

#21 JANUARY – MARCH 2008

\$3.00

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# RELAY

A SOCIALIST PROJECT REVIEW



CREDIT CRISIS • THIRTY YEARS OF MARKET REFORMS IN CHINA • VENEZUELA



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Printed by:

Open Door Press

Winnipeg



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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](http://www.socialistproject.ca) or e-mail us at [info@socialistproject.ca](mailto:info@socialistproject.ca).

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# The Harper Government

# 2

# Years On

Bryan Evans and Greg Albo

January 23rd 2008 marks the second anniversary of the electoral victory of the Stephen Harper Conservatives, breaking the more than decade-long run of the Liberal Party. Since that night, two year ago, there has been reason enough to be thankful that the Conservatives only won a thin minority of seats. What might have unfolded had the Conservatives, still tied in part to their right-wing populist Reform heritage, secured a parliamentary majority is discomfoting to contemplate. It is widely expected that the government will be brought down by the opposition parties sometime in 2008, with a spring election, triggered by a vote on the new budget, a distinct possibility.

Canada has now had almost two decades of instability in party politics at the national level of Parliament. As the Liberal Party has declined as the ruling class party of national political integration, regional divisions in voting and party representation have increased. This has been the case for both bourgeois parties, the Conservatives and Liberals. In Quebec, of course, there has also been a strong sovereigntist vote cast for the Bloc Quebecois. And through a combination of political drift and inept political leadership, the social democratic vote for the New Democratic Party has largely fallen back into its Western Canada and Toronto footholds. Another factor splitting voting preferences has been the rise of the Green Party as a regular feature of partisan choices in polls.

The instability in voting outcomes and electoral coalitions warrants a caution. It has been matched by consistency across partisan voting outcomes by neoliberalism as the governing practice in federal policy, and the embrace of neoliberal and market-friendly policies, to varying degrees, by all five parties in their political programmes. If there is, indeed, something that can be called a crisis in political representation in Canada, it is consolidated ruling class power in favour of neoliberalism and integration of Canadian capitalist interests with the imperialist agenda of the American empire. No government in Canada, of whatever political stripe, including NDP led provincial and municipal governments, has challenged this consensus for more than a decade.

A federal election in 2008 will likely confirm these patterns: voter instability, minority government and entrenched neoliberal policies. However, the election will also test a growing opposition of working Canadians to neoliberal policies in general, and Canada's

increased alignment with U.S. foreign policy and retrenchment on social policies in particular. The way opposition will be registered may be in quite opposite ways: either increasing voter apathy and political alienation from the increasingly hollowness of liberal democracy in Canada, or a re-birth of Canadian social movements after the decade long slide in activism since the anti-FTAA protests in Quebec City.

## HARPER AND THE CONSERVATIVES IN POWER

In the course of the 2006 election campaign, the Conservatives focused on five key themes which then formed the basis for their main parliamentary agenda: accountability, tax reform, law and order, child care, and hospital wait times. In addition to these 'priorities,' the Conservatives were also interested in killing the gun registry, withdrawal from the Kyoto Accord, re-opening debate on same-sex marriage, resolving conflict with the provinces over transfer payments to finance social programs and infrastructure, deepening integration with the U.S. economy and military via the Security and Prosperity Partnership (SPP) and ditching the Kelowna Accord. To varied degrees, they have advanced new policies on all these issues.

Once in government, the Conservative strategy has been to obscure their approach to issues, and in particular some of their most controversial planks, as simply the work of a transparent and competent government. This was to remind Canadians of the break from the final years of cronyism, drift and incompetence of the Liberal governments under Jean Chretien and Paul Martin. The discipline and focus of the Conservatives in power has been in sharp contrast to the disarray among the three Parliamentary opposition parties. The Bloc has been sinking in Quebec as Tory fortunes rise and the sovereignty project loses political focus; the Liberals entered a protracted leadership contest which resulted in the election Stephane Dion, the first choice of only 17% of delegates, and left unresolved what substantively differentiates Liberal policies from Tory ones; and the NDP has been reduced to a handful of strong regional bases of support, lacks a clear policy agenda and has flitted back and forth over the last four years in its Parliamentary alliances.

