the Popular Economist

Fall 2010 Newsletter | Center for Popular Economics

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2010 Fall Popular Economics Institute

Beyond the Economic Fright Fest: Building a Solidarity Economy

Highlander Center, New Market, TN
October 26-31

There were plenty of scary moments at our Fall Popular Economics Institute as we explored hair raising tales of financial risk taking, predatory lending, zombie banks, toxic assets and the frightening impenetrability of *exotic financial instruments* such as MBS, CDOs, CDS, SIVs. We also heard stories about how people's lives have been affected by the current economic crisis as well as the longer term simmering crisis of downsizing, job loss, increasing job insecurity and criminalization. Our discussion about climate change was highly alarming but also drove home a sense of urgency and we looked at a number of local to national responses.

We didn't just talk about the scary stuff. We also discussed ways to build the solidarity economy which puts people and planet front and center. We had a wonderful day trip over the Smoky Mountains to Asheville, NC where we had a delicious lunch at Firestorm Café, a worker owned cooperative. The Café was gracious enough to let us use their meeting space in the back of the café for our session on the roots of the economic crisis. After that we had presentations from a couple of immigrant women's cooperatives – a cleaning coop and a textile coop that makes dolls and clothing.

One of the worker-owners of Firestorm also gave a presentation about the café and how it serves as a community space for meetings as well as just kicking back with a good cup of joe and a vegan cookie. From there we visited Trash Inc, a social enterprise that sells waste and surplus materials to artists, teachers and

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Of Debt and Deficits

Prof. Gerald Friedman, UMass Dept. of Economics and CPE staff economist

Presidents often try to bury bad ideas by sending them out to special commissions to die. Alas, some come back. Such has been the case with deficit reduction and President Obama's National Commission on Fiscal Responsibility and Reform. Bad policy rooted in bad economics and sloppy accounting, the Commission's proposals for deficit reductions need to be treated like Rasputin: poisoned, shot, stabbed, and then drowned.

Charged with balancing the federal budget, the Commission was a bad idea to start. And it has borne bad fruit. Not waiting for a vote of the whole commission, its leaders, Erskine Bowles, a North Carolina financier, and former-Senator Simpson (Republican, Wyoming) have published their "Co-Chair's" proposal to get "this crushing debt burden off our back" by "making tough choices." Toughness extends only to spending; Bowles and Simpson would balance the budget without raising taxes above the post-Bush level by cutting "ALL excess spending" with "tough discretionary spending caps." To achieve budget balance without raising taxes, they would reduce student loans, payments to providers in Medicare and Medicare, impose greater copayments on Medicare and Medicaid, and would reduce social security payments.

It would be easy to pick apart the individual items in the Co-Chairs proposal. Some involve laudable efficiency gains that have been only partially realized in the past. For example,

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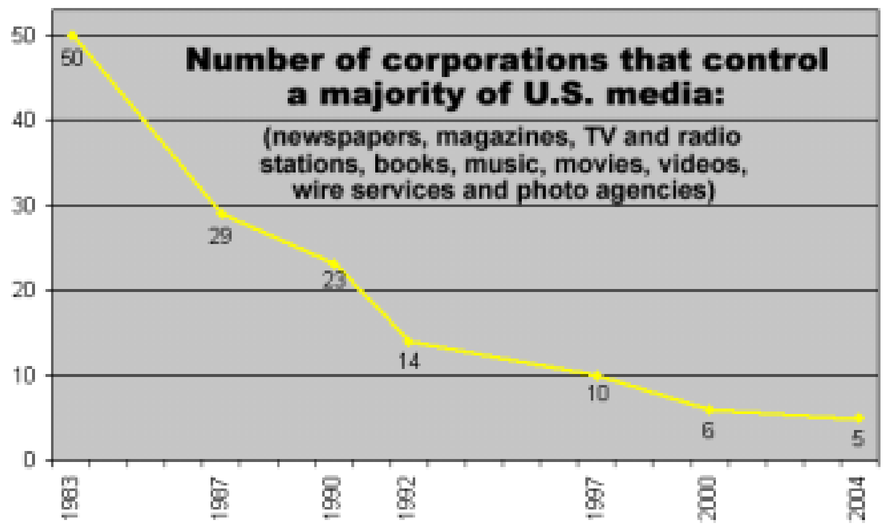
Media, Democracy and the Economy

Emily Kawano, CPE staff economist

On November 18, House Republicans failed in their attempt to de-fund National Public Radio (NPR) in a vote of 239-171, but we can expect the attacks to continue despite strong public support for, and confidence in public broadcasting. Already, the U.S. has the lowest level of public funding for media in the industrialized world. What does it mean that our media is becoming increasingly concentrated and controlled by corporate interests? What does it mean that the press is so dependent on corporate advertisers to keep them afloat? What does it mean that information that is critical to the functioning of a healthy democracy has to battle it out not in the marketplace of ideas but corporate profits?



