Mackenzie Valley delta. As Prentice observed when he announced funding for the pipeline, "it opens up a whole region of the country." The comment is both racist and telling of the goals of government and industry. It suggests the Mackenzie Valley and the lands adjacent to it are some sort of frontier that have been closed off to people, when in fact indigenous communities have been living there, and interacting with the surrounding environment, for thousands of years. It's only "opening up" the region to large-scale resource development by corporations.

The project has been slowed down by an environmental review and indigenous opposition. But with the recession worsening and the government throwing potentially billions of dollars into the pipeline, the push is on to cut the indigenous "red tape" and

get the project going. True to form, Prentice followed up the funding announcement two months later with an attack on the project's review panel in a speech to the Calgary Chamber of Commerce.

And to be absolutely clear, spending commitments for First Nations made in the budget don't make up for the government's continued colonial assault. At \$1.4-billion, the Tory spending promise (and just a promise at this point) is just over one-fifth of what was promised by the Liberal government in the 2005 Kelowna Accord, which itself was not a firm commitment on the spending and still wouldn't have gone far enough to improve living conditions in indigenous communities let alone repay these communities for all the wealth that has been made off of them over the last 150 years through the stealing of resources, the forced labour of children in residential schools or the corrupt practices of Indian Affairs. The Tories quickly scrapped the Kelowna Accord after their election in 2006, and now three years later they present a spending plan that doesn't come remotely close to dealing with the poverty, housing shortage and health needs in First Nation communities.

WHICH SIDE ARE WE ON?

The Left needs to respond to the economic crisis and the Tory recession plan carefully and responsibly. Simply calling for more stimulus spending and job creation, without consideration of the impact this may have on indigenous communities, isn't good enough. Indigenous demands for self-determination and protection of their cultures and lands must be central to how the Left organizes in this crisis and to what it envisions for a more socially just Canada. We have to be prepared to take leadership from indigenous activists not in the pocket of government and corporations, while making the arguments with non-indigenous people desiring change that the development of a meaningful anti-recession strategy can't come at the expense of First Nations.

In times of economic crisis racism and xenophobia tend to rise, and governments and business leaders are certainly not above playing these things up and exploiting them to advance their agendas. We've already seen large-scale immigration raids at workplaces in the Greater Toronto Area this April. Anti-indigenous racism is quite strong in Canada in the best of economic times, and as economic instability grows it could intensify. The Left has to be strident in its anti-racism, and must make its fight against the government's and business's reactionary response to the recession an anti-colonial one. Only then will we be on the right path to a more socially just future.

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From Sweatshop to Sanctuary City

Yen Chu and Syed Hussan

In 2003, members of No One Is Illegal-Toronto (NOII) gained access to Heritage Inn Immigration Detention Centre under the guise of art therapists. Here, in conversation with women and children in detention, we repeatedly heard how inaccessibility to municipal city services such as schools, hospitals, shelters, social housing, emergency services, social welfare, shopping malls and transit created feelings of insecurity and vulnerability. We also heard that in accessing these sites, women and children were turned over to immigration enforcement by service providers or police.

Inspired by Don't Ask, Don't Tell (DADT) campaigns in various U.S. cities, No One is Illegal-Toronto, community agencies, women's organizations and trade unions officially launched the DADT-Access Without Fear Campaign in March 2004. The campaign is a grassroots mobilization that challenges the idea that social provisions should only be entitlements to those with status and citizenship, and is a resistance to the criminalization of migrants. By refusing to police those who use social and public services through the use of status, the campaign questions the legitimacy of immigration status itself. The practice that DADT calls for is simple – municipal workers and frontline staff “don't ask” for status and they “don't tell” on non-status people.

Immigration status is used by the state as a means of inclusion and exclusion and is commonly understood as recognition by the nation-state that a person has some or full rights and entitlements to the nation. These rights include residing in the nation's territory, participating in its political, economic and social life, travelling outside of its borders and returning to it, and accessing public and social services. In order to access these rights and entitlements, documents to prove one's status such as a permanent residency card, citizenship card, or Canadian passport is required. Demanding documents before service can be provided is a way the state polices who can use the service. As a result accessing health care, education, or other public services is a risky endeavour for people without status. Their visa may be expired or they may not have the required documents. They risk being reported to immigration enforcement by the person doing the intake or if they encounter the police. Thus virtual borders exist at almost every site governing the social and political inclusion of those already within these borders. The process of dismantling these borders in part of the fight for Status for All!

While the politicians and bureaucrats of the nation state decides who is worthy of inclusion within its borders, the day-to-day experiences of non-status people reveal that borders do not only exist nationally at ports of entry, but they exist all around our city creating obstacles to accessing services and producing fear and marginalization of non status people through detention and deportation. Virtual borders exist outside schools, social services, food banks, health care providers, the police, at every site

where identification can be demanded. The DADT – Access Without Fear campaign works to remove these borders and to assert that everyone has status as a human being with the entitlement to education, free health care, affordable housing, a decent standard of living, and the right to self-determination no matter where they choose to live. The campaign is not simply a local campaign demanding access to services, but connects the experiences of non status migrants in Toronto to global inequity, poverty and oppression and Canada’s complicity in contributing to them.

FROM THE GLOBAL TO THE LOCAL

The origins of a Don’t Ask Don’t Tell policy, also referred to as a sanctuary policy, lie in the 1980s in San Francisco. The American government refused to grant asylum to thousands of refugees from Guatemala and El Salvador where many people who opposed the government were being killed by death squads. The U.S. supported these regimes and refused to recognize that there were human rights violations in these countries and deported many of these refugees.

Refugees along with faith groups and social justice organizations fought to expand the idea of sanctuary in a church to the entire city. (Traditionally, churches have provided protection to refugees and immigration enforcement have often respected the sanctuary of the church by not entering.)^[1] This coalition of community groups worked to counter the criminality associated with these refugees and called attention to the U.S. government’s complicity in displacing people in Central and Latin America. Their efforts resulted in the City of Refuge Ordinance where city resources, such as the police, would not be used to enforce federal immigration policy (Jennifer Ridgley). In passing the policy, the city recognized that the safety and security of the entire community was at stake if non status people feared reporting crimes and illnesses. The movement to implement sanctuary policies spread to 45 other cities across the U.S. including New York, Seattle and Houston.



Here in Toronto, the DADT – Access Without Fear Campaign is also working to create a sanctuary across the city where non-status migrants can access services and live in the city without fear of deportation. Having seen the victories of the 1980s clawed back by a conservative government under George W. Bush and heightened xenophobia in the United States, the Toronto DADT-Access Without Fear campaign works to embed the notion of entitlements to services at every site of service provision. Instead of pushing for a city wide policy shift, the campaign aims to change policies and create

a layer of radical community in schools, universities, workplaces, food banks, health centers, etc. The campaign works to ensure that service providers and the city do not become a mechanism for immigration enforcement, and works to fight against the criminality associated with non status migrants.

We do this by discussing Canada’s discriminatory immigration policy and Canada’s complicity in displacing poor people in the global south. For example, Canada’s involvement war in Afghanistan has displaced over 3.1 million people.^[2] Canada along with the U.S. intervened to depose the democratically elected president Jean Aristide. As a result, instability and violence wrecked havoc on Haiti forcing many people to flee. Under NAFTA, Mexico was required to remove subsidies on its agricultural products. As a result this left many farmers unable to compete with agricultural products from the U.S. and Canada where subsidies are still in place. Many farmers were displaced from their land and forced many people to look for employment opportunities elsewhere. Canadian mining communities exploration of minerals in Latin America have polluted many communities leaving many people without clean drinking water or healthy soil for farming.

While money is able to move freely across borders, the freedom of movement for poor migrants, who are often people of colour, is restricted. The permanent residence program and the refugee program is designed to restrict entry of working class, differently abled, non-heteronormative families. Most are either excluded from entry into Canada or they may arrive here either on temporary visas or as refugees, but their chances of becoming permanent residents are slim. Canada’s point system favours those who have at least \$14,000 in savings, have three years of work experience, have higher incomes, higher education, and have the ability to speak English and French. Canada’s refugee system is increasingly accepting fewer refugees. According to the Canadian Council for Refugees Website, the United Nations set a goal of 560,000 resettled refugees for 2008/09 – of these Canada will only accept about 11,000. This is nearly half of Canada’s annual acceptance rate of 21,400 in the 1980s. This leaves many migrants and refugees without status who choose to continue living here despite the risks of detention and deportation.

The present conservative government has increased immigration enforcement and begun the practice of workplace raids targeting people at the one place they have to be at, at work. In the past two years, we’ve seen three workplace raids where nearly 300 people have been removed without due process. This disregard for even the inadequate immigration laws is coupled with a systematic campaign to change the Immigration system. Through Bill C-50 legislation and the global push toward “guest-worker programs,” Canada is seeing more people entering without access to full citizenship than those with. Temporary workers have precarious status, cannot access many of the services that “citizens” can and are forced to choose between deportation and living without status. Simultaneously the refugee system is under attack. The recent media uproar generated around Mexican and Roma refugee claimants is part of a strategy to push for a revision of the refugee system making it even more difficult for migrants to find status in Canada.