The disorder amongst the oppositional forces has produced one spectacle after another of efforts of the parties to avoid de-

feating the Conservative government and forcing an election. The most recent has been the pathetic display of Dion and the Liberals in the fall of 2007 virtually ceasing to function as an opposition and often avoiding parliamentary votes altogether. This setting has allowed the Conservatives to move boldly, despite their minority status, on a range of controversial issues and effectively to act as if they held a parliamentary majority.

The first Conservative budget in 14 years, in 2006, marked a further shift toward neoliberal fiscal policies from the previous short-lived Martin Liberal government. The new Finance Minister, Jim Flaherty, had cut his political teeth as a key figure in the Ontario Conservative's Common Sense Revolution of the mid-1990s. He sought a similar direction for federal government finance, although he was restrained by the limitations imposed on the government by its minority position. The Conservative's targeted two social policy issues for gutting, both areas that finally seemed to have some political consensus for moving ahead. These were: additional funds to improve social conditions on Aboriginal reserves through the Kelowna Accord with Canada's First Nations and a national daycare programme.

The two programmes would have meant the largest expansion of new social programmes in Canada since the late 1960s. Since the 1994 retrenchment of social transfers and unemploy-

ment insurance by the Chretien Liberals, the federal government has been wracking up budgetary surpluses. Flaherty's own projection was for a \$13.2 billion surplus. Instead, debt reduction was prioritized to the tune of an additional \$3 billion. As well, to demonstrate that the Harper government would go even further than the Liberals under Martin to encourage warm and close relations with the Bush administration, additional funds of \$1.4 billion went to security and a further \$1.1 billion for the armed forces.

The 2007 budget and the subsequent economic statement in October also kept at key themes for the Harper Conservatives. Anticipating an election, the Conservatives put forward a number of minor market incentives to encourage greener technologies and carbon emissions reductions, to compensate for with their weak position on the environment. Transfer payments to the provinces were increased by \$6 billion in the name of 'open federalism' and to address the enormous infrastructure problems in Canada. Tax cuts totaling \$60 billion to be implemented over a five year period were also announced. This included a reduction in the corporate tax rate from 22% to 15% by 2012. This would leave Canada with the lowest corporate tax rate among the world's largest economies.

### SOCIAL POLICY AND RECASTING FEDERALISM

The rejection of a national daycare programme for a small income subsidy was embedded in the Harper Conservative's policies of 'social conservatism' to strengthen their vision of the essential unit of society being an integral religious nuclear family. It was also part of the new 'open federalism' that called for further decentralization of social policies in Canada and a 'strict constitutionalist' reading of the division of powers, to appeal jointly to economic elites in Alberta and B.C. and conservative nationalists in Quebec. Thus, on social and constitutional grounds, the Conservatives have sought to establish what Ann Porter calls, in Socialist Project's e-bulletin *The Bullet*, N. 21, of May 22, 2006, a "new social order" based on the "downloading of responsibility for the 'social' away from the state and towards markets and families." Both childcare and healthcare policies, in varying balances in actual policies, amply demonstrate this agenda: privatization to the family and the market to expand opportunities for private delivery and decrease the role of the state and redistributive policies.

In terms of daycare, the Conservatives simply halted the beginning moves to a national public programme and implemented an incredibly small income subsidy for individual parents to determine their own form of daycare delivery. This has done next to nothing to increase the number of daycare spaces or improve access. The Conservative strategy for health care has taken a different tack, given the position of medicare in the imagery of the Canadian state and as a source of political legitimacy. They have here pursued a politics of fear through the problem of extended wait times for medical procedures as a result of public service delivery. The political objective has been to erode the political consensus in favour of public health care by driving a wedge →



John Heartfield

between voters by income and age. There have been two political bases of support for this: the more affluent (and this might include employees with access to premium medical benefits) able to purchase private sector delivery in return for greater and faster access to necessary services; and the desperate needing immediate treatment for medical problems. This agenda is again one being implemented by the 'stealth' of administrative measures, but also has been the source of Parliamentary skirmishes over the Canada Health Act.