Thanks to a bequest from the C. Edwin Baker 2001 Trust (see box), we will engage these questions at our 2011 Summer Institute on Media, Democracy and the Economy. We are pleased to be able to fund twelve C. Edwin Baker Fellows to attend the Institute and produce a media piece on this theme. The Institute will provide journalists, writers and others involved in media with grounding in political economy as well as topics that Edwin Baker made profound contributions to such as the relationship between a free media and the market, advertising, and the concentration of ownership. As always, we welcome participants who may not have a media focus, but simply want a better understanding of how the economy works and what can be done to make it better, fairer and more sustainable.

The second component of the Media, Democracy and the Economy project will be to develop a web portal that we are provisionally calling Economic Finds that will be a one stop shop for economic data on a range of topics presented in user friendly graphs, charts and tables similar to what you can find in our Field Guide to the U.S. Economy. In addition to this kind of mainstream data, we will include data related to economic democracy such as cooperatives, community land trusts, common resource management initiatives, community banks, social money and so forth because these practices tend to very invisible in the mainstream media. The web portal will be targeted at media makers, but also available and useful for anyone else who needs to access economic data.

If you are interested in getting involved in either of these programs, contact programs@populareconomics.org.

Additonal Resources

- Media Ownership Chart, http://www.mediachannel.org/ownership/moguls-printable-150dpi.pdf
- Free Press: Media Reform through Education, Organizing and Advocacy, http//www.freepress.net
- Media Consolidation: A Threat to Democracy?, C. Edwin Baker, USINFO Webchat transcript, 6/13/07, http://www.america.gov/st/washfile-english/2007/June/20070613153837xjsnommis0.1586878.html

CPE receives a Generous Bequest from C. Edwin Baker

The Center for Popular Economics is thrilled to receive a substantial bequest from the C. Edwin Baker 2001 Trust which we will use to support our work on Media, Democracy and the Economy. Ed Baker died unexpectedly at the age of 62 on December 8, 2009. He was a Professor of Law at the University of Pennsylvania and one of the nation's leading constitutional law and media policy scholars. He was the author of numerous articles and books including Media Concentration and Democracy: Why Ownership Matters (Cambridge) and Media, Markets and Democracy (Cambridge). Ed Baker dedicated his life and work to supporting equality, human liberty, participatory democracy, and progressive social change. He was a long time supporter of CPE and we are deeply honored to be among the recipients of his respect and generosity.

U.S. Financial Reform: The End of the Beginning, or Simply the End?

Prof. Gerald Epstein, UMass Economics Dept., PERI and CPE staff economist

On July 21, 2010, President Obama signed into law the long awaited "Dodd-Frank Wall Street Reform and Consumer Protection Act". Press reports widely anointed it "the most sweeping financial reform since the Great Depression" and President Obama claimed that the law would bring about the end of tax-payer bailouts of "too big to fail" (TBTF) banks.

Yet, not everyone is convinced, to put it mildly. Arthur Levitt, former head of the Securities Exchange Commission, scoffed at the idea of major reform: "I think that's ridiculous… whatever changes were made were at the margins." Matt Taibbi of the Rolling Stone, was typically more scathing: "… it was…ultimately a cop-out, a Band-Aid on a severed artery. If it marks the end of anything at all, it represents the end of the best opportunity we had to do something real about the criminal hijacking of America's financial services industry…See you at the next financial crisis."

