POLITICAL ECONOMY

A NECESSARY FOUNDATION FOR ANTI-CAPITALIST RESISTANCE

+3.792

-7.1

+13.2

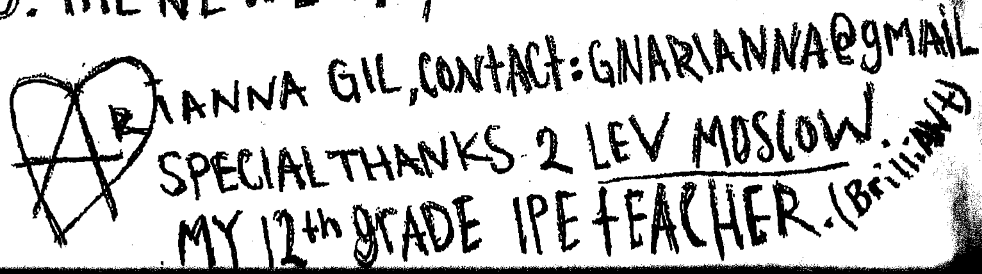
+6.01%

-4.53

WHERE ARE WE?

FROM WISCONSIN 2 NEW YORK 2 CAMBODIA WE ARE ALL FEELING THE EFFECTS OF MISMANAGED MONEY & EFFORTS. CUTBACKS, GREED, DEFICITS, POVERTY, DEBT, TAX CUTS, ...ECT WHATS GOING ON?! HOW DID WE GET HERE?! I HEREBY PRESENT AN ATTEMPTED EXPLINATION: TABLE OF CONTENTS:

1. BUDGET CRISIS 2. CLASSICAL ECON.
3. FINANCIAL CRISIS 2008
4. STRUCTUAL PROBLEMS & INEQUITY
5. THE NEW LEFT & WHERE WE'RE GOING



CHAPTER 1: THE FISCAL/BUDGET CRISIS

Nobody seems to be particularly crazy about these budget cuts, however, taxes have become a major taboo and nobody supports them either. How do you deal with an ever increasing need for social programs, declining trust in the state, overall tax resistance, and a large federal/state deficit. So far our representatives have responded by cutting the budget all over the place but mostly where it hurts most (education). Citizens driven crazy by the prospect of state spending and intervention such as Jared Loughner show just how unstable this political-economic dynamic is. Well, how do we deal? It's not just about pressuring politicians to make the right choice in the budget. It's also about re-evaluating the system that has brought us to this point where we (not even us really) rather, our "representatives" have to decide between cutting medicare, pensions, collective bargaining, or education…and it seems like they're going to be cutting them all.

Fewer Say Spend More, But Most Cuts Find Little Favor

Would you increase, decrease or keep spending the same for...		2009 %	2011 %	Change
Education	Increase	67	62	-5
	Decrease	6	11	+5
Veterans' benefits and services	Increase	63	51	-12
	Decrease	2	6	+4
Health care	Increase	61	41	-20
	Decrease	10	24	+14
Medicare	Increase	53	40	-13
	Decrease	6	12	+6
Combating crime	Increase	45	39	-6
	Decrease	10	18	+8
Energy	Increase	41	36	-5
	Decrease	15	23	+8
Scientific research	Increase	39	36	-3
	Decrease	14	23	+9
Environmental protection	Increase	43	36	-7
	Decrease	16	26	+10
U.S. anti-terrorism defenses	Increase	35	33	[illegible]
	Decrease	17	21	[illegible]
Agriculture	Increase	35	32	[illegible]
	Decrease	12	23	+11
Military defense	Increase	40	31	[illegible]
	Decrease	18	30	[illegible]
Unemployment assistance	Increase	44	27	[illegible]
	Decrease	15	28	[illegible]
Global poverty assistance	Increase	26	21	[illegible]
	Decrease	34	45	+11

PEW RESEARCH CENTER Feb 2-7, 2011. Percent saying "keep spending the same" not shown.

Obama Budget Pivots From Stimulus To Deficit Cuts

Jackie Calmes - NYT

WASHINGTON – President Obama, pivoting at midterm from costly economic stimulus measures to deficit reduction, on Monday released a fiscal year 2012 budget that projects an annual deficit of more than $1 trillion before government shortfalls decline to "sustainable" levels for the rest of the decade.

Still, annual deficits through fiscal year 2021 will add a combined $7.2 trillion to the federal debt, Mr. Obama's budget shows – after allowing for $1.1 trillion in deficit-reducing spending cuts and tax increases that the president proposes over the 10-year period. As he acknowledges, after 2021, an aging population and rising medical costs will drive deficits again to unsustainable heights.

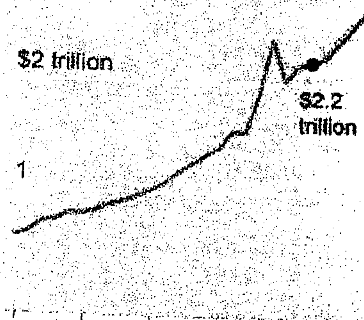
The budget reflects Mr. Obama's cut-and-invest agenda: It creates winners and big losers as he proposes to slash spending in some domestic programs to both reduce deficits and make room for increases in education, infrastructure, clean energy, innovation and research to promote long-term economic growth and global competitiveness.

The 2012 deficit will be the fourth and final year it is projected to exceed $1 trillion. When Mr. Obama took office in January 2009, the deficit for that year was projected to be – and ultimately was -- $1.3 trillion. A similarly large shortfall followed for 2010. After this year's spike to $1.6 trillion, the president's budget charts a decline from the trillion-dollar level after 2012 -- to a low of $607 billion in fiscal year 2015 -- before the annual deficits, in dollars, start inching up again.

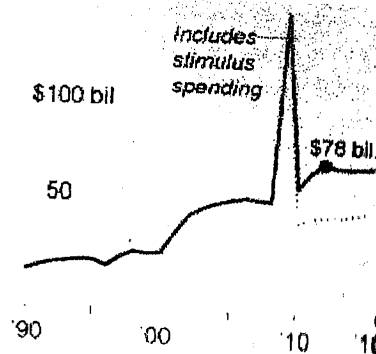
Compared to the size of the economy, as economists prefer to measure, the annual deficits would decline from a projected 10.9 percent of gross domestic product this year to 7 percent in 2012. By 2015, Mr. Obama projects, the deficit would be just above his target of 3 percent – the level that many economists consider sustainable because it means deficits are not growing any faster than a healthy economy.

How This Year's Budget Differs From the Last

MANDATORY SPENDING Includes rising Social Security and Medicare payments.



EDUCATION Spending rises 20 percent from 2010 levels, but some Pell grants† are eliminated.



WISCONSIN

By **James Kelleher**

(Reuters) - The Wisconsin state Assembly on Thursday approved sweeping restrictions on public sector unions in a stinging rebuke of the labor movement that critics fear will encourage other states to follow. After a short debate, the Republican-dominated Assembly voted 53-42 to limit government union bargaining rights to wages only and impose a series of other restrictions. The proposed law sparked fierce opposition from Democrats and labor unions across the nation and drew the largest demonstrations in Wisconsin since the Vietnam War (86,000 total).

"Their action will save jobs, protect taxpayers, reform government, and help balance the budget," Walker said in a statement after the vote.

Walker insisted the limits are needed to help the state's cash-strapped municipalities deal with a projected $1.27 billion drop in aid over the next two years from the state, struggling to close its own $3.6 billion budget gap.

The stakes are high for labor because more than a third of U.S. public employees such as teachers, police and civil service workers belong to unions while only 6.9 percent of private sector workers are unionized. In Wisconsin, 46.6 percent of government workers are union members.

* State workers must increase contributions to their pensions to 5.8 percent of salary, and double contributions to their health insurance premiums to 12.6 percent. This would result in a cut in take-home pay of about 8 percent.
* Public sector union collective bargaining would be limited to the issue of wages, and cap increases to the rate of inflation, with a voter referendum needed for bigger increases.
* Employer collection of union dues would be prohibited and members of collective bargaining units would not be required to pay dues. Collective bargaining contracts would be limited to one year, and units must take annual votes to maintain certification as a union.
* Governor Walker said collective bargaining takes too long and the cuts need to be made immediately. He said the alternative would be layoffs of more than 10,000 government workers.

NEW YORK & CUOMO'S BUDGET (NYT)

New York's lawmakers passed a $132.5 billion budget before the April 1 deadline, a rare event. That is, on the whole, a political win for Gov. Andrew Cuomo, who cut $10 billion out of it. But the way he chose to do it will bring unnecessary pain to the less fortunate across the state, while allowing some of the richest residents to escape their share of the burden of a recession-era budget. Tellingly, legislators passed the 2011-12 budget behind locked doors early Thursday after angry protesters chanted in the Capitol corridors on Wednesday.

-New York City schools were also particularly shortchanged because their expected allocation of state aid of $6.2 billion was cut by $840 million.

-Medicaid spending has been reduced by $5 billion

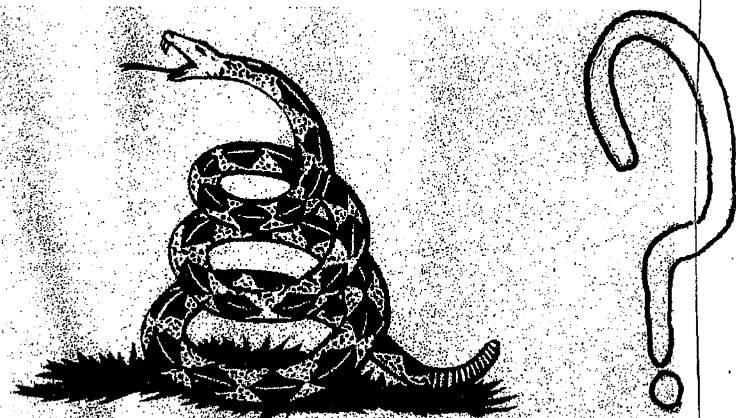
-Individual New Yorkers earning more than $200,000 a year and married couples earning $300,000 pay a modest surcharge that expires in December.

- Mr. Cuomo and the Legislature have agreed to cut the court system by an additional $70 million, for a total of $170 million. That portends delays and layoffs and threatens much-needed plans to expand legal services for low-income New Yorkers.

Percentage of Program Beneficiaries Who Report They "Have Not Used a Government Social Program"

Program	"No, Have Not Used a Government Social Program"
529 or Coverdell	64.3
Home Mortgage Interest Deduction	60.0
Hope or Lifetime Learning Tax Credit	59.6
Student Loans	53.3
Child and Dependent Care Tax Credit	51.7
Earned Income Tax Credit	47.1
Social Security—Retirement & Survivors	44.1
Pell Grants	43.1
Unemployment Insurance	43.0
Veterans Benefits (other than G.I. Bill)	41.7
G.I. Bill	40.3
Medicare	39.8
Head Start	37.2
Social Security Disability	28.7
Supplemental Security Income	28.2
Medicaid	27.8
Welfare/Public Assistance	27.4
Government Subsidized Housing	27.4
Food Stamps	25.4

Source: Suzanne Mettler, "Reconstituting the Submerged State: The Challenge of Social Policy Reform in the Obama Era," *Perspectives on Politics* (September 2010): 809.



CHAPTER 2: Classical Economists

(THE WORLDLY PHILOSOPHERS)
ROBERT HEILBRONER

Who were these men? We know them as the Great Economists. But what is strange is how little we know about them. One would think that in a world torn by economic problems, a world that constantly worries about economic affairs and talks of economic issues, the great economists would be as familiar as the great philosophers or statesmen. Instead they are only shadowy figures of the past, and the matters they so passionately debated are regarded with a kind of distant awe. Economics, it is said, is undeniably important, but it is cold and difficult, and best left to those who are at home in abstruse realms of thought.

Nothing could be further from the truth. A man who thinks that economics is only a matter for professors forgets that this is the science that has sent men to the barricades. A man who has looked into an economics textbook and concluded that economics is boring is like a man who has read a primer on logistics and decided that the study of warfare must be dull.

No, the great economists pursued an inquiry as exciting—and as dangerous—as any the world has ever known. The ideas they dealt with, unlike the ideas of the great philosophers, did not make little difference to our daily working lives; the experiments they urged could not, like the scientists', be carried out in the isolation of a laboratory. The notions of the great economists were world-shaking, and their mistakes nothing short of calamitous.

"The ideas of economists and political philosophers," wrote Lord Keynes, himself a great economist, "both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas."

NEWLY REVISED, 7TH EDI

Why does popcorn cost so much in the movie theater?

Why do some people make more than other people?

ADAM SMITH KARL MARX

THE
WORLDLY
PHILOSOPHERS

THE LIVES, TIMES, AND IDEAS OF THE GREAT ECONOMIC THINKERS

Why were my sneakers made in Turkey?/

Why does college cost so much?

"Even the most practical man of affairs is usually in the thrall of the ideas of some long-dead economist"- John Maynard Keynes

JOHN MAYNARD KEYNES THOMAS ROBERT MALTHUS JOHN STU

Why are so many languages spoken in NYC?

ROBERT L. HEILBRON

"A brilliant achievement" — JOHN KENN

Regardless of your political disposition, economics affects you. Regardless of an economists political disposition their studies are based — in objection or agreement — on classical economics.

→ welcome to their world.

[can you guess who is who?]

(ANSWERS →)

Rankings — Top 5

1. Karl Marx-
2. John Hobsen –
3. John Mayard Keynes-
4. Adam Smith –
5. Robert Owen-
6. Schumpeter-
7. Thorenstein Veblen-
8. John Stuart Mill-
9. David Ricardo
10. Malthus- :c

1. father of capitalism influential figure and pertinent to global market
2. very accurate predictions of the danger of capitalism
3. important critic of imperialism and capitalism — so high! (I like him too)
4. Very well known philosopher influential in u.s administration
5. very ambitions utopian with a good idea

1. Adam Smith. His first publication "The Theory of Moral Sentiments" proposed that man isn't solely motivated by self-interest, and furthermore, that the ability to remove ones self from a situation in the third person enables one to act sympathetically. The Wealth of Nations (1772) ← (So much for that idea.) argued the "invisible hand" theory, that " the private interests and passions of men" benefit society as a whole (54). Smith's focus was on labor and entrepreneurial ship, which would propel society forward, be it in forms of production or independent acquisition of wealth. This is evident in Smith's Law of Accumulation: The wealth must accumulate their gains, and only reinvest in that which will make the wealthier, privat accumulation will result in more jobs, the larger markets and machinery. "The world will benefit".

2. Karl Marx.

1. Marx assured the world that capitalism must eventually collapse by means of self-destruction. He believed strongly in a proletariat revolution. In his theory *Dialectical Materialism:* He explains how production and exchange of goods is the foundation of social order. Therefore, social and political change is only possible through changes in the mode of production and exchange (145). Marx explains capitalism's inherent flaws to be connected to the paradox of "Factory Paradigm and Private Property (individualism)" according to Marx, these two qualities are incompatible. Another theory of Marx's which dooms capitalism, Das Kapital- How can there be profit in the whole system if everything exchanges for its honest worth? Capitalism is flawed because one must oppress the other in order to profit. This oppression is expounded by Marx under the concept of "Surplus Value" : While philosophers Smith, Ricardo, and Marx assert that the value of a workman is the money he needs in order to exist, called sustenance wage. Workers are unpaid for works they do not need to complete in order to maintain them, but cant choose otherwise. This surplus value allows for capitalists to profit. Capitalists monopolize access to the means of production, capitalist's "own" jobs, or machinery necessary to produce the desired commodity. All workers are cheated according to Marx because they are forced to work more than their necessary sustenance. Marx also predicted that machinery will compromise the necessity for labor, thus a portion will be left unemployed leaving the wages low and competition for work high, and capitalist's with power. After capitalism destroys itself, Marx foresaw a successful society in which there were no classes or private property. The transitional period between capitalism and communism would be a temporary socialism in which the proletariat was under a dictatorship but pure communism would follow. Marx questioned: How can labor be used as a common denominator of value if it varies so much? Marxist society would focus on labor power as a means of

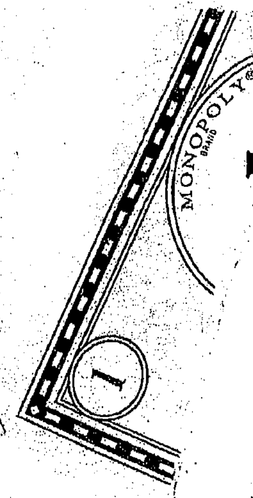
3. John A. Hobson:

1. Hobson was a utopian humanist. He wrote " The physiology of Industry" which predicted that savings would undermine prosperity. Hobson argued that capitalism would eventually ruin the world because of imperialism. To ensure economic survival nations must turn to imperial endeavors and exploitations. Workings of the profit system led to unequal distribution of wealth, which Hobson highligh a serious shortcoming. This inequality led to a massive paradox in which neither rich nor poor could consume enough goods. For a g market to endure, society must consume all that it produces.

4.

1. Keynes brilliantly fought the Treaty of Versailles by writing " The Economic Consequences of Peace" (258). Keynes was a huge advocate of the cyclical economy. He emphasized on the importance of reinvesting money into the economy by any means. Accumulation will eventually destroy the economy, thus it would be important for the government to force investment into the economy (277). Profits that are "recycled" will benef society as a whole allowing for workers to participate in consumption. He argued that free markets would automatically provide full employment as long as workers weren't too demanding.

2. Keynes's idea that governments should spend money they don't have was the exa tactic used by Obama in his recession package. By reinvesting in businesses the economy w stimulated, hence the "stimulus package". Heynes's theories are being put to action by our current administration.



5. Robert Owen

1. Robert Owen was an advocate of the first "communes". He believed that a utopian society was possible where workers collaborated and reached self-sustenance without currency.