## THE AFGHAN WAR & CANADIAN INTERNATIONAL POLICIES

Since coming into power, Harper has shifting Canada's foreign policy stance even closer to the U.S. and NATO positions. For example, Harper immediately had Ambassador Michael Wilson cut a softwood lumber deal with the U.S., which limited Canadian lumber exports to the U.S. and allowed the Americans to keep \$1 billion in duties ruled by trade tribunals as illegal. This was part of the Conservatives re-establishing 'good' bilateral relations with the U.S. as they sought to continue to move along the deep integration of the SPP. A second has been Canada's Middle East policy and the uncompromising support for the Israeli and U.S. positions on the assault of Lebanon and Gaza by Israel.

Canadian participation in the war in Afghanistan remains the most significant dimension of Canada's transforming foreign policy. Although the mobilization was started under the Liberals, and initially had all-party support including the NDP, the Harper government has used the Afghan war as the chief means to define its shift in foreign policy. This included the movement of Canada's troops into forward combat positions in southern Afghanistan and the efforts to extend Canadian commitments to NATO into the future.

The Harper government has used the war to launch the most significant re-armament program in a generation. One hundred and twenty heavy tanks have been purchased on 'lease-to-own' agreements as well as several hundred more light armoured vehicles of various types. This is merely a platform for additional expenditures which have nothing to do with Afghanistan directly. The debate over Arctic sovereignty is leading to an intensified militarization of the Arctic. Harper has committed to purchase four armed heavy ice-breakers in addition to establishing a military base in the region. No doubt, this pattern will soon lead to consideration of a major, and expensive, overhaul of Canada's aging jet-fighter fleet.

The Conservatives have thus continued the re-organization of Canada's military, security and international policies to support the new geo-political context established by the U.S. since September 2001. This re-organization, begun by the Liberals, has had the support of key ruling class interests in Canada, notably the Canadian Council of Chief Executives and all the business

think tanks like the C.D. Howe Research Institute. It has been part of their common project to deepen integration with the U.S. to secure market access for Canadian exports and the internationalization of Canadian capital.

## CONSERVATIVE FRACTURES

No matter how focused and determined, the Conservatives have not been able to entirely control the political agenda. Several fracture lines have appeared that continue to make for difficult terrain.



Union Art Service

One of these was the sudden reappearance of former Prime Minister Brian Mulroney on Parliament Hill. Through the fall, the political stench of Mulroney's receipt of several hundred thousand dollars of payments for unspecified services provided to Karlheinz Schreiber, the German arms merchant, was again in the air. Both Mulroney and Schreiber danced around the issues of payments, bribery, arms sales, as well as the apparent financing of Mulroney's early leadership bids by German money, before a Parliamentary Committee. Whatever the precise details of services rendered, it is clear that there was a linkage between Mulroney's tenure in office, the payments and German manufacturing interests. Harper tried to distance himself from his association with Mulroney, but it is impossible to forget that Mulroney has served as the new Conservative Party godfather: he delivered the keynote address at the founding convention of the Conservative party and was a close advisor to Harper as he cobbled together the government. Although attempting to closely control its mandate, Harper has been forced to call an independent inquiry. This will keep the stench of patronage and bribery in the air surrounding the Conservatives.

