

# UNITY

A Marxist journal for all grassroots activists

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Back: 30,000 workers march in Grenoble, France,  
during the mass strikes in January 2009

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## Global Crisis: the Left Responds

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### UNITY invites your feedback

We invite your letters (500 words max) on viewpoints in UNITY or issues dear to your heart. Send your feedback to [daphlawless@randomstatic.net](mailto:daphlawless@randomstatic.net) or **UNITY Letters, Box 13-685, Auckland**. The editor reserves the right to edit for brevity, clarity and libel while keeping your core message intact.

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### Political profile of your UNITY editor

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Born in Lower Hutt 1974. Left activist since early teens. Foundation member of NewLabour Party 1989. Studied literature at Victoria University. Doctoral degree for Marxist-feminist thesis on early New Zealand women's popular fiction 2003. Worked as teacher, researcher and library assistant 2002-6. Joined Socialist Worker 2002. Central committee of Socialist Worker 2003 to present. Delegate for Association of University Staff 2003-5. Co-founder of Campus Left at Victoria University 2004. Editor of Socialist Worker Monthly Review 2004-5. Co-editor of UNITY journal 2005 to December 2006, then sole editor. Moved to Auckland 2006. Editorial Board of Workers Charter newspaper, 2006-8. A recorded singer and songwriter.

## **Socialist Worker's publications**

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## **Editorial**

### **Crisis, danger, and opportunity**

by DAPHNE LAWLESS

UNITY, the quarterly journal of Socialist Worker NZ, relaunches itself with this issue, at a time when clear, original and practical thought in the Marxist tradition is needed more than ever. The words "Global Financial Crisis" barely seem adequate to describe what we're up against at this point in history.

Ordinary workers in New Zealand will probably be forgiven for thinking "Crisis – what crisis?" Indeed, the New Zealand economy has traditionally been about a year out of sync with the global economy. So, the massive shockwave which spread across North America and Europe in September last year, and is currently buffeting China and the Asian economies, should be due to hit here about the time that the next UNITY is predicted to go to press. Current upbeat talk about "green shoots" seems like whistling in the darkness, given China's continual shift into deflation, and the possibility that the United States is prepared to let inflation rip in order to magically downsize its ever-increasing debt.

But this economic crisis cannot be separated from the ecological crisis – the prospect of runaway climate change which might, in a worst-case scenario, render this planet unfit for advanced technological civilisation in a hundred years. Add to this an ever-increasing social crisis, as global "stability" under the Pax Americana and the imposition of "Western democracy" comes increasingly under threat from populations who will simply not put up with it any more. Thus, we come ever closer to Lenin's definition of a revolutionary situation.

We are currently working on a major, book-length analysis of the interrelated crises now besetting capitalism, and what the long-term prognosis might be for global society. While this is not ready for publication so far, we include in this issue the last chapter of the recent book by American Marxists John Bellamy Foster and Fred Magdoff, *The Great Financial Crisis* and a review of the entire book from our Australian comrades at *Green Left Weekly*. Foster and Magdoff

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analyse, with political commitment as well as intellectual rigour, how financial capitalism, far from being the parasite on the system which bourgeois liberalism portrays, has in fact been the only significant source of real expansion in the last 35 years – the stagnation of the early 1970s, caused by a collapse in profit rates in the real economy, according to this analysis, is still with us.

But the question remains the same as it was 100 years ago: what is to be done? Socialist Worker is committed to a “broad party” strategy, in which Marxists put themselves at the core of a political formation with the capacity to appeal to a broad cross-section of the community, putting across a concrete programme of rejecting the corporate market. As an opening contribution to this, Grant Brookes discusses how the trade unions in New Zealand might react to the impending wave of economic crisis, of redundancies and foreclosures. Peter de Waal offers further analysis of the housing crisis, in particular.

It becomes clear that the “broad party” strategy is an idea whose time has come on a global basis. We put forward the programmes and strategies for action which have been promoted by other broad-left organisations in France, Germany, Canada, Britain, and Australia. The similarities are striking – socialists and pro-people activists around the world have a broadly common view on what is needed to protect our people from the combo crisis. This suggests a strong base for future practical international co-operation.

In Venezuela, where a broad-left movement currently forms the government, President Hugo Chávez has to deal with not only formulating a programme to protect his people, but to deal with the implacable hostility of a capitalist class completely opposed to any such programme. It is good for socialists to have some idea of what can be practically done in a situation where capitalism has not been dismantled – for only such ideas will grab the working class of here and now, whose horizons are formed by the capitalist world and its exploitative workplace.

Vaughan Gunson, a member of our Central Committee, goes into more detail on the broad principles of the “broad party” strategy. We have invited a response to this by Don Franks, a leading member of the Workers Party of New Zealand, this country’s most serious Marxist opponents of the broad-party strategy.



**President Hugo Chávez of Venezuela: the power of a broad-party approach**

Don argues that reformists and revolutionaries cannot co-exist, and therefore RAM is doomed to an inevitable split. But members of the Workers Party have also claimed several times in their public press that Socialist Worker is now no longer a revolutionary organisation. There seems to be a contradiction there.

But in any case, central to our strategy is the conviction that who is a “revolutionary” and who is a “reformist” is as irrelevant to the current political juncture as mediæval debates about angels and pinheads. Imposing such a division on a budding political movement, we believe, is at the very heart of the sectarian method. Sectarianism spells doom to Marxism as a guide to serious political action, and is at the root of the deformation of Marxism into a kind of religion, or perhaps an alternative lifestyle.

The content of the assertion that there are “revolutionaries” and “reformists” and never the twain shall meet is that the “revolutionaries” are *right in advance*, and should keep apart from the “reformists” for fear of contamination if they can’t be politically defeated. The idea that Marxists could have anything to learn from “the reformists” is self-evident nonsense, to the sectarian mind – everything good comes from our own somewhat stagnant pool of ideas.

But Marxism is a science, not a set of revealed truths. Scientific Marxism needs the test of political practice. Criticisms can of course be made of RAM’s “GST off food” petition, and certainly of our very disappointing election campaign. But those were experiments. None of us are such “parliamentary cretins” that we think everything to be learned about the election can be seen in the vote tallies. RAM has learned, and learned the hard way, what fighting a real nationwide election campaign is all about. And that, as it was when Lenin wrote

*Left-Wing Communism*, is an essential part of learning to get through to real people in the real world. Next time, we will do it better.

The narrow-party Marxists seem to believe that all questions have been already worked out in advance – perhaps in Petrograd in October 1917 – and therefore experiments, even failed ones, are a waste of time and precious resources. Best then to keep our powder dry, studying the Marxist classics, and wait for the magical day when the working class will flock to our stainless banner?

That simply will not happen. The world is different than it was then. What will it mean when narrow-party Marxists pull out their sword of revolutionary praxis, and it has rusted from disuse? Or worse, if everyone else on the battlefield has machine guns?

UNITY recommits itself, with this issue, to the project of refounding Marxism for the 21st century. This can't be done by a tiny group of activists in one country, of course. It must be the work of a international dialogue between all social-movement and working-class activists of goodwill. If our attitude is taken as signifying that Socialist Worker are “liberals”, “reformists”, even “post-Marxists” because we do not dogmatically hold to previous generations' interpretations of Marxist theory, then we can only say “well and good”. Once again – Marxism is a science, not a religion.

Masses of “grassroots people” – by which we mean workers, students, beneficiaries, some small businesspeople and professionals, in fact, everyone up at the sharp end of the global crisis – are right here right now looking for concrete solutions in their own language. We will try it our way, and Don Franks and his comrades will try it their way. History will judge who was right.

We are in a new world which needs to be properly analysed with the Marxist method, so that new political strategies and tactics can be devised – not handed down by the saints and scholars of the glorious revolutionary past, and mechanically learned by rote. UNITY magazine will restore a system of regular 3-monthly publication, and our next issue (August) will take a look back at the Great Depression of the 1930s and other crises of the past, and to see in what way the principles of the past can be of concrete use in the present.

**in the swirl of struggle...**



**...there's one place to go to fit all the bits together**

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# Financial implosion and stagnation

## Back to the real economy

by JOHN BELLAMY FOSTER and FRED MAGDOFF

But, you may ask, won't the powers that be step into the breach again and abort the crisis before it gets a chance to run its course? Yes, certainly. That, by now, is standard operating procedure, and it cannot be excluded that it will succeed in the same ambiguous sense that it did after the 1987 stock market crash. If so, we will have the whole process to go through again on a more elevated and more precarious level. But sooner or later, next time or further down the road, it will not succeed... We will then be in a new situation as unprecedented as the conditions from which it will have emerged.

Harry Magdoff and Paul Sweezy (1988)

“The first rule of central banking,” economist James K. Galbraith wrote recently, is that “when the ship starts to sink, central bankers must bail like hell.” In response to a financial crisis of a magnitude not seen since the Great Depression, the Federal Reserve and other central banks, backed by their treasury departments, have been “bailing like hell” for more than a year. Beginning in July 2007 when the collapse of two Bear Stearns hedge funds that had speculated heavily in mortgage-backed securities signaled the onset of a major credit crunch, the Federal Reserve Board and the U.S. Treasury Department have pulled out all the stops as finance has imploded. They have flooded the financial sector with hundreds of billions of dollars and have promised to pour in trillions more if necessary – operating on a scale and with an array of tools that is unprecedented.

In an act of high drama, Federal Reserve Board Chairman Ben Bernanke and Secretary of the Treasury Henry Paulson appeared

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before Congress on the evening of September 18, 2008, during which the stunned lawmakers were told, in the words of Senator Christopher Dodd, “that we're literally days away from a complete meltdown of our financial system, with all the implications here at home and globally.” This was immediately followed by Paulson's presentation of an emergency plan for a \$700 billion bailout of the financial structure, in which government funds would be used to buy up virtually worthless mortgage-backed securities (referred to as “toxic waste”) held by financial institutions.

The outburst of grassroots anger and dissent, following the Treasury secretary's proposal, led to an unexpected revolt in the U.S. House of Representatives, which voted down the bailout plan. Nevertheless, within a few days Paulson's original plan (with some additions intended to provide political cover for representatives changing their votes) made its way through Congress. However, once the bailout plan passed financial panic spread globally with stocks plummeting in every part of the world – as traders grasped the seriousness of the crisis. The Federal Reserve responded by literally deluging the economy with money, issuing a statement that it was ready to be the buyer of last resort for the entire commercial paper market (short-term debt issued by corporations), potentially to the tune of \$1.3 trillion.

Yet, despite the attempt to pour money into the system to effect the resumption of the most basic operations of credit, the economy found itself in liquidity trap territory, resulting in a hoarding of cash and a cessation of inter-bank loans as too risky for the banks compared to just holding money. A liquidity trap threatens when nominal interest rates fall close to zero. The usual monetary tool of lowering interest rates loses its effectiveness because of the inability to push interest rates below zero. In this situation the economy is beset by a sharp increase in what Keynes called the “propensity to hoard” cash or cash-like assets such as Treasury securities.

Fear for the future given what was happening in the deepening crisis meant that banks and other market participants sought the safety of cash, so whatever the Fed pumped in failed to stimulate lending. The drive to liquidity, partly reflected in purchases of Treasuries, pushed the interest rate on Treasuries down to a fraction of 1 percent, i.e., deeper into liquidity trap territory.

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Facing what *Business Week* called a “financial ice age,” as lending ceased, the financial authorities in the United States and Britain, followed by the G-7 powers as a whole, announced that they would buy ownership shares in the major banks, in order to inject capital directly, recapitalizing the banks – a kind of partial nationalization. Meanwhile, they expanded deposit insurance. In the United States the government offered to guarantee \$1.5 trillion in new senior debt issued by banks. “All told,” as the *New York Times* stated on October 15, 2008, only a month after the Lehman Brothers collapse that set off the banking crisis, “the potential cost to the government of the latest bailout package comes to \$2.25 trillion, triple the size of the original \$700 billion rescue package, which centered on buying distressed assets from banks.” But only a few days later the same paper ratcheted up its estimates of the potential costs of the bailouts overall, declaring: “In theory, the funds committed for everything from the bailouts of Fannie Mae and Freddie Mac and those of Wall Street firm Bear Stearns and the insurer American International Group, to the financial rescue package approved by Congress, to providing guarantees to backstop selected financial markets [such as commercial paper] is a very big number indeed: an estimated \$5.1 trillion.”

Despite all of this, the financial implosion has continued to widen and deepen, while sharp contractions in the “real economy” are everywhere to be seen. The major U.S. automakers are experiencing serious economic shortfalls, even after Washington agreed in September 2008 to provide the industry with \$25 billion in low interest loans. Single-family home construction has fallen to a twenty-six-year low. Consumption is expected to experience record declines. Jobs are rapidly vanishing. Given the severity of the financial and economic shock, there are now widespread fears among those at the center of corporate power that the financial implosion, even if stabilized enough to permit the orderly unwinding and settlement of the multiple insolvencies, will lead to a deep and lasting stagnation, such as hit Japan in the 1990s, or even a new Great Depression.

The financial crisis, as the above suggests, was initially understood as a lack of money or liquidity (the degree to which assets can be traded quickly and readily converted into cash with relatively stable prices). The idea was that this liquidity problem could be solved by pouring

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more money into financial markets and by lowering interest rates. However, there are a lot of dollars out in the financial world – more now than before – the problem is that those who own the dollars are not willing to lend them to those who may not be able to pay them back, and that's just about everyone who needs the dollars these days. This then is better seen as a solvency crisis in which the balance sheet capital of the U.S. and UK financial institutions – and many others in their sphere of influence – has been wiped out by the declining value of the loans (and securitized loans) they own, their assets.

As an accounting matter, most major U.S. banks by mid-October were insolvent, resulting in a rash of fire-sale mergers, including JPMorgan Chase's purchase of Washington Mutual and Bear Stearns, Bank of America's absorption of Countrywide and Merrill Lynch, and Wells Fargo's acquiring of Wachovia. All of this is creating a more monopolistic banking sector with government support. The direct injection of government capital into the banks in the form of the purchase of shares, together with bank consolidations, will at most buy the necessary time in which the vast mass of questionable loans can be liquidated in orderly fashion, restoring solvency but at a far lower rate of economic activity – that of a serious recession or depression.

In this worsening crisis, no sooner is one hole patched than a number of others appear. The full extent of the loss in value of securitized mortgage, consumer and corporate debts, and the various instruments that attempted to combine such debts with forms of insurance against their default (such as the “synthetic collateralized debt obligations,” which have credit-debt swaps “packaged in” with the CDOs), is still unknown. Key categories of such financial instruments have been revalued recently down to 10 to 20 percent in the course of the Lehman Brothers bankruptcy and the take-over of Merrill Lynch. As sharp cuts in the value of such assets are applied across the board, the equity base of financial institutions vanishes along with trust in their solvency. Hence, banks are now doing what John Maynard Keynes said they would in such circumstances: hoarding cash. Underlying all of this is the deteriorating economic condition of households at the base of the economy, impaired by decades of frozen real wages and growing consumer debt.

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## 'It' and the Lender of Last Resort

To understand the full historical significance of these developments it is necessary to look at what is known as the “lender of last resort” function of the U.S. and other capitalist governments. This has now taken the form of offering liquidity to the financial system in a crisis, followed by directly injecting capital into such institutions and finally, if needed, outright nationalizations. It is this commitment by the state to be the lender of last resort that over the years has ultimately imparted confidence in the system – despite the fact that the financial superstructure of the capitalist economy has far outgrown its base in what economists call the “real” economy of goods and services. Nothing therefore is more frightening to capital than the appearance of the Federal Reserve and other central banks doing everything they can to bail out the system and failing to prevent it from sinking further – something previously viewed as unthinkable. Although the Federal Reserve and the U.S. Treasury have been intervening massively, the full dimensions of the crisis still seem to elude them.

Some have called this a “Minsky moment.” In 1982, economist Hyman Minsky, famous for his financial instability hypothesis, asked the critical question: “Can 'It' – a Great Depression – happen again?” There were, as he pointed out, no easy answers to this question. For Minsky the key issue was whether a financial meltdown could overwhelm a real economy already in trouble – as in the Great Depression. The inherently unstable financial system had grown in scale over the decades, but so had government and its capacity to serve as a lender of last resort. “The processes which make for financial instability,” Minsky observed, “are an inescapable part of any decentralized capitalist economy – i.e., capitalism is inherently flawed – but financial instability need not lead to a great depression; “*It need not happen*” (italics added).

Implicit, in this, however, was the view that “It” *could* still happen again – if only because the possibility of financial explosion and growing instability could conceivably outgrow the government's capacity to respond – or to respond quickly and decisively enough. Theoretically, the capitalist state, particularly that of the United States, which controls what amounts to a surrogate world currency,

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has the capacity to avert such a dangerous crisis. The chief worry is a massive “debt-deflation” (a phenomenon explained by economist Irving Fisher during the Great Depression) as exhibited not only by the experience of the 1930s but also Japan in the 1990s. In this situation, as Fisher wrote in 1933, “deflation caused by the debt reacts on the debt. Each dollar of debt still unpaid becomes a bigger dollar, and if the over-indebtedness with which we started was great enough, the liquidation of debt cannot keep up with the fall of prices which it causes.” Put differently, prices fall as debtors sell assets to pay their debts, and as prices fall the remaining debts must be repaid in dollars more valuable than the ones borrowed, causing more defaults, leading to yet lower prices, and thus a deflationary spiral.

The economy is still not in this dire situation, but the specter looms. As Paul Asworth, chief U.S. economist at Capital Economics, stated in mid-October 2008, “With the unemployment rate rising rapidly and capital markets in turmoil, pretty much everything points toward deflation. The only thing you can hope is that the prompt action from policy makers can maybe head this off first.” “The rich world's economies,” the *Economist* magazine warned in early October, “are already suffering from a mild case of this 'debt-deflation.' The combination of falling house prices and credit contraction is forcing debtors to cut spending and sell assets, which in turn pushes house prices and other asset markets down further... A general fall in consumer prices would make matters even worse.

The very thought of such events recurring in the U.S. economy today was supposed to be blocked by the lender of last resort function, based on the view that the problem was primarily monetary and could always be solved by monetary means by flooding the economy with liquidity at the least hint of danger. Thus Federal Reserve Board Chairman Ben Bernanke gave a talk in 2002 (as a Federal Reserve governor) significantly entitled “Deflation: Making Sure 'It' Doesn't Happen Here.” In it he contended that there were ample ways of ensuring that “It” would not happen today, despite increasing financial instability:

The U.S. government has a technology, called a printing press (or, today, its electronic equivalent) that allows it to



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produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation.

Of course, the U.S. government is not going to print money and distribute it willy-nilly (although as we will see later, there are practical policies that approximate this behavior). Normally, money is injected into the economy through asset purchases by the Federal Reserve. To stimulate aggregate spending when short-term interest rates have reached zero, the Fed must expand the scale of its asset purchases or, possibly, expand the menu of assets that it buys. Alternatively, the Fed, could find other ways of injecting money into the system – for example, by making low-interest-rate loans to banks or cooperating with fiscal authorities.

In the same talk, Bernanke suggested that “a money-financed tax cut,” aimed at avoiding deflation in such circumstances, was “essentially equivalent to Milton Friedman's famous 'helicopter drop' of money” – a stance that earned him the nickname “Helicopter Ben.”

An academic economist, who made his reputation through studies of the Great Depression, Bernanke was a product of the view propounded most influentially by Milton Friedman and Anna Schwartz in their famous work, *A Monetary History of the United States, 1867-1960*, that the source of the Great Depression was monetary and could have been combated almost exclusively in monetary terms. The failure to open the monetary floodgates at the outset, according to Friedman and Schwartz, was the principal reason that the economic downturn was so severe. Bernanke strongly opposed earlier conceptions of the Depression that saw it as based in the structural weaknesses of the “real” economy and the underlying accumulation process. Speaking

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on the seventy-fifth anniversary of the 1929 stock market crash, he stated:

During the Depression itself, and in several decades following, most economists argued that monetary factors were not an important cause of the Depression. For example, many observers pointed to the fact that nominal interest rates were close to zero during much of the Depression, concluding that monetary policy had been about as easy as possible yet had produced no tangible benefit to the economy. The attempt to use monetary policy to extricate an economy from a deep depression was often compared to “pushing on a string.”

During the first decades after the Depression, most economists looked to developments on the real side of the economy for explanations, rather than to monetary factors. Some argued, for example, that overinvestment and overbuilding had taken place during the ebullient 1920s, leading to a crash when the returns on those investments proved to be less than expected. Another once-popular theory was that a chronic problem of “under-consumption” – the inability of households to purchase enough goods and services to utilize the economy's productive capacity – had precipitated the slump.

Bernanke's answer to all of this was strongly to reassert that monetary factors virtually alone precipitated (and explained) the Great Depression, and were the key, indeed almost the sole, means of fighting debt-deflation. The trends in the real economy, such as the emergence of excess capacity in industry, need hardly be addressed at all. At most it was a deflationary threat to be countered by reflation. Nor, as he argued elsewhere, was it necessary to explore Minsky's contention that the financial system of the capitalist economy was inherently unstable, since this analysis depended on the economic irrationality associated with speculative manias, and thus departed from the formal “rational economic behavior” model of neoclassical economics. Bernanke concluded a talk commemorating Friedman's ninetieth birthday in 2002 with the words: “I would like to say to

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Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again." "It" of course was the Great Depression.

Following the 2000 stock market crash a debate arose in central bank circles about whether "preemptive attacks" should be made against future asset bubbles to prevent such economic catastrophes. Bernanke, representing the reigning economic orthodoxy, led the way in arguing that this should not be attempted, since it was difficult to know whether a bubble was actually a bubble (that is, whether financial expansion was justified by economic fundamentals or new business models or not). In addition, to prick a bubble was to invite disaster, as in the attempts by the Federal Reserve Board to do this in the late 1920s, leading (according to the monetarist interpretation) to the bank failures and the Great Depression. He concluded: "monetary policy cannot be directed finely enough to guide asset prices without risking severe collateral damage to the economy... Although eliminating volatility from the economy and the financial markets will never be possible, we should be able to moderate it without sacrificing the enormous strengths of our free-market system." In short, Bernanke argued, no doubt with some justification given the nature of the system, that the best the Federal Reserve Board could do in face of a major bubble was to restrict itself primarily to its lender of last resort function.

At the very peak of the housing bubble, Bernanke, then chairman of Bush's Council of Economic Advisors, declared with eyes wide shut: "House prices have risen by nearly 25 percent over the past two years. Although speculative activity has increased in some areas, at a national level these price increases largely reflect strong economic fundamentals, including robust growth in jobs and incomes, low mortgage rates, steady rates of household formation, and factors that limit the expansion of housing supply in some areas." Ironically, it was these views that led to the appointment of Bernanke as Federal Reserve Board chairman (replacing Alan Greenspan) in early 2006.

The housing bubble began to deflate in early 2006 at the same time that the Fed was raising interest rates in an attempt to contain inflation. The result was a collapse of the housing sector and mortgage-backed securities. Confronted with a major financial crisis beginning in 2007,

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Bernanke as Fed chairman put the printing press into full operation, flooding the nation and the world with dollars, and soon found to his dismay that he had been "pushing on a string." No amount of liquidity infusions were able to overcome the insolvency in which financial institutions were mired. Unable to make good on their current financial claims – were they compelled to do so – banks refused to renew loans as they came due and hoarded available cash rather than lending and leveraging the system back up. The financial crisis soon became so universal that the risks of lending money skyrocketed, given that many previously creditworthy borrowers were now quite possibly on the verge of insolvency. In a liquidity trap, as Keynes taught, running the printing presses simply adds to the hoarding of money but not to new loans and spending.

However, the real root of the financial bust, we shall see, went much deeper: the stagnation of production and investment.

### **From Financial Explosion to Financial Implosion**

Our argument in a nutshell is that both the financial explosion in recent decades and the financial implosion now taking place are to be explained mainly in reference to stagnation tendencies within the underlying economy. A number of other explanations for the current crisis (most of them focusing on the proximate causes) have been given by economists and media pundits. These include the lessening of regulations on the financial system; the very low interest rates introduced by the Fed to counter the effects of the 2000 crash of the "New Economy" stock bubble, leading to the housing bubble; and the selling of large amounts of "sub-prime" mortgages to many people that could not afford to purchase a house and/or did not fully understand the terms of the mortgages.

Much attention has rightly been paid to the techniques whereby mortgages were packaged together and then "sliced and diced" and sold to institutional investors around the world. Outright fraud may also have been involved in some of the financial shenanigans. The falling home values following the bursting of the housing bubble and the inability of many sub-prime mortgage holders to continue to make their monthly payments, together with the resulting foreclosures,

was certainly the straw that broke the camel's back, leading to this catastrophic system failure. And few would doubt today that it was all made worse by the deregulation fervor avidly promoted by the financial firms, which left them with fewer defenses when things went wrong.