2. Several Anarchist's and Communists live in communes today, which run by Owen's principles.

LIBERAL ECONOMISTS SUCH AS ADAM SMITH DEVELOPED FREE MARKET THEORY. THE ROOT OF THIS IDEOLOGY RELIES ON THE NOTION THAT

PRICE = VALUE

ALSO KNOWN AS THE EFFICIENT MARKET HYPOTHESIS. WHILE MANY STILL CLING TO THIS THEORY, THE RECENT FORMATION OF BUBBLES HAVE INSTIGATED DEBATE.

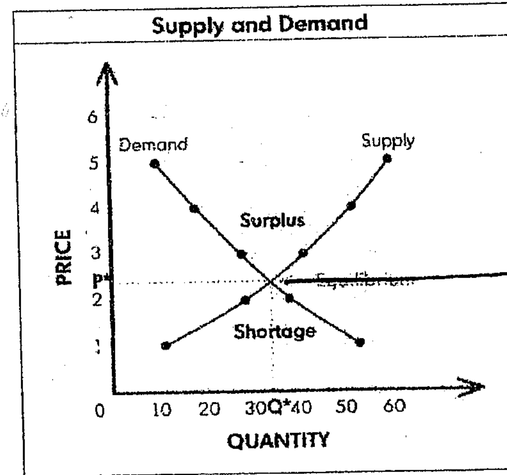
WHAT IS A BUBBLE?

A financial bubble[1] is a market aberration manufactured by government, finance, and industry, a shared speculative hallucination and then a crash, followed by depression. Bubbles were once very rare—one every hundred years or so was enough to motivate politicians, bearing the post-bubble ire of their newly destitute citizenry, to enact legislation that would prevent subsequent occurrences. After the dust settled from the 1720 crash of the South Sea Bubble, for instance, British Parliament passed the Bubble Act to forbid "raising or pretending to raise a transferable stock." For a century this law did much to prevent the formation of new speculative swellings.

Nowadays we barely pause between such bouts of insanity. The dot-com crash of the early 2000s should have been followed by decades of soul-searching; instead, even before the old bubble had fully deflated, a new mania began to tak[e] hold on the foundation of our long-standin[g] American faith that the wide expansion of hom[e] ownership can produce social harmony and n[a]tional economic well being. Spurred by th[e] actions of the Federal Re[serve], financed by exo[tic] credit derivatives and deb[t] securitiztion, an alread[y] massive real estate sale[s]-and-marketing program expanded to include th[e] desperate issuance of mor[t]gages to the poor and fec[k]less, compounding thei[r] troubles and ours.

That the Internet an[d] housing hyperinflation transpired within a peri[od] of ten years, each creatin[g] trillions of dollars in fal[se] wealth, is, I believe, only the beginning. There wi[ll] and must be many more such booms, for withou[t] them the economy of the United States can n[o] longer function. The bubble cycle ha[s] replaced the business cycle.

CLASSICAL ECONOMISTS DON'T BELIEVE IN BUBBLES UNTILL THEY ARE BANKRUPT. SUPPLY & DEMAND IS SUPPOSED TO DICTATE THE MARKET.



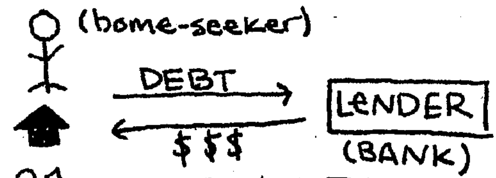
EQUILIBRIUM

WHERE PRICE = VALUE

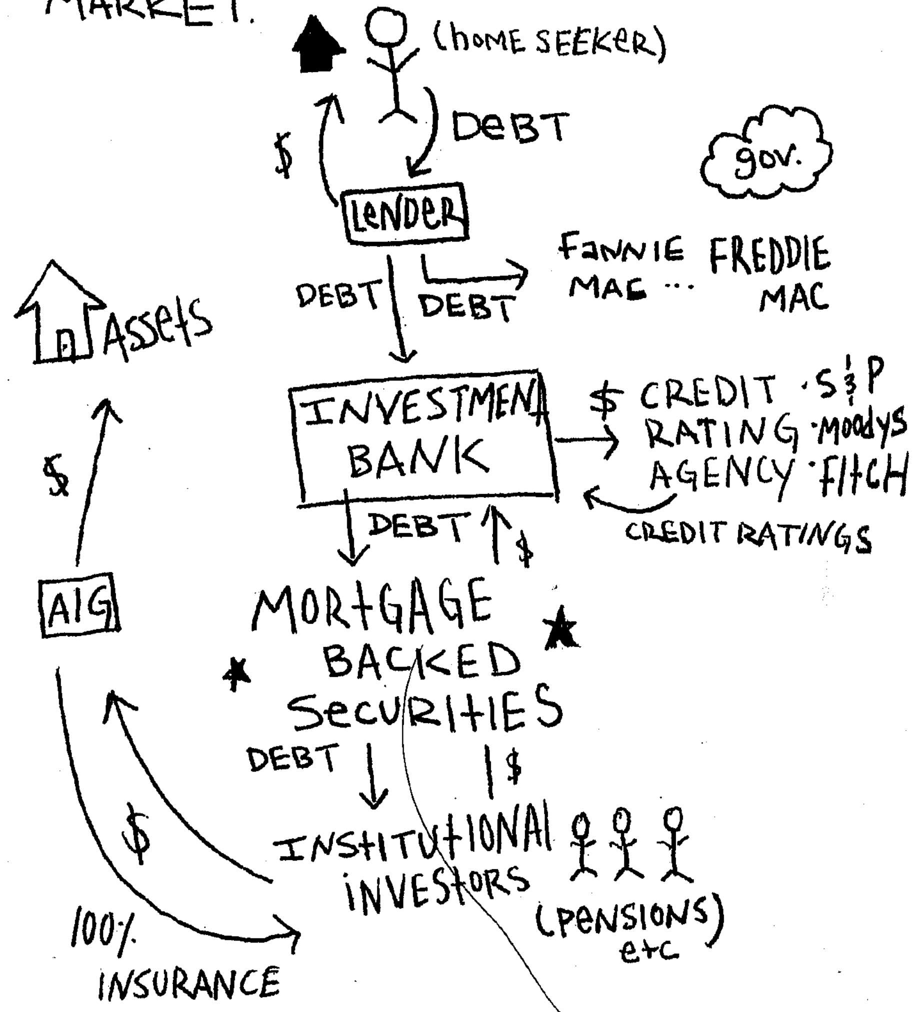
THE YEAR 2008 IS THE YEAR THE EFFECIENT MARKET HYPOTHESIS TOOK A SERIOUSLY BAD WRAP.

CHAPTER 3: THE HOUSING MARKET CRASH & FINANCIAL CRISIS

THE HOUSING MARKET BACK IN THE DAY:



THE 21st CENTURY HOUSING MARKET.



SECURITIES

A Security is Like a package of ground beef

it is packaged debt from different sources that is sold

under this system if BoB stops paying his DEBT it is o.k because SAlly & SHAWN are still paying. BUT. What happens when BoB, SAlly & SHAWN stop paying? Then you HAVE A FINANCIAL CRISIS ON YOUR HANDS. Collateralized Debt Obligations (securities) are supposed to spread out risk. However, as you will see in the Next passage, the very stability of Markets, according 2 HYMAN MINSKY is the cause of INSTABILITY.

How Markets Fail
John Cassidy

16. HYMAN MINSKY AND PONZI FINANCE

In August 2007, shortly after the beginning of the subprime crisis, a story on the front page of *The Wall Street Journal* said, "The recent market turmoil is rocking investors around the globe. But it is raising the stock of one person: a little-known economist whose views have suddenly become very popular." The economist concerned was Hyman Minsky, an avowed Keynesian who taught for many years at Washington University in St. Louis. From the early 1960s until shortly before his death in 1996, Minsky advanced the view that free market capitalism is inherently unstable, and that the primary source of this instability is the irresponsible actions of bankers, traders, and other financial types. Should the government fail to regulate the financial sector effectively, Minsky warned, it would be subject to periodic blowups, some of which could plunge the entire economy into lengthy recessions. "At a time when many economists were coming to believe in the efficiency of markets," the *Journal*'s Justin Lahart noted, "Mr. Minsky was considered somewhat of a radical." Now, however, many Wall Street economists and at least one former governor of the Fed were eagerly poring over his articles and books, most of which were out of print. "We are in the midst of a Minsky moment, bordering on

a Minsky meltdown," Paul McCulley, a managing director at Pacific Investment Management Company, the world's biggest manager of bond mutual funds, told Lahart.

Minsky was born in Chicago on September 23, 1919. He came from a left-wing background: his mother was a trade union activist and his father a member of the Socialist Party. (According to family legend, the two met at a party to celebrate the hundredth anniversary of Karl Marx's birth.) As with Paul Samuelson, Milton Friedman, and many others of his generation, it was the Great Depression that inspired Minsky's interest in economics. In high school he joined the youth section of the Socialist Party, and during his second year at the University of Chicago, which he entered in 1937, he attended a series of lectures on the economics of socialism. The lecturer was Oskar Lange, the Polish economist and technocrat who helped to formalize the concept of market efficiency. Minsky had been majoring in mathematics, but he decided to switch to economics, attending classes taught by Lange and Henry Simons, a true Chicago man who nonetheless was critical of several aspects of capitalism. In the summer of 1942, Minsky spent a summer at Harvard working with Wassily Leontief, one of the pioneers of mathematical economics. After three years serving in the U.S. Army, he returned to Harvard to complete his graduate work and serve as a teaching assistant to Alvin Hansen, who was the leading American Keynesian of his day.

With this admirably catholic education, it was perhaps not surprising that Minsky failed to adhere to the increasingly rigid orthodoxy that took hold of economics during the postwar decades. In some ways, he was a throwback. He expressed his thoughts in clear English, used equations sparingly, and made little attempt to keep up with intellectual fashion. But what Minsky lacked in modernity, he more than made up for in insight. Although he rarely made explicit reference to concepts such as the prisoner's dilemma, asymmetric information, or disaster myopia, his analysis displayed an acute awareness of the various sources of market failure. A keen student of Keynes's *Treatise on Probability* as well as *The General Theory*, he had never accepted that financial markets aggregated economic data efficiently, or that decisions involving the future could be represented as a process of taking mathematical expectations of known probabilities. "To businessmen, portfolio managers and bankers, uncertainty means that decisions are

made in the absence of firm knowledge," Minsky wrote in 1986. "For both the doubting scientist and the skeptical businessman, 'I don't know' is often the most appropriate answer to questions relevant to decision-making."

Minsky regarded himself as a "post-Keynesian." Although Keynes, in *The General Theory*, succeeded in his central aim of demonstrating how a free market economy could get stuck in a slump, he didn't explain how booms and busts developed in the first place. His mainstream followers, such as Alvin Hansen and Paul Samuelson, also largely ignored this problem. Their brand of Keynesianism concerned itself mainly with exploring how monetary and fiscal policy could be used to stabilize the economy in the face of exogenous shocks, such as a rise in oil prices or a collapse in exports. The mainstream Keynesian framework treated the financial sector in a cursory manner. It had no place for stock market bubbles, credit crunches, or other Wall Street pathologies. That was the lacuna that Minsky set out to fill. "[T]he Wall Streets of the world are important," he wrote in his 1986 book, *Stabilizing an Unstable Economy*, copies of which were reportedly selling for hundreds of dollars on eBay in the summer of 2007; "they generate destabilizing forces, and from time to time the financial processes of our economy lead to serious threats of financial and economic instability, that is, the behavior of the economy becomes incoherent."

Minsky's analysis of financial capitalism began from the observation that it usually involves the advancing of money today in return for the promise of money in the future. The cash advanced is used to finance the production of investment goods, such as factories, machines, and commercial properties. If all goes well, the new investments will generate enough cash to provide the provider of the initial money with a stream of profits or interest payments, as well as repayment of his principal. However, because the future is inherently uncertain, there is no way to predict if such a favorable outcome will materialize, or if the creditors will default. Therefore, Minsky pointed out, the expansion of the economy depends on the willingness of people and institutions with money "to speculate on future cash flows and financial market conditions."

In a capitalist system, much of this speculation takes place through the banking system, which acts as the primary allocator of capital. During times of prosperity, banks' appetite for risk-taking increases at the same time as businesses and entrepreneurs are seeking more money to finance their expansion plans. In fact, banks and other financial institutions compete with one another to supply additional capital, both by expanding existing forms of credit and by inventing what Minsky described as "'new' forms of money"—by which he meant new types of loans. With borrowed money increasingly easy to come by, investment spending rises, and so do stock prices and corporate profits. This reinforces businesses' demand for credit and the willingness of bankers and other lenders to supply it.

Minsky stressed that this process doesn't depend on any external precipitating event, such as the invention of an exciting new technology or an easing in monetary or fiscal policy, although such things would reinforce the upward momentum. The primary initiative came from the competitive forces at work within the financial sector. Any period of economic stability "leads to an expansion of debt-financing—weak at first because of the memories of preceding financial difficulties," Minsky wrote. The period of calm is "a transitory state because speculation upon and experimentation with liability structures and novel financial assets will lead the economy to an investment boom."

At the risk of oversimplifying, Minsky's argument can be reduced to three words: stability is destabilizing. In the early stages of the cycle, banks will lend only to businesses that are generating enough cash to meet regular interest payments and repay the principal on an amortized basis. Minsky referred to this form of lending as "hedge finance." (Before the rise of hedge funds, to "hedge" meant to take precautions.) As the boom proceeds, competition between lenders increases, and their innate sense of caution gets diminished. Many of them make loans to borrowers who can meet only the interest payments: repaying the principal would be beyond them. Loans of this nature have to be rolled over at regular intervals; Minsky called them "speculative finance."

Eventually, banks start extending credit to people and firms that can't even afford to make regular interest payments. On each payment date, the portion of the interest due that these borrowers are unable to pay gets added to their principal, meaning the longer the loan lasts, the more they end up owing. Technically, loans with this feature are

called "negative amortization" loans. Minsky referred to them as "Ponzi finance," because their repayment depends on the borrower somehow getting access to a new source of income. If such a source doesn't materialize, the borrower will be forced to default.

Negative amortization loans are particularly prevalent in the real estate industry. During an economic boom, land and property values tend to rise sharply. This facilitates a big expansion in dubious lending to real estate developers and other speculative entrepreneurs, who pledge the projects they are working on as collateral. Sometimes, banks agree to issue a loan and defer any interest payments until a particular building or development is completed, reflecting a belief that it will be sold at a price that covers the principal and the accrued interest. But there is always a danger that the real estate market will turn before the project is sold, leaving the creditor unable to repay in full. "Such loans impart a Ponzi flavor to the financial structure," Minsky wrote.

No credit boom lasts forever. At some point, lenders get nervous about all the dubious credit they have already extended. This prompts them to call in some existing loans and restrict the issuance of new ones. Where money was flowing freely, it is suddenly much harder to obtain, even for financially sound creditors. This is a "Minsky moment" of the type that Paul McCulley and other Wall Street economists identified in August 2007. Struggling to meet their financial commitments, some shaky borrowers are forced to sell off whatever assets they can liquidate. "This," Minsky noted drily, "is likely to lead to a collapse of asset values," which, in turn, can lead to "a spiral of declining investment, declining profits, and declining asset prices." Unless the financial authorities intervene, lending public money freely to whoever needs it, the ultimate result could well be "a traumatic debt deflation and deep depression."

In what was perhaps a poke at the efficient market hypothesis, Minsky described his thesis that capitalist economies inevitably progress from conservative finance to reckless speculation as the "financial instability hypothesis." Minsky described it as an interpretation of Keynes's *General Theory*, and he also credited the Austrian economist Joseph Schumpeter for influencing his views. "The first theorem of the financial instability hypothesis is that the economy has financing regimes under which it is stable, and financing regimes in which it is unstable," he explained in 1992. "The second theorem of the financial instability hypothesis is that over periods of prolonged prosperity, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system."

Although Minsky didn't state it as such, the financial instability hypothesis is a theory of rational irrationality, with the individually rational actions of banks and other financial firms serving to destabilize the entire system. "In a world with capitalist finance it is simply not true that the pursuit by each unit of its own interest will lead an economy to equilibrium," Minsky wrote. "The self-interest of bankers, levered investors, and investment producers can lead the economy to inflationary expansions and unemployment-creating contractions. Supply and demand analysis—in which market processes lead to an equilibrium—does not explain the behavior of a capitalist economy, for capitalist financial processes mean that the economy has endogenous destabilizing forces."

Minsky's knowledge of banking wasn't confined to what he had read in books. For years he served as a consultant to and director of the Mark Twain Bank in St. Louis, taking a keen interest in all aspects of its business. In the traditional banking model, which dates back centuries, banks take in money from their customers and lend most of it out to businesses and other borrowers, keeping a small amount in reserve to meet depositors' demands for cash. The source of banks' profits is the "spread" between the interest rate they pay depositors and the rate they charge borrowers. In this version of banking, the banking sector's role is essentially passive: it acts as an intermediary between savers and borrowers, and its activities don't have much impact on the overall level of economic activity.

Minsky pointed out a number of deficiencies in this analysis, beginning with the fact that when a bank extends a loan it creates a very special commodity: money. When banks lend more together, the total supply of money in the economy grows, which means total spending power increases. Similarly, when banks call in loans and refuse to make new ones, the money supply contracts and overall spending power falls. Apart from the government, banks are the only institutions in the economy with the ability to create money, and that is what makes them so important.

Unfortunately, there is nothing in a typical banker's employment contract that says he should take into account the impact of his actions on the economy as a whole, which is another type of Pigovian spillover. As an employee of a public company, his only obligation is to maximize profits, which involves expanding lending when he thinks the outlook is good and refusing to lend when he is worried about the future. But the level of bank lending that makes sense for individual banks doesn't necessarily make sense for the country.