A second fracture has added to the questioning of the Conservative claims to be accountable and transparent in contrast to the Liberals. This case was the scandalous handling of issues of

nuclear energy, and its usage for the production of medical isotopes, and safety in Canada by the Conservatives. It started in the fall with the Conservatives crude appointment of a Conservative fundraiser to head Atomic Energy of Canada Ltd. (AECL), in the process rejecting a skilled technocrat had been recommended by a third-party panel for the position. It was added by the firing of the head of the Nuclear Safety Commission (NSC) for her insistence that ordered repairs safety pumps be installed before the reactors at Chalk River were restarted to address the world shortage of medical isotopes. Rather than coordinate strategy for completing the repairs and the startup, Harper used extraordinary measures to fire the NSC head and order the reactors be started, breaching both the safety of Canadians as determined by the head of an independent regulatory body and basic features of parliamentary accountability and process. Committee hearings over nuclear safety and energy in Canada will continue to raise concerns. The gloss of accountability with which Harper has tried to coat the Conservatives is rapidly disappearing.

Two further fractures have also appeared and bear brief mention, as they will shape political debate in the coming period. It was revealed at the Bali conference negotiating a reduction in carbon emissions to succeed Kyoto that Canada and the Conservatives have no real policy, and that the prime objective is to leave as much political room as possible for tar sands development. The contradictions between the measures needed to address global warming and dependence on oil and resource extraction for Canadian development, and especially the Alberta base of support for the Tories, can only get worse. As well, Canadian growth is ever more tied to the prospects of the American economy, and the main Conservative policy has been tighter trade and financial relations with the USA. As a recession in the U.S. spills over into Canada, this too can only exacerbate political pressures for the Conservatives.

### **THE POLITICAL IMPASSE & THE COMING ELECTION**

Partisan politics is at a peculiar impasse in Canada. Harper has been able to run a strong minority government as much for the weaknesses of the opposition parties as for his own ideological clarity and determination. Each of the opposition parties is politically feeble for their own organizational reasons, and because none are willing to break from the neoliberal policy consensus or from the main lines of Western objectives on the wars in the Middle East (even if some voice opposition to some of the military strategies being pursued) and international economic policies. The polling of the electoral preferences of Canadians suggests some shifting terrain but there is no clear trend away from the general balance of forces that presently exist in Parliament. It is hard not to conclude that when the election comes, and an alliance of the opposition parties finally develops the temerity to defeat the Conservatives, the result will be a variation on the themes of the last elections. Lenin was surely right that liberal democracy has become of the greatest of political shells to protect capitalist interests and agendas. It certainly is in a time of neoliberalism.

In this context, a vote for the NDP in English Canada will surely still be warranted. And the NDP may well campaign quite strongly on an issue or two of more than symbolic importance, such as withdrawal of Canadian troops from Afghanistan, a moratorium on tar sands developments or the implementation of a carbon tax. But none of this should be mistaken for the NDP breaking from 'third way' social democracy. Such a vote will register a measure of dissent against the existing political order, but it will not mean a realignment of social forces in an anti-neoliberal project via increased parliamentary representation.

The coming year may also be a moment when new social forces emerge in opposition to the political trajectory of Canada. Although neoliberalism as embedded in class power and state structures remains in place, neoliberal policies, whether in terms of the liberalisation of financial markets, P3 funding schemes for public infrastructure or military policies in the Middle East, are quite discredited. This widens the political space for the formation of anti-neoliberal political projects around specific campaigns that might gain wide political resonance. The campaigns around healthcare privatization, for example, have shown the possibilities for mass mobilizations, as in the Brampton P3 hospital fight and similar struggles on the west coast. Analogous campaigns could begin to form significant opposition to the war, for a national daycare programme, for stronger environmental policies, against deep integration and the Security and Prosperity Partnership with the U.S. and improved support for the unemployed from EI funds.

