

Understanding and Responding to the Economic Crisis

The Roots of the Crisis

1. Beginning in the 1970s, corporate profits stalled and investors began looking for new ways to make – and invest – more money.

Corporate profits declined in the 1970s, ending the “postwar boom” of rising wages that existed since World War II. To increase their profits, employers shifted good-paying manufacturing jobs to nonunionized areas of the USA and overseas, as well as while reorganizing work to get more output out of fewer workers. Entrenched union officials failed to respond and accepted endless demands for concessions while corporate profits rebounded. Without an organized fight against concessions, wages stopped growing and workers' purchasing power declined. Workers maintained a standard of living through working longer hours, sending more household members to work, and buying extensively on credit. The globalization of US capitalism and growth of credit both fueled the financial sector, which provided fluid economic resources that could be quickly moved and re-invested – unlike a physical investment such as a factory or railroad.

2. Years of government policies favoring the rich provoked instability and sparked this year's collapse of major Wall Street institutions.

The Federal Reserve (through which the government regulates availability of credit) set interest rates at 0% for several years in a row, encouraging heavy borrowing by companies to finance new investment. Much of this easy credit was poured into new homes, which many mistakenly saw as ‘safe’ or ‘foolproof.’ But blame does not rest on individual homebuyers – the entire system of easy credit was government policy. And specific high-risk “variable rate” mortgages were specifically marketed to African Americans, even those who qualified for safer loans. The hyped-up demand for houses drove their price far beyond the actual value anyone would realistically pay for them. Holders of expensive and sometimes outright fraudulent sub-prime mortgages quickly found themselves unable to meet the payments or refinance as housing values inevitably fell. More and more defaulted on their loans. Communities targeted for deceptive, manipulative “sub-prime” mortgages – especially African Americans – were hit hardest with historic losses of wealth.

3. Deregulation and corporate greed made a bad situation worse.

The collapse in the housing market bankrupted the massive mortgage lenders Fannie Mae and Freddy Mac. The companies were developed in the 1930s and 1940s in part to address the housing crisis of the Great Depression and provide access to affordable housing. The collapse and government take-over of these institutions shows us just how serious this current crisis has become. During the 1930s, the government began to regulate the banking system. But these regulations were stripped away in the 1980s and 90s to provide big corporations with more opportunities to make profits. Freed from oversight, investment bankers spread the risk of “safe” mortgage debt throughout the global economy. As housing prices fell and uncertainty spread, banks and firms operating with high levels of debt were suddenly unable to borrow the amounts they needed to stay afloat. At the most basic level, banks collapsed by lending money they didn't really have.

4. Wall Street's collapse reveals not only corruption and shortsightedness, but problems that are a basic part of the capitalist system.

Corrupt bankers and bad government policy didn't create this crisis; they just handled it in the worst possible way. The capitalist system requires permanent growth in profits to stay afloat. But, capitalist growth constantly undermines profitability. The president's recent speech to the nation addressing the crisis showed the bind that investors and the politicians that work for them are in; first he praised an economic policy that allowed Americans to “get easy credit” and purchase homes “sometimes for the first time,” and then lamented the “domino effect” this created throughout the economy. Of course Bush and congressional Democrats and Republicans alike have always favored the same thing, whether they call it “smaller government” or “privatization.” Each of these policies really represent the transfer of public assets and funds – which belong to all of us – directly into the hands of corporations and investors in their constant attempt to increase their own wealth. Bush, long devoted to “free enterprise” and “smaller government” now calls for “dramatic government action” in the form of the largest direct transfer of tax-payer dollars into private hands in history. Because this crisis was ultimately caused by the market, no market-based “solution” - whether “Buy American” or “support small business” or “stronger regulation” can provide a long term fix to the real problem!

5. We need strong social movements that fight for relief *and* a clear understanding that the problem lies with capitalism itself.