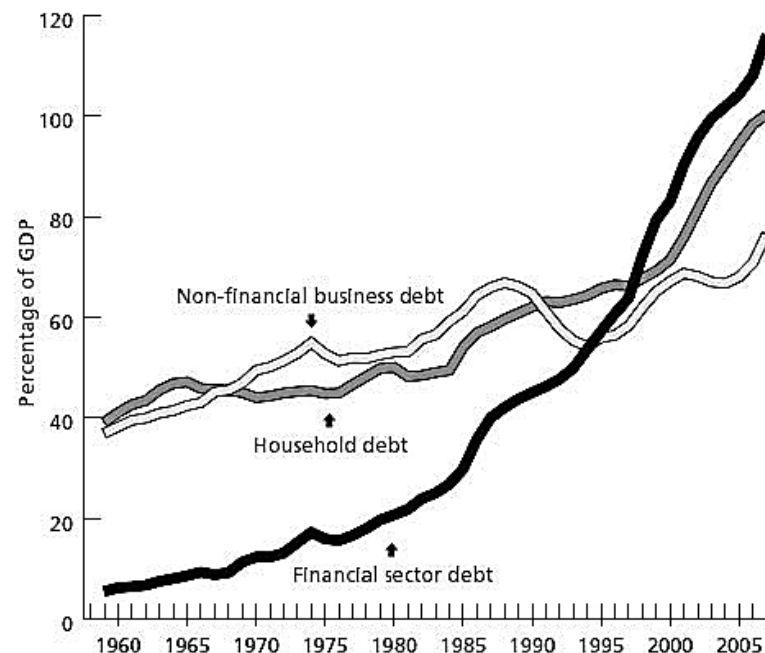
Nevertheless, the root problem went much deeper, and was to be found in a real economy experiencing slower growth, giving rise to financial explosion as capital sought to “leverage” its way out of the problem by expanding debt and gaining speculative profits. The extent to which debt has shot up in relation to GDP over the last four decades can be seen in table 1. As these figures suggest, the most remarkable feature in the development of capitalism during this period has been the ballooning of debt.

This phenomenon is further illustrated in chart 1 showing the skyrocketing of private debt relative to national income from the 1960s to the present. Financial sector debt as a percentage of GDP first lifted off the ground in the 1960s and 1970s, accelerated beginning in the 1980s, and rocketed up after the mid 1990s. Household debt as a percentage of GDP rose strongly beginning in the 1980s and then increased even faster in the late 1990s. Nonfinancial business debt in relation to national income also climbed over the period, if less spectacularly. The overall effect has been a massive increase in private

GDP	Total debt	Debt by sector				Government (local, state, & federal)
		Household	Financial firms	Non-financial business		
1970	1.0	1.5	0.5	0.1	0.5	0.4
1980	2.7	4.5	1.4	0.6	1.5	1.1
1990	5.8	13.5	3.6	2.6	3.7	3.5
2000	9.8	26.3	7.0	8.1	6.6	4.6
2007	13.8	47.7	13.8	16.0	10.6	7.3

**Table 1. Domestic debt\* and GDP (trillions of dollars)**

\* The federal part of local, state, and federal debt includes only that portion held by the public. The total debt in 2007 when the federal debt held by federal agencies is added is \$51.5 trillion. Sources: Flow of Funds Accounts of the United States, Table L.1 Credit Market Debt Outstanding, Federal Reserve and Table B-1, Gross domestic product, 1959-2007, Economic Report of the President, 2008.

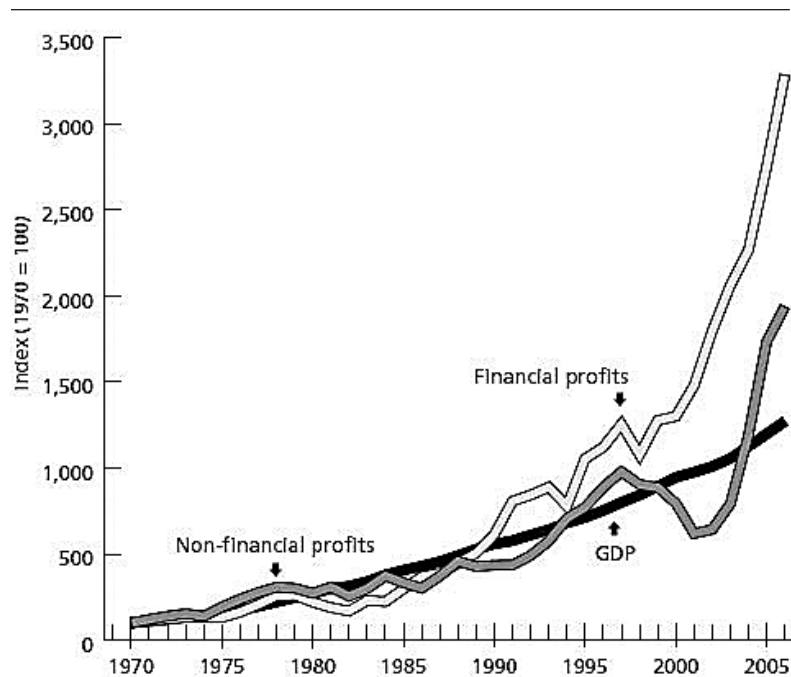


**Chart 1. Private debt as percentage of GDP**

Sources: Same as table 1.

debt relative to national income. The problem is further compounded if government debt (local, state, and federal) is added in. When all sectors are included, the total debt as a percentage of GDP rose from 151 percent in 1959 to an astronomical 373 percent in 2007!

This rise in the cumulative debt load as a percentage of GDP greatly stimulated the economy, particularly in the financial sector, feeding enormous financial profits and marking the growing financialization of capitalism (the shift in gravity from production to finance within the economy as a whole). The profit picture, associated with this accelerating financialization, is shown in chart 2, which provides a time series index (1970 = 100) of U.S. financial versus nonfinancial profits and the GDP. Beginning in 1970, financial and nonfinancial profits tended to increase at the same rate as the GDP. However, in the late 1990s, finance seemed to take on a life of its own with the profits



**Chart 2. Growth of financial and nonfinancial profits relative to GDP (1970 = 100)**

Sources: Calculated from Table B-91—Corporate profits by industry, 1959–2007. Table B-1—Gross domestic product, 1959–2007, Economic Report of the President, 2008.

of U.S. financial corporations (and to a lesser extent nonfinancial corporate profits too) heading off into the stratosphere, seemingly unrelated to growth of national income, which was relatively stagnant. Corporations playing in what had become a giant casino took on more and more leveraging – that is, they often bet thirty or more borrowed dollars for every dollar of their own that was used. This helps to explain the extraordinarily high profits they were able to earn as long as their bets were successful. The growth of finance was of course not restricted simply to the United States but was a global phenomenon with speculative claims to wealth far overshadowing global production, and the same essential contradiction cutting across the entire advanced capitalist world and “emerging” economies.

Already by the late 1980s the seriousness of the situation was becoming clear to those not wedded to established ways of thinking. Looking at this condition in 1988 on the anniversary of the 1987 stock market crash, *Monthly Review* editors Harry Magdoff and Paul Sweezy, contended that sooner or later – no one could predict when or exactly how – a major crisis of the financial system that overpowered the lender of last resort function was likely to occur. This was simply because the whole precarious financial superstructure would have by then grown to such a scale that the means of governmental authorities, though massive, would no longer be sufficient to keep back the avalanche, especially if they failed to act quickly and decisively enough. As they put it, the next time around it was quite possible that the rescue effort would “succeed in the same ambiguous sense that it did after the 1987 stock market crash. If so, we will have the whole process to go through again on a more elevated and precarious level. But sooner or later, next time or further down the road, it will not succeed,” generating a severe crisis of the economy.

As an example of a financial avalanche waiting to happen, they pointed to the “high flying Tokyo stock market,” as a possible prelude to a major financial implosion and a deep stagnation to follow – a reality that was to materialize soon after, resulting in Japan’s financial crisis and “Great Stagnation” of the 1990s. Asset values (both in the stock market and real estate) fell by an amount equivalent to more than two years of GDP. As interest rates zeroed-out and debt-deflation took over, Japan was stuck in a classic liquidity trap with no ready way of restarting an economy already deeply mired in overcapacity in the productive economy.

“In today’s world ruled by finance,” Magdoff and Sweezy had written in 1987 in the immediate aftermath of the U.S. stock market crash:

the underlying growth of surplus value falls increasingly short of the rate of accumulation of money capital. In the absence of a base in surplus value, the money capital amassed becomes more and more nominal, indeed fictitious. It comes from the sale and purchase of paper assets, and is based on the assumption that asset values will be

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continuously inflated. What we have, in other words, is ongoing speculation grounded in the belief that, despite fluctuations in price, asset values will forever go only one way – upward! Against this background, the October [1987] stock market crash assumes a far-reaching significance. By demonstrating the fallacy of an unending upward movement in asset values, it exposes the irrational kernel of today's economy.

These contradictions, associated with speculative bubbles, have of course to some extent been endemic to capitalism throughout its history. However, in the post-Second World War era, as Magdoff and Sweezy, in line with Minsky, argued, the debt overhang became larger and larger, pointing to the growth of a problem that was cumulative and increasingly dangerous. In *The End of Prosperity* Magdoff and Sweezy wrote: “In the absence of a severe depression during which debts are forcefully wiped out or drastically reduced, government rescue measures to prevent collapse of the financial system merely lay the groundwork for still more layers of debt and additional strains during the next economic advance.” As Minsky put it, “Without a crisis and a debt-deflation process to offset beliefs in the success of speculative ventures, both an upward bias to prices and ever-higher financial layering are induced.”

To the extent that mainstream economists and business analysts themselves were momentarily drawn to such inconvenient questions, they were quickly cast aside. Although the spectacular growth of finance could not help but create jitters from time to time – for example, Alan Greenspan's famous reference to “irrational exuberance” – the prevailing assumption, promoted by Greenspan himself, was that the growth of debt and speculation represented a new era of financial market innovation, i.e., a sustainable structural change in the business model associated with revolutionary new risk management techniques. Greenspan was so enamored of the “New Economy” made possible by financialization that he noted in 2004: “Not only have individual financial institutions become less vulnerable to shocks from underlying risk factors, but also the financial system as a whole has become more resilient.”

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It was only with the onset of the financial crisis in 2007 and its persistence into 2008, that we find financial analysts in surprising places openly taking on the contrary view. Thus as Manas Chakravarty, an economic columnist for India's investor Web site, Livemint.com (partnered with the *Wall Street Journal*), observed on September 17, 2008, in the context of the Wall Street meltdown,

American economist Paul Sweezy pointed out long ago that stagnation and enormous financial speculation emerged as symbiotic aspects of the same deep-seated, irreversible economic impasse. He said the stagnation of the underlying economy meant that business was increasingly dependent on the growth of finance to preserve and enlarge its money capital and that the financial superstructure of the economy could not expand entirely independently of its base in the underlying productive economy. With remarkable prescience, Sweezy said the bursting of speculative bubbles would, therefore, be a recurring and growing problem.

Of course, Paul Baran and Sweezy in *Monopoly Capital*, and later on Magdoff and Sweezy in *Monthly Review*, had pointed to other forms of absorption of surplus such as government spending (particularly military spending), the sales effort, the stimulus provided by new innovations, etc. But all of these, although important, had proven insufficient to maintain the economy at anything like full employment, and by the 1970s the system was mired in deepening stagnation (or stagflation). It was financialization – and the growth of debt that it actively promoted – which was to emerge as the quantitatively most important stimulus to demand. But it pointed unavoidably to a day of financial reckoning and cascading defaults.

Indeed, some mainstream analysts, under the pressure of events, were forced to acknowledge by summer 2008 that a massive devaluation of the system might prove inevitable. Jim Reid, the Deutsche Bank's head of credit research, examining the kind of relationship between financial profits and GDP exhibited in chart 2, issued an analysis called “A Trillion-Dollar Mean Reversion?”, in which he argued that:

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U.S. financial profits have deviated from the mean over the past decade on a cumulative basis... The U.S. Financial sector has made around 1.2 Trillion (\$1,200bn) of 'excess' profits in the last decade relative to nominal GDP... So mean reversion [the theory that returns in financial markets over time “revert” to a long-term mean projection, or trend-line] would suggest that \$1.2 trillion of profits need to be wiped out before the U.S. financial sector can be cleansed of the excesses of the last decade... Given that... Bloomberg reports that \$184bn has been written down by U.S. financials so far in this crisis, if one believes that the size of the financial sector should shrink to levels seen a decade ago then one could come to the conclusion that there is another trillion dollars of value destruction to go in the sector before we're back to the long-run trend in financial profits. A scary thought and one that if correct will lead to a long period of constant intervention by the authorities in an attempt to arrest this potential destruction. Finding the appropriate size of the financial sector in the “new world” will be key to how much profit destruction there needs to be in the sector going forward.

The idea of a mean reversion of financial profits to their long-term trend-line in the economy as a whole was merely meant to be suggestive of the extent of the impending change, since Reid accepted the possibility that structural “real world” reasons exist to explain the relative weight of finance – though none he was yet ready to accept. As he acknowledged, “calculating the 'natural' appropriate size for the financial sector relative to the rest of the economy is a phenomenally difficult conundrum.” Indeed, it was to be doubted that a “natural” level actually existed. But the point that a massive “profit destruction” was likely to occur before the system could get going again and that this explained the “long period of constant intervention by the authorities in an attempt to arrest this potential destruction,” highlighted the fact that the crisis was far more severe than then widely supposed – something that became apparent soon after.

What such thinking suggested, in line with what Magdoff and

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Sweezy had argued in the closing decades of the twentieth century, was that the autonomy of finance from the underlying economy, associated with the financialization process, was more relative than absolute, and that ultimately a major economic downturn – more than the mere bursting of one bubble and the inflating of another – was necessary. This was likely to be more devastating the longer the system put it off. In the meantime, as Magdoff and Sweezy had pointed out, financialization might go on for quite a while. And indeed there was no other answer for the system.

### **Back to the Real Economy: The Stagnation Problem**

Paul Baran, Paul Sweezy, and Harry Magdoff argued indefatigably from the 1960s to the 1990s (most notably in *Monopoly Capital*) that stagnation was the *normal state* of the monopoly-capitalist economy, barring special historical factors. The prosperity that characterized the economy in the 1950s and '60s, they insisted, was attributable to such temporary historical factors as: (1) the buildup of consumer savings during the war; (2) a second great wave of automobilization in the United States (including the expansion of the glass, steel, and rubber industries, the construction of the interstate highway system, and the development of suburbia); (3) the rebuilding of the European and the Japanese economies devastated by the war; (4) the Cold War arms race (and two regional wars in Asia); (5) the growth of the sales effort marked by the rise of Madison Avenue; (6) the expansion of FIRE (finance, insurance, and real estate); and (7) the preeminence of the dollar as the hegemonic currency. Once the extraordinary stimulus from these factors waned, the economy began to subside back into stagnation: slow growth and rising excess capacity and unemployment/underemployment. In the end, it was military spending and the explosion of debt and speculation that constituted the main stimuli keeping the economy out of the doldrums. These were not sufficient, however, to prevent the reappearance of stagnation tendencies altogether, and the problem got worse with time.

The reality of creeping stagnation can be seen in table 2, which shows the real growth rates of the economy decade by decade over the last eight decades. The low growth rate in the 1930s reflected the

Average annual percent	
1930s	1.3
1940s	5.9
1950s	4.1
1960s	4.4
1970s	3.3
1980s	3.1
1990s	3.1
2000-07	2.6

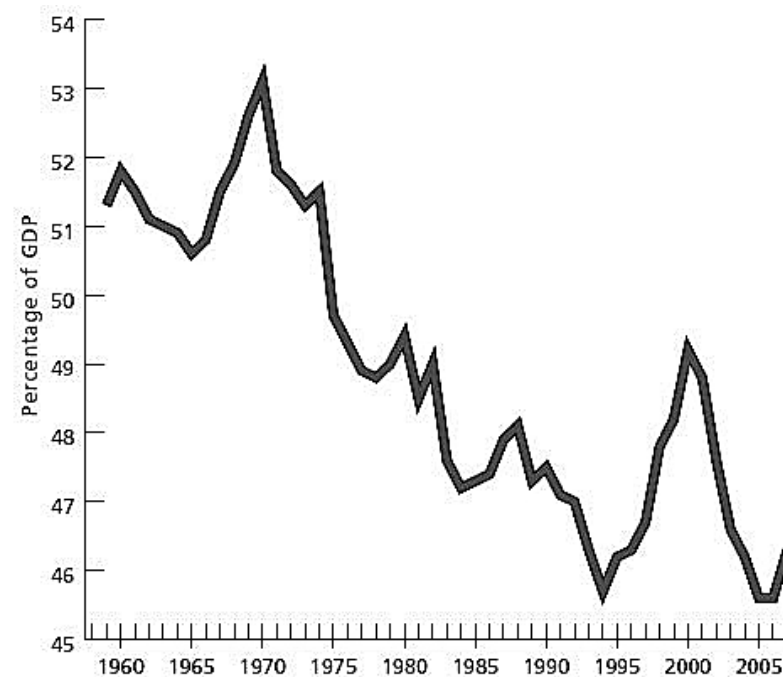
**Table 2. Growth in real GDP 1930–2007**

Source: National Income and Products Accounts Table 1.1.1. Percent Change from Preceding Period in Real Gross Domestic Product, Bureau of Economic Analysis.

deep stagnation of the Great Depression. This was followed by the extraordinary rise of the U.S. economy in the 1940s under the impact of the Second World War. During the years 1950-69, now often referred to as an economic “Golden Age,” the economy, propelled by the set of special historical factors referred to above, was able to achieve strong economic growth in a “peacetime” economy. This, however, proved to be all too temporary. The sharp drop off in growth rates in the 1970s and thereafter points to a persistent tendency toward slower expansion in the economy, as the main forces pushing up growth rates in the 1950s and '60s waned, preventing the economy from returning to its former prosperity. In subsequent decades, rather than recovering its former trend-rate of growth, the economy slowly subsided.

It was the reality of economic stagnation beginning in the 1970s, as heterodox economists Riccardo Bellofiore and Joseph Halevi have recently emphasized, that led to the emergence of “the new financialized capitalist regime,” a kind of “paradoxical *financial Keynesianism*” whereby demand in the economy was stimulated primarily “thanks to asset-bubbles.” Moreover, it was the leading role of the United States in generating such bubbles – despite (and also because of) the weakening of capital accumulation proper – together with the dollar's reserve currency status, that made U.S. monopoly-finance capital the “catalyst of world effective demand,” beginning in the 1980s. But such a financialized growth pattern was unable to produce rapid economic advance for any length of time, and was unsustainable, leading to bigger bubbles that periodically burst, bringing stagnation more and more to the surface.

A key element in explaining this whole dynamic is to be found in the falling ratio of wages and salaries as a percentage of national income in the United States. Stagnation in the 1970s led capital to launch an accelerated class war against workers to raise profits by pushing labor costs down. The result was decades of increasing inequality. Chart 3 shows a sharp decline in the share of wages and salaries in GDP between the late 1960s and the present. This reflected the fact that real wages of private nonagricultural workers in the United States (in 1982 dollars) peaked in 1972 at \$8.99 per hour, and by 2006 had fallen to \$8.24 (equivalent to the real hourly wage rate in 1967), despite the enormous growth in productivity and profits over the past few decades.



**Chart 3. Wage and salary disbursements as a percentage of GDP**

Sources: Economic Report of the President, 2008, Table B-1 (GDP), Table B-29—Sources of personal income, 1959–2007.

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This was part of a massive redistribution of income and wealth to the top. Over the years 1950 to 1970, for each additional dollar made by those in the bottom 90 percent of income earners, those in the top 0.01 percent received an additional \$162. In contrast, from 1990 to 2002, for each added dollar made by those in the bottom 90 percent, those in the uppermost 0.01 percent (today around 14,000 households) made an additional \$18,000. In the United States the top 1 percent of wealth holders in 2001 together owned more than twice as much as the bottom 80 percent of the population. If this were measured simply in terms of financial wealth, i.e., excluding equity in owner-occupied housing, the top 1 percent owned more than four times the bottom 80 percent. Between 1983 and 2001, the top 1 percent grabbed 28 percent of the rise in national income, 33 percent of the total gain in net worth, and 52 percent of the overall growth in financial worth.

The truly remarkable fact under these circumstances was that household consumption continued to rise from a little over 60 percent of GDP in the early 1960s to around 70 percent in 2007. This was only possible because of more two-earner households (as women entered the labor force in greater numbers), people working longer hours and filling multiple jobs, and a constant ratcheting up of consumer debt. Household debt was spurred, particularly in the later stages of the housing bubble, by a dramatic rise in housing prices, allowing consumers to borrow more against their increased equity (the so-called housing “wealth effect”) – a process that came to a sudden end when the bubble popped, and housing prices started to fall. As chart 1 shows, household debt increased from about 40 percent of GDP in 1960 to 100 percent of GDP in 2007, with an especially sharp increase starting in the late 1990s.

This growth of consumption, based in the expansion of household debt, was to prove to be the Achilles heel of the economy. The housing bubble was based on a sharp increase in household mortgage-based debt, while real wages had been essentially frozen for decades. The resulting defaults among marginal new owners led to a fall in house prices. This led to an ever increasing number of owners owing more on their houses than they were worth, creating more defaults and a further fall in house prices. Banks seeking to bolster their balance sheets began to hold back on new extensions of credit card debt.

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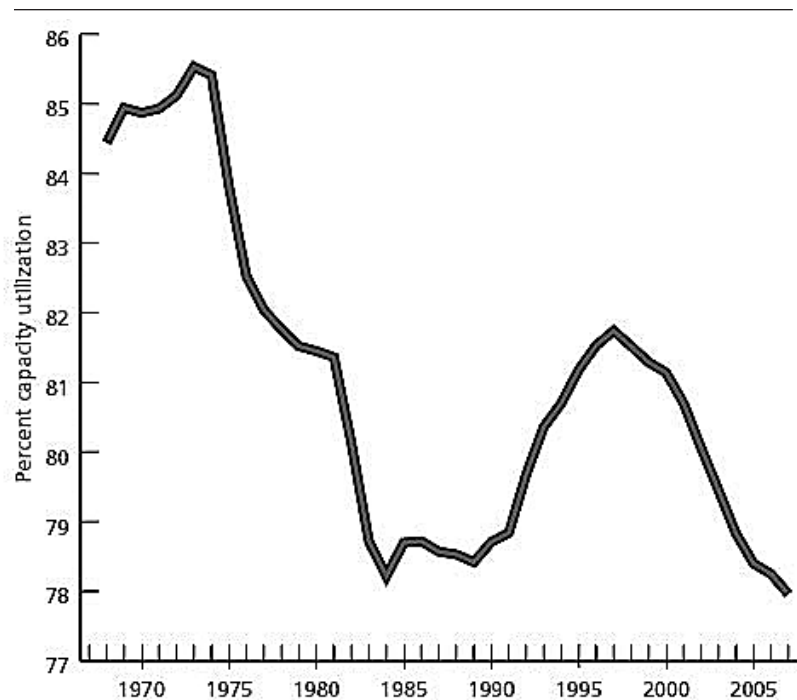
Consumption fell, jobs were lost, capital spending was put off, and a downward spiral of unknown duration began.

During the last thirty or so years the economic surplus controlled by corporations, and in the hands of institutional investors, such as insurance companies and pension funds, has poured in an ever increasing flow into an exotic array of financial instruments. Little of the vast economic surplus was used to expand investment, which remained in a state of simple reproduction, geared to mere replacement (albeit with new, enhanced technology), as opposed to expanded reproduction. With corporations unable to find the demand for their output – a reality reflected in the long-run decline of capacity utilization in industry (see chart 4) – and therefore confronted with a dearth of profitable investment opportunities, the process of net capital formation became more and more problematic.

Hence, profits were increasingly directed away from investment in the expansion of productive capacity and toward financial speculation, while the financial sector seemed to generate unlimited types of financial products designed to make use of this money capital. (The same phenomenon existed globally, causing Bernanke to refer in 2005 to a “global savings glut,” with enormous amounts of investment-seeking capital circling the world and increasingly drawn to the United States because of its leading role in financialization.) The consequences of this can be seen in chart 5, showing the dramatic decoupling of profits from net investment as percentages of GDP in recent years, with net private nonresidential fixed investment as a share of national income falling significantly over the period, even while profits as a share of GDP approached a level not seen since the late 1960s/early 1970s. This marked, in Marx's terms, a shift from the “general formula for capital”  $M(\text{oney})-C(\text{ommodity})-M\zeta$  (original money plus surplus value), in which commodities were central to the production of profits – to a system increasingly geared to the circuit of money capital alone,  $M-M\zeta$ , in which money simply begets more money with no relation to production.