These campaigns will certainly be based in extra-parliamentary activism, where they have been centred for some time. The political challenge has been to form political capacities beyond the old social coalition networks, such as the Action Canada Network, the provincial social justice coalitions, social forums, or the more encompassing activism of the Council of Canadians. The lesson after two decades is that these organizational forms have been no match for neoliberal politics and have even failed to sustain looser networks of social activism. They have not built capacities for educational, cadre-building, communicative or mass agitational work. They have not been able to block the political drift of unions in Canada away from social unionism and activism toward 'competitive unionism,' social acquiescence and accommodation with neoliberalism. Without these basic organizational capacities, the ability to engage in mass confrontation and political mobilization has wasted away in Canada. Rather than being a new political opening in anti-capitalist activism, the Quebec City demonstrations were the closing chapter to that political agenda of loose activist networks. There is no political use keeping ones head in the sand about these developments. This is the history that forms our circumstances in Canada today. It is ultimately where the parliamentary instability is located. The challenge is to begin to move on. **R**

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# The Credit Crisis in Canada: The First Six Months

Fletcher Baragar

The 2007 credit crisis irrupted in Canadian financial markets in mid-August. The immediate backdrop to this was the growing concern in financial markets about the value of assets underlying commercial paper, and especially the extent to which these assets were connected to a deteriorating real estate market in the United States. The subprime mortgage sector in particular was facing increasing degrees of delinquency, and growing appreciation of the extent of increasingly problematic mortgages. In conjunction with great uncertainty about the extent to which commercial paper and other securities were exposed to this troubled mortgage sector, confidence in the quality of a wide range of financial assets dramatically eroded.

The greed that underpinned the search for yield was quickly displaced by the fear that fuelled a need for liquidity. With the irruption, the risk premium on short-term commercial paper zoomed upwards and non-liquid asset prices plummeted. For some securities, the market froze and trading ceased. Non-market crisis options were hastily arranged, most notably the Montreal Accord which sought to convert the short term assets of 23 commercial paper trusts into longer term assets through a negotiation process under the auspices of major banks and other institutional investors, such as the Caisse de depot et placement du Quebec.

## THE GROWTH IN CREDIT MARKETS

It is significant that one aspect of the larger economic environment underlying these events is the relatively sustained period of solid economic growth. Beginning in 2004, the real annual growth rates of the Canadian economy have been slightly better than 3%. For capital, however, profitability, rather than growth per se, is the objective. By this measure, recent years have been especially rewarding. Net corporate profit, after recovering from the slowdown of 2001 and 2002, jumped to a record \$102.6 billion in 2003 and then continued to new heights of \$132.3 billion, \$157.6 billion and \$168.2 billion in 2004, 2005 and 2006 respectively. Figures for the first three quarters of 2007 show a further \$131.5-billion (unless noted, data is from Statistics Canada). The return on capital employed, which had fallen to 5% in 2002, has rebounded strongly and has averaged better than 8.5% between 2005 and the 3rd quarter of 2007. The return on equity in 2005, 2006 and the first 3 quarters of 2007 was 12.6%, 12.5% and 11.9%, respectively, levels which had not been realized since 1988. The figures suggest that, in Canada at least, these have been good times for capital.

A breakdown of the aggregate figures shows that the finance and insurance sector has in fact done even better than the Canadian average. After virtually no growth between 1995 and 2002,

the net profit of the finance and insurance sector in Canada has increased sharply. The \$25.6 billion in net profit received by this sector in 2003 appears quite modest beside the \$43.8 billion recorded for 2006. A further \$35.5 billion were racked up in the first three quarters of 2007, with the \$12 billion sum for the third quarter being the highest on record. Beginning in 2006, the return on capital employed has been at its highest level since Statistics Canada began compiling those returns back in 1988. For the second and third quarters of 2007, the return exceeded 10%, markedly better than the 8.5% average for the Canadian corporate sector as a whole. Finance and insurance also did better than the national average when assessed by the return on equity. Through the first three quarters of 2007 the sectoral returns have been consistently 0.4% to 1% higher.

Although low and falling profit rates can directly contribute to increased economic instability and increase the probability of some disturbance or miscalculation precipitating a crisis, the 2007 credit crisis underlines the point that a bout of low and falling rates are not necessary preconditions. Simply put, high and rising profit rates are no guarantees against the outbreak and spread of economic crisis. Economic instability and the possibility of crisis are rooted in the structure of capitalist production. The development of the credit system, and the increasing complexity of financial markets incidental to the development of capitalism, offer flexibility and considerable elasticity for the agents involved in the myriad circuits of capital. These developments offer new opportunities for favoured agents to appropriate portions of newly produced value, but they cannot guarantee that the atomistic decisions of private participants will necessarily be appropriate or timely. There is always the possibility that purchases will not smoothly follow sales, that sales will not be followed by payments, and that any of the many individual circuits of capital may be ruptured.