Critics were reacting to the fact that none of the key financial forces that caused the financial crisis were *definitively addressed* by the Act. Still, something of value did happen in the protracted fight over financial reform. Robert Johnson of the Roosevelt Institute captured the spirit well: "What is heartening is to see how so many people and organizations — who had little knowledge of this arcane subject matter two years ago — have contributed the energy to learn and engage and push relentlessly for reforms against the monied odds... *This is the first act of a many act play* (emphasis added)." These included groups like the Americans For Financial Reform, a coalition of 250 labor, community and consumer groups, SAFER, a group of economists and other analysts, Demos, a progressive "think-tank", Bankster USA, and Roosevelt Institute, among others.

As usual, *Nation* columnist, William Greider, got it right: "Think of this as Round One. …Instead of congratulating Democrats for enacting timid measures, we should show them what we have in mind for Round Two." But Round Two is going to be exceedingly difficult for reformers, and the bankers and financial lobbyists planned it that way. The reason is that the Act deliberately left most of the details of the

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Rebuilding communities through job creation and economic democracy

Emily Kawano, CPE staff economist

Evergreen Laundry

Cleveland's Evergreen Cooperatives have been igniting a lot of excitement. They have been featured in the Nation, the Economist, Time, Al-Jazeera, and a PBS television special, to name a few. Other cities such as Atlanta, Youngstown, Pittsburgh and Detroit are interested in replicating this model which seeks to revitalize hard hit neighborhoods of Cleveland by creating worker-owned businesses with the support of anchor institutions, such as the hospitals and universities.

The Center for Popular Economics has been working with the Center for Public Policy and Administration at UMass on applying the lessons to Springfield Massachusetts. As part of this initiative, we were delighted to bring Ted Howard, one of the chief architects of the Evergreen Initiative, out from Cleveland to give two public talks. One was in Springfield and the other at UMass was packed with a mix of students, faculty, cooperative practitioners and community members. The audience at both events was not only impressed, but also inspired about the possibility of bringing such a model to Springfield.

Ted Howard painted a fascinating picture of a city that has lost roughly half of its population and where the gleaming architectural wonders of a world class hospital, university and museum are surrounded by neighborhoods with median household incomes of $18,500. These anchor institutions have come to realize that their future can be hurt by the negative image and problems that come with such acute poverty, unemployment, abandoned buildings and population loss. They worked together with community groups to figure out how to use their considerable purchasing power to support job and wealth creation in these poor neighborhoods.

It has been a year since the first of the worker cooperatives were launched. Evergreen Laundry, is a $5.7 million, state of the art, green industrial laundry with the capacity to handle the linen from the hospitals and university. Ohio Cooperative Solar installs photovoltaic panels and has already erected

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Election 2010: Who Needs the Democrats

Prof. Gerald Friedman, UMass Economics Dept. and CPE staff economist

On November 2, 2010, President Obama and the Democrats were whipped, and whipped badly. Despite a few bright spots, mostly on the East or West coasts, the Democrats lost ground in every region and among virtually every group of voters. Reviewing the exit poll numbers the swing from the 2008 election results is almost breathtaking in both depth and breadth. Compared with 2008, the share voting Republican increased by 19% for men and 13% for women, 14% for whites and 7% for African Americans, 14% for those under 30 and 22% for those over 65, 19% for those earning under $30,000 and 16% for those earning over $100,000.

Even Republican activists acknowledge that the vote was against the Democrats rather than for the Republicans who, amazingly, are even less popular than the Democrats! Instead, the Democrats lost because they have not presented a coherent program to address the country's economic crisis. Half of the electorate is "very worried" about economic conditions and these voters broke 70% for the Republicans. The Democrats received 58% of the vote among the minority whose economic circumstance has improved over the past two years, they were crushed by almost 2:1 among the greater number whose situation has grown worse since 2008. Especially in the upper-Midwest and the South, these voters powered the Republican sweep.

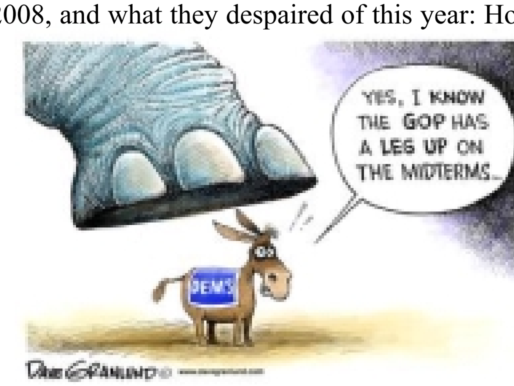
How did we come to this pass where those concerned about unemployment and declining living standards for working people express this concern by voting for the party that would cut taxes for the rich and slash social support for the unemployed and for working people? This does not reflect any dramatic swing in popular sentiment. While 23% of the electorate blames President Obama for poor economic conditions most know better and blame either President George W. Bush or Wall Street for the debacle. The problem is that 56% of those who blame Wall Street voted Republican.

