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RELAY

A SOCIALIST PROJECT REVIEW

IT'S WHAT'S FOR DINNER:

THE POWER OF EMPIRE IN LATE CAPITALISM

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Relay, A Socialist Project Review, intends to act as a forum for conveying and debating current issues of importance to the Left in Ontario, Canada and from around the world. Contributions to the re-laying of the foundations for a viable socialist politics are welcomed by the editorial committee.

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The Socialist Project does not propose an easy politics for defeating capitalism or claim a ready alternative to take its place. We oppose capitalism out of necessity and support the resistance of others out of solidarity. This resistance creates spaces of hope, and an activist hope is the first step to discovering a new socialist politics. Through the struggles of that politics – struggles informed by collective analysis and reflection – alternatives to capitalism will emerge. Such anti-capitalist struggles, we believe, must develop a viable working class politics, and be informed by democratic struggles against racial, sexist and homophobic oppressions, and in support of the national self-determination of the many peoples of the world. In Canada and the world today, there is an imperative for the Left to begin a sustained process of reflection, struggle and organizational re-groupment and experimentation. Neither capitalism nor neoliberalism will fade from the political landscape based on the momentum of their own contradictions and without the Left developing new political capacities. We encourage those who share this assessment to meet, debate and begin to make a contribution to a renewed socialist project in your union, school and community. For more information on the Socialist Project check our web-site at www.socialistproject.ca or e-mail us at info@socialistproject.ca.

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Importing Blair's Failure:
Ontario's Poverty Reduction Strategy

Bryan Evans

The campaign leading up to Ontario's October 10th election had little to say on the subject of poverty. The New Democrats, for their part, kept the minimum wage issue at the fore though it was not a central part of that rather amorphous campaign. There was no hint whatsoever from the incumbent Liberals that poverty was of any significant concern for them. In their budget of 2007 they reluctantly and cautiously committed to raising the minimum wage to $10.25/hour over a three-year period and made some other modest overtures toward Ontario's most marginal citizens, but nothing here hinted of a strategy.

So it was all rather surprising that the November 29, 2007 Throne Speech gave the issue such prominence. The Throne Speech announced a new committee of cabinet was to be struck and charged with the task of "developing poverty indicators and targets and a focused strategy for making clear-cut progress on reducing child poverty" (Ontario Throne Speech 2007). To a significant extent the McGuinty Liberals are modeling this strategy on that pursued by Tony Blair's New Labour since 1999. While development of the strategy is in its early stages, now is the time to press the Liberals to adopt a comprehensive strategy based in a class analysis rather than what, at the moment, appears to be a driving concern to keep any poverty reduction strategy as constrained and limited as possible.

Ontario's 2008 Budget: Corporate Tax Cuts Outpace Poverty Reduction

It's a tired truism, but it must be constantly said that the annual budget of any government is a critical political statement of priorities, values and objectives. Budgets tell us which social and economic blocs a given government favours and responds to and which are of lesser significance. The March 25th Ontario budget was no exception to this general axiom. Poverty reduction was given a symbolically central place in the Ontario Liberals 2008 budget. This follows the striking of a cabinet committee on poverty reduction announced in the wake of the October election, a symbolically powerful expression. Then look at the budget, the means to allocate public resources, making change possible: A 2% increase in social assistance rates, increasing the minimum wage to $10.25 between now and March 31, 2010, a $10 million assisted-building strategy for low-income Ontarians and $100 million to rehabilitate a deteriorating social housing stock. This is not a poverty reduction strategy.

Yes, dental care for low-income families and a nutrition program are excellent proposals, but the core components of, the Ontario Liberal poverty reduction strategy consist of $267 million in new programs. That's in the context of a global budget of $96 billion. And perhaps to put a fine point on it, Budget 2008, despite the snarling from the Common Sense Revolutionaries in Ottawa, offers up $750 million in business tax cuts. That's nearly three times the dollar value being allocated for poverty reduction. There's a lot of symbolism here serving the political interests of the 'One Ontario' ideological frame of the Third Way Liberals. But there's a rather striking evasion of having to deal with the real structural problems confronting Ontario's working families and communities.

An Anti-Poverty Strategy from the Top…

The composition of the Cabinet Committee on Poverty Reduction signals the overall policy direction to be pursued by McGuinty's Liberals. With fourteen members, eight of whom are actually ministers, this is a large committee. It includes several heavy weights including finance minister Dwight Duncan, health minister George Smitherman and education minister Kathleen Wynne. Other, less well known, ministers are also members and, given their portfolios, have controllership over more than 70% of Ontario's public expenditures. These include community and social services, where the key source of expenditure is on social assistance, the ministry responsible for training and post secondary education and the ministry of housing. In fact, there is a great deal of membership overlap with the cabinet committee responsible for social policy. What is interesting, and with reason, is the complete absence of key economic policy ministries, notably the ministries responsible for economic development and labour.

In large part this is a reflection of the adopted New Labour/Blairite ideological lens through which the Ontario Liberals understand the causes of poverty. New Labour does not view poverty as the inevitable result of the logic of capitalism's class structure, but rather as a function of 'social exclusion.' Social exclusion has been defined by the Blair Prime Minister's Office as "more than income poverty. It is a shorthand term for what can happen when people or areas face a combination of linked problems such as unemployment, discrimination, poor skills, low incomes, poor housing, high crime, bad health and family breakdown. These problems are linked…" (Social Exclusion Unit 2004). Yes, indeed. This is not contestable. However, it misses the point. These are the symptoms produced by class divisions. Symptoms absolutely requiring redress through public intervention. However, the cause, the structures at the source of these symptoms, go unrecognized, and purposefully so.

Hence, in Ontario's case, at least to date, the question of general quality of employment is not to be addressed. In other words, is the market economy generating employment of sufficient quality and in sufficient quantity, as measured by pay, benefits, training/education opportunities, stability, and some form of career ladder, to provide individuals, families and communities with the economic and social foundations to evade the symptoms of social exclusion? Of course, the answer is no. And to acknowledge this fact would require a rather different approach. Very quickly this would lead into areas where any party with organic links to business would only go reluctantly, if at all. For example, there is no dispute, even among liberal economists such as Paul Krugman, that membership in a trade union is an absolutely core element to the creation and sustainability of a broad middle class.

In addition, the public sector has a role to play in the provision of important public services and the generally, though eroding, high quality jobs found in the sector. This is not confined to the existing range of public and social services, but also those that have yet to be created, such as child care. There is also a need for industrial policy. The state can shape conditions for this to happen by regulating capital and returning to an enforced regime of progressive taxation for labour and capital. The 'catch as catch can' regime of tax evasion, avoidance and legislated erosion of public finances and capacities, both at the provincial and federal level, is not going to allow any movement in this direction. To date, the signals are clear. Ontario's poverty reduction strategy is not to intervene in the dynamics of the capitalist market. Not only far from an anti-capitalist set of interventions, this approach even shrinks from using the authority of the state to shape the decisions of those who control capital.

…And Designed in Deliberate Isolation

In terms of strategy development, the cabinet committee and the senior public servants responsible for policy development have begun to meet with a range of poverty experts. Of course, this is all being lead at the very highest levels of the Ontario state, the Cabinet Office and the Premier's Office. The most 'expert' persons on this subject are those who endure it. It is again indicative of a certain strategy of containment that only specific analysts are invited. Of course, who is invited reflects the broad tenor of the strategy itself.

It is to be modest and inoffensive in every way. The meeting participants are reminiscent of the well-to-do Fabians of Britain's late 19th century, who would gather in homes in proper neighborhoods to discuss the condition of the working class over tea. Obviously a less secretive, more transparent (to use an overused government term) process of consultation and engagement is necessary. But then, that would require defending, at some point, decisions not to act and not to invest. Again, it would appear that in Ontario the guiding principle - in addition to non-intervention of a substantive kind - is that the strategy is not to be costly. Consequently, a very conservative definition of poverty is necessary wherein only the bottom 10% will become the target of any initiatives to come.

The Paradox of Deepening Insecurity in the Midst of Growth

The 40% of Ontario workers who have seen their incomes decline over the past decade is simply too big of a problem to even attempt to grapple. The days of dreaming big are certainly over in the world of neoliberalism. But any serious anti-poverty strategy must come to grips with those who are in a precarious place. They may not be the impoverished of today, but are merely one lay-off, one accident, or one illness away from joining those in the bottom decile. And this is despite a more than 60% growth in Ontario's GDP (ArmineYalnizyan, Ontario's Growing Gap, 2007). It must be further said that this broad-based stagnation has also occurred at a time of steadily declining unemployment. →

Again, we must, if honest, return to the fact that working is not working for significant numbers of Ontario workers and dealing with symptoms will ultimately enter into a crisis of its own. As economist Armine Yalnizyan observes in a study of polarization in Ontario: “As inequality grows, those who can afford to pay will drive the prices of all the basics – the housing market, the education market, the market for caring services, (nannies, home care, and health services). The result could be a shift in focus from public solutions to private solutions and, perhaps unwittingly, driving costs up for everyone, whether they can afford to pay or not.”

Lessons of New Labour: Adaptive Capitalism

Peter Mandelson, a former New Labour minister, once said: “I feel intensely relaxed about people getting filthy rich” (Seamus Milne, The Guardian, August 12 2007). Former Prime Minister Blair was equally unconcerned with inequality. His only concern was that poverty be reduced. Gordon Brown, Blair’s successor, has acknowledged “the gap matters” but has not indicated what his government will do to address polarization. David Miliband has proposed the tax rate on incomes of over 100,000 pounds be increased to 50 per cent. But, tellingly, there has been no action. Even a Rowntree Foundation report, assessing the record of New Labour, concluded with respect to poverty, “the root causes of the problem have not been addressed” (Lucy Ward The Guardian, December 4 2006). It is recognized that the New Labour anti-poverty interventions have not been without success but this is limited. The preferred policy instrument has been to use targeted benefits rather than addressing the structural roots of poverty especially income inadequacy. In sum, despite more than ten years of high-level focus on poverty in the United Kingdom, recent studies show that inequality is actually increasing (British Medical Journal, April 2005).

What Is to Be Done?

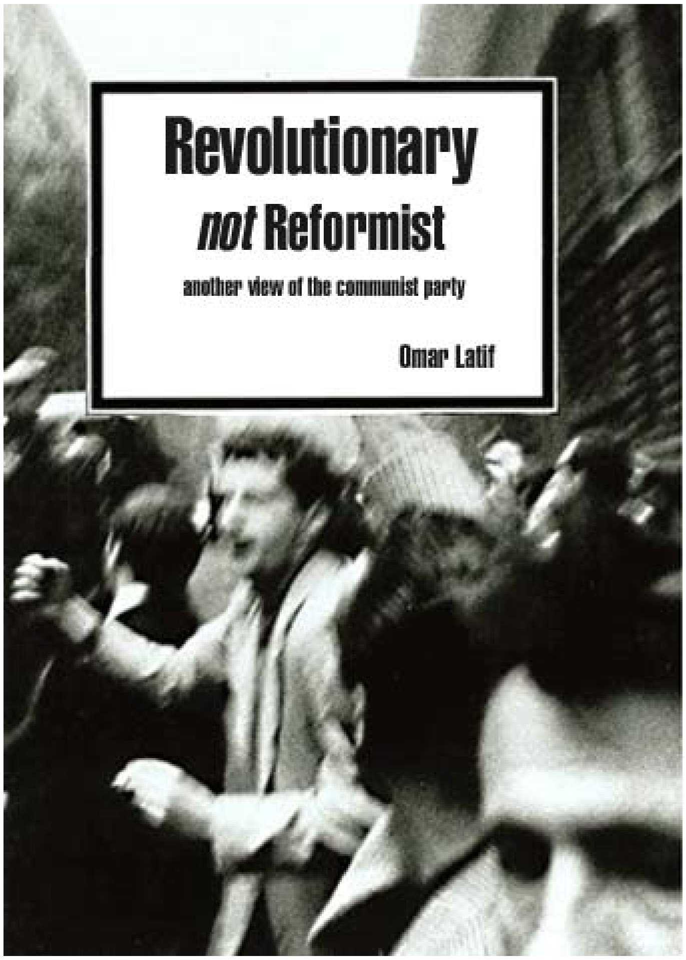
Campaign 2000, a broad network of 66 national, regional and local agencies concerned with questions of poverty, responded equivocally to the proposals and directions for poverty reduction set out in the 2008 Ontario budget. Their press release commenting on the budget expressed ‘encouragement’ but also signaled that an “effective poverty reduction strategy needs to go significantly beyond organizing and aligning the current system of supports for low income people” (Campaign 2000 Media Release March 25, 2008). That encouragement is offered is indeed odd, given that the Ontario government chose not to respond to the minimal program for reform offered by Campaign 2000, which includes a $10/hour minimum wage (in 2007), improved enforcement and updating of labour law, a comprehensive affordable housing strategy, and a commitment to a 25 per cent reduction in child poverty by 2010.

But Campaign 2000’s own strategy is deeply embedded within the fabric of Third Way neoliberalism. Even if fully adopted by the government it would soon enter into an impasse. The models presented by the United Kingdom have, in fact, proven to be less successful than their proponents claim. The New Labour template for poverty reduction is a limited one. If the success sought is modest then there is something here. Looked at objectively, however, it is a strategy to manage the expansion of poverty, not to reduce it. In this sense it is adaptive to a set of power relations which will not be challenged by neoliberalized social democracy. Social activists and community agencies, and most notably Campaign 2000, have urged the Ontario Liberals to “adopt a poverty reduction plan with set targets, timelines, a dedicated budget and ongoing monitoring” (Opportunities Waterloo, January 22, 2008). Budget 2008 did none of this.

This is the formulae of New Labour’s failure. Yes, governments can be held to account for failing to meet stated targets. But that even the community sector avoids the fundamental questions respecting a deeply class divided society is further evidence of the internalization of neoliberalism. The management techniques being urged upon the government will, in some form, be assuredly present. They are the basic tools of neoliberal public administration. But where is the demand for inclusion in the policy process? For a more democratic setting of the policy agenda? And, of course most fundamentally, an anti-poverty strategy that begins to address why poverty exists and expands amidst nothing but wealth?

Campaign 2000 is doing valuable work in pressing the Ontario Liberals to be more serious and less symbolic with respect to poverty reduction. At the same time, their entire program seeks only the most minimal outcome by working within the constraints of the exiting political reality, rather than doing anything to challenge it. Philanthro-capitalism is not an alternative, just a variation on a theme. **R**

Bryan Evans teaches public administration at Ryerson University and wishes to thank Dr. Dennis Raphael for sharing documents.



In the 1930s it was not respectable to say a good word about the Communist Party of Canada (CPC). Today, it seems, it is respectable – provided one confines oneself to the Communist Party of the 1930s. A case in point is "A Case for a New Centre of Revolution in Canada" by Ken Kalturnyk and Karen Naylor of the CPC (ML) in the Nov/Dec. 2007 issue of *Relay*.

After acknowledging that the "the Communist Party of Canada had become the undisputed leader of the revolutionary trade union movement by WWII," they go on to argue that subsequently the party became a reformist. Banned by the Mackenzie-King government, the CPC, they write, dropped 'communist' from its name and revolution from its programme in exchange for the government's offer of legality.

The CPC, in my view, like many a communist party facing a similar situation, took on another name – the Labour Progressive Party – to be able to keep on working 'above-ground' and resumed using the word 'communist' as soon as the ban was lifted. The CPC's 'alliance' with sections of the capitalist class opposed to fascism and nazism, rather than being a sign of the Party's abandonment of revolution as they posit, seems to me to have been a sensible policy undertaken to help defeat the most dangerous enemy of humankind at the time (a view, incidentally, held by almost every socialist and communist worldwide).

As far as I know, the CPC's programme has been called 'Canada's Road to Socialism', not the "Peaceful and Parliamentary Road to Socialism" as they state. Then, as now (and I say this as someone who has been a 'fellow traveler' and a 'card-carrying' member of the Party for three decades) it has stood and fought for revolutionary change in Canada. It's programme emphasizes extra-parliamentary struggle but does not ignore the parliamentary and legal fields to try and win progressive changes.

When Kalturnyk and Naylor go on to say that the Rand Formula was adopted by the government because of an "informal truce and alliance" (whereby the CPC pledged to pursue social democratic and class-peace policies) they exaggerate the Party's strength, and distort history. If the CPC and the unions it influenced had pledged to pursue class-peace, why were, as the authors themselves write, hundreds of revolutionaries (mainly Communist Party members or supporters – OL) removed from leading positions in unions?

Those purges and the disbarment of CPC members from holding office in most trade unions for the next several decades was the result of the alliance between many (not all) social democrats and sections of the Canadian ruling classes directed against the CPC. Mainly, I would argue, because it remained a revolutionary organization opposed to policies of class-peace.

They conclude with a call for a 'centre of revolutionary thought and action,' an 'organization' in spite of "differences over strategy and tactics" and "over forms of struggle." A strong, revolutionary party, of course, is desirable, indeed essential if fundamental social change is to take place, though one centre or one organization in spite of these differences is hard to imagine.

Unity in action by all who want to replace capitalism with socialism and beyond – embracing all Canadians ready to engage today in practical struggle against the policies and interests of our capitalist rulers – is certainly possible and urgently needed. Long-term unity in struggle, plus debates and discussions, especially amongst communists and socialists, should also lead to a much larger and more powerful revolutionary organization than the ones which exist currently in Canada. **R**

Omar Latif is an activist with the Communist Party of Canada.

Hollowing Out?

Myth and Reality

Jerome Klassen

"Having these multinational corporations deciding our future in faraway lands isn't right."
— NDP leader, Jack Layton

"If you look at some of the investments by some of the Canadian banks in the United States, one can make the argument that there is a hollowing out in Alabama and a hollowing out of New Jersey."
— Minister of Finance, Jim Flaherty

In the first three quarters of 2007, foreign firms spent more than $90 billion on purchasing Canadian companies. In a frenzy of mergers and acquisitions, leading Canadian firms such as Falconbridge, Four Seasons, Inco, Stelco, ATI, and Alcan were sold to foreign buyers. The loss of these companies to foreign capital has prompted worries amongst politicians, business leaders and think tanks on the level of foreign ownership in the economy. The fear is that multinational firms will 'hollow out' corporate Canada and drain the country of capital, jobs, and new technologies.

For this reason, federal NDP leader Jack Layton has demanded an emergency debate on these issues in Parliament. Federal Liberal leader Stéphane Dion has similarly called for a moratorium on foreign takeovers and a review of Industry Canada's competition and investment policies. While the Conservative government has created a blue-chip panel to examine these issues, high-ranking cabinet ministers such as Jim Prentice and Jim Flaherty have already dismissed opposition concerns as unwarranted "hype."

The debate on foreign investment is also present in the business community. Gord Nixon, the CEO of Royal Bank, Dominic D'Alessandro, the CEO of Manulife Financial, and Roger Martin, the Dean of the Rotman School of Management, have all expressed concerns on the current trends in mergers and acquisitions. Likewise, Caldwell Securities, a major investment firm, has run a newspaper ad on "The Sellout of Corporate Canada," which describes the loss of head offices and big-name companies as "one of the great corporate tragedies of our time." In contrast, Don Drummond, the CEO of TD Bank, describes the 'hollowing-out' thesis as a "myth" and claims that Canadian firms remain competitive in many areas of international business.

Canada's leading think tanks and research institutes have also engaged this debate. On the left, Mel Hurtig at the Canadian Centre for Policy Alternatives (CCPA) has argued that foreign takeovers are leading Canada into a new "colonial status" in the American empire. In opposition, the Conference Board of Canada and the Institute for Competitiveness and Prosperity have argued that, despite the recent wave of buyouts, Canadian firms still play an important role in leading sectors of the world economy.

The same divisions exist amongst socialists in Canada. On one side, the New Socialist Group, the International Socialists, Socialist Voice, and Socialist Project have published articles and pamphlets on Canada as an advanced capitalist country with *imperialist* interests in the world economy. On the other side, the magazine *Canadian Dimension* and the website rabble.ca have run many articles on Canada as an economic *dependency* of the United States. As solutions, the latter advocate a left-wing economic nationalism, while the former support anti-imperialist working-class struggles against the Canadian state.

What, then, should be made of this extraordinary debate, which transcends and confuses the normal boundaries and class lines of Canadian political economy? Has corporate Canada been 'hollowed out' by foreign firms, as Jack Layton, the CCPA, and the managers of financial capital insist? Or has Canada retained a strong national bourgeoisie, as Jim Flaherty, the Conference Board, and various socialist groups argue? Let's consider the evidence, and then turn to the issue of socialist strategy.

Canada's International Investment Position

While Canada has lost a number of large-scale firms in recent years, and while the investment policies of Industry Canada make it relatively easy for foreign companies to purchase Canadian firms, the long-term trends do not indicate a 'hollowing-out' of the national economy.

Consider, first, the evidence on foreign direct investment in and out of Canada. As the graph demonstrates, foreign firms have historically owned more assets in Canada than have Canadian firms in the rest of the world. As a result, Canada has typically registered a structural surplus in this measure in the balance of payments.

Starting in 1996, however, Canada began to run a systematic deficit in this measure. As a result, even though foreign firms today own assets in the Canadian economy worth $448.8 billion, Canadian firms own an even greater sum of $523.2 billion in other countries. This deficit in Canada's international investment position has been a structural feature of the economy for more than a decade, and reveals that Canadian firms own and control more assets in the world economy than do foreign firms in Canada.

Second, the internationalization of Canadian capital has made the country an important command and control centre for the world economy. According to the OECD, Canada today is the eighth largest source of foreign direct investment capital in global markets. As the UN reveals, Canada in 2004 was home to 1,439 transnational corporations, which controlled 3,725 foreign affiliates, employed 942,000 foreign workers, and earned $372.4 billion in total sales of goods and services. According to the Institute for Competitiveness and Prosperity, Canada is now home to 72 companies that rank amongst the top five in the world in their particular line of business, up from 33 in 1985. These 'world-class' companies have grown in number and in size, with average annual revenues today of $3.7 billion, up from $2.0 billion two decades ago. In yet another study by *Forbes* of the two thousand largest companies in the world, Canada in 2006 ranked fifth in terms of the number of companies on the list.