A similar point applies to bank leverage, or borrowing. It may seem strange to think of banks and other financial companies as borrowers; after all, their traditional role is to act as lenders. But in addition to securing money from depositors that they then lend out, banks borrow money in a variety of ways. They issue long-term bonds and short-term bonds; they take out overnight loans from one another in the interbank market; occasionally, they borrow from the Fed. What do the banks do with all this money they borrow? Some of it they lend to individuals and businesses; the rest they invest in financial assets, such as Treasury bonds and mortgage securities. If the returns a bank receives on its financial investments exceed its own borrowing costs, it makes money.

Like any other investor, a bank can increase its returns by increasing its leverage. Take a bank with $100 million in equity and $400 million in customer deposits, on which it pays an annual interest rate of 3 percent. If the bank maintains a 10 percent capital reserve and lends out the rest of its funds at an interest rate of 8 percent, it earns $24 million a year. Now consider the same bank, but imagine that it borrows another $500 million at a rate of 4 percent, raising its total borrowing to $900 million, and lends that money out at 8 percent, too: its profits will jump to $40 million. Simply by applying the magic of leverage, the bank will have increased its return on capital employed by two-thirds.

Where is the catch? In leveraging up, the bank takes on more risk. If some of its borrowers default, or some of its investments sour, much of its capital can quickly get wiped out, leaving it vulnerable to a collapse. To prevent banks from getting themselves into this predicament, regulators examine their loan books at regular intervals and insist on their maintaining adequate reserves of capital. However, banks often find ways to circumvent regulatory guidelines. At the end of

1983, Minsky reported, some of the biggest banks in the country, such as Bank of America and Bankers Trust, were borrowing about ninety-seven cents of every dollar they lent out and invested. Even supposedly conservative institutions such as the Mellon Bank had debts equivalent to more than 90 percent of their assets. The increase in bank leverage ratios "was part of the process that moved the economy toward financial fragility," Minsky wrote. In addition to leaving banks more vulnerable to economic shocks, it generated a lot of irresponsible lending. To employ all the money they had borrowed, banks had to search out marginal customers and extend themselves into new, riskier areas. As Minsky put it, "[T]he leverage ratio of banks and the import of speculative and Ponzi financing in the economy are two sides of a coin."

Another shortcoming in the traditional view of banking that Minsky highlighted was its failure to take adequate account of financial innovation. "Like all entrepreneurs in a capitalist economy, bankers are aware that innovation assures profits," Minsky wrote. "Thus, bankers, whether they be brokers or dealers, are merchants of debt who strive to innovate in the assets they acquire and the liabilities they market." One quick way for a bank to expand its revenues is by extending credit to people and firms that previously it would have turned down for loans because of doubts about their ability to repay. In the era when banks ordinarily held on to the loans they issued until they matured, pursuing such a risky lending strategy generally didn't make sense: the extra income from the new loans wasn't enough to cover the increased probability of defaults. But, beginning in the 1970s, a series of financial innovations transformed the incentive structure that banks faced.

The key development was the rise of "securitization." In 1970, the Government National Mortgage Association (Ginnie Mae), one of three government-sponsored agencies that guarantee certain types of home loans—the other two are the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)—issued a new type of bond known as a residential mortgage-backed security (RMBS). A bond is simply a loan. It is a piece of paper that promises its bearer (the lender) a set of interest

payments over a certain period, together with full repayment of the principal at a certain date. In theory, any economic entity that generates a reliable set of cash flows can issue a bond. Prior to 1970, the biggest issuers were governments, which generate taxes, and corporations. Ginnie Mae's idea was to take a number of home loans, pool the monthly payments they generated, and use that cash flow as the backing for a bond. As long as most of the homeowners kept making their monthly payments, it wouldn't matter very much if a few defaulted or repaid the principal early: there would still be enough cash to pay the bondholders the interest they were owed. Since the individual home loans that underpinned these mortgage bonds were government-guaranteed, the credit risk attached to them was greatly reduced. They received high credit ratings, and they paid an interest rate that was only slightly higher than Treasury bonds.

After a slow start, mortgage bonds proved popular with institutional investors, such as mutual funds and pension funds. Seeing the success of Ginnie Mae, Fannie Mae and Freddie Mac followed its lead, and the number of outstanding mortgage bonds expanded rapidly. Once the principle of securitization had been established, Wall Street firms looked around for other cash flows that could be transformed into sellable paper. In 1977, Salomon Brothers and Bank of America managed the first securitization of home loans that weren't government-guaranteed. During the 1980s, new securitized products and acronyms came thick and fast. In 1983, Freddie Mac marketed the first collateralized mortgage obligation (CMO)—a sort of bond mutual fund in which the cash flows from a pool of mortgages and mortgage-backed securities were divided into a number of different layers, or "tranches." The purchasers of the senior tranches got first claim on the underlying cash flows; the buyers of the mezzanine tranches got second dibs; the holders of the junior tranches were entitled to whatever was left. Two years later, a company called Sperry Lease Finance Corporation created the first asset-backed security (ABS) when it issued a set of bonds backed by the cash flows from a pool of computer equipment leases.

With the development of a secondary market in mortgages and other types of credits, banks were able to sell many of the loans they made. The "originate-to-distribute" model of banking gradually replaced the "originate-to-hold" model. If a mortgage holder whose loan has been securitized falls behind on his monthly payments, it is the

buyers of the mortgage securities who lose out rather than the bank that issued the loan.

Unlike many economists, Minsky took a keen interest in these developments, and he didn't view them as wholly negative. In a 1987 paper, he pointed out that the purchase of mortgage bonds and other securitized products enabled investors to diversify their holdings across asset classes and geographic boundaries. (In 2007, it would transpire that some of the biggest holders of U.S. mortgage securities were obscure European banks.) Minsky also noted that the banking industry's eager embrace of securitization was a reflection of the increased competition it was facing for deposits and borrowers. Mutual fund companies and other nonbank financial companies were providing interest-bearing checking accounts, and S&Ls, which previously had been tightly controlled, were offering depositors attractive interest rates. At the same time, many big corporations that needed working capital were bypassing banks. Rather than taking out loans from the likes of Citibank and Wells Fargo, they issued short-term bonds of their own, which were called commercial paper.

Securitization enabled banks to move many of their loans off their balance sheets. This meant they didn't have to keep as much capital in reserve to satisfy the regulators, which boosted their profits. To help this process along, many banks, following the lead of Citigroup, set up special-purpose vehicles (SPVs)—also known as structured investment vehicles (SIVs) and conduits—which became heavy purchasers of RMBSs, CMOs, and other securitized products. (The buyers also included mutual funds, hedge funds, and wealthy endowments.) Thus conceived, the so-called shadow banking system would grow to elephantine proportions while remaining largely beyond the purview of regulators, bank stockholders, and journalists.

Minsky didn't realize the full implications of securitization—nobody did—but he was one of the few economists to draw attention to it. After his death in 1996, some of his colleagues in the small but dedicated post-Keynesian school pursued his interest in financial innovation. In his 2002 book, *Financial Markets, Money and the Real World*, Paul Davidson, of the University of Tennessee, pointed out that almost half the loans that U.S. banks initiated in 2001 had subsequently been transferred to nonbank entities, mostly through securitization. "The downside aspect of this shift in the source of bank profits

from interest earnings to originating and servicing fees is that bank loan officers do not worry as much about the creditworthiness of borrowers as long as there is a strong market for these loans," Davidson wrote. "There is therefore an incentive for bank loan officers to become 'loan pushers' and loan traders rather than investigators of the soundness of the borrower's use of loan money."

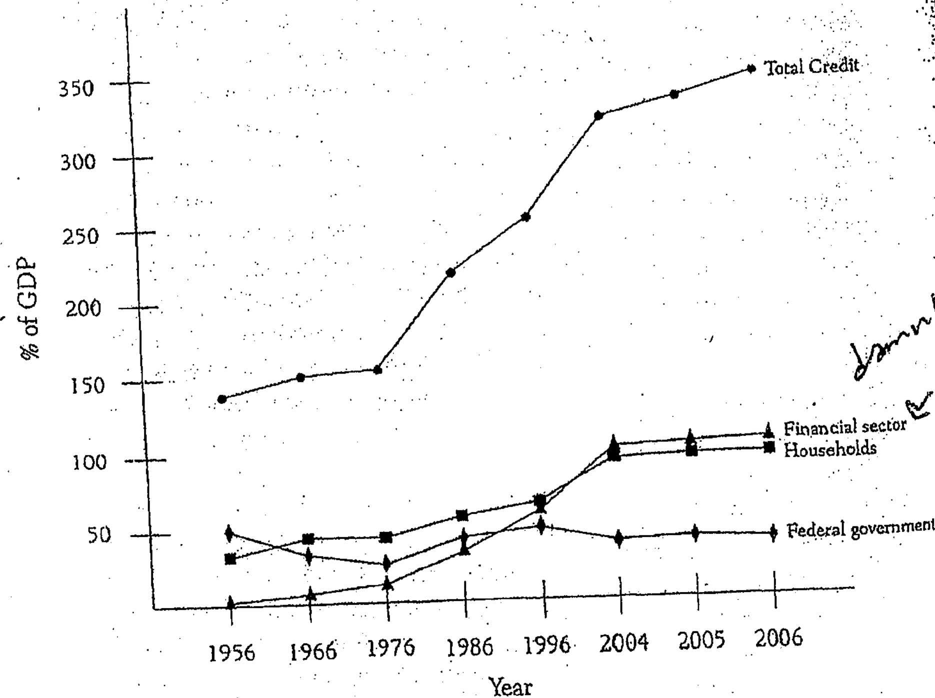
A confirmed worrywart, Minsky never fell victim to the illusion of stability. As early as the mid-1980s, he perceived a rising threat of financial chaos. Referring to the collapse of the Penn Square Bank in 1982, the federal bailout of Continental Illinois Bank in 1984, and the first inklings of the savings-and-loan crisis, he pointed out that countering financial instability was becoming a "major task" of economic policy. Most economists, including some supposedly liberal ones at places such as the Brookings Institution, supported the efforts by the White House and Congress to deregulate the banking industry. Minsky argued that finance couldn't be treated like other sectors that had been freed of government supervision, such as airlines and trucking. "For a new era of serious reform to enjoy more than transitory success," he wrote, "it should be based on an understanding of why a decentralized market mechanism—the free market of the conservatives—is the efficient way of handling the many details of economic life," twinned with an acceptance that the "financial institutions of capitalism . . . are inherently disruptive. Thus, while admiring the properties of free markets we must accept that the domain of effective and desirable free markets is restricted."

With most mainstream economists still in thrall to the efficient market hypothesis, interest in and sympathy for Minsky's arguments was largely confined to the fringes of the economics profession. During the 1980s and '90s, a diminishing band of Marxist economists, centered around *The Monthly Review*, a small New York journal that had been eking out an existence since the 1940s, focused on what they termed the "financialization" of U.S. capitalism, pointing out that employment in the financial sector, trading volumes in speculative markets, and the earnings of Wall Street firms were all rising sharply. Between 1980 and 2000, financial industry profits rose from $32.4 billion to $195.8 billion, according to figures from the Commerce Department, and the financial

16

growth in mortgage debt, especially subprime loans, but the rise in mortgage lending was just part of a much larger credit boom. Of the overall rise in indebtedness between 2002 and 2006, households were responsible for about a third—some $4.4 trillion—and that figure includes all types of household debt, not just mortgages and home equity loans. Another $2 trillion, or thereabouts, came in the form of increased borrowing on the part of federal, state, and local governments. The balance of the $13.5 trillion increase was debt taken out by businesses. Some of the borrowers were in the nonfinancial sector, which includes big industrial corporations such as Caterpillar and 3M and privately owned businesses of all kinds. But by far the biggest rise in borrowing came in the financial sector. As interest rates tumbled

FIGURE 17.1: RISING DEBT LEVELS



(Sources: Federal Reserve System, Flow of Fund Accounts of the United States; Bureau of Economic Analysis, National Economic Accounts Data)

The World Finance Crisis & the American Mission

Robert Skidelsky

1.

By common consent, we have been living through the greatest economic downturn since World War II. It originated, as we all know, in a collapse of the banking system, and the first attempts to understand the resulting economic crisis focused on the reasons for bank failures. The banks, it was said, had failed to "manage" the new "risks" posed by financial innovation. Alan Greenspan's statement that the cause of the crisis was the "underpricing of risk worldwide" was the most succinct expression of this view.[1] Particular attention was paid to the role of the American subprime mortgage market as the source of the so-called "toxic" assets that had come to dominate bank balance sheets. Early remedies for the crisis concentrated on bailing out or refinancing the banks, so that they could start lending again. These were followed by "stimulus packages," both monetary and fiscal, to revive the real economy.

Now that we are—or may be—over the worst of the crisis, attention has partly switched to trying to understand its deeper causes. The two most popular explanations to have emerged are the "money glut" and the "saving glut" theories. The first blames the crisis on loose fiscal and monetary policy, which enabled Americans to live beyond their means. In particular, Greenspan, chairman of the Federal Reserve in the critical years until his retirement in early 2006, used low interest rates to keep money too cheap for too long, thus allowing the housing bubble to get pumped up till it burst.

The second explanation sees cheap money in the US as a response to a "global saving glut" originating in East Asia and the Middle East. The "exorbitant privilege" enjoyed by the US dollar as the world's key currency allowed the US to pursue a fiscal and monetary policy that pushed domestic demand for goods and services well beyond domestic output, thereby absorbing the foreign savings hurled at it. The trouble was that foreign, and particularly Chinese, "investment" in the US economy, which in recent years has taken the form of buying US Treasury bonds, failed to create a corresponding flow of American tradable goods and services with which to repay the borrowing. As a result, America's domestic and foreign debt just went on increasing. In the technical jargon, both the US current account deficit and its debt-financed housing boom were unsustainable; it was unclear whether the dollar or the housing bubble would collapse first.

[1] Alan Greenspan, *The Age of Turbulence: Adventures in a New World* (Penguin, 2008), p. 507.

July 16, 2009

2.

Concern about the US current account deficit—the excess of expenditures over receipts in a country's balance of payments—long preceded the financial crisis. By 2005, it had already ballooned to 5 percent of GDP. How had this happened? The conservative explanation was that the US monetary and fiscal authorities had provided Americans with the money to make payments to foreigners for imports far in excess of the payments they received from foreigners for exports. This "spending beyond your means" is the classic road to ruin, for households as well as for countries. In the case of households it is normally brought to an end by notice from your bank or credit card company saying that you have reached your credit limit or your account has been frozen. In the case of countries it is normally ended by the refusal of other countries to lend the profligate country the means to continue its spending spree. The puzzle, though, was why the countries with surpluses continued to pour their hard-earned savings into the debt-ridden American economy.

In a notable lecture in 2005, Ben Bernanke, about to become chairman of the Federal Reserve, gave the answer. At first, he said, it was because the US was a highly productive economy. But following the financial crisis of 1997–1998, East Asian countries had deliberately started accumulating foreign exchange reserves to guard against another flight of capital similar to what they had just suffered or observed. To accumulate reserves they had to run current account surpluses, by earning more in exports than they spent on imports. This tied in with their policy of undervaluing their currencies against the dollar in order to maintain export-led growth.

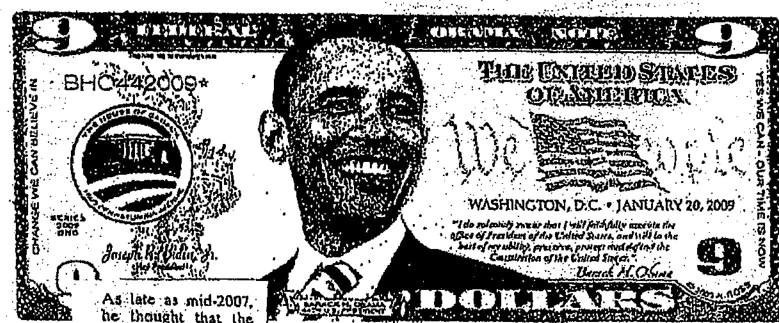
After the collapse of the dot-com boom in 2000, the US became a much less desirable place for direct foreign investment. So East Asian countries, especially China, started to buy US Treasury bonds. They adopted aggressive policies of buying large quantities of dollars and resisting market pressure for appreciation of their currencies. Investing their dollars in US securities was a way of segregating their dollar purchases from the domestic money supply, thereby preventing domestic price increases that would have eroded their export competitiveness. Like other economists at the time, Bernanke saw considerable merit in the arrangement: it enabled emerging and developing countries to reduce their foreign debts, stabilize their currencies, and reduce the risk of financial crises. Without US willingness to act as a "consumer of last resort," the global savings glut would exert a huge deflationary pressure on the world economy.

But Bernanke also pointed out three snags in the situation. First, for developing countries to be lending large net sums to mature industrial countries with abundant capital was undesirable: the flow should be going the other way—to countries with a capital shortage. Second, much of the inflow of capital to the US went not into improving productivity but into the housing sector and consumption. Third, the arrangement depressed US exports, encouraging instead the parts of the economy that produce nontraded goods and services, such as the financial industry. Yet to repay its foreign creditors, the US needed healthy export industries. A fall in the dollar was, therefore, needed to shrink the nontradable economy relative to the export sector. Nevertheless, Bernanke concluded, "fundamentally, I see no reason why the whole process [of rebalancing] should not proceed smoothly."

This was the standard view before the present crisis broke. Martin Wolf, the world's most respected financial columnist—mainly for the *Financial Times*—published a book in 2004 called *Why Globalization Works*.[2] He saw globalization as a mighty engine for ending global poverty, and was scornful of arguments against it, most of which he dismissed as lacking professional competence. He pointed to the huge success of China in reducing extreme poverty (people living on less than $1 a day). He saw no problem arising from the macroeconomic imbalances that resulted from lopsided trade. As he wrote:

> The pattern of surpluses and deficits will create difficulties only to the extent that the intermediation of the flows from the savings-surplus to the savings-deficit countries does not work smoothly.... But no insuperable difficulty should arise. If some people [Asians] wish to spend less than they earn today, then others need to be encouraged to spend more.