In losing the economically distressed vote, Obama's party suffered a fate similar to that suffered by Ford's Republicans in 1974 or Reagan's Republicans in 1982. These electoral losses were a rational response by workers against parties committed to fight inflation by raising unemployment and cutting benefits for the poor. Obama's Democrats, by contrast, have pursued fiscal and monetary policies to stem the economic collapse and provided extended unemployment and other benefits.

We could spend the next two years complaining about these irrational choices. Or we could acknowledge that people are responding to the very real failure of an economic policy that can offer nothing more than to slow the bleeding at the expense of shoveling huge sums of money at the Wall Street mavens who did so much to bring on the current crisis. Why not vote the Democrats out when Obama's economic policy amounts to little more than 2 years of unemployment benefits in a Great Recession that has already gone on for longer than that for millions of Americans with no end in sight? When the Democrats' economic policy is to wait until the economy fixes itself, then why not vote them out? Who needs Democrats who act like Republicans?

The best news from November 2, 2010 is that it is not the end. If Obama's Democrats lack vision, the Republicans are completely incoherent. There is plenty of space and enough time for President Obama to present an economic policy based on a real understanding of the gravity of the current crisis and the need for extraordinary government action to resolve it. He can propose to promote employment through a public jobs program and by encouraging consumption by redistributing income from the rich to working people and from capital to labor. He can forthrightly campaign to raise wages, to improve social insurance and to raise social security, and for labor law reform to promote unionization. He can come back to Wall Street with a program to nationalize insolvent banks and to compel banks to renegotiate fraudulent mortgages and to write down the principal. Such an aggressive policy will put him at odds with those who Theodore Roosevelt called the "malefactors of great wealth" and Franklin Roosevelt condemned as the "unscrupulous money changers." It would earn him their hatred, and earn him the right to say, as Franklin Roosevelt did in 1936, that "they are unanimous in their hate for me – and I welcome their hatred."

Best of all, such an economic program from a renewed Obama Administration would give the American people what they voted for in 2008, and what they despaired of this year: Hope. ❖



Rebuilding Communities *(cont'd from p. 3)*

arrays on the roofs of some of the anchor institutions. The Coop leases the rooftop space but owns the panels and sells the electricity to the institution. Green City Growers is about to break ground on a 5 acre, hydroponic greenhouse that will produce five million pounds of lettuce and herbs for the anchor institutions as well as the general market. These businesses are located in, and hire from designated low-income neighborhoods. Many of the workers had limited employment prospects. Half of them have prison records, some of them were homeless, and many unemployed. The cooperative business model gives these workers not only a paycheck with a living wage and free benefits, but it also builds assets. At the end of each year, workers get a share of the profits, which is deposited into an account. Their projection is that a worker can build up $68,000 in assets in 8 years. The vision and hope is to create 100 cooperatives and 5,000 jobs which would really be on a scale to have a significant impact on the communities.

Ohio Cooperative solar

This is the first large scale initiative to develop an integrated network of worker cooperatives in the U.S. Evergreen draws a great deal of inspiration from the Mondragon Cooperative Corporation in the Basque region of Spain. Mondragon is the most successful model of worker cooperatives in the world, with over 150 coops, including globally competitive manufacturing, R&D, finance, education, social security, and supermarkets. They employ over 150,000 workers and in their 60 year history have had virtually no lay-offs and have had only three businesses fail. Compare that to a small business failure rate of 70-80% in the U.S. When a delegation from Cleveland went on a study visit to Mondragon they were so impressed that the decision to follow a cooperative business model was clinched.