THE DON'T ASK DON'T TELL – ACCESS WITHOUT FEAR CAMPAIGN

In May 2004, a 19 year-old non-status woman reported a sexual assault to police after receiving counselling from a social worker.^[3] The police, however, did not provide assistance, instead they discovered her status and turned her over to immigration enforcement. She was detained and was scheduled to be deported to Grenada on the same day she was to testify against her attacker. Her case sparked outrage from feminists and women's organizations who were alarmed that police were turning over women who had experienced violence to immigration enforcement. Community pressure stopped her deportation and No One is Illegal, women's organizations, and community agencies mobilized to demand a full DADT policy for everyone coming into contact with police including charged offenders.

In April 2006, two siblings, Kimberley and Gerald Lizano-Sossa had been arrested by Canada Border Service agents. Dragged out of their classroom, they were tossed in to van where they found their mother, grandmother and Canadian-born sister, and driven to a detention centre. Upset, enraged and scared, one of their classmates starting making phone calls and were eventually directed to our organization. Members met with the students, teachers and administrators of the school who wanted to protest these arrests. About 70 people gathered outside the detention centre the next day waiting for the family's release.

When the family stepped out of the detention centre, cameras were shoved into their faces and questions thrown. Kimberley, 15, stepped up and said "What happened to us was not fair. We deserve the right to stay here. Our home is here. Our friends are here. Our life is here. But this isn't just about us. No one should be treated this way." Kimberley's words became the rallying cry for mobilizations across the city. We launched a campaign at the Toronto District School Board, the largest school board in Canada, demanding that they pass a full Don't Ask, Don't Tell policy and declare their schools sanctuary zones, free of immigration enforcement.

On February 15, 2006, as a result of community mobilizations, the Toronto Police Services Board passed a partial Don't Ask policy where victims and witnesses of crime would not be asked for their immigration status. However, the policy was undermined when the Board slipped in the phrase "unless there is a bona fide reason to do so." What those bona fide reasons could be were not stated and rendered the policy virtually useless. The Police Services Board left the Don't Tell part of the policy up in the air subjecting it to further review. In November 2008, the Police Services Board rejected passing a "don't tell" policy.

In Fall 2008, we began to hear reports of increased targeting of non-status women survivors of domestic abuse by immigration enforcement. There was a sharp spike in refugee board denials status on the basis of domestic violence and reports of Immigration Enforcement visiting Anti-Violence Against Women Shelters. At this time, Isabel Garcia and her two children, who had fled to Canada to escape her husband were

denied status in the face of overwhelming evidence. The momentum around her story launched the Shelter, Sanctuary, Status campaign that is working to make all anti-violence against women spaces accessible to non-status women and immigration enforcement free.

Most recently, in August 2009, we received reports of Police raiding a community gardening group at a food bank and arresting a non-status woman who was accessing food. These are not isolated incidents, but rather signify the daily fear that non-status people face. Not every non-status person can make their case public due to fears of being stigmatized as a criminal, and while Kimberly, Gerald, 19 year-old woman and Isabel were courageous in making their cases public, we cannot fight every one of the 30,000 deportations that take place in Toronto each year.^[4] High profile cases such as those listed above allowed us to publicly mobilized for a Don't Ask Don't Tell policy at the Toronto Police Services Board and the Toronto District School Board where we made some inroads, but also revealed to us that policies are meaningless without implementation and community participation. Simple policy shifts are susceptible to being overturned in a changing political climate and only through the presence of a broad layer of radicalized community members in all sites of contestation can we ensure that sanctuary zones are established so that non-status people can be free of the risk of detention and deportation.

Our work around the Toronto Police was not to legitimize police powers that have been historically used against racialized, queer and poor people, but to point out that the police was actively limiting non-status women's options to fight back against violence. By turning women over to immigration enforcement, the police were preventing women who experienced violence from seeking assistance. The campaign not only focuses on gender but is also a resistance against the police intimidation, brutality and racial profiling of immigrant communities. Recently, a black postal worker in his work uniform was asked for his identification by a Toronto police officer just, because he was working in the wealthy Bridal Path neighbourhood. This type of racial profiling by police put many non-status people of colour at risk of deportation. Further, by having a DADT policy at police services, we can give some political agency to non-status people who rightfully fear getting arrested at demonstrations or other political activities. The campaign's public mobilization both at the Toronto Police Services Board and the Toronto District School Board allowed us to fight against the continued perception of non-status people as criminals in Toronto's consciousness.

In Ontario, the Education Act states that all students regardless of immigration status are entitled to an education. A DADT policy at the Toronto District School Board would ensure that all schools comply with the act. Workshops happened in schools across the city. Students, parents and teachers spoke out at actions and demonstrations and the School Board meetings were consistently picketed. Finally on May 24, 2006, in the face of overwhelming organizing, a Don't Ask, Don't Tell policy was passed. The School Board also agreed to waive international tuition fees for students if a letter from a notary public stated the student was a resident and not a visitor. Simultaneously

the Canada Border Services Agency (Immigration Enforcement) released a statement declaring that they would never go into schools again.

We soon learned that implementation was partial at best. The School Board had not provided clear directions to their staff about the policy and some schools continued to ask for ID verifying immigration status during registration. Alongside teachers unions and other community groups, we started conducting workshops in schools, a teacher's advocacy committee was formed, organizers delivered professional development training for teachers and held high school conferences. This broad education work was not focused on access to schools alone, but rather connected issues of indigenous sovereignty, global imperialism, displacement, Canadian complicity in war and occupation, the exclusionary nature of Canada's immigration policy and ways for students and teachers to create safe spaces for all people in their schools. The campaign has expanded to include post-secondary education. No One Is Illegal student chapters in universities are building solidarity across campus groups, student unions and through presentations in classes.

It is very important to question what kind of education systems exist in Canada. When non-status children enter in to Toronto Schools they enter into an environment bereft of anti-racist, anti-imperialist analysis. As such, non-students become the disenfranchised, marginalized voice in a white nationalist project. The Education Not Deportation campaign not only aims to gain access but to develop and support community based organizers (teachers, staff and students) that will intervene in curriculum, pedagogical styles and the school's environment to create a sanctuary space that allows for radical ideas that challenge global capitalism.

In Toronto, decisions around policing and education are made autonomously from city council, but the mayor and city council could have strongly endorsed the policy at both boards. After the election of David Miller in 2004, we approached the city alongside the Ontario Coalition Against Poverty (OCAP) demanding that the fight to end poverty in the city include more affordable housing, implementing an anti-condo by-law in low-income communities, a freeze on the police budget, and implementing a don't ask don't tell policy. Miller was supportive of a DADT policy, but was not active in implementing it. The city produced a poster listing services that did not require immigration documents, but the policy has never been officially passed by city council or any training given to municipal staff.

According to Access to Services for Toronto Residents, a guide put out by the City of Toronto in 2006, non status migrants have real reason to fear the risk of detention and deportation. Under certain circumstances, paramedics are required to release incident reports to the police who may discover a person's status and turn them over to immigration. A person without status risks detention and deportation by seeking hostel services; shelter workers are required to ask questions about immigration status. Shelter workers could also report a person or family to immigration enforcement if they have been in the shelter system too long. The campaign, by working with service pro-

viders on-site, with participants in programs and with our community allies (such as OCAP, SAWRO and others), works to challenge the idea that non-status people are a drain on the system. The nearly 500,000 non-status people work multiple jobs pay municipal, provincial and federal taxes (GST, PST, Property Tax), but are not able to access the services the taxes provide. Simultaneously, arguments around "drains" posit basic services as gifts from a benevolent state to certain "deserving residents" the category "deserving" being defined and policed by the state. No One Is Illegal-Toronto asserts entitlements and status as belonging to everyone. Excuses of lack of resources and deficits also have little weight when there is always more money available for increased policing or for subsidies for corporations and developers. For instance, in 2008 the city approved a \$120-million tax break to Cordish developers for the development of Woodbine Live!, a new entertainment complex in the Rexdale neighbourhood without guarantees that the development will provide good paying unionized jobs. The city also approved a police budget of \$1-billion for 2009.^[5]

It is estimated that there are 200,000 people living without status in Toronto, but this number is probably much higher as it is difficult to track the number of non-status people and anecdotally, we are hearing that service providers are increasingly encountering non-status people. Frontline workers often make their own decisions to informally provide services to non status people. But only by having an official policy and protocol that service providers can effectively ensure non status people are able to access services and that non status people will not be turned over to immigration enforcement. This policy shift is only meaningful when it is accompanied by a radicalization around issues of poverty, race, gender and access to services for all people. The Sanctuary City we imagine is one that is safe for all people – queer, indigenous, women, poor, working class, differently abled and non-status.



CONCLUSION

While it is important to fight for rights and entitlements and access to public and social services, the institution of citizenship and borders must itself be challenged. Canada's citizenship practices are rooted in colonialism that continues to displace indigenous people on their land and deny them their rights and entitlements. As organizers for migrant justice on occupied land, we endeavour to work in solidarity with indigenous struggles for sovereignty in an anti-racist, anti-colonist fight for the self-determination of all people.