A. Ross



As late as mid-2007, he thought that the possibility that "huge calamities" could be generated by world financial markets "looks remote."[3]

His message just two months later was very different:

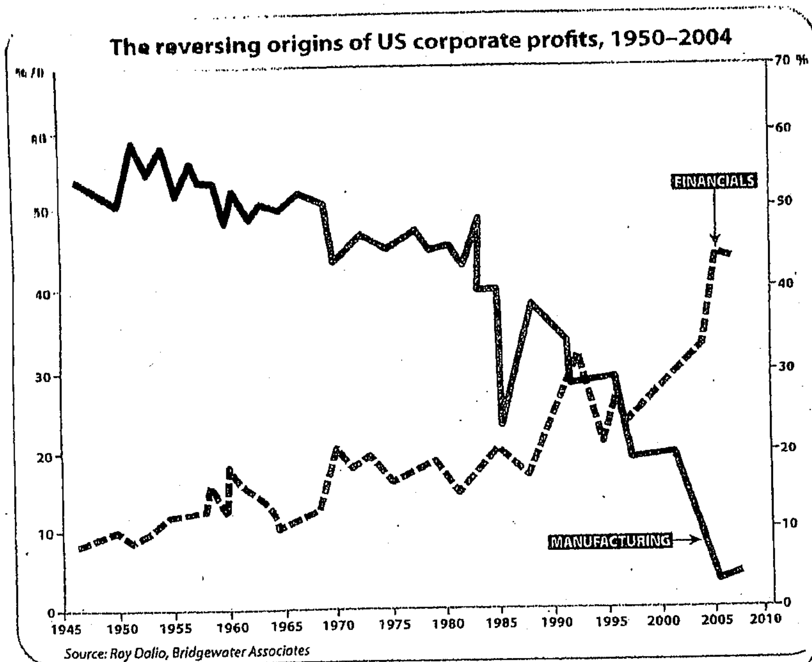
> Nothing that has happened has been a product of Fed folly alone. Its monetary policy may have been loose too long. The regulators may also have been asleep. But neither point is the heart of the matter.... Today's credit crisis...is also a symptom of an unbalanced world economy.[4]

Wolf more recently argued that the accumulation of dollar reserves by China and other East Asian countries that have maintained undervalued exchange rates against the dollar explains the low long-term interest rates and monetary easing of the US in the 2000s. Cheap money, he writes, had "encouraged an orgy of financial innovation, borrowing and spending" that created housing

"Today's Credit Crisis.... is also a Symptom of an unbalanced economy" MEANS: CHINA'S dollaR RESERVES are a product of OUR SHIFTING ECONOMY. WHICH IS DEFINED BY THE DECLINE OF MANUFACTURING AND RISE IN FINANCIAL SERVICES. THE NEW U.S ECONOMY IS THE F.I.R.E economy. FINANCE, INSURANCE, Real Estate.

Changes IN Production greatly Alter Society. Two eRAS IN American HISTORY DeMONStrate this. 1. THE GoldEN AGE 2. THE GREAT DIVERGENCE

TONY Judt & Robert Reich are the experts on this so We're GOING to Check out What they have to Say....



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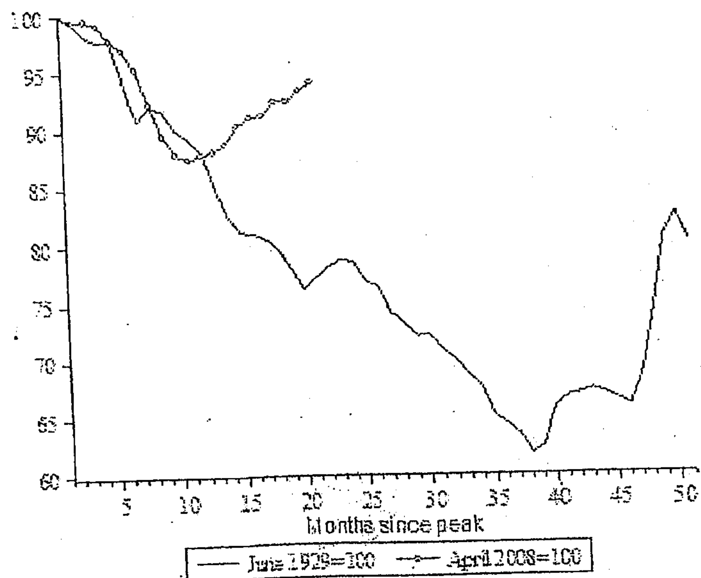


World Industrial Production

Robert Reich: Supercapitalism (2007)

CHAPTER ONE

THE NOT QUITE GOLDEN AGE

ROUGHLY BETWEEN 1945 and 1975, America struck a remarkable accommodation between capitalism and democracy. It combined a hugely productive economic system with a broadly responsive and widely admired political system. America in those years achieved its highest degree of income equality (since measurements have been available). It generated a larger proportion of good-paying jobs than before or since, and more economic security than ever for more of its people. Perhaps not coincidentally, in those years Americans also expressed high confidence in democracy and trust in government, both of which sharply declined in subsequent years.[1] That singular success and that powerful promise extended the moral authority of the American system throughout the world. In contrast to Soviet communism, America became an exemplar of both political freedom and suburban middle-class affluence.

The economy was based on mass production. Mass production was profitable because a large middle class had enough money to purchase what could be mass-produced. The middle class had the money because the profits from mass production were divided up between the giant corporations and their suppliers, retailers, and employees. The bargaining power of these latter groups was enhanced and enforced by government action. Almost a third of the workforce belonged to a labor union. Economic benefits were also spread across the nation—to farmers, veterans, smaller towns, and small businesses—through regulation (of railroads, telephones, utilities, and energy supplies) and subsidy (price supports, highways, federal loans). Thus did democracy offset the economic power of large-scale production and widely disperse its benefits.

But it was not quite a golden age. Women and minorities still struggled for political equality and economic opportunity. Much of the nation's poverty was hidden away in rural hollows or black ghettos. Foreign policy, ostensibly shaped by the perceived threat of Soviet communism, all too frequently pandered to the needs of large American firms for cheap resources abroad, such as bananas, tin, and oil. Civil liberties were imperiled during Senator Joe McCarthy's anti-communist witch hunt. Much of American life was monotonous, conformist, and deadly dull. And yet for all its shortcomings, democratic capitalism seemed to be working remarkably well, and on the way to working even better.

In order to understand what happened to the Not Quite Golden Age, we first need to understand how it came about.

1

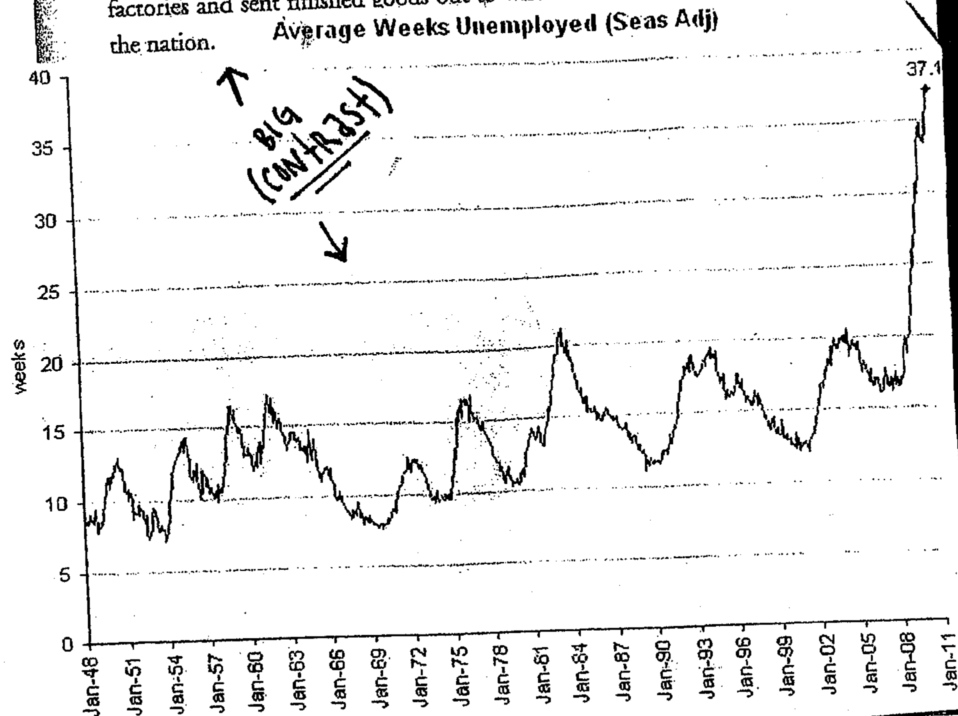
THE EVOLUTION began as the nineteenth century ended, when large corporations posed a profound challenge to American democracy. They brought a new level of prosperity to the nation but also sweatshops, child labor, and unsafe working conditions, and they monopolized whole industries. The unprecedented economic power of these giant companies made them politically unaccountable. America groped for a way to respond.

It started with outsized personalities whose footprints are still visible—J. P. Morgan, a banker's son who sold stocks for the railroads, engineered a huge rail combination, and became a wealthy financier (J. P. Morgan and Sons, which evolved into today's Morgan Stanley); Andrew Carnegie, who began as a telephone clerk, rose to the presidency of the Pennsylvania Railroad, and then made a fortune as a steel magnate (Carnegie Steel); John D. Rockefeller, who started as a bookkeeper in Cleveland, bought his first oil refinery in 1862, cornered the oil market in the 1890s with his Standard Oil Company (whose descendant is ExxonMobil), and then moved into coal, iron, shipping, copper, and banking (Chase Manhattan); and, subsequently, Henry Ford.

With these men and others like them flowed a stream of new inven-

bines, internal combustion engines, and iron and steel machinery with interchangeable parts—that allowed all sorts of things to be made and shipped in very large volume. Costs could be spread over so many units that each single one was cheap to produce. Procter & Gamble devised a new machine for mass-producing Ivory soap. Diamond Match used a machine that made and boxed matches by the billions. A cigarette-making machine invented in 1881 was so productive that just fifteen of them satisfied America's annual demand for cigarettes. Standard Oil, American Sugar Refining, International Harvester, and Carnegie Steel, among others, gained unprecedented efficiencies through giant furnaces, whirling centrifuges, converters, and rolling and finishing equipment.

Productivity surged. While the typical American worker in the early 1800s had produced a tiny .3 percent more each year (seeding and harvesting crops, logging, fishing, or applying his craft with hand tools), by the last decades of the century his productivity was rising at six times that rate.[2] Output also exploded. Iron production doubled in just a few years; steel production multiplied twenty-fold.[3] Railroad and telegraph networks expanded in tandem. Fast, regular, and reliable transportation and communication brought raw materials from far corners of the country into factories and sent finished goods out to wholesalers and retailers all over the nation.



BIG BUSINESSES found their correlate in big labor; the first begat the second. The bargains both sides struck over wages and working conditions established norms across the economy, spreading the benefits of high productivity and contributing to the growth of America's middle class. Their relationship was to be a central feature of democratic capitalism during the Not Quite Golden Age.

Labor's rise was not smooth. It had its fiery personalities—John L. Lewis of the United Mine Workers, Walter Reuther of the United Auto Workers, Philip Murray of the United Steelworkers. Yet as was the case with the rise of the giant corporation, structural changes in the economy accounted more for labor's rise (and subsequent decline) than the dominant characters who made the headlines. In the early twentieth century, the Supreme Court had determined that agreements among workers to form unions violated the nation's antitrust laws. Antitrust law did bar agreements that restrained trade, but the Court was acting cynically given the growing economic power of large corporations. As that power increased, labor nonetheless intensified its efforts to organize.

After the Wagner Act finally legitimized collective bargaining in 1935, unions grew considerably larger. General Motors recognized the United Auto Workers as bargaining agent for its workers, and United States Steel did the same for the United Steelworkers. They did so not just because the law now allowed for unions, but for much the same reason that they and other big businesses hadn't strongly opposed the Wagner Act in the first place. They saw in collective bargaining an efficient method for maintaining a stable workforce and minimizing unexpected disruptions—key preconditions for high-volume production.

During World War II, the ranks of organized labor swelled to 14 million. Big companies offered little resistance. They were raking in profits, mainly from government contracts. Open opposition to unions would have been unseemly under the circumstances. Labor, for its part, pledged not to strike; striking would have been seen as unpatriotic.

Soon after the war ended, though, labor demanded its share. American industry had grown fat on wartime profits, but American workers had not had a raise in years. An influential University of California study released in 1945 (authored by Dr. Walter Heller, who later chaired the Council of Economic Advisers in the John F. Kennedy and Lyndon Johnson administrations) found that the typical American family of four needed around $50 a week to maintain a "decent standard of living," but the average fac-

tory worker earned only $40.98 a week (steelworkers were paid $45.60; autoworkers, $44.81; electrical workers, $41.25; garment workers $23.75).[31] William H. Davis, then director of the government's Office of Economic Stabilization, estimated that industry was so profitable it could raise wages as much as 40 to 50 percent without raising prices. President Harry S. Truman, who felt he had enough on his plate without getting involved in management-labor disputes, repudiated Davis's calculation and announced Davis was out of a job.

Steelworker president Philip Murray denounced the billion dollars big steel companies had raked in during World War II and the nearly $750 million they had distributed to their shareholders, compared to the paltry sums steelworkers had been paid. UAW president Walter Reuther demanded General Motors link autoworkers' paychecks to the auto giant's "ability to pay." At one noted bargaining session whose transcript became public, Reuther threatened, "[U]nless we get a more realistic distribution of America's wealth, we won't get enough to keep this machinery going." His comment transcended the specific negotiation. He was referring to American workers in general, and the apparent urgency of spreading corporate wealth to them so they could buy the cars, kitchen appliances, radios, washing machines, and life insurance policies big business was now churning out. It was a signal moment in the history of labor and of democratic capitalism, but it did not elicit an especially constructive dialogue immediately thereafter:

GM: You can't talk about this . . . without exposing your socialistic desires.

REUTHER: If fighting for equal and equitable distribution of the wealth of this country is socialistic, I stand guilty of being a Socialist.

GM: You're convicted.

REUTHER: I plead guilty.

Reuther's threat—not only that the UAW would strike GM but that unless corporate profits were more broadly shared with American workers, they wouldn't be able to consume the output of American companies—struck a nerve. It prompted GM to run full-page advertisements in major newspapers setting out its philosophical view:

HERE IS THE ISSUE: Is American business to be based on free competition, or is it to become socialized, with all activities controlled and regimented? . . . America is at a crossroads! It must preserve the freedom of each unit of American business to determine its own destinies. Or it must transfer to some governmental bureaucracy or agency, or to a union, the responsibility of management that has been the very keystone of American business![32]

Corporate America held fast. Labor acted: In 1946 more than 2 million autoworkers, steelworkers, meatpackers, and electrical equipment workers went on strike. Truman had no choice but to get involved. He set up a fact-finding panel that showed the cost of living had jumped about 33 percent since before the war, while the wartime wage freeze had limited pay increases of the typical workers to around 15 percent. The panel called on industry to raise wages 33 percent above what they had been in January 1941. Business leaders reluctantly agreed.

The results were not nearly as dire as they had feared. Because every large company in every major industry had to make the same concession, no single company or industry suffered a competitive disadvantage at home, and needn't yet fear competition from abroad. The biggest companies in each industry already coordinated prices and output; coordinating wages turned out to be a relatively simple matter. Labor had done it just right: In organizing itself by industry—including auto, aircraft, steel, rubber, shipbuilding, chemicals, electrical equipment—it mimicked the preexisting oligopolies, and therefore minimized the cost to any single firm of accepting union demands.

Moreover, markets were growing briskly. By virtue of ever greater economies of scale, productivity was rising, too, which meant that most items could be produced as cheaply as before even though workers got higher pay. Business leaders were also confident that, when necessary, extra labor costs could be passed along to consumers in the form of higher prices. Consumers, after all, didn't have much choice. Finally, and most important, business executives now appreciated what a toll strikes and work stoppages could take on large-scale production. It was often cheaper to give the unions what they wanted. "Where you have a well-established

industry and a well-established union, you are going to get to the point where a strike doesn't make sense," wryly observed George Meany, the president of the AFL-CIO.[33]

By the 1950s the tumult was mainly over. Wages rose as did so-called fringe benefits. Indeed, benefits were becoming important features of pay packages. In 1950, 10 percent of union contracts offered pensions and 30 percent included health insurance. Five years later, 45 percent of medium-sized and large companies gave their workers pensions, and 70 percent provided a range of insurance—life, accident, and health that included hospitalization and maternity care.

CONNECTIONS IN THE WORKPLACE 61

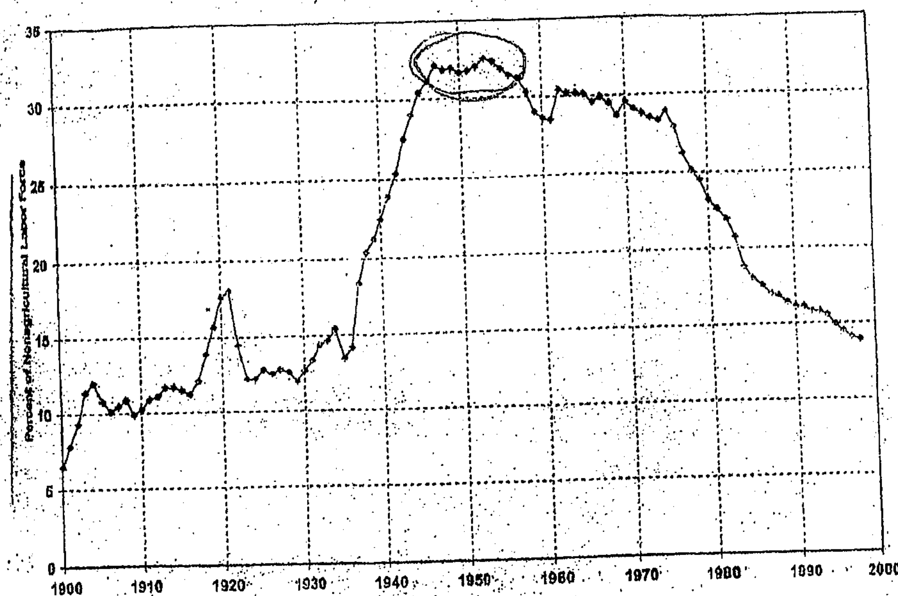


Figure 14: Union Membership in the United States, 1900–1998

BIG CHANGES!