From previous crises, like the Great Depression, we see that capitalism constantly strangles itself - but it also has an amazing flexibility for recovery (especially by engineering a government rescue plan!) In fact, moments of great destruction for regular people can provide the perfect opportunity for power and profit among corporate investors; we've seen that happen recently in New Orleans and Iraq, and on a larger scale in Europe after the second World War. The system will not end itself; on the contrary, like weeds growing after a forest fire, destructive crises and war just open up space for new capitalist growth and bigger upward transfers

of wealth. But for the sake of humanity and the planet, society cannot continue to be based on profit. The bursting of the "miracle" financial system shows the continued relevance of real, productive work in society. Imagining a world without pinstripe suited men shifting around large numbers on a computer screen is easy - but who can imagine a world without people working to produce food, clothes, shelter and other necessities; to teach and provide health care; to transport things from one place to another? Revolutionary socialists, including those in Solidarity, see the possibility of a different kind of world because of this basic contradiction. The majority of people in society have no stake in continuing the status quo - and also, if united, have the power to overthrow the small minority that profits off our backs.

What is going on Right Now?

1. The era of the United States as a "the world's only superpower" is ending.

The United States economy has not been this bad since the Great Depression. US political and corporate elites hoped to retain global power militarily, through the wars in Iraq and Afghanistan, as the country's raw economic superiority slipped. But these wars cannot be won: opposition among the occupied populations, and growing dissent within the military, prevent any victory on US terms even as the death toll climbs. In the coming years, this changing political and economic reality will shake up basic assumptions about our place in the world held by most Americans since World War II. Predicting the reaction is impossible, but there is a pressing need to educate around international issues and to counter nationalistic, "We're #1" impulses instilled by everything from schools to the media and popular culture.

2. The crisis is spreading: from Wall Street to the "real economy" that employs most people in the country - and from the United States to other countries.

September topped a year of layoffs with the highest monthly job loss in half a decade. Previous months' losses were centered in the shrinking housing, construction, and financial industries. September saw big drops among auto workers; retail, restaurant, and hospitality workers also suffered. The financial crisis went global: economies in Asia, Europe, and Latin America are all in serious trouble.

3. Fuel and food prices are rising far faster than paychecks.

The cost of groceries and transportation have grown tremendously in the United States - almost 50% in the past year. In poor countries the problem is even more acute. Many Haitians have been driven to eating "cakes" made of mud, salt, and vegetable shortening. In countries around the world, there have been riots demanding government food relief. Previously low energy prices and favorable exchange rates for the dollar made it cheap to import food into the US. Now, rising fuel costs seem likely to continue as American global power declines; not only will food prices increase even more, our car culture and suburban geography, with spread-out single family homes and miles of highway is becoming too expensive to maintain. Gas prices are making all that driving--and even heating our homes--increasingly unaffordable.

4. There is no money for schools, housing, health care, Katrina relief, or public works jobs - but when the rich are in trouble, \$700 billion appears.

A spokeswoman for the US Treasury admitted that \$700 billion was simply a made up figure, to signal that the government had the bankers' backs - on behalf of taxpayers. The government is throwing our money into these financial black holes without even asking for decision making power. This shows that money is available - but for whom? We must be clear that, far from right-wing cries of "socialism," this sudden intervention is really indented to temporarily stabilize the whole corporate profit system. A government controlled by corporations will never willingly bail out those who really need assistance. This \$700 billion could provide completely free health care for all, paid parental leave for overworked parents, free quality childcare and education, clean and safe city parks and communities of subsidized housing, job training and infrastructure for rural areas screwed by vanishing mines, factories and farms, and countless other "utopian" needs that are ignored as congress feeds the fire on Wall Street with our money.

5. The economic shake-up has transformed the terrain of this year's presidential elections.

National elections are the medium through which most Americans experience and discuss "foreign policy" and "domestic economy." Voters identify the failed wars and collapsing economy with the Republican Party and its candidates. Polled support for McCain/Palin has plummeted among white voters as economic fears apparently overshadow racial loyalty to the white candidate. As a response, the Republicans have pulled out the stops, whipping campaign rallies into frenzied mobs in order to mobilize the hard right racist vote. An Obama victory would indicate a huge blow to racist ideas among white people. But on the major questions that have come to the fore, Obama has sided with big business, and his "exit plan" from Iraq would send troops straight to Afghanistan. Grassroots activists need to stay in the streets and organize for economic relief and for the end of US military adventures abroad no matter who is in the White House.

6. Government responses to the coming recession will ultimately favor either big business, or the working majority of the country, but not both.