Since financialization can be viewed as the response of capital to the stagnation tendency in the real economy, a crisis of financialization inevitably means a resurfacing of the underlying stagnation endemic to the advanced capitalist economy. The deleveraging of the enormous



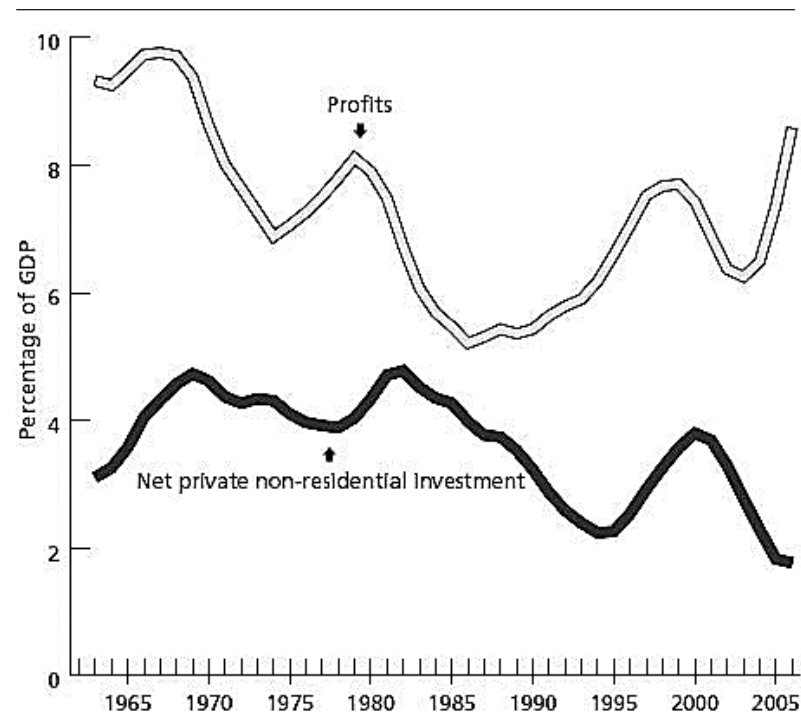


**Chart 4. Percent utilization of industrial capacity**

Source: Economic Report of the President, 2008, Table B-54—Capacity utilization rates, 1959–2007.

debt built up during recent decades is now contributing to a deep crisis. Moreover, with financialization arrested there is no other visible way out for monopoly-finance capital. The prognosis then is that the economy, even after the immediate devaluation crisis is stabilized, will at best be characterized for some time by minimal growth, and by high unemployment, underemployment, and excess capacity.

The fact that U.S. consumption (facilitated by the enormous U.S. current account deficit) has provided crucial effective demand for the production of other countries means that the slowdown in the United States is already having disastrous effects abroad, with financial liquidation now in high gear globally. “Emerging” and underdeveloped economies are caught in a bewildering set of problems. This includes



**Chart 5. Profits and net investment as percentage of GDP 1960 to present**

Sources: Bureau of Economic Analysis, National Income and Product Accounts, Table 5.2.5. Gross and Net Domestic Investment by Major Type, (Billions of dollars). Table B-1 (GDP) and Table B-91 (Domestic industry profits), Economic Report of the President, 2008.

falling exports, declining commodity prices, and the repercussions of high levels of financialization on top of an unstable and highly exploitative economic base – while being subjected to renewed imperial pressures from the center states.

The center states are themselves in trouble. Iceland, which has been compared to the canary in the coal mine, has experienced a complete financial meltdown, requiring rescue from outside, and possibly a massive raiding of the pension funds of the citizenry. For more than seventeen years Iceland has had a right-wing government led by the ultra-conservative Independence Party in coalition with

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the centrist social democratic parties. Under this leadership Iceland adopted neoliberal financialization and speculation to the hilt and saw an excessive growth of its banking and finance sectors with total assets of its banks growing from 96 percent of its GDP at the end of 2000 to nine times its GDP in 2006. Now Icelandic taxpayers, who were not responsible for these actions, are being asked to carry the burden of the overseas speculative debts of their banks, resulting in a drastic decline in the standard of living.

## A Political Economy

Economics in its classical stage, which encompassed the work of both possessive-individualists, like Adam Smith, David Ricardo, Thomas Malthus, and John Stuart Mill, and socialist thinkers such as Karl Marx, was called *political* economy. The name was significant because it pointed to the class basis of the economy and the role of the state. To be sure, Adam Smith introduced the notion of the “invisible hand” of the market in replacing the former visible hand of the monarch. But, the political-class context of economics was nevertheless omnipresent for Smith and all the other classical economists. In the 1820s, as Marx observed, there were “splendid tournaments” between political economists representing different classes (and class fractions) of society.

However, from the 1830s and '40s on, as the working class arose as a force in society, and as the industrial bourgeoisie gained firm control of the state, displacing landed interests (most notably with the repeal of the Corn Laws), economics shifted from its previous questioning form to the “bad conscience and evil intent of the apologetics.” Increasingly the circular flow of economic life was reconceptualized as a process involving only individuals, consuming, producing, and profiting on the margin. The concept of class thus disappeared in economics, but was embraced by the rising field of sociology (in ways increasingly abstracted from fundamental economic relationships). The state also was said to have nothing directly to do with economics and was taken up by the new field of political science. Economics was thus “purified” of all class and political elements, and increasingly presented as a “neutral” science, addressing universal/transhistorical principles of

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capital and market relations.

Having lost any meaningful roots in society, orthodox neoclassical economics, which presented itself as a single paradigm, became a discipline dominated by largely meaningless abstractions, mechanical models, formal methodologies, and mathematical language, divorced from historical developments. It was anything but a science of the real world; rather its chief importance lay in its role as a self-confirming ideology. Meanwhile, actual business proceeded along its own lines largely oblivious (sometimes intentionally so) of orthodox economic theories. The failure of received economics to learn the lessons of the Great Depression, i.e., the inherent flaws of a system of class-based accumulation in its monopoly stage, included a tendency to ignore the fact that the real problem lay in the real economy, rather than in the monetary-financial economy.

Today nothing looks more myopic than Bernanke's quick dismissal of traditional theories of the Great Depression that traced the underlying causes to the buildup of overcapacity and weak demand – inviting a similar dismissal of such factors today. Like his mentor Milton Friedman, Bernanke has stood for the dominant, neoliberal economic view of the last few decades, with its insistence that by holding back “the rock that starts a landslide” it was possible to prevent a financial avalanche of “major proportions” indefinitely. That the state of the ground above was shifting, and that this was due to real, time-related processes, was of no genuine concern. Ironically, Bernanke, the academic expert on the Great Depression, adopted what had been described by Ethan Harris, chief U.S. economist for Barclays Capital, as a “see no evil, hear no evil, speak no evil” policy with respect to asset bubbles.

It is therefore to the contrary view, emphasizing the socioeconomic contradictions of the system, to which it is now necessary to turn. For a time in response to the Great Depression of the 1930s, in the work of John Maynard Keynes, and various other thinkers associated with the Keynesian, institutionalist, and Marxist traditions – the most important of which was the Polish economist Michael Kalecki – there was something of a revival of political-economic perspectives. But following the Second World War Keynesianism was increasingly reabsorbed into the system. This occurred partly through what was

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called the “neoclassical-Keynesian synthesis” – which, as Joan Robinson, one of Keynes's younger colleagues claimed, had the effect of bastardizing Keynes – and partly through the closely related growth of military Keynesianism. Eventually, monetarism emerged as the ruling response to the stagflation crisis of the 1970s, along with the rise of other conservative free-market ideologies, such as supply-side theory, rational expectations, and the new classical economics (summed up as neoliberal orthodoxy). Economics lost its explicit political-economic cast, and the world was led back once again to the mythology of self-regulating, self-equilibrating markets free of issues of class and power. Anyone who questioned this, was characterized as *apolitical* rather than economic, and thus largely excluded from the mainstream economic discussion.

Needless to say, economics never ceased to be political; rather the politics that was promoted was so closely intertwined with the system of economic power as to be nearly invisible. Adam Smith's visible hand of the monarch had been transformed into the invisible hand, not of the market, but of the capitalist class, which was concealed behind the veil of the market and competition. Yet, with every major economic crisis that veil has been partly torn aside and the reality of class power exposed.

Treasury Secretary Paulson's request to Congress in September 2008, for \$700 billion with which to bail out the financial system may constitute a turning point in the popular recognition of, and outrage over, the economic problem, raising for the first time in many years the issue of a *political* economy. It immediately became apparent to the entire population that the critical question in the financial crisis and in the deep economic stagnation that was emerging was: *Who will pay?* The answer of the capitalist system, left to its own devices, was the same as always: the costs would be borne disproportionately by those at the bottom. The old game of privatization of profits and socialization of losses would be replayed for the umpteenth time. The population would be called upon to “tighten their belts” to “foot the bill” for the entire system. The capacity of the larger public to see through this deception in the months and years ahead will of course depend on an enormous amount of education by trade union and social movement activists, and the degree to which the empire of

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capital is stripped naked by the crisis.

There is no doubt that the present growing economic bankruptcy and political outrage have produced a fundamental break in the continuity of the historical process. How should progressive forces approach this crisis? First of all, it is important to discount any attempts to present the serious economic problems that now face us as a kind of “natural disaster.” They have a cause, and it lies in the system itself. And although those at the top of the economy certainly did not welcome the crisis, they nonetheless have been the main beneficiaries of the system, shamelessly enriching themselves at the expense of the rest of the population, and should be held responsible for the main burdens now imposed on society. It is the well-to-do who should foot the bill – not only for reasons of elementary justice, but also because they collectively and *their system* constitute the reason that things are as bad as they are; and because the best way to help both the economy and those at the bottom is to address the needs of the latter directly. There should be no golden parachutes for the capitalist class paid for at taxpayer expense.

But capitalism takes advantage of social inertia, using its power to rob outright when it can't simply rely on “normal” exploitation. Without a revolt from below the burden will simply be imposed on those at the bottom. All of this requires a mass social and economic upsurge, such as in the latter half of the 1930s, including the revival of unions and mass social movements of all kinds – using the power for change granted to the people in the Constitution; even going so far as to threaten the current duopoly of the two-party system.

What should such a radical movement from below, if it were to emerge, seek to do under these circumstances? Here we hesitate to say, not because there is any lack of needed actions to take, but because a radicalized political movement determined to sweep away decades of exploitation, waste, and irrationality will, if it surfaces, be like a raging storm, opening whole new vistas for change. Anything we suggest at this point runs the double risk of appearing far too radical now and far too timid later on.

Some liberal economists and commentators argue that, given the present economic crisis, nothing short of a major public works program aimed at promoting employment, a kind of new New Deal,

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will do. Robert Kuttner has argued in *Obama's Challenge* that “an economic recovery will require more like \$700 billion a year in new public outlay, or \$600 billion counting offsetting cuts in military spending. Why? Because there is no other plausible strategy for both achieving a general economic recovery and restoring balance to the economy.” This, however, will be more difficult than it sounds. There are reasons to believe that the dominant economic interests would block an increase in civilian government spending on such a scale, even in a crisis, as interfering with the private market. The truth is that civilian government purchases were at 13.3 percent of GNP in 1939 – what Baran and Sweezy in 1966 theorized as approximating their “outer limits” – and they have barely budged since then, with civilian government consumption and investment expenditures from 1960 to the present averaging 13.7 percent of GNP (13.8 percent of GDP). The class forces blocking a major increase in nondefense governmental spending even in a severe stagnation should therefore not be underestimated. Any major advances in this direction will require a massive class struggle.

Still, there can be no doubt that change should be directed first and foremost to meeting the basic needs of people for food, housing, employment, health, education, a sustainable environment, etc. Will the government assume the responsibility for providing useful work to all those who desire and need it? Will housing be made available (free from crushing mortgages) to everyone, extending as well to the homeless and the poorly housed? Will a single-payer national health system be introduced to cover the needs of the entire population, replacing the worst and most expensive health care system in the advanced capitalist world? Will military spending be cut back drastically, dispensing with global imperial domination? Will the rich be heavily taxed and income and wealth be redistributed? Will the environment, both global and local, be protected? Will the right to organize be made a reality?

If such elementary prerequisites of any decent future look impossible under the present system, then the people should take it into their own hands to create a new society that will deliver these genuine goods. Above all it is necessary “to insist that morality and economics alike support the intuitive sense of the masses that society's human and

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natural resources can and should be used for all the people and not for a privileged minority.”

In the 1930s Keynes decried the growing dominance of financial capital, which threatened to reduce the real economy to “a bubble on a whirlpool of speculation,” and recommended the “euthanasia of the rentier.” However, financialization is so essential to the monopoly-finance capital of today, that such a “euthanasia of the rentier” cannot be achieved – in contravention of Keynes's dream of a more rational capitalism – without moving beyond the system itself. In this sense we are clearly at a global turning point, where the world will perhaps finally be ready to take the step, as Keynes also envisioned, of repudiating an alienated moral code of “fair is foul and foul is fair” – used to justify the greed and exploitation necessary for the accumulation of capital – turning it inside-out to create a more rational social order. To do this, though, it is necessary for the population to seize control of their *political* economy, replacing the present system of capitalism with something amounting to a real political and economic democracy; what the present rulers of the world fear and decry most – as “socialism.”

Footnotes to this article can be found at <http://www.monthlyreview.org/081201foster-magdoff.php>.

## **MARXISM ALIVE**

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# Will the global economy recover?

by ALEX CALLINICOS

The idea that the green shoots of economic recovery are sprouting everywhere has become entrenched among a layer of economic pundits. They cite the fact that the stock markets have been rising quite strongly.

For example, the US Standard & Poor's 500 Index has risen by a third since March.

Anyone who is impressed by this has forgotten that the stock markets rose during the first few months following the explosion of the economic crisis in August 2007, encouraging various overpaid idiots to claim there was no real problem.

The latest World Economic Outlook from the International Monetary Fund (IMF) has revised down its forecasts. It predicts that global output will fall this year for the first time since 1945, by 1.3 percent.

Japan, one of the great manufacturing and export powerhouses of the world economy, reported a trade deficit of £5 billion in the year to March, the first time this has happened since 1980. This reflects how sharply international trade has fallen.

In Germany, another powerhouse, the government now predicts the economy will shrink by 6 percent this year.

Announcing the figures, the German economics minister said one and a half million workers will lose their jobs this year and next.

Fortunately, this decline will not continue indefinitely. Free market economists are not completely wrong to say that there are self-correcting mechanisms that will work to push output upwards.

One of these concerns the inventories of finished goods held by firms. When demand falls during a recession, companies can't sell their products and so they are stuck with big inventories of unsold goods.

They cut production till they have sold these. When this has happened, production will rise to supply more goods to meet demand.

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But mechanisms like this aren't enough to generate powerful economic growth, especially in as severe a recession as the present one. That's why governments have introduced fiscal stimulus packages, cutting taxes and increasing borrowing and spending, in the hope of maintaining demand.

But this too isn't likely to be enough to bring recovery. This is partly because the capitalist class is split over the desirability of fiscal stimulus.

A powerful faction – headed internationally by the German government – argues that higher government borrowing will simply pile up government debt, adding to the burden on the economy.

This faction is now in the ascendant in Britain, with Conservative opposition leader David Cameron proclaiming a new “age of austerity” and campaigning for public spending cuts.

Quite apart from these divisions, the IMF believes that “even once the crisis is over, there will be a difficult transition period, with output growth appreciably below rates seen in the recent past”.

A chapter of the IMF's World Economic Outlook is devoted to a study of recessions and recoveries from them.

Two of its findings are particularly alarming. First, “Recessions associated with financial crises have been more severe and longer lasting than recessions associated with other shocks.

“Recoveries from such recessions have been typically slower, associated with weak domestic demand and tight credit conditions.”

Second, “Recessions that are highly synchronised across countries have been longer and deeper than those confined to one region.

“Recoveries from these recessions have typically been weak” because it's much harder to recover by increasing exports if the entire world economy is depressed.

The IMF concludes: “The downturn is likely to be unusually severe, and the recovery is expected to be sluggish.” In other words, even when the world economy stops shrinking, it is likely to find itself trapped in a long period of slow growth.

No wonder that people are beginning to call this the “Great Recession”, like the Great Depression of the 1930s.

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# Trade unions and New Zealand's economic crisis

By GRANT BROOKES

Comparisons now abound between the global economic crisis of 2009 and the Great Depression of the 1930s. Naturally, there are similarities and differences. The following bleak assessment of the role of trade unions in the early 1930s comes from the best known book by one of New Zealand's foremost social historians of the 20th century:

When their interests were attacked in 1931, they [the trade unions] passed resolutions. In March 1932, after a second civil service wages cut, a 10 percent reduction in all Arbitration Court awards, and the abolition of compulsory arbitration to bring wages down more rapidly, a conference of the Alliance of Labour, the Trades and Labour Councils, and the civil service again sidetracked a strike proposal and spent a good deal of time in discussing forms of organization. The unions had been wet-nursed by an anaemic Arbitration Court, and now that this had gone their weakness was apparent. Union secretaries had become advocates before a court rather than militant leaders in collective bargaining with the strike weapon in the background and the organization experience and rank and file discipline that this entails... Union membership dropped to lower levels, for trade unions seemed to offer little protection.

First published in 1942, *The Quest for Security in New Zealand* by W. B. Sutch was still in use as a history textbook at my high school in the 1980s. The vital questions today are whether the role of unions in 2009 will be similar to its authoritative assessment or different, and what union and radical activists can do about it.

Sutch highlights how the union response to the Great Depression was shaped by their prevailing policy of the previous decade. The years before World War I had seen a string of successful strikes and rapid

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growth for the small "Red" Federation of Labour. The Red Feds were founded on a militant policy of direct wage bargaining with employers and a rejection of the Arbitration Court. But the crushing defeat of the Red Feds in the 1913 general strike tipped the balance back. By the 1920s, although some dissent remained inside the newly formed Alliance of Labour, the prevailing policy of the larger union grouping, organised through the more conservative Trades and Labour Councils, was one which downplayed direct action and relied on the Arbitration Court to resolve wage disputes.

## The partnership debate

In the first decade of the 21st century, the prevailing policy of the union movement has been one of "social partnership". The front-line battles of the near future will probably be sparked by job losses and pay cuts. But the partnership policy, and the debates around it, will very likely shape the mainstream union response to these battles and to all other aspects of the growing economic crisis today.

Partnership began in 1998, with a local deal between the Public Service Association and the Manukau City Council. The first major Partnership Agreement embracing a union, employers and government was signed at the Public Service Association (PSA) Biennial Congress two years later, in 2000. Ross Wilson, president of the Council of Trade Unions (CTU), gave a keynote speech which outlined where the policy had come from: "The last 15 years in New Zealand we have witnessed debates in the union movement about the proposed Compact, the Growth Agreement, "Nissan Way", "Workplace New Zealand" and [now] "partnership".

Partnership is an elastic concept. When presented to union delegates and activists, it is portrayed as a strategy for stronger worker participation in decision-making at workplace, industry and national levels. And in a few workplaces, for a while at least, small groups of worker representatives have achieved just enough input to sustain this view. For other audiences, however, what is stressed is union willingness to cooperate in boosting business profitability. Under a picture of workers and employers united behind the NZ flag, a 2004 CTU leaflet declared:

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A happy, motivated, high-skill, high-wage workforce is an important part of business success. That's what the CTU wants for everyone... We want businesses to succeed. That's right ... we're pro-growth... We're not trying to create "a hostile business environment". Why would we? We're interested in people being in work and leading productive lives.

As in earlier times, today's prevailing union policy of partnership has been contested.

As a delegate to the PSA Congress, I challenged Ross Wilson from the floor about social partnership. I said it reflected, and reinforced, a self-limiting mindset which had grown under the anti-union National governments of the 1990s. Partnership was a policy of defeat. It was based on a loss of confidence that unions had the power to achieve their objectives through independent action.

Significant dissent over social partnership emerged at the 2003 CTU Biennial Conference. The re-affiliation two years earlier of the 18,000-strong National Distribution Union (NDU), which opposed social partnership, led to a formal debate on the conference floor. As an official observer at the conference for my current union, I witnessed a rarely-seen challenge to the top union leadership.

The case for partnership was made by PSA secretary Richard Wagstaff and Rosalie Webster, assistant secretary of the Engineering, Printing & Manufacturing Union (EPMU). A defensive Wagstaff conceded that "partnership and engagement have been tainted words".



**There's work to be done,  
together.**

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Webster admitted, "It can create disillusionment with members when they see the union being pulled around by the nose by the boss".

Wagstaff gave the tri-partite forum on Auckland's health system as an example that partnership works. But a nurse from North Shore Hospital stood up from the floor and said, "I have been fortunate, or unfortunate, enough to be involved in the tri-partite forum. The outcome has been very dismal so far."

NDU president Bill Anderson expressed the mood of many conference delegates. "Our union is opposed to the social partnership", he said. "Of course we have to have a relationship with the employer. Is it a partnership? A partnership is a common interest. When it comes to the employee and employer, it is a conflict relationship... The union movement grew up on the basis of struggle. We used to be stronger when we struggled harder, and our future lies in the same direction."

Not a single delegate spoke in favour of partnership. When the CTU president put a resolution reaffirming support for social partnership, it passed narrowly by a show of hands.

The forerunners of social partnership mentioned by Ross Wilson at the PSA Biennial Congress – the proposed Compact (1988-90), the Growth Agreement (1990), "Nissan Way" (from 1987), "Workplace New Zealand" (1992-94) – never won majority backing inside the trade union movement.

Mainstream acceptance of social partnership over the last decade was made possible by four things. Firstly, the election of the 1999 Labour-led government and the incorporation of the Alliance Party as a junior coalition partner. This in turn helped to sideline the Business Roundtable, with their extreme free market policies, and allowed the more pragmatic Business NZ to become the recognised voice for business. Labour-aligned top union leaders could then overcome opposition to partnership with "reasonable" employers and with "their" government. Finally, a decade of unusually strong economic growth allowed employers to make small concessions in the name of partnership.

Now that social partnership is entrenched, however, some union leaders are carrying it further. Nurses Organisation chief executive Geoff Annals, for example, wrote on the election result in the December/January issue of the union journal:

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During the election campaign, the lack of policies from National fitting neatly into the 'right end' of the traditional 'right-left' political spectrum was assumed by many to be a strategy to dupe voters, fearful of any return to '90s policies... But perhaps what is happening in politics is more complex than that, and more hopeful... Political parties, and particularly the National Party, seem to be coming to understand that they must genuinely attempt to represent all New Zealanders, if they are to be in Government.

This belief in the possibility of union partnership not just with a Labour-led government in good economic times, but with today's National-led government too, shaped the CTU position going into the high-profile "Jobs Summit" called by prime minister John Key in February.

On the eve of the summit, CTU president Helen Kelly wrote in her column in the Dominion Post Business Day, "This is a scary time to be a worker... It is also a scary time for many business owners. Both groups have an interest in each other's survival through these unusual economic circumstances... The Council of Trade Unions does not object to support for businesses at this time... We are actively participating in the Government's programmes for economic stimulus."

The CTU Discussion Document, presented at the summit a few days later, called for a "social consensus" about measures to tackle the economic crisis. "It is not an opportunity to relitigate longer term policy settings... Stabilisation policies should be reversible".

### **A centrifugal force**

The problems with this union approach run deep. As the lessons of the 1930s should tell us, the growing economic crisis now sweeping the globe will create a centrifugal political force which shatters any "social consensus". That decade saw the growth of Right wing extremism worldwide, and a corresponding wave of social revolts, militant trade unionism and growth of the radical Left – including, in this country, the election of the most Left-wing government New Zealand has yet seen.

No-one – least of all those running the system – can claim any

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more to reliably predict the future. But whatever tactical moves a National-led government may be forced to take in the short term, in order to shore up support and prevent rapid economic collapse, the current crisis will almost certainly lead (at the very least) to irreversible changes in longer term policy settings lasting for decades to come.

Even the traditionally conservative International Trade Union Confederation, which the CTU belongs to, understands this. Energised by the more advanced stage of the crisis overseas, their Declaration to the G20 Summit in April vowed, "there can be no return to 'business as usual.'"

Already, the National-led government has signalled its Rightward direction. The rushed passage of the 90 day "Sack-at-Will Bill" has received a lot of coverage. So have moves to undermine four weeks holiday for all and time and half on statutory holidays, reductions in ACC entitlements, tax cuts for top income earners, privatisation of prisons, removing the few restrictions on wealthy overseas investors buying up New Zealand assets and public service spending cuts.

Finance minister Bill English left no doubt about the irreversible nature of the spending cuts. After telling TV3 News that the effects of the recession could last for 15 years, he said he'd advised government department heads that "restraint is permanent. For the rest of their careers, there isn't going to be more money or more people."

Other far-reaching policy changes, like strengthening the free trade agenda and its international "race to the bottom" in pay and conditions, are promised in response to the economic crisis. Signing a new free trade deal in Thailand in March, foreign affairs minister Tim Groser said it "sends the message" that free trade, "not protectionism, is the best way to bring us through the most serious international economic crisis we have faced since the Great Depression".

As NZ Herald commentator John Armstrong has observed, "So the National Government is variously inching, shifting, drifting, veering or lurching to the right, depending on where you stand on the political spectrum. Surprise, surprise... John Key may have portrayed himself as a moderate pragmatist in Opposition – indeed he is still doing exactly that as Prime Minister – but he is still the leader of a party, the fundamental ethos of which is firmly centre-right."

Employers who talked about saving jobs at the Jobs Summit are



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busy axing them at their own firms. Warehouse founder and “socially responsible” business leader Stephen Tindall led one of the six discussion groups at the summit. At the same time, his senior managers were finalising plans to lay off as many as 1,000 workers. Air NZ chief executive Rob Fyffe, who’s slashing at least another 200 staff this year, led another group while John Bongard of Fisher & Paykel (which has shed 900 jobs in the last two years) led a third. Employer representatives at Business NZ, meanwhile, are pushing for drastic anti-union laws to shut unions out of workplaces and return to individual employment contracts.