The End of Work
Jeremy Rifkin

2004 Introduction

IN THE NINE YEARS that have elapsed since I published *The End of Work*, the global economy went on a wild ride, careening to new heights, then plummeting just as fast, leaving in its wake a worldwide recession. But, even at the peak of the economic cycle, structural unemployment remained dangerously high in countries around the world, despite gains in both global productivity and gross domestic product. In 1995, 800 million people were unemployed or underemployed. By 2001, more than a billion people fell into one of these two categories.[1]

Today, millions of workers across America find themselves underemployed or without jobs and with little hope of obtaining full-time employment. This sobering reality is all the more painful when we recall that just a few short years ago, business leaders and elected officials were making exuberant claims that the United States had solved its unemployment problems. "Official" unemployment dropped from 6.6 percent in January of 1994 to 4 percent in January of 2000, leading some economists to boast that unemployment was a thing of the past.[2] Their predictions turned out to be ill founded. By the spring of 2003, official U.S. unemployment had climbed back to 6 percent and become the most worrisome problem facing the country.[3] Nor is the U.S. alone.

The world's most highly developed nations continue to be plagued by chronic high unemployment. Germany's unemployment at the end of 2003 was 10.4 percent, and 60 percent of the unemployed had been without a job for more than a year.[4] France's and Italy's unemployment in 2003 hovered around 9 percent, while Spain's was nearly

12 percent.[5] Overall, unemployment in the European Union was 7.9 percent, and in the expanded Euro-zone it was more than 8.7 percent.[6]

The other side of the world is doing no better. Japan's unemployment reached 3.68 million people at the beginning of 2003 with an overall unemployment rate of 5.5 percent, the largest percentage of unemployed workers since record keeping began in the 1950s. Indonesia's unemployment rate was 9.1 percent and India's was 8.8 percent. In the Caribbean and Latin America, the average unemployment rate was 10 percent.[7]

What has become clear throughout this period is that the structural problems behind rising unemployment that were first discussed in *The End of Work* have only deepened in the interim years, making the future of employment the critical issue of our age. Interestingly enough, the analysis and trends taken up in the body of the book hold greater resonance now than when the book was first published.

I have taken the opportunity in this new introduction to bring the reader up to date on the future of work, with emphasis on lessons that can be learned from the tumultuous economic events of the past several years. I have also expanded on some of the many suggestions for addressing the jobs crisis that appear in the first edition with a range of new ideas for rethinking the nature of work. My hope is that these proposals might help us navigate our way into a new world where each person's avocation and contribution to the lot of humanity and the well-being of the Earth will likely be of a far different sort than anything previously imagined.

Every nation is in the throes of a great debate about the future of work. Saddled with high unemployment, high taxes, burdensome welfare systems, and convoluted regulatory regimes, which some say only perpetuate economic stagnation, critics in government, industry, and civil society are locked in a fierce ideological struggle about whether the rules governing employment, commerce, and trade need to be reformed, and if so, how. While politicians and business and labor leaders squabble over the issues of creating a flexible labor policy, lowering taxes, and rewriting the rules governing welfare and pension allotments, the real cause of global unemployment is going unaddressed in the public policy debate.

If the key to creating new jobs was only a matter of making the above-mentioned reforms, then the United States of America should be experiencing robust employment. After all, we have made virtually all of the reforms that other countries are now attempting to implement.

Yet American workers—and for that matter workers in virtually every other national economy in the world—are experiencing hard times.

Until recently, when official U.S. unemployment figures began to rise, the rest of the world looked to America for inspiration and guidance. What the other countries didn't know is that real unemployment in the U.S., even during the boom years of the second half of the 1990s, when the government was reporting a 4 percent unemployment rate, was really much higher. A University of Chicago study found that if the hidden unemployment were added in, real unemployment was closer to the unemployment levels, at the time, in the European Union.[8] That is because even though some Americans did find jobs after the 1989–92 recession, millions of other discouraged workers simply gave up and dropped out of the workforce and therefore were no longer counted in the official statistics.[9] Many others were incarcerated. In 1980, the prison population stood at 503,000 inmates. By the year 2000, nearly two million people were in prison.[10] Currently, 1.8 percent of the adult male workforce is in prison.[11] Moreover, many of the workers who did find employment in the bull market between 1995 and 2000 were temporary and part-time, without benefits, and for the most part underemployed. Many of them sank back into the ranks of the unemployed by the end of 2003.

THE RISE AND FALL OF THE "AMERICAN MIRACLE"

Much of the so-called American economic miracle of the late 1990s, including the temporary bubble in employment, turns out, in hindsight, to have been illusory. It wasn't so much America's superior management skills, entrepreneurial abilities, and productivity gains that fed the commercial expansion but, rather, the unprecedented extension of consumer credit, which allowed Americans to go on an extended spending spree. The American miracle was, to a great extent, bought on credit. Indeed, it is impossible to understand the temporary reduction in U.S. unemployment in the late 1990s without examining the close relationship that developed between job creation and the amassing of record consumer debt.

Consumer credit has been growing for nearly a decade. The burst in consumer spending put people back to work for a few years to make all the goods and provide all the services being purchased on credit. The result was that America's family savings rate, which was about 8 percent in the early 1990s, sank to around 2 percent by the year 2001.[12]

An analogous situation occurred in the mid- to late 1920s. Like today, the 1920s was a period of disruptive technological change. Electricity replaced steam power across every major industry, greatly increasing the productive capacity of the country. Productivity gains, however, were not matched by a significant increase in worker compensation. Instead, wages remained relatively flat, while many marginal workers were let go in the wake of cheaper, more efficient technology substitutions. By the late 1920s, American industry was running at only 75 percent of capacity in most key sectors of the economy. The fruits of the new productivity gains were not being distributed broadly enough among workers to sustain increased consumption and empty the inventories. Concerned over ineffective consumer demand, the banking community provided consumer loans and the retail trade extended cheap credit in the form of installment buying to encourage workers to buy more and keep the economy growing. By late 1929, consumer debt was so high that it could no longer be sustained. Even the bull market was being stoked by record purchases of stocks on margin (i.e., the amount paid by the customer when using a broker's credit to buy or sell a security). Finally, the entire house of cards collapsed.

The same phenomenon is occurring today. The productivity gains brought on by the information and telecommunication revolutions are finally being felt. The problem is that virtually every industry is facing global underutilization of capacity and insufficient consumer demand. American manufacturers reported that they were using less than 73 percent of their capacity in October 2003.[13] Once again, in the United States, consumer credit has become the palliative of sorts, a way to keep the economic engines throttled up, at least for a time.

Consumer credit is growing by a staggering 9 percent annual rate, and personal bankruptcies are increasing. In 1994, 780,000 Americans filed for bankruptcy. By 2002, the number of bankruptcies had soared to 1,576,133.[14] Until recently, some economists argued that the near zero percent savings rate was not really as bad as the figures might suggest, because millions of Americans experienced record gains in the stock market, making their equity portfolios a substitute for traditional bank savings. Of course, the recent downturn in the stock market has muted such claims. Moreover, it should be noted that nearly 90 percent of the gains of the stock market went to the top 10 percent of households, while more than half of all Americans did not benefit at all from the bull market, as they owned no stock.[15]

The U.K. is the only other G-8 country to follow the U.S. lead by dramatically increasing consumer credit to boost its economy. And, in

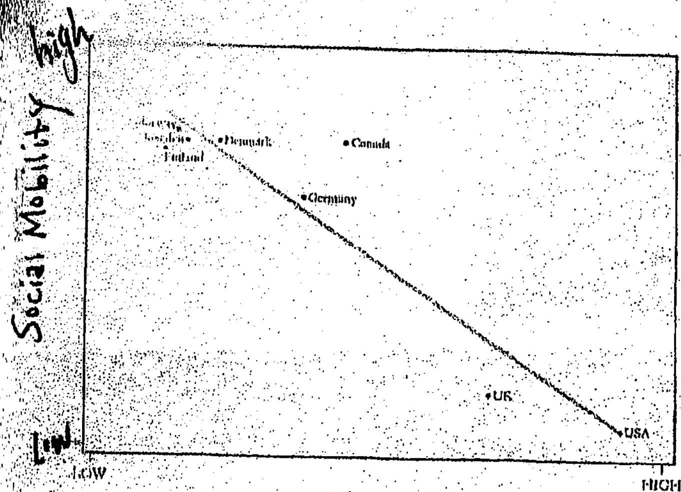
THE GOlDEN AGE, AS EXPlAINED, IS OVER. THE GREAT DIVERGENCE IS THE AGE WE ARE IN. CHAPTER 4: STRUCTUAL PRoBlEMS & INEQUITY

Something is profoundly wrong with the way we live today. For thirty years we have made a virtue out of the pursuit of material self-interest: indeed, this very pursuit now constitutes whatever remains of our sense of collective purpose. We know what things cost but have no idea what they are worth. We no longer ask of a judicial ruling or a legislative act: is it good? Is it fair? Is it just? Is it right? Will it help bring about a better society or a better world? Those used to be *the* political questions, even if they invited no easy answers. We must learn once again to pose them.

The materialistic and selfish quality of contemporary life is not inherent in the human condition. Much of what appears 'natural' today dates from the 1980s: the obsession with wealth creation, the cult of privatization and the private sector, the growing disparities of rich and poor. And above all, the rhetoric which accompanies these: uncritical admiration for unfettered markets, disdain for the public sector, the delusion of endless growth.

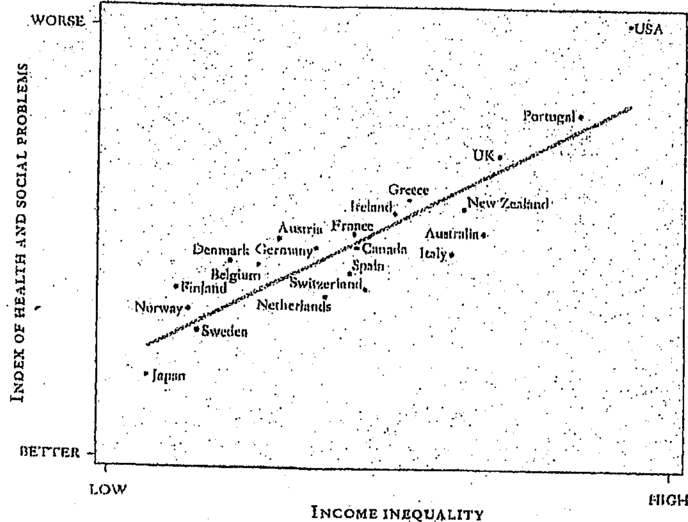
We cannot go on living like this. The little crash of 2008 was a reminder that unregulated capitalism is its own worst enemy: sooner or later it must fall prey to its own excesses and turn again to the state for rescue. But if we do no more than pick up the pieces and carry on as before, we can look forward to greater upheavals in years to come.

Tony Judt, "Ill Fares the Land"



Social Mobility and Inequality.

(From Wilkinson & Pickett, *The Spirit Level*, Figure 12.1, p. 160)

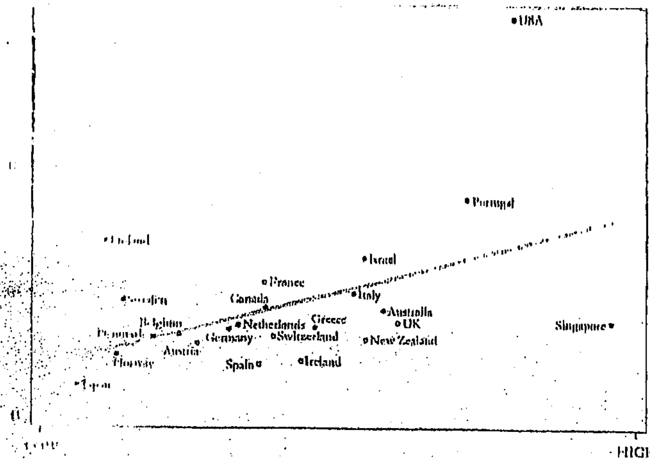


Inequality and Ill Health.

(From Jackson, *Prosperity Without Growth*, Figure 9.2, p. 155)

"I cannot help fearing that men may reach a point where they look on every new theory as a danger, every innovation as a toilsome trouble, every social advance as a first step toward revolution, and that they may absolutely refuse to move at all."

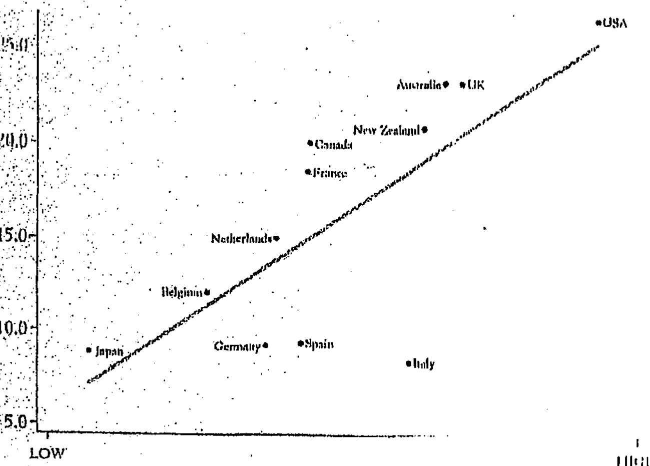
(Alexis de Tocqueville)



INCOME INEQUALITY

Inequality and Crime.

(From Wilkinson & Pickett, *The Spirit Level*, Figure 10.2, p. 135)



INCOME INEQUALITY

Inequality and Mental Illness.

(From Wilkinson & Pickett, *The Spirit Level*, Figure 5.1, p. 67)

THERE ARE MANY ways to combat INCOME INEQUALITY AND ITS APPARANT SIDE EFFECTS. FIRST WE MUST UNDERSTAND WHAT IS KEEPING US SO UNEQUAL...

Independent.co.uk

American inequality highlighted by 30-year gap in life expectancy

By Leonard Doyle in Washington
Thursday, 17 July 2008

The United States of America is becoming less united by the day. A 30-year gap now exists in the average life expectancy between Mississippi, in the Deep South, and Connecticut, in prosperous New England. Huge disparities have also opened up in income, health and education depending on where people live in the US, according to a report published yesterday.

The American Human Development Index has applied to the US an aid agency approach to measuring well-being – more familiar to observers of the Third World – with shocking results. The US finds itself ranked 42nd in global life expectancy and 34th in survival of infants to age. Suicide and murder are among the top 15 causes of death and although the US is home to just 5 per cent of the global population it accounts for 24 per cent of the world's prisoners.

Despite an almost cult-like devotion to the belief that unfettered free enterprise is the best way to lift Americans out of poverty, the report points to a rigged system that does little to lessen inequalities.

"The report shows that although America is one of the richest nations in the world, it is woefully behind when it comes to providing opportunity and choices to all Americans to build a better life," the authors said.

Some of its more shocking findings reveal that, in parts of Texas, the percentage of adults who pass through high school has not improved since the 1970s.

Asian-American males have the best quality of life and black Americans the lowest, with a staggering 50-year life expectancy gap between the two groups.

Despite the fact that the US spends roughly $5.2bn (£2.6bn) every day on health care, more per capita than any other nation in the world, Americans live shorter lives than citizens of every western European and Nordic country, bar Denmark..

Using official government statistics, the study points out that because American schools are funded primarily from local property taxes, rich districts get the best state education. The US has no federally mandated sick pay, paternity leave or annual paid vacation.

"Some Americans are living anywhere from 30 to 50 years behind others when it comes to issues we all care about: health, education and standard of living," said Sarah Burd-Sharps co-author of the report.

Although the US is one of the most powerful and rich nations in the world, the study concludes it is "woefully behind when it comes to providing opportunity and choices to all Americans to build a better life".

According to a United Nations human development report, the US is in 12th place in a league table of wealthy developed nations. Britain is ranked 16th.

Education, Taxes, Healthcare,
(MUNICIPAL RESPONSIBILITY?)

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November 8, 2010

Our Banana Republic

By NICHOLAS D. KRISTOF

In my reporting, I regularly travel to banana republics notorious for their inequality. In some of these plutocracies, the richest 1 percent of the population gobbles up 20 percent of the national pie.

But guess what? You no longer need to travel to distant and dangerous countries to observe such rapacious inequality. We now have it right here at home — and in the aftermath of Tuesday's election, it may get worse.

The richest 1 percent of Americans now take home almost 24 percent of income, up from almost 9 percent in 1976. As Timothy Noah of Slate noted in an excellent series on inequality, the United States now arguably has a more unequal distribution of wealth than traditional banana republics like Nicaragua, Venezuela and Guyana.

C.E.O.'s of the largest American companies earned an average of 42 times as much as the average worker in 1980, but 531 times as much in 2001. Perhaps the most astounding statistic is this: From 1980 to 2005, more than four-fifths of the total increase in American incomes went to the richest 1 percent.

That's the backdrop for one of the first big postelection fights in Washington — how far to extend the Bush tax cuts to the most affluent 2 percent of Americans. Both parties agree on extending tax cuts on the first $250,000 of incomes, even for billionaires. Republicans would also cut taxes above that.

The richest 0.1 percent of taxpayers would get a tax cut of $61,000 from President Obama. They would get $370,000 from Republicans, according to the nonpartisan Tax Policy Center. And that provides only a modest economic stimulus, because the rich are less likely to spend their tax savings.