Politicians and the media spun the \$700 billion bailout by claiming that everyone should support a bank-robbery-in-reverse, for "the greater economic good." This kind of rhetoric is a taste of things to come and we have to be prepared to see through the spin. Politicians will try to win support for measures intended to "strengthen the economy." But a "strong economy" means different things to different people - mass layoffs usually result in jumping stock prices! Good for business, bad for people. More unemployment means more people competing for jobs. Business owners can find workers willing to work for less, and keep more of the profits those workers generate. In such a situation, badly needed reforms such as stronger unemployment benefits not only help keep bills paid and put food on the table, but strengthen the position of everyone who gets paid to work - because there is less downward pressure on wages.

How Can Activists and Organizers Respond?

Beyond the newspaper headlines of stock prices, the economic crisis has many faces for ordinary people: job loss, disappearing retirements and college savings, home eviction. We ultimately need nationwide organizing to address all of these issues within a framework that links them to each other and to the causes of the crisis. For now, the disarray of social movements and community organizations mean that the most important work will be building these struggles on a local level. In many places, grassroots organizations that fight for economic justice have ongoing campaigns for health care, housing rights, and other issues. In other areas, these types of struggles will just be getting off the ground. The list below presents some ideas for immediate organizing and broad demands in the face of economic hardship.

- **Hold public meetings and events to discuss the financial crisis.**

The corporate media and government soundbites have provided an avalanche of information on the economy - from the point of view of the rich and powerful. We need an alternative: community forums and town hall meetings featuring the voices of grassroots activists, union members, socialists, and radical professors. Solidarity and other socialist organizations are working together to plan these kinds of events to keep people talking and to learn as much as we can about the crisis--its causes, its impact on our lives, and ways we can make a difference. We're working to develop materials and tips for developing this kind of discussion where you live. Please contact us at solidarity@igc.org or visit our website, www.solidarity-us.org, if you are interested in materials or help organizing an event.

- **Organize to stop foreclosures and evictions.**

Some right-wing commentators have blamed this crisis on ordinary people "living beyond their means," and argued that laws designed to prevent racial discrimination in mortgage lending sent the economy spiraling out of control. In reality, its Wall Street bankers and brokers that have been living beyond our means to support their extravagant lifestyles and reckless financial decisions. Their greed has turned many people's attempts to achieve the American Dream into a sudden nightmare; losing our homes. In addition to the many homeowners that have been foreclosed on, some renters are now facing evictions because their landlords can no longer make mortgage payments. A community group in Chicago's Albany Park neighborhood forced the Cook County Sheriff to halt all evictions of renters in foreclosed buildings. Organizations in other cities have also fought against foreclosures, evictions, and repossession. In our tenants' organizations, block associations and community groups we can raise the issue of evictions and foreclosures.

- **Demand the federal government re-write all mortgages to reflect their real value.**

These kinds of local efforts must be linked to a national campaign to bail out working people and prevent a situation in which houses stand empty while mortgage holders and their tenants are forced out - destroying neighborhoods in the process. Those with crushing mortgage debt that exceeds the falling price of their homes need help. The importance of government facilitated renegotiation of mortgages is so obvious that long-time free-marketeers like Hillary Clinton and John McCain have both suggested it at different times. The Obama campaign seems to agree with the suggestion; nevertheless none of the three senators has introduced legislation to turn relief into reality. Nationwide pressure is needed to keep them to their word. At the same time, a national campaign should push for the elimination of fraudulent, high risk and discriminatory credit lending practices that prey on vulnerable communities and which helped spark the crisis.

- **Now is the time to extend unemployment benefits, including job training and strong affirmative action to help those most vulnerable to economic hardships.**

We're headed into this crisis in a time where too many people are already unemployed and underemployed. Extending unemployment benefits will decrease insecurity in a precarious job market and help push employers to pay living wages to the workers they can't do without. Meanwhile, we need education and job training to prepare us for the jobs that are available right now. While really skyrocketing unemployment has become a possibility for everyone, African-American communities already face unemployment rates double or triple those of the population as a whole. This reality flies in the face of rhetoric about "post-racial America" that would likely be even more pronounced following an Obama presidential victory. Affirmative action is as necessary as ever to protect the right to employment and education for everyone.