Right now the Springfield exploration is in the embryonic or perhaps zygotean (if that's a word) stage. Over the past three quarters of a year, we've been meeting one on one with the key anchor institutions in Springfield and have received a positive response all around. These discussions have identified a number of exciting ideas about what sorts of worker-owned businesses could be built, ranging from food, to energy, recyling, and transportation. We've had two joint meetings, the second one with Ted Howard and it was invaluable to have the opportunity to pick his brain. Folks came away from the meeting raring to go. A long road ahead, but one with much promise. ❖

U.S. Financial Reform *(cont'd from p. 3)*

key reforms up in the air, to be decided by rule makings and studies during round two in over 10 different domestic agencies and in overseas bodies like the Basel Committee on Banking reform. Indeed, the Act calls for 243 rulemakings and 67 studies to be held over several years, with the final rules being phased in over as many as 12 years.

But all is not bleak. The fact of the matter is that within the provisions of the Dodd-Frank Act there are some quite powerful provisions that, if implemented and monitored properly could have a significant impact on some of the most dangerous and destructive dynamics in the financial system.

So, is the Dodd-Frank Act the beginning of the end or just the end? The answer *partly* depends on whether funders and economists and other analysts step up and contribute to round two by going toe to toe with the bank lobbyists, the regulators — and the mainstream economists who often support them — to feed analysis, facts and information to the rulemaking bodies and to inform the public about what is really needed to get the most bang from the new financial reform law. It is important to remember that within the framework of the law itself there is currently the potential authority for breaking up the banks, outlawing dangerous derivatives, controlling dangerous compensation schemes, and ending tax payer bailouts. But there is also the real possibility of just hitting the restart button and going back to the bad old days of 2004 – 2007 and before.

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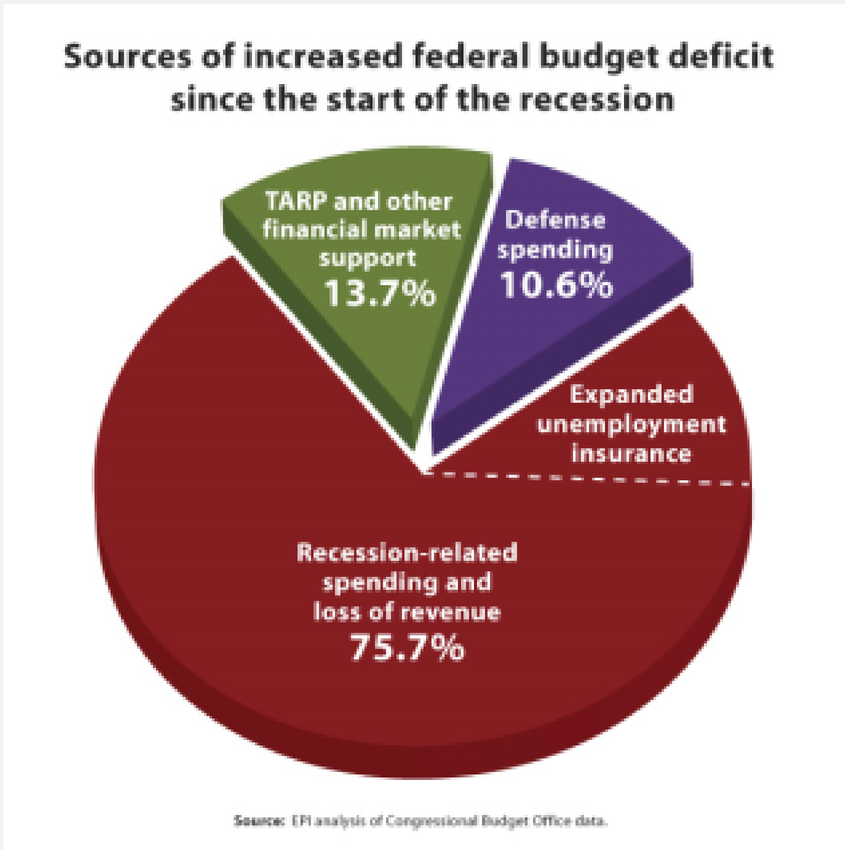
Of Debt & Deficits (cont'd from p. 1)

they propose saving $400 million in 2015 by reducing "unnecessary" printing costs; this is such a good idea that one may wonder why Erskine Bowles failed to identify these savings when he was President Clinton's chief of staff. Other proposals involve controversial policy decisions. For example, they would save $20 billion in 2015 by cutting military procurement by 15%. Personally, I would make much deeper cuts; the Pentagon, the defense contractors, and their allies in Congress may feel differently.