At a time of 9.6 percent unemployment, wouldn't it make more sense to finance a jobs program? For example, the money could be used to avoid laying off teachers and undermining American schools.

Likewise, an obvious priority in the worst economic downturn in 70 years should be to extend unemployment insurance benefits, some of which will be curtailed soon unless Congress renews them. Or there's the Trade Adjustment Assistance program, which helps train and support workers who have lost their jobs because of foreign trade. It will no longer apply to service workers after Jan. 1, unless Congress intervenes.

So we face a choice. Is our economic priority the jobless, or is it zillionaires?

And if Republicans are worried about long-term budget deficits, a reasonable concern, why are they insistent on two steps that nonpartisan economists say would worsen the deficits by more than $800 billion over a decade — cutting taxes for the most opulent, and repealing health care reform? What other programs would they cut to make up the lost $800 billion in revenue?

In weighing these issues, let's remember that backdrop of America's rising inequality.

In the past, many of us acquiesced in discomfiting levels of inequality because we perceived a tradeoff between equity and economic growth. But there's evidence that the levels of inequality we've now reached may actually suppress growth. A drop of inequality lubricates economic growth, but too much may gum it up.

Robert H. Frank of Cornell University, Adam Seth Levine of Vanderbilt University, and Oege Dijk of the European University Institute recently wrote a fascinating paper suggesting that inequality leads to more financial distress. They looked at census data for the 50 states and the 100 most populous counties in America, and found that places where inequality increased the most also endured the greatest surges in bankruptcies.

Here's their explanation: When inequality rises, the richest rake in their winnings and buy even bigger mansions and fancier cars. Those a notch below then try to catch up, and end up depleting their savings or taking on more debt, making a financial crisis more likely.

Another consequence the scholars found: Rising inequality also led to more divorces, presumably a byproduct of the strains of financial distress. Maybe I'm overly sentimental or romantic, but that pierces me. It's a reminder that inequality isn't just an economic issue but also a question of human dignity and happiness.

Mounting evidence suggests that losing a job or a home can rock our identity and savage our self-esteem. Forced moves wrench families from their schools and support networks.

In short, inequality leaves people on the lower rungs feeling like hamsters on a wheel spinning ever faster, without hope or escape.

Economic polarization also shatters our sense of national union and common purpose, fostering political polarization as well.

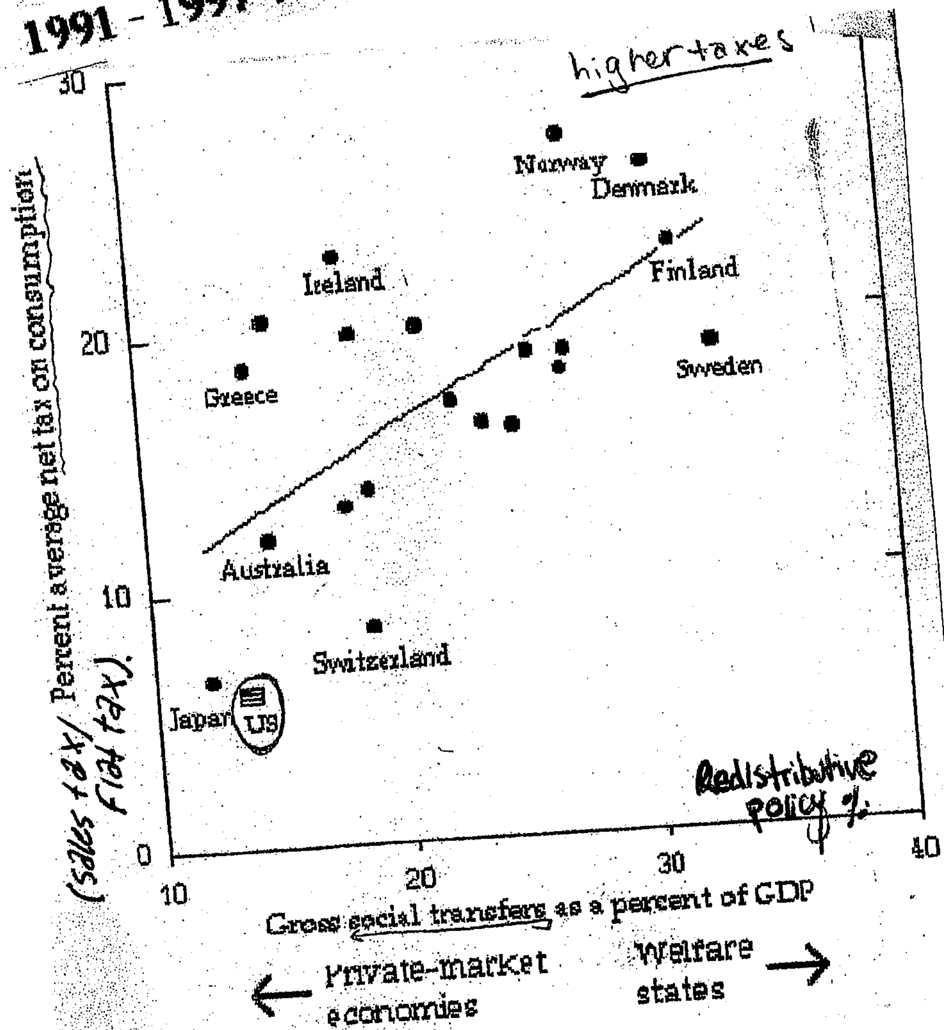
So in this postelection landscape, let's not aggravate income gaps that already would make a Latin American caudillo proud. To me, we've reached a banana republic point where our inequality has become both economically unhealthy and morally repugnant.

I invite you to comment on this column on my blog, On the Ground. Please also join me on Facebook, watch my YouTube videos and follow me on Twitter.

What Does Equality or Redistributive policy look like? There are many approaches......

Flat Tax?

Figure 4. The Average Tax Rate on Consumption 1991 - 1997 versus Social Transfers 1995



A flat tax is essentially a sales tax. In NYS we pay around 8% "sales taxes." They are less popular than "progressive" taxes in the U.S because they "hurt consumers." EVIDENTLY THEY are effective IN REDISTRIBUTING WEALTH. Lets look at the Debate AROUND taxes IN THE UNITED STATES:

December 5, 2010

Let's Not Make a Deal

By PAUL KRUGMAN

Back in 2001, former President George W. Bush pulled a fast one. He wanted to enact an irresponsible tax cut, largely for the benefit of the wealthiest Americans. But there were Senate rules in place designed to prevent that kind of irresponsibility. So Mr. Bush evaded the rules by making the tax cut temporary, with the whole thing scheduled to expire on the last day of 2010.

The plan, of course, was to come back later and make the thing permanent, never mind the impact on the deficit. But that never happened. And so here we are, with 2010 almost over and nothing resolved.

Democrats have tried to push a compromise: let tax cuts for the wealthy expire, but extend tax cuts for the middle class. Republicans, however, are having none of it. They have been filibustering Democratic attempts to separate tax cuts that mainly benefit a tiny group of wealthy Americans from those that mainly help the middle class. It's all or nothing, they say: all the Bush tax cuts must be extended. What should Democrats do?

The answer is that they should just say no. If G.O.P. intransigence means that taxes rise at the end of this month, so be it.

Think about the logic of the situation. Right now, the Republicans see themselves as successful blackmailers, holding a clear upper hand. President Obama, they believe, wouldn't dare preside over a broad tax increase while the economy is depressed. And they therefore believe that he will give in to their demands.

But while raising taxes when unemployment is high is a bad thing, there are worse things. And a cold, hard look at the consequences of giving in to the G.O.P. now suggests that saying no, and letting the Bush tax cuts expire on schedule, is the lesser of two evils.

Bear in mind that Republicans want to make those tax cuts permanent. They might agree to a two- or three-year extension — but only because they believe that this would set up the conditions for a permanent extension later. And they may well be right: if tax-cut blackmail works now, why shouldn't it work again later?

America, however, cannot afford to make those cuts permanent. We're talking about almost $4 trillion in lost revenue just over the next decade; over the next 75 years, the revenue loss would be more than three times the entire projected Social Security shortfall. So giving in to Republican demands would mean risking a major fiscal crisis — a crisis that could be resolved only by making savage cuts in federal spending.

And we're not talking about government programs nobody cares about: the only way to cut spending enough to pay for the Bush tax cuts in the long run would be to dismantle large parts of Social Security and Medicare.

So the potential cost of giving in to Republican demands is high. What about the costs of letting the tax cuts expire? To be sure, letting taxes rise in a depressed economy would do damage — but not as much as many people seem to think.

A few months ago, the Congressional Budget Office released a report on the impact of various tax options. A two-year extension of the Bush tax cuts, it estimated, would lower the unemployment rate next year by between 0.1 and 0.3 percentage points compared with what it would be if the tax cuts were allowed to expire; the effect would be about twice as large in 2012. Those are significant numbers, but not huge — certainly not enough to justify the apocalyptic rhetoric one often hears about what will happen if the tax cuts are allowed to end on schedule.

Oh, and what about confidence? I've been skeptical about claims that budget deficits hurt the economy even in the short run, because they undermine confidence in the government's long-run solvency. Advanced countries, I've argued, have a lot of fiscal leeway. But anything that makes permanent extension of obviously irresponsible tax cuts more likely also sends a strong signal to investors: it says, "Hey, we aren't really an advanced country; we're a banana republic!" And that can't be good for the economy.

Last but not least: if Democrats give in to the blackmailers now, they'll just face more demands in the future. As long as Republicans believe that Mr. Obama will do anything to avoid short-term pain, they'll have every incentive to keep taking hostages. If the president will endanger America's fiscal future to avoid a tax increase, what will he give to avoid a government shutdown?

So Mr. Obama should draw a line in the sand, right here, right now. If Republicans hold out, and taxes go up, he should tell the nation the truth, and denounce the blackmail attempt for what it is.

Yes, letting taxes go up would be politically risky. But giving in would be risky, too — especially for a president whom voters are starting to write off as a man too timid to take a stand. Now is the time for him to prove them wrong.

Your Coming Tax Cut (or Not)

The Bush tax cuts of 2001 and 2003 are set to expire at the end of this year, and the fight is on to renew some or all of them. Many Democrats want to scrap future cuts for the wealthiest taxpayers — individuals whose income after deductions is more than $200,000 and couples at $250,000 or more. The Republican leaders insist that all taxpayers should get relief, even those in the highest income strata. Wealthy Americans, they say, can use their tax savings to create jobs.

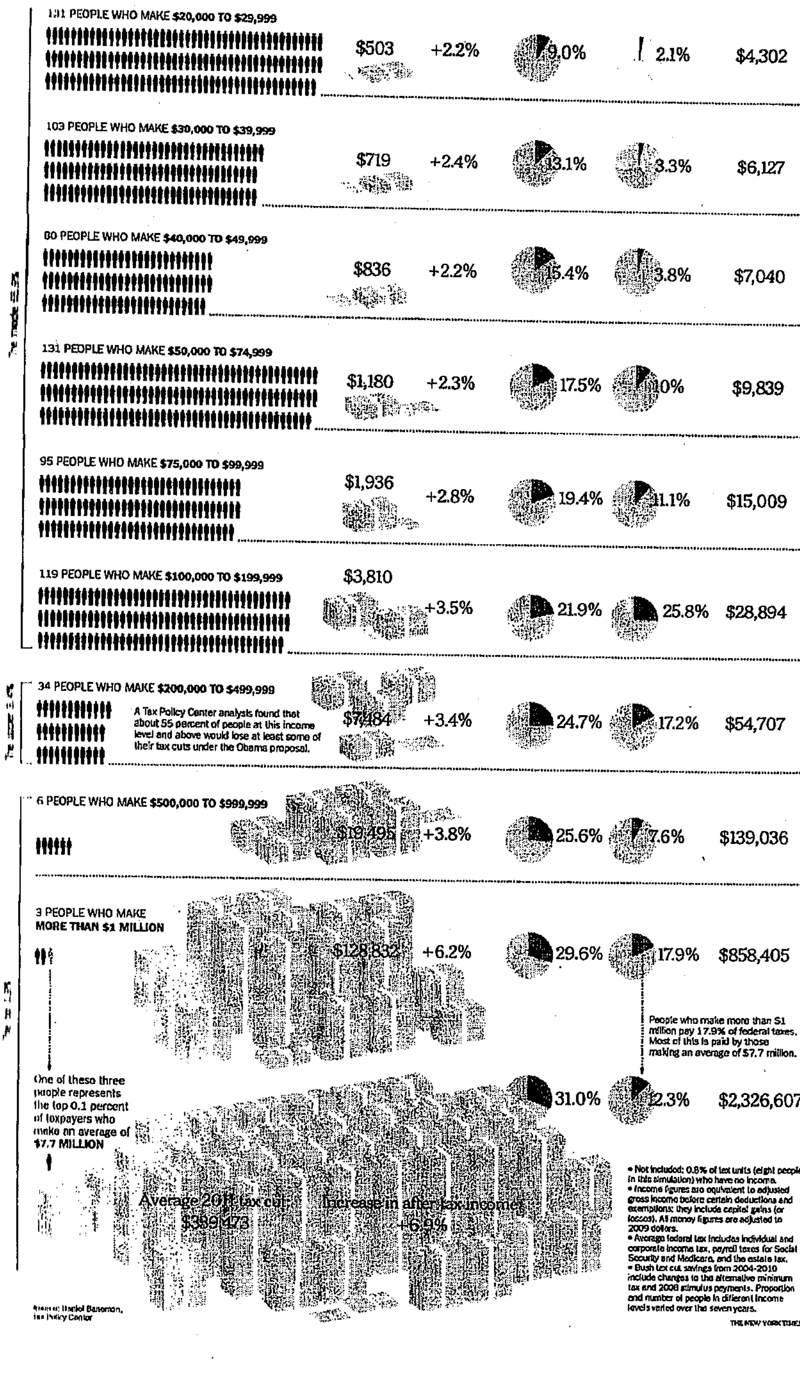
In either case, the extensions would be expensive: perhaps $2.7 trillion less for the Treasury through 2020. Here is a guide to who will get what if the cuts are extended, and who got what from the last seven years of cuts, according to an analysis by the Tax Policy Center, a nonpartisan research organization.

BILL MARSH

1. The American People Imagine the nation is represented by 1,000 people — those filing individual tax returns, married couples filing joint returns, and others, including those who don't have to file returns. Here are their projected incomes in 2011:

2. If the Tax Cuts Are Extended This is what each person in each income level would receive, on average, in the 2011 tax year, and also what he or she will pay in federal taxes:

3. Since '04 What each person saved, on average, from Bush tax cuts, 2004-2010:



	AVG. SIZE OF 2011 TAX CUT	AVG. INCREASE IN AFTER-TAX INCOME	PCT. OF INDIVIDUALS' INCOME THAT WILL GO TO FEDERAL TAXES	SHARE OF FEDERAL TAXES EACH GROUP WILL PAY	Since '04
125 PEOPLE WHO MAKE LESS THAN $10,000	$5	+0.1%	4.6%	0.2%	$335
165 PEOPLE WHO MAKE $10,000 TO $19,999	$137	+0.9%	4.7%	0.8%	$1,448
131 PEOPLE WHO MAKE $20,000 TO $29,999	$503	+2.2%	9.0%	2.1%	$4,302
103 PEOPLE WHO MAKE $30,000 TO $39,999	$719	+2.4%	13.1%	3.3%	$6,127
80 PEOPLE WHO MAKE $40,000 TO $49,999	$836	+2.2%	15.4%	3.8%	$7,040
131 PEOPLE WHO MAKE $50,000 TO $74,999	$1,180	+2.3%	17.5%	10%	$9,839
95 PEOPLE WHO MAKE $75,000 TO $99,999	$1,936	+2.8%	19.4%	11.1%	$15,009
119 PEOPLE WHO MAKE $100,000 TO $199,999	$3,810	+3.5%	21.9%	25.8%	$28,894
34 PEOPLE WHO MAKE $200,000 TO $499,999	$7,484	+3.4%	24.7%	17.2%	$54,707
6 PEOPLE WHO MAKE $500,000 TO $999,999	$19,495	+3.8%	25.6%	7.6%	$139,036
3 PEOPLE WHO MAKE MORE THAN $1 MILLION	$128,832	+6.2%	29.6%	17.9%	$858,405
One of these three people represents the top 0.1 percent of taxpayers who make an average of $7.7 MILLION	Average 2011 tax cut: $389,473	Increase in after-tax income: +6.9%	31.0%	12.3%	$2,326,607

A Tax Policy Center analysis found that about 55 percent of people at this income level and above would lose at least some of their tax cuts under the Obama proposal.

People who make more than $1 million pay 17.9% of federal taxes. Most of this is paid by those making an average of $7.7 million.

- Not included: 0.8% of tax units (eight people in this simulation) who have no income.
- Income figures are equivalent to adjusted gross income before certain deductions and exemptions; they include capital gains (or losses). All money figures are adjusted to 2009 dollars.
- Average federal tax includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax.
- Bush tax cut savings from 2004-2010 include changes to the alternative minimum tax and 2008 stimulus payments. Proportion and number of people in different income levels varied over the seven years.

Source: Daniel Baneman, Tax Policy Center

THE NEW YORK TIMES

HOW IT BREAKS DOWN!

BY THE NUMBERS

$60 Billion

The approximate amount that extending the Bush tax cuts on income above $250,000 a year—which Congress seems on the verge of doing—will cost a year, in inflation-adjusted terms. On average, the affluent households that benefit from these cuts will save $25,000 annually. What else might that $60 billion a year buy?