The DADT campaign is part of the broader struggle for Status For All. No One is Illegal Toronto's demand for Status for All is not a call for inclusion in the nation state, but challenges the nation state's legitimacy in choosing who gets status and who doesn't. This is particularly relevant in the context of Canada which is a settler colony on indigenous land. The call Status for All asserts that people everywhere, no matter where they choose to live, have an entitlement to freedom of movement, to participate in decisions that impact one's lives, to access education, healthcare, housing, social support and income security and to live with basic dignity. Global Inequalities through neoliberalism, war, ecological and economic destruction through profit has denied the majority of the world's citizens a decent standard of living. Many are forced to migrate to find a means of survival. Capitalism and imperialism work hand in hand to foster displacement elsewhere and exploitation here through the denial of status, Status for All is a call to dismantle these tools of power.

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Notes:

1. Jennifer Ridgley, "Cities of Refuge, Immigration Enforcement, Police and the Insurgent Genealogies of Citizenship in Sanctuary Cities," *Urban Geography* 29 (2008): 53-77.
2. Jill Lawless "Number of refugees worldwide rises to 11.4 million," *Associated Press*, June 17, 2008.
3. Harold Levy, "Teen in rape case spared deportation," *Toronto Star* pA02, July 28, 2004. "TO school board adopts 'don't ask, don't tell' policy for foreign students," *Canadian Press*, May 25, 2006.
4. Nicole Kallmeyer, "Don't ask vs Don't Tell," *Eye Weekly*, June 5, 2008. www.eyeweekly.com/blog/post/31505
5. Timothy Appleby and Jennifer Lewington, "New contract pushes police budget over \$1-billion," *The Globe and Mail* pA13, December 19, 2008. "Future is brighter with Woodbine project," *Etobicoke Guardian*, p1, Oct 30, 2008.

The Auto "Bailout": Necessary – but not Sufficient

Herman Rosenfeld

Working people throughout North America have been wondering about the "bail-out" being provided to General Motors and Chrysler by U.S. and Canadian governments. Although recent public opinion polls show a majority supports these measures many are asking why this is happening, if it really is necessary and if there are alternative ways of dealing with the current crisis in the industry. Workers in other sectors of the economy, in jobs that provide temporary or precarious work with low pay, those who are unemployed, and still others receiving social assistance of various kinds, are left wondering if the aid to the auto industry wouldn't be better spent on programs that might directly help *them*.

These are important questions and they reflect legitimate concerns about the role of governments in a neoliberal capitalist society, particularly one that is entering a period of economic turmoil and crisis. It also raises questions about the interests of different sections of the working class and how we might move forward in solidarity to address our particular and common needs in the rapidly emerging struggle.

THE CRISIS AND THE "BAIL OUT": SHOULD WE BE CONCERNED?

Two of the Detroit-based auto companies are to receive loan guarantees of \$17-billion in the U.S. and about \$4-billion from the Canadian Federal and Ontario provincial governments. Technically, if used, these have to be repaid. Ford, the third company, is to receive a line of credit.

The financial crisis which began a few months ago has affected the operation of the real economy that produces goods and services that all of us use. The breakdown in credit has made it difficult for people to borrow money and the threat of job loss has affected their willingness and ability to buy. With no one buying cars, assemblers must use up cash reserves simply to keep themselves solvent. This crisis has affected all car assemblers, not only the Detroit Three – Toyota, Honda and Nissan have reported losses and massive drops in sales as well. The Detroit-base companies were in a weaker position to begin with, and so the current financial crisis has threatened their very survival.

Why should we be concerned with this, after all, these companies have never been great friends of the working class.

These companies, which used to be the largest and strongest capitalist enterprises in the world, are genuinely in trouble. Without this aid, they will run out of cash and will go into bankruptcy court. This would lead to massive layoffs and closures of workplaces in many communities.

Aside from these very real effects, lie some key principles. In a capitalist economic system, workers are dependent upon employers' survival in the marketplace in

order to retain their jobs. There is certainly an *ideological* dependency that workers tend to have on capital – the false belief that investors and employers are the creators of wealth and value. But there is also a real *material* dependency that almost all working class people instinctively understand, as a condition of their participation in capitalist society. It represents a key source of strength for the capitalist system and acts as a kind of brake or limit on the independence of the working class. As socialists, social justice activists or trade unionists, we have to always keep it in mind while working to lessen and ultimately break that dependency. But we can't ignore it, if we want to make change. In general, change comes by educating and mobilizing workers, fighting for public, non-market rights and services such as Medicare, pensions, housing, education; building working class organizational and political independence through struggles, and

Both the U.S. and Canadian auto unions have pointed out that a key component of the cost “advantage” of the transplants is related to the lack of public single payer medicare in the U.S.

building institutions like unions, political parties and movements and fighting for structural reforms that lesson the power of private capitalists over the working class. In the longer run, we fight for an economic and political system that is completely independent of private capital.

In the current context, loan guarantees allow the auto companies to survive for the time being. This keeps open other options that socialists, unions and activists can fight for. Without them, millions of workers will simply lose their jobs and the collective productive capacities these industries represent – even in the alienated form as private capital – would be lost to all of us. Obviously, we can't trust these companies or the current U.S. and Canadian governments to restructure themselves in ways that would strengthen working people or bring less harm to the environment. In fact, the opposite is the case.

THE CONCESSIONS SPIRAL: WHEN LESS BECOMES TOO MUCH

The U.S. Congress has demanded that, as a condition of the loan guarantees, UAW members at the Detroit Three cut their wages, benefits and working conditions to match the non-unionized “transplants” (plants owned by overseas-based capitalists), now concentrated mostly in the aggressively anti-union Southern states. This must be done by the end of this year (2009). This demand was initiated by a group of right-wing Senators from these states that used their power in the lame duck U.S. Congress in December, to try and smash the unions in the auto sector. The corporations, as well as the Canadian and Ontario governments have also demanded that the CAW match these concessions.

While both the U.S. and Canadian auto unions have pointed out that a key component of the cost “advantage” of the transplants is related to the lack of public single payer medicare in the U.S. (so that the employers must pay for the medical insurance of the workers) and the age differences of workers in the transplants and the older manufacturers (so that pension costs of the transplants are much lower than the unionized workplaces), they agreed to accept the principle of matching the non-union employers.

The American United Auto Workers (UAW) seems to have accepted these demands to lower labour costs to match the lowest cost producers without qualification. This is not surprising: the UAW had previously bargained a two-tier wage system that dramatically cut the wages of a new generation of auto workers. With further concessions thrown into the mix, along with the commitment to trail behind the lower cost non-union producers, this will result in the loss of the key gains that auto workers had won in the entire post-war period and essentially destroy what's left of the power of the once mighty UAW.

In Canada, the situation is almost as grave. In the recently concluded bargaining with the auto assemblers, the CAW gave up roughly \$300-million in concessions, but did not agree to the two-tier wage system negotiated in the United States. While publicly arguing that the cost differential between the U.S. transplants and Canadian CAW plants are marginal – due to higher productivity levels here – the union announced at the end of January that it would begin bargaining with the corporations for further concessions. This was probably unavoidable. But the acceptance in principle, of the demand of governments and employers to match the labour costs of the non-union transplants was truly shocking. This acceptance will make it very difficult for the CAW to limit the concessions and set terms for their eventual elimination. The union has called on the employers to maintain proportional investments in Canada. But rather than demand a radical transformation and regulation of the auto market, which might ultimately address the need to challenge global warming and reduce the power of the non-union employers, the union also calls on governments to accept the recommendations of a joint union-industry task force, which also includes the transplants.

If the U.S. and Canadian states are successful in forcing through their full agenda of concessions, it will undermine the rights of the rest of the working class: non-unionized auto-workers in the transplants will no longer receive wage and benefit packages that match the unionized sector, so they would eventually shrink dramatically, along with the entire sector; workers in sectors that currently provide low pay and provide little protections, would be that much weaker, as the possibility of unionization becomes even more remote and benefits of unionization become less real. In other words, the strength of the auto-workers and their unions plays a role in supporting and building the power of other workers. A massive defeat for the auto-workers would be a defeat for the entire working class.

CHANGING THE GAME: DEMANDS FOR EQUALITY, SECURITY AND SUSTAINABILITY

Socialists have to call for (and organize for) a different set of outcomes. This might mean:

- *Demanding that the companies change their product offerings:* to produce affordable, environmentally-friendly vehicles, using mostly non-carbon-based fuels, fully recyclable, with much higher emission control standards. (Even in the current context, these companies are fighting tooth and nail against the U.S. government's most recent move to allow individual states to raise the emission standards.)

- *Fighting concessions:* Instead of passively accepting the demands of the employers, unions have to organize against takeaways of workplace rights and powers, as well as wages and benefits. Where concessions can't be avoided, there has to be a strategy of limiting them and arguing for conditions for their eventual elimination. In no way should auto-worker unions accept the principle of matching the labour costs of the non-union transplants. Instead, they should concentrate on organizing them.

- *Regulating access to the North American auto marketplace* so that the amount of production in Canada and the U.S. would match market levels. This would limit the ability of capital to move in and out of any of the NAFTA countries, and subject the industry to a form of nationally-based planning.