Then there are "savings" to be achieved by cost shifting. Some, such as the large reductions in payments to doctors and hospitals and the cuts in Federal salaries are indistinguishable from a targeted tax increase. Other proposed "savings" shift the cost of government activities back onto those who rely on government support, including students, the elderly, and the unhealthy. Again, would we favor a tax increase targeted at the young, the elderly, the poor, and the sick?

There remains the deeper problem: why would we want to balance the budget? Even the co-chairs acknowledge that it would be better to defer deficit reduction for now so as not to "disrupt a fragile recovery." But their proposal to begin cuts in 2012, merely puts off this disruption by two years. The Congressional Budget Office, the source for the Commission's data, projects continued high unemployment through 2014, and this optimistic scenario assumes that the rate of job creation will nearly triple over the next four years.



This raises the larger point: there is no intrinsic merit in deficit reduction. The Federal budget should be set according to the need for public services, as well as the reduction of inequality, with the balance set to maintain high levels of employment. Over the past three years, economic conditions have created a large deficit by driving down revenues while increasing the government spending. By maintaining aggregate demand through the financial and economic crisis, this deficit has been a blessing because it has helped to prevent the Great Recession from turning into a Great Depression. Thus far. The policies recommended by the National Commission might yet bring us back to the 1930s.

There is one part of the co-chairs proposal that is encouraging. After a bit of casual fear-mongering about national bankruptcy, the co-chairs say nothing about any real dangers from rising federal deficits. By dropping hysterical claims of rising interest rates and the crowding out of private investment, this marks a major step forward. Implicitly, they are acknowledging that there is no danger from the federal deficit and, therefore, no economic purpose in reducing it. (This awareness is embedded in the Congressional Budget Office study which assumes that rising government debt levels have no effect on the rate of economic growth, the inflation rate, and the unemployment rate.)

It may be a good idea to reduce the amount of Federal printing and to sell government land. Many, like me, would like to reduce Pentagon spending; others, like former-Senator Simpson, would cut Medicare, Medicaid, Social Security, and college loans. I think that the rich should pay more in taxes; Senator Simpson would happily cut the pay of public employees. I would welcome a serious debate over these spending and taxation decisions. This would be a debate over the merits of alternative policies, not over a fallacious and irresponsible fiscal target.

It took years for Russian reformers to kill Rasputin and by then it was too late to save their Empire. Maybe we can bury the National Commission on Fiscal Responsibility and Reform before it kills our republic. ❖

Fall Popular Economics Institute *(cont'd from p. 1)*

(craftspeople. There were a few participants who are interested in exploring similar projects when they go back home. Part of the group went into Knoxville one night to see a puppet show called "The Only Good Corporation is an Undead Corporation" that featured a Lehman Brother Zombie and a Martha Stewart Zombie, perfect for our Halloween weekend. On Saturday night we enjoyed a huge bonfire complete with S'mores and ghost stories.

As always, we had a terrific group of participants who are involved in a diverse spectrum of activism: labor education, worker center organizing, climate change, immigrant rights, community economic development, popular education, and student and peace/anti-war organizing. We were fortunate to have a participant from Ecuador who gave an eye-opening presentation about the recent inclusion of the solidarity economy and the rights of Mother Earth in their Constitution.

It was a great privilege to co-organize this Institute with Susan Williams and Elandria Williams (not related) of the Highlander Research and Education Center. The Highlander Folk school was founded in 1932 to educate "rural and industrial leaders for a new social order." They played a critical role in the labor movement in the south as well as the civil rights movement. They were closed down by white supremacists but re-opened as the Highlander Research and Education Center and went on to work on environmental justice, international labor solidarity, and youth leadership development. The setting is magical;relaxing in the trademark rocking chairs with a spectacular view of the Smokies and the cows and fields of Highlanders' working farm is heavenly. If you're interested, here's a link to a short video about Highlander's history (http://www.highlandercenter.org/a-history-video.asp).

We did have one real life scare. One of our older participants had a heart-related problem that put him the hospital for most of the week. He is now sporting a new pace-maker, but we missed his feisty presence at the Institute. John - we wish you all the best and a full recovery.

So thanks to everyone who made this a wonderful experience. It was an honor and a pleasure to be with such good company. ❖

Center for Popular Economics

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