All of these studies reveal that Canadian firms have been a competitive force in the internationalization of capital. As the world economy has become more globalized, and as capital has become more concentrated and centralized, so too have Canadian firms.

Third, the Canadian economy increasingly *profits* from international investments. According to Statistics Canada, between 1990 and 2004 Canada earned a *dividends surplus* of $8.85 billion, meaning that Canadian firms repatriated a greater sum of profits than did foreign firms operating in the country. During this period, Canada imported a total sum of $144.4 billion in profits, and experienced only three years in which a deficit was registered in the balance of payments. This increase in dividend receipts is the result of the large-scale growth of Canadian direct investment abroad (CDIA), and reflects the growing strength of Canadian firms in the world economy.

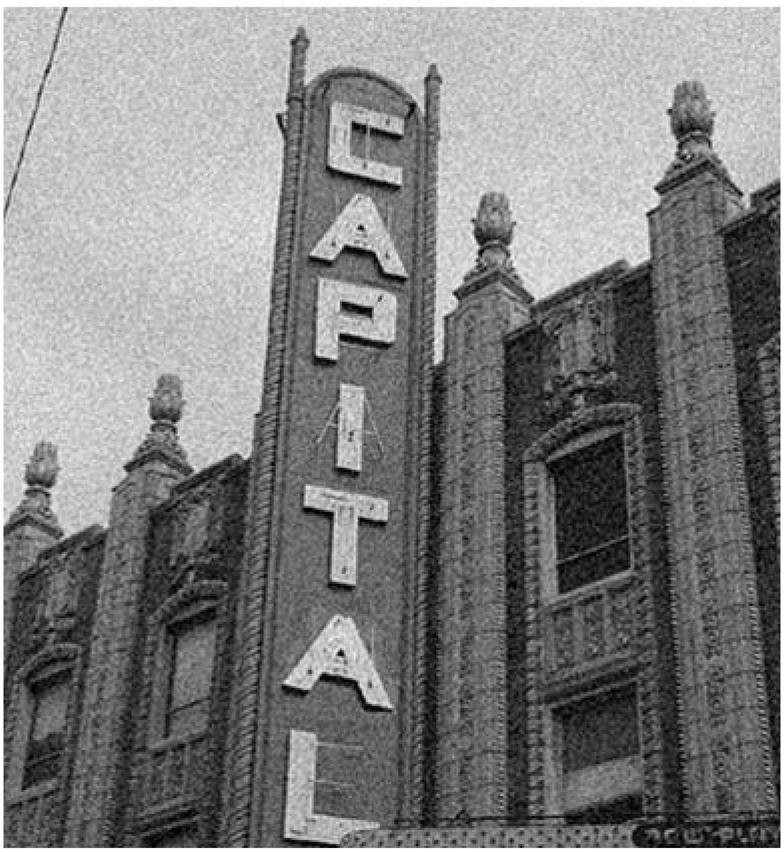
Fourth, Canadian direct investment abroad is distributed *across the circuits of capital*. In 2006, financial activities represented 44% of CDIA, followed by energy and metallic minerals at 23%, manufacturing at 13%, services and retailing at 13%, machinery and transport equipment at 5%, and wood and paper at 3%. These numbers mirror the general trends in foreign direct investment under neoliberalism, and reveal an internationalization of capital in all sectors of the economy, especially in finance and high value-added industrial activities such as mining, energy, manufacturing, machinery and equipment.

Fifth, Canadian direct investment abroad is distributed across the countries and regions of the world economy. In 2006, the United States accounted for 44% of CDIA, followed by Europe with 29%, the Caribbean with 16%, Asia with 6%, South and Central America with 4% and Africa with 1%. This geographic distribution of CDIA matches the trends at the global level, wherein the internationalization of capital has occurred primarily within and between the dominant regional blocs. These numbers also indicate that Canadian firms are not focused simply on the American market, but have a *global strategy* for expansion and accumulation.

The globalization of Canadian capital is further evident in the investment relation between Canada and the periphery. Even though relatively little of total CDIA in sent to the periphery, Canadian firms increasingly play an important role in these economies. For instance, Canadian corporations operate amongst the top three nationalities of corporate activity in countries such as Barbados, Chile, Guyana, Costa Rica, Trinidad & Tobago, Ecuador, Uruguay, Mexico, Panama, Honduras, Bolivia, and Surinam, and operate amongst the top ten in Argentina, Venezuela, and Peru as well.

Canada also registers a massive investment deficit with countries lower down the imperial chain. While only a small portion of CDIA is sent to Africa, Asia, and South and Central America, this amount is not all reciprocated by inward FDI from these regions. For example, in 2004, Canada registered an investment surplus of $52.2 billion with the United States, but registered an investment deficit of $98.8 billion with Africa, Asia, South and Central America, and other regions outside of the OECD. Based on this stock of investment in the periphery, Canadian firms earned a net investment income of $7.1 billion.

The investment relation between Canada and the periphery, then, is characterized by the typical imbalances. Even though Canada invests relatively little in the periphery, it relies upon these investments for the profits they generate, and the competitive advantages they grant vis-à-vis the US and Europe. For these reasons, it is not surprising that Canadian firms from all sectors →



of the economy are increasingly being accused of human rights and environmental violations in the Third World.

Lastly, and because of the trends analyzed above, Canadian capital has not been 'hollowed-out' by foreign takeovers. Even though 2007 was a year in which many large-scale Canadian companies were acquired by foreign firms, the long-term trends resist any theory of Canadian dependence.

For example, according to the Conference Board of Canada, between 1994 and 2007, there were an *equal* number of cross-border mergers and acquisitions – both inward and outward – that were valued at over $1 billion. Furthermore, for transactions valued at less than $1 billion, Canadian firms purchased a *greater* number of assets abroad than did foreign companies in Canada.

As a result, in 2004 – the last year for which Statistics Canada has data – foreign ownership of Canadian assets and operating revenues was only 21.9% 30 % respectively. While these levels of foreign ownership are slightly higher than they were in 1988 (the year in which free trade began), they still remain low by historical standards, and compare positively to levels of foreign ownership in G7 countries such as France and Germany.

Foreign control is high in the manufacturing sector at 50.3%, with the United States and the European Union accounting for 33.2% and 13% respectively. However, Canadian firms control the majority of assets in every other sector of the economy, including mining (70.3%), oil and gas (55.1%), utilities (93.7%), construction (95.3%), wholesale trade (66.6%), retail trade (79%), transportation and warehousing (73.1%), finance (84.8%) and insurance (68.5%).

Furthermore, in the economy as a whole, foreign ownership of assets by American and European firms is only 13.4% and 6.4% respectively, while Canadian ownership is 78.1%.

The evidence suggests, then, that foreign ownership is high in certain sectors, but that Canadian firms have not been displaced from these sectors or from the economy as a whole. On the contrary, Canadian capital continues to control the majority of assets in nearly all sectors, and operates across the chain of value-added production. As a result, the current levels of foreign ownership do not support the theory of a 'hollowed-out' economy.

In fact, further evidence suggests that foreign investment has tended to *strengthen* Canadian capitalism. According to recent studies by Statistics Canada, foreign investment has had positive effects on productivity, innovation, employment, and wages. Foreign-controlled firms are more productive, innovative, and technologically advanced, and they pay higher wages and use more skilled workers than the average Canadian company. These studies also found evidence for productivity spillovers from foreign- to domestic-controlled plants, usually resulting from increased competition and the generalization of new means of production.

On the issue of foreign takeovers, these studies also found that, between 1999 and 2005, firms moving from domestic to foreign control created more jobs on average than were lost; that foreign firms accounted for the net gain in head office operations during this period; and that domestic firms are more likely than foreign firms to shut-down head office units and reduce management positions in the course of a takeover.

The long-term evidence on foreign direct investment thus reveals four important trends. First, Canadian capital has expanded abroad more rapidly during the period of neoliberalism than has foreign capital in the Canadian market. Second, Canada is a leading source of foreign direct investment capital, and Canadian firms are often positioned as worldwide leaders in their line of business. Third, Canadian firms from across the circuit of capital have investments across the world economy, and increasingly profit from global modes of production and exchange. And fourth, the Canadian economy increasingly benefits from foreign direct investment, especially in matters of productivity, employment, and head-office growth. For these reasons, the theory of 'hollowing out' is more myth than reality.

Socialist Strategy

The evidence on foreign direct investment in Canada has important implications for socialist strategy. It demonstrates, firstly, the problematic character of 'left nationalism' in wide sections of the Canadian left. The evidence shows unequivocally that there is no material foundation for the old idea that Canada as a nation is oppressed by foreign capital. It reveals, on the contrary, that Canadian capital is the dominant force in the home market, and is independently imperialist vis-à-vis the world economy.

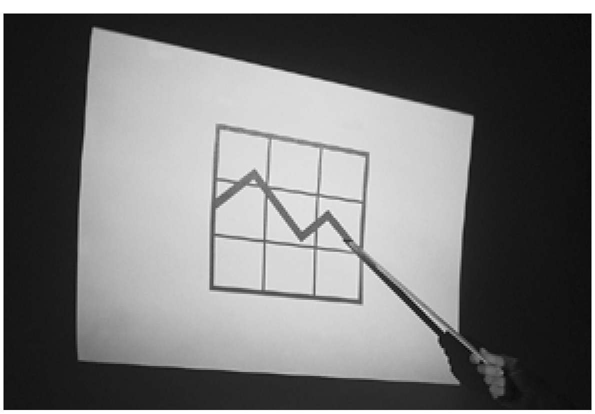
For this reason, the primary task of socialists in Canada today is to identify, and to organize against, the class relations of *capitalism*. The goal is not to nationalize the commanding heights of the economy, or to support the native bourgeoisie against the encroachments of foreign capital. The goal, instead, is to democratize and 'green' the means of production as part of working-class struggles to overturn capitalism both here in Canada and around the world.

In practice, this strategy in Canada must be anchored in a particular alliance between workers in their trade unions and communities, and indigenous peoples on the land. These two social groupings are the primary agents with a material interest in pushing back and overturning the class relations of Canadian capitalism, and in building an ecological socialism as an alternative.

Unfortunately, there is no organization on the radical left in Canada today with the capacity to build, or to support, this type of movement. In the short-term, therefore, socialists in Canada must work on a number of projects, including: building socialist currents in trade-union, working-class, and environmental movements; providing international solidarity to workers and communities organizing against Canadian companies; giving support to native struggles for self-determination; and organizing workers in Canada and around the world against the neoliberal agenda. Out of these movements, socialists in Canada must build a new political party and a program to change the world. **R**

Jerome Klassen completed a Ph.D. in political economy at York University in 2007.

Suggested Readings on FDI in Canada



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Political Relevancy and the Shop Floor

Jay Johnston

At an education conference this spring for the CAW there was a series of inspiring quotes posted around the room. There was one that stated, 'popular education is understanding something you already know, in a whole new way.' Although that quote caught my eye, I didn't realize until later how prophetic it would be. Much of what I knew or thought I knew about trade unionism and the broader social justice movement would shift into a clearer and simpler focus over the course of the next few hours.

The theme of the conference was 'mobilization through education.' A sentiment expressed by many participants was that apathy was rampant within our membership and labour as a whole. Having recently been involved in effort in my own local to increase member participation and awareness through the formation of a solidarity committee, I found myself wary of this assumption. During that endeavour the membership turned out with great enthusiasm to discuss how we could address workplace issues and prepare for collective bargaining.

Sadly, formal leadership repeatedly asked the solidarity committee to refrain from any action until later in the bargaining procedure. We ended up reaching a new collective agreement that included several major concessions, months before our contract expired. The will to fight that had been evident in the membership was thwarted by the bargaining committee and an opportunity to increase awareness, militancy, and solidarity was squandered.

One exercise at the conference had groups discuss and strategize on the following scenario: An activist approaches a co-worker to solicit their support for a campaign a local committee is working on (the campaign concerns a social issue; health care, education, pensions, etc.); the co-worker doesn't wish to discuss the campaign, but keeps asking why the union is wasting it's time on this instead of taking care of workplace issues; how does the activist proceed? Much of the ensuing discussion focused on how ignorant and selfish the worker was to focus only on workplace issues. When I suggested that perhaps his complaints were valid and that it was a matter that the union should be addressing, the immediate response was that the activist should contact the committee person for the worker.

I was troubled by two aspects of this response: the disconnect between the original purpose of unions and the role assumed by conference participants, and the implication that workplace issues are the sole domain of full time elected reps. It occurred to me that maybe the problem wasn't the apathy of workers, but relevance of the union.

It was at this point that I started to view what I already knew in a clearer fashion. I had always viewed social or community work that the union did and work place resistance as being complimentary or mutually re-enforcing. My perspective shifted and I realized workplace success is what enables broader social struggle. The union must be relevant and effective in improving working conditions before its members will believe in it as a vehicle for social reform. We must be able to mobilize workers in the workplace in order to be able to mobilize them on social issues. It's not that social issues and struggle aren't important to workers, but rather that workplace resistance is prerequisite to social success.

You can't expect a worker care about injustice in the community and then tell him the injustice they see their co-worker face is just the way the system works. How can you expect workers to have the confidence to take on complex social issues if they're told that they're not qualified to handle what they know best, workplace issues? How do you build the faith that a better world is possible when unions are telling workers that concessions are necessary for their survival?

I have long believed that struggle creates working class consciousness and capacity. The natural starting point for that struggle is the workplace. The shared experiences of the workplace serve as a nexus reinforcing what's common to all workers. The work place is the perfect classroom to learn in a concrete manner the power relationships, brutality, and heartlessness of capitalism. I would venture that all major union gains have resulted from workplace resistance. The rest of what we do is consolidating and extending those gains to the broader community.

When we focus disproportionally on external factors, valid concerns turn into excuses and business is emboldened. Government policies and economic trends appear to be overwhelming forces and mitigating concessions seems the only option, a path that shifts blame from leadership but is suicide for the union. When we focus on the workplace we assume responsibility for what we control. We realize our power isn't limited to negotiations, but rather is present on the floor at all times. We start to explore how to use our real power: a mobilized, unified membership. When we realize that resistance can happen on a continual basis and all members have a role to play, workers start to see themselves as the solution. Business will realize that deteriorating industrial relations and productivity are the price for excessive greed and corporate aggression. By this simple shift in perspective we accomplish what is necessary; we make the union relevant in the day to day lives of its members.

If we look at the broader social justice movement we see that this lesson is relevant ... *Continued on pg 50.*

Global Finance, the Current Crisis and Challenges to the Dollar

David McNally

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

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

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

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

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

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

A Banking Crisis, Not a Liquidity Crisis

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

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

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

Precisely such dynamics are at work when an institutional "run on a bank" occurs, of the sort that rocked Bear Stearns in mid-March. In the course of 48 hours, Bear's holdings of cash →

and liquid assets plummeted from $17 billion to $2 billion as investors pulled their funds from the bank.

So the root problem is not a lack of liquidity in the system. It's that there are all kinds of institutions out there that nobody wants to lend to and whose ostensible "assets" nobody wants to buy. Worse, none of the players in the system are entirely certain as to who is holding increasingly worthless paper, or how much of it they have. As a result, the flow of funds between banks, and between banks and other lenders (like mortgage companies), keeps seizing up.

This is the reason that injecting cash into the system doesn't restore confidence. In fact, despite deep cuts to interest rates by central banks, particularly the U.S. Federal Reserve (designed to encourage borrowing) and massive injections of money into the banking system, American banks have continued to tighten lending to consumers, corporations and other banks (*Financial Times*, May 6, 2008).

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

From Housing Bubble to . . .

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

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

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

Meanwhile, investors who "bought" those mortgages – through a variety of schemes known as mortgage-backed securities – are discovering that the value of what they own is plummeting. The borrowers can't pay and the underlying assets are in freefall. No one is interested in buying these toxic debts from them.

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

Yet housing is just part of the problem. Equally dubious junk is now being found in commercial paper tied to credit card loans, commercial real estate, auction rate notes, leveraged buyout loans and much more.

This is why estimates of the total damage of the crisis to the financial system keep rising. Initial predictions had the figure between $50 and $100 billion. Then, as bank after bank wrote off billions more, estimates in the range of $400 billion and even $600 billion emerged. In April, the International Monetary Fund calculated that the meltdown would result in losses of nearly $1 trillion. One analyst writing in the *Wall Street Journal* suggests the global damage will hit $1.4 trillion.

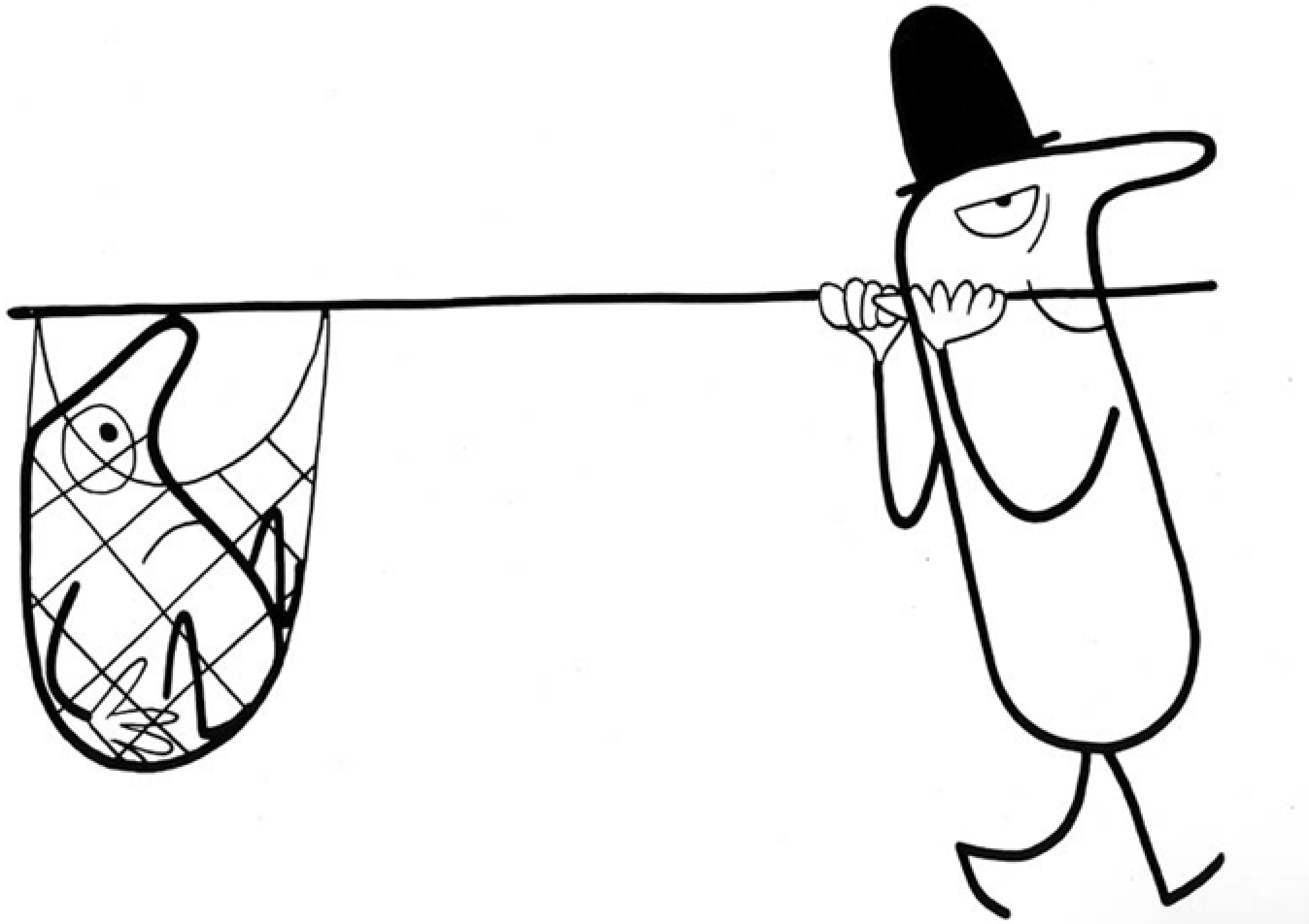
Whatever the ultimate figure – and it is likely to be at the higher end of the predictions – it represents a very large hit for the system. It also means that there are huge losses still to be recorded before the financial system recovers. Nouriel Roubini, among that very small minority of economists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

Global Slowdown

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

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

Across the U.S., construction spending, industrial production, private employment and manufacturing output are all falling. The



U.S. economy is clearly in recession. It remains to be seen just how significant the accompanying global slowdown will be.

The Dollar, World Money and the Current Crisis

Alongside the turmoil in financial markets, the current crisis also poses major challenges to the U.S. dollar as the dominant form of world money today.

World money is necessary to the measuring and allocating of value – prices, profits, wages, etc. – within and between regions and nations. In order to do this efficiently, global money must be considered to be effectively "as good as gold" – something that everyone will accept because it is a stable and universally recognized means of payment.

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

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

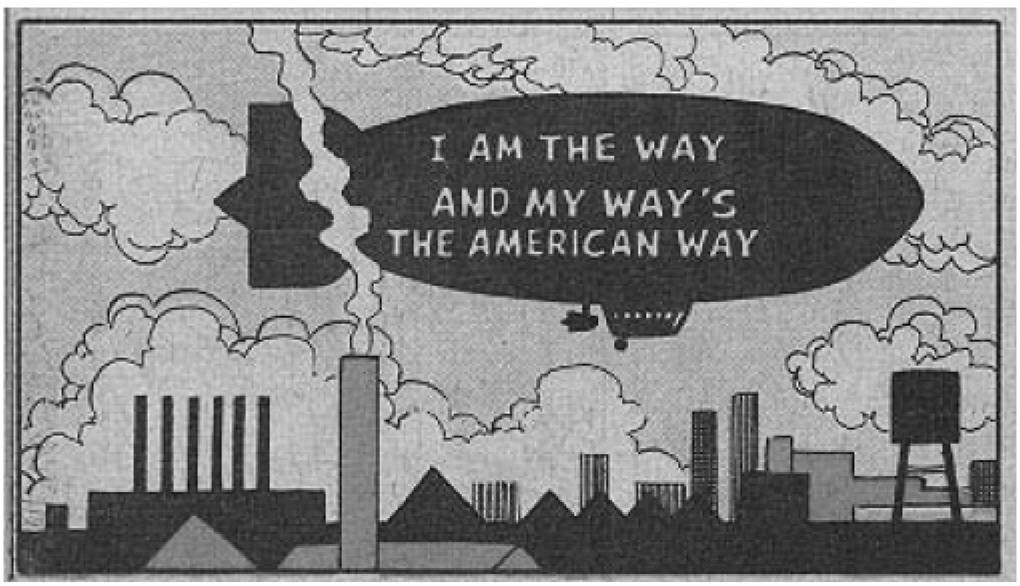
Indeed, throughout the last decade or more, the status of the dollar seemed to be rising. Despite huge deficits in the U.S. current account – the balance between what economic actors based in the U.S. owe the rest of the world and what the rest of the world owes these U.S. actors – the dollar kept riding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

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

set in, increasing the pressure on others to dump it as a depreciating financial asset.