- *Surplus plants, tool and die shops, precious skills and workers' capacities need to be used to produce useful goods and services that people need.* This crisis provides an opportunity to allow working people to democratically decide on what community needs should be fulfilled by these resources, be it public transit, manufacturing environmentally-friendly technologies, schools, hospitals, recreational facilities or public and co-operative housing. People in different communities, especially the unemployed, need to be organized and mobilized to fight for these policies. It would also require the creation of new democratic institutions to provide spaces for working people to discuss and debate their collective preferences. People working need to be paid union

wages, and organized into unions. Those who are not able to work need to have increased social assistance and their own organizational power and capacity to fight for it.

- *The financial sector needs to be nationalized and democratically run as a public utility to finance the production of needed goods and services.* Private banks and markets would never finance such a program.

- *Some socialists have been calling for nationalization of the auto companies, with the above demands to be put into practice.* The issue here is who would nationalize them? What kinds of governments do we have and would they be capable of running nationalized industries differently than they are currently run?

Without the kinds of radical changes proposed above, even an enriched series of loan guarantees might not make a difference for the survival of the Detroit Three in the longer term. Then again, a more sustained improvement in the market might create a new period of growth. In the short run, unless there is a new series of mass working class struggles, it is difficult to see this set of demands taking root. For socialists, the key is that we develop our own capacities as workers to organize, build unity and embrace common goals for different segments of the working class and mobilize and fight for an independent set of demands and approaches that will contribute to the kind of society we would like to see in the future.

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Unions and the Crisis: Ways Forward?

Greg Albo

The political and economic setting facing the union movement today is, perhaps, the most difficult since the Great Depression. Unions had already confronted two decades of unrelenting assault from neoliberal policies of labour market flexibility, austerity and political conservatism. Then, the global financial crisis triggered by defaults in the U.S. subprime mortgage market starting in 2006 ripped across the entire world market. Indeed, many forecasts for 2009 are projecting negative growth for the world economy as a whole for the first time since the 1930s. It is no longer uncommon to hear discussion of the possibility of depression from the most apologetic for capitalism.

The extent of the economic slowdown already makes for sober reading. In the fourth quarter of 2008, economic output fell, on an annualized basis, by six percent in both the U.S. and the Euro zone, and an astonishing 12 and 20 percent in Japan and Korea respectively. Chinese economic growth has also been cut in half, and exports have fallen by 40 to 50 percent across East Asia. No zone of the world market is being insulated. Canada's economic growth has also turned negative, and forecasts suggest negative growth in the order of two to three percent for 2009.

The tally of financial losses is quite staggering. The Asian Development Bank has estimated that financial assets worldwide have declined by some \$50-trillion (which is about the same amount as annual global output). Western banks have written down about \$1-trillion in assets, and estimates run from \$3 to \$5-trillion of losses in the banking sector alone. The U.S. government alone has already committed \$9-trillion to its financial sector in various forms to maintain solvency. The sheer magnitude of the debt means that depressed economic conditions are likely to be long-lasting, and the distributional struggles very intense over how the bad debt – 'toxic assets' is the euphemism of the day to disguise the massive market failure and incompetency of the financial sector – is destroyed, socialized or inflated away.

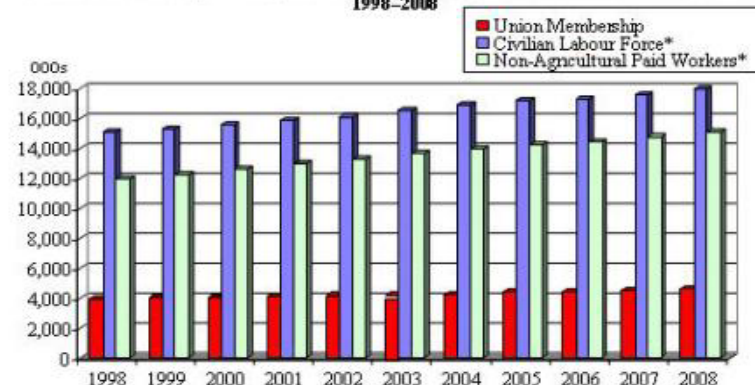
The financial chaos is causing untold damage to workers. The International Labour Organization (ILO) has suggested that global job losses could reach as high as 51 million for 2009. In Canada, the devastation in the labour market is already immense. Unemployment has already climbed to 7.7 percent, with almost 300,000 jobs being lost since October alone, and almost all new jobs created being part-time.

CAPITALIST STRATEGIES

It is impossible to calculate how deep or prolonged the economic recession might be. Competitive imperatives will compel capitalist firms (as well as state employers) to

Union Membership in Canada, 1998–2008

Union Membership, Non-Agricultural Paid Workers, and the Civilian Labour Force
1998–2008



* Statistics Canada, The Labour Force Survey, Labour Statistics Division.

Note: Civilian labour force and non-agricultural paid employment data shown for each year are annual averages of the preceding year; data shown for union membership are as of January of the years shown and as reported by labour organizations.

Source: Human Resources and Skills Development Canada

Year	Union Membership	Civilian Labour Force	Non-Agricultural Paid Workers	Union Membership as a % of Civilian Labour Force	Union Membership as a % of Non-Agricultural Paid Workers
	(000s)	(000s)	(000s)	%	%
1998	3,938	15,079	11,964	26.1	32.9
1999	4,010	15,316	12,212	26.2	32.8
2000	4,058	15,588	12,603	26.0	32.2
2001	4,111	15,847	13,027	25.9	31.6
2002	4,174	16,110	13,304	25.9	31.4
2003	4,178	16,579	13,650	25.2	30.6
2004	4,261	16,959	13,965	25.1	30.5
2005	4,381	17,182	14,265	25.5	30.7
2006	4,441	17,343	14,464	25.6	30.7
2007	4,480	17,593	14,782	25.5	30.3
2008	4,592	17,945	15,111	25.6	30.4

Source: Human Resources and Skills Development Canada, and Statistics Canada, *The Labour Force Survey*.

restructure workplaces and challenge union contracts. This will build on what is now a three decades old ‘employers’ offensive.’

The offensive emerged in the late 1970s as capitalists attempted to restore company profitability and control over the labour process after considerable erosion over the postwar boom. The rate of profit had fallen by about half over the postwar decades across virtually all zones of the world market. The fall was especially sharp in North America. The decline in profit rates coincided with a push by unions and workers to gain an increasing share of output, to expand public services and to address inequalities facing women and racial minorities. These efforts were backed by the largest and longest strike wave in the history of the advanced capitalist countries – with Canada consistently leading in days lost due to strikes – from the mid-1960s to across the 1970s.

The capitalist classes responded with a number of strategies to the union militancy and declining profits. At the level of the state, neoliberal policies from the 1980s on deregulated markets, imposed fiscal austerity, cut welfare, liberalized trade and capital flows and so on. In terms of workplaces, this meant increased ‘flexibility’ in terms of job controls, wages and employment.

In terms of wages, for example, the focus was on curbing real wage gains for workers and breaking a linkage between productivity gains and annual wage improvements. More of output increases would thus go toward profits. This initially occurred in the 1970s via inflation eroding bargained money wages. But from the 1980s on it came in the form of pressures from high unemployment rates restraining collective bargaining demands. Except for a few years, the wage austerity has been unrelenting.

A number of other strategies radically reshaped work relations. Firms have reorganized their labour processes into international production networks and shifted work into low-wage, weak-union production zones. Information and communications technologies have facilitated the introduction of ‘lean production’ intensifying work processes. Employers have broken with ‘standard’ work arrangements and increasingly resort to contingent work arrangements, cheap migrant labour pools and temporary work programmes. In collective bargaining, unions increasingly trade-off wage restraint and workplace concessions against job security, agree to co-management schemes for firm competitiveness, and even enter into ‘voluntary recognition agreements’ to gain members while giving up the right to strike and other job controls. The employers’ offensive has made ‘competitive unionism’ the dominant practice, in both the public and private sectors, in North America.

The economic crisis has made employers even more militant in their demands for wage austerity and concessions. One strategy has been cuts to negotiated health benefits (insurance plans in the U.S.) for current employees and retirees, as well as other benefits. Another emerging strategy is to redefine – or even walk away from – pension obligations, as has occurred in the steel and auto sectors and in numerous non-union-

ized companies. Work intensification is also occurring as workers are being pushed to give up time-off, holidays, work breaks, and so forth. And capitalists are increasingly using bankruptcy proceedings (or the threat of it) to crack open union contracts and demand sharp cuts to wages and benefits. The airline and steel industries in both Canada and the U.S. have adopted this strategy; it is now most visible in the auto manufacturing and parts sectors. In the public sector, such cuts have long been a consequence of privatization.

The underlying logic of all these strategies remains shifting the share of new value produced toward company profits and away from workers’ wages and expanding public services. There is little in current collective bargaining that is not reinforcing the worst features of neoliberalism.

NEW POLITICAL OPENINGS?

Up to the financial crisis, these capitalist strategies proved quite successful in re-establishing profitability and capitalist power. This is not to say that growth was at same pace as the postwar period or that economic hardship did not result for most workers. As Marx pointed out in *Capital*, the ‘general law of capitalist accumulation’ is the amassing of profits and wealth at one pole and a reserve army of labour and social needs left unmet at another.