How could it be otherwise? The economic crisis of 2009 is at root a crisis of business profitability. Profit is the lifeblood of a market economy. Without it, there is nothing to re-invest in the company, or to return to shareholders to attract their capital. Many employers, like those at the Jobs Summit, understand that a widespread collapse in consumer spending through job losses and pay cuts threatens their livelihoods. But to boost profits for their individual firm, they are driven by market imperatives to make these cuts themselves.

For parties of the market, like National, reviving the economy means restoring business profitability. In today’s deep crisis, this means emergency measures to cushion consumer spending and prevent economic collapse. But it also has to mean helping businesses to cut costs – including wage costs and tax payments – over the longer term.

When Sealord announced, less than a week after the Jobs Summit, that they were laying off 160 staff, prime minister John Key told TV3’s Sunrise, “I think in the case of Sealords they’re actually restructuring their business. One thing we have to be realistic about is the recession will ultimately drive some of those changes, it’s not to say we’re not hugely sympathetic to those who have lost their job, we understand that there will be change”.

The government’s economic stimulus package – praised by pro-partnership union leaders – is being partly funded by borrowing. It’s fairly certain that National won’t repay this debt through higher taxes on companies and top income earners. The burden is likely to fall, sooner or later, on working people.

The alternative – pouring all government efforts into protecting the people from the crisis – would weaken corporate power and undermine the central pillars of the market. This is something that



parties of the market can never do.

Just as worrying as the CTU’s talk of ongoing partnership with National and employers is what is not being said by top union leaders. So far, there is no discussion in the CTU about the kind of large-scale, cross-union campaign which could ensure the burden of the economic crisis is not borne by workers.

In effect, by persevering with social partnership, the CTU is continuing to express a lack of confidence in independent union action and is pinning its hopes instead on action by the National-led government. In return, as their Discussion Paper humbly promises, they will help implement “the more creative changes in a way that secures worker agreement to the changes and avoids the liabilities that unilateral changes can create”. The higher stakes of today’s growing economic crisis are elevating this lack of top-level commitment to independent action into a major problem.

## Undercurrents

Even during the current “partnership decade”, however, when unions have been formally committed to cooperation for “business success”, a number of unions have effectively managed to work around the policy and secure major gains in the teeth of employer and government opposition – beginning with the Nurses Organisation in 2002-3. In each case, it was the sudden entry of the mass of grassroots union members onto the political stage which delivered the victory.

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Most of the time, the views of grassroots union members and activists are invisible, hidden away in conversations in the workplace tearoom. While the views of union leaders are important – not least because of the influence they can have with members – they are often not wholly representative of the union movement.

Typically, these officials in full-time union positions are on salaries considerably higher than the average union member. They are much closer to government and spend more time mixing with officials and employers. Particularly at higher levels, they don't experience the same daily hassles with the boss. And because their incomes come from membership fees, they are not directly affected by changes in the pay and conditions of members on the job. They are the managers of sometimes sizeable union-owned assets.

Because of all this, full-time union officials tend towards conservatism – both maintaining necessary union organisation and expertise, but also shying away from radical action.

While the views of grassroots union members and activists are usually hidden, in times of change they can break through and lead unions in new directions. When a union leader manages to connect with grassroots members and activists and express their mood for change, then union power is unleashed. This is what happened in 2003, when newly-appointed Nurses Organisation strategist Laila Harré went directly to members in the union's first series of nationwide stopwork meetings in over a decade.

The meetings solidified the mood to fight for a \$300 million Fair Pay claim. As a nurse from Hawkes Bay Regional Hospital put it in an interview with the forerunner to Unity journal, "In the last few months we've gone from 'no, we can't, we care for our patients too much' to 'sod you, who cares for us?'"

Business NZ chief executive Anne Knowles described the nurses' pay claim as "completely unacceptable" due to its "flow-on effect" for private sector pay. Treasury advised, "The Minister of Health has indicated to DHBs that the outcome of these negotiations must be met within their three-year Health Funding Paths." But in 2004 nurses secured extra government funding and won their pay claim, without trade-offs. Key to the victory was nurses' preparedness, built up over 18 months of active leadership and mounting grassroots campaigning, to take independent action. As the nurses' union journal explained

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after a settlement was reached, "members' determination to take strike action in support of the NZNO pay claim was crucial".

In 2005, the EPMU spearheaded a cross-union push for big pay rises of five percent and more. EPMU national secretary Andrew Little, too, went directly to members in that union's first series of nationwide stopworks in over a decade. His militant message met the grassroots mood. A worker who attended the 1,500-strong Wellington meeting told Unity, "I got a feeling of confidence from those around me. I haven't seen anything like it for 15 years."

Andrew Little described the meeting as "unbelievable". "It was like a festival, with workers from one company getting together with workers from rival companies in a show of solidarity. There's a new union movement emerging, and it's coming from the members themselves".

The surge of grassroots union power, oblivious to any official policy of "social partnership", strengthened the whole union movement. When Progressive Enterprises locked out 500 supermarket workers in 2006, unionists had the confidence and organisation to rally round and help them win. During the six week struggle, an army of grassroots activists collected \$250,000 and food donations to sustain the locked out workers and their families. Community boycotts of Progressive supermarkets were organised. And crucially, groups of workers had the confidence to defy the anti-strike laws in Labour's Employment Relations Act and take small-scale industrial action targeting Progressive's supply chains – with bigger action threatened.



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A similar grassroots mobilisation defeated a shorter lockout of 800 hospital cleaners by Spotless Services in 2007.

It's impossible to tell in advance how the slow-motion collision between the top-level commitment to partnership, and the mood of grassroots union members, will be resolved as the economic crisis deepens. But collide they will, and not only through sudden and unexpected eruptions of grassroots anger and desperation at job losses or pay cuts.

It may be that union passivity and demoralisation win out, as they did in the early 1930s. But there are hopeful signs to the contrary.

Speaking at a union forum in late March, prime minister John Key commented, "It's an interesting thing when you come from being a Centre-Right government and you start saying, 'I'm building great relationships with the Council of Trade Unions'". He quickly added, "I don't want to get Helen [Kelly, the CTU president] off side with her delegates". Key knows that many trade unionists oppose "social partnership" with his government.

The opposition is being voiced by some union leaders. In the March 2009 issue of the Service & Food Workers Union journal, for instance, national secretary John Ryall wrote: "The Government is preaching inclusiveness but has already signalled its intent with its rush into pre-Christmas urgency of the 90-Day sack-at-will legislation for small workplaces... The National Government and the employers can't have it both ways. If they want a united front to deal with the economic crisis then they have to get rid of their anti-worker agenda."

But it's left to the general secretary of one of the smaller unions to say many of the things that really need to be said. In the post-election issue of the Maritime Union journal, Trevor Hanson wrote:

The main goal of the new Government will be to ensure profit levels for employers are kept up. Their stated commitment to public services and limited changes to employment laws will soon take second place to ensuring that big business and the wealthy elite are protected from the recession...

Comparisons of the current crash to the great depression are being proliferated widely, but none of us were around to feel the effect.

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I can recall my father telling me that as a boy in the Great Depression on the 1930s he had no shoes, and they used to follow the cows to school and warm their feet in the cow pats. He also told us about coming home to a stew made of the family pet goat, and depending on trapped rabbits for food...

Right now we have many financially stretched and in poor living conditions, and a resurgence in the kind of problems we see in recessions and depressions. Thousands of New Zealanders have lost their life savings...

It would be foolish for any Union movement to rely on a friendly Government.

Unions must be in a position to fight effectively for their members and for the working class at all times regardless of the Government.

Ironically, the questioning of social partnership by union leaders is not just coming from traditionally Left-wing unions like the Maritime Union, the NDU and Unite. It is also coming from mainstream unions like the EPMU, which pushed for the policy in the first place.

In December, national secretary Andrew Little wrote a strongly worded letter to the unions' "social partner", Business NZ chief executive Phil O'Reilly: "[Your] briefing on employment relations is a disgrace in this day and age... The stance adopted by Business NZ in its recommendations to the government are deeply disappointing when, as an organisation, it stood out under the previous government as demonstrating a constructive approach to employment relations... It appears that this approach is now at an end... Business NZ has undergone an apparent reversion to type."

## Radicals & activists

Despite these voices of opposition, however, no alternative policy for the union movement as a whole is yet visible. A positive alternative is only likely to emerge out of mass struggles by grassroots members. These mass struggles will begin small, in unforeseen places.

If this is the situation confronting radicals and union activists now, then our first task is clear. We must continue to foster the conditions

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for small struggles to grow. Activists should spread solidarity for unionists whenever they appeal for support during an industrial dispute – as we did during the lockouts of 2006 and 2007. The difference being that in today’s economic turmoil, a small spark of determined resistance is more likely to ignite wider struggle.

Activists should also support grassroots political campaigns initiated by unions. These can energise a broad movement extending beyond a particular workplace, industry or union in the absence of a rallying point around an industrial dispute.

Unite Union national secretary Matt McCarten has proposed a petition for a Citizens Initiated Referendum on raising the minimum wage – first to \$15 an hour and then to two thirds of the average wage. “The economic crisis facing the world is the toxic product of insatiable greed at the top and the free-market policies of governments that removed all controls”, he says. “Restoring the minimum wage would be an important step towards replacing the greed and inequality of the past three decades with policies that protect jobs by enhancing the purchasing power of those at the bottom of the economic ladder.”

It’s significant that Unite has gone it alone in initiating this petition, without waiting for the CTU to take it up. The Maritime Union has pledged support. But it will take all the help radical activists can deliver to gather the 300,000 petition signatures needed to trigger a referendum.

Radical activists also need to understand that in times like these, the best instinct of all grassroots people is to put aside differences and band together in self-defence. So we must work cooperatively with people of all political persuasions who publicly advance unity to protect the people from the market crisis. This will include trade union leaders from outside the traditional Left, as well as Labour Party figures, and members and office holders in the Maori Party, the Greens, the Alliance, and the Workers Party.

But even as we unite, we must also recognise that the Labour-aligned union leaders, who make up the dominant bloc, will only be able to take the struggle so far. Chris Trotter has more inside knowledge and more loyalty when it comes to the Labour Party than any other commentator. Even he bluntly describes the party in 2009 as “at serious risk of imploding under the weight of its own extraordinary timidity”.

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But ties to Labour won’t hold the movement back just because the Labour Party is currently unable to mount any serious opposition to National. The problem is deeper. Labour loyalists in the unions ultimately can’t protect the people from the market because Labour, like National, is a party of the market.

So the second task for radical and union activists is equally clear. The success and strength of unions in today’s crisis is also linked to the creation of a political alternative dedicated to breaking the stranglehold of the market over New Zealand society.

### **Across the decades**

What kind of political alternative? There are two main strategies on offer on the New Zealand radical Left today. On the one hand, some see the way forward as building a “Narrow Party”, made up exclusively of revolutionaries committed to the overthrow of capitalism. Advocates of this approach establish their identity by denouncing trade union “bureaucrats” and Left “reformists” belonging to other parties, more or less indiscriminately.

Others are pursuing a “Broad Left” strategy, creating a grassroots political movement embracing the tiny revolutionary forces as well as a wide range of others not (yet) convinced about the particular models of “revolution” they’ve been presented with.

In the 1930s, the Communist Party of New Zealand tried both narrower and broader approaches.

Formed in 1921, the CPNZ is the forerunner of Socialist Worker, the organisation which publishes this Unity journal. It was a young party finding its feet when the Great Depression appeared on the horizon in the late 1920s. At the same time, unbeknownst to communists Downunder, the Russian revolution which was their guiding light was being strangled under the dictatorship of Joseph Stalin. Not surprisingly, therefore, the CPNZ veered Left and Right. From 1924 to 1926 it had even placed itself under the direction of the Communist Party of Australia (CPA) in a bid to stabilise its political orientation.

In the late 1920s, following examples overseas, the CPNZ attempted to build a Militant Minority Movement (MMM) as a cross-union grouping of militant trade unionists. The party kept tight control over the MMM and proclaimed it an explicitly “revolutionary” organisa-

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tion, with high expectations of union activists wanting to join. The theory – seldom stated in public – was that the MMM could be used to create breakaway “red unions”, separate from the mainstream trade union movement.

In the same book which provides the opening quote for this article, social historian Bill Sutch described the CPNZ at this time as “narrowly sectarian”. “Trade union secretaries were regarded as ‘reformist bureaucrats’.”

Labour historian Bert Roth adds, “The Communists at that time attacked Labour Party and Alliance [of Labour] [trade union] leaders indiscriminately as traitors, fakirs and social fascists.”

“[The] party expected unreasonable feats of militancy from their members. Communist attempts to form a Militant Minority Movement on the British [and Australian] model met with little response, and the party virtually lost all influence in the trade unions at the very beginning of the depression.”

The communist strategy of bringing together activists to oppose the market on an exclusively revolutionary basis failed so comprehensively during the Great Depression that even its leading proponents drew the lesson. According to Australian labour historian Stuart MacIntyre, CPA General Secretary J.B. Miles concluded in 1934 that “the Minority Movement was too narrow and sectarian”.

But from 1931, the CPNZ took a different approach – on the ground, if not always in the theories coming out of the central executive – when it helped to launch the Unemployed Workers Movement (UWM). By comparison with the Minority Movement, local UWM branches were not exclusively revolutionary – indeed the great bulk of their activists were Labour Party supporters. This breadth of participation was possible because local CP activists – sometimes to the disquiet of party headquarters in Wellington – did not make it a point of honour to routinely denounce union leaders and other Leftists.

Bill Sutch observed that the UWM is “historically of great interest” because of its “mildness” and its pluralism. “It contained ideas surviving from the earlier Socialist and Social Democratic Parties”. While it was “looked on with suspicion”, particularly by conservative union leaders who were shying away from radical action and presiding over declining union organisations, the UWM was seen as “reasonable enough, and contained elements supported by the trade union



[leaders]”. UWM activists in Auckland, in particular, actively sought opportunities to unite with local Labour leaders, independent Leftists and trade union officials in common campaigns – like the 1934 Free Speech Campaign.

At its best, the UWM represented a Broad Left grassroots movement which met the needs, and matched the popular mood, of grassroots people. Tens of thousands of the unemployed rallied round the UWM’s banner. It organised successful mass protests against the “slave camps” for unemployed men, forced the government to raise relief payments and “gave the tiny Communist Party much more influence”. The CPNZ, agreed Roth, “became the leading organisation in the field”. On the back of this movement, the Communist Party was able to rebuild support inside the trade unions after the late 1930s.

Socialist Worker is learning from the historical experience of the CPNZ, but drawing conclusions that our Communist forbears were unable to reach. In the 1930s, the Labour Party was committed to preserving the “intricate and delicate machinery” (as deputy leader Peter Fraser put it) of a market in crisis. But it was also a mass workers party. This presented an historical obstacle to the creation of a mass Broad Left political party, opposed to the rule of the market, to activate and represent broad grassroots movements like the UWM.

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At the same time, loyalty to Stalin's regime in Russia was eroding the CPNZ's socialism from within.

Socialist Worker, as a Marxist organisation, is also guided by theoretical insights of Karl Marx and fellow thinkers who followed. "The Communists", said Marx, "have no interests separate and apart from those of the working class as a whole". Like Marx, we oppose the narrow strategy of the sect, which "sees the justification for its existence and its 'point of honour' – not in what it has in common with the class movement but in the particular shibboleth [identifying mark] which distinguishes it from it".

Seeing that Labour today is neither a mass party nor a workers party, Socialist Worker has embraced a Broad Left strategy to create a political alternative to the parties of the market. In 2003, Auckland Socialist Worker members were involved in setting up RAM – Residents Action Movement, as a political movement dedicated to grassroots campaigning and fielding candidates in local body elections. Standing for the Auckland Regional Council in 2004, RAM won 87,000 votes and one ARC seat. In 2007, standing for a wider range of seats, RAM polled 117,000 votes.

In 2008, RAM went nationwide and initiated a broad, grassroots campaign to remove GST from food. The campaign attracted mass support – though sadly this was not reflected in our poor vote in the general election.

At our 2009 conference in Auckland in February, we established a union committee to focus our activities inside the union movement. RAM embraces and welcomes a wide diversity of political opinion, but is united in fighting for a transition away from the corporate market. Unlike the CPNZ in the 1930s, we will not have the dead weight of Stalinism to stop us.

\* Grant Brookes was elected chair of RAM – Residents Action Movement in March 2009 and sits on the National DHB Delegates Committee for the NZ Nurses Organisation. However, the views expressed in this article do not purport to reflect either of these organisations, and represent solely his own opinions).

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## The housing crisis revisited

by PETER DE WAAL

In the last year house prices in New Zealand have officially fallen by 6.8%. Many commentators, myself included, expected much greater falls in line with the 30% fall experienced in markets such as the US. However the stresses in the market and the shape of future developments can be seen in certain trends.

Recent developments by Westpac allowing mortgagees to halt repayments of principle and revert to an interest-only mortgage for a fixed period are being portrayed as an act of generosity by the bank.

A more cynical view would be that the bank does not want to find itself the owner of many houses that are worth less – perhaps much less – than it loaned on them. It also points to a mood of desperation or even recklessness on the part of the banks, hoping against all economic evidence that the housing market bubble can somehow be re-inflated by the printing of vast quantities of fictitious currency, particularly the moves by the US and the UK to re-flate their collapsed economies.

On 13 April 2009 Tony Alexander, Chief Economist of the Westpac Bank made a statement on National Radio that he believed now was a good time to buy a house as three factors pointed to the market having bottomed out:

- 1 Migration figures are up;
- 2 Interest rates appear to have plateaued and are now increasing slightly;
- 3 New Zealand has a housing shortage and building activity has practically stopped due to the "credit crunch."

He also could have added that the collapse of the unregulated "cowboy" finance company market and the low interest rates on offer for deposits at the trading banks make housing investments superficially attractive to the rich.

These all sound like valid reasons for buying, but economists have erred before by considering statistics and making pronouncements.

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For example none of them predicted house prices doubling in New Zealand between 2002 and 2007. In addition, is it really possible that house prices in New Zealand will remain stable when:

- 1 unemployment is rising rapidly both locally and internationally?
- 2 incomes are contracting sharply?
- 3 world trade is collapsing at a rate faster than during the Great Depression?

Can New Zealand really remain as this untouched isle of plenty with stable house prices in the midst of the financial maelstrom?

You also have to consider that Mr Alexander is not an unbiased witness. He works a specialist for a money lending company, which has a vested interest in protecting the value of it's current investments in the local housing market. The very survival of Westpac as a business relies on it's ability to "loan money into existence."

Westpac is also vulnerable due to New Zealand's low Government capital adequacy requirement of just 4% for housing, which was a real help to Westpac's profits during the boom, but which could be it's undoing in the current conditions of credit rationing and destruction of capital. A popular figure in the international financial press is that around 40% of the world's capital has been destroyed in the credit crunch to date, and the New Zealand banks are heavily dependant on access to foreign capital to make loans locally.

All of the big four Australian banks were able to dominate the local mortgage lending market with relatively small investments during the boom because of the low capital adequacy requirements. This allowed them to free-up capital and invest large amounts into the more profitable Asian markets. Housing is the single largest store of wealth in New Zealand and any collapse of value in housing will have a far greater effect on the economy than falls in the share market.

The more realistic capitalist economic commentators are predicting sharp falls in house prices. Bernard Hickey at [www.interest.co.nz](http://www.interest.co.nz) predicts that housing will fall in value by 35%. Gareth Morgan predicted in the Listener in March that housing will fall in value by 50%.

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When I wrote my article on housing in March of last year I predicted a fall in the value of housing to the long-run average in New Zealand of 2-4 times the average wage. The information we have currently about house prices falls, plus overseas statistics about the unfolding world depression supports the possibility of housing falling to values around these levels.

The effects of the National government guaranteeing overseas financial institutions against the borrowings of New Zealand trading banks (with our taxes) has allowed the banks to continue offering finance to mortgage holders. Local banks borrow about 45% of the capital they need for the housing market from overseas. Even so, lending has tightened considerably with 20% deposits and strong proof of good income streams now required to secure a loan. There is speculation on TV and elsewhere that deposits may eventually rise to as much as 50%. Given that wages won't double or triple anytime soon, that may well end up being 50% of \$100,000 rather than 50% of the national average of \$330,000.

In any case, one third of New Zealand's population live in Auckland and the average house price here is more like \$450,000.

The Reserve Bank's official cash rate now sits at 3%, but banks are being forced to borrow overseas at rates of 5% and greater due to perceived weakness in New Zealand's economy amongst the international financial industry. This has resulted in commercial mortgage



**Unsustainable housing in Auckland...**

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rates plateauing around 7%.

Meanwhile many workers being forced to accept completely illegal pay cuts of 10% or more, and a few very large firms are able to tap into the National governments' nine day fortnight package. As a result income levels are falling sharply, with most of the bad news yet to come.

On the 9th of April 2009 The Times in London published an article predicting bankruptcy for owners of large shipping fleets, stating that last year (2008) shipping rates fell 92%, and that this year (2009) shipping rates are to fall another 74% as:

commodity demand continues to fall in Asia and the massive glut of vessels ordered during the boom years finally takes to the seas.

[http://business.timesonline.co.uk/tol/business/industry\\_sectors/transport/article6062276.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/transport/article6062276.ece)

Another article recently noted that a container can now be moved from China to America for just the price of the fuel oil used, as there are so many ships lying idle that they have run out of places to anchor them! How long can a company continue to offer it's services for free?

For a country like New Zealand located far away from it's markets this shipping price instability or even outright shortage of ships may result in great difficulty for local capitalists in getting goods to overseas buyers. All of this points to the probability of a sharp fall in New Zealand's terms of trade which may impact very negatively on New Zealand's credit rating and the value of the dollar and limit local bank's ability to borrow overseas.

In any event, even a recovery of the housing market to the hugely inflated prices of 2007 will not stave off the underlying problems of the capitalist economy.

The single biggest economic issue facing capitalism is the vast accumulation of profits that have occurred since 1970. Suitable profitable investments for all these stolen wages cannot be found, not even in the "third world." Historically profit under capitalism has compounded at 2-3% per year, so this crisis of a lack of profitable investments is going

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to get much worse in the future. The restriction of worker's wages have only served to deepen this problem. A glut of commodities of every type exists and with wage restrictions caused by anti-union offensives and "offshore-ing" of jobs to police states like China, where wages are held down at gun point, the only way consumption could be maintained at something like the levels needed was to allow the growth of a credit lending market to workers, such as "credit cards." This is known as "compensatory borrowing" in economic terms. This financial mechanism is now dead in the water, as access to credit has dried up.

One result has been the growth of speculative investment in areas such as fine art, and in particular, housing. But there is no way that even the current (slightly) reduced housing prices can be considered sustainable at ratios of 7 to 9 times a worker's yearly income!

An easy solution would be to allow wages to rise rapidly, but in the current atmosphere of panic, collapse and the refusal of the banks to lend to business, capitalists are doing all they can to collapse wages in order to have enough cash-in-hand to continue their business operations. The fact that this will crush future consumption and make the depression far worse is one of the interesting paradoxes of capitalism – an action that serves to protect an individual capitalist will serve to destroy the economic system when generalised.

The world is entering into a deflationary economic crisis where people will be unwilling to buy something today, because it will be cheaper tomorrow. This is what happened to Japan after it's real estate bubble collapse in the 1990's – "Japan's lost decade" – and house prices in Japan have yet to recover, 20 years later. The policies pursued by the Japanese banks after the bubble imploded are identical to those being conducted by the Obama administration in the US, in that the banks are refusing to accept their losses and are demanding bail-outs. This is the very opposite to what happened in the Savings and Loans crisis in the US in the late 1980's, where the FBI set up a special unit to shut down collapsed banking operations and prosecute criminal bank managers, and the Federal Deposit Insurance Corporation ensured small individual investors did not lose their money.

Incidentally there is a very interesting interview on-line of William K. Black, the regulator who cracked down on banks during the Savings



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and Loan debacle of the 1980's. It is essential information for anyone who is trying to understand what the economic meltdown is all about: <http://www.pbs.org/moyers/journal/04032009/watch.html>

Capitalism often fails to adequately allocate resources due to greed and corruption. But at least it has a method for reallocating some of those wasted resources. The main economic difference between the Soviet state-capitalist model and the Western state-capitalist model in the Cold War was that in the West failed or collapsed enterprises could be liquidated and have their assets redistributed for use elsewhere in the economy.

In the old Stalinist economies you had centralised planning, but because it existed in a brutal police state it was devoid of any democratic input regarding what workers and society needed. In this atmosphere of terror and corruption mistakes were common and the results still lie scattered across the old Soviet bloc to this day. Ultimately the inefficiencies of failed bureaucratic planning compounded, setting the stage for the destruction of Soviet state capitalism.

The current attempts to avoid bankruptcy by leading US and Western banks are oddly similar to the planning failures of the old Soviet bloc. This failure to allow normal accounting practices to occur, for failed businesses to collapse and be liquidated, is calling into question the value of all investments and creating deep uncertainty in the international financial community.

Another aspect of the current crisis is that this is not just an economic crisis. It's main expression may be economic currently, but there are also parallel crises in the availability of resources such as oil, water, food and minerals and a deepening environmental crisis that are begin-



...and in Mexico: the Ixtapaluca complex in Mexico City

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ning to make themselves felt. So even if capitalism was able to solve the economic crisis, the resource and ecological crises would quickly assert themselves.