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

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



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

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

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

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

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

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

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

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

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

Persistent Contradictions

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

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

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

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

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

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

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

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

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The Dollar Standard in Crisis?

Scott Aquanno

The subprime crisis, with its nerve center in the U.S. financial system, is not unlike the concatenation of events that preceded the Great Depression. The sudden growth of bad debt associated with high default rates in the subprime mortgage market has made banks fearful of lending to one another, provoking a credit crunch as raising interbank spreads are passed onto borrowers and bank rates become disconnected from intended central bank short-term rates. Interbank transfers, which are traditionally viewed as highly secure, now pose market risk because (1) the measures required to assess counterparty balance sheets are not available; and (2) banks have felt the need to hoard capital to protect against potential future default risks.

More important to date, investor concerns about the credit quality of mortgages have spread panic about the value of complex financial products and caused credit flows through conduits to collapse. In fact, asset fundamentals have become almost irrelevant in the structured credit market as the financial trust underwriting U.S. securitized debt has evaporated. This has forced entire market segments to virtually shut down, significantly affecting the financial position of hedge funds and money centered banks. In short, specific problems have bred generalized alarm in the financial community and caused banking institutions to hoard liquidity and deflate the monetary base.

Where Goes the U.S. Dollar?

Yet in acknowledging the seriousness of the subprime crisis, we must be careful not to assume that the greenback will be an inevitable casualty of these events. The Treasury standard is sustained by the very stable belief that U.S. federal debt is uniquely liquid and permanently exchangeable – what Weber calls the substantive validity of money – and, more concretely, by the managerial activism of the US state. While pretending to great generality, predictions about the imminent collapse of the dollar standard basically ignore the political economy of foreign exchange value and remain aloof from consistencies in the sociology of dollar value.

Perhaps the most important distinction between the subprime crisis and the Great Depression is that the U.S. Fed and Treasury have taken active responsibility for the functioning of the global economy and sought to reflate the U.S. financial system in order to protect the special position of the American economy and dollar. This has seen the coordination of private sector liquidity with the goal of creating a master enhancement conduit and the provision of liquidity through central bank coordination and open market operations, including steep cuts in the federal funds rate and the temporary nationalization of bad debt through Term Auction Facilities and generous repurchase agreements. Such commitment to restoring global faith in U.S. financial markets does not ensure the continuance of U.S. dollar value, but it does call for a more tempered and optimistic reading of the current crisis.

Investment Regularities and the International Securities Market

It is well known that the foreign bias towards holding American assets has lessened across public and private channels amidst the continued decline in U.S. micro and macro fundamentals and that investors have partially disengaged from U.S. assets to hedge against currency exchange speculation and inflationary pressures. But the critical point is that the shift in dollar valuation has been something apart from the collapse of U.S. substantive financial validity. As yet, the gains made by the euro, not only in 2007 but following 2002, have not overturned the voracious foreign demand for U.S. capital assets that has historically been the most important pillar supporting the dollar standard (Barth 2006).

What explains shifting foreign exchange values, if not the slow erosion of the dollar standard, is currency speculation led by interest rate risk. The value relationship between euros and dollars has always been strongly correspondent to interest rate shifts on either side of the Atlantic, with the value of the euro rising in conjunction with higher relative coupon rates. The recent reduction of federal funds rates coupled with persistent economic difficulties in the U.S. market, and hence speculation on further rate cuts, has made European Central Bank interest rates more attractive to international speculators. This, in turn, has propelled demand for euros and undercut the attractiveness of U.S. government debt, much like the tightening of Euro zone credit following 2005. Adding to this, portfolio decisions in foreign exchange flows have been strongly influenced by the decoupling theory – a position asserting that European GDP will be resistant to persistent difficulties in the U.S. domestic economy due to the specific evolution of regional trade/exchange ("Europe's Challenge", *Financial Times*, January 2, 2008).

The recent high spread between the London Interbank Offer Rate (LIBOR) and the US federal funds rate is a strong indication that the core value of the dollar remains intact among foreign investors/consumers. In part, the appreciation of the LIBOR since the beginning of the credit crunch has been the result of persistent strong demand for USD's among foreign investment and commercial banks. Yet it is far more compelling that international investment in U.S. treasury bonds has remained relatively stable throughout the subprime crisis – foreign demand for U.S. federal debt has been the most accurate measure of the international faith in the U.S. economy and dollar market since the beginning of the Bretton Woods period.

Amidst structural problems in the U.S. housing and credit markets, American securities remain uniquely popular among global investors and U.S. federal issues continue to be traded without a default premium. From December 2006 to September 2007, the foreign purchase of U.S. Treasury debt increased USD 132.2 billion to a record USD 2248 billion; disaggregated by fiscal quarter, the 2007 increase in foreign Treasury investment outperformed the average of the previous 10 years in two out of the three periods for which statistics are available ("Ownership of Federal Securities", *Treasury Bulletin*, U.S. Department of the Treasury, September 2007).

Similarly, the changing composition of reserve currency holdings cannot meaningfully be used to pronounce the erosion of the dollar standard. Between 2006 and 2007, the diversification of global currency reserves has been historically measured and consistent with previous cyclical patterns. Central banks have priced in declining U.S. fundamentals, but the composition of dollar reserve holdings has shifted only modestly and remains well above levels reached during the 1990's: USD reserves as a portion of foreign exchange holdings have increased from 59% in 1995 to 64% in 2007 and remain only modestly below the average annual fraction since 1999 (International Monetary Fund 2008). Further, the net change in USD reserve claims was not only positive in 2007, but historically high; meaning that the percentage decline in dollar reserve holdings resulted from a tremendous increase in the purchase of alternative currencies (*Currency Composition of Foreign Exchange Reserves,* International Monetary Fund, 2008).

The decline in dollar reserves among developing countries, from 70% in 1995 to 60% in 2007, and the gradual, if sporadic, increase in the reserve position of the euro presents some cause for concern and requires additional analysis. But it is important to note that (1) the percentage decline in USD claims within developing economies has occurred alongside the tremendous raise in total USD holdings and (2) support for the reserve position of the dollar in industrial economies, where U.S. capital penetration is the deepest, remains historically high and well above aggregate levels – the percentage of dollars as a total portion of reserve assets having increased from 60% in 1995 to 69% in 2007 despite weakness in the dollar market following 2006 (International Monetary Fund 2008). The rise of the euro may indicate the early beginnings of a bifurcated monetary standard, although the historical pattern has been for strong secondary currencies to exist firmly within the hegemony of the primary unit until an alternative currency system captures popular support and contests the prevailing definition of liquidity risk and forward exchange value.

Weakening Dollar Does Not Correspond to A Weakening State

Moving forward, the dollar is likely to be weak into at least the third quarter of 2008 as U.S. interest rates continue to depress demand for public securities and weak fundamentals threaten private returns. But, as the global economy responds to U.S. economic weakness, proving the decoupling thesis wrong, the dollar is more likely to gain strength against the euro. So far, there is perilously little to indicate that the social bedrock supporting the dollar standard has unraveled and evoked the long-term release of U.S. domestic securities. Thus, while the subprime crisis presents the US Fed and Treasury with a very serious and complex unique set of dilemmas, not the least of which is the erosion of investor sentiment, the market reaction to the greenback does not have an other-worldly quality – when statistically being comparable to episodes of dollar decline in the 1970s, 1980s and 1990s.

In the last instance, the dollar standard has not been something apart from the political hegemony of the U.S. state and the deep penetration of U.S. capital, including the normalization in thought of U.S. substantive value. In rethinking today how to view the forward value of the dollar, we must understand that the cross-border exchange of money is a social process embedded in modalities of state power and lasting financial conventions. Focusing on the rise of the euro reveals nothing directly about the position of the dollar and, matter of factly, ignores the strong performance of U.S. public and private securities that has been the social underlying sustaining the dollar standard since the beginning of the post-war period. Whatever the complexity of the impending economic decline, due allowance must be made for the complex of forces, state and social, that sustain the U.S. financial empire. **R**

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Hegemony Unfolding?

The United States' Balance of Payment Deficits

by Christopher Rude

There is a widely held belief that balance of payments difficulties threaten the strength of the U.S. economy. For many on the left, these difficulties are so severe that they threaten the power of U.S. capital. The problem, according to this view, is the large and growing U.S. current account deficit and the associated steady increase in the United States' already considerable net debtor position. The United States has a current account deficit, the argument goes, because the dollar is overvalued. Eventually, however, foreigner private investors will grow tired of having to purchase the dollar-assets necessary to finance the U.S. deficit, and this will lead to declines in the dollar and dollar-value of these assets and thus to a weakening of the financial system on which the international hegemony of U.S. capital rests.

This – "U.S. capitalism is in decline for balance of payments reasons" – view is mistaken. The United States' current account deficit and its growing international net indebtedness are sustainable. They are not signs of either economic or political weakness. They are structural, not conjunctural, features of how the United States has been inserted into the global economy as the dominant imperial power since at least the early 1980s. They are expressions not of the unraveling of U.S. hegemony, but of the persistent strength of U.S. capital in the neoliberal period. Together with the United States' net surplus on its "immigration account," they show how the U.S. economy has been affected by the internationalization of U.S. and foreign capital under the hegemony of a U.S. capital that is itself internationalize. That is, the U.S. economy has been "hollowed out" for the sake of a global empire of capital, a hollowing out that takes the form domestically of declining manufacturing employment, falling wages, and rising inequality.

U.S. in Decline?

The economics of the U.S.-is-in-decline argument is flawed. It follows as a simple accounting identity that any current account deficit will be financed by a corresponding net inflow of capital, and in a truly globalized economy such net figures are accounting fictions. The United States simply does not have a net creditor other than on the books of its balance of payments accounts, U.S. and foreign investors who own each other's assets. The reality is a multiplicity of outward and inward gross investment positions. Much more importantly, in a global economy where nations are linked not only by trade but also by profit-rate-equalizing capital flows, trade imbalances have the same underlying causes. These are not "misaligned" exchange rates but differences in absolute advantage. In such an economy, the U.S. will have a trade deficit as long as foreign costs of production are less than U.S. costs of production. This deficit will be automatically financed by the same capital flows that, in equalizing profits rates internationally, cause trade patterns to be shaped by costs.

Uneven development across nations to the United States' absolute disadvantage explains something else as well: why U.S. multinationals shift their production abroad to serve foreign markets directly. This also means that when the foreign direct sales of U.S. multinational corporations (MNCs) and the U.S. direct sales of foreign MNCs are taken into consideration, together with its exports and imports, the U.S. does not have a deficit but a surplus on its "trade-plus-foreign-sales" account. It is simply cheaper to do things this way.

What is disturbing about the USA's external economic relations is not their supposed instability, but the consequence for U.S. workers. In a globalized economy where production is sourced world-wide, the hollowing out of the U.S. in the form of declining employment and falling wages will continue as along as U.S. production costs are higher than those elsewhere. This is how capitalist competition works. Unionists must resist every effort to "improve" the United States' competitiveness. In a capitalist economy where the low cost producer regulates their industry, competition is "improved" in a few ways: by wage cuts, productivity increases, or some combination of the two, that raise the rate of surplus value extraction.

The Internationalization of the U.S. Economy

The developments that show how the United States has been hollowed out for the sake of empire (which for others are evidence of a weakening of empire) are not new. The U.S. has had a trade deficit since 1976 and, with the exception of the anomalous Gulf War related surplus of 1991, a current account deficit since 1982 (Figure 1). It became a net debtor in 1986 and the world's largest net debtor in 1987 (Figure 2). In 2006, the U.S. trade and current account deficits were, respectively, $838 billion and $811 billion, or 6.4% and 6.2% of U.S. GDP. At the end of the same year, the US net external asset position was minus $2,599 billion, or an equivalent of minus 6.4% of the total U.S. fixed capital stock.

These are the essential facts as far as the proponents of the U.S. capitalism is in decline argument are concerned. For them, the United States remains intact as a unit of analysis and the U.S. current account deficit and net foreign debt are what matter. The argument is a familiar one. Since, for accounting reasons, a country's current account deficit can be "financed" only by net foreign purchases of its assets of an equivalent size, as long as the United States has a current account deficit, the net stock of U.S. assets that foreign investors must hold can only increase. As the new supply is now in the order of over $800 billion annually ($2 billion daily), the downward pressure on the price of dollar relative to non-dollar assets is considerable. Since this pressure will persist as long as the United States has a current account deficit, "equilibrium" requires a zero current account balance. Hence adjustments in the exchange rate for currencies are needed to bring this about.

Figures 1 and 2 can be read differently. This would focus on the sizable increases in the *gross* investment positions of U.S. investors in the rest of the world and of foreign investors in the United States, not on the declines in the U.S. trade and current account *balances* and the *net* investment position below zero. The U.S. is now a net debtor, not because of a decline in U.S. foreign investment, but because foreign investment in the U.S. has grown more rapidly than what is in itself a rapid rise in U.S. investment abroad. The most the current account data depicted in Figure 1 can tell us about these developments is that there are certain limits as to how these two data series can change in relationship to one another. This is all that follows from the balance of payments accounting identity that any current account deficit will be financed by a corresponding net inflow of capital. The current account data cannot tell us why or what it means for U.S. foreign investment, and foreign investment in the United States, to have increased as much as they have. These are, in fact, what matter when assessing balance of payments.

These increases have been substantial. After holding steady relative to U.S. fixed assets in the 1960s, the U.S. foreign investment position began to increase in the 1970s and to increase faster in subsequent years. U.S.-owned foreign assets were $12,517 billion at yearend 2006, or 31.0% of U.S. fixed assets. The investment position of foreigners in the United States also began to increase in the 1970s, but the increase since 1980 has been even more rapid. Foreign-owned U.S. assets were $15,116 billion at yearend 2006, or 37.3% of U.S. fixed assets. These are remarkable figures. International investment seems to be pulling the national space of the U.S. economy apart in two directions at once, both outward and inward, loosening its borders in the process.

The argument that the U.S. current account deficit is unsustainable because its financing is unsustainable loses its →

meaning in this context. The entire issue becomes a pseudo-problem. The relation between the U.S. current account deficit and capital account surplus that this argument uses is an accounting identity. It has no explanatory power. The argument's veracity comes from the way in which it interprets this accounting identity: it treats the current account as an independent reality that the capital account must "accommodate". This interpretation may have had merit when capitalism was organized on a national basis and policy makers were attempting to protect their domestic economies from the rest of the world through capital controls. It does in fact describe the balance of payments of a country maintaining a fixed exchange rate that prohibits private capital flows and thus for which any "imbalance" in its international trade in goods and services is deliberately offset by a change in its official settlements balance as a matter of policy.

However, this interpretation loses its strength to the extent that production is global, exchange rates are flexible and capital is mobile internationally. Under these circumstances, private capital flows are just as autonomous as any trade flow and there is no accommodating U.S. official transactions. It could just as well be argued that the U.S. current account must adjust to the U.S. capital account and let U.S. exports and imports do the "balancing".

The income that U.S. outward and inward investments generate is large (Figure 3). The foreign income of U.S. investors increased from 11.1% of total U.S. capital income in 1960 to 14.8% in 1977, then to 38.1% in 2006. The income paid to foreign investors rose slowly from 3.0% of total U.S. capital income in 1960 to 6.5% in 1977 and then more rapidly to reach 35.6% in 2006. With more than one-third of U.S. capital income flowing each way internationally, the inferences are clear. First, the interests of U.S. capital no longer coincide with the U.S. geographical space. Second, the interests of foreign capital in the U.S. are considerable. Third, profit rates on new productive investments are equalized internationally.

The dollar takes on a very specific role under these circumstances. Since "equilibrium" no longer requires balanced trade, the dollar does not have the task of maintaining U.S. competitiveness vis-à-vis the rest of the world or of equalizing the prices of U.S. and foreign goods. Instead, the relative prices of U.S. products are determined internationally in the same way that they are determined domestically: by their relative costs of production. This occurs because international capital mobility tends to equalize rates of return on investments across countries. This included the rates of return on real productive investments because the dollar functions as an asset price.

The argument above depends on the view that prices are determined by costs (and not by supply and demand) if there is a tendency for profit rates to be equalized. This is a fundamental argument of Marxist price theory, and it just as valid internationally as it is domestically. The competition that drives a capitalist economy forward is competition between individual capitalists for a share of the profits. One of its effects is to equalize profit rates across industries. New capital moves into industries with higher than average rates of profit, increasing the supply of the goods produced, thus lowering their market prices and decreasing these industries' profits. Capital leaves industries with lower than average rates of profit, with the opposite effects. The profit rates that are equalized across industries are the profit rates of the most efficient, lowest cost producers in each industry, and their costs tend to determine the prices of each industry's products. Forced to sell their products at the prices of the low cost producers' prices, the profit rates of the other, higher cost producers will generally be lower.

The competitive dominance of the lowest cost producers makes them the "regulating capitals" in their industries. For this reason, in a capitalist economy, prices are determined by "absolute cost advantage". Weak regions with few regulating capitals will import from stronger regions with many regulating capitals and run balance of trade deficits. This is a normal outcome of capitalist competition: uneven development between regions within a country.

For the very same reasons, it is a completely normal outcome arising from competition in the context of uneven development *across nations* if a nation with higher production costs than other nations would tend to run an *external* balance of trade deficit. All that is required for such a trade deficit to appear, besides the difference in costs, is a degree of capital mobility sufficient to equalize profit rates on new investment across nations as well as industries. The conclusion is clear. The necessary condition for the U.S. to have a persistent deficit on its merchandise trade account is higher than average production costs. "Globalization", or profit-equalizing capitalist competition at the world scale, is the sufficient condition for its existence.

The Internationalization of U.S. Capital

It has been argued so far that the United States trade and current account deficits are sustainable. But more importantly, the two deficits are expressions of the internationalization of capital within the context of the uneven development of the world economy's productive capacity. In other words, the U.S. has had a trade deficit since 1976 because its production costs are historically high in comparison to costs abroad.

This does not complete the argument. Underlying the essentially financial investments displayed in Figure 2 are real productive assets in the United States and the rest of the world. These are the goods that productive capital uses and produce: they are the entire circuits of truly global industrial capital. The asymmetry depicted favors the United States, or more precisely, U.S. multinational capital. There are three points to consider.

First, the U.S. capital stock is internationally owned and controlled. In terms of "ownership", the internationalization is so extensive that it does not make any sense anymore to speak of a U.S. domestic capital stock. In terms of "control", the internationalization is smaller but strategic. Second, the United States has always maintained a surplus on its net ownership and control of foreign capital. It is an overall net debtor because of foreign borrowing. Third, the capital "controlled" internationally in the form of "direct investment" is small. But in comparison to the equity investment, once the foreign direct sales of U.S. MNCs and the U.S. direct sales of foreign MNCs are taken into account, any deficit on the U.S. "trade" account disappears and becomes a surplus.

Advocates of the "U.S. in decline" argument take the U.S. existing balance of payment accounts as their point of departure. Matters look very different, however, if a distinction is made between the U.S. national economy and U.S. and foreign capital. Multinational capital's "extra-national" activities are extensive and require a new and different set of balance of payments accounting principles. These principles would no longer assume the national economy as their unit of analysis.

Measuring the ownership of capital is notoriously difficult, especially when using data that makes a distinction between "mere" financial ownership and "direct" control. But the bare facts are these.