## CREDIT CYCLES AND FINANCIAL INSTABILITY

The strong economic conditions for capital that preceded the crisis of 2007 induced behaviour in the financial sector of the sort identified and analyzed by theorists and critics ranging from Karl Marx and Thorstein Veblen to John Maynard Keynes and Hyman Minsky. The expectations of agents representing financial capital are essentially endogenous and are powerfully shaped by yesterday's events. Rising profits and profitability induce expectations of further rises, resulting in increased demands for financing on one side, along with the relaxation of credit standards and risk assessment on the other. An expansion of credit is the result. To this general tendency, then, is added the specific elements that

characterize the setting of financial markets today in Canada and worldwide.

First is the regime of low interest rates, nationally and globally, which settled in after national governments and their central banks, supported by the interests of wealth holders, successfully lowered inflation rates in most of the leading industrialized countries from the mid-1980s onward. The success of this initiative – waged at the expense of the working class through slow employment growth, attacks on unions and workers' rights, and repressed real wage gains – was visible by the mid-1990s. Low interest rates encouraged private sector demand for credit. Much of this demand, especially in Canada and the USA, emanated from consumers. Upper income and economically well-off households availed themselves of the more favourable borrowing rates. But the growth in credit demand was not confined to the privileged strata. The harsh regimen imposed on workers through the 1980s and 1990s had not nullified their desires to at least maintain the standard of living identified with the 'middle-class.' Nor in many cases had it sufficed to negate the material success associated with the American dream. Extended credit at lower rates offered an attractive means by which income restraints imposed by a more austere labour market could be relaxed, if not altogether transcended.

On the supply side, the financial sector was more than forthcoming. Through a combination of instruments, including personal loans, personal lines of credit, credit card balances and primary and secondary mortgages, household credit in Canada more than doubled between 1996 and 2006, and exceeded the \$1 tril-

lion mark for the first time in 2006. More than two-thirds of this total is mortgage credit, although the fastest growing component is the non-mortgage portion (referred to as consumer credit by Statistics Canada), which tripled in size over the same period. Similar expansion of household debt occurred in the U.S., where total outstanding values of household mortgages doubled between 1999 and 2005 and increased a further 10% in 2006 (Federal Reserve Bank, *Statistical Supplement to Federal Reserve Bulletin: January 2004 and October 2007*).

Falling interest rates tend to reduce interest rate spreads. One response of credit issuing institutions to the fall in rates and spreads was to try to increase volumes, which meant aggressively seeking new clients. And as the pool of prime customers is drained, those with less sterling credentials are courted.

The Minskyian theories of financial fragility mentioned above emphasize the subjective shifts of the demanders and issuers of credit as the expansion phase gathers momentum. As noted above, on the supply side, conventional valuations of risk are revised downward as credit is extended. The run-up to the 2007 crisis, however, added to this by introducing new financial instruments. These new instruments constitute the second specific ingredient distinguishing the current credit crisis. These financial innovations are a subset of the larger market of financial derivatives – a market which has been growing rapidly since the liberalization of financial markets in the early 1990s. Taken as a whole, the market for derivatives is approximately \$516 trillion (US) and comprises about 75% of global liquidity ("Knowing the known unknowns of a possible market disaster," *Globe and Mail* 24 November 2007).