Marx also argued in *Capital* that each phase of accumulation contained the seeds of its own destruction. The internal contradictions of neoliberalism are now readily apparent: fictitious capital and debt massively growing relative to the growth of productive capacity and the deterioration of public services; wage compression leading to increasingly indebted working classes and unstable conditions for effective demand; the undermining of extra-market regulatory capacities to constrain capitalist competition, speculative bubbles and fraud as an endemic feature of financialization; and huge international payments imbalances reinforcing dependence on the world market while spreading its potential instabilities.

Neoliberal and free market ideology is now totally discredited. But capitalist strategies and government policies are attempting to reconstruct neoliberalism as the basis for again restoring capitalist profitability. This is the political challenge the union movement now faces.

Many union activists had already been pointing out for some time that conventional collective bargaining strategies and union politics were only leading to further setbacks and concessions. The economic crisis has now made this obvious to everyone. Existing union strategies are neither confrontational enough to challenge capitalist workplace strategies after years of concessions. Nor are they politically ambitious enough to form the necessary anti-capitalist strategies to form the political agendas and organizational capacities to forge an alternate approach to the crisis.

There are, however, several hopeful signs of union renewal that could begin to chart a new direction. In North America, some of this has come from 'living wage' struggles led by local labour councils in major cities, in alliance with community groups, to reach out to the low-waged and unorganized, who are predominantly women and people of colour. The mass immigrants' rights May Day protests, as well as the day-to-day campaigns for the protection of non-status workers, have taken place outside the main union movements, but also led to new linkages and alliances. A number of campaigns – notably some of the anti-privatization struggles around healthcare, universities and municipal services – have had successes across several countries. These community-union alliances, often coupled with major campaigns and demonstrations, suggest enormous potential.

There also have been interesting examples of a new organizational internationalism amongst unions. The efforts to coordinate aspects of collective bargaining in the steel, auto and healthcare sectors, extending from North America to both Europe and Latin America, to confront work issues spread across international production networks, is one example. The campaign against the militantly anti-union Wal-Mart is also suggestive. International solidarity campaigns, such as those with Palestinian workers in the Occupied Territories and inside apartheid Israel, against the continued assaults on unionists in Columbia, for the rights of migrant workers, or for the rights of workers in countries like Venezuela to experiment in workers' control, also are promising signs of organizational renewal.

In the context of the economic crisis, it is necessary to form a set of demands that might converge across different struggles and sectors to embed an anti-market logic in bargaining that might offset the worst features of the slowdown. In terms of workplace struggles, a core set of campaigns might be:



1. the fight against concessions in wages and benefits;
2. in the preservation of negotiated pensions;
3. building in annual reductions in work-time within wage negotiations;
4. support for plant occupations and community seizure of assets, particularly in cases of bankruptcy and firms receiving state subsidies; and
5. extension of all other forms of hours reduction in terms of parental leaves, annual holidays, over-time, and so on.

A set of union demands directed at the economic crisis is also important:

6. the overhaul or unemployment insurance systems in terms of benefits, principles of eligibility and administration;
7. industrial strategies directed at ecologically responsible production;
8. massive extension of 'green jobs' in the culture, leisure, and sporting sectors;
9. nationalization of the banking sector;
10. building a national childcare system;
11. nationalization of the transportation sector and development of a national mass transit strategy; and
12. establishment of a national housing programme.

WAYS FORWARD

These types of demands, of course, have been percolating through the union and socialist movement for some time. They would also require the formation of basic planning capacities in a quite different kind of state than now exists. They will receive no support from the ruling class power structures in Canada or the USA. They will depend on reversing the decline of the union movement and the wider impasse of the Left. Working class political organization has in the past achieved a great deal: leading de-colonisation struggles; campaigning for the expansion of freedoms and equality to women and racial and sexual minorities; improving wages and benefits; and agitating for the extension of universal welfare states.

The social forces that achieved these gains are now quite something else: the communist parties have all but disappeared even in places where they once held power (or they have made their peace with capitalism as in China); the social democratic parties now chart a 'Third Way' and no longer even pose a reform agenda to neoliberalism; unions are in retreat; and many civil society movements have evolved into professionalised NGOs navigating the grant economy. The central political coordinates for labour movements over the last century – being for or against the Russian revolution; attempting a vanguard seizure of the existing state apparatus or reforming it piecemeal; conceiving unions as primarily the industrial wing of this or that political

party – no longer provide any kind of map for the struggles unions and workers now confront.

For a brief moment, it seemed as if a decentralized ‘network politics’ – a ‘movement of movements’ – would provide, if not a map for the future, a renewed political capacity for the Left. It was represented in the hopeful ‘Teamsters and Turtles’ slogan of the heady days of the anti-globalization movement. But apart from episodic demonstrations and annual social justice fairs, the networks have broken apart more often than they have provided new organizational nodes. There has been almost a complete lack of organizational grounding in the day-to-day struggles of working class communities, workplaces and unions.

This ‘anti-power’ politics is now being eclipsed by new political experiments beginning from – and not against – organizational commitments to unions and political parties. In Latin America, this has taken place under the banner of building 21st century socialism in a number of countries. A ‘new’ New Left appears to be emerging from the margins in Greece, Germany, France, Portugal and other places as well.

Under the pressure of events, some sections of the North American Left are also beginning to pose the question of how to build anti-neoliberal – and at times anti-capitalist – alliances and a new political organization of a pluralist Left. From their anchor in workplace struggles and in particular communities, a renewed union movement is a crucial component of such a new Left. Indeed, in representing the deep diversity of workers and their issues – in terms of gender, racial background, sexual diversity, and so forth – unions have been leading society in this area over the period of neoliberalism rather than following it.

Moving on will require forming new political capacities and an organizational openness and creativity that the Left in North America has not shown for some time. The long decline of unions in the face of powerful capitalist strategies to restore their power over the neoliberal period had already made this clear. It has now become an imperative. That realization is always the point of a new beginning.

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Part 5: Alternatives



Notes toward ...

A Socialism for the Times

Alan Sears

These are strange days indeed for socialists and all those who fighting for a better world.

On the one hand, the neoliberal project of slashing social programs and deregulating the economy while increasing the repressive power of the state seems to be ideologically exhausted and increasingly unpopular. On the other hand, the possibility of any alternative seems literally unthinkable. There is widespread cynicism about the dominant ideas, yet virtually no discussion of other perspectives.

The major parties in electoral systems around the world have completely aligned themselves with neoliberalism, with only the smallest number of exceptions such as Venezuela, Bolivia and Ecuador, where the parties in question are linked to insurgent social movements. In the Canadian state, the NDP, Liberals, Conservatives and Bloc Québécois completely agree that neoliberalism is the only game in town; the differences between them come down to minor disputes about how to play it out.

The labour movement has reconciled itself with neoliberalism and lean production (which uses just-in-time methods to eliminate “waste,” and new models of teamwork to make workers partners in productivity), with the deal between the Canadian Auto Workers (CAW) and the giant auto-parts firm Magna standing as an important milestone in a longterm process of adaptation and partnership with the employers and the state. Social movements are, in general, at a low ebb, in most cases using only the most passive strategies to fight for the most realizable changes within the dominant framework.

There is a remarkable consensus across the political spectrum around a set of ideas that is increasingly unpopular. The results of 30 years of capitalist restructuring are in, and the devastating toll is clear. Working-class people are living with ever-greater insecurity and more are facing poverty with ever fewer resources. On a global scale, people face greater barriers to mobility while corporations and investments face fewer limits. The environmental threats to our health and that of the planet are ever-increasing in this era of unbridled capitalism. The attempts by Bush, Harper and others to convince us that our increasing insecurity results from “terror” to be combated by imperialist war in Afghanistan and Iraq has been highly unsuccessful.

“The Richest of the Rich, Proud of a New Gilded Age” was a headline in the *New York Times* on July 15, 2007. The article pointed out that the current concentration of

wealth in the hands of a tiny ultra-rich minority has not been seen since the late 1800s and early 1900s. Meanwhile, at the other end of the income scale we are living through a period of appalling poverty and dislocation, marked by a shocking increase in inequality locally and globally.

This sounds a lot like the world Marx described in the *Communist Manifesto*, which was written in the mid-1800s when class polarization was particularly visible. Many of the working-class gains that might have created the illusion that class divisions were eroding – such as the welfare state, higher working-class wages and secure union contracts (at least for some) – have been swept away.

Yet socialism is not, at this point, rising from the ashes. This is a time when the relevance of socialism seems almost self-evident, and yet it is, in practical political terms, more marginal now than at any time during the 20th century. We need to understand more about this contradiction.

WHY DOES SOCIALISM MATTER?

One response to this contradiction would be to say that socialism is over and will not be relevant to future freedom struggles. But there is a lot to lose if we casually write socialism off. Socialism points beyond capitalism, towards another way of organizing human life based on unleashing our creative capacities through genuine democratic control of the key productive resources of society. The compass of socialism shows the way to another possible world, even if it is way over the horizon and invisible from our present location.

This orientation beyond the current power structure means that socialism provides a unique perspective for mapping capitalist society. It allows us to see the everyday world we are familiar with in dramatically new terms, bringing to light aspects of life, work and politics that we usually take for granted because they seem fixed and unchangeable.