(1) By a very broad measure, U.S. investment in foreign capital and foreign investment in U.S. capital have increased very rapidly over the past half-century and are now very extensive (Figure 4). U.S. FDI and foreign equity holdings were $7,107 billion, or an equivalent of 48.3% of U.S. private nonresidential fixed assets, at yearend 2006. The foreign position was $4,555 billion at yearend 2006, or an equivalent of 31.0% of U.S. private nonresidential fixed assets. *U.S.-owned and controlled production is international, and the cross-border-ownership balance is in U.S. capital's favor.*

Figure 1: Selected U.S. current account data, 1960-2006
(Percent of U.S. GDP; BEA)

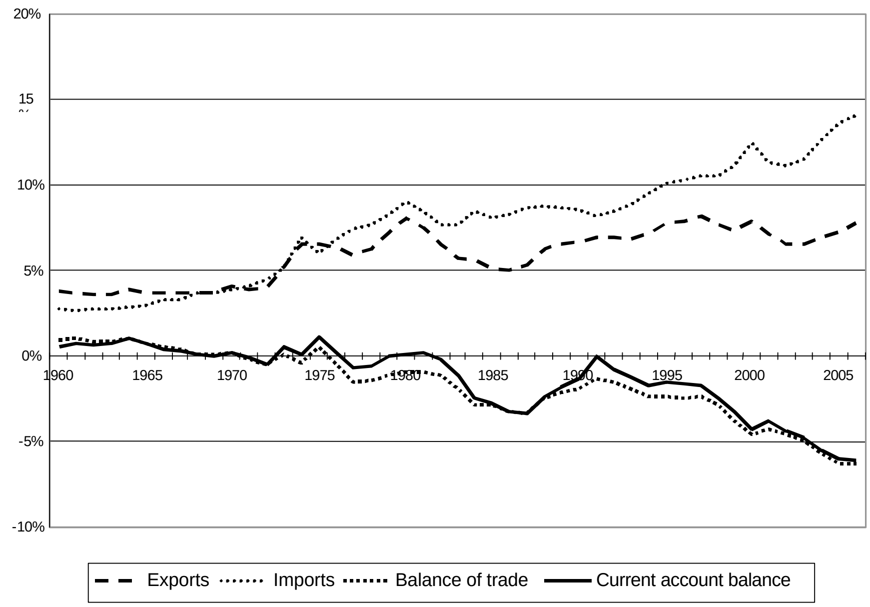
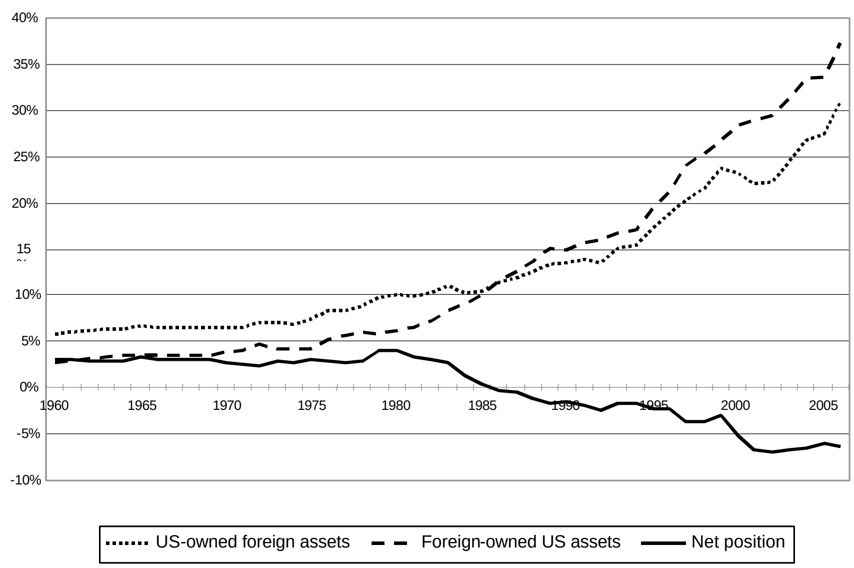


Figure 2: The U.S. international investment position, 1960-2006
(Balance of payments basis, percent of total U.S. fixed capital stock; BEA and Board of Governors)



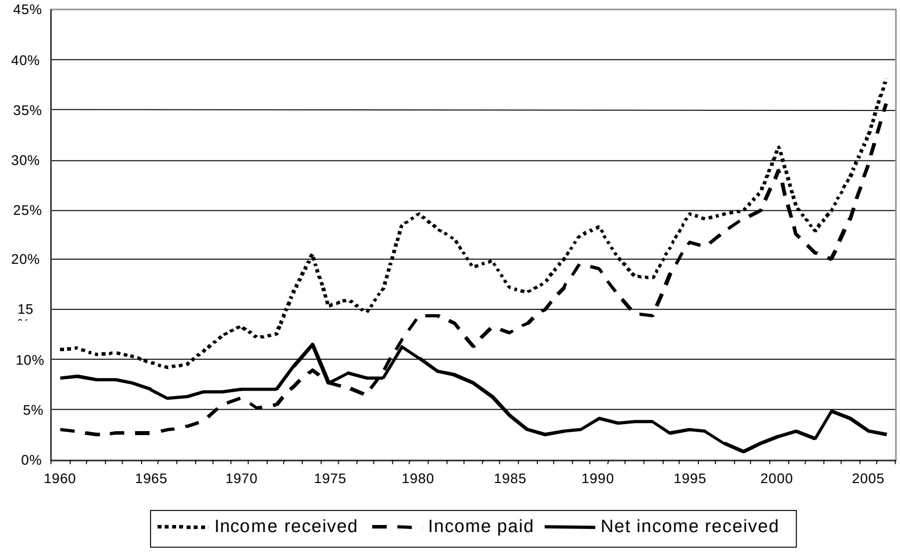
(2) The internationalization of the U.S. capital stock in terms of foreign direct investment is small by comparison (Figure 5). At the end of 2006, the FDI of U.S. MNCs was $2,856 billion, or 7.0% of U.S. private nonresidential fixed assets; the FDI of foreign MNCs in the United States was $2,099 billion, or 5.2% of US private capital.

(3) The USA's net foreign capital ownership and control positions remain positive. At the end of 2006, U.S. net FDI and equity position was $2,552 billion, and the net FDI position was $756 billion. These were 17.3% and 1.9% of the private U.S. capital stock.

In other words, in "an ownership-based framework for the United States' current account", the United States is much less sheltered internationally than it is in a conventional balance of payments framework. Notably, it does not have a trade deficit but a surplus. The foreign sales of U.S. MNCs and the U.S. sales for foreign MNCs have increased rapidly over the past quarter century and →

Figure 3: US international investment income paid and received, 1960-2006

(Percent of total US capital income, BEA)



are large – much larger than U.S. exports and imports (Figure 6). In 2006, the foreign sales of U.S. MNCs were $4,225 billion, U.S. exports $1,283 billion, and the combined figure $5,508 billion.

These were 30.6%, 7.2 %, and 44.1% of US GDP, respectively. The comparable figures on the "import side" were $2,761 billion, $1,997 billion, and $4,758 billon, or 24.6%, 13.5%, and 38.1% of US GDP.

Hence, in 2006, the United States ran a surplus of $750 billion on its "direct plus indirect foreign sales" account. This surplus was 6.0% of GDP. The US's 2005 balance-of-payments based trade deficit was $787 billion, 6.3 % of GDP. The $1,464 billion difference between the two balances is due to a net surplus of foreign direct sales. This surplus was 11.7% of US GDP.

(4) The U.S. is a net debtor because of foreign borrowing. Looking at the United States' net foreign asset position for its direct investment, equity investment, private fixed-income, and official accounts as well as the gross foreign holdings of U.S. Treasuries and U.S. corporate bonds, the conclusion is obvious*: the Untied States is a net debtor because of foreign borrowing on the part of the U.S. government and U.S. corporations of nearly equal size. This is evidence not of weakness but of strength: a country with a MNC trade surplus can afford to borrow.*

What are the economic forces behind the developments? These are the same forces of capitalist competition pointed to previously. The competition that drives today's internationalized economy forward is cost-cutting competition between individual capitalists for a share of the global profits. U.S. owned and controlled production has shifted from the United States to other low cost countries and foreign owned and controlled production has moved into low cost, frequently "union free", U.S. regions and states. *In a capitalist economy, who produces what and where is determined by absolute advantage. This is the hollowing out of the United States for the sake of a global empire of capital.*

Beware of Siding with Capital

The economy-wide, general rate of profit towards which the profit rates of individual industries and nations tend to move is an internally determined "equilibrium" outcome of the competitive process between capitals. The wages, productivity rates, and hence

Figure 4: U.S. ownership of foreign capital and foreign ownership of U.S. capital, 1960-2006

(FDI + equity investment as percent of U.S. private nonresidential fixed assets; Board of Governors, BEA)

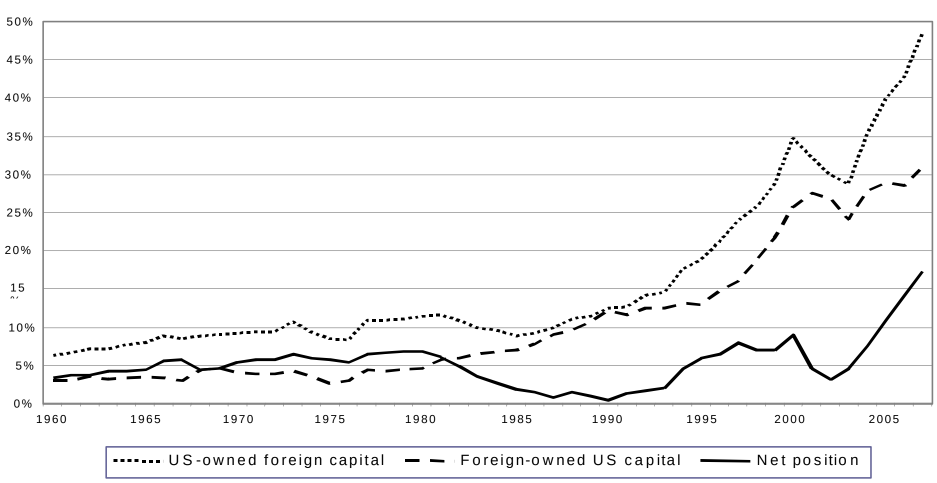
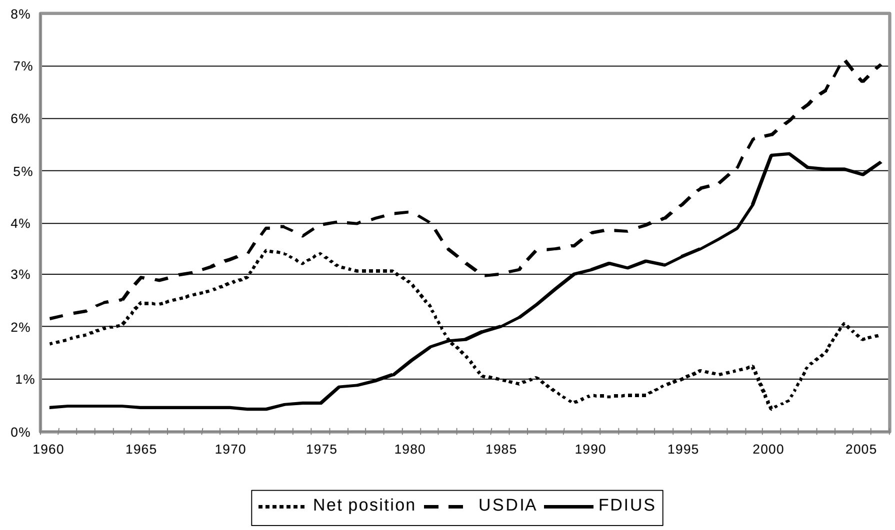


Figure 5: U.S. foreign direct investment and foreign direct investment in the United States, 1960-2006

(Percent of U.S. private nonresidential fixed assets; Board of Governors, BEA)



unit labor costs are determined independently of the competition between capitals. The latter are set in the historical struggle between capital and labor over each firm, industry, region, and nation's exploitation rate. The dilemma that U.S. workers face is thus very real. On the one hand, the conditions of employment that many U.S. manufacturing workers continue to enjoy were not given to them by a benevolent capitalist class. Unionized workers in the U.S. have the living conditions they have because of their history of militancy. On the other hand, the very same wages and levels of productivity, by raising unit labor costs, really have made much of U.S. manufacturing capital uncompetitive in an era of globalized production.

Both sides of this contradiction of capitalism must be acknowledged. Absolute advantage rather than comparative advantage shapes the U.S. and other countries' international economic relations. The rest of the world has the absolute advantage in certain industries today because U.S. workers are exploited less than foreign workers are. Unit labor costs are a measure of cost *and* exploitation rates. The implications for labor are clear.

If the U.S. has a trade deficit and U.S. production has moved abroad because U.S. unit labor costs are high, U.S. labor has no interest in participating in campaigns to improve U.S. competitiveness. This will succeed only if it lowers U.S. wages and otherwise increase the exploitation rate. If foreign countries have trade surpluses with the United States because unit labor costs are low in these countries, U.S. labor has an immediate short-term material interest in improving the conditions of these foreign workers and opposing American imperialism.

Seen in this light, the argument that balance of payments difficulties will undermine U.S. capitalism is a dangerous one. It is a modern version of the very old doctrine that capitalism will decline of its own accord regardless of the state of the class struggle. The effect on organizing and resistance is devastating. Rather than encouraging the organization of popular opposition to global capitalism, a catastrophic economic crisis can to do the work. The result is a political passivity that leaves workers everywhere vulnerable to the assaults that a dangerously powerful U.S. capitalist class and its allies are more than willing to inflict. **R**

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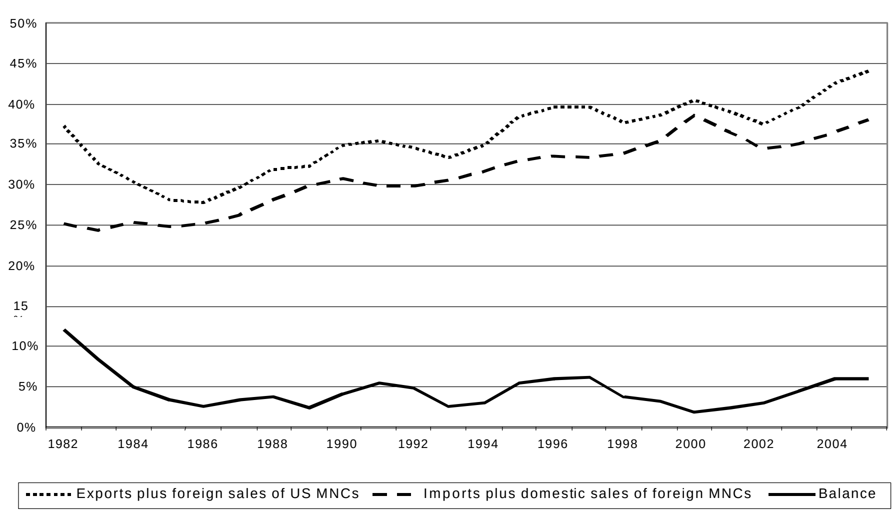
Figure 6: U.S. global sales and total U.S. sales of foreigners, 1982-2005

(Percent of U.S. GDP, BEA)



DECLINE OF THE DOLLAR, DECLINE OF THE EMPIRE?

Sam Gindin

The rise and fall of empires can't be read from the fluctuations of exchange rates. In the case of the U.S., the Japanese Yen and the German Mark each doubled in value against the dollar in the period from February 1985 through November 1987. Yet the subsequent years (especially the 90s) reconfirmed the dynamism of the American economy and American global leadership.

More generally, the barrage of statistics so commonly grabbed at to declare imminent American decline should be received cautiously. In part, this is because they tend to be tainted with the politics of demonstrating what is wished for, but also because the US is not an economy like others. As the imperial center of global capitalism, measures of performance that apply to other states can't as directly be applied to the U.S. and have little or nothing to do with assessing America's *imperial* status. In fact, certain measures of 'weakness' – such as the ability of the U.S. to run trade deficits for a quarter of a century with no run on the dollar – may even indicate American strength.

Comparisons are often made between the unchallenged status of the U.S. immediately following WWII and the alleged dramatic decline of the U.S. global position in the half-century since. It is true that the U.S. accounted for some 50% of world industrial production at the end of the 1940s and that this has been cut to less than half that share today. Yet in terms of prospects for global accumulation, American capital and the American imperial state have as much or more to smile about today.

the global-historical context of American capital

At the end of the 1940s, the space for American capital was constricted not only by the devastation of the wrought by WWII, which limited accumulation opportunities in Europe, but also by the Soviet Union's expansion into Eastern Europe and the unfolding of the Chinese revolution. Today, Western Europe may be a competitor, but – more important for American capital – it is a major source of direct investment and markets; both the former Soviet Union and its once-satellites are rushing into capitalism; and China seems to offer near infinite potentials for foreign capitalists with India only a few steps behind. The U.S. share may be smaller, but that has been an essential part of making the pie so stunningly larger.

After the War, the American state had to mobilize support within Congress to transfer American savings to Europe via Marshall Aid. Today, it is the vast savings of the rest of the world that are flowing into the U.S. – and quite generally not through overt force but because of structural integration – they are coming voluntarily. In the same historic period, the U.S. (and all the former imperial powers) had to cope with the economic and political threats of labour movements and communist parties that to posed challenges to capitalism itself and necessitated concessions from capital. Today, such a left no longer exists and in spite of a steady erosion of past gains and increased pressures on the working class, it shows no indication of revival. Capital has achieved a remarkable degree of class freedom.

This should not, of course, be taken to mean that everything is right with the U.S. economy, let alone the American empire. Even if past assertions of American declinism can now be seen as no more than the discredited flip side of American triumphalism, it is clearly valid to point out that the decline of the dollar is only one dimension of broader events. The U.S. seems enveloped in a larger turmoil that includes not only a falling dollar, but a housing and real estate crisis, a financial crisis, and an imminent and possibly deep recession. Isn't this new and dangerous combination symptomatic of some larger shift in America's leading global role? Perhaps. Though capitalism's endemic recessions seem to occur with less regularity (the U.S. hasn't had a year of negative growth in 15 years, likely because of the more intense restructuring that now occurs on a daily basis, making the cleansing effect of recessions less absolute), Leo Panitch and I have argued that there are systemic reasons to expect other kinds of serious crises in the present era, especially those linked to financial unravelling. But we've also noted that while the American imperial state cannot *prevent* such crises, it has developed a capacity to *contain* them: that is, to limit their depth, duration, and spread.

The first part of our argument – the volatility of global capitalism – rests on two characteristics of the process through which global capitalism is today made, expanded and reproduced. First, the American state is not omnipotent; it can only contribute to the making of global capitalism through a dependence on the cooperation of other states, which in turn means a dependence on all the complexities of social relations within these states. Second, the particular form which economic discipline now takes is intimately related to the operation of liberal financial markets, and such financial markets are by their very nature particularly capricious. Second, the ability of the American state to contain such crises, *after* they have broken out – involves developments that have evolved historically, especially since the winding down of WWII. This crucial capacity is centered in the Fed and Treasury, but is reinforced by the relationship of the American state to its own working class, transformations in the relationship between the American state and other states, and the financial and productive strength embedded in the American social formation. The latter points require a brief elaboration:

imperial labour flexibility

The very weakness of the American working class leaves the American state a great deal of flexibility in finding solutions (and during crises, capital in general has confidence that the American state will 'pull through'). Imagine, for example, if a militant American working class was striking for wage gains and threatening an inflationary spiral; in those kinds of circumstances, the Fed might consider it essential to turn to higher interest rates to discipline labour. *That* scenario, in the context of great uncertainty in financial markets, might create real chaos. But that kind of working class militancy remains far from being on today's agenda.

who further point to the possibility – if not today, then down the road – of the Euro replacing the dollar, we emphasize the following. First, this argument misses the historically profound changes that have occurred in the nature of competition and the internationalization of states. States do shape competition, but they no longer do this on behalf of national capital. Rather, they do so to support their own territory as a 'competitive space'. That is, they create conditions favouring their territory as a site for accumulation independent of the nationality of the investors. At the same time, they join with other states to establish international rules governing and limiting how far this particular kind of competition can go so it does not undermine liberal rules.

In this way, states take on a responsibility for establishing the conditions for global accumulation within their own borders and internationally (they are 'internationalized'); capital is itself not

your crisis is our crisis

Foreign states that hold large dollar reserves must be careful about 'dumping' a share of their dollars because this would devalue their remaining dollar reserves and because the devaluation of the dollar might hurt their exports. But something even larger is at issue: the integration of capitalism means that a crisis in the U.S. is a collective crisis for capital and capitalist states. This means that, unlike scenarios rooted in inter-imperial rivalry, other states refrain from doing anything that might undermine a U.S. recovery and if necessary, actively support U.S. attempts to resolve the crisis.

For those who insist that since both states and competition are constitutive of capitalism and so rivalry remains, and

only internationalized but also develops concrete ties within each territorial space that reinforce their integration into global capitalism; and issues of class (e.g. everything we associate with neoliberalism) take clearer precedence over inter-imperial rivalry as the terrain on which to understand potential conflicts and contradictions. Second, Europe is not a threat to the American empire. There is, first of all, no Europe with the current or projected coherence to do so. Also, the specific nations of Europe do not want this responsibility and would run from it. In this context, the Euro may come to carry a greater weight within international reserves, but far from being a threat to the U.S. empire, this may serve to provide greater stability. →

financial & productive capacities

The American state draws strength from the private financial and productive capacities embedded within the American social formation. As much as the current financial mess exposes the fragility of the U.S. financial system, major American banks are generally deep enough to sustain hits which would destroy other banking systems and – with the added help of the American state – survive and move on.

At the same time, though industry and non-financial services will be affected, their own strength – they are not suffering from precarious debt – acts to limit the potential depth of the emerging downturn. More generally, the downturn will be somewhat eased by U.S. exports, which have been rising at double-digit levels over the past three years and U.S. longer-term leadership is reinforced as its dominance in high tech services continues (a recent survey of the companies leading global innovation placed 9 U.S. firms among the top 11), and in the exploding sector of business services, the lead of U.S. companies remains especially overwhelming (it is to these U.S. firms that non-U.S. productive companies come to learn how to catch up to U.S. standards).

conclusion

At time of writing, there is a growing consensus that the US is about to fall into a recession and period of slower growth. The question is whether this signals any kind of dramatic turn in global capitalism. There seems little basis for thinking 'this is it,' but other questions are surfacing. Given that credit has been so important to sustaining working class consumption in an era of wage restraint, Panitch has asked whether a retreat in consumer credit not lead to further macro economic problems and aggravate issues of capitalist legitimacy? If the present stimulus does not get the U.S. economy rolling again – and especially in the context of increased cutbacks at the state level - will there be a turn to public infrastructure expenditures and would this kind of state intervention mean a reversal of neoliberalism? Some new regulations will obviously emerge in the financial sector; how significant will they be?

My own bias at all these levels and cases is not to expect anything dramatic. Lending to consumers may become more conservative, but credit for working class families will continue to play its significant role. A new round of infrastructural programs may emerge, but this is itself long overdue even from capital's perspective; it can readily be oriented to primarily reinforcing accumulation rather than social needs. And banks may be reined in by new regulations but they won't be caged; financial 'innovation' will soon return.

"There seems little basis for thinking 'this is it,' but other questions are surfacing."

The telling point is the stunning narrowness of the options being debated in the U.S. today - in spite of the partisanship that election years bring, in spite of decades of false promises and degrees of inequality that were previously unimaginable, and in spite of the U.S. sitting on the edge of an economic downturn highlighting the greed, cynicism and sheer incompetency of many of those who justified their new fortunes on the basis of their 'economic contribution'. With so little anger surfacing in the U.S., the barriers to capital finding a solution on its own terms are correspondingly less consequential. American capitalism has a problem; it does not face an imminent catastrophe. And the rest of the world has no option but to contribute to the reproduction of American leadership. **R**

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The Oaxaca Commune

Reviewed by Dan La Botz

Authors: Richard Roman and Edur Velasco Arregui. Socialist Project. 27 pp.