For example, the crisis has depressed oil prices to the point that investment in new fields needed to offset depletion has collapsed, as has maintenance. Most oil industry plant is at least 30 years old, with much over 50 years old. Steel is the backbone of the oil industry, but rust never sleeps! Even if the current attempts to pump freshly printed money into the economy worked, the economy would quickly collapse again as demand caused the price of oil to rise over \$200 a barrel. Mexico City has just cut off water supplies to 5 million people for 36 hours due to a supply and infrastructure crisis, at the same time as US farmers are unsure weather to plant crops this year as they are not certain there will be a buyer for their produce given the collapse of the capital markets.

Responsibility for the current perilous state of the housing market must be laid at the door of the banks. They lobbied the government to lower the capital adequacy ratios for housing loans. In New Zealand banks need hold only 4% of the funds loaned for housing investments, as opposed to the 8% needed for any other business investment.

The most popular mortgage type over the last ten years was one where borrowers had less than 10% of the value of the house, with the majority of borrowers having 5% or less to put down. The banks would have known that the people approaching them for 90-100% mortgages could not afford these loans. New Zealand is one of the few Western countries that does not have a legal requirement for lenders to ascertain that borrowers can make the repayments they sign up to.

Therefore the responsibility for families finding themselves unable to service these loans largely lies with the banks who organised this rort. A fall in housing values back to realistic levels may be a crisis for the greedy banks and the rich, but it is good for society as a whole. An inquiry must be held into the housing industry and it's financiers and legislation needs to be enacted to protect the public.

For those unfortunate enough to be trapped in an unaffordable mortgage this mortgage should be reduced or annulled. The banks conspired to kite the price of houses to double or more of their value

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and they should now pay for fixing the problem.

During the depression in the 1930's the banks foreclosed many families and threw them into the streets. In 1932, after a few years of these vicious policies, they were forced to allow destitute families to remain in their houses, as New Zealand's harsh climate was destroying these abandoned buildings.

People who have played the housing game by the rules dictated to them must not be thrown onto the streets. If the banks become insolvent, so be it. With a deposit guarantee scheme for the public already in place it would be relatively simple to set up more public banks, or expand the role of KiwiBank to make up for the collapsed commercial banks. In the longer term this crisis will allow a more rational debate about housing and land use in general. Is the individual private dwelling the best form for families to live in, or is it a method of social control tying workers to the market and encouraging passivity and obedience?

Marx coined the term “metabolic rift” in the nineteenth century to describe the process of soil depletion caused by human waste not being returned to the land. Capitalist farming solved this problem, first by grinding up the bones of the dead from battlefields of Europe and spreading this on the land, then by the use of guano (bird droppings) stolen from colonial territories and finally by the use of oil and gas to create artificial fertilisers. The peaking of the world's oil supplies will see the end of these wasteful and destructive farming practices and a return to organic farming methods, along with a much larger involvement by most people in providing their own nutrition.

Marx advocated a melding of country and city to overcome the backwardness of the country and the filth and overcrowding of the city. We also need to have sustainable cities and suburbs with local gardens and a re-distribution of the population to the country to allow adequate crop yields. This raises the issue of land ownership. The massive capitalist farm with its abundance of oil-dependant machinery, artificial fertilisers, mono-cropping and few workers will not survive this transition. We will have to challenge the banks and farmers, farms will have to be broken down into much smaller collective models with large organic inputs.

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# Responding to the crisis

## Broad left unity to mobilise masses of people

by VAUGHAN GUNSON

Facing the left today are incredible challenges. The global economic meltdown, combined with the nightmare scenarios of runaway climate change and resource depletion, looms as a human disaster of an unimaginable scale.

The question we are all asking ourselves: is how can we organise ourselves and grassroots people into a movement that has the strength and vision to set the world on a different course?

Over the last decade Socialist Worker-New Zealand, a small Marxist organisation, has moved towards the realisation that we need to be building alongside other activists a broad left party which has the breadth and reach to give leadership to masses of people. And that we need to begin now, not later.

Below are 10 ideas in support of the broad left strategy. These thoughts are the product of experiences as an activist in recent years, alongside other activists who have contributed much of the thinking. In particular Grant Morgan, leading member of Socialist Worker-New Zealand and RAM-Residents Action Movement.

Crucially these ideas are informed by political practice. With RAM, a grassroots campaigning organisation which has also stood in elections, we have laid the foundations at least for a broad left party to emerge in New Zealand.

RAM has achieved visibility and respect for campaigns like rates justice, free & frequent public transport, and GST off food. In the 2004 and 2007 local body elections in Greater Auckland RAM received mass votes.

Last year, RAM moved to become a nationwide broad left party that contested New Zealand's 2008 General Election. While the final electoral result was poor, there were positives, including the good reception by grassroots people to RAM's “Ten Commandments” leaflet.

The writing of “The RAM Plan”, which brings together concrete

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demands and a broad left vision that attacks the whole market ethos, was another achievement that continues to attract attention. (See [http://www.ram.org.nz/pdf/the\\_ram\\_plan.pdf](http://www.ram.org.nz/pdf/the_ram_plan.pdf) to read “The RAM Plan”, which includes RAM’s “Ten Commandments”).

Through involvement in RAM, Socialist Worker members have learnt from activists from other political traditions, and vice versa.

So these 10 ideas have behind them some practical experience. They’re also informed by political initiatives happening in other parts of the world, where activists are coming to the same conclusion: at this historical juncture we need mass-based broad left formations.

## 1. Moving away from the corporate market

We have to believe that a human centred society based on the values of equality, democracy, ecology and peace is possible. We have to stop the race for corporate profits corrupting everything else. We must put an end to obscene wealth controlled by a tiny minority while billions of people go without the basic necessities of life. And we must urgently reverse the environmental degradation that’s taken the planet to the brink of catastrophe.

To do these things we need be moving away from the corporate market. Many people, perhaps even a majority, recognise this in some way. What we have to do, however, is turn the desire for a better world into a real process of change.

## 2. A multiple front class war on a global scale

The global economic meltdown, which Grant Morgan has called “The Great Implosion”, has unleashed the conditions for a global class war fought on many fronts. (See ‘THE GREAT IMPLOSION’ <http://unityaotearoa.blogspot.com/2009/02/great-implosion-second-and-third.html>, 27 February 2009)

Trillions and trillions of dollars of money wealth has been wiped out by the bursting of the bubble economy, leading to a massive contraction of the real economy. Combined with rapid resource depletion there’s simply less to go round, when for many scarcity was already the norm.



RAM’s GST-off-food petition at Parliament, October 2008

The crisis is so acute because workers over the previous three decades of neo-liberal hegemony have already been squeezed. There’s no give in the system. Such are the conditions for an escalating conflict between the mega-rich, doing everything they can to maintain their wealth and power, and the greater humanity of people of modest means.

Bosses around the world are already reacting as the logic of corporate competition dictates. They’re laying-off workers, forcing workers to take a pay cut, or work longer hours for less pay. This is creating fear amongst workers, but also anger, which will turn into outbreaks of resistance.

Any increase in class conflict will result in quickening political and ideological polarisation. Some established political parties will try to claim that they govern in the interests of “everyone”, but as Grant Morgan has stated: “[T]his façade is bound to crack as the crisis continues. Throughout capitalist history, every major slump has forced politicians to favour either the market or the masses.” (‘Protecting the people from the market crisis’, <http://unityaotearoa.blogspot.com/2008/02/feature-article-protecting-people-from.html>, 19 November 2008.)

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### 3. We need unity

Activists all over the world understand that we need to be united in opposition to the corporate market, especially now. They know it in their gut. That's why there's impatience with the fractured nature of the left in many countries.

But unity does not mean giving leadership of the struggle against the corporate market to the market liberals who control the New Zealand Labour Party, or its equivalent in other countries. There must be principled unity based on opposition to corporate control of society and government policies that help the mega-rich at the expense of the grassroots. It's a unity of those who wish to maintain and extend public services, defend workers' rights, and who wish to see public solutions (not market-based "non-solutions") to global warming.

Unity based on these types of fundamentals may be very broad, especially in times of unprecedented global crisis. It may include supporters and grassroots leaders of formerly social democratic parties, like the Labour Party. Or from other parties or organisations that have previously shown little inclination to resist the market.

This process will be helped by any move towards "unity from below". Grassroots people moving closer together, in response to external realities created by the crisis, and through leadership given by the left, will not have in their minds the political divisions that the left is capable of erecting. Grassroots people without rigid denominations of political faith will have little patience with factional politics, academic point scoring, or any other behaviour that's divisive.

Uniting different political traditions in practice will require ongoing dialogue and negotiation. The extremes of the present historical moment, however, will be a powerful force for unity as people realise that something larger than themselves must be built. Otherwise we will all be swept away by more powerful forces.

### 4. Mobilising masses of people

The goal of unity is to build credible broad left parties or coalitions which win the respect of grassroots people. And in doing so, achieve a position of trusted leadership, where the spark of an idea, the call to take a step in this or that direction, is heard and picked up on by

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masses of people.

Any follower or participant of team sports knows that success breeds confidence. Right now in New Zealand, and in many other countries, confidence is low among grassroots people. Union membership is only a fraction of the total number of working people.

People have been hit hard by years of corporate punishment dished out by bosses, international moneymen and neo-liberal governments. And there's the incipient influence of individualistic thinking that's eaten away at traditions of solidarity and co-operation. Overcoming the thought patterns of the market and its emphasis on competition will be a struggle for all of us.

Turning it round and building a winning team will be an immense task. But we know there's resentment towards the mega-rich and their partners in government. And now there's deep concern at the worsening economic crisis and a simmering anger. This is the dry fuel that left activists should be working to ignite.

Last year, a small number of RAM activists launched a campaign to remove the GST tax off food. With food prices rising rapidly in New Zealand in mid-2008 removing this neo-liberal tax was a concrete demand that intersected with the public mood. The campaign was able to achieve a level of mass awareness that was encouraging.

The left needs to come up with other such demands at the right moment in response to events. We have to pay close attention to what's happening at the grassroots. What are people most angry about? What do people think is a realistic and achievable demand?

A well chosen campaign (which contains within it the dialectic of the wider struggle for a better world), if achieved, would give a tremendous confidence boost to people.

While it won't be easy getting masses of people moving in a general direction away from the market – and we have to acknowledge that – neither will stopping masses of people in motion. The world's capitalist rulers know this. They know that the failure of the unrestrained market has created a crisis of legitimacy, undermining the institutions, governments and political parties that have backed the market.

That's why, as many already understand, the unfolding economic disaster is an historic opportunity for the left. To grasp it we need to achieve the dialectical fusion of principled leadership and masses of

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ordinary people.

If the confidence that grassroots people have in their collective ability to influence the world grows then new opportunities and goals will be possible. Our first task, however, is to get the masses moving. No small or narrowly defined political group will be able to achieve this historical task. It calls for a united broad left.

## 5. Finding the right strategies and tactics

This must be the hardest part of political leadership. We know the general direction we want to go, but we also need clear strategies and tactics that are responsive to fast changing circumstances. Some say this takes political genius, which only a few people have.

Well, in the absence of genius, normal brains can only do what they can, but perhaps we can keep in mind these principles:

- It's the grassroots masses themselves who have the power to effect real and lasting change;
- We understand that the prospects for advancing the struggle towards a human centred society are not infinite. There are strategies which have the objective possibility of success, and those that will not fly and will fail. Pursuing a wrong strategy or the wrong campaign that does not "grip the masses" is a possibility;
- Fear of getting it wrong can't overwhelm the need for action, of trying something that attempts to push the button of mass consciousness;
- We study with open minds the political conditions at any one time and we grasp the multiple forces at work. Understanding the world as correctly as we can will minimise political mistakes;
- We learn from our mistakes. A cliché perhaps, but true nevertheless;
- We learn from struggles going on in other countries. As well as learning from and updating the strategies and tactics of historical political leaders who have understood that the transformation of society is the act of the grassroots

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themselves;

- Our campaigns and slogans seek to undermine the market, but are always realistic in the eyes of grassroots people;
- We tell ourselves again and again, and then another time, that we must be in dialogue with the grassroots majority. They can and will teach the leaders. We do nothing that is not ultimately aimed at reaching masses of people.

## 6. Everyone an activist

Mass leaflets, hardcopy and internet publications, social networking internet sites, poster campaigns, media campaigns – we need to be reaching people through all the available tools of mass outreach.

This emphasis on mass outreach will encourage a culture of doing, not just talking. We see what works, reflect and discuss, and then do some more. Getting it wrong sometimes, but always with the same shared goal: how to encourage masses of people to get behind an idea. So that they start a conversation in the workplace, pass on a leaflet, letterbox their neighbourhood, forward an email – all modest measures, but when done by thousands, hundreds of thousands, or millions, becomes of a qualitatively different character.

We need a redefinition of activism to include small acts by ordinary people. Just as the political traditions of members of a broad left party will be, and must be diverse, so must the criteria by which we judge activism.

The broad left party should fight for a broad based activism of people fed-up and angry with the market, who are encouraged and inspired, in the first instance, to take small steps to do things which effect the people around them. From this mass force will come the impetus for people to join a protest march or take part in a political strike.

Ultimately, a broad left party must aim to be a mass organisation, which in the New Zealand context might include tens of thousands of members and supporters. Only that way will a critical mass of people be brought together, reaching into the heart of grassroots communities.

If an organising apparatus consisting of a core of committed broad

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left activists can play an activating role in these communities, then real, substantial and lasting change can be achieved.

## 7. A broad left party contests elections

There's a general consensus across the left that we need to stand in elections. A broad left party or coalition should contest elections with these factors in mind:

- We use electoral contests to raise concrete demands which have the potential to become mass campaigns;
- Grassroots people will get a big lift of confidence from a broad left party or coalition that achieves electoral success;
- We aim to win parliamentary seats or other elected positions. Over time we work towards the goal of a broad left party forming or being part of a government. Or a majority on a regional or local body council. At the national level and local level there are important leverages of power that a broad left party can use strategically and tactically to advance the mass movement;
- We look at how leftists in other countries have used electoral contests and governorship to advance their struggle. Of particular relevance are the governments of Bolivia and Venezuela, which are using various constitutional and organisational means to roll back the market with the backing of the majority of the population.
- Any broad left party or coalition that contests elections must never get sucked into the parliamentary bubble. We remain mass activists focused on mobilising ordinary people to take action.
- If a broad left party maintains a grassroots campaigning style, and has within its ranks grassroots people who are willing to stand up and take leadership roles, then the masses will evaluate honest mistakes and dishonest attacks from the corporate media fairly. A broad left party, if it's truly of and for the people, will not be bound by the rules that the media and "spin makers" would like to dictate.

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## 8. Comrades in the struggle

People from different political traditions (ecological, anarchist, Marxist, social democratic, etc.) who are genuine in their attempts to relate to grassroots people, to talk with them, to listen to them, and who understand that the movement of masses of people will protect us in the current crisis, are comrades in the struggle.

Comrades talk to each other, they listen, they conduct debates in away that's open and constructive. They work to ensure that decisions are democratic. Our cards are laid on the table and every effort is made to achieve an atmosphere of trust. There's no backroom decision making and factional organising, both of which can only lead to destabilisation and the implosion of a broad left formation.

Building a particular broad left formation in the current context must be the political priority of all members.

## 9. Transitioning together away from the market

A vision of a new society has to remain fresh and exciting. It should be evolving, while keeping in sight core principles like equality, democracy, ecology and peace. People need to feel that they have a stake in determining what the end goal is. That way they will be more motivated to join the struggle.

For a broad left formation to work it must agree that the path lies away from the corporate market, without forcing any agreement on what exactly a future society may look like, which is impossible anyway.

The minutes to RAM's 2009 National Conference refer to activists from different traditions on the left all embracing a common philosophy, which is that "we are transitionists". (See RAM's 2009 National Conference minutes at <http://unityaotearoa.blogspot.com/2009/04/minutes-of-rams-2009-conference.html>).

In the end how far a movement advances and which direction it takes will be determined by grassroots people.

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## 10. Marxists at the heart of the movement

Change, even revolutionary change, is a process. And change, even revolutionary change, is the action of masses of people. From these two truths, which history would show to be correct, it's apparent that political leaders cannot be anywhere else than with the grassroots masses. It's they who must push forward the process of change.

Right now the struggle for a better world requires a "transitional mechanism" that's far broader than a narrow Marxist organisation. The vast majority of people today are not going to be won to joining the movement away from the corporate market by first being won to the idea of socialism or revolution. To build a political vehicle capable of engaging with and giving leadership to masses of people Marxists need to be working alongside other leftists.

Marxism, with its emphasis on material realities, class struggle, and understanding events in their complex totality, has an enormous amount to offer the movement. Marxists can provide a well of ideas for other activists to use and consider. And Marxists, of course, must be active learners. The Marxist tradition will only remain vibrant and relevant through engaging in an outwards focused political practice that connects with workers and other grassroots people.

No one can ever lose sight that ideas convince people when they match with their own experiences of the world. Accepting ideas as true is a process of learning. All new learning bridges what we already know and believe with a new understanding. Ideas have no compulsion.

The global economic crisis and its political aftermath will radicalise and energise, testing the ideas of everyone. All participants in a democratic broad left formation will share in the co-ownership of new ideas, and the adaptation of old ones that best meet the known and unknown political problems in front of us. And we will see what works in practice.

It's a basic principle of Marxism that people change their situation and themselves through collective action. In new situations, new mass realities, political discussion will take place at a higher level. And Marxists and socialists from a variety of backgrounds and traditions will have plenty to say as part of a mass democratic debate.

You only have to look at what's happening in Venezuela to see what might be possible when a mass movement has chalked up some serious victories against the market. There's a truly mass discussion happening under the umbrella of "socialism for the 21st century" between activists and masses of people. It's a discussion that's informed by the history of struggle from below and people's own experience of struggle in Venezuela today. It's an incredibly exciting dynamic, which is helping reinvigorate socialist ideas.



**In Latin America broad parties have won real gains through elections and referendums**

Grant Morgan has written: "The structures of a tiny minority can triumph over the values of the vast majority only so long as the majority remain divided, uncertain and disorganised." ('Protecting the people from the market crisis', <http://unityaotearoa.blogspot.com/2008/02/feature-article-protecting-people-from.html>, 19 November 2008.)

The urgent and monumental task of the left today is to provide the leadership and organisation that prepares the way for a mass movement demanding, organising and fighting for a human centred society. Only mass-based broad left formations will be able to achieve this task.

All who wish to fight in a principled and consistent manner against the market are needed. In moving forward together we can best breach the outer perimeter of the crumbling corporate castle and usher into the world a political alternative.

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# The rocks of opposing class interests

by **DON FRANKS**, Workers Party of New Zealand

In his article in this issue, Vaughan Gunson writes:

Over the last decade Socialist Worker-New Zealand, a small Marxist organisation, has moved towards the realisation that we need to be building alongside other activists a broad left party which has the breadth and reach to give leadership to masses of people. And that we need to begin now, not later.

Socialist Worker-New Zealand may have come to this realization over the last decade, but I don't think they have arrived at a new political discovery. There have been many socialist attempts to build – or infiltrate – broad left parties. In New Zealand the Alliance is a recent example. At least two Marxist groups were early participants in the Alliance, the Permanent Revolution Group and the Workers Communist League. Both groups were rebuffed. The PRG, more open about their politics, were tossed out very early. WCL comrades were more used to working in united front organizations and at that stage were particularly prone to compromise their politics in the process. So remnants of the WCL hung around unhappily inside the Alliance for a while, marginalized from any positions of power as the party steadily formalized into a standard issue parliamentary machine. It was clear from the start that there was to be no accommodation of anticapitalism in the Alliance venture. The endgame saw the Alliance indelibly disgraced by its association with support for US invasion of Afghanistan.

Inside the last decade, Socialist Worker-New Zealand initiated a different approach to creating a broad left party; a movement around a left magazine called Workers Charter paper. This was an attractive lively publication, heavily subsidized by its producers and mostly distributed free. It continued for a year or so but eventually failed to pick up enough support to sustain itself. Hopes of an ongoing Workers

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Charter organization folded with the paper's last issue.

The next Socialist Worker-New Zealand initiated attempt to make a broad left party was built around single issue campaigning.

As Vaughan points out,

RAM (has) achieved visibility and respect for campaigns like rates justice, free & frequent public transport, and GST off food. In the 2004 and 2007 local body elections in Greater Auckland RAM received mass votes.

Last year, RAM moved to become a nationwide broad left party that contested New Zealand's 2008 General Election.

Vaughan concludes:

While the final electoral result was poor, there were positives, including the good reception by grassroots people to RAM's "Ten Commandments" leaflet."</quote>

With respect, RAM's own, "good reception" opinion of their leaflet's reception is a pretty slim picking to net from a huge expenditure of election effort. RAM's broad party approach netted just 465 votes, fewer than the 932 of the Workers Party, whose candidates openly advocated socialist revolution.

Vaughan proceeds to enunciate ten points for future political work. First is: "moving away from the corporate market".

Moving – to where? The corporate market, or more accurately, the capitalist system dominates the globe. It can either be accepted or opposed. It is not nitpicking semantics to charge that electing the formula "move away from" fudges the issue.

Point 2 refers to a multiple front class war on a global scale. The only problem I have with this formulation is its variance from the main thrust of Vaughan's text, which is not about class war at all, but about "credible broad left parties or coalitions which win the respect of grassroots people" (more on that later).

Point 4, titled "Mobilising masses of people", continues:

The goal of unity is to build credible broad left parties or coalitions which win the respect of grassroots people.



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Why this need to create a nebulous, unscientific category of “grassroots people”? It is not even in particularly common usage. By “grassroots people,” do you mean employed workers, unemployed workers, retired workers, soon to be workers? If so why not just say “the working class”. If that is not the social category you mean, then what is it?

Vaughan continues:

Now there’s deep concern at the worsening economic crisis and a simmering anger. This is the dry fuel that left activists should be working to ignite.

Really!?! Have left activists not constantly been attempting to do this? Vaughan’s estimate of his group’s own attempts to ignite the dry fuel runs:

Last year, a small number of RAM activists launched a campaign to remove the GST tax off food. With food prices rising rapidly in New Zealand in mid-2008 removing this neo-liberal tax was a concrete demand that intersected with the public mood. The campaign was able to achieve a level of mass awareness that was encouraging.

Yes, it did, up to a point. Many people signed the petition. But then, where did it go?

Labour dismissed tax off food as “a gimmick”, to no discernable mass reaction. Only a few dozen people were moved to gather for the petition presentation at parliament, most of those older already committed activists. After that action, the campaign came to an end, its goal unfulfilled. What specific conclusions are to be drawn from those facts?

Apparently that:

the left needs to come up with other such demands at the right moment in response to events. We have to pay close attention to what is happening at the grassroots. What are people most angry about? What do people themselves feel is a reasonable demand that is achievable and common sense?

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“What are people most angry about?” Various things. Some workers feel longer prison sentences is a reasonable demand. Others, that “jobs for Kiwi workers first” is reasonable common sense. Others, probably at this stage a small minority, believe in fighting for every worker’s job irrespective of existing national borders. In my opinion that position is the one which is principled and consistent and should be publicly advocated, however many people are currently opposed to it.

The history of progressive social change is not an endorsement of populism. The women’s suffrage movement, the anti-apartheid movement and the anti-Vietnam war movement all began very small. Tiny groups and scattered individuals went against an apparently invincible tide to struggle for the principles they knew were right. When these few activists won arguments and made converts, they were building their movement on sure foundations, which could eventually turn back the strongest counter tide. I think Vaughan’s argument for beginning with “what people are most angry about” is made from the best of motives, but is actually the opposite of what is required.

Point 5 searches for “the right strategies and tactics”, suggesting:

It’s the grassroots masses themselves who have the power to effect real and lasting change;

We understand that the prospects for advancing the struggle towards a human centred society are not infinite. There are strategies which have the objective possibility of success, and those that will not fly and will fail. Pursuing a wrong strategy or the wrong campaign that does not “grip the masses” is a possibility;

Fear of getting it wrong can’t overwhelm the need for action, of trying something that attempts to push the button of mass consciousness;

We study with open minds the political conditions at any one time and we grasp the multiple forces at work. Understanding the world as correctly as we can will minimise political mistakes;

We learn from our mistakes. A cliché perhaps, but true nevertheless;

We learn from struggles going on in other countries.

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As well as learning from and updating the strategies and tactics of historical political leaders who have understood that the transformation of society is the act of the grass-roots themselves;

All of the above are common truisms. They are also completely abstract. Concrete specifics are what count. Which particular overseas struggles can we best learn from, and what, specifically, do we try to learn? Vaughan continues:

We tell ourselves again and again, and then another time, that we must be in dialogue with the grassroots majority. They can and will teach the leaders.

This “grassroots majority” appears to be some sort of exotic race apart, like a recently encountered tribe with an entirely different language and culture. In my perception the workers I communicate with daily are basically pretty much the same as myself, the difference in most cases being the possession of a different set of political ideas.

Further along, Vaughan declares:

Freedom of will and action can only come from an absence of any hierarchies of power. Our cards are laid on the table. There is no backroom decision making and factional organising, both of which can only lead to destabilisation and the likely implosion of a broad left formation.

That is a glowing self description of an organization. Those having experienced a close association with Socialist Worker will have their own assessment of its validity.