At the moment, for example, the U.S. economy seems to be in recession and far worse times are likely in the near future. From within the system, this seems to be the action of impersonal market forces shifting rather like a sharp change in the weather when a storm front approaches. It is futile to protest against a coming snow storm as it is not (at least in any simple and direct way) the result of human actions, and therefore we cannot really change it. Daily life under capitalism convinces us that market forces are much like the weather, something that happens to us that is not the result of human actions and not subject to change.

The economy, however, is very different than the weather in that it is made up of relations between people and interchanges between people and nature. Ultimately, it is human activity within a particular framework of social relations that leads to economic upturns and downturns, even if the patterns are very complex. The huge bubble of

subprime mortgages in the United States, for example, was the result of financial institutions trying to make big profits out of the housing needs of lower income households in an environment where the financial system was bulging with cash from the mega-profits of the very rich and state regulations were very lax.

Socialism provides us with a perspective that allows us to see the ups and downs of the economy as part of a system of human relations that can be swept away and replaced. If we take the limits of capitalism as the horizons of possibility for human experience, then we see these ups and downs as the product of market forces that are not subject to human decisions. Most ways of looking at the world, including many that are critical of social injustices, take capitalism for granted and therefore seek change within that dominant framework.

Right now, when socialism is highly marginalized, many activists and theorists suggest that freedom struggles should concentrate on finding solutions at the local scale, leaving aside any big projects for transforming the system. This ultimately means limiting the horizons of change to what is possible within capitalist social relations, as this power structure will be there until it is deliberately overturned.

Socialism provides tools for unlocking our dreams of real freedom by connecting our activism and our analysis of injustice to an orientation towards other possible worlds. It allows us to connect these dreams to a map of the power structure of capitalist society that reveals the ways it can be overturned. Specifically, its map reveals that the people who labour every day in factories, offices, schools, mines and a variety of other settings have the potential to collectively and democratically seize control of their workplaces, which taken together make up the key productive resources of society.

This vision of socialism rests on the conception of overturning the capitalist system through the active and democratic mobilization of the mass of the working class, rather than liberation being the act of some small elite. This perspective highlights strategies for change that challenge the dominant power structure through building counter-power from below.

This counter-power is necessarily built within capitalist society, fighting for immediate improvements and reforms, yet is always oriented towards the creation of new forms of democratic participation that challenge the limits and, ultimately, the existence of existing institutions. The orientation towards building a coun-

Socialism provides us with a perspective that allows us to see the ups and downs of the economy as part of a system of human relations that can be swept away and replaced.

ter-power makes a big difference in the way we conduct ourselves in everyday freedom struggles in capitalist society, which at key insurgent moments flow together to open the possibility of a broader social transformation. Rather than simply signing petitions, appealing through the courts or voting for someone to represent us, we build a counter-power when people become active in their own cause: occupying, striking or taking demands to the streets.

Underlying this conception of building a counter-power is a great confidence in everyday people, the mass of the working class and oppressed people, to act creatively in defining and fighting for their interests, ultimately taking power with their own hands. Too many emancipatory theories are ultimately dismissive of the mass of the population, seeing them as bought into the system or merely passive, to be liberated only through the activity of a heroic minority.

This orientation towards building a counter-power that is ultimately capable of overturning capitalism means challenging the dominant ideas of democracy within capitalist societies. Capitalism is not inherently democratic, but on the contrary is based on monopolization of the key productive resources in society and the exploitation of the majority by the small minority in control. The whole system of government is distorted towards keeping this minority in control and meeting their insatiable need to profit from the labour of workers.

Democracy was not a gift from above, but was won from below through hard struggles by workers, people of colour, women, lesbians and gays, indigenous and colonized peoples. Socialism thrived as part of these struggles for full citizenship, both in the limited form of winning the vote and in the wider form of gaining access to certain legal and social rights, such as formal freedom from discrimination and access to certain health, education and social programmes.

The limited form of democracy and citizenship that was won from below is important, but we must also be aware of how narrow it is. As long as a small minority continues to have dictatorship over the key productive resources in society, democracy and equality will be limited and formal. We have no real democratic control over what is produced, how it is produced, how work is distributed or how knowledge is disseminated. Further, citizenship is necessarily exclusionary, granting limited rights to some while stripping others of any rights.

Building a counter-power requires that we commit ourselves to a far richer, more active and more inclusive form of democracy. There is a very real democratic process that takes place when people mobilize and take the streets, picket or occupy. This kind of democracy is often dismissed as “mob rule” or “violence” by defenders of the system who would confine us to voting once every four years and occasional polite, symbolic and legal protest. Socialists should value every little bit of freedom that struggles from below have managed to eke out of the capitalist system, yet point to much richer understandings of democracy grounded in collective activity.

The orientation towards building a democratic counterpower to challenge the fundamental basis of the capitalist system also means that socialism has a universalistic understanding of emancipation, potentially bringing real content to the slogan “an injury to one is an injury to all.” People seeking freedom have often been drawn to this conception that liberation struggles are deeply interconnected so that no one can be truly free when others are bound in shackles of unfreedom.

Actual socialist movements have often failed the test of this high standard of universalism and solidarity, leaving many feeling betrayed. Even if socialist movements have often failed to meet their own standards in this area, socialism can provide an important basis for a universalistic and transformative understanding of freedom.

MARGINALIZATION OF SOCIALISM

Socialism may have a great deal to offer us in our struggles for freedom, but it has very little weight these days. Socialism is marginalized in part because it is seen as a colossal failure. Indeed, it is possible in the current climate to casually dismiss socialism by pointing to the collapse of the Soviet bloc, the dramatic erosion of the welfare state and the end of “Third World” economic and political strategies to regulate interactions with global capitalism. Part of this casual dismissal is the idea that socialism not only failed to make a better world, but actually made things worse.

If socialism really has failed on a world scale, then any attempt to revive it might seem to be the project of relatively small numbers of leftover cultish dogmatists deliberate in their ignorance of this ugly legacy. Those of us who want to argue for a renewal of socialism need to start with patient discussion of what we mean by socialism and how we explain the legacy of 20th century socialisms.

Socialism has come to mean a lot of different things over the past 150 years. U.S. socialist Hal Draper clarified debates about what we mean by socialism tremendously by distinguishing between ideas of socialism from below and from above. Socialism from above is associated with increased state and party control over the society in the name of the people, while socialism from below is based on the collective and democratic seizure of power by the mass of the working class with their own hands.

Much of the “failure of socialism” is associated with socialism from above strategies that sought to use state power to moderate the impact of capitalism on the population and/or run the economy directly. This was true of the one-party forms of rule associated with the Soviet bloc and Maoist China as well as with the electoralist social democratic parties in the West. The neoliberal restructuring of capitalism since the 1970s has specifically squeezed out the space for certain forms of state regulation of the economy associated with the welfare state, the imposition of conditions on corporations and the nationalization of property.

It is a common assumption that socialism means state control, one-party rule and vicious restrictions on free expression. This ignores the long history of bitter struggles against authoritarian socialism from above waged from various socialism from below perspectives. The casual dismissal of socialism and the idea it has failed is being used as a wedge to separate us from our collective memories of struggle, particularly obliterating the libertarian forms of socialism associated with vibrant ideas of real democracy and freedom.

The marginalization of socialism today is not only the result of the failure of certain forms of socialism from above, but also the overall weakening of our counterpower, and the infrastructure of dissent that supports it, since the 1970s. In recent issues of this magazine, I argued that 20th century socialism thrived as part of a rich and varied infrastructure of dissent that helped activists develop capacities for communication, analysis and solidarity. The struggles for basic democratic, labour and social rights developed key elements of community through a variety of shared political, cultural, educational and social spaces, ranging from sustained opposition movements within unions to leftwing cultural spaces.

Many of these spaces are now gone, due not only to a decline in the level of activism but also important changes in working-class life and work. Around us we find only the faintest echo of the forms of community that sustained earlier mobilizations and nurtured socialist consciousness. We must begin to understand and orient ourselves around the new forms of infrastructure of dissent that emerge with new rounds of struggle. Socialist organizing is not a substitute for rebuilding the infrastructure of dissent, but can and must be oriented around making a contribution to that broader process of rebuilding our collective dissent capacities.

SOCIALISM AND THE NEXT NEW LEFT

There is every reason to believe that there will be new waves of struggle, given the unpopularity of neoliberalism and the toll that capitalist restructuring has taken on our lives. The mobilizations will see the emergence of the next New Left, as the old Left inherited from the past is oriented around a particular configuration of work, community and politics that no longer exists in the same way. New Lefts have emerged before as movements face challenges that the tools answered by previous left formations do not fully answer, for example in the insurgent wave of revolt after World War I or in the massive mobilizations during and after 1968.

One of the challenges facing the next New Left will be rebuilding the infrastructure of dissent that develops our collective capacities to express, analyze and act together. Examples of modest rebuilding abound in the struggles of our times. CAW workers used the mobility of contemporary communications technology to build a whole new generation of flying pickets that were able to stop scabs from getting into Navistar in Chatham during the strike there in 2002. The meat packers strike in Brooks,

Alberta in 2005 provided a taste of the new forms of anti-racist solidarity that need to be built as genuinely inclusive forms of fighting working-class organization are being built. The global justice movement of the period 1999-2001 reminded us that demonstrations need not be simply symbolic events, but organized forms of organization for collective activism that could actually make things happen.