7 – expe

- As much **deficit reduction** as the elimination of earmarks, President Obama's proposed federal pay freeze, a 10 percent cut in the federal work force and a 50 percent cut in foreign aid—combined.
- A tripling of federal funding for **medical research.**
- **Universal preschool** for 3- and 4-year-olds, with relatively small class sizes.
- A much larger **troop surge** in Afghanistan, raising spending by 60 percent from current levels. wow
- A **national infrastructure** program to repair and upgrade roads, bridges, mass transit, water systems and levees.
- A 15 percent cut in **corporate taxes.**
- Twice as much money for **clean-energy research** as suggested by a recent bipartisan plan.
- **Free college,** including room and board, for about half of all full-time students, at both four- and two-year colleges.
- A $500 **tax cut** for all households. —*David Leonhardt*

WHERE MONEY ISN'T BEING REDISTRIBUTED— Education, Research, Reproductive Services ect LIES WIDENING GAPS IN SOCIETY. These GAPS ARE UGLY & UNPRODUCTIVE.

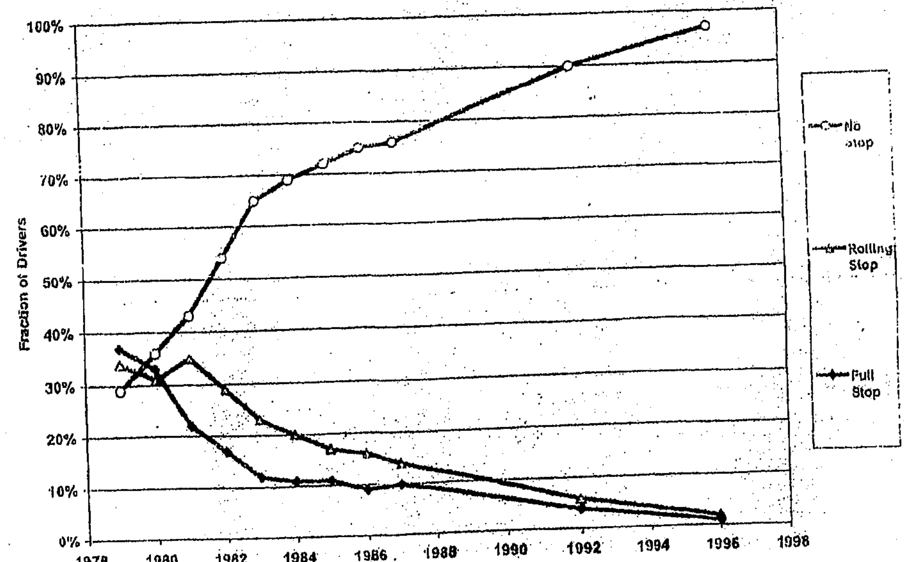


Figure 40: The Changing Observance of Stop Signs

NOBODY EVEN OBSERVES STOP SIGNS ANYMORE! WTF?!

Samuel Bowles and Guard Labor

Inequality leads to an excess of what Bowles calls "guard labor." In a 2007 paper on the subject, he and co-author Arjun Jayadev, an assistant professor at the University of Massachusetts, make an astonishing claim: Roughly 1 in 4 Americans is employed to keep fellow citizens in line and protect private wealth from would-be Robin Hoods.

The job descriptions of guard labor range from "imposing work discipline"-think of the corporate IT spies who keep desk jockeys from slacking off online-to enforcing laws, like the officers in the Santa Fe Police Department paddy wagon parked outside of Walmart.

The greater the inequalities in a society, the more guard labor it requires, Bowles finds. This holds true among US states, with relatively unequal states like New Mexico employing a greater share of guard labor than relatively egalitarian states like Wisconsin.

The problem, Bowles argues, is that too much guard labor sustains "illegitimate inequalities," creating a drag on the economy. All of the people in guard labor jobs could be doing something more productive with their time-perhaps starting their own businesses or helping to reduce the US trade deficit with China.

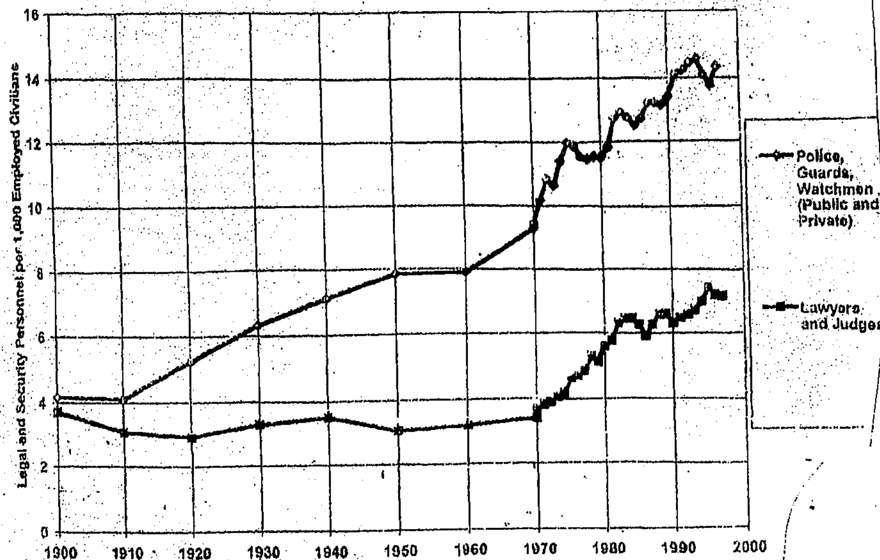


Figure 42: Employment in Policing and the Law Soared after 1970

WITH THE UNEMPLOYMENT RATE SOMEWHERE BETWEEN 8 & 10%, AND 1/4 OF THOSE EMPLOYED "GUARDING PRIVATE WEALTH, SOMETHING IS EVIDENTLY WRONG WITH WORK & PRODUCTION.

THE PRODUCTIVITY CONUNDRUM (RIFKIN)

Despite a 2.8 percent growth in the economy in 2002, and a steep rise of 4.7 percent in labor productivity—the biggest increase since 1950—more than one million workers left the job market altogether in the last year.[44] They simply gave up looking for work and are, therefore, no longer counted as unemployed. Why did those jobs disappear? Some critics blame the increasing unemployment on cheap labor and cheaper imports from abroad, and rail against American companies for relocating production and services south of the border and overseas. While there is some truth to the claim, the deeper cause of the spreading unemployment in America and around the world lies with the dramatic boosts in productivity.

The old logic that technology gains and advances in productivity destroy old jobs but create as many new ones is no longer true. Productivity has always been looked to as the engine for job creation and prosperity. Economists have long argued that productivity allows firms to produce more goods at cheaper costs. Cheaper goods, in turn, stimulate demand. The increase in demand leads to more production and greater productivity, which, in turn, increases demand even more, in a never-ending cycle. So even if technological innovations throw some people out of work in the short term, the spike in demand for the cheaper products will assure additional hiring down the line to meet expanded production runs.

"THE LABOUR WHICH THUS BECOMES MORE ABSTRACT TENDS ON ONE HAND BY ITS UNIFORMITY TO MAKE LABOUR EASIER AND TO INCREASE PRODUCTION. THE SKILL ITSELF BECOMES IN THIS WAY MECHANICAL AND GETS THE CAPABILITY OF LETTING THE MACHINE TAKE THE PLACE OF HUMAN LABOR" - THUS TO PRODUCE MORE UNCONDITIONAL DEPENDENCE ON THE SOCIAL SYSTEM." (HEGEL)

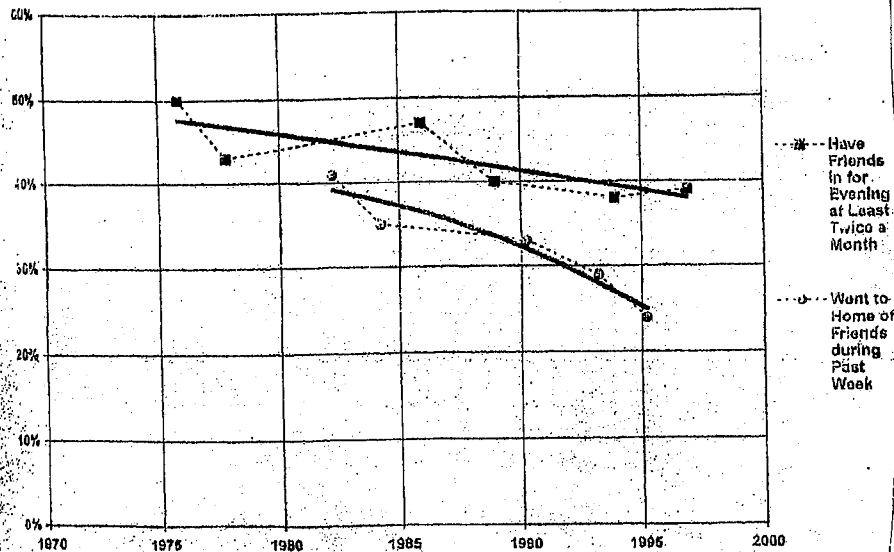


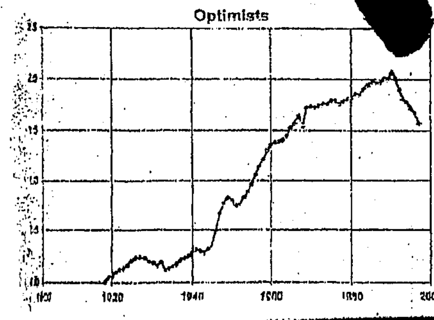
Figure 18: Social Visiting Declines, 1975–1999

Machines & Inequality = Less Friends. Cooperation = Resistance.

"INDUSTRIAL capitalism as an economy built upon the exploitation and degradation of the earth, is the productive & distributive enterprise of that civilization, to which must be opposed the practices of an ecological and sustainable economy built upon accommodation and commitment to the Earth & following principles of conservation, stability, self-sufficiency and cooperation." ([illegible] SALE)

AND HERE WE ARE FACING THE MOST IMPORTANT (?)

WHERE DO WE GO NOW?



Why Center-left Parties are Collapsing By Michael Lind

Democrats sacrificed the working class to woo bankers and professionals -- and now they're paying a steep price

The setbacks Democrats are poised to suffer in the midterm election have to be viewed in a trans-Atlantic context. The backlash against Barack Obama and the contemporary Democratic Party is part of a global wave of popular disapproval of social democratic parties that abandoned their traditional working-class constituents in order to woo bankers and professionals.

Parties or coalitions of the left hang on to control in Norway, Spain and Austria. But every major country in Europe -- Britain, France, Germany and Italy -- is now ruled by the center-right. From the Baltic to the Mediterranean, social democratic parties are crumbling.

For most of the 20th century, Sweden's ruling Social Democrats were the model for center-left parties elsewhere. In September's election, the Swedish Social Democrats received only 30.9 percent of the vote, their worst showing since 1914. Earlier in 2009, Germany's Social Democratic Party suffered its worst electoral defeat since World War II, winning only 23 percent of the vote. In Sweden, Germany and elsewhere, Social Democrats are losing voters to populist parties of the right, Greens and hard-left parties.

It would be a mistake to believe that the voters, in rejecting social democrats, are rejecting the middle-class welfare state that social democratic parties built in the 20th century. On the contrary, center-right parties like David Cameron's Conservatives and the ruling Moderate party in Sweden have been forced to limit their libertarianism in order to win office.

The truth is that voters have not turned against the old-fashioned social democracy of the mid-20th century. In Europe as in the U.S., universal social insurance programs for the middle class, as opposed to means-tested welfare programs for the poor, remain popular among voters on the right as well as the left. Voters in Europe are not voting against public pensions and universal healthcare. Instead, they are tossing out a more recent generation of social democrats who went too far in their embrace of markets.

The greatest assault on traditional social democracy in the last generation has come from "Third Way" leaders of center-left parties like Tony Blair, and their continental European counterparts. Like the Clinton Democrats, these "modernizing" social democrats embraced free markets with a convert's zeal, celebrating globalization and deregulating finance, while seeking to privatize or dismantle parts of the older welfare state. The politicians of the Third Way were far more libertarian than the voters in their own parties and their actions helped to make possible the global economic crisis.

Having given up traditional social democratic economics for a watered-down version of libertarian conservatism, the Third Way social democrats in Europe, like the Clinton and Obama Democrats in the U.S., sought to replace the traditional bread-and-butter concerns of working-class voters with idealistic campaigns about multiculturalism, climate change and obesity that appealed to more affluent, college-educated voters.

The immigration issue is particularly damaging to the center-left, because it illustrates the growing divide between the populist working class and the professional-class elites who control the machinery of center-left parties. The conflicts associated with Muslim immigration in Europe are different from those associated with Latino immigration in the U.S., but on both sides of the Atlantic parties of the center-left have treated any concern about the effects of high immigration on wages, the welfare state, or national cultural community as deplorable racism. While the mainstream conservative parties of Europe officially denounce far-right nativist parties like the Sweden Democrats, the Dutch Freedom Party and the French National Front, they have moved to the right to co-opt the issue. In France, Nicolas Sarkozy was catapulted to the presidency after he called Muslim rioters "scum" and supervised a crackdown in his previous post as interior minister. Angela Merkel, the conservative chancellor of Germany, recently declared that multiculturalism in Germany had "utterly failed," and Horst Seehofer, leader of a conservative Bavarian party allied with the ruling Christian Democrats, declared: "Multikulti is dead."

During the recent British electoral campaign, David Cameron's Tories criticized non-EU immigration, a code word for Muslim immigration. Meanwhile, New Labour prime minister Gordon Brown harmed his chances for reelection in what the tabloids called "bigotgate." Gordon Brown's demise was accelerated by a similar gaffe during the recent British election campaign. After a 65-year-old widow named Gillian Duffy asked him about "all those eastern Europeans coming in," an open microphone caught Brown telling an aide that "she was just a sort of bigoted woman who said she used to be Labour." Brown's dismissive attitude was strikingly similar to that of then-candidate Barack Obama in 2008. In the infamous leaked speech to a group of rich donors in San Francisco, Obama attributed the preference of white working-class voters for Hillary Clinton in terms of their alleged pathology: "It's not surprising, then, they get bitter, they cling to guns or religion or antipathy to people who aren't like them or anti-immigrant sentiment or anti-trade sentiment as a way to explain their frustration." It is hardly surprising that working-class voters in Europe and America should reject center-left politicians who treat them as annoying yokels whom they must humor on the way to their coronations.

In general the parallels between the U.S. and Europe are striking. In the U.S., as in Europe, the right is divided between a pro-business right promoting policies of austerity and a populist, nativist right energized by opposition to immigration and multiculturalism, particularly where Muslims are involved. In the U.S., as in Europe, the upper-middle-class activists and intellectuals of the center-left devote far less energy to traditional social democratic issues like social insurance and the minimum wage than to non-economic causes like renewable energy, mass transit, the new urbanism, gay marriage, identity politics and promotion of amnesty for illegal immigrants. On both continents, conservatism is becoming more downscale while progressives are increasingly upmarket.

The New Spirit of Economics

by Kalle Lasn

For Hayek, a market was a personal voyage of discovery. Malthus once told Ricardo to be wary of becoming too attached to abstract ways of thinking. Keynes believed in "animal spirits." Schumpeter sensed a brutal dynamic of "creative destruction" at the heart of capitalism. Heilbroner sternly warned economists to abandon their "suicidal formalism" if they wanted to progress … but such crunchy, philosophical insights into the soul of economics have largely been lost on the last few generations of its practitioners. For 50 years they've been rationalizing human behavior, sanitizing their models and trying their best to turn economics into a mathematically driven exact science like physics.

Now the old guard is under attack by students and scientists from other disciplines for its profound disconnect from reality. The logic freaks of neoclassical economics are in retreat … the old certitudes are crumbling. Economists are being forced to admit that their understanding of nonlinear, real-world systems is frail at best and that their abstract models have limited value. Everything, from banking, financial regulation and credit, right down to the bedrock fundamentals – growth, freedom, happiness, progress – are now being rethought. The profession is entering an almost Nietzschean period of creative destruction. Here are some of the tectonic mindshifts now underway:

- **A theoretical shift** from free market back to Keynesian economics. The idea that governments should step aside and let markets regulate themselves has been publicly, viscerally discredited.
- **An aesthetic shift** in the tone, style and spirit of economics. The abstract number cruncher, alone in his tower, lost in the abstraction of models – that dusty Apollonian archetype – is dead.
- **An operational shift:** After years of self-imposed isolation, economists are finding inspiration in psychology, environmental science, design, philosophy and art.
- **An existential shift:** Before last year's meltdown it was considered heresy to question the wisdom of growth. Now economists are coming out of the closet and doing exactly that: openly proclaiming infinite growth cannot be sustained on a finite planet.

This is the most far-reaching, penetrating paradigm shift imaginable – a monumental mindshift on par with what Einstein's relativity did to physics. It points to what is perhaps the most exciting and intractable problem of our time: how to create a sustainble economy that does not feed off nature. It heralds the beginning of a debate that will occupy the best minds on the planet for centuries to come: How to manage our planetary household – how to live and be happy – without crashing Gaia?

THE END of CHEAP OIL and THE RISE of the House of Chavez – GREGORY PALAST –

On June 1, Venezuelan President Hugo Chávez, while playing host to the ministers of the Organization of Petroleum Exporting Countries (OPEC), plans to make a downright inhospitable demand: that the oil cartel officially recognize a quadrupling of his nation's oil reserves, from 77 billion barrels to 312 billion—50 billion more than Saudi Arabia's. This would be a geopolitical earthquake. U.S. foreign policy has revolved around the axiom, immutable as gravity, that our planet's largest pool of oil lies under the House of Saud, which therefore must be protected with the full force of American political and military power. The response to Chávez's gambit is not hard to predict. "It is nonsense what he is saying," Nawaf Obaid, a Saudi national security adviser, told me from Riyadh. "No one will ever certify such a baseless, crazy allegation." Yet Chávez's "crazy" claim has support from the Bush Administration's own Energy Information Agency (EIA). As this obscure EIA document attests, Venezuela's Orinoco region has vast stores of a kind of "extra-heavy" oil that will soon tip the scales of oil production—and oil power—sharply toward Caracas.