Finally Vaughan says:

The vast majority of people today are not going to be won to joining the movement away from the corporate market by first being won to the idea of socialism or revolution. To build a political vehicle capable of engaging with and giving leadership to masses of people Marxists need to be working alongside other leftists.

That is an artificial construct. I don't know of and have never met

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any Marxist who insists on acceptance of socialism or revolution as a prerequisite for participation in anticapitalist struggle. All the Marxists I've ever known have recognized the necessity of working alongside other leftists and other people generally. This has not always been done well, but it has always been attempted.

Vaughan adds:

The Marxist tradition does maintain some core principles that define it as a lasting political tradition.

I'd argue that Marxism defines itself as dialectical materialism in the service of working class liberation.

The practical application of that requires the painstaking creation and development of a Marxist party. In a capitalist society such a party will necessarily be relatively small up until a period of revolutionary upsurge. Because of that, it is imperative that Marxist parties reach out widely and creatively to engage in struggle alongside the largest possible number of non party workers.

A Marxist party can arrive at considerable cooperation on various issues with social democrats and non Marxist radicals. Sometimes there can be temporary unity on specific issues with capitalist parties like the Greens.

On a number of key issues Marxist parties will find no accommodation whatsoever with capitalist parties, particularly when it comes to matters of bourgeois law, 'business confidentiality' and imperialist war.

Independent working class revival requires breaking from the vain hope of real change inside the present social structure. It means building our own vision of a world run for and by workers. It requires questioning, rejecting and actively working to replace the capitalist system. Over the last few decades society has become manifestly more unequal. The old methods of redress haven't brought real improvement for the mass of workers. That's why we need to seriously put revolution on the agenda.

Impatient attempts to hurry the process of revolutionary change by attempting the creation of revolutionary/reformist parties inevitably founder and dismember on the rocks of opposing class interests.

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# Venezuela: New measures to confront crisis

by JIM MCILROY and CORAL WYNTER

On March 21, President Hugo Chavez announced a series of economic measures designed to strengthen the Bolivarian revolutionary process in Venezuela, in the face of the challenges posed by the international financial crisis.

Chavez proposed the measures in a speech to the national media, asking the National Assembly to change the budget law for 2009.

“The measures are a formula to safeguard our strength, which has allowed us to keep the process of social development advancing.

“They will safeguard the jobs of all Venezuelans; look after the incomes and working conditions of the workers; keep the process of social revolution moving forward; maintain the redistribution of income through the social missions; and continue with the [policy of public] investment, so that the economy keeps developing”, Chavez said, according to March 22 *Diario Vea*.

The measures propose a revision of the 2009 national budget, based on lowering the estimated price of oil for the budget’s figures from US\$60 to a more realistic \$40. As a result, Chavez’s plan calls for a reduction in budget expenditure of 6.7%.

Chavez said that in order to deal with the gap left by the decrease in the price of oil, the government would increase internal debt. The decision was also taken to increase the value added tax from 9% to 12%.

This has created some public discussion about the need to reconsider the tax in future, as it disproportionately affects the poor.

Chavez also announced a campaign to eliminate government bureaucracy, saying he would shortly publish a decree to reduce the salaries of high public officials.

“We will eliminate spending on luxury vehicles, the construction of new offices, on gifts, and unnecessary technical equipment, overseas trips, promotional material and publicity”, Chavez said, according to the March 22 *Ultimas Noticias*.

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Chavez said that the minimum wage would be increased by 20%, benefiting more than 2.6 million people, and spending on public works and social programs would be maintained.

Rodrigo Cabezas, a vice-president of the United Socialist Party of Venezuela (PSUV), which is led by Chavez, said the measures contrast with the economic policy recommendations of the International Monetary Fund (IMF) that Venezuelan presidents implemented during the decades before Chavez was elected in 1999, Venezuelanalysis.com reported on March 25.

“The IMF packages were aimed at preserving capital, and the measures that the Venezuelan government has implemented are aimed at preserving the purchasing power of the workers”, said Cabezas.

“The measures preserve the social element as the basis of the revolution for the Venezuelan people”, Cabezas said. He said that spending on social programs known as “missions” would be kept intact.

Chavez assured the public that these measures would not affect social spending, nor the missions, pensions or social security. He also said there would be no devaluation of the national currency.

Chavez argued on March 27 that the economic measures his government has adopted, to confront the global economic crisis, contain “not one neoliberal element”, unlike those adopted by the previous governments.

He guaranteed that he “will not allow the economic crisis to impact on the poorest people”, said the March 28 *Ultimas Noticias*.

Chavez was addressing a large meeting of newly graduated teachers, where he stated: “While I am in the presidency, the income from oil and other sources will be for the people and not for the bourgeoisie, even though there remains a long way to go in the redistribution of the income.”

He said that, on April 2, he would sign a document of resources for public works, housing and agriculture, which would demonstrate that the crisis had not affected the development of the country.

Meanwhile, the Socialist Workers’ Front (FTS) announced on March 25 its support for the anti-crisis measures.

Spokesperson Osmal Acosta said the measures would guarantee the stability of conditions in the workforce, according to the March 26 *Ultimas Noticias*. He said: “This is a capitalist crisis. And the president

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has always criticised capitalism forcefully.”

Acosta said the measures Chavez has taken, “with a socialist vision”, will protect workers.

Acosta said that the representatives of Venezuela’s largest business federation, Fedecamaras, who have criticised the government’s measures, wanted the government to cut the social benefits for workers.

Acosta noted the argument made by the national council on business and services, Consecomercio, that the economic measures will bring businesses to bankruptcy. Acosta replied that the revolution was not aiming for bankruptcy, but to bury “this system of perverse capitalist life”.

“Venezuela is prepared to confront whatever crisis occurs, and demonstrate that capitalism and that way of life is not possible on this planet.”



**The Venezuelan government has seized plants belonging to the American rice and pasta giant Cargill, accusing them of evading the price-control laws.**

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## France: The anti-capitalist hope

by **PIERRE-FRANÇOIS GROND**

The Nouveau Parti Anticapitaliste (NPA – New Anti-capitalist Party) was founded on February 6, 2009, adopting a program, provisional statutes, a name, policy guidelines, and electing a new leadership. The conclusion of a process and a dynamic of gathering of anti-capitalist and revolutionary forces which started eighteen months ago. A process which implied that the LCR give way to this new party. Right now, the NPA is a new political reality, which we have been able to forge together but, beyond satisfaction, it was very much a feeling of responsibility and recognition of the gravity of the situation which dominated our debates.

Indeed, the creation of the NPA is not an event external to political realities. The foundation of the NPA takes place in, and undoubtedly is also explained by, a context of total crisis. Capitalism has entered a major, historic, crisis, which is not denied any more by the majority of the leaders of the planet. It cannot be reduced to a financial crisis, or the failure of the neoliberal regulation of the capitalist system, but rather represents the failure of a system of generalization of the market in order to satisfy the thirst for profits of the bosses.

The masses as a whole and the world of labour are likely to pay a crisis for which the central actors of the system (the banks, financial powers, and capitalist institutions) are primarily responsible. Massive dismissals, a higher cost of living, the methodical destruction of the public services are the first demonstrations of it and have caused the first mobilizations. At the same time, an ecological and food crisis affects the very essence of people’s living conditions. In relation to this crisis of capitalist civilization, we want to build a force which defends the revolutionary transformation of society, the rebuilding of a deeply democratic socialist perspective calling into question private economic ownership.

The first mobilizations have broken out. Guadeloupe and Martinique have risen against the high cost of living, injustice and discrimination. On January 29, several million took part in strike and demonstrations in metropolitan France, and a new day of action is

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planned for March 19. After the high-school pupils in December, academics and students have taken to the streets to force a government which has not abandoned any of its projects of social demolition to back down. Appeals converge against the threat to liberties posed by the projects of the government. We support everything that allows the convergence of the struggles, all the initiatives of mobilization towards an overall movement against the government and its policy. A new May 68 to beat Sarkozy.

This is why the NPA will be at the centre of the mobilizations, strikes and demonstrations, and will constantly propose the unitary gathering of the forces of the social and political left to support the struggles. As we have in the area of dismissals. As we will propose for the new day of strikes and demonstrations on March 19 or to support the fight of the car workers.

We want a wage increase of 300 euros net per month for all; no income, wage or other main means of support below 1,500 euros net; removal of VAT, starting with basic needs products; freezing and cutting of rents, fighting the supermarkets which profit on the backs of consumers while strangling the small producers. We will defend the prohibition of dismissals in large as in small companies, in the private sector as in the public, where the suppression of jobs has never been more significant.

Around an anti-capitalist programme and a perspective independent of the Socialist Party leadership, which is located within the framework of the management of the system, we wish for the broadest gathering. In the struggles as in the elections. A durable movement, which offers an alternative prospect to those who suffer from the crisis, who can stand no more of the arrogance of the government and employers. A coherent union, which defends the same politics in the struggles and the elections, whether European or regional, in France and in Europe.

Pierre-François Grond is a member of the Political Bureau of the Ligue communiste révolutionnaire (LCR, French section of the Fourth International).

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## Fighting the financial crisis

from DIE LINKE (The Left party), Germany

We are currently experiencing one of the most devastating financial crises of capitalism. A wave of business failures is smothering the USA and Europe, leaving gigantic damage in its wake. The source of it all have been US real-estate credits that were frivolously allocated, poorly secured, and then sold in inscrutable packages. The worth of these credit packages, which have been intensively traded among the banks, has drastically fallen as millions of Americans were unable to bear the climbing interest rates and simply stopped paying their credit bills. More and more houses go up for sale, and the real-estate prices in the USA are sinking accordingly.

This triggered a chain reaction among banks and insurance companies. Massive entries in their balances, which are based on the US real-estate market, must be either corrected at the root or written off completely. Due to the fact that mass financial undertakings are met with certain depreciations, and are threatened by bankruptcy, the loaning market between the banks collapsed. In this situation the state is the last resort. It distributes money, confers liabilities, or takes the insolvent banks over altogether. However, by this method private losses are socialized. For this very reason the institution of financial capitalism now stands in the pillory world wide.

DIE LINKE is the only party, which seeks to get to the bottom of this erroneous trend. We criticize the division between poor and rich, which brings financial assets to few and heats up speculation. For years we have been speaking out against the completely failed liberalization of the financial markets. Flawed financial products, credit-securities, hedge funds, and voracious gangsters, were promoted as well in Germany. This took place through absurd tax exemptions and new statutes, which allowed the gamblers to play their cards. The supervision of banks has also not been strengthened but weakened these last years. The losses worth billions of Euros, German banks from the IKB to Hypo Real Estate made, are among the results of this failed policy. For this reason CDU and SPD are also responsible for the billion Euro invoice we all are to pay now.

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DIE LINKE suggests the immediate implementation of the following measures in order to stabilize the financial market:

### **1. Protection of the central tasks of the financial system**

- Sufficient supply of low interest credits
- Guarantee of bank deposits by the state in unlimited amount
- Set up a security fund fed by the private financial institutions

### **2. Abolition of destabilizing practices**

- A drastic reduction and, where necessary, a ban on especially hazardous financial instruments
- Active containment of Hedge funds
- Obligation of banks to concentrate more own capital
- A ban on equity options for managers
- Minimum holding period for shareholding managers
- Intensified accountability of managers

### **3. Medium term measures for a reform of the financial system**

- International credit-registration
- Extensive limitation of banks on deposit and credit transactions
- Strict control of investment banking
- No speculative business with foreign currencies
- Stricter limitations for capital-covered retirement funds
- Strengthening of the public pension system
- Control of private rating agencies and creation of public ones
- Required authorization of existing and newly developed financial products through a special Control Board
- Transaction taxes on trade of bonds and currencies
- Closure of tax havens.

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## **New left openings in Britain**

by **ROBERT GRIFFITHS**, *Morning Star*

Two recent political initiatives could open up new perspectives for left and labour movement advance in Britain.

The launch of the People's Charter for Change has brought together a wide range of democrats, progressives, trade unionists and socialists. Within a few months, it has already gained the backing of union leaders in PCS, RMT, POA and FBU, political organisations from the Labour Representation Committee to Respect and the Communist Party, social movements such as Southall Black Sisters and the Indian Workers Association (GB), plus prominent figures on the left such as Tony Benn, MPs Alan Simpson, Jeremy Corbyn and John McDonnell, film-maker Ken Loach, comedian Mark Steel and Plaid Cymru Welsh assembly member Leanne Wood.

An important aim of the campaign is to win up to a million signatures for the charter by the next general election. Achieving this would involve levels of activity that could politicise and mobilise large numbers of people around a popular anti-monopoly, anti-militarist and green agenda.

It would help create the political climate in which maximum pressure could be brought to bear on the manifestos, candidates and debates of the general election.

At a time when many people feel a mixture of anger, despair and powerlessness, the charter proposes a programme for struggle and throws down a challenge to neoliberal policies and big-business power.

But in presenting its demands on the broadest possible basis, the People's Charter movement has so far been shunned by elements of the far-left which prefer radical rhetoric to mass engagement with the working class around a radical agenda.

Some ultra-leftists even accuse the Communist Party of using its position in the movement to bury the objective of replacing capitalism with socialism.

In fact, the contrary is the case. Only by winning widespread popular understanding of the need for policies like those in the People's

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Charter will we create the mass basis for a revolutionary challenge to capitalist state power.

While the socialists involved in the initiative will continue to project their goals of working-class state power and socialism in their own independent political work, the traditional vocabulary of the left is not always the most effective language with which to address millions of workers and their families.

For all the popular anger aimed at the bankers and Establishment politicians, very few people in Britain today believe that “socialism” is the answer or even understand what socialism is or could be. And still less are they committed to the serious struggle and strategy required to achieve fundamental change.

That understanding will grow, of course, although not as the result of louder shouting from the sidelines.

The self-exclusion of sectarian elements will not harm the People's Charter campaign. More disturbing, and much more baffling, is the reluctance so far of some trade union leaders to join it.

Only a high-powered microscope and micro-surgical tweezers could extract any differences between the policies of the People's Charter and those of most of Britain's biggest trade unions.

Some labour movement figures argue that the charter goes beyond their own union policy by calling for public ownership of the financial sector and public transport and by implication the airlines.

Well, we are already well on the way to public ownership of most of the banks. Like the money markets, they are only being kept afloat by the £1,200 billion of public funds that could not be found to keep open Remploy factories and post offices, renationalise the railways or keep the profiteers out of the Royal Mail, the NHS and our schools and prisons.

And which union is going to take its stand against the People's Charter on the ground that British Airways should remain in the hands of union-bashing strike-breakers?

There are also fears in some quarters that the People's Charter could be used to embarrass the Labour Party in the run-up to the general election.

Embarrassing the Labour Party – nay, taking an axe to its roots and blighting almost beyond cure its chances of forming the next

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government – is something new Labour has already done without any help from the People's Charter.

Of course, the charter's policies, like those of the TUC and most of its affiliated unions, oppose many aspects of the rotten, anti-working class, authoritarian and warmongering record of new Labour. But they give no comfort to the Tories or Liberal Democrats either.

A guilty silence about that record, or efforts to dress it up in brighter clothes and contrast it to Tory bogeymen, will not fool a deeply disillusioned working-class electorate.

A reinvigorated popular movement around left and progressive demands would, on the other hand, at least give the Labour Party the opportunity to respond positively to a more positive mood.

Whether it would take that opportunity depends, at least in part, on whether the leaders of Labour-affiliated unions are prepared to put up more of a fight for the many policies their unions already share with the People's Charter.

The second major initiative of recent months is the No2EU – Yes to Democracy platform being put forward for the European Parliament elections on June 4.

Although wholly distinct from the People's Charter, this initiative broadly shares the same popular democratic and anti-monopoly character.

But No2EU places greater emphasis on the additional threat posed to democratic and workers' rights by the drive to a militarist, imperialist United State of Europe.

It also offers a working-class and internationalist alternative to the reactionary “anti-EU” politics of the UK Independence Party and the far-right British National Party.

Indeed, anti-racist and anti-fascist campaigning will be one of the defining features of the No2EU intervention in these elections.

So far, the platform has won support from the RMT union, the Communist Party, the Socialist Party, the Indian Workers Association (GB), the Alliance for Green Socialism, Scottish party Solidarity, the anti-EU, anti-SDP Liberal Party and a range of local Trades Councils and anti-EU groups.

A growing number of trade union activists at every level of the labour movement are also coming out publicly in support of No2EU,

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although Labour Party affiliation or lack of policy on the EU has restricted official backing from other unions.

The usual ultra-left sectarian groups have, on other hand, attacked this initiative and its platform for being “anti-socialist,” “British nationalist,” “popular frontist” and the like.

Yet No2EU will have the most consistent perspective for working-class and popular struggle against new Labour and EU neoliberalism, against racism and the BNP, for democratic and workers' rights, of any force in the forthcoming elections.

As the campaign moves into action across Britain, it could also be building a movement for the future which will contribute positively to the process of left unity, based on mass struggle for left and anti-imperialist policies.

For this process to continue after June 4, it would be necessary to develop wider unity in action – whether for the People's Charter, for jobs and public services, against Trident and war – involving wide sections of the left in the Labour Party, Labour-affiliated unions, the Greens, Plaid Cymru and the SNP that are unwilling or unable to change their current electoral alignments.

That is why No2EU should not be seen as the mass electoral alternative to Labour at the next general election but as an important stream feeding into a resurgent left and labour movement.

This will be the best basis on which to resolve the current crisis of working-class political representation.

In different ways, both the People's Charter and No2EU platform can help regenerate the left in Britain. But both apologetics for new Labour on the one side, and ultra-left posturing and impatience on the other, will have to be resisted.

## The People's Charter for Change

<http://www.thepeoplescharter.com>

Britain is in the grip of an economic crisis. So is the world.

Every time there is a slump the politicians and financiers seem mystified as to how the system has failed.

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But boom and bust is the way it works. It's not stable.

When the economy grows, banks, corporations and speculators, driven only by greed, gamble other people's money in their global casino. When they lose 'confidence' in their profit making schemes and panic, the bubble bursts and we pay the price.

Redundancies throw hundreds of thousands on to the dole. Savings are lost. Homes are repossessed. Pensions lose value. Workers are put on short time. Wages and conditions are cut. Public services are slashed.

Government is spending billions of pounds of our money bailing the banks and big business out of their crisis.

It's not right and we didn't vote for it.

Those £billions are our money. And our children's. We want that money better spent. We have launched a People's Charter. It sets out what must be done to get out of this crisis and put the people first, before the interests of bankers and speculators. We need one million signatures to show we mean business. So sign and support the Charter – on line, at work, in your community.

Together we can get the changes we need. Can we do it? Yes we can!

### 1. A fair economy for a fairer Britain.

Take the leading banking, insurance and mortgage industries fully into democratic public ownership run for the benefit of all. Regain control of the Bank of England and keep interest rates low. Tightly regulate the City markets to facilitate lending and to stop speculation and takeovers against the public interest. Ban hedge funds, raids on pension funds, asset-stripping and corporate tax loopholes. Restructure the tax system so big business and the wealthy pay more and ordinary people pay less.

### 2. More and better jobs.

Existing jobs must be protected. Public and private investment must create new jobs paying decent money. In particular in manufacturing, construction and green technology. More jobs mean more spending power to stimulate the economy, increased tax revenue and fewer people on benefit. Build full employment. Reduce hours, not pay, to create more jobs. Raise the minimum wage to half national median earnings and end the lower rate for young workers.



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### **3. Decent homes for all.**

Stop the repossessions and keep people in their homes. Offer 'no interest' loans. Control rents. We need 3 million new homes. Give local government the power and money to build and renovate affordable quality homes and buy empty ones, ending the housing shortage, and creating jobs.

### **4. Protect and improve our public services – no cuts.**

Save public money: Bring energy, transport, water and telecommunications back, and keep the post in public ownership. End corporate profiteering in health, education, social and other public services. Stop the EU privatisation Directives.

### **5. Fairness and Justice.**

Free heating and transport for every pensioner. Link state pensions and benefits to average earnings. Protect pension schemes and restore the lost value of private pensions. End child poverty by increasing child benefits and tax credits and providing free nurseries and crèches.

Enforce equal pay for women. End racism and discrimination in all its forms. No scapegoating of migrant workers. Invest in young people and give them a real stake in the future.

Provide youth, community, arts and cultural centres, sports facilities, and clubs for all. Guarantee training, apprenticeships and education with grants for everyone and no fees. Restore union rights to allow them the freedom to fight the crisis and to protect workers.

### **6. Build a secure and sustainable future for all.**

End the cost of war in blood and money. Bring our troops home. Don't waste billions on a new generation of nuclear weapons. And beyond the current economic disaster, climate change threatens us all. Our future must be based on massive investment for a greener, safer world now. Debt is crushing millions of people forcing them to move and producing war, famine and misery. Get rid of the debt economy in Britain and cancel the debts of the poor of the planet. A better future for all the people of the world.

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## **Challenges facing Québec solidaire following breakthrough in Quebec election**

by RICHARD FIDLER

In the December 8 Québec general election, the Liberal government headed by Jean Charest was re-elected with 66 seats, turning its minority status before the election into a thin majority of seats in the National Assembly. The sovereigntist Parti québécois (PQ), benefiting from a late surge in the polls, was elected in 51 seats and replaced the right-wing Action Démocratique du Québec (ADQ) as official parliamentary opposition. The ADQ elected only seven members.

This was the second general election for Québec solidaire (QS), a left-wing party formed in 2006 by the fusion of the Union des forces progressistes (UFP) and Option citoyenne (OC). QS managed to elect one of its co-leaders, Amir Khadir, in Montréal's Mercier riding [parliamentary constituency seat] who got more than 38% of the vote. The other QS co-leader, Françoise David, was second in Gouin riding, with 32%. QS candidates scored over 10% of the vote in several other Montréal ridings and close to 10% in some other regions of the province. Both Khadir and David were running against sitting PQ members.

However, the party's share of the overall votes — it contested 122 of Quebec's 125 ridings — increased only slightly from its score in the last election, in March 2007, and remains just under 4%. And the total number of votes for the QS candidates actually declined by 21,000, in an election characterised by the lowest voter turnout since the 1920s.

The election of Khadir is a big step forward for QS. It gives the party a voice in the National Assembly, a primary arena for political debate, and guarantees media attention to the party on an ongoing basis. It was a success for the QS strategy in this campaign of prioritising the election of one or both of its co-leaders — a major challenge in Quebec's first-past-the-post electoral system. And indeed, Khadir was endorsed by a broad range of supporters, including the president

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of the Parti Vert (Greens), who urged a vote for Khadir in preference to the PV's own candidate in Mercier riding.

There was also some surprising support. Robert Perrault, a former PQ minister who had once represented Mercier, publicly endorsed Khadir, as did Claude Béland, the former head of the giant Desjardins Movement of caisses populaires (credit unions), a major business figure who has worked with Khadir and the QS among others in the campaign for proportional representation.

### QS platform

Québec solidaire has yet to hammer out a comprehensive program. It has proceeded cautiously since its founding, given the different political cultures of its original components; the UFP was an amalgam of anti-globalisation activists and existing far-left organisations, while OC was based largely in the feminist and community activist milieu. At successive conventions and meetings of its leading bodies, QS has adopted incremental “platforms” based on draft proposals drawn up by party subcommittees.

This was the second general election for Québec solidaire since it was founded. Its 34-page platform in this election incorporated many of the demands advanced by various organisations in the women's, student, ecology and trade union movements. It could generally be characterised as social-democratic, not anti-capitalist. Its proposals, it said, were designed, overall, to be “concrete and achievable in the short term”. Québec solidaire does not identify itself as socialist.

A separate platform addressed to the “financial crisis”, published on the QS website during the campaign, gives a flavour of the party platform as a whole. It had four components.

The first, entitled “Take our pensions out of the hands of the speculators”, called for:

- Raising allowable contributions to the government-run Quebec Pension Plan (QPP) to up to 13% of income, which would raise retirement benefits by an average of \$140 a month.
- Limiting the ceiling on RRSP annual contributions to \$10,000, to discourage the use of private financial market savings (RRSPs are private pension funds; contributions to them are

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tax-deductible).

- Instructing the Caisse de dépôt et de placement, which administers QPP assets, to invest in “ecological and socially responsible businesses”.

A second component, entitled “Protect our economic development against unlimited greed for profit”, featured demands for locally oriented purchasing and development, worker co-operatives, and green and organic agriculture. Companies shutting down, it said, should be required to repay all government loans and special tax benefits they had received.

A third component, proposing environmentally friendly employment alternatives, called for injecting \$1.2 billion into public transit, “investing massively in the social economy” (NGOs and not-for-profit businesses), construction of 50,000 units of social housing, nationalisation and expansion of wind-power development, creation of a further 38,000 childcare positions, hiring of more teachers, etc.



Québec Solidaire's co-leaders, Amir Khadir (left) and Françoise David. Khadir was recently elected to Québec's National Assembly.

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The fourth component, “to reduce the effects of the rising cost of living on families”, opposed any increase in public service costs and called for increasing the list of goods exempt from sales tax and raising the minimum wage to \$10.20 an hour.