Socialist ideas can make an important contribution to rebuilding these capacities, providing an important orientation beyond capitalism towards other possible worlds. Socialism at its best offers a series of tools for fluid action and analysis rather than a single correct path.

If we are to think socialism anew for these times, we cannot be bound by the versions of socialist organizing that emerged through the 20th century; nor can we casually dismiss the experience of 150 years of struggle for freedom. We need a new socialism that is genuinely transformed by its encounters with feminism, anti-racism, queer liberation and ecological movements, so that it is true to the idea of universal emancipation. The struggles of the 1960s and those since have created new standards for activism in the areas of gender, racialization, sexuality and environmental sustainability and a socialism that does not meet these standards will not meet the challenges of these times.

This requires genuine encounters with these movements and the emancipatory perspectives that emerge from them. To begin building a socialism for these times, we need to learn from the movements around us and from the critical examination of past struggles. Socialists are often in a bit of a hurry to teach, and do not spend enough time listening patiently, investigating open-endedly, and learning. The development of a socialism for these times requires collective work of investigation, debate and discussion, which can only happen as we reflect actively on the struggles of the day and those that are just emerging beneath the radar.

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Financial Crisis and Ecological Amnesia

Laurie E. Adkin

As OECD governments and political parties rush to pour billions of dollars into the generation of more credit to stimulate more consumption, no one seems to be pointing out that only a short time ago, the same governments were insisting that there was no money for a significant reduction of greenhouse gases. There was no money for transition to renewable energy sources. There was, in short, no money to invest in the ecological transformation of our economies. Now, it is as if politicians everywhere have developed a severe case of ecological amnesia. Is there no longer a global warming crisis? A collapse of fish stocks in the oceans? An historically unprecedented rate of extinction of species? Millions of people living without clean drinking water or sanitation? Endemic illnesses caused by ubiquitous toxins? Or any of the other socio-environmental crises that scientists and social ecologists around the world have worked so hard to document and to bring to the public's attention?

Suddenly all that matters is that "consumers" in the rich countries redouble their efforts to over-spend, over-consume, and generate more waste so that the global economy does not remain in recession. And let's not mention that personal debt is a huge problem in North America, as well as a leading cause of the current crisis. Have all these economic experts and politicians had their memories and imaginations surgically removed?

Unbelievably, there is serious talk of handing over billions to the big three auto-makers to restore demand for private vehicles. Are cars not one of the major sources of greenhouse gases that only a short time ago we were, supposedly, trying to discourage people from buying and using? Where are the billions for investment in urban public transportation and rail transportation? In environmentally-sustainable jobs for the thousands of autoworkers who face unemployment due to the short-sighted, profit-maximizing strategies of their employers? Heck, if governments can nationalize banks in a crisis, why can't they buy controlling shares in the auto manufacturers and redesign the plants to produce electric buses, trains, and other pollution-reducing products? The collision between the old "endless growth and consumption" economics and the environmental crisis will not be averted by pouring billions into the old, destructive model. Nor will sustainable livelihoods be created for autoworkers and their children.

In Alberta, the oil and gas giants are putting their expansion projects in the tar sands on hold, now that the price of oil has fallen by half since last year. Ah, what a carbon tax could not achieve, a financial crisis has wrought – at least in future emissions of greenhouse gases – at least temporarily. And what is the response of the Alberta Government? The sky is falling!! Quick, cut the budget (public services first, of course)! Spend when you've got it; invest nothing in the future; follow corporations' interests wherever they lead; do nothing to direct the economy in a greener direction; run around like headless chickens when the budget surplus falls... That's Conservative economics. What should we expect next? A "rescue plan" for Syncrude, Shell, Suncor, Albion, and the rest? Funny how there is never any money for child care, or for investment in renewable energy growth, and no thought of making mega-emitters internalize the costs of their greenhouse gas emissions.

At the federal level, the Harper government seizes the opportunity to cut the salaries of civil servants and remove their collective bargaining rights, and to undercut the public funding of political parties in the hope of weakening their opponents in the next election. Neoliberal ideologues and political tacticians to the end, eh, never mind what's going on in the real world. Never mind that it is renewed public investment in services and green infrastructure and a revitalized democratic politics that are needed to get us out of economic and ecological crisis and into a greener future.

What an opportunity to grab the horns of this financial crisis and turn it in the direction of a green economic transition! Are there any political leaders out there with the courage to do it before the moment has passed?

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The Financial Crisis: Notes on Alternatives

Sam Gindin

Over the last quarter century, the left in most of the developed world has been marginalized as a social force. The 'culture of possibilities' for left alternatives has correspondingly narrowed. But historic changes, above all the discrediting of neoliberalism, hold out the potential of at long last reversing that earlier defeat. With the continuing financial turmoil and the global economy about to enter the worst downturn since the great depression, the desperate need for alternatives is clear enough; the question is whether we can develop the capacity to once again be a relevant social actor.

To this point, this opening for the left has been primarily polemical. Its true of course that in the recent elections, politicians – in Canada no less than in the U.S. – continued to insist on their allegiance to lower taxes and to run from significant redistributions in income, let alone wealth or power. In the U.S., an affirmation of American patriotism remains the condition for raising even moderate criticisms of foreign policy. But neoliberal ideology is reeling and the delegitimation of freer markets as the solution to everything has already made the right more defensive on economic issues than it has been for a generation. They can no longer get away with calling for the freeing of corporations and financial institutions from regulation to 'unleash the creativity of markets,' or rejecting out of hand state involvement to address social needs.

Moreover, the depth and global scope of the downturn will leave the state with little choice but to introduce massive public expenditures. Working families, experiencing the frightening erosion of their effective savings – their pensions and home values – have already started to cut back on consumption in order to rebuild some future security. Private investors, seeing few opportunities and reacting with caution and uncertainty toward the future, are not investing. For the immediate future, neither private incentives nor freer markets, neither the easy hand of more credit nor the promise of more exports, will end the news of failing companies and rising unemployment. Only public investment has a chance of leading an economic revival.

All this is important to account for: it may even mark the end of an era. Yet, we need to be sober about how far the crisis and responses to it can, in themselves, take us. Even if the rhetoric and some of the practices of neoliberalism are modified, a good

deal of the structures, power, and logic of that earlier period remain firmly in place. Globalization and free trade are not going away. The recent G-20 meeting accomplished little, but it did confirm a commitment among the participating states to avoid ‘protectionism.’ Barring a complete breakdown, finance will certainly have a new institutional look, but the new regulations will serve to revive and *strengthen* the role of a smaller number of larger private banks domestically and internationally.

Nor is the intensified competition and restructuring that has destroyed jobs and undermined workers’ confidence going away. The pressures on autoworkers, for example, are about to get worse and structural adjustment programs in the third world – though they may now be more contested – will continue. And while the subprime crisis had to some support against foreclosures, this remains narrowly separated from the roots of the problem in decades of wage restraint, poverty and the refusal to make housing into a right rather than a commodity.

As for the American state, it has certainly lost some of its sheen. But here, too, the reality is not an imminent end to the American empire and reversal of its postwar leadership role. The centrality of the American state continues: no other state can (or even wishes to) replace the U.S.; the crisis has reconfirmed the world’s dependence on the U.S. financial system; and the resolution of this now international crisis rests fundamentally on the actions of the American state in leading a more or less coordinated response.

THINKING ABOUT ALTERNATIVES

In trying to come to grips with what needs to be done, it is useful to begin by acknowledging our limited capacities at this time. We can challenge some of the details surrounding the resolution to the financial crisis, but we can’t play much of a role in solving that crisis; our focus must be elsewhere. Abstract calls for ‘re-regulation,’ with their assumption that states and markets stand in opposition to each other, can further confuse rather than politicize those we’re trying to mobilize. As the most recent state interventions make clear, given the current balance of social forces, regulation is about finding a *technical* way to preserve markets in the face of their volatility, not about any fundamental reordering of relative power in society to conform to social needs. Even where the government’s involvement has allowed particular capitalists to fail, the content of state intervention has revolved around reconstituting and thereby preserving, the power of financial capitalists as a class.

Similarly, looking for the answer in some broader return to the good, old, pre-neoliberal days misunderstands the connection between then and now. Neoliberalism was a response to the *unsustainability* of the earlier period. The crisis of the 1970s was rooted in working class pressures on corporate profits, which led corporations to slow down their investment and threaten to shift capital abroad. At the time, some sections of the left presciently saw that the options were polarized: if there wasn’t greater control over banks and corporations, along with a move towards democratic planning,

then workers would be crushed in order to restore corporate power and profits – as they in fact were. To go back to that earlier period would therefore only reintroduce the previous conflict, and restore its underlying question: whether corporate power would be restored to solve the crisis, or whether a fight could be made for a democratic alternative.