The Oaxaca Commune, as it has now come to be called, refers to the radical experiment in self-government, popular power, and social change that took place in that Mexican state during 2006. The movement was led by Local 22 of the Mexican Teachers Union and by the Popular Assembly of the Peoples of Oaxaca that brought together many community organizations from the city and the surrounding countryside of the state. The movement, a virtual insurgency, was put down by government repression including murder, torture, and imprisonment.

In Mexican Labor News and Analysis we have reviewed several of the articles, books and videos that have been published or produced over the last two years, many of which have contributed to describing one or another aspect of that tremendous upheaval. However these two intellectual/political partners, Richard Roman, a former Sociology Professor at the University of Toronto, and Edur Velasco Arregui, an Economics Professor and former General Secretary of the Independent Union of Workers at the Autonomous Metropolitan University, have produced with this short pamphlet the best political analysis of these events we have to date.

The pamphlet is masterfully organized to locate the Oaxaca movement in time, space, and struggle. The people of Oaxaca are described not only as indigenous, but also as a transnational working people connected to kith and kin laboring in Mexico City or in the United States. Roman and Velasco situate the Oaxaca Commune in the midst of Mexico's political struggles of the early twenty-first century and also in the context of the economic transformation of Mexico by neoliberalism and globalization. We come to see Oaxaca as not only a city and a state, but also a key region in the Plan Puebla Panama which aims at the maquiladorization of Central America, and as an exporter of labor to the United States. Oaxaca's insurgency was an explosion in a node, a conflict at a crucial nexus of international economic power.

This pamphlet is not reportage; there are no colorful accounts of the demonstrations, no descriptions of mass actions, and no retelling of horrific police repression. We do not have interviews with participants and there are virtually no citations from other sources. The authors don't romanticize Local 22 and APPO, though they are clearly fervent supporters of the movement.

The strength of this pamphlet is in its intellectual analysis of the significance of the different political forces, their positions, and the impact they had on events. The authors analyze the political differences between the Oaxacan Communards, the Zapatistas and the grassroots base of Party of the Democratic Revolution as those groups have dealt quite differently with the National Action Party, the Institutional Revolutionary Party, and the leadership of the PRD. Particularly striking is the analysis of Andrés Manuel López Obrador and National Convention as forces which both mobilized and contained the popular movement.

The authors characterize the Oaxaca Commune as exercising "dual power," a power that rivaled, challenged and represented an alternative to that of the old PRI government and to the business elite. This may be something of an exaggeration, since it is not clear how the movement imposed its program on society, but certainly the Oaxaca Commune tended in that direction, attempting to extend its sway over public order, over the media, over some workplaces, and over culture and tourism. For a time Local 22 controlled the schools. APPO swept the police from the streets. APPO, in effect, governed the town, eclipsing the municipal government and challenging the state government. For a while, APPO's activists controlled local radio and TV stations producing political pluralism in the local media. And APPO created its own Galaguetza as an alternative to the official Galaguetza, the main tourist event on the local calendar. Dual power, if these measures really constitute dual power, existed only on a local level, and on a local level such power cannot exist long before the state or national government intervenes.

Most interesting is the authors' argument that the Oaxaca Commune, unable to extend the struggle to other regions of Mexico, had to deal with the Mexican state in what the authors call a realistic manner. That is, APPO had to try to negotiate to maintain its organization and their autonomy for as long as possible, though in the end the state would repress their movement. The authors contend that since there was not yet a revolutionary situation in Mexico, the Oaxaca Commune had no choice but to negotiate. So they adopted a strategy of "collective bargaining by insurgency." The insurgency, however, became the government's excuse for intervention.

While this is in my opinion the best thing yet written on the Oaxaca experience, still it seems to me that there are three things missing. First, the authors do an excellent job of criticizing López Obrador, the National Democratic Convention, and the PRD leadership, but they do not provide a critical analysis of the Zapatistas, though they hint at their view. Second, they talk about "collective bargaining by insurgency," but do not explain the relationship between that sort of insurgence and the struggle for socialism. Third, we do not have a discussion of the role of a revolutionary party, or the lack of one, in this account of APPO. What is the role of a revolutionary party in such insurgencies and in Mexico today in its non-revolutionary situation? We will have to wait for the authors to write those missing sections. In the meantime, this pamphlet is an excellent beginning. **R**

This review was first published in the April 2008 issue of *Mexican Labor News & Analysis*. Dan La Botz teaches history and Latin American studies at Miami University in Oxford, Ohio.

"Canada Steel":

A Little Trampling of the Capitalist's Garden can be Good for the Soul

Reviewed by Govind Rao

"Canada Steel," a new two-act play by J. Karol Korczynski, played February 1st - 17th, 2008, Tarragon Theatre Extra Space, a production of The Canada House Artistic Cooperative

Directed by Graham Cozzubbo, featuring: Daniel Kash, Pragna Desai, Brian Marler, Alison Woolridge, Charlotte Gowdy.

One of the challenges faced in rebuilding the socialist movement in Canada is the relative dearth of critical art and theatre that incisively speaks to our place and moment. For art to be revolutionary, it needs to resonate with an audience and reflect their lived experience under capitalism. If it can achieve that, it has a chance to inspire action and prompt new ways of thinking. Equally important is art's entertainment value. Whether you are driven to tears of laughter or anguish, art should ideally be a social experience enjoyed in the company of friends. By these measures, J. Karol Korczynski and the rest of the Canada House Artistic Cooperative, in their latest play *Canada Steel*, have succeeded making some delightfully revolutionary and dangerous art.

A HAMILTON STEELWORKER FAMILY

Canada Steel is set in the personal and urban decay of a Hamilton steelworker family dealing with layoffs and the effects of deindustrialization. Gus, Rose and their daughter Roxie were once solidly working-class, supported by jobs in steel. By the time we meet them in the play, they have fallen into itinerant and low-paid service sector jobs that are familiar to millions of Canadian workers. Gus (played by Daniel Kash) has had a history of mental illness and finds himself in a battle with his neoliberal union over medical benefits he has been retroactively denied, and which he needs for proper treatment of his condition. It is a conflict that is played out both ideologically and physically between the characters, and in a nice plot twist, while Gus waits on hold on the phone.

Korcynski's plays do not shy away from difficult subjects, and this one tackles mental illness. Rose's (played by Alison Woolridge) attachment to and defence of Gus, her unwillingness to allow him to be institutionalized, is authentic and touching. One feels a great deal of compassion and sympathy for Gus, which is not always easy to achieve for a character that has been afflicted by mental illness.

UNION AFFINITY CREDIT CARD, ANYONE?

Gus spends a sizable portion of the play on the phone with the union service representative trying to have his benefits reinstated. In the process, he gets to know Bhopal, a call-centre worker based in Mumbai. The majority of Canadians can relate to Gus' battle with the call centre, and we are rooting for him as he attempts to outwit the automated phone system (How many people wouldn't like to cyber-strangle Bell Canada's automated assistant 'Emily'?). For Gus, though, this is a battle that goes beyond resisting the frustrations of everyday life, as his health and family hang in the balance. Bhopal has been instructed by her supervisors to stonewall attempts to reinstate benefits and instead hawk union affinity credit cards, which the union is using to raise revenues, having acquiesced in the transfer of all steelworker jobs to Mexico. This is a particularly nice sub-plot and captures well the nature of competitive austerity that too many unions have bought into (Check out all the wonderful discounts you can receive from Union Plus – www.unionplus.org).

Gus, through his decency and basic humanity, is able to overcome the barriers of distance and the atomizing aspects of capitalism to create a common front with Bhopal against capitalism. By working together, Gus and Bhopal are able to more effectively resist the forces that are trying to grind them down, each in their own locality.

A TOP-NOTCH PRODUCTION

The play was distinguished by first-rate performances by all five actors, who had the audience immersed in the play from start to finish. Pragna Desai as Bhopal, and Kash as Gus, deserve special mention for their hypnotizing stage presence. At the climax of the play, Desai's high-pitched haunting scream sends shivers running down your back.

Brent Krysa, as set designer, with the help of set carpenters Lee Wildgen and Gynts Skudra, get credit for designing and constructing a marvellous set that facilitated the action of the play. The steel beams that delineate the space are a nice touch and juxtapose the chaos of Gus' life with his previous stable job in crafting hard steel. As the second act opens, an abstract red and white painting foreshadows the violence to take place at the climax of the play.

These elements made the play well worth seeing. The feedback I received from fellow socialist attendees was very positive. The admission price of $25 a ticket is certainly affordable in a city where an average minor-league hockey ticket costs much more.

WHO NEEDS A UNION THAT IS INDISTINGUISHABLE FROM THE BOSS?

As a play that sets out to be political and make a statement, how should we assess *Canada Steel* from the angle of politics? One message that comes through is 'resistance is not futile'. It is on this point that Korczynski shows his colours most clearly. He squarely takes on unions that have become indistinguishable in action, temperament, and motivation from the capitalists they used to confront. The aptly named union bureaucrat, Les Moore (played by Brian Marler) makes a touching social democratic speech, "You just gotta take what you can get. I can slow the descent." Gus' ultimate response to this appeal is to bludgeon Les to death off-stage.

Rather than a call for wanton violence, Gus' actions are really about the choice of taking the easy path and accepting the deal being offered, versus taking a much more difficult path fraught with losing it all. A wheeler and dealer to the bitter end, Les tries to save his skin by pleading, "We can fix this." To which Gus responds, "I don't want to fix this." Gus' choice causes him to lose everything, but does allow him to recoup two things - his pride and his role as an agent, rather than simply being a victim. Gus, Rose, and Bhopal all resist the logic that tells you that you can't win, or that you will never as an individual recoup your losses from a long strike. In all likelihood the police will drag you out of the plant occupation, as they do Bhopal, but that fact in itself is not enough to not fight back.

In fact, things do not end all that well for Gus and Rose, the later left an orphan, thanks to some trigger happy police. But it does not feel like a tragedy, instead a saying came to mind: "*While we might not succeed in taking the castle, we can at least trample the garden a little.*"

THE RELATIONSHIP OF THEATRE AND CANADIAN POLITICS

The material the play deals with - unions selling out their membership and becoming a tool of social control - is clearly relevant and playing itself out in the CAW's corporatist deal with Magna. Korczynski gets more than marks for effort in trying to make the link between workers in the global south and the rustbelts of the north. Globalization is much talked about, but *Canada Steel* is the first play that I have seen that treats it in a way that reflects the way workers have experienced it. His worry was that it would be seen as a simple piece of agitprop, but in my estimation he steers clear of that fate (see *Relay*'s Interview with Korczynski).

Any movement for change needs to be rooted as much in its own culture as a political critique. We need new socialist fairytales, we can't keep rereading those we have inherited from an earlier period. The Canada House Artistic Collective was formed to help "revive that legacy of systemic social challenge and to answer those who insisted that the forces of the market had triumphed once and for all; that there was no alternative to a self-satisfied, corporate agenda and its reproduction in many contemporary entertainment outlets". *Canada Steel,* when counter posed with the usual commercial entertainment, is certainly revolutionary.

Keep an eye out for the next instalment in 2008-9 of the final play in the trilogy, *Canada Square,* that will look at a wealthy Rosedale family forced into a bachelor apartment as a result of unwise investments made by their son. It should be well worth seeing. [*Relay* Rating **** (4 out of 4 stars)] **R**

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Relay interviews J. Karol Korczynski

***Relay*:** Where did you get the idea for Canada Steel?

JKK: It was the spring of 2003 and I was at a big anti-war conference in the United States. I met a steelworker there who I knew from 15 years ago. Since then he had lost his job, the whole rust-belt thing. He was a Pittsburgh, Pennsylvania steelworker, a militant union guy, and I hadn't seen him for 15 years and there he is at an anti-war protest. He says, "You wouldn't believe what happened to me!"

He was jobbing himself for minimum wage, standing on the street corner as vans come by looking for day labourers. Low and behold, they take him to the Homestead Steel Mill, one of the oldest steel mills in the Pennsylvania area. A hundred years ago, it was massive. There was a strike there against Carnegie, it's got a great history.

He says, "I was tearing down the plant and taking out the rubble, the wires for scrap metal, and I was working in the headquarters, the office building of the company, and we were smashing it down and dumping things into the dumpster. And I look in and see a huge canister, and I thought, 'Wow, what is that?'" And he pulls it out of the dumpster, he opens it up and he pulls out this giant canvas. It's a painting of this steel mill in 1915 and he can't believe it. He is an out-of -work steelworker and he is living in a rooming house. He doesn't know anything about art, and he is trying to get this painting restored, because it brings back so many memories for him.

And I just remember the guy's face and he was just so passionate and it just lit up and I never forgot it, what a painting could do. This is a guy who has never been in an art gallery in his life, but there is a connection between what happened to him in the steel works and he took pride in being a steelworker and this was depicted in art. I wanted to work with that joy of what art can do for a working-class person, so I took that nugget and made it into Canada Steel.

***Relay*:** The Canada House Artistic Cooperative's motto is "We live in dangerous times. Theatre must again become dangerous." What is necessary for theatre to become dangerous? What is it that you are looking to spark in your audience?

JKK: I want them to run out of theatre and kiss someone or punch somebody. I want them to be mobilized in some emotional way. I think to do what I intend to do, I am avoiding agitprop at all costs. It is the most difficult thing when dealing with political material, and not bourgeois political material, to make sure that it's not this two-dimensional Stalinlist, here I come to save the day "waiting for lefty" type of stuff. I am trying to reach a general theatre audience, and to be dangerous at that level is the real trick. You have to make them really like the people in the show, even the villain. And that is what makes it dangerous. If they can see that what is on the stage is what's happening in the house next door to them, then all of a sudden it becomes dangerous. Because it is real life and it's real drama.

***Relay*:** These days everyone who has a critique to make on the left seems to be picking up a video camera. Why do you think theatre is still relevant as a venue for social criticism?

JKK: Well, it is the most social of all the arts to me. You have all the individual arts, painting and sculpture, where the artist just goes within himself. But with theatre you can directly say what you want in an entirely social way; the process is entirely social. And every night you are recreating it socially in a social space. And every night new people have seen something for the first time and they are running out into the street. And every night you have a new interaction between artist and audience. You don't find that in film.

***Relay*:** What are some of the main challenges facing radical theatre today?

JKK: The main challenge is the money. That's the main challenge. We have to produce our own shows. Hopefully, the second one will be as successful as the first. The first show [Canada House] broke even and they told me that was the great success. They called me the 'golden boy' because we broke even.

***Relay*:** What do you see your relationship to the broader movement for social change?

JKK: They are not the target. I'd love them to come, but they are not the target. And believe me, the higher you are in the trade union bureaucracy the more you are going to hate Canada steel. The closer you are to the shop floor the more you are going to love it. If I was doing one of those agitprop "you won't get me I am part of the union" kind of things, I would probably be able to get funding from Metro Toronto Labour Council or the CAW educational fund might throw $2,000 my way. But they don't like stuff that I am doing; they don't like it any better than Bay Street does. So you know, the well-heeled people in the social movement, as you call it, may be more part of the problem than they are part of the solution. **R**

The Shock Doctrine

reviewed by Derek Hrynyshyn

Author: Naomi Klein
*Knopf, 2007, 720 pg*s.

That Naomi Klein's latest book, *The Shock Doctrine*, has met with such great commercial success is remarkable. With appearances on best-seller lists in a number of countries, she has made a name for herself as a left celebrity and found an audience receptive to her powerful and original analysis of contemporary politics. While many others books written from a critical perspective have sold well, this latest sensation – complete with a YouTube-sized short film by acclaimed director Alfonso Cuarón – has reached an audience large enough to cause the business press to take notice and to fill auditoriums on her North American lecture tour.

The book is indisputably important. Klein has managed to synthesize an account of events from the last 40 years of international political economy into a comprehensive analysis of the motivations behind much of that history. And she has provided it in a highly readable, if perhaps intimidatingly long, volume that brings a fresh perspective to events with which most on the left will already be familiar. More than most other popular books about world politics, she manages to express the underlying logic of a world that often seems confusing when the surface layer of violence and chaos is all that is glimpsed. She provides an overwhelmingly persuasive argument that there is specific agenda at work behind a large array of turning points in recent world history.

Specifically, *The Shock Doctrine* reveals patterns behind the imposition of neoliberal economic structures in a number of countries over the last 35 years. Right wing politicians and the corporations that back them either create or take advantage of situations in which populations are vulnerable and unable to resist sweeping transformations of their social world. Using far more documentation than most journalistic accounts, she shows how this strategy has allowed for the reorganization of social relations across much of the world. This has happened so many times that readers are left wondering why it hasn't been described before.

To help illuminate this process, she draws a disturbing parallel between these political transformations and the research of one Ewan Cameron, who experimented on human subjects at McGill University in the 1950s to see if people's personality couldn't be recreated in a more socially accepted form once electroshock therapy had erased their existing personality and they had →

regressed to a child-like state. Similarly, those who seek to reorient the development of countries along neoliberal lines often wipe out the existing political formations with coups, invasions, or find that they can best to do so in the aftermath of devastating natural events such as hurricanes or tsunamis.

As metaphors go, it is an effective one. But as well as setting up a context for the politics, it provides a superb label for her argument and could even be said to function as a 'brand' for her thesis. In this, she seems to have taken the lessons of her first book, *No Logo,* to heart. Wrapping up a political analysis in this kind of package might make it more readable, but we know that this does not always lead to very deep understanding of the issues at stake. Here, the commercial success does come at some cost to the effectiveness of the argument.

The archetype case, on which she spends several chapters, is the 1973 coup in Chile. Klein puts together the history of how the Chicago school economists under Milton Friedman worked deliberately with Pinochet, even before the coup, with a deliberate plan to implement all of their radical free-market policies, all at once, knowing that they would be completely unacceptable to the Chilean people and that Pinochet would be willing to ruthlessly suppress the opposition to them. This history is well known, but to emphasize its importance as a precedent for the other cases makes for an excellent starting point.

She also demonstrates how the same strategy was followed soon after in Argentina – and much later in Iraq and even in New Orleans after Hurricane Katrina – where massive privatization of public institutions took place in the immediate aftermath. In New Orleans, for instance, since a huge proportion of the citizens of the city were dealing with homes underwater, public opposition or even debate over the plan was simply impossible. Clearly such a clear pattern is no coincidence and it is high time someone drew attention to it.

In case any doubt is left, or anyone might think that the results are unfortunate and unintended consequences, she relies on Milton Friedman's own words as the basis for her argument. "Only a crisis... produces real change" he once said, explaining that his job was to wait for a crisis that would ensure that "the politically impossible becomes politically inevitable." (cited on p. 7). In example after example, Klein shows that what has happened to the poorest sectors of society was not only foreseeable, but planned by economists and advisors to dictators of the worst kind, in the name of remaking nations into market economies.

Perhaps the most powerful chapter shows the danger of naivety about the motives behind coups, wars and campaigns of torture. Opposition that decries human rights abuse but remains resolutely silent on the implementation of the ultimate goals – as if human rights can be criticized without the critique being involved in politics – cannot solve the problems. Klein is particularly attuned of the kind of irony involved when the Nobel prize in economics can be awarded to Milton Friedman in the same year as Amnesty International was awarded the Nobel Peace Prize, mostly for detailing humans rights abuse that was necessary in Chile to implement Friedman's economic proposals. The lesson might not be entirely new, but this argument continues to require articulation for every generation of activists.

The overall thesis is eminently plausible and much of the evidence appears very convincing. Placing recent events in the historical context of a 30-year strategy to implement a free-market agenda is useful for understanding why the current global political situation is so disastrous. But not every explanation of the structure of injustice helps readers understand how to fight for justice. And there is always a danger in such broad sweeping explanations that too much is being explained, as if everything that happens is the result of a strategy explicitly agreed upon by nearly everyone in power.

And indeed here, careful consideration shows that too many cases are included under her rubric of the politics of 'shock'. A briefer book that includes her discussion of the Southern Cone, American policies in Iraq and the aftermath of Katrina might have been enough on their own, and would have been very powerful. But she throws in discussion of Thatcher's UK, Poland, Russia, China, South Africa, Sri Lanka and Palestine as well, and sometimes the result is less than entirely persuasive.

Some of these cases work well. The Tiananmen massacre and the Chilean coup, for instance, seem to have more in common than many might have realized without this kind of explanation. It never hurts to remind people who buy books at places like Wal-Mart that the low prices of all the Chinese-made goods produced in that store are made possible by the political conditions created by that massacre. And Yeltsin's takeover of Russia in the aftermath of Perestroika has some similar features as well.

But other cases are less convincing. There are obvious difficulties fitting the case of Poland, for example, into the model. For one thing, it isn't easy to identify an event that causes the initial shock; the best that she can do is identify the "disorientation of rapid political change" (p. 217) at the end of the Soviet Era. While such a transition could be confusing, it is hardly fair to compare this kind of disorientation to what happened in September 1973 after Pinochet had the Chilean presidential palace bombed from the air, then killing thousands and torturing tens of thousands of others in the aftermath. The connection to the 'shock doctrine' as a strategy is blurred by reference to the 'Economic Shock Therapy' as rapid neoliberalization has since come to be known. That the same words are used covers over some important differences in the relations of cause and effect.

An even less convincing example is the chapter on South Africa and the ANC's adoption of similar neoliberal policies. Aside from a lack of an event that produced a societal state of shock, Klein's explanation of the shift seems forced. She relies on a limited number of interviews with ANC leaders at the time, who report that they "were completely caught off guard" (p. 261) by the negotiating tactics of the apartheid government in its dying days. But it seems quite implausible that such an effective organization would be so poorly informed. A better explanation would surely involve the decline of the relative power of the South African Communist Party within the ANC after the collapse of the Soviet Empire, which is not mentioned.

But what is most problematic, in the end, is what is missing from this explanation of the rise of neoliberalism. While many of her explanations of the cases she has included are helpful, there is almost no reference to the ascent to power by Reagan, Thatcher, or Mulroney. These three figures all managed to implement gradually a very similar agenda, without any kind of radical disruption that put citizens into a state of shock.