### **Progressive proposals**

This ostensible emergency program is notable for how limited it is. Of course, in a longer term (in most cases undefined), QS proposes much more. For example, abolition of user fees in municipal transit; more subways and tramways; an end to public-private partnerships; 100% tax on capital gains; improved social assistance to cover all essential needs; protection for self-employed workers; abolition of Charest’s anti-labour legislation and greater access to unionisation including for farm workers; creation of a government-owned drug company (Pharma-Québec); expanded health insurance to include dental care; free university education and strengthening of the public, secular education system; greater access to legal aid; affirmative action for women, immigrants and ethnic minorities; and stronger protection of the French language as “the common language of Quebec”. And much more. The full platform of “engagements” (undertakings, or promises) can be viewed (in English, too) at [http://www.quebecsolidaire.net/engagements\\_2008](http://www.quebecsolidaire.net/engagements_2008).

Québec solidaire is primarily distinguished from the federal social democrats, the New Democratic Party, by QS’s support for Quebec independence. And in this election the party put greater emphasis than before on its objective of a sovereign Quebec — referred to in the platform as “popular sovereignty”, to distinguish it from the neoliberal sovereignty promoted (intermittently) by the Parti québécois.

Québec solidaire’s social agenda, the platform said, is closely linked with its support of Quebec sovereignty. QS advocates a new constitution for a sovereign Quebec, to be drafted by an elected Constituent Assembly with equal male-female representation and representative of “the different components of Quebec society”. QS recognises the right of self-determination of the indigenous nations living on Quebec territory; they would be invited “to define — with

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the popular sovereignty approach of their choosing — the relationships they will maintain with the Quebec nation, including within the process of defining our political institutions”.

QS also advocates electoral reform based on institution of a two-ballot system, one for direct election of constituency representatives in the National Assembly and another to ensure proportional representation of parties winning at least 2% of the overall popular vote. Steps would be taken to ensure equal representation of women and men.

### **International solidarity**

A final section of Québec solidaire’s platform was addressed to “fostering solidarity among the peoples of the world”. It had three components. The first included promotion of “government-to-government relationships with the Aboriginal nations present on the Quebec territory”.

The second, solidarity with “other peoples”, called for “a political, social and diplomatic rapprochement” with “progressive governments, in particular on the American continent, by participating in common projects and events (cultural, economic and media)”; and “setting out to replace free-trade pacts such as NAFTA [North American Free Trade Agreement], FTAA [Free Trade Areas of the Americas] or the SSP [Security and Prosperity Partnership between Canada and the United States], and proposing new international treaties based on individual and collective rights, respect for the environment and a widening of democracy (such as the ALBA [Bolivarian Alternative for the Americas, the trade agreement currently involving Cuba, Venezuela and Bolivia]).”

The third component, “promoting peace”, said QS would propose “a motion in the National Assembly to oppose any Canadian imperialist intervention in Afghanistan”. Presumably, this would include the current Canadian intervention. A curious aspect is the platform’s stated refusal of “direct or indirect involvement in imperialist aggression and occupation wars and in the rise of neo-conservatism and fundamentalism”.

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## Challenges ahead

With the election behind it, Québec solidaire now turns its attention to completing its program. A convention in 2009 will debate and adopt proposals now being discussed by the membership around the theme of “achieving a democratic, pluralist and sovereign Quebec”. Non-members as well as members are invited to participate in “citizen’s circles”, each composed of at least three persons (one must be QS member), and to prepare written perspectives and analysis texts for discussion in the party.

Another major challenge facing QS, now that the media spotlight will be focused on Amir Khadir’s intervention in the National Assembly, is to develop as well its extra-parliamentary actions. QS has always defined itself as a party of the ballot boxes and the streets, but the latter aspect — which involves far more than participating in demonstrations — has tended to be eclipsed by the party’s focus on electoral action. QS needs to develop a strategic conception of coherent intervention as a party in the unions and social movements whose concerns and interests it seeks to articulate and advance.

QS has only begun to plumb the possibilities in this area. In this election campaign it received important support from the Montreal central council of the Confederation of National Trade Unions (CSN), which endorsed the QS candidates in every one of the city’s ridings. “Their election to the National Assembly”, said Gaétan Châteauneuf, the council’s president, “would be significant because a breach would then be opened to enable the circulation and promotion of progressive ideas in the Quebec political arena. In the central council, we think this is a realistic objective that must be tackled at the earliest opportunity. The unity of the progressive forces is fundamental to achieving this goal.”

The council’s parent federation, the CSN, however, took a neutral stance in the election, while the largest trade union federation, the FTQ, supported the Parti québécois.

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# Defend jobs, not profits!

## A working-class response to the economic crisis

from **SOCIALIST ALLIANCE (Australia)**

The current economic crisis comes after 14 years of boom conditions, which have delivered a profits bonanza to the bosses. Workers’ share of the national income has declined from 60% in 1978 to 51% today. At the same time, the cost of living has risen significantly.

The bosses are using the global financial crisis as a cover to slash jobs. As the Australian economy heads towards recession, unemployment is rising. The official unemployment figure is predicted to rise to 9% by the end by 2010; the real level of joblessness will be far greater.

## Corporate greed

Even though companies like Pacific Brands have received millions of dollars of government subsidies over the years, they are retrenching workers and devastating entire communities in the process, not because they are on the brink of collapse but because their profit margins are down! While Pacific Brands cries poor, its CEO’s pay packet was tripled to \$1.89 million, which includes “incentive payments” — no doubt a reward for her success in axing jobs.

The federal Labor government has called for a united response to the financial crisis, asking government, business and unions to work together. Workers have been told that we have lived beyond our means and that now is the time to tighten our collective belts, forgoing wage claims for the sake of the nation. No demands are made on the employers however!

Billions of dollars of taxpayers’ money have been allocated to stimulate the economy. Most of this money is delivered as a handout to big business without any real guarantee to retain jobs. Workers are pressured into accepting pay cuts and shorter working hours to help employers retain their profits. In rural and regional Australia, the pressure is especially acute for workers in vulnerable industries.

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## **Stimulus package: job losses for the poor & welfare for the rich**

The federal government's \$42 billion "stimulus" package aims to soften the worst aspects of the recession through increasing public spending — but by as little as possible. Fundamentally it is designed to protect private profits. Rudd's corporate welfare package will not protect workers; it may prevent some job losses but it won't stop unemployment from rising sharply. At the very least, firms (like Pacific Brands) which take government subsidies should be prohibited from sacking workers.

## **Who is to blame and who should pay?**

The bosses will attempt to force working people to bear the burden of the crisis by:

- Threatening workers with unemployment.
- Calling for wage restraint, demanding that workers moderate wage claims or forego wage increases (such as at the ALCOA plant in Western Australia), to guarantee profitability.

The bosses argue that wages must be lowered during the downturn or else workers will price themselves out of the market. But there is no evidence that wage increases automatically lead to job losses or that a low minimum wage will reduce unemployment. The current situation is that companies cannot find buyers for their products and if no market exists, firms will not produce and will consequently not hire workers, no matter how low the wages. What is clear, however, is that lower wages mean higher profits for bosses and companies.

## **What position should unions take?**

In the face of the global financial crisis, the ACTU's response has been one of retreat and essentially tails the Rudd government's pro-business agenda by accepting its calls for wage restraint.

- Unions must not accept bosses' claims of financial hardship at face value. We need to demand that companies open their

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books to workers' scrutiny — let's see for ourselves what is really going on.

- Unions should demand that the government take over firms that threaten to go offshore for cheaper labour (such as Pacific Brands) and run them in the interests of the community.
- Unions should demand that the government nationalise companies that fail and reorganise them for socially useful production on an environmentally sustainable basis.
- Unions should demand a shorter working week without a loss in pay, to help boost employment.
- Unions need to engage in protests and industrial action and mobilise their members to fight to keep jobs, decent wages and conditions. It is especially important that unions vigorously oppose Rudd's anti-worker, anti-union "Fair Work Bill" and the ABCC which seriously impede the ability of workers to fight back against employer attacks.

## **Massively expand the public sector to create jobs on a large scale**

But, above all, unions must demand that the public sector be massively expanded. Only this can create permanent, secure, well-paid jobs on the scale we need. This is the only kind of "stimulus package" working people should fight for. For example:

- Public transport networks need to be massively expanded, both to make our cities fit to live in and to cope with sharply growing public demand. We need to move away from the dominance of the motor vehicle which is helping drive global warming and making our cities into urban nightmares.
- By training scores of thousands more teachers, class sizes could be drastically reduced and the quality of education radically improved. The state school system would start to win back pupils from the private sector.
- Our public health system needs a massive transfusion of funds and personnel to be able to provide every single person with free quality healthcare. The artificial hospital beds crisis and the huge surgery waiting lists could be rapidly abolished.

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- Public housing likewise needs a huge shot in the arm to abolish homelessness and to put an end to the criminally overpriced housing and rental market
  - Restructuring our economy and our way of living to radically reduce our greenhouse gas emissions and move towards 100% renewable energy as rapidly as possible will create large numbers of new jobs.

### **Tax the rich!**

The resources for building a better life for all do exist. Since the economic meltdown began absolutely stupendous amounts of money have been thrown at the bosses by governments, here and overseas.

In the past, whenever it has been a question of improving pensions, grappling with climate change, providing free quality healthcare for all, or expanding public housing, the cry has always been that we can't afford it. But when it's a question of saving the hides of a gang of greedy bosses, suddenly money is no problem at all and mind-boggling amounts have been thrown to the bloodsuckers whose insatiable greed has caused the crisis.

At the end of the day, the working class will be made to pay for this largesse by savage cuts to our standard of living. Socialist Alliance says: Make the employers and the rich pay! They can certainly afford it.

For too long the big end of town has gotten away with paying minimal taxes on their mega profits. The current business tax rate is a paltry 30% and few firms actually pay anything like this. Restoring it to, say, its original pre-Keating government level of 50% would be a big start in delivering the resources for the necessary large-scale job-creating investments in our public infrastructure.

Our tax system favours the well-off through very low tax rates, negative gearing and other concessions. The personal tax scale should be made sharply progressive to stop the rich bludging off society. The highly regressive GST, the burden of which disproportionately falls on workers and the poor, should be abolished.

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## **Fighting the bloggers on their own turf**

by **DAPHNE LAWLESS**

As previous articles of mine in UNITY have explored, in modern capitalist society the “weapons of mass persuasion” have been developed to a large degree of perfection. Cut-throat competition for a shrinking consumer dollar has ensured a constant “arms race” of marketing and mass psychology. Corporations use top-notch psychological research and the greatest talents in the musical and visual arts, to burn their “brands” into the mass psyche of working people. A vegetarian friend once expressed indignation to me that they couldn't get the “I feel like Chicken Tonight” jingle out of their head.

More seriously, this mighty machinery, built to create massive symbolic differences between two virtually identical products, has been brought into action more and more in the political sphere. It is absolutely no coincidence that modern elections are increasingly referred to as a meaningless choice between “Coke and Pepsi” – exactly the same principles are in effect, and often the same professionals.

From the 1980s until quite recently, any party looking to be taken seriously in an election had to endorse the more-market neo-liberal consensus. The funny thing is that the closer the major parties get on policy, to the point of being virtually identical, the higher the “branding machine” cranks up, to magnify the tiniest details of policy or style into massive, earth-shaking points of differences.

Case in point – everyone in the civilised world knows that there is not a dime's worth of difference between US Democrats and Republicans. And yet, we've just finished eight years of liberal panicking that George W Bush was an honest-to-God fascist. Now we are in for a few years of conservative hysteria that Barack Obama is a secret Muslim and a secret Marxist at the same time. This is exactly the same phenomenon – the “opinion shapers” on both sides of the political divide energising their base by relentlessly pushing the fear and loathing buttons in the collective psyche.

The people with the media and mass-psychological skills to do

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this kind of thing well and effectively are high in demand in modern capitalist society. In every era a new skillset which has economic value leads to a new class of “small businesspeople” arising to take advantage of that – in this area, the equivalent would be the political bloggers.

In modern capitalism, it’s only a very privileged minority who have the time, energy and capacity to form original opinions about what’s happening in the world, or even their own lives. The mass media – and niche-market operators like the political bloggers – fill the mass psyche emptied by mind-breaking labour, with pre-fabricated opinions to every political taste. As in any niche-market, diversity is the key. The spectrum of blog opinions is so diverse that you will find somewhere online at least one articulate soul prepared to tell you what you want to hear.

But the big blogs are the ones who associate themselves with serious major political cultural forces. In the United States, webforums like DailyKos for the Democrats and RedState for the Republicans fulfil this function. By channelling “web-roots” sentiment in an easy-to-read format, they give the big battalions of advertising clues on what to run with – and can funnel the latest approved ideas from Head Office back down to their hordes of devoted readers.

You can do your own research to determine how much power these people have in other countries, but recent events have brought matters in New Zealand into sharper focus. For example, it is well known that David Farrar’s Kiwiblog is one of the most powerful weapons on the centre-right of politics today. Matt McCarten (*Herald on Sunday*, 26/4/09) explains how:

I salute the right-wing bloggers, who mischievously instigated a destabilising campaign against Labour by writing that National could win Mt Albert if Twyford was the Labour Party nominee. Twyford is a current list MP. Their genius was in pointing out that if Twyford won – as was widely assumed – then Judith Tizard, as the next-highest place list candidate, would be entitled to return to Parliament to replace Twyford’s vacant list spot.

The bloggers claimed that Twyford’s campaign would

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be overshadowed by the furore of the supposedly unpopular Tizard slipping back into Parliament.

Privately, none of the bloggers believed that their strategy would amount to much, but were incredulous when certain media players started taking it seriously.

What gobsnacked the bloggers particularly – and fatally for Twyford – was that the Labour Party panicked. There were even some attempts to force Tizard to step down off the list, which of course she wouldn’t.

[...]

The right-wing bloggers framed the election before it had started. No one should have any doubt now about the considerable influence bloggers have on our political processes.

The *National Business Review*, voice of the almighty dollar in New Zealand, happily concurs that (20/09/07):

Any realistic “power list” produced in this country would include either Farrar or his fellow blogger and opinion leader Russell Brown.

Russell Brown, founder of the Public Address network of blogs, describes himself as an “opinion leader” or even an “opinion shaper”. There is no false modesty here – he has set himself in a position where he can put words into the mouths of people on a nationwide basis, and make a tidy living from it.

As we said above, of course, the irony is that the huge battle between “centre-left” and “centre-right” is all for show – a spectacle propped up for the punter to blame. In reality, Russell Brown and David Farrar are such good buddies they’re going into business together. John Drinnan wrote in the *Herald* (24/04/09):

Left-wing blogger Russell Brown and the Right’s David Farrar were must-read advocates for Labour and National before the election.

Now they have common cause at the cutting edge of the media sector fronting an advertising campaign that

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breaks down the line between advertising and editorial content.

These leading lights in the online world have become “Powershop Pioneers”, endorsing Meridian Energy's new electricity-buying website.

Ads featuring the two men – as well as Alistair Thompson of the press release website Scoop – are running on websites that put readers, who discuss their Powershop experience, into a draw.

This tasteful campaign runs with a picture of David Farrar as Uncle Sam, and Russell Brown as Che Guevara. “Left” and “right” doesn't mean anything, in the world of the blogosphere, except a form of badge to signify which “team” you're on. And as in any professional competitive sport, the teams rip each other to shreds on the pitch, and then come offstage and have a friendly beer together afterwards. Because they're all on the same side, really – the side of well-educated middle-class people making a living off the Internet.

The elite of the blogosphere have built their power on rallying those in search of pre-fabricated opinions – much like the “shock jocks” of radio who have done so much to rally populist crusades in Australia and the United States. But it's pretty clear that the really big bloggers are not true believers in any political or ideological or even ethical crusade – ego might have something to do with it, but in the end it boils down (as does everything under capitalism) to making a living.

So why should we care? Because, as we've seen with David Farrar bouncing Phil Twyford off the political stage, the mass media read the blogs, and then the grassroots people read the mass media – and in the absence of contrary evidence, they tend to assume it's true. A little cog at one end – perhaps even a guy writing from his parents' basement – could be turning this huge media machinery and directly affecting the way ordinary people think and feel.

To give one example dear to our hearts – Russell Brown was one of the leaders of the charge against RAM's petition for a removal of GST from food. He put up on his blog a list of ways in which GST off food would apparently hurt working people more than it would



**Spinning in his grave?: Russell Brown as Che Guevara**

help, with the help of the staff of the explicitly pro-Labour Party blog, The Standard. (Public Address, 29/04/08) This list mysteriously found itself replicated all over the blogosphere, and online forum comments, within the next couple of weeks.

What should be exciting the attention of all of us on the Left is that the mighty memetic machinery behind Public Address – not just the Labour Party, but whole swathes of opinion with the media skills and finance to back them up – saw RAM's pro-people message as a real threat

to them, and were motivated to swing into action to crush us. How Russell Brown and Co replied to GST off food should give us valuable pointers as to how we should conduct future campaigns that catch fire at the grassroots.

The middle-class professionals who inhabit the blogosphere are extremely happy with the current state of politics – two or three subtly varying brands of social liberalism vying for their attention. The last thing they would want is to break up this cosy echo chamber with a political force based on working people, many of whom – shock horror – might not spend most of their time on the Internet.

One way that we can combat this is to go out directly to the people with our stalls, our leaflets, even doorknocking. Having conversations with people face to face is often a good way to dissipate pre-fabricated ideas that have been picked up from the mediasphere. But isn't it time that RAM began taking the battle to the bloggers in cyberspace as well? Our Auckland Central candidate, Oliver Woods, ran a very good blog in the last election, which is now his personal blog (<http://aucklandcentral.blogspot.com>). And of course there's our own UNITYblognz.com. But shouldn't we be thinking about something bigger than this?



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## BOOK REVIEW

### A handbook for the downturn

by GRAHAM MATTHEWS

#### The Great Financial Crisis: Causes and Consequences

By John Bellamy Foster and Fred Magdoff

Monthly Review Press, 2009

*The Great Financial Crisis*, by John Bellamy Foster and Fred Magdoff, is an important contribution to a Marxist understanding of the causes and effects of the global meltdown plaguing the capitalist system.

The book's style is easy to read and the text is peppered with graphs and tables which perfectly illustrate the points being made. The reader doesn't need to have an economics degree in order to understand its message.

The biggest strength of *The Great Financial Crisis* is its detailed analysis. The book dissects the US economy, the largest in the world, over a two-and-a-half year period from May 2006 to December 2008.

All articles, except for the concluding chapter, first appeared in the *Monthly Review* magazine and have been republished without revision. This gives the book a certain building tension, as we pass through the early chapters to the inevitable crisis discussed in the final part of the book.

*The Great Financial Crisis* is divided into two parts: causes and consequences. Causes begins with an analysis of "The Household Debt Bubble", in a *Monthly Review* article

from May 2006. In the article, the authors explain how US capitalism has attempted to deal with the central contradiction: "keeping wages down while ultimately relying on wage-based consumption to support economic growth and investment".

"There is no doubt about the growing squeeze on wage-based incomes", they explain. Apart from a short period in the 1990s, real wages in the US have stagnated. "Yet rather than declining as a result, overall consumption has continued to rise."

The secret to the continued economic expansion was the explosion of household debt. The ratio of household debt to household income "more than doubled" in the US between 1975 and 2005, from 62% to 127%.

The distribution of the debt burden across classes is uneven, however. "Thus with the rapid rise in outstanding debt to disposable income, financial distress is ever more solidly based in lower-income working-class families."

The largest part of the debt explosion was based on housing. With the low interest rates that prevailed after the "dot com" crash in 2000, working-class families were enticed to take

mortgages of ever-greater sums.

In addition, growing numbers of home buyers refinanced their mortgages between 2001 and 2004, borrowing money against the equity in their homes to finance their spending.

At the same time, lenders became more liberal with their funds. "In 2005 the median first home buyer put down only 2% of the sales price and 43% made no down payment at all", the book quotes from the *Nation*.

"The typical family is also mired in credit card debt", they explain. The average debt was at US\$5000 at the end of 2005.

The massive increase in household debt, based on the housing boom, was the single most important factor in the US economy recovering from the dot com crash, the authors argue.

However, even with the housing bubble, trillions of dollars remained in corporate bank accounts, unable to be profitably invested.

"The truth is that without a step up in investment the US economy will stagnate", the authors ominously portend in the first chapter. It's "a reality that speculative bubbles can hold off and disguise in various ways but not entirely overcome."

The second chapter, "The Explosion of Debt and Speculation", was originally published in November 2006. It is complementary to the first article and examines the historical decrease in productive investment and the spike in speculation in the US economy.

"Over the last 30 years an average of 81% of industrial capacity was

used and during the last five years the average was only 77%", they say.

At the same time, the increase in debt had been "much greater than the expansion of economic activity". However, much of this debt was not invested productively, but in speculative capital, which "has little to no stimulatory effect on production".

"As overall debt grows larger and larger it appears to be having less of a stimulating effect on the economy."

"[I]n the 1970s the increase in the GDP was about 60 cents for every dollar of increased debt. By the early 2000s this had decreased to close to 20 cents of growth for every dollar of new debt."

Since the end of the long post-war boom in the 1960s, US capital has struggled to find profitable outlets for productive investment.

Speculative profits increased from 15% of the whole in the 1960s to 40% in 2005. Over the same period, domestic manufacturing profits slumped from 50% to 15%. This "financialisation" of the economy is not a stable solution to the capitalist crisis — a fact borne out in later chapters.

In chapters three and four, titled "Monopoly Finance Capital" and "The Financialisation of Capitalism", the writers explore the phenomenon of the massive growth of financial, speculative capital over the last 30 years and theorise that "financialisation has resulted in a whole new hybrid phase of the monopoly stage of capitalism that might be termed 'monopoly finance capital'".

The essence of this "new hybrid phase" is the massive outgrowth of

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speculative capital, which now overshadows productive capital.

The writers' argue the US economy fell into stagnation following the 1974 crash. It only managed to (partly) recover from this by relying on "the growth of finance to preserve and enlarge" capital.

However, the financial superstructure "could not expand entirely independently" of the real economy — hence the lurching from one speculative bubble to another. "Financialisation, no matter how far it extended could never overcome stagnation within production."

The final chapters of the book deal with the consequences of the crisis. "With the benefit of hindsight, few now doubt that the housing bubble that induced most of the recent growth in the US economy was bound to burst or that a general financial crisis and a global economic slowdown were to be the unavoidable results", the authors say.

The authors trace the various phases of the US housing bubble, from expansion to bust. "The housing bubble was first pricked in 2006 owing to rising interest rates, which caused a reversal in housing prices in the hot subprime regions", they write.

The crash in values and rise in interest rates led to a big spike in defaults, a glut of houses on the market and a steep fall in house prices.

The collapse of the housing market rebounded on the banks that had guaranteed the new financial instruments created by bundling and on-selling the loans as Collateralised

Mortgage Obligations and Collateralised Debt Obligations.

The threat that these might now become largely worthless and that banks throughout the system were "exposed" to these "toxic assets" led to a shut-down of lending and a massive credit squeeze.

The government response to the crisis has been to encourage the flow of credit by "pour(ing) money into the system".

"However there are a lot of dollars out there in the financial world — more now than before — the problem is that those who own the dollars are not willing to lend them to those who may not be able to pay it back and that's just about everybody who needs dollars these days."

The result is an economy entering into free fall. The US economy is in serious contraction with massive job losses. "Nothing is therefore more frightening to capital than the appearance of the Federal Reserve and other central banks doing everything they can to bail out the system and failing to prevent it from sinking further — something previously viewed as unthinkable."

"Who will pay?" the authors ask. "The answer of the capitalist system left to its own devices was the same as always: the costs would be borne disproportionately by those at the bottom."

The only solution, is for "the population" to take control and replace the current system with "what the present rulers of the world fear and decry most — as 'socialism'".

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## FEEDBACK

Send a letter (500 words max) on any topic to UNITY letters, Box 13-685, Auckland or [daphlawless@randomstatic.net](mailto:daphlawless@randomstatic.net)

### Decentralisation and its discontents

I think that one part of Vaughan Gunson's excellent article "[A People's Constitution for Aotearoa?](#)" (UNITY, August 2008) deserves more looking at. That would be Vaughan's opposition of centralisation (bad) to decentralisation (good). Vaughan writes that his idea of a constitutional alternative for Aotearoa entails:

a state where sovereignty is devolved downwards to the people, to local communities, including indigenous people.

Certainly a new constitution has to be based on people power, on empowerment of the grassroots rather than an authority on high in Wellington (or Washington for that matter) doling out favours and punishment. But is centralised power altogether a bad thing?

Vaughan rightly promotes the Communal Councils of Venezuela as a positive step forward, as "sovereignty in the hands of the people". But the crucial thing about the Communal Councils is where their funding comes from — directly from the presidency of the Bolivarian Republic of Venezuela. The essential novelty of the Communal Councils is that it is a way for the oil wealth of Venezuela to go directly to communities, bypassing the infamously corrupt state bureaucracy.

So in Venezuela, we see a process of decentralisation (the communal councils) contrasted with one of centralisation (the empowerment of the federal government, in particular the office of President Chávez, at the expense of local governments and bureaucratic fiefdoms). One part of President Chávez's failed constitutional referendum that really had the corporate media going nuts was his proposal to let the national government of Venezuela declare certain towns and areas "federal areas", responsible directly to central authority rather than to the various state governments.