There is another factor that must be integrated into our thinking about alternatives: the extent to which the working class has been integrated into financial markets. After the 1970s, with wages held down, workers of necessity turned more and more to credit as the form through which they accessed consumption. As well, they looked to a rising stock market to boost their pension funds, and those with homes cheered rising house prices because the increase in their wealth reduced the need for savings and so allowed greater consumption. In terms of class formation, this further fragmented the working class; while the struggle for wages and public benefits depended on and built class solidarity, looking to credit (and lower taxes) to sustain their private lives led to an atrophy of collective capacities. In the current crisis, the implications of that relationship to financial markets became all too clear: in spite of popular anger over the bailout of Wall Street, there was in the end a general – if reluctant – acceptance of the bailout’s necessity to ‘save the system’ they had become dependent on.

No less important in undermining the working class as an oppositional force is the stratification that developed over the past three decades *inside* the working class. That internal inequality has tended to cause resentment and divisions from both those who seemed to be doing relatively well and those marginalized. The former were more easily isolated when corporations demanded concessions since even with concessions they would still be ahead of most workers; the latter were often blamed as the cause of rising taxes on those working hard to support those who were not.

The strategic question we now face might be restated as follows. All alternatives must begin with people’s needs, but can we also structure our responses so they strengthen the capacity of the working class to act independently of the logic of capitalism, while also restricting to at least some degree the power of capital? Assuming that the financial crisis does stabilize, there will still be a major recession and a period of slower growth as the aftermath of the crisis ‘unwinds.’ In that context, two questions will come to the forefront of politics: who will pay for the aftermath of the crisis, and what form will the solutions to reviving the economy (and not just finance) take?

IMMEDIATE DEMANDS

Given the impact of the housing crisis on so many Americans and the extent of the delegitimation of the financial sector, it is rather amazing how little direct resistance has occurred. No marches, no community takeovers of foreclosed homes, no mass expressions of frustration and anger. Since the financial volcano erupted in the midst of election campaigns in the U.S. and Canada, it might have been expected that the electoral process would become a catalyst for widespread discussion of dramatic alter-

natives, but this too has been remarkably muted. In Canada, one indicator of the popular political malaise is that voter turnout in the recent election was the lowest in a hundred years; this could not be said of the American election yet in putting so much hope in an Obama victory, foreclosure victims waited rather than acted. The first point is therefore that any specific actions in defence of working people's homes or savings, jobs or social programs, should be actively encouraged and supported.

But what of more general demands we might raise at this potentially radicalizing moment? Three such demands which were raised by the American left in the period preceding the bailout seem to address both popular concerns and hold out the possibility of carrying a larger strategic weight: universal health care (currently being eroded though still very legitimate in Canada), the development of the public pension system, and the building of public infrastructure.

Each of these demands reduces working class dependence on markets and the private sector. In the U.S., universal health care means not losing your benefits if you lose your job and a consequent lessening of the internalized pressure to strengthen 'your' corporation, through concessions if necessary, in order to hang on to your family plan. Public pensions mean less dependence on the returns your pension or mutual fund get from growth in the stock market and security against the increasing trend on the part of corporations to gut union pension plans. Public infrastructure, especially if that includes addressing the environmental crisis, provides jobs and shifts the focus from depending on market incentives to possibly do the right thing, to directly doing it.

But more than that, each of the above reduces private control over our lives – whether that be health insurance companies, the managers of institutional funds, or the corporations that are otherwise expected to drive economic stimulus through further tax breaks and a favourable 'climate' (which generally means less favourable to popular rights). And most important, because of their focus on universal rights and collective needs, such demands tend to overcome the divisions within the working class and contribute to building class unity and solidarity.

A fourth demand, public housing, raises another crucial dimension of universal rights and gets to the contradiction that triggered the financial crisis: policies that kept people in poverty limited their ability to make mortgage payments and this could only be hidden for so long. The answer here is not only to move away from the market as a solution for the poor, but to demonstrate the broader potentials of the public provision of services: can we imagine a kind of housing that in addition to being innovative and affordable includes a new sense of community and relationship to the surrounding city – that is housing that is exemplary of the potentials of public intervention?

As for the ever-present question of who will pay, there's no better place to start than 'make the rich pay,' all the more so given the fortunes that were made on the way to the present disaster. This has generally focussed on income taxes, but it should include wealth since it is wealth above all that is so monstrously distributed in both

Canada and (especially) the USA. But targeting the rich is not enough. To be effective, the reach of tax increases will also have to extend into the working class, and this will mean challenging populist anti-tax sentiments which reinforce a particular kind of individualism that damages class solidarity and any vision of collective needs (It also undermines basic self-interest in that tax cuts are generally sold on the basis of passing on a few hundred dollars to workers while the bulk of the tax breaks go the rich, and the cutbacks to pay for all this fall heavily on the working class.)

Yet, redistribution alone won't solve the crisis: savings will have to be mobilized to support the major infrastructural programs. This can be financed through government bonds, much as such bonds were mobilized to pay for World War II. In today's case, given the current fear within the business community of investing in anything because of the present uncertainty, it is in fact primarily government bonds that could provide a secure outlet for their money.

CONTRADICTIONS

Because any such reforms would be attempted in a society that is still capitalist, they would come up against inevitable limits. Growing social programs depend on a growing economy, but if growth depends on the private sector, how can you both challenge and keep private capital at the same time? Won't they refuse to invest if they aren't happy enough or leave the country for greater profitability and freedom elsewhere? In addition to asking why people are in poverty in the first place, innovative housing can't be separated from rethinking the urban spaces the housing is part of (including the need for accessible transportation, especially if the housing is outside city centres).

For social democrats, such contradictions have meant retreating into more moderate demands. This has failed and the lesson is not to lower our expectations but the need to think bigger and prepare to go further. If democracy is a kind of society and not just a form of government, the economy – which is so fundamental to shaping our lives – will eventually have to be democratized. This will have to include nationalizing the banks and turning them into a democratically run public utility that supervises the rest of the financial system and allocates national savings. If domestic or foreign-based capital threatens to move (as they will do earlier rather than later) we must be ready to put capital controls on the agenda. But if we want to channel society's savings to meet social needs – and this is of course the main reason for controlling the social surplus – the controls will have to be on domestic capital flows as well as internationally.

This ultimately raises the question of planning. If, for example, we take the environmental crisis seriously, then it's not enough to tack on some environmental projects to rebuilding the public infrastructure. Addressing the environment will mean transforming *everything* about what we produce and how we produce it and this can't happen through haphazard market decisions by individual businesses, which are only moved by profits and won't act if they don't know where others will ultimately go. The crisis

in auto reinforces this point. A bailout alone, even if it modifies the kinds of vehicles being built, will not overcome the reality of excess capacity. Rather than closing productive facilities, why can't they be converted to produce the new or modified products an environmentally conscious economy will need? As well, given that auto is generally concentrated in certain communities, the issue is not so much a crisis in auto as a crisis in these *communities*. In Windsor, for example, where thousands of autoworkers have already been laid off before the latest crisis, what's needed is a revival plan that includes auto, but also extends to public infrastructure and the range of social services that give a richer meaning to the notion of 'community.'

These issues of planning raise all kind of technical and democratic questions that should not be underestimated, but the most important issue it forces us to address is the question of power. The precondition for thinking about social change is that we develop the capacity to transform the distribution of power in our society.

It's in this context of developing individual and collective capacities that the question of work-time, which has faded from lists of working class demands, must somehow be revived. The labour movement has long advocated reduced work time as a way of sharing the better full time jobs and therefore opening up new jobs, or at least preserving existing ones. This can be very important in particular sectors and is also a valuable solidaristic principle. But its greatest significance lies in another working class perspective that goes back to the earliest days of trade unionism: the recognition that full citizenship and political participation demands the *time* to do so – the time to read, think, learn, attend meetings and events, debate, take part in strategizing, and engage in organizing others.

FROM ALTERNATIVE POLICIES TO ALTERNATIVE POLITICS

There are three final points that need to be emphasized. First, the triad of immediate resistance, developing policies for broader cross-country mobilization, and raising the 'big' questions such as nationalizing the banks, are not to be understood as stages of activity. The point is not to take one step first and another more radical step later but to find ways of trying to integrate all three simultaneously. Local resistance, for example, is part of all stages; its success is both dependent on and a condition for mobilizing around larger national issues. Similarly, it would be a mistake to postpone the call for transforming the private banking system into a democratically run public utility 'until we are ready.' We will only become ready if we place it on the agenda from the very beginning and integrate it into other demands and struggles.

Second, the greatest contradiction confronting 'the movement' today lies in the gap between good ideas and the capacity to fulfil them. The main barrier we face is not so much the absence of alternative policies (though these still need a lot of filling out) as the weakness of our alternative *politics*. This is not simply about pooling our diverse strength. Rather, it involves recognizing that in light of past failures, a dangerous future and potential new openings, each section of the movement needs to rethink what it

does and how it does it as a precondition for coming together in an entirely new way.

Third, it is difficult to imagine an alternative politics that can match what we are up against without an organization whose focus is on building the essential relationships and political capacities across sections of the movement and within them. There should, for example, be hundreds if not thousands of meetings taking place every week across the country to discuss what we currently face and what to do about it. But this simply can't happen spontaneously. How we build *this* kind of capacity is what the question of 'alternatives' is ultimately about.

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