There are isolated instances in industrialized countries of capital taking advantage of serious crises to get neoliberal policy packages implemented, such as the attacks of Sept. 11th, 2001 and Hurricane Katrina. But the rest of the industrialized world, where the power to impose neoliberalism on everyone else is centred, is almost entirely missing. One chapter examines the way that the conflict over the Falklands / Malvinas Islands to boosted Thatcher's popularity for long enough to have allowed her to implement some policies that had previously been too unpopular in the UK to succeed. But this doesn't explain why she was elected in the first place, or how she won four consecutive majority governments. In such cases, Klein is only able to resort to the oft-repeated claims that citizens were misled by false reports about state financial problems. This may have been true, but it is not an explanation that fits the metaphor of the patient suffering the effects of electroshock therapy.

The inability to explain politics in the industrialized world points to a deeper problem: her explanation relies on the assumption that if it weren't for these 'shocks' that come in the form of military coups, invasions, natural disasters, or economic collapses, people would surely oppose neoliberalism and defend the state's right to manage the economy. It is one thing to take for granted the problems with neoliberal policies, which she largely does, but it is quite another to assume the normalcy of any other kind of social order. In the case of the Soviet Union and Poland, for instance, the few opinion polls to which Klein refers are not enough to show that the population would have defended a mixed economy had they not been disoriented or frightened by state terror. Those populations had plenty of experience of state-directed economies, and the possibility that they might have voted for an opposing idea even without a shock cannot be dismissed so easily.

In the final chapter, Klein notes how the shock seems to be wearing off, at least in South America, as a new generation has been able to support progressive political projects of a variety of sorts across most of the continent. There we find support for worker co-ops and a potential for real progress. But the assumption is, again, that this is what happens under normal conditions, and that the reason given for it happening there is entirely in the negative: shock no longer applies. It is becoming clear that what is needed is a positive explanation of why it does happen when it does, and not an optimistic reliance on human nature as naturally leading to this kind of politics.

With a book like this, there is always a worry that one is preaching to the choir. This doesn't seem to be the case here; Klein takes for granted that the problems with neoliberalism are already understood, and this is probably wise. It allows her to do more that preach but to also explain. It is one thing to make people aware of the injustices and another to explain those injustices in a way that makes sense of them. Klein has done both, so if she is preaching to the choir, that choir is much larger than it appears to have been in the past, and it is getting a new sermon that goes much deeper than others.

But it is yet another thing to actually provide an analysis that helps to overcome problems. Ultimately, we are left with little that helps to understand how to overcome the problems she explains. We need to ask why neoliberalism has been so successful in the industrialized countries of North America and Britain: in other words, why the left in these countries is so weak. We haven't had the kind of shock that Klein identifies as the reason for the success of neoliberalism in so many cases, from Chile to Iraq, yet we cannot seem to stop it here. Perhaps the next account of this history that we need is one that can help those of us who are committed to changing the system to understand how we might organize effectively to do so. **R**

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FOCAL: CANADA'S OPERATIVE IN THE COLONIZATION OF THE HAITIAN STATE

Kabir Joshi-Vijayan

February 29, 2008 marked the four-year anniversary of the foreign-crafted coup in Haiti and four years of an intense and ongoing international enterprise in nation building. It is an endeavour that involves the colonization of Haiti's economic system through "structural adjustment," and the take-over of its political, social and judicial systems through "good governance." Canada has already disbursed $180 million dollars for the project and has allocated another $555 million until the year 2011. The devastatingly flawed developmental policies being dictated have continued to shift power from Haiti's poor majority to the donors' own ideological base (represented by a tiny sector of the wealthiest Haitians) with the predictable repercussions of increasing poverty and growing social exclusion.

Despite the election two years ago of a constitutional government given a clear mandate to put in place a preferential program for the poor, it is the governments of the rich funding nations and their institutions that are setting Haiti's national priorities. This article will examine the troubling role undertaken by the Canadian Foundation for the Americas (FOCAL) in facilitating the implementation of certain aspects of this colonial program, with the hope of providing a glimpse of what this "reconstruction" will mean for the future of Haitian society.

FOCAL was established in 1990 as an NGO and "think tank" as part of a strategy of the federal cabinet to deepen ties with Latin America and the Caribbean. This was the same year that saw Canada join the organization of American States (OAS). In the early 90's, Canada's economic and political interests in the region increased because, according to the Canadian International Development Agency (CIDA) itself, the area had "moved from state-run, protectionist economies to a more liberalized, free-market approach."

Throughout all aspects of its work, FOCAL supports the political and economic interests of Canadian business in Latin America and the Caribbean by filling, what Foreign Affairs called in 2004, "a strategic niche currently unoccupied by any other institution in Canada" (for which it is rewarded by having 70% of its funding covered by CIDA and Foreign Affairs Canada). Beyond providing policy advice and direction to the government, FOCAL also helps initiate networks of partners with which the Canadian state, corporations and other international institutions (i.e. World Bank, IMF) work with to achieve their "developmental" goals for the region.

Since the 2004 coup d'etat against President Jean Bertrand Aristide, Haiti has become one of FOCAL's main projects, for which it has laid out three key areas of work:

1. Private Sector Involvement and Development
2. Facilitating and Expanding Latin American Involvement in Haiti, and
3. Developing the Haitian Diaspora as a Development actor

The executive-director of FOCAL, as well as the co-coordinator of it's Haiti Project, is Carlo Dade; a past World Bank official and a founding member and former-representative for the Dominican Republic and Haiti to the Inter-American Foundation (a U.S. government run 'aid agency' that provided hundreds of thousands of dollars to pro-business NGOs and "civil society" organizations within Haiti leading up to and following the coup). Dade's political stance in Haiti is well illustrated by a policy paper he wrote for FOCAL the month after the 2004 ousting of Aristide, in which he regurgitated U.S. State Department propaganda calling the twice democratically elected and widely popular president, "increasingly corrupt and demagogic," whose presidency had been, "the most spectacular…of Haiti's historic failures."

Far from being a "failure" but certainly "historic", was the process whereby a burgeoning civil society made up of Haiti's urban and rural poor had organized itself to overthrow a foreign-backed dictator. In 1990, they had taken their demands for democracy and justice from the streets to the polls to elect Jean Bertrand Aristide in Haiti's first ever democratic election. Despite attempts to annihilate this movement and vilify its leader, the poor majority not only overwhelmingly re-elected Aristide in the 2000 elections, but also gave his Fanmi Lavalas party a large majority at every level of government.

However (as Carlo Dade candidly told a Canadian Parliamentary Standing Committee in April, 2004): "the Aristide administration was doomed with the 2000 elections in the United States (which had) an active policy of supporting the opposition in undermining Aristide." An opposition that had failed to gain more than 8% support from the population! What Mr. Dade was not so forthright about was that Canada became an active participant in the "undermining" of the Aristide administration by joining an aid embargo against the elected government of the most impoverished state in the hemisphere and simultaneously providing financial and political support to the unelectable opposition. An opposition, incidentally, composed of both armed and unarmed anti-Lavalas forces (the details of which have been well documented and written about extensively). Over the 4 years that Aristide maintained power, the "international community" undertook a project costing hundreds of millions of dollars to create the conditions in Haiti of a "failed state," but only managed to create the perception of failure, culminating in the February 29, 2004 coup d'etat against the Haitian president.

The overthrow of Aristide, however, was only the first blow to Haitian democracy because what followed in the immediate aftermath was the systematic destruction of the popular organizations linked to Lavalas and violent attacks against the poor masses that demanded the president's return. Only one month after the coup, due to the combined efforts of the American, Canadian, French and Chilean forces, paramilitaries and the Haitian police force, every single Lavalas community leader, and the vast majority of government officials, were either killed, jailed or in hiding. By the time FOCAL's Carlo Dade and John Graham were outlining their Haiti program for a parliamentary standing committee two months after the coup, Haiti's entire government structure of some 7,000 elected officials had been dismantled. A brutal illegal regime had been imposed and every one of Aristide's social programs had been terminated.

In addition, the United Nations, corporate executives, donors from rich nations and the international financial institutions were preparing to meet at World Bank headquarters to draft what would be known as the Interim Cooperation Framework (ICF) for Haiti. The ICF was the neoliberal economic and social plan for "renovating" the Haitian state based on a platform of trade liberalization, privatization and obligatory security reinforcement. The deceptive premise of the framework was that the incompetent Aristide government was corrupt and that much of the violence in the country originated with the Lavalas popular organizations. And so the manufactured "failed state" designation of Haiti provided sufficient moral cover for the overt encroachment on Haitian sovereignty.

Canada was the second largest donor toward the billion-dollar neo-colonial program, which the un-elected Latortue regime dutifully adopted in July 2004. It was in anticipation of the neo-colonial framework that Dade, Graham and FOCAL board member (and former Conservative Prime Minister) Joe Clark outlined the specifics of their Haiti plan within the context of Canada's national interests: Haiti was a "failed state" on the Canadian doorstep and one that had the most open economy in the western hemisphere, which in itself presented a great opportunity. Canada could raise its profile in the region by taking the lead in bringing together the divergent powers in establishing a "Bosnia-like trusteeship". The effort would provide a key test for Canadian foreign policy and would make amends with the United States after the tiff over Iraq.

The core of the plan was to commit to a long-term engagement of at least ten years, identify and recruit "good candidates" for the project from both Haiti and the Diaspora, develop a mechanism through which to funnel developmental aid and then start to rebuild Haiti institution by institution, "graduating" the Haitian state "ministry by ministry."

FOCAL spent the next several months organizing high-level meetings, conferences, workshops and roundtable discussions around Haiti, bringing together the varied powerful interests, with the notable exception of the Haitian social movements. In December 2004, FOCAL assisted CIDA and Foreign Affairs Canada in convening the Haitian Diaspora for a two-day conference in Montreal. Invitees included representatives of embassies and institutions throughout the U.S., France and Latin America, as well as Haiti's puppet Prime Minister, Gerard Latortue, and representatives from the fanatically pro-coup Haiti Democracy Project (HDP), a think tank jointly funded by the U.S. State Department and Haiti's right wing elite.

The acknowledged goal of the conference was to get the Haitian Diaspora on board with the ICF, and by extension the occupation of Haiti. It was recollected that the Haitian Diaspora had been especially vocal in demanding the return of Aristide after the 1991 coup, and so it was necessary to numb this particular pressure point. In addition, the objective was to identify "reasonable" parties within the Diaspora to recruit →

Cabinet ministers Bernier and Oda visit Haiti. These images, "a source of hope for all women and men who seek to make a difference together for Haiti," are courtesy of the Canadian Internationaal Development Agency's website.

as stakeholders for the development plan for Haiti. As underscored by Carlo Dade, remittances from Haiti's Diaspora were not only the single largest source of aid in Haiti (accounting for ¼ of its GDP), but it was also largely independent aid. It seemed a shame that all that money was simply going to keep desperately impoverished relatives alive when there were international development investments to be made.

Canada's leadership role for the international project became official at the January 2005 Organisation for Economic Co-Operation and Development (OECD) meeting, where Canada committed to field test the OECD principles in Haiti for re-building fragile states. OECD documents disclose that a significant factor for Canada assuming responsibility in Haiti was the Canadian government's trade interests in the Caribbean, with Haiti's 8.3 million people serving as a huge potential for business opportunities in sectors ranging from maritime transportation to education. A FOCAL document has Joe Clark restating the importance of Canada's Haiti engagement in relation to Canadian ambitions for expeditious negotiations of Free Trade Agreements in the region to counter increasing competition from China and India.

In the fall of 2005, Joe Clark chaired the first of two FOCAL meetings to connect the Haitian private sector with international donors. A FOCAL document states that the Haitian invitees were chosen for their "vision of the country", which aligned precisely with that of their hosts. The list of Haitian private sector representatives was dominated by leading members of the aggressively neoliberal Group of 184, the USAID and CIDA funded coalition of anti-Aristide groups that directly financed and armed the murderous rebel forces. The outcome from this first meeting was to unite the private sector, secure their engagement at all future ICF meetings and facilitate their participation in the planned privatization of Haiti's public services, including health, education, public housing, public transportation and even tax collection. Incredibly, this would include the managing of international aid.

In order to circumvent criticisms that only a sovereign government should be in charge of development funds that future citizens would need to repay, the engagement was euphemistically described as "private-public partnerships." The consensus was that it was essential to begin the institutionalization of these partnerships in the interim period in case a less compliant government was elected. The provisions for the private-public partnerships were written into the interim draft of the Poverty Reduction Strategy Paper (PRSP) for Haiti, which the newly elected Preval government was obliged to implement at the July 2006 Donor's Conference held in the Haitian capital. The United Nations Development Program (UNDP) PRSP was essentially the successor to the ICF, and set both the development policies and national priorities as determined by the international financing institutions. It was of no consequence that many of Haiti's grassroots organizations had also gathered outside the meeting halls to protest the failures of that particular form of development.

In February 2007, FOCAL reconvened the Haitian private sector for a second meeting to focus in on the first of the public institutions to be privatized. A steering committee including the Inter-American Development Bank, cooperative NGOs and the Haitian private sector was formed to launch a "private-public partnership" for Haiti's system of education. Since that date, a significant number of resources from the various funding institutions have gone into the realization of the initiative. For example, within one month of the February meeting, a new National Education Partnership Office (ONAPE) was established with World Bank funds within the Ministry of Education to perform as coordinator of the public and private education sector and to manage a National Partnership Fund to channel public funds to non-public schools. As stated by FOCAL's Carlo Dade, the "breakthrough process started in 2005 [is] now firmly in the hands of the Haitian private sector." Whatever visions the Preval government, or the popular movements that elected him, may have had for a public education system in Haiti, the capacity (if not the vision) of his or any future government to build that public education system has been eliminated.

The goal of FOCAL's Haiti plan has been to remove the country's decision making from any kind of popular control by deliberately obstructing the path for establishing any alternative to the ideological "free trade" privatization model for development. In this plan, the role of any elected government is reduced to simply watching over the colonial arrangements negotiated between national and international elites. The current Preval government has been shackled by an entrenched bureaucracy left by the coup, an ongoing UN occupation, a militarized police force under US control and the governance dictates of the international lending institutions.

The activities of Canada and FOCAL have been deliberately contrary to the Haitian people's struggle for justice, dignity and self-determination. Yet despite the ongoing offensive, Haiti's remarkably resilient democracy movement has been rebuilding and remobilizing. The traumatized residents in Haiti's slums are emerging to revitalize the popular organizations Lavalas, neighbourhood-by-neighbourhood. It is these popular mobilizations, even in their vulnerable form, that remain the greatest threat to colonialism in Haiti today. **R**

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The Rise of Precarious Work for Women in China

Xinying Hu

In last three decades, increased international competition between nations for investment, increased capital mobility, a greater emphasis on trade and reduced regulation of the economy have had detrimental consequences for workers around the world. The rise of precarious jobs globally – which when compared to full-time, full-year, permanent employment – offer low pay, and no job security is a common response to the increased globalization of capitalist production. China is not an exception to these trends.

Since 1978, China has witnessed major changes in its economic, social and employment frameworks, something that has affected the very notion of employment itself. The pre-reform 'iron rice bowl'(tie fan wan, or 'permanent employment') that provided lifetime employment with guaranteed welfare benefits (including housing, health care, training, pensions, recreation and amenities, such as soap, toilet paper and even theatre tickets) has been completely broken and replaced by a free labour market which is increasingly characterized by contractual, temporary and informal sector jobs. These jobs do not enjoy the same social protection as was found during the era of the centrally planned economy.

The labour market changes have not been gender neutral in China. Overall, women are over-represented in precarious work arrangements and the percentage of women in these types of jobs has been increasing. The reason why precarious employment is gendered is explained by continuities in occupation segregation in labour market, continuities in the division of unpaid work and the ideology of men and women's work evident in state policies.

Although in China women have legally enjoyed equal rights with men in paid work since 1949 and there has been significant improvement in labour market gender equality (female participation rates have increased and the wage gap has narrowed), gendered occupational segregation persists. Women are especially concentrated in certain occupations that are more likely to provide precarious and auxiliary work than those occupations where men are concentrated. Women still carry out most of the unpaid work in household and this often negatively affects their paid work. In this article, I will trace and explain some of these employment changes among Chinese women workers in the last thirty years.

GENDERED EXPERIENCES OF PRECARIOUS LABOUR IN CHINA

Women currently comprise 46% of the total workforce (formal, informal and agricultural), up from 44% in 1982. Official labour employment statistics do not yet include flexible employment (defined by the Chinese government as a variety of employment forms different from the permanent, stable employment in state or collective enterprises) for the whole country. Data by gender for flexible employment is even more scarce.

A conjecture about the size of flexible employment by the available statistics on the urban employed persons and the urban units employed persons by the National Bureau of Statistics of China is shown in Table 1. We can roughly get the number of flexible workers by using the total urban employment and subtracting the urban formal sector employment. We can see that, in 2004, flexible workers represented 58% of all urban workers, and their share is higher than traditional full-time, full-year permanent workers'. Female flexible workers accounted for almost half (47%) of all the women working in urban areas, and a full 63% of women were working at flexible employment, which was about 10% higher than for males. As the data does not include the workers who have flexible jobs in the formal sector, the actual number of flexibly employed female workers is higher than official statistics indicate.

Flexibly employed women workers suffer in terms of career choices, income levels, social security coverage and rate of unionization. Their numbers have increased in the past 10 years.

GENDER DIFFERENCE IN INDUSTRIES AND OCCUPATIONS

In flexible employment, female employees are usually concentrated in specific occupations that require less skill and pay less. Women-dominated occupations include: social services and community workers (72 %), handicraft work such as dressmaking, tailoring and fur and leather making (78%) and wait-staffing services in restaurants (74%).

A study looking at the gender difference in flexible employment divided industries and occupations into five categories: male occupations/industries (70% male employees or above), male-friendly occupations/industries (60%-70% male employees), female occupations/industries (60% female employees), female-friendly occupations/industries (50%-60% female employees) and gender-neutral occupations/industries (outside the above four categories). The study concluded that female employees are more likely to be concentrated in female or female-friendly occupations/industries. About 80% of flexibly employed women workers are crowded into female or female-friendly occupations. Overall, flexible employment is a feminized employment type, which means female or female-friendly occupations are dominant.

In general, there is a distinct occupational difference between male and female migrants. Male migrants dominate construction jobs while female migrants dominate domestic service jobs. Many other marginal jobs, such as bike repairs or carpentry, as well as all kinds of heavy labour, which are also offered on the street, are mainly taken by male migrant workers who have neither the skills nor the connections to obtain better jobs in the city. Besides working as domestics, female migrants also predominate in retail or →

food-service businesses in the cities. Rural women usually work in township and village enterprises (TVEs), rural unmarried girls tend to work in coastal, export-oriented industries (like textiles, electronics and food-processing) for a couple of years and then return home.

Women constituted 39% of the own-account self-employed and 35% of owners of private and individual businesses in 1996. Compared to men, women have less access to financial organization's loans. As a result, they tend to start micro enterprises and businesses in the service sector where the capital requirement is less and is more likely to be met through informal financial sources, such as relatives and friends. In addition to service sector, self-employed men have more choices in industry, such as light manufacturing.

GENDER GAP IN INCOME

According to a 2000 nation-wide survey of all employed workers, the annual average income of females was 67% of the male wage (6,681 vs. 10,043 yuan). In the sub-group of formal employees the gap was less at 72% (7,114 vs. 9,822 yuan), while in the sub-group of flexible employed workers, the employment gap was greater at 64% (5,414 vs. 8,534 yuan).

Because employers do not have to pay migrant workers social benefits, and because workers coming to the city from the countryside to seek labour were ready to take on positions and to do the dirty work that the urban population now refuses to do, migrant workers are more successful than laid-off workers in obtaining jobs. However, compared to local residents, their general pay level is relatively low. In 1998, the wage per hour for male migrants in Beijing was 27% lower than that of local residents while for female migrants it was even worse at 41% lower than that of local female residents. Due to gender segregation in professions, male migrants earn significantly more than female migrants. But for the migrants who occupy the same types of industrial jobs, such as working in foreign firms which basically produce labour-intensive manufactured products in south China, there is no gender wage effect. The main reason is that foreign investors usually come to China to maximize their profits. They may intentionally hire women workers who are equally, or more, productive than male workers.

While the gender wage gap grows with flexible employment, the overall gender wage gap has also grown. In 1990, women earned 83% of men's pay and by 1999 only about 70%.

GENDER SEGREGATION IN SOCIAL SECURITY

In contrast to the numerous rights, benefits and forms of protection attached to formal employment, flexible employees have remarkably few. Flexible employees lack any rights to pensions, health care, unemployment insurance and paid maternity leave, paid annual leave, paid sick leave, and public holidays. The social security status of female flexible work is even worse. For example, pension plans, which should cover every worker, cover only 20% of male flexible workers, and only 16% of female workers. In addition, 80% of female flexible employees do not have maternity leave and pregnancy care wage. Once pregnant, some workers are dismissed or forced to quit. All of this means that for flexible employees, their job can only provide basic subsistence and once they become sick, injured, unemployed or old, they can fall into abject poverty: the very basis of their life is threatened by labour insecurity.

Joining and organizing workers organizations is an effective approach to protect labour rights in a market economy. Accordingly, All China Federation of Trade Unions (ACFTU) and All China Women's Federation (ACWF), because of their original mandate and their changing role, are acting as bridges between civil society and policy makers, and are pushing for equal employment rights in China. There are growing numbers of examples where workers successfully fight for their rights and interests through trade unions.

But because of the Chinese trade unions' semi-official nature and the uniform organization form, along with the instability of flexible employment, flexible employees' opportunities to join unions are greatly restrained. A 2000 survey showed that only 35% of male flexible employees were union members, compared to 83% in male formal workers; female flexible employees' union rate was ever lower, at only 28% in contrast to 78% in female formal workers. This low level of organization makes it difficult for flexible workers to defend their interests and is an important

Table 1: Gendered employment forms in urban areas in China 2004

	Total (million)	Male (million)	Female (million)	Female proportion(%)
Urban employment	264.76	150.91	113.85	43.0
Urban formal sector employment	110.99	68.72	42.27	38.1
Flexible employment	153.77	82.20	71.57	46.5
Flexible employment ratio (%)	58.1	54.5	62.9	

Resource: Labour Statistical Yearbook 2005 and China 5th Nation Province Population Census data (Chinese Statistics Publishing House). Urban employment refers to the total working population in urban areas, including formal employment and flexible workers.

explanation for why flexible employees' labour rights have not been effectively protected.