By tapping into the estimated 2.239 trillion barrels of "heavy oil" from Venezuela and Canada, the chart shows here, the world could nearly double its stock of petroleum to 5.577 trillion. Venezuela's supply of tar-like oil—1.4 trillion barrels worth, or equal to all the world's liquid reserves—is not a recent discovery. But unlike, say, Saudi Arabia's light oil, which can be made to gush to the surface at a cost of as little as $1 a barrel, the heavy stuff needs to be coaxed from the ground in an expensive process that involves injecting the wells with steam. The emulsified glop that emerges must then be heated in giant pressure cookers to be turned into crude oil. The total process costs at least $22 a barrel. Canadian bitumen costs some $28 a barrel to shovel up, crush, and render. With the price of conventional oil bumping $70 a barrel, such dirty work is now more than worth the while.

Venezuela has challenged Saudi Arabian oil supremacy before. In the early 1980s, oil hit $90 a barrel in today's money, prompting Venezuela to blow off OPEC production quotas and sell all it could produce. At the same time, the Soviet Union ratcheted up oil output to pay for its invasion of Afghanistan. The Saudi kingdom retaliated by opening its spigots (the resulting dip in world reserves can be seen on the graph here), which dropped the price of oil by two thirds—bankrupting Venezuela and causing the collapse of the Soviet economy. Because the Saudis can turn their oil on and off like water, they have been able to use the weapon of price volatility to scare off investments in any alternative to their light crude. Venezuela's heavy oil is especially vulnerable: if its pumping is stopped, it will gum up, and the entire extraction system will be destroyed.

Chávez, when I met with him in April, said he plans to make a stunning offer to the United States and other oil-importing nations: to lock the price of oil at $50 a barrel. "A fair price," Chávez told me. (He said that Bill Clinton was willing to support a proposal to stabilize prices in 2000.) This fixed "discount" price would shield Venezuela from Saudi volatility and entice oil companies to invest the roughly $40 billion needed to lift and refine the Orinoco tar. If this far-out proposal were to be accepted, Venezuela would see its profits from oil increase to $91 billion per year, enabling Chávez to further his plans for Latin America—chief among which is to end the financial "colonization" of the region by the United States. Already his loans and commitments to neighboring countries far exceed the $1.7 billion the United States gave in aid to the entire region last year. Venezuela's purchase of $2.4 billion in Argentine bonds in 2005 allowed that country to escape the austerity measures of the International Monetary Fund—a U.S.-funded agency Chávez would abolish and replace with what he calls his "international humanitarian fund."

The EIA estimates that global reserves of conventional oil will peak here, in 2044, while the grimmest forecasts of the petroleum industry place the peak as early as next year. In all scenarios, the peak is followed by a rapid collapse of light reserves, after which virtually all new oil will come from either Venezuela or Canada. At this point, even the Saudi sheikhs will be unable to prevent heavy oil from becoming financially profitable to pump. Although President Bush dismisses Chávez's statements as the posturings of a "demagogue," Venezuela's ascension within OPEC is inevitable.

Because the member with the highest reserves and corresponding pumping capacity is OPEC's effective leader, Venezuela will set production quotas and prices until its heavy-oil reserves begin their unavoidable crash late in the century (shown here). For the Bush Administration, which views Chávez as a threat and tacitly supported his attempted overthrow in 2002, this should be grounds for panic. The United States spends billions of dollars each year on Middle Eastern light crude, but the Saudis and their neighbors obligingly send most of it back in the form of stocks, bonds, and Treasury bill purchases. Indeed, "petrodollars" from OPEC countries currently make up a significant portion of the $2.2 trillion in U.S. Treasury securities that fund our massive deficit. Chávez, by contrast, has already shown he is inclined to take his petrodollars elsewhere: last year he withdrew most of the $30 billion Venezuela had invested in U.S. Federal Reserve banks. Accustomed to the financial hospitality of the House of Saud, the United States may find the door closed at the House of Chávez. ■

[Criticism]

RESISTANCE IS SURRENDER

By Slavoj Žižek, from the November 15 issue of the London Review of Books. *Žižek's* In Defense of Lost Causes *will be published this spring by Verso.*

One of the clearest lessons of the last few decades is that capitalism is indestructible. Marx compared it to a vampire, and one of the salient points of comparison now appears to be that vampires always rise up again after being stabbed to death. Even Mao's attempt, in the Cultural Revolution, to wipe out the traces of capitalism ended up in its triumphant return.

Today's left reacts in a wide variety of ways to the hegemony of global capitalism and its political supplement, liberal democracy. It might, for example, accept the hegemony but continue to fight for reform within its rules (this is Third Way social democracy).

Or, it accepts that the hegemony is here to stay but should nonetheless be resisted from its "interstices."

Or, it accepts the futility of all struggle, since the hegemony is so all-encompassing that nothing can really be done except wait for an outburst of "divine violence"—a revolutionary version of Heidegger's "only a god can save us."

Or, it recognizes the temporary futility of the struggle. In today's triumph of global capitalism, the argument goes, true resistance is not possible, so all we can do till the revolutionary spirit of the global working class is renewed is defend what remains of the welfare state, confronting those in power with demands we know they cannot fulfill, and otherwise withdraw into cultural studies, where one can quietly pursue the work of criticism.

Or, it emphasizes that the problem is a more fundamental one, that global capitalism is ultimately an effect of the underlying principles of technology or "instrumental reason."

Or, it posits that one can undermine global capitalism and state power, not by directly attacking them but by refocusing the field of struggle on everyday practices, where one can "build a new world"; in this way, the foundations of the power of capital and the state will be gradually undermined, and, at some point, the state will collapse (the exemplar of this approach is the Zapatista movement).

Or, it takes the "postmodern" route, shifting the accent from anticapitalist struggle to the multiple forms of politico-ideological struggle for hegemony, emphasizing the importance of discursive rearticulation.

Change your language

Or, it wagers that one can repeat at the postmodern level the classical Marxist gesture of enacting the "determinate negation" of capitalism: with today's rise of "cognitive work," the contradiction between social production and capitalist relations has become starker than ever, rendering possible for the first time "absolute democracy" (this would be Hardt and Negri's position).

These positions are not presented as a way of avoiding some "true" radical left politics—what they are trying to get around is, indeed, the lack of such a position. This defeat of the left is not the whole story of the last thirty years, however. There is another, no less surprising, lesson to be learned from the Chinese Communists' presiding over arguably the most explosive development of capitalism in history, and from the growth of Western European Third Way social democracy. It is, in short: We can do it better. In the United Kingdom, the Thatcher revolution was, at the time, chaotic and impulsive, marked by unpredictable contingencies. It was Tony Blair who was able to institutionalize it, or, in Hegel's terms, to raise (what first appeared as) a contingency, a historical accident, into a necessity. Thatcher wasn't a Thatcherite, she was merely herself; it was Blair (more than Major) who truly gave form to Thatcherism.

The response of some critics on the postmodern left to this predicament is to call for a new politics of resistance. Those who still insist on fighting state power, let alone seizing it, are accused of remaining stuck within the "old paradigm": The task today, their critics say, is to resist state power by withdrawing from its terrain and creating new spaces outside its control. This is, of course, the obverse of accepting the triumph of capitalism. The politics of resistance is nothing but the moralizing supplement to a Third Way left.

Simon Critchley's recent book *Infinitely Demanding* is an almost perfect embodiment of this position. For Critchley, the liberal-democratic state is here to stay. Attempts to abolish the state failed miserably; consequently, the new politics has to be located at a distance from it: antiwar movements, ecological organizations, groups protesting against racist or sexist abuses, and other forms of local self-organization. It must be a politics of resistance to the state, of bombarding the state with impossible demands, of denouncing the limitations of state mechanisms. The main argument for conducting the politics of resistance at a distance from the state hinges on the ethical dimension of the "infinitely demanding" call for justice: no state can heed this call, since its ultimate goal is the "real-political" one of ensuring its own reproduction (its economic growth, public safety). "Of course," Critchley writes, "history is habitually written by the people with the guns and sticks and one cannot expect to defeat them with mocking satire and feather dusters. Yet, as the history of ultra-leftist active nihilism eloquently shows, one is lost the moment one picks up the guns and sticks. Anarchic political resistance should not seek to mimic and mirror the archic violent sovereignty it opposes."

New left approach

So what should, say, the Democrats in the United States do? Stop competing for state power and withdraw to the interstices of the state—leaving state power to the Republicans—and start a campaign of anarchic resistance to it? And what would Critchley do if he were facing an adversary like Hitler? Surely in such a case one should "mimic and mirror the archic violent sovereignty" one opposes? Shouldn't the left draw a distinction between the circumstances in which one would resort to violence in confronting the state and those in which all one can and should do is use "mocking satire and feather dusters"? The ambiguity of Critchley's position resides in a strange non sequitur: If the state is here to stay, if it is impossi-

-ble to abolish it (or capitalism) why retreat

it? Why not act with (in) the state? Why not accept the basic premise of the Third Way? Why limit oneself to a politics that, as Critchley puts it, "calls the state into question and calls the established order to account, not in order to do away with the state, desirable though that might well be in some utopian sense, but in order to better it or attenuate its malicious effects"?

These words simply demonstrate that today's liberal-democratic state and the dream of an "infinitely demanding" anarchic politics exist in a relationship of mutual parasitism: anarchic agents do the ethical thinking, and the state does the work of running and regulating society. Critchley's anarchic ethico-political agent acts like a superego, comfortably bombarding the state with demands; and the more the state tries to satisfy these demands, the more guilty it is seen to be. In compliance with this logic, the anarchic agents focus their protest not on open dictatorships but on the hypocrisy of liberal democracies, which are accused of betraying their own professed principles.

The big demonstrations in London and Washington against the U.S. attack on Iraq a few years ago offer an exemplary case of this strange symbiotic relationship between power and resistance.

Their paradoxical outcome was that both sides were satisfied. The protesters saved their beautiful souls: they made it clear that they don't agree with the government's policy on Iraq. Those in power calmly accepted it, even profited from it: not only did the protests in no way prevent the already made decision to attack Iraq; they also served to legitimize it. Thus George Bush's reaction to mass demonstrations protesting his visit to London, in effect: You see, this is what we are fighting for, so that what people are doing here—protesting against their government policy—will be possible also in Iraq!

It is striking that the course on which Hugo Chávez has embarked since 2006 is the exact opposite of the one chosen by the postmodern left: far from resisting state power, he grabbed it (first by an attempted coup, then democratically), ruthlessly using the Venezuelan state apparatuses to promote his goals. Furthermore, he is militarizing the barrios and organizing the training of armed units there. And, the ultimate scare: now that he is feeling the economic effects of capital's "resistance" to his rule (temporary shortages of some goods in the state-subsidized supermarkets), he has moved to consolidate the twenty-four parties that support him into a single party. Even some of his allies are skeptical about this: Will it come at the expense of the popular movements that have given the Venezuelan revolution its élan? However, this choice, though risky, should be fully endorsed: the task is to make the new party function not as a typical state socialist (or Peronist) party but as a vehicle for the mobilization of new forms of politics (like the grass-roots slum committees). What should we say to someone like Chávez? "No, do not grab state power, just withdraw, leave the state and the current situation in place"? Chávez is often dismissed as a clown—but wouldn't such a withdrawal just reduce him to a version of Subcomandante Marcos, whom many Mexican leftists now refer to as "Subcomediante Marcos"? Today, it is the great capitalists—Bill Gates, corporate polluters, fox hunters—who "resist" the state.

The lesson here is that the truly subversive thing is not to insist on "infinite" demands we know those in power cannot fulfill. Since they know that we know it, such an "infinitely demanding" attitude presents no problem for those in power: So wonderful that, with your critical demands, you remind us what kind of world we would all like to live in. Unfortunately, we live in the real world, where we have to make do with what is possible. The thing to do is, on the contrary, bombard those in power with strategically well-selected, precise, finite demands, which can't be met with the same excuse.

Ivory Tower Unswayed by Crashing Economy

by **Patricia Cohen**

For years economists who have challenged free market theory have been the Rodney Dangerfields of the profession. Often ignored or belittled because they questioned the orthodoxy, they say, they have been shut out of many economics departments and the most prestigious economics journals. They got no respect.

That was before last fall's crash took the economics establishment by surprise. Since then the former Federal Reserve chairman Alan Greenspan has admitted that he was shocked to discover a flaw in the free market model and has even begun talking about temporarily nationalizing some banks. A *Newsweek* cover last month declared, "We Are All Socialists Now." And at the latest annual meeting of the American Economic Association, Janet Yellen, president of the Federal Reserve Bank of San Francisco, said, "The new enthusiasm for fiscal stimulus, and particularly government spending, represents a huge evolution in mainstream thinking."

Yet prominent economics professors say their academic discipline isn't shifting nearly as much as some people might think. Free market theory, mathematical models and hostility to government regulation still reign in most economics departments at colleges and universities around the country. True, some new approaches have been explored in recent years, particularly by behavioral economists who argue that human psychology is a crucial element in economic decision making. But the belief that people make rational economic decisions and the market automatically adjusts to respond to them still prevails.

The financial crash happened very quickly while "things in academia change very, very slowly," said David Card, a leading labor economist at the University of California, Berkeley. During the 1960s, he recalled, nearly all economists believed in what was known as the Phillips curve, which posited that unemployment and inflation were like the two ends of a seesaw: as one went up, the other went down. Then in the 1970s stagflation – high unemployment and high inflation – hit. But it took ten years before academia let go of the Phillips curve.

James K. Galbraith, an economist at the Lyndon B. Johnson School of Public Affairs at the University of Texas, who has frequently been at odds with free marketers, said, "I don't detect any change at all." Academic economists are "like an ostrich with its head in the sand."

Unquestioning loyalty to a particular idea is what Robert J. Shiller, an economist at Yale, says is the reason the profession failed to foresee the financial collapse. He blames "groupthink," the tendency to agree with the consensus. People don't deviate from the conventional wisdom for fear they won't be taken seriously, Mr. Shiller maintains. Wander too far and you find yourself on the fringe. The pattern is self-replicating. Graduate students who stray too far from the dominant theory and methods seriously reduce their chances of getting an academic job.

"I fear that there will not be much change in basic paradigms," Mr. Shiller wrote in an email message. "The rational expectations models will be tweaked to account for the current crisis. The basic curriculum will not change."

"I hope I am wrong," he added.

The political undercurrent undoubtedly makes change more difficult. There is a Crayola box full of differently named economic schools that are critical of mainstream free-market theory, but these heterodox – as opposed to orthodox – economists generally tend to fall into the liberal camp.

Given the short time span since the crisis began, no one expects large curriculum changes yet. But in addition to Berkeley and the University of Texas, professors at a number of departments including those at the University of Chicago, Harvard, Yale and Stanford, say they are unaware of any plans to reassess their curriculums and reading lists, or to rethink the way introductory courses are organized.

John B. Taylor, an economist at Stanford and one of President George W. Bush's advisors, whose forthcoming book is titled *Getting Off Track: How Government Actions and Interventions Caused, Prolonged and Worsened the Financial Crisis*, said he was planning to update his introductory textbook, *Principles of Macroeconomics*, because of the crash. But while the revision will include information about the financial crisis, he said, explanations of fundamental principles won't change.

To Philip J. Reny, chairman of the economics department at the University of Chicago – Milton Friedman's intellectual home and free market headquarters – such caution is a good thing. "Academia typically moves slowly and carefully and thoughtfully," he said. "There is a lot of speculation in the press as to why the financial system collapsed," he added, but a lot of "work needs to be done to figure out what really happened, which dominoes are in front and caused others to fall."

Outside of the classroom, debates about the crash are taking place in several public lectures and faculty workshops on the subject. But "before we're certain of what the answer is, we're unlikely to think in terms of changing the curriculum," Mr. Reny added. "That's very serious. The responsible thing to do is wait until we have some understanding of what went on here."

A field shifts, Mr. Card and Mr. Wray said, not so much because the wise elders change their minds, (they are too invested in the way things are), but rather because a new generation of scholars comes along and pushes into new areas of research.

Kick It Over Manifesto

We, the undersigned, make this accusation: that you, the teachers of neoclassical economics and the students that you graduate, have perpetuated a gigantic fraud upon the world.

You claim to work in a pure science of formula and law, but yours is a social science, with all the fragility and uncertainty that this entails. We accuse you of pretending to be what you are not.

You hide in your offices, protected by your mathematical jargon, while in the real world, forests vanish, species perish and human lives are callously destroyed. We accuse you of gross negligence in the management of our planetary household.

You have known since its inception that one of your measures of economic progress, the Gross Domestic Product, is fundamentally flawed and incomplete, and yet you have allowed it to become a global standard, reported day in, day out in every form of media. We accuse you of recklessly projecting an illusion of progress.

You have done great harm, but your time is coming to a close. Your systems are crumbling, your flaws increasingly laid bare. An economic revolution has begun, as hopeful and determined as any in history. We will have our clash of economic paradigms, we will have our moment of truth, and out of each will come a new economics – open, holistic, human-scale.

On campus after campus, we will chase you old goats out of power. Then, in the months and years that follow, we will begin the work of reprogramming your doomsday machine.

Sign the manifesto at
KICKITOVER.ORG

Suggested Reading

[ROBERT HEILBRONER]
[SOIL NOT OIL - VANDANA SHIVA]
[SLAVOJ ZIZEK]
[GEORGE SOROS]
[ANTONIO GRAMSCI]
[MANFRED MAX-NEEF]
[THE SHOCK DOCTRINE: Naiomi KLIEN]
[HOW MARKETS FAIL: JOHN CASSIDY]
[KICKITOVER.ORG]
[ILL FARES THE LAND: TONY JUDT]
[Daniel COHEN: THREE LECTURES ON POST INDUSTRIAL SOCIETY]
[BAD SAMARITANS - THE MYTH OF FREE MARKET CAPITALISM - HA-JOON CHANG]
[THE END OF WORK: JEREMY RIFKIN]
NUDGE: CASS SUSTIEN, RICHARD THALER]
[THE ENIGMA OF CAPITAL - DAVID HARVEY]