It's important not to get carried away with the idea of decentralisa-

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tion as a good thing in and of itself. The history of the working class movement over the last 200 years is that centralisation – in the sense of workers co-ordinating their debate, decision-making and plans of action over as large an area as possible – is vital to win. It is only when centralisation slides over into bureaucratization that this becomes a bad thing. Conversely, “decentralisation” can be another word for fragmentation, alienation and powerlessness.

Ideas of “decentralisation” tend to be promoted heavily by middle-class social liberal groups, such as make up the Green Party – with their vision of a future of tiny local communities producing for themselves. I think Vaughan perhaps gives away a little too much too much to this school of thought when he talks about

a system of localised food and energy production controlled “by people for the people”...Localised organic food systems combined with local energy production (solar power, wind turbines and other sustainable technologies) would slash the greenhouse gas emissions produced by centralised industrial food and energy production.

While food and energy sovereignty for every nation and region is a goal which should be fought for, we need to realise that there are limits to how far “localism” can effectively go. The lesson of the 20th century's disastrous experiments with “socialism in one country” surely must be that for one nation or region to isolate itself from others impoverishes us all. Only a network without limits of economic and social co-operation through all parts of the world can maximise the wealth and happiness of humanity.

The rhetoric of “local sovereignty” can too easily slide over into sheer selfishness – even xenophobia. On the local level, we've seen the middle-class “local community” of Makara Beach fight for years to prevent the wind-farm that marks a real step forward to sustainable energy for Wellington – solely on the basis that it would spoil the view and lower their property values. More disturbingly, we've heard some green or leftist activists seriously recommend that we shut our doors to refugees from climate change – or even halt immigration altogether – to make sure that our country stays “clean and green” and those who already live here can enjoy an “unspoiled environment”.

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On a more serious note, Bolivia, another state in the process of revolution, is currently in near-civil war because of the efforts of the resource-rich eastern provinces to effectively secede, keeping their wealth for themselves. The unholy alliance of local businessmen and racist (even fascist) street gangs pushing this proposal do so under the rhetoric of “autonomy” and “sovereignty of local communities”. The forces of counter-revolution are attempting to promote similar reactionary autonomy movements in resource-rich parts of Venezuela and Ecuador. In the United States in the 1950's, the civil rights movement was held back and stymied by reactionary white-supremacist state governments, flying the banner of “the rights of individual states” against the dominance of the Federal government. In fact, the question of the power of the centre as opposed to the localities was the issue over which the American Civil War was fought, 100 years earlier. In that conflict, Karl Marx was on the side of the centralised federal government headed by Lincoln, rather than the Confederacy who justified slavery with rhetoric about “freedom and rights of individual states”.

Of course, all these examples could be balanced by those where local communities fought for justice and freedom against oppressive central authority. But that's my point – the door swings both ways on this issue, and we must get past the false dichotomy of capitalist globalisation and reactionary localism. We could raise the slogan of a “synergetic” economy – one where local communities play to their own strengths, but also pool their efforts with other communities around the world to raise the living standards of everyone through trade and co-operation. This would need to go along with a system of “networked” power – a new dispensation in which there would no longer be a contradiction between centralised and localised power, where local, regional, national and international organs of people's power work together seamlessly and synergetically. The best of centralisation and decentralisation combined is what is required, both for society's wealth and society's power.

**ONDINE GREEN**  
**Auckland**

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## Do socialists love misery?

The preferred political currency of the far Left has always been misery, poverty, hunger and despair.

So said Chris Trotter in the December 12, 2008 Dominion Post. Chris seems angry that some of the “far left” (he specifically mentioned RAM and the Workers Party) dared to suggest that the defeat of Labour in the November 2008 election was perhaps not the catastrophe for the working class that Trotter thought it was. However, the idea that revolutionary socialists are a bunch of miserable sods who are at their happiest when workers are starving and desperate is not a new one.

Like most stereotypes, this has a basis in reality. The legacy of the Stalinist regimes in the Soviet Union and Eastern Europe – or at least the view that was promoted to the media – is that socialism equals repression, hardship, workers queuing for toilet paper while the bureaucrats live it up in their country lodges, greyness, conformity and no fun at all. Therefore, the argument goes, this is what today’s socialists want.

Well, actually, no. The founders of socialism – people such as Karl Marx and Friedrich Engels – came from well-off, middle-class backgrounds. They could have lived wealthy, comfortable lives. Yet Marx spent years living in poverty and exile. The reason was not that he was happy to see workers starving and miserable – he wanted to create a world where that no longer happened.

In fact, the early Marxists believed that socialism would only triumph in the advanced capitalist countries, as totally impoverished people are too busy trying to survive to be able to organize politically. However, the first socialist revolution took place in Russia – a country which was still largely feudal, with a comparatively small capitalist economy. It was this economic backwardness, combined with the devastation wrought by World War I and the attacks by imperialism on the revolution, which made it possible for the bureaucracy which Stalin represented to gain the ascendancy.

While the reaction of socialists to the current recession may have been tinged with “I told you so”, this does not translate to delight at the sight of workers losing their jobs and their homes. It makes us

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angry to see that once again, ordinary working people are carrying the can for those who created the problem. That’s why socialists in RAM call for the government to “Protect our people” – not “Make them more miserable so that they’ll revolt.”

Another reason why commentators such as Trotter and others from a “left” Labour background rail against socialists is that they fundamentally disagree with the concept of class struggle. Traditional ideas of social democracy hold that while class and other divisions exist, society should be seen as an organic whole. Conditions for workers and other oppressed sectors can be improved by unions, business and government working together rather than by an adversarial approach.

But socialists did not create, invent or imagine class divisions – they’ve existed ever since humans developed their productive capacity to the point where one group was able to appropriate the surplus produced by others. In the Communist Manifesto, Marx pointed out: “Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in opposition to each other, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended either in a revolutionary re-constitution of society at large, or in the common ruin of the contending classes.”

The belief that those who hold the power in society can be persuaded by reason and logic to give up even some of that power has been disproved again and again in history. Germany and Spain in the 1930s, Chile in 1973 – just some examples where this approach led to the slaughter of thousands of people, because as soon as the ruling class sees a challenge to their power and privilege, they will do whatever it takes to protect it.

The current financial crisis bears this out yet again, as governments hurry to “bail out” the bankers and speculators who created the crisis, while ordinary people bear the brunt of job losses, foreclosures and cutbacks.

While the reaction of socialists to the current recession may have been tinged with “I told you so”, this does not translate to delight at the sight of workers losing their jobs and their homes. It makes us angry to see that once again, ordinary working people are carrying

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the can for those who created the problem. That's why socialists in RAM call for the government to "Protect our people" – not "Make them more miserable so that they'll revolt."

At the same time, we recognize that ultimately, the only way to protect our people will be for the people to protect themselves – by organising to build a society that is for the benefit of people, not for profit. This won't be done by shouting slogans, but by working within communities to strengthen them and help them to fight back against injustice.

**BRONWEN BEECHEY**  
**Auckland**

### **Lockouts must be smashed**

The growing rash of lockouts must be nipped in the bud.

As the Synovate lockout showed, only widespread militant solidarity actions can beat a lockout.

As the recession caused by the financiers and big business deepens. Business and government's friendly to business will try to put the burden of their collapsing profits onto workers, rather than their rich stake-holders.

Employers are using lockouts to intimidate workers and their unions to accept, often arbitrary and unfair demands.

Air New Zealand General Manager for short haul, Bruce Parton, announcing the lockout, alluded to the recession as the reason for locking out his staff. Referring to the offer tabled by ANZ, Parton said "Now is not the time to look a gift horse in the mouth."

We must not be intimidated. The history of the 1873 and 1929 depressions showed that unions that lowered their expectations and accommodated employers demands went out of business. This is fact.

The brutal truth is, if a union can't defend you, it becomes against your interest to to be in one, especially in a time of mass redundancies. Union members are often the first down the road, to be replaced with casual or contract workers who are generally not in unions.

Consequently the initial result of the huge economic slumps of the past was a huge drop in union membership.

Unions only recovered when in desperation grass roots move-

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ments sprung up that championed workers' demands militantly and relentlessly.

Using tactics of widespread solidarity, the biggest growth of unions in history occurred in the depths of the Depression in the USA.

Through these more militant tactics, which were better suited to the time, workers were able to keep more of the wealth they had created for themselves. This big increase in buying power at the bottom of the economy is one of the reasons that the depression started to lift.

The truth is that only an injection of cash at the bottom of society can ease the recession, but the employers refuse to accept this fact because it will mean they must accept cuts in their profits.

As every serious economist is saying, the rich are not prepared to invest their money because they are frightened of getting burned again. The main reason is their very real fear that the people to whom they loan money will not pay it back. This is because everyone who wants to borrow from them can't pay it back, because they are not getting paid enough.

Decades of real declining incomes have only been obscured by debt. US statistics have shown that despite falling real incomes over the last ten years, consumption had been going up. This was the so-called bubble economy.

The only way we can possibly get out of this impasse is not to lower workers' expectations, but to increase them.

- 1 We must not take part in the recession. We must say – this is your crisis, we will not be part of it.
- 2 We must learn from history.
- 3 Employer lockouts must be immediately met with escalated solidarity actions from our side.

Starting from now on, the CTU as the overarching body of New Zealand unions should take every lockout personally. They should publicly call for the widest solidarity actions possible to smash lockouts by employers, who otherwise will increasingly use this weapon to intimidate workers and ultimately drive unions from the workplace.

**AUCKLAND UNION ACTIVIST**

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We don't want you to die, but...  
we've all got to go sometime!

## You can live on by making a bequest to Socialist Worker

Since Socialist Worker is not an incorporated society, there is only one way of making a Marxist bequest in your will that will stand up in capitalism's courts.

You need to write a clause in your will in favour of The Espal Society Incorporated, an investment arm of Socialist Worker's elected leadership, the central committee.

The Espal Society Inc's details are:  
c/- Socialist Centre,  
86 Princes St, Onehunga, Auckland.  
socialist-worker@pl.net

The Espal Society Inc's management committee is always the central committee of Socialist Worker. This is a legal avenue for your assets to keep on working for socialism after you no longer can.



## WHERE WE STAND

### the programme of **SOCIALIST WORKER**

✧ authorised by Socialist Worker national conference February 2007

**1 Workers power, not bosses power**  
Profit, the fuel of capitalism, flows from the dual exploitation of labour and nature. Workers collectively create a vast surplus which is monopolised by the tiny elite who run the economy and the state. Out of this systemic exploitation of the many by the few grow all of capitalism's inequalities, oppressions, crises, wars and alienations. Marxists stand for full union rights, including the unrestricted right to strike. Rebuilding the union movement around a strategy of workers power is central to challenging bosses' power, which tramples on our birthright, our freedom, our humanity, our habitat and our future. Socialists aim to get rid of class divisions by building a global democracy of free producers with common property rights.

**2 Democratic state, not bureaucratic state**  
Under capitalism, democracy is extremely restricted. Corporate bosses make most economic decisions, which impact on every other sphere of society. Top administrators, judges, military officers, police commanders and other state bureaucrats are not elected, and to a large and growing extent are outside the control of elected politicians. But it doesn't have to be this way. Today in Venezuela, the election of president Hugo Chavez on a platform of "21st century socialism" is interacting with a quickening revolutionary process. The empowerment of communal councils and other organisations of popular governance is seen as critical by Venezuela's socialists. Such a process also took off with the 1917 socialist revolution in Russia, but economic ruination and imperialist encirclement soon shattered its working class foundations. As workers councils fell apart in the Soviet Union, the vacuum was filled by Stalin's party bureaucrats, who formed a new ruling class during the 1920s and veered onto a state capitalist course. Russia and Venezuela show that organisations of mass democracy are vital to creating

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a sustainable alternative to capitalism. Marxists stand for the taking of state power by elected assemblies of workers and other grassroots delegates, with no special privileges and recallable at any time. History shows that only such democratic assemblies can give direct expression to workers power. We can begin by introducing a similar spirit of democracy into every workers organisation in Aotearoa, especially our unions.

### **3 Planning for people, not profit**

Global market competition makes rational planning impossible. Capitalism's "logic" of profit maximisation and wealth accumulation fuels the market-driven insanity of imperial wars, economic crises and climate chaos. Marxists stand for a socialist world where democratic associations of producers plan the economy in the interests of all humanity and other species we share the planet with. The production and distribution of social goods and services should be determined by democratic assemblies, not market forces. Strategic economic assets vital to community well-being, such as power, telecoms, water, healthcare, education, transport and large-scale manufacturing, need to be under public control. As a first step, the privatisations of recent decades must be reversed. An expansion of public services should



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be funded by taxing corporate bosses and other members of the wealthy elite, who owe a massive debt to the working class exploited since the birth of capitalism.

### **4 System change, not climate change**

Capitalism's obsession with private profit is literally costing us the earth. Climate change and interlinked forms of nature's spoilage, like species extinction, ecosystem pollution and resource depletion, threaten humanity with barbarism or oblivion. Unless industrial nations reduce their greenhouse gas emissions by something like 90% over the next few decades, climate chaos may make our world uninhabitable. Capitalism's embrace of carbon trading will give the market, the main driver of global warming, even more extreme powers over the fate of humanity. Marxists stand for a socialist world where capitalism's many wasteful and polluting industries are made redundant by the absence of money, the market and ruling elites. For starters, free and frequent public transit should serve urban areas, longhaul trucking should be replaced by state-run electric rail and coastal shipping, a methane tax should fund reductions to New Zealand's worst greenhouse gas, and coal for export should be banned.

### **5 Human solidarity, not imperial divisions**

Rivalry between the world's competing ruling classes "spontaneously" generates divisions of nationality, ethnicity and religion. These class-created divisions are often exploited for military purposes when "normal" economic and diplomatic competition among capitalism's rivals heats up into shooting wars. Nationalistic hatred, racist scapegoating and religious bigotry are fanned by warring states to mobilise their home population behind their imperial ambitions. This has been taken to an extreme in Washington's falsely named War On Terror. The overarching objective is to compensate for America's relative economic decline through the US state's more aggressive projection of global military superiority, crushing weak nations and pressuring rival powers. The US ruling class is resorting to high-risk terrorism in a mad campaign to bend the world to its will. US president George Bush has called for a "war without end". Washington has rewritten its rules of warfare to legalise nuclear first strikes, bringing the world closer to nuclear holocaust than ever before. Muslims are demonised, dehumanised and destroyed by the US state and its allies in a vile strategy of divide-and-conquer. Marxists stand for human solidarity in the face of imperial divisions. We should build the broadest possible alliance against the US rogue state and other capitalist warmakers. An important message to take into the peace movement is the need to confront capitalism's twin engines of war: the state and the market. Behind each state's war machine stand

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the corporate bosses whose drive for profit is the fuel feeding the flames. Creating a socialist alternative to the market rips up the roots of war.

**6 Human freedom, not capitalism's oppressions**

The history of capitalism is marked by the systemic oppression of indigenous peoples, workers, ethnic minorities, women and non-heterosexuals. Capitalism in New Zealand was born out of the colonial takeover of collectivised Maori land by armed forces, market forces and political pressures, forcing tangata whenua to the bottom of the social heap where most remain to this day. The colonial state inflated the price of alienated Maori land to lock most immigrants into the lowly status of workers, who to this day suffer from massive political discrimination in areas as diverse as industrial relations, tax law, parliamentary representation, state appointments and official history. Ethnic minorities in New Zealand have been savaged by waves of state-sponsored racism, like the early tax on Chinese immigrants, the "white European" policies of most of the 20th century, the police dawn raids on Pasifika peoples in the 1970s, the "Asian invasion" hysteria whipped up by prominent politicians in the 1990s and today's special laws and police spying on Muslims. Capitalism's drive to reproduce the next generation of workers on the cheap created a "family values" system which devalued women, whose second-class status to this day is measured by such things as lower average pay than men, restrictions on abortion rights and a lack of state support for child rearers. The same "family values" scourge also hit people who didn't neatly fit into the heterosexual category, and to this day lesbians, gays, bisexuals and transgender people face pervasive discrimination despite legal near-equality. Such oppressions foster divisions among workers and other grassroots people which play into the hands of our rulers, whose system could not survive a united challenge from below. Marxists stand for the freedom of all humans, which is the only real basis for the freedom of each individual. We support the struggles of Maori, workers, ethnic minorities, women and non-heterosexuals for the rights, opportunities and liberties routinely denied them by capitalism today.

**7 Maori collectivism, not neo-colonialism**

The British colonialists, at the time of signing Te Tiriti o Waitangi in 1840, faced whakaminenga of strong Maori iwi founded on the principle of collectivism. While in theory the treaty "guaranteed" to Maori their whenua, taonga and tino rangatiratanga, these foundation stones of indigenous power were in practice seen as antagonistic to the interests of the British empire. The unprovoked invasion of the Waikato in the 1860s, along with other colonial wars to seize Maori land, were designed to break the back of tino rangatiratanga. Capitalism's market and state could not tolerate peaceful competition from the "beastly

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communism" of Maori, in the telling phrase of one colonial politician. The New Zealand Parliament facilitated the alienation of most Maori land. The few acres remaining in the hands of tangata whenua were often de-collectivised by laws placing effective power in the hands of tumu whakahaere. These boards of trustees made all commercial decisions, thus sidelining the hapu or iwi as a whole and striking at the heart of Maori collectivism. Despite official predictions that the "natives" would die out as a distinct people, however, Maori searched out every channel of resistance left open. More than a century of whakataunga, petihana, tawheraiti, hikoi, toutohe, mahi poti and other forms of tohenga to historic injustices forced governments to start making concessions to Maori in the 1980s. But capitalism's underlying hatred of Maori collectivism remains strong. The treaty settlements are designed to empower a minority of "corporate warriors", not the majority of flaxroots Maori. As Aotearoa's version of neo-colonialism, this is fueling divisions within the ranks of Maori between the market-driven profiteers and the ohu-leaning exploited. Marxists stand on the side of the exploited at the same time as we support all Maori calls for treaty compensations and tino rangatiratanga. The collectivist heritage of Maori, which is an indigenous forerunner of socialism, is a source of strength for all grassroots struggles in our land. The history of Aotearoa points to the need for mana hapori as a collectivist alternative to capitalism.

**8 Workers' internationalism, not corporate globalisation**

The explosion of corporate globalisation since the late 1970s has increased market pressures in every corner of the world. In rich industrialised countries like New Zealand, the welfare state has been hacked back over recent decades while the wealth gap between bosses and workers widens into a chasm. Third World nations are facing ruinous debt, asset stripping and imperial domination, reducing their grassroots to conditions of terrible poverty and often starvation. The world's top 500 multinational corporations are raking in obscene profits and taking over "national" businesses in every country, backed by powerful states whose military spending alone could solve humanity's most urgent food, water and healthcare needs while funding a global shift to clean energy technologies. Corporate globalisation holds the world to ransom in order to increase the profits and power of a tiny elite. Marxists stand for workers' internationalism, where the grassroots of every country unite in a common struggle for human salvation and ecological sanity. New Zealand activists must build closer links with workers in Australia, the Pacific and Asia as an antidote to ruling class moves to create a regional free trade zone which would increase the power of capital over labour. We support independence movements in West Papua and other colonies of the Indonesian state, along with people's resistance to Australian and



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New Zealand neo-colonialism in East Timor, Papua New Guinea and the Solomons.

## **9 New workers' party, not old Labour**

The world's old Labour parties are adapting to corporate globalisation, not fighting for a grassroots alternative. They are shifting away from social democracy, which once demanded significant concessions for workers in return for acting as capitalism's "loyal opposition". They are moving closer to the neo-liberal agenda of big business, and their leading bodies are dominated by the new middle class rather than union officials. The most apt description of NZ Labour today is "social-liberal". The working class in Aotearoa still casts more votes for old Labour than any other party, but the organisational and emotional bonds of generations past have long gone. Marxists stand for the creation of a new workers' party which can unite grassroots people around a broad left platform and open up the road towards socialism. The 10-point Workers' Charter, which has been endorsed by the NZ Council of Trade Unions, is based on meeting the needs of grassroots people rather than the ruling elite. Further steps towards creating a broad left alternative to social-liberalism are being made possible by a revival of mass struggles, both here and offshore. When a new workers' party arises and starts to win seats in parliament, this electoral legitimacy will give a huge boost to people's movements against corporate rule.

## **10 Socialist revolution, not reformed capitalism**

The space to deliver grassroots reforms through parliament alone is being shut down by corporate globalisation. Reforms can still be won on the back of mass struggles, but they are harder to achieve than in times gone and likely to be smaller. No longer do old Labour politicians talk about a "fundamental reform of capitalism", let alone a "peaceful road to socialism". Marxists stand for a revolutionary break with capitalism. History shows that no ruling class will ever peacefully hand over economic and state power simply because the majority of society have voted against the old order. Economic sabotage, military coups and foreign interventions are some of the weapons used by corporate elites to stave off grassroots challenges to their rule. Overcoming capitalist violence is a decisive stage in the journey to socialist democracy. A vital ingredient for success is organic leadership from a large Marxist group composed of the best activists in workers unions and grassroots coalitions. The centralisation of the capitalist state demands a counter-centralisation by the revolutionary movement. As workers change the old society, they will change themselves as well, and begin to equip themselves to collectively run a new society without bosses on top. We call on all non-sectarian activists who want a revolutionary break with capitalism to join Socialist Worker.



## **HOW WE ORGANISE**

### **the constitution of SOCIALIST WORKER**

✧ authorised by Socialist Worker national conference February 2007

#### **Democratic centralism**

Socialist Worker is organised around the principle of democratic centralism. This empowers both the individual and the collective by combining socialist debate and centralised action within the wider context of Socialist Worker's connection to the working class.

Whatever the views of the leadership or the majority of Socialist Worker, every member may freely voice opinions inside Socialist Worker's forums which they believe will assist the socialist self-liberation of the working class. These ideas may be expressed in a common "platform" with others. All members may retain minority opinions and re-state them so long as they don't disrupt Socialist Worker's practical activities. Socialist Worker cannot tolerate any member advocating support for capitalism, a system that exploits the majority of society, sparks wars of oppression and threatens life on our planet. Socialist Worker's democracy promotes the exchange of opinions needed to advance the cause of socialism.

Socialist Worker expects all members to carry out the decisions of the central committee and the majority vote of their branch even if they disagree with them. An exception is where specific conditions make it impossible or counter-productive to put Socialist Worker's decisions into effect. Socialist Worker cannot tolerate factionalism, where one or more members turn political disputes into a de facto split by sidelining decisions of the central committee or other Socialist Worker bodies. Socialist Worker's centralism promotes the disciplined unity of action needed for all members to "strike together", which provides the practice needed to evaluate the soundness of decisions and suggest what corrections should be made.

What Socialist Worker says and does must always take account of opinions and trends within the working class, the only force capable of transforming capitalism into socialism. The working class is the ultimate judge of Socialist Worker's behaviour. Only a dynamic linkage between socialists and workers can unify Marxist theory and practice.



### **National conference**

The national conference is Socialist Worker's supreme decision-making body. Convened by the central committee once a year or thereabouts, the national conference may make decisions binding on all Socialist Worker members.

As well, special conferences may be convened by decision of the central committee or by request of 20% of the membership. A special conference has the same powers as a national conference.

Each branch elects delegates to conference according to a quota set by the central committee. In addition, members of the old central committee are delegates to conference as of right.

All delegates have equal rights on the conference floor, and speak and vote as they think best without being bound by any mandate from any Socialist Worker body.

Each national conference elects a new central committee by secret ballot. The contest is between slates, not individuals. Any delegate may nominate

a slate of candidates. The bottom-polling slate drops off in each round of voting until a winner emerges.

### **Central committee**

Between national conferences the leading body is the central committee, which may make decisions binding on all Socialist Worker members.

Socialist Worker members shall be informed about the essence of central committee meetings, including any important split vote.

The central committee may discipline or expel any Socialist Worker member persistently violating democratic centralism.

Socialist Worker's national assets are controlled by the central committee. It elects the personnel of all subsidiary national posts and bodies, including the national executive, which may be given whatever delegated powers the central committee decides.

To promote the advance of new leaders, the central committee may draft new committee members up to a maximum of 20% of the total number voted in at the last national conference.

If national conference cannot be held for reasons beyond Socialist Worker's control, the central committee may draft whoever other committee members are needed.

### **Branches**

A variety of locality and industrial branches are possible depending on conditions at the time. Members may start up a new branch after authorisation from the central committee.

All members shall carry out majority decisions of their branch. The branch, with agreement from the central committee, may discipline or expel any member persistently violating democratic centralism.

Each branch may elect an executive which is subsidiary to the branch. In a region or industry with more than one branch, a combined assembly of those members may elect a multi-branch executive.

### **Membership**

A member is an individual who accepts Socialist Worker's constitution, agrees with our Marxist politics, pays dues and actively supports the collective and its publications. There is no group membership.

If dues aren't paid for more than three months, Socialist Worker membership may lapse unless special arrangements have been made with the national treasurer.

A member may resign from Socialist Worker at any time without need of explanation. Anyone leaving shall return all Socialist Worker documents and property.

All members have the democratic right to express their opinions inside Socialist Worker's forums and make direct representations to the central committee.



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**Where do  
workers  
go after  
the picket  
ends? It's  
time to  
join the  
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