BASIC LABOUR RIGHTS

Some flexible workers' basic labour rights are not protected. According to a survey of 9,036 re-employed laid-off women workers by the All-China Federation of Trade Unions in 26 provinces, autonomy regions and municipalities in 1999, 55% of workers did not sign labour contracts with their employers, 61% of working-units could not fully enforce workplace safety and labour protection regulations for female workers, 58% of workers did not have statutory leave, 58% also worked over time and 24% of workers could not get pay for their overwork. According to the Labour Law (1995), the Women Worker's Labour Protection Regulation (1988) and the Regulation on Female Worker's Unsuitable Work (1990), female workers enjoy special protections under menstruation, pregnancy, birth, nursing and menopause, normally called "five periods" protection, which is applicable to every enterprise in China. For example, a menstruating female worker should not be assigned to work in the air, low temperature, frozen cold water and heavy manual operations; pregnant workers cannot work in workplaces where lead, mercury and its compounds, benzene, beryllium and other toxic substances' density exceed national health standards; women who are 7 months pregnant should not be assigned to night-shift; women workers who are experiencing menopause symptoms and cannot do their routine work should be assigned to do other suitable work temporarily.

However, women worker's 'five periods' protection regulated by law and government stipulations are seldom enforced in some private factories. Fujian Women's Federation did a survey in 21 foreign factories in Quanzhou (south China) where there are almost 10,000 foreign enterprises including garment, ceramic and shoe-making, in which women workers account for more than 60% of work force. They found that: only 2 factories gave women workers who were under menstruation some kind of care; 15 enterprises allowed pregnant women to do taboo work; only 1 enterprise had a dedicated female worker bathroom. The enterprises prolonged workers' working time at will and working over time was becoming a serious problem. It is quite common for workers to work more than 10 hours everyday in these foreign enterprises. One enterprise even stipulated in the contract that "workers have to take on an additional shift, work extra hours or work all night if needed. If workers can not adapt to such work, they would be viewed as taking unauthorized leave." (Fujian Women's Federation, 2005).

In labour intensive and small-scale enterprises the working conditions were found to be particularly bad: work was performed in cramped areas that generally lacked decent ventilation, anti-dusting controls, anti-poisoning controls, fire-controlling and safety protection. Problems of hot and windless workplaces, rife with air pollution and noise pollution were notable. In one foreign-owned company, which had about 50 women workers, there were 10 workers suffering from lead poisoning and 1 died from comprehensive symptoms. In shoe-making factories, there were 14 women workers were suffering from benzene poisoning, 5 died including 2 pregnant women workers.

There is no reason to believe that male workers' situations are better than female workers. But because women workers dominate in these factories and their biological periods, like menstruation, pregnancy, birth, nursing and menopause, women are more at risk than are men under similar conditions.

POWER OF COLLECTIVE BARGAINING

The gendered distribution of precarious jobs has had a tremendous negative impact on women's equity in labour market. As a country which has recognized women's equality with men as basic national policy, the Chinese government should take the responsibility to expand collective bargaining to cover precarious types of work, improve its labour legislation in the labour market, and improve social programs to provide more social security for women workers in its national level. At the same time, as women's precarious employment is a global phenomenon and gender equality has been a recognized goal of many countries, especially after the Fourth UN World Conference on Women in 1995. International support for the *Beijing Platform for Action,* which called for gender equality solutions to precarious work in the global context must become an agenda of every government worldwide. **R**

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Mexico's Katrina:

the flooding of the state of Tabasco

Amparo Martínez-Arroyo
and Jorge Zavala-Hidalgo

In October and November 2007, the lowlands of Tabasco, Mexico experienced the most massive flooding ever seen in that region. More than one million people, accounting for about 50% of the total state population, were affected. There were huge damages to infrastructure and property, as well as potentially irreversible environmental damages due to the dispersion of industrial toxic wastes during the flooding. Most people lost almost everything: their homes, jobs, land and crops. And since only those very few people with wealth have access to insurance, they have no apparent means of recovery.

The flood covered more than 70 % of the state's surface, including the largest and most developed city of the state, Villahermosa, a city of over 500,000 people. Upstream in the state of Chiapas, a landslide washed away an entire village of 50 houses and 70 of its inhabitants were reported missing. As in the case of Katrina, the causes were not simply the unpredictability of nature and the bad luck of the area. These disasters occur when natural hazards combine with vulnerability stemming from human action or inaction. The construction of projects that produce greater vulnerability, as well as the failure to properly maintain infrastructure, are political acts. The hazards are natural, the disasters generally involve human agency. There are many examples of this in recent years from around the world: the Asian tsunami, hurricanes Katrina, Wilma, Stan, widespread droughts, wildfires, landslides, pandemics, European and Canadian heat waves, etc.

The Tabasco disaster in 2007 had its origin in a combination of two extreme precipitation events, inadequate operation of dams, infrastructural projects that were never completed and poor regional weather forecasts. As the high vulnerability of this region to massive precipitation is well known and well documented, the failure to take adequate preventive measures has to be viewed as the central element of the tragedy's causes.

The state of Tabasco is located in the southeast of Mexico, over the coastal plain of the Gulf of Mexico. More than 70% of the national freshwater resources are located in this region, as well as a great part of Mexico's biodiversity. The surface area of Tabasco represents only 1.3% of the national territory but houses 53% of the fresh water wetlands. And Tabasco's oil reserves are second only to those in Mexican territorial waters. Tabasco's petroleum production facilities include 926 oil wells, nearly one fourth of the 4,000 in all of Mexico, Three of the nine gas processing plants in the country are located there. Tabasco is one of the richest states in Mexico in terms of its high amount of petroleum. However, it is one of the poorest states in social services and health.

Tabasco has an extremely complex hydrological network and receives the largest amount of registered precipitation of any state in the country. Most of the state is a wide coastal plain crossed by rivers coming from mountains further south in Chiapas and Guatemala. The main rivers in the area are the Grijalva and Usumacinta. The main branch of the Grijalva in Chiapas is dammed by the country's largest hydroelectric network. This network, operated by the Federal Commission of Electricity and the National Water Commission, supplies a significant amount of the nation's hydroelectric power. The strong precipitation and the consequent filling of the dams of the Grijalva River basin were caused by the interaction of a cold front and a low-pressure system located over the Caribbean Sea. The cold front reached the region carrying extremely strong winds at a high coastal sea surface height. It produced two precipitation events: the first between October 23 and 25 and the second between the 28 and 31st.

The flooding could have been avoided or , at least mitigated, if the infrastructure planned after the 1999 flood had actually been constructed and forecasting capability improved. The flooding was not a surprise. In fact, after the last big flood, that of 1999, a special program to prevent floods was established. One would imagine that some results of this program would have been apparent eight years later, but, up to now, no one knows where the allocated money went and most of the planned infrastructure had not been completed.

There is no justification for the failure to develop better and more reliable forecasts. The lack of support for the development of science and technology contributes to this trend of increasing vulnerability. The underestimation of the amount of rain that was on its way was, in part, a consequence of the budget cuts to the Mexican National Weather Service since the late 80s.

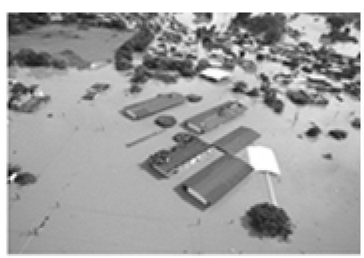
The combination of dams that were already overfilling with the underestimation of the coming precipitation led to the overly rapid opening of spillways to relieve pressure in the dams. This rapid opening of the spillways made the flooding more catastrophic. The auxiliary spillway of the Peñitas dam was opened at a flow of 2,000 cubic meters per second (m3 s-1) for two days (October 29-30), and at a flow of 1300 m3 s-1 for the following three days. Around 750 million cubic meters spilled from the dam in that period, an amount which, at one metre depth, could flood an area of 750 square kilometers.

The dam was opened because it rose above the maximum operating level, but several questions remain: Why didn't they open the auxiliary spillway at a medium rate between October 25 and 28 to increase the range of maneuver of the dam if a strong rainfall was coming? Why did they open the auxiliary spillway at such a high rate between October 29 and November 5th as the precipitation stopped on November 1st? The reason is that although the forecasts of the Mexican Weather Service of the National Water Commission and those of the Federal Electricity Commission, who operate the dams, forecasted strong precipitation events, the maximum range that they use to predict is > 70 mm in 24 hours and the events were much stronger. Data shows that the region has a history of massive precipitation and that extreme weather events similar to that of 2007 have been observed during the last 30 years. And the government was well aware that massive disasters were possible. In fact, they allocated funding but then failed to carry out the projects. As with Katrina, the political decision-makers gambled with lives, livelihoods and communities.

The event was badly managed by the government, not only before and during the event, but even after it. The government, including the president, blamed climate change and the tides as the cause of the disaster before any review of the real causes of the catastrophe had been conducted. This sort of attitude inhibits serious analysis and the implementation of correct technical decisions that could prevent future similar disasters.

There is a great temptation for governments to blame climate change on external, natural factors instead of developing local, regional and national climatic programs to reduce vulnerability and to enhance adaptive capabilities to deal with climatic change and variability. The scientists of the Intergovernmental Panel on Climate Change (IPCC) clearly identified the human influence on these changes. It is possible to assess, step by step, the public policies and the socioeconomic models leading to highly vulnerable societies. Costs of the application of these kinds of projects would only be a tenth part of the costs of reconstruction of devastated areas like Tabasco and New Orleans.

Social movements, popular organizations and trade unions have important roles to play in fighting for these changes. Socio-environmental and climatic issues must be strongly incorporated into their political programs and they also need to work closely with those natural and social scientists that are committed to constructing a new agenda in the face of a complex and dangerous future. **R**



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The Unravelling of Neoliberal Policies in Egypt:

The case of Karnak, Luxor

Angela Joya

EGYPT'S MAINSTREAM PRESS QUESTIONS NEOLIBERALISM

In its 2007 New Year's issue, *Al-Ahram Weekly* (one of Egypt's most well-known and widely circulated newspapers) published an article titled "No Trickle Down, No Good." This article signalled the beginning of a debate in the mainstream press about the effects of neoliberalism in Egypt.

In the past, *Al-Ahram Weekly* published accounts of individual cases of corruption and sectoral crisis. But the New Year's issue was the first one to openly question the neoliberal orthodoxy of Prime Minister Nazif and the ruling National Democratic Party (NDP). Furthermore, this article presented a sobering counterpoint to stories which put a positive spin on Egypt's embrace of neoliberal policies. The article revealed how for the past ten years, neoliberal policies caused a variety of social crisis and conflicts in Egypt. Unemployment levels remain high and the cost of living has sky rocketed. Now, one sees long line-ups in front of bakeries that distribute the subsidized bread '*aish baladi'* – the main staple among many Egyptians whose basic needs have not been met by the market. Increased levels of poverty, a burgeoning housing crisis, and price increases are social consequences of neoliberalism that are even being recognized by some of the NDP's members. Egypt may well be on the brink of a serious social crisis, and this is what the ruling class fears the most.

After signing a major economic reform package in 1991 with the International Monetary Fund (IMF), the Egyptian state transformed the country in to an investor-friendly space, a "market economy". It actively implemented a series of laws and reforms that liberalized the prices of basic commodities, removed of rent control laws on both agricultural and residential land, and more importantly, de-regulated and privatized public sector firms and companies. Massive lay-offs and precarious working conditions for Egyptian workers ensued.

The impact of neoliberalism was not felt by the wider population in the first decade of the reforms. But in 2004, some of the harsher reforms were implemented by Prime Minister Ahmed Nazif, a Canadian, who has been a staunch supporter of neoliberalism. Supported by Hosni Mubarak's influential son, Gamal Mubarak, Nazif stacked his cabinet with business elite and intensified the country's movement towards a market economy. It has been four years since Nazif implemented more aggressive neoliberal policies and over a decade since Egypt signed on to an IMF structural adjustment package. Now, Egyptian politicians, journalists and critics are questioning neoliberal orthodoxy.

THE DECLINE OF EGYPT'S LEFT AND THE RISE OF THE ISLAMISTS

The Egyptian state's implementation of neoliberal policies in the early 1990s was supported by a consensus that united the social forces of the Left and the Right. Academics and policy makers alike lauded the benefits of Egypt's embrace of a market economy. The consensus signalled the deteriorating influence of Egypt's organized Left (Nasserist and socialist leaning parties). These forces tacitly supported neoliberalism and the deepening of capitalist social relations. Furthermore, and in retrospect, the Egyptian Left failed to establish grassroots links with peasants and non-industrial workers in the dominant agricultural sector. The Egyptian Left's membership was thus limited to the industrial sectors in Cairo and Alexandria and some of the other industrial cities. But even in cities like Cairo and Alexandria, millions of petty commodity producers and family run businesses – a potential backbone of a much broader Left movement – were excluded. The irrelevancy of the traditional Egyptian Left became clear when it did not capture any seats in the parliament in the 2005 elections. This fact testifies to the tactical error in supporting neoliberalism.

The Left's disconnect from the lives of Egyptian peasants and small producers opened up a space of struggle that was eventually captured by the Islamists. The Islamists have effectively mobilized the support of diverse social groups across Egypt, whether agricultural communities or petty commodity producers in the cities. With a wide range of charity organizations funded through Islamic financial Institutions' profits in the 1980s, the Islamists have managed to establish a permanent core of supporters that has grown in numbers since then. While the Muslim Brotherhood (MB) stands as the institutional voice of the Islamists in Egypt, they are by far the most moderate of the Islamist movements in Egypt. Nonetheless, the membership of Muslim Brotherhood reaches far and wide across Egypt. Despite such levels of support, since 1991, even the MB has failed to accomplish any real changes in policy. During my interview with one of the top members of MB, I was told that the MB is not at all opposed to a capitalist market economy in Egypt.

Not all Egyptians, however, have responded to neoliberalism by joining the MB.

In response to the implementation of neoliberal policies in Egypt throughout the 1990s and to this day, a new trend of local community mobilization and protest has emerged. In the various governorates reaching from the north to south of Egypt, people are attempting to organize their communities to fight neoliberalism. Some communities have succeeded in defending their rights, especially those related to protection of land. But lacking a wide support network and institutional links to other parts of Egypt, many of these communities remain isolated from other communities. They remain weak in the face of the state's armed security forces. Nevertheless, the forward march of neoliberal policies and its accompanying instances of state-led dispossession increasingly provoke Egyptian communities to protest the capitalist transformation and exploitation of their common resources. And there is good reason to resist, as neoliberal policies have caused a variety of disasters.

NEOLIBERAL DISASTERS: TOURISM INDUSTRY ACCUMULATION BY DISPOSSESSION

A recent conflict over housing and land in Karnak, Luxor – a popular space for seasonal tourists that is filled with ancient monuments that line the Nile such as the Valley of the Kings and Queens – is but one example of the economic and social dispossession demanded by neoliberalism. In the past three months, the residents of Karnak have been on a watch day and night. They expect and fear the demolition of their houses by the police. Karnak has been slated for demolition by the state because it falls on prime real estate property. Investors and land developers have been eyeing this area ever since Sameer Farag (the governor of Luxor) announced his plan to turn Luxor into an open-air museum by 2030.

The people of Karnak fear that the governor has no plan for relocation. They are certain that they will not receive fair compensation for the destruction of their homes. They report that real estate agents are hired by the state to underestimate the value of their houses and land. And even if their land is undervalued, there is no guarantee they will be compensated. Furthermore, the residents of Karnak's economic dispossession is accompanied by social dispossession: the destruction of these people's homes in order to push through development on behalf of the land-owning beneficiaries and consumers of Egyptian tourist spaces will break up families and whole communities that have lived together for a very long time.

As result of this dispossession, Karnak's local residents have a different attitude toward Egypt's tourism industry. Tourism and the tourists to Egypt themselves are increasingly perceived by Karnak's residents as the source of their problems. A young man from Karnak asked me: "if tourism means the loss of our houses, do you think we would like tourists and welcome them here?" Other Karnak residents, expressing their frustration with their economic circumstances, told us that tourism has not created any meaningful jobs for people. At best, they get menial service industry jobs as dish-washers in the hotel restaurants. They also complained about the big malls and hotel conglomerates and how they are gobbling up small income that the locals could make from contact with tourists.

The case of Karnak's economic and social dispossession is central to the neoliberal policy shift in Egypt. The residents of Karnak have mixed titles to the land on which their houses are built. The land is either *'wada al ayaad'* (a form of communal land tenure that was acknowledged by the Ottoman rulers of Egypt in the process of state formation in Egypt) or land with fixed low rents introduced at the time of Gamal Abdel Nasser in the 1950s. Secure tenancy rights which applied equally to rural and urban lands provided security of tenure for the tenants and farmers through the right of transfer to other family members. The main neoliberal reforms that have rocked Egypt since 1991 introduced a series of laws that targeted tenure security so as to make both agricultural land and residential land available for investors.

NEOLIBERALISM'S LEGITIMACY CRISIS IN EGYPT

The experience of dispossession has been met with violent resistance, often expressed in the form of radical Islam or terrorism. The neoliberal project that was implemented in 1991, however, continues. And the struggles of peasants and farmers, lacking resources and organization, continue to be neglected by major Egyptian newspapers. As result, the image that Egyptians living in Cairo have of Egypt is often the same one that Western tourists are exposed to: calm villages, flowing palm trees and ancient historical sites. The only organization in Cairo that reports on the cases of dispossession is the Land Center for Human Rights, which has documented thousands of cases of forced evictions, land grabs →

and violence in Egypt since the new land laws took effect in the 1990s.

It is not surprising given these conditions that residents who live outside of Cairo refer to Cairo as 'Masr', which means 'Egypt'. They do not see themselves as part of Egypt. They told us that their struggle against neoliberalism is the same as the struggle of the people of Palestine. They vowed that they would fight Egypt's ruling class just as the people of Palestine have fought and resisted Israel to defend their homes and their land. They said they would challenge the state, fight the police and target the tourists. Karnak residents said if they lose their houses, they will not fear for their lives and they will be ready to kill and get killed.

Thus the very policy of expanding investments and tourism in Egypt is resulting in the dispossession of the local people's land. While Prime Minister Nazif proudly points to the high growth rates of over 7% and billions of investment dollars, along with over ten million tourists that visited Egypt in 2007, it is clear that this high level of growth and investment has not "trickled down" to ordinary Egyptians. The profits have accrued to banks, to land development companies, and to the larger hotel chains in Egypt's tourist industry.

If the opposition parliamentarians (belonging to the Muslim Brotherhood and the Wafd parties) are raising fingers at Nazif's neoliberal policies, they have a reason to do so. Increasing unemployment levels and the deepening inequality have brought Egypt to the brink of a social crisis. If the ruling class remains as dogmatic, short sighted and greedy as they have been so far, they will face a much bigger problem that might be impossible to contain. With 52 % of Egyptians living below the poverty level, a break down of social order is possible.

"No Trickle Down, No Good" reflects how Egypt's mainstream media and the parliamentarians, concerned about the dire socio-economic conditions of the majority of Egyptians and fearing a breakdown of the social order, are offering a warning to the Egyptian ruling class: without some degree of redistribution, their days in power are numbered. **R**

Angela Joya, writing from Cairo, is a member of the Canadian Middle East Socialists Network.

The Debacle of the Centre-Left:

Some Reflections on the South Korean Presidential Election

Terry Murphy

The victory of Lee Myung-bak, the candidate of the Grand National Party in the recent South Korean presidential election, marks the first time since the Korean War that a conservative has been elected in a free and fair election. Lee received 11,492,398 votes or 48.7%; Chung Dong-young of the centre-left United New Democratic Party, 5,317,708 votes or 26.1%; while conservative independent Lee Hoi-chang, 3,559,963 votes or 15.1%. Lee's victory follows a series of three previous victories by candidates of the centre or centre-left: Kim Young-sam in 1992, Kim Dae-jung in 1997, and Roh Moo-hyun in 2002. Prior to 1992, all elections were marked by high levels of corruption, intimidation, vote-rigging and military intervention.

This victory represents not so much a ringing endorsement for the conservatives as a veritable collapse of the centre-left, amidst ideological confusion and voter apathy. In the harsh world of neoliberal orthodoxy, the Korean centre-left has few ideas it can call its own. In the last year of his presidency, President Roh was a thoroughly isolated man, distant both from his electoral base and the traditionally conservative media and wider political establishment. Presiding over an economy governed by the principle of the market, Roh could only make minor efforts to temper its more irrational aspects.

When Lee assumes office, he will face a variety of problems. These include a housing market still at inflated levels; rising real unemployment, particularly among youth; an overpriced stock market that seems ripe for correction; stiffer international competition in a globally depressed economic environment; and potentially new complications in the relationship with its northern neighbor. In confronting these issues, the new conservative president will be able to draw upon widespread support from the Korean mass media; his strong links with the major Korean corporations or chaebols; and a fund of good will from traditional allies such as the United States and Japan.

THE REIGN OF PRESIDENT ROH

The victory of President Roh Moo-hyun in 2002 was seen by most commentators as the culmination of South Korea's long political struggle for democratization. This process had been sparked off by the major battles of the late 1980s against the military dictatorship, eventually moving from the street to the seats of the National Assembly. President Roh thus came to represent a whole generation of activists who had come to political consciousness at a time of naked military repression. Roh traces his own political awakening to a traumatic event in 1981 when, as a young human rights lawyer, he was asked to defend one student among a group of twenty-four who had been arrested for possessing banned literature. The students had been tortured for almost two months. Roh subsequently commented: “When I saw their horrified eyes and their missing toenails, my comfortable life as a lawyer came to an end.” A few years later, he made headlines for the sharp manner in which he questioned former top officials during a special parliamentary hearing on corruption, just as the tide was turning against military rule.