- **Make free national health care for all a reality.**

Good health should not have a price. Health care costs are a major factor driving American families into bankruptcy. Even for those

who have some form of health insurance, a major health problem can quickly reveal how much care isn't covered, and force individuals and families into insolvency. For-profit health care makes money by denying patients care and services; meanwhile doctors and other health care workers are constrained by corporate red tape and paperwork. Single payer health care takes profit out of the system, driving down costs. Obama argues that health care is an area of "fundamental" difference between the parties, but his plan keeps us tied to a health care system driven by the need for profits for insurance companies, not by the need for health care for everyone. This irrational, inefficient system has to end, for our nation's financial and physical health.

- **Defend secure retirement for everyone.**

The same corporate interests that set the stage for this crisis have been trying for years to pass legislation that would have put Social Security dollars into the stock market. If they'd been successful, the future, post-crisis, would be even more insecure as a huge portion of Social Security disappeared overnight. During the same time, corporate employers have managed, increasingly, to shift economic risk of saving for retirement onto their employees, replacing defined benefit plans with 401Ks and other defined contribution schemes. We should fight further retirement concessions in union contracts, as well as argue for legislation that would protect everyone from poverty and hunger when we become too old to work.

- **Help build organizations of immigrant and undocumented workers.**

Pundits and politicians are already seeking to implicate and blame immigrants for the economic crisis. Recent federal raids rounded up hundreds of immigrant workers in Mississippi and South Carolina. As unemployment rises, US-born workers (especially whites) will be told to support these kinds of actions in the name of "protecting jobs." We must counter that there can be no closed borders for people in a world where businesses are allowed to move wherever they can find the cheapest labor. We can support and build organizations of immigrant workers – like workers' centers and unions– that can educate the public, fight for living wages for all workers and defend against raids and harassment. We must also organize against unfair trade agreements like NAFTA, which destroyed jobs and livelihoods on both sides of the border while lining CEO pockets.

- **Help build a labor movement that can fight back.**

Organization among immigrant workers is crucial for transforming the labor movement we have--made up largely of stagnant and shrinking unions that have been in retreat for decades and "leaders" more focused on market share than grassroots power--into the growing, democratic social movement we need. Right now, corporate America is helping itself to our tax dollars, while at the same time fighting tooth and nail to cut wages, health care and pensions for the workers they employ. Recently some union members, working together, have managed to begin to shoot down concessionary contracts--Teamsters recently voted against a contract that applies to car haulers nationwide, on the grounds that employers were asking for far too much. Those of us in union workplaces should take get involved in contract fights and new organizing, as our coworkers become increasingly fed up with the double dipping by CEO's and Wall Street.

- **Demand cuts in military spending, support soldiers organizing to end the wars in Iraq and Afghanistan and dismantle US bases.**

The government bail out of Wall Street is \$700 billion; that's about the same amount that the Bush administration has spent on the needless civilian and GI deaths in Iraq. Ending the wars in Iraq and Afghanistan is a moral and a financial imperative for soldiers and civilians alike. Organizations like Iraq Veterans Against the War and Gold Star Families for Peace have already been working to support resistance to the war by those able to stop it - the military ranks themselves. Its in all of our best interests to see them achieve their aims! Global opposition to the war in Iraq produced the largest coordinated demonstrations in world history. It's more important now than ever to turn that planetary consensus into a reality.

- **We need a plan to rebuild a sustainable America.**

Corporations and policy planners didn't need bombs to lay waste to our infrastructure; instead of sudden "shock and awe" like we saw in Iraq, our public buildings, roads, sewers, schools, hospitals, and public transportation have been devastated by neglect because of constant cuts to maintenance and development of these basic necessities over the last thirty years. Investment in basic infrastructure will not only improve the lives of all of us who depend on it day-to-day, but can create more living wage jobs, and begin the task of building the environmentally sustainable cities, farms and transportation systems we need for the future.

- **Create or strengthen local coalitions of established groups struggling around economic issues.**

To do all this, organizers and activists have to work together. Cooperation and communication between neighborhood and tenant organizations, labor unions, students, social justice oriented religious groups, and issue-based advocacy groups (on HIV/AIDS, education, health care or the environment, for example) can provide not only the pragmatic benefit of "feet on the ground" for each struggle but the opportunity to share winning tactics and educate each other on how issues are related.