Roh’s victory in 2002 was thus seen as one for that generation of younger voters free from the hard-headed pragmatism, bitter cynicism and fierce anti-communism of the older generations. Oddly enough, the high point of his presidency was not so much anything he did, as the mass protests that greeted the decision of the still-conservative majority in the National Assembly to impeach him on comparatively trivial grounds in 2004. The spontaneous nightly candle-lit mass vigils were instrumental in helping the conservative Constitutional Court recognize the need to overturn the decision of the rightists in the National Assembly.

This moment had the potential to create a potentially new dynamic in Korean politics, but Roh’s government quickly lost the momentum by a series of decisions that served to alienate its electoral base. For example, the Roh government pushed hard for the completion of a U.S.-Korea Free Trade Agreement, indicating in the process that it also intended to seek similar agreements with China and Japan. Farmers in Korea were rightly alarmed about the threat such agreements posed to their livelihood; consumers wondered aloud about the threat to their health, given the poor safety record of items such as U.S. beef.

In foreign policy, Roh stood firm against friendlier relations with Koizumi-led Japan, rightly suspecting the belligerence of the new rightists in Tokyo; but he nonetheless allowed token forces to be dispatched to both Afghanistan and Iraq to support the War on Terror. In return, Roh held out for positive political developments on the Korean peninsular. But with the ascendancy of the war-hungry neoconservatives in Washington throughout most of Roh’s term in office, the leftist president waged a lonely battle.

From the time of Bush’s first election victory in 2000, tensions between the United States and the DPRK were deliberately allowed to worsen until the DPRK finally said enough was enough and staged an underground testing of an apparently nuclear device in October 2006. Paradoxically perhaps, this extraordinary event put an end to the dominance of the Northeast Asian wing of the neoconservative movement and led to a slow movement back toward détente.

Given the complexities of the standoff, however, the pre-election meeting in Pyongyang between Roh Moo-hyun and Kim-Jong-il, the DPRK leader, in November 2007 could only confirm the intentions of the two Koreas to work toward a “peace regime”.

A protester kicks a poster of President Roh during a rally condemning the arrest of union members

In this sense, the gesture marked the furthest distance that progressive South Korean government policy has allowed itself to travel from the U.S. State Department line.

The Roh government did serve to curb the worst excesses of the Korean version of the global housing bubble. It did this by imposing a large tax on owners of second homes and by requiring would-be buyers of second homes to put up 60% of the necessary money. For these measures, Roh was roundly criticized by the mass media with monochrome arguments about the sanctity of the free market. Right now, it is now very difficult not to see that Roh was justified in what he did, given the debacle in the U.S. housing market. And it seems doubtful whether, for all its bluster, the new government will seek to undermine this positive legacy.

The issue of education is always a political one in Korea, given the strong Confucian commitment to learning in the country; and each new government tinkers with the mechanisms of university entrance. The Roh government tried to ensure greater →

egalitarian access to postsecondary education by setting limits to university autonomy, alienating most of the university administrations in the process.

Finally, the government tried to move the government administration out of Seoul in order to reduce the utter domination of the capital over most aspects of South Korean life. This met with strong resistance, including from the Constitutional Court, which declared the move unconstitutional. In the event, only a few functionaries have been relocated.

The Democratic Labor Party opposes new labour laws.

During Roh's term, the Korean economy continued to grow steadily, but at a pace more in line with that of a developed, rather than developing, country. It was the Asian economic crisis that effectively signaled the end of the long 25-year boom in Korea's post-war economic development. Since that time, the Korean economy has tended to experience shorter upturns in the business cycle, with more bankruptcies, growing real unemployment and spreading social misery in the downturns. According to the Bank of Korea, the nation's potential economic growth rate in the first decade of the new century has effectively dropped to around 4% from the consistent level of 6% achieved in the 1990s. Nonetheless, toward the end of his term, as a result of the greater openness of the Korean economy to foreign investors, the KOSPI scaled heights never seen before, and the Korean currency threatened to reach levels of parity with the U.S. dollar last seen in the years immediately before the Asian economic crisis.

It is this economic reality, as opposed to the political bombast churned up by the conservative Korean mass media and repeated by CNN and the BBC, against which the Roh administration needs to be judged. From a leftist point of view, the Roh government did little to curb the increasingly high levels of real unemployment, particularly among the youth outside the capital. Given that it was the younger generations of voters that had elected him, this was certainly a mistake. But the mood of the country has definitely become more conservative over the least five years. Korea is a society that is now more firmly polarized into winners and losers, with a middle class desperate to join the former club and anxious to avoid the latter one.

In retrospect, it is clear that it was the conservatives who learned the most from the impeachment debacle: the failure to impeach Roh forced them to undertake a thorough housecleaning of their traditional political style in order to prevent permanent political disenfranchisement. The result was a simple slogan: Lee Myung-bak was to be the "economy president." The correctness of the Grand National Party's focus on the overriding importance on improving the economy is demonstrated most clearly by the failure of the revelations regarding the new president's corrupt involvement with a major stock-price fixing scandal in the weeks before the election. A clear majority of voters were uninterested in Lee's personal flaws; they were voting for a candidate who promised to focus on the economy and seemed capable, judged on his past record, of getting things done. The new president's strong background in industry as a former chairman of Hyundai Construction and his recent experience as mayor of Seoul was enough to turn the tide.

The victory of the conservatives will thus necessitate a hard rethink for all the progressive forces. This rethink will not be dissimilar to the ideological self-examination the conservative camp itself has been forced to undergo during their many years in the political wilderness. In the short run, the centre left will be forced to choose between a greater commitment to the centre or a clearer orientation to the left. Most will choose the centre.

As Gwak Byeong-chan suggested in a post-election editorial in the leftist newspaper *The Hankyoreh*: "How is it that seven million irregular workers support someone who will make working conditions worse, that four million farmers prefer the candidate who will open their markets completely, that merchants in local markets are fanatic about the candidate who supports discount megastore chains, that people in small companies speak in support of the candidate who will work for the interests of the conglomerates, and that the people in the lower classes prefer the candidate who will move away from being a welfare state? […] It is the current government that has betrayed them. They handed over power to the market and the chaebol conglomerates, and they sought to form a coalition government with the neoliberalists. They chose imbalance instead of balance, chaebols instead of mid-sized companies, the market over community, and competition instead of coexistence. The result was that that working conditions have deteriorated terribly, and socio-economic disparity, where the poor get poorer and the rich get richer, is worsening."

Meantime, the major casualty of the leftist debacle may well be the Korean Democratic Labor Party (their perennial candidate Kwon Young-ghil obtained only 3% of the vote). This very poor showing is already causing some major friction between the two major party factions. The global crisis of socialist perspective has not been overcome, and only a major reversal of fortunes for the conservative camp while in office seems likely to alter this. Korean conservatives are still quite stupid, corrupt and ideologically driven, however, so this may not be so far off as it might at first seem; but for now self-reflection must begin with the forces of the left. **R**

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Considering Canada in Afghanistan

Fred Judson

How does a Canadian citizen, either uncertain about whether to support Canadian involvement or already rejecting that involvement, formulate an informed position? Let me touch on several aspects from what might be called a 'radical' perspective. That means looking for the underlying realities, rather than focusing on official government rationales, characterizations of 'terrorism' or 'fundamentalist Islam.'

Let's look at the claim that Canada faces a threat in Afghanistan. For students of international relations, the perspective called 'realism' is dominant: states exist in a world of insecurity, and their central foreign policy interest is to achieve and protect security. Other states' aggression is the source of our insecurity, but also ideas like communism or Islamic fundamentalism, or groups and individuals (e.g. Al Qaeda, Taliban, Osama bin Laden, Mullah Omar). We must have, increase and use power in order to protect ourselves, since all other actors are doing the same, realism tells us. But somehow, 'we' are different from other actors, i.e. 'we' have values and either 'they' don't, or their values are nasty and threatening. 'They' pursue power and wish to enslave us ('they' being communists or 'terrorists' who 'hate our freedom'), while we only pursue the good, not power for power's sake, to dominate or to exploit. I'd argue that if the realist perspective holds for 'them,' it ought to be applied to 'us' as well. We may well have a security interest in Afghanistan, even a 'Canadian' or 'Western' values interest, but is there any other?

So, let's ask it: Is there possibly a 'power project' being pursued by Western (mostly United States) forces in Afghanistan? If so, what might that be? Historically, as we know, Afghanistan was considered the geo-strategic key to power in the Eurasian landmass: Czarist Russia and Imperial Britain certainly behaved as though that were the case. Western geo-political thinkers a century ago identified Eurasia as the 'world island' which was the ultimate centre of power if you wanted to rule the world: as one of them put it: "Who rules the Heartland (i.e. Central Asia/Afghanistan) rules the World Island; who rules the World Island rules the world". 19th and 20th century imperialisms, then, focused on Afghanistan as enabling penetration of South Asia, China, even the Persian Gulf. And there was political competition and force projection to deny other empires control of the Afghan cross-roads. There have been repeated temptations to 'fill the power vacuum' in Afghanistan when other empires have given it up or been defeated locally. Ask the British about the 1839-46 adventures or the attempts after WWI to control Afghanistan. Ask the Russians about the Soviet experiences of 1978-1989.

But isn't all that over? Maybe not. U.S. and Canadian historical amnesia notwithstanding, Taliban rule in Afghanistan, which evidently tolerated, even encouraged Al Qaeda activity culminating in the 9/11 attacks, came from somewhere, not just from some Islamic ideas nurtured in exile *madrassas* in Pakistan during the Soviet occupation.

It came from those forces of Afghan resistance to Soviet occupation, called the *mujahedin*, which a broad coalition of external actors supported. The Pakistani military and intelligence services, the Saudi Arabian government and several small wealthy petro-entities of the Persian Gulf, the Islamic government of Iran, the United States, and to a lesser extent a variety of Western governments promoted, financed and armed *mujahedin* →

resistance, in order to wage the Cold War against the Soviet Union. The Taliban were considered an 'asset,' just as Saddam Hussein was in the U.S. concern over Iran. Some of the most effective resistance to the Soviets became what we knew as the Taliban.

After combined and varied resistance forces expelled the Soviets, expressed commitments to reconstruction and development for Afghanistan were dropped. Afghanistan had never had a 'modern', effective state apparatus and the state had functioned at best in the 20th century as patronage-dispensing balance among ethnicities and regions, among semi-feudal warlords and traditional ethnic-centred patriarchies, often handled in a patron-client manner by the monarchy or by a foreign-supported semblance of a government whose writ hardly extended beyond Kabul. A modernizing coup in the 1970s, followed by several factionalized Marxist regimes, did not draw much external support, either, until the USSR intervened. The reformist zeal and revolutionary rush of those republican and Marxist regimes to modernization and secularization brought forth widespread opposition, and repression merely escalated the opposition and armed conflict. That instability, along with a residual Soviet revolutionary imagination, brought in the Red Army. We know Afghanistan became the USSR's Vietnam, and most of the world cheered when Gorbachev/Yeltsin brought the troops home. Ensuing insecurity, lack of a central regime, large amounts of small arms, new projects for the *mujahedin* and Western neglect helped create the Taliban regime. Many Afghans accepted the harsher aspects of the Taliban regime because it controlled the ethnic, regional and warlord violence.

And the country with the greatest interest in Afghanistan as a place to deal the Soviets a severe blow, the US, figured it could work with the Taliban as a counterweight to Iran in the region, and as interlocutors in plans for major hydrocarbon developments and transit corridors in the Central Asian/Caspian Sea basins. Shortly before 9/11, negotiations seemed to be advancing, with one Hamid Karzai, as an employee of the U.S. hydrocarbon firm Unocal, involved. Large corporations with links to the new Bush administration, e.g. Halliburton, appeared ready to pick up mega-contracts around pipelines and other infrastructure. The U.S. even publicly praised the Taliban government for its contributions to 'the war on drugs', as opium poppy cultivation seemed to be declining. Criticisms of Taliban repression of women, curtailment of public education, culture and journalism, along with human rights violations, public floggings and executions, were muted in US government circles, and it bears remembering that this was also the policy of the Clinton administration.

So, fast-forward to 9/11 and the ensuing invasion, military defeat and dispersal of the Taliban and the installation of the Hamid Karzai government. The declared objective was to punish the Taliban for supporting Al Qaeda by overthrowing them, then chasing down and eliminating Al Qaeda and capturing or killing bin Laden. It was to exact retribution for 9/11 and to deal with further terrorist threats likely to emanate from Afghanistan. Though they hadn't been mentioned before, especially during the negotiations on pipelines and hydrocarbons, other objectives have assumed prominence: the war on drugs, since after all it seems the Taliban hadn't in fact moved as concretely against opium cultivation and heroin production as was previously thought; bringing peace to Afghanistan, though in fact the Taliban had rather effectively, even ruthlessly, imposed 'security'; bringing democracy to the region, as long as people didn't vote for the Taliban and other Islamic fundamentalists; liberating women from their very real repression; bringing social and political infrastructure for development and democracy.

But look at the situation through geo-political eyes for a moment: what else did the removal of Taliban and the occupation of the country yield? Well, the presence of significant U.S. military forces not far from China – the country U.S. military planners have identified for over a decade as the only power capable in the middle and long term of contesting U.S. planetary supremacy in the military sphere. The Project for a New American Century, whose intellectual authors have been at the center of U.S. foreign policy directions in the Bush administration, and the Pentagon have insisted on 'full-spectrum dominance' and will not tolerate, they state clearly, any other country achieving what was called 'strategic parity' during the Cold War. The U.S. had 'been there and done that' with the USSR in the '70s and '80s, and it wasn't going there again, having 'won the Cold War.' Just how long did those planners expect to maintain U.S. forces, included many new and large bases, in Afghanistan? They've not said, but you can bet they're looking at more than chasing Taliban.

Notice as well that those forces are very well positioned to move into the 'Stans (former Soviet Central Asian republics) where major hydrocarbon deposits are located (Kazakhstan, Turkistan, Uzbekistan, especially) in case of 'regional instabil-

Political Relevancy... *continued from pg 12.*

...there as well Groups that make themselves relevant by directly impacting the day to day lives of the people they need to mobilize are by far the most successful at challenging the status quo and creating real social change.

Part of me wonders if this article is rather simplistic, at a certain level we all know this, already. The question remains though, why don't our actions reflect this knowledge. Is the answer too simple, too obvious? Have we let the system dictate how we resist it? Do unions evolve from grass roots movements to rigidly structured organizations or do they get shaped into something that capital finds acceptable? If we are to realize the democratic ideal we aspire to, do we need a new model of leadership, leaders who aren't just negotiators and decision makers, but educators and facilitators of discussion?

You can't give away what you don't possess. We have to be able to affectively resist in the workplace before we can change the world. **R**

Jay Johnston is an activist in the CAW.

ity.' In the middle term, those forces could be a crucial part of controlling development, marketing and transport of those hydrocarbons to the exploding markets of China and India. Notice that the country President Bush has designated a 'threat'– Iran – is conveniently book-ended by two countries occupied by U.S. forces, Iraq and Afghanistan. So we see excellent logistical positioning has been achieved, if you wanted to 'deal with the Iranian threat.' And, if things were to deteriorate either along the Pakistan/Afghan border or within Pakistan itself, U.S. forces are in an excellent forward position should intervention become necessary, possibly in alliance with India. Afghanistan isn't necessarily a good staging ground for operations against China, but having forces there certainly would make China hesitate if it ever decided its own security necessitated a move to its west. That sounds like 'containment' of China to me.

Now, bring the Iraq invasion/occupation, the U.S. targeting of Iran and its occupation of Afghanistan, together with its strong position at the Middle Eastern end of the 'arc of hydrocarbons and strategic interests' – running from Cairo through Tel Aviv and Saudi Arabia, now through Baghdad and Suleimaniya in the Kurdish north of Iraq – this is an unprecedented superpower presence. Both U.S. behaviours, as military occupiers and as a Western power whose discourse unhappily echoes 'crusades', seem almost designed to arouse resentment, bitterness and the entrenchment of resistance identified with the many Islamic identities along the arc of hydrocarbons and strategic interests. The emergence of the Iranian Islamic regime had a lot to do with the same resentments and dynamics almost 30 years before, including the association of the United States with Israel and the long suffering of Palestinians.

Ah, but are we Canadians not in Afghanistan to protect Canadians from terrorism? And are we not as justified as George Bush in being there in a pre-emptive way, i.e. stop them there before they attack us here? Well, with respect to the victims of 9/11 and their families, just how much terrorism has occurred? And whose terrorism are we to talk about? Does the 'state terrorism' of scores of U.S. allies in the Global South over decades count? Does the 'state terrorism' of the U.S. itself, visited upon civilians in the waging of the global war against terrorism, count?

Aren't we there to bring the benefits of liberal democracy to Afghans, as the U.S. is in Iraq to achieve the same end for Iraqis? If so, for how long, how much are we willing to commit, and what should be the balance between strictly security functions, offensive operations against insurgents, and social development? Are we ready to be in Afghanistan for the 25-50 years, what most education experts say would be needed to have a universal public education system effectively 'educate Afghanistan for democracy'? Do we mind that Afghan democracy seems unable to curb the flourishing narco-economy, warlordism and local Taliban power?

Will Canada have to assert for decades to the watching Islamic world that 'really, we aren't supporting the Project for a New American Century', 'we're not here out of shame for not being in on the Iraq invasion/occupation', or 'no, we're taking on combat functions here in order to free up U.S. forces who are dealing with insurgencies in Iraq' or 'no, our presence here has nothing to do with the now on-going U.S. war in Iran'?

Are the Canadian public and its political parties ready to buy into a view of the world as engaged in a crusade against terrorism, as earlier the U.S. was engaged in a crusade against communism, and even against fascism? That requires casting a wide net, designating 'enemies', speaking of 'traitors' and 'cowards', even mimicking the macho and militarist language prevalent in the Bush administration.

What if it is all about U.S. planetary military supremacy, forceful imposition of a particular model of democracy in a chain of countries with Muslim populations where it is not certain such governance is viable? Supporting that is certainly a departure from both Canadian multilateralism and its so-called peacekeeping tradition. Maybe that era is gone. Is it the price Canada will have to pay for its privileged market access to the USA? Must we conform to the discourses and strategic cultures of fear and enemies as globalization and diversity of power centers both proceed? Are we so fixated on quick results that we'll agree to help the U.S. impose democracy by force, and just move along to the next invasion against an individual or regime alleged to be considering Weapons of Mass Destruction or 'harboring terrorists or potential terrorists'? **R**

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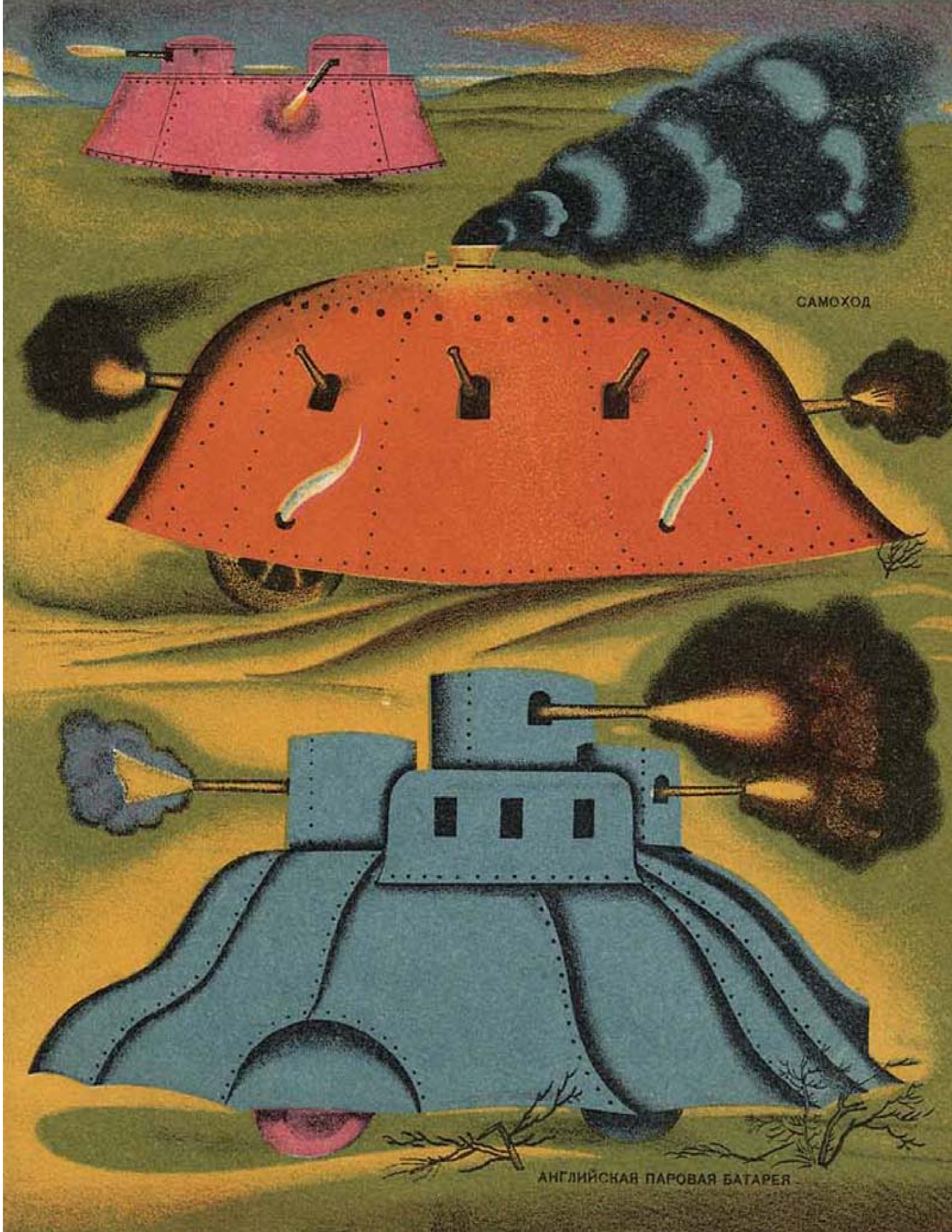
САМОХОД
АНГЛИЙСКАЯ ПАРОВАЯ БАТАРЕЯ