## THE CREDIT DERIVATIVES MARKET & SUBPRIME MORTGAGES

A subset of this market consists of credit derivatives – marketable securities that have been cobbled together from a smorgasbord of smaller assets such as various consumer loans and mortgages. Financial innovators perceived that the relatively high risk that was attached to some of these components could be diluted and spread widely through the bundling and marketing of these new derivatives. Furthermore, by tagging them as short-term securities and identifying an active market for those securities, their higher risk could be rendered more acceptable to buyers due to the belief that the securities possessed high liquidity. For the issuers of high-risk credit, the possibility of creating and then selling a credit derivative offered the tempting prospect of removing that risk from their balance sheets.

Gabriel Kolko ("Weapons of mass financial destruction," *Le Monde diplomatique*, October 2006) has pointed out that the credit derivatives →



market was virtually nonexistent as recently as 2001. Up to 2004, it expanded slowly, but rapid expansion occurred over the next couple of years and by June 2006 these new derivatives were valued as \$26 trillion (US). As of November 2007, estimates value this market in the neighbourhood of \$51 trillion (US). Underlying the expansion, however, was the more fundamental effort by financial institutions to deliver more and more credit to less and less well secured segments of the market (“Explosive derivative growth expected to withstand credit crunch shockwaves,” *Globe and Mail*, 23 November 2007).

The most telling instance of this was the recent increase of non-prime mortgages in the US. In 2003, non-prime mortgages for US households comprised 21% of all new household mortgages issued and about 40% of these (or 8.5% of all household mortgages) were of the subprime variety. Over the next 3 years, the total value of newly issued prime mortgages in the U.S. fell, while the value of nonprime mortgages increased. In terms of numbers, the non-prime share rose to over 50%. Subprime mortgages continued to comprise about 40% of the nonprime category. But in 2006 they made up 20% of all new mortgages issued (Joint Center for Housing Studies of Harvard University, *The State of the Nation’s Housing 2007*).

The speed at which new credit was extended was, from 2004 well into 2007, matched by the eagerness with which the newly minted securities were snapped up. Any lingering reservations by potential buyers about the downside dangers that might be lurking in the higher risk securities were significantly offset by various “insurance policies” in which large institutions, primarily banks, were prepared to buy back the securities in the event of

serious market disruptions. The consumer-supported economic expansion continued despite growing polarization of income and wealth. As long as debt payments were current, financial capital had opened up an effective new channel through which the circuit M – M’ (money begetting more money) could, with the assistance of workers’ consumption, seemingly bypass the necessity of production altogether.

Mainstream economic theory stood to provide intellectual support for these developments by emphasizing the improved efficiencies associated with the proliferation of derivatives. Specifically, innovation and the introduction of new financial instruments could be understood as meeting the demands of the market for ever more nuanced ways to manage and distribute risk. As various investors place derivatives in their portfolios, the availability of these new assets and the evident desire of agents to acquire them imply superior outcomes for profit maximizing or utility maximizing agents. The intertemporal maximization of consumer utility is, according to theory, impaired by credit market imperfections. The extension of credit to consumers and homebuyers, especially those who otherwise faced credit limits or even the denial of credit altogether, is interpreted by theory as evidence of the market overcoming these imperfections. In the derivative market, the pricing of securities is understood as the pricing of risk and, given the buyers’ willingness to bear risk, optimal financial portfolios can then be assembled.

A second and newer strand of mainstream economic theory emphasizes the presence of asymmetric information between buyers and sellers in markets. This is especially relevant to financial markets, and even more so when the growth of new derivatives



results in composite securities with significant degrees of opacity. However, faith in the market's ability to price assets appropriately, combined with an impressive flow of profits to financial sector firms, favoured the positive efficiency-based assessment of new financial developments over the more unsettling implications of the dissenters from the alternative camp. Consequently, it was the former assessment that informed the outlook of various spokespersons for financial capital. As expressed by Finance Minister Jim Flaherty in a speech on June 27, 2007 to the Conference on Securities Law Enforcement: "The evidence is clear: economies with the most dynamic capital markets enjoy the strongest growth over the long run."

### **THE OUTBREAK OF THE CREDIT CRISIS & THE CENTRAL BANKS**

The outbreak of the crisis in August 2007, and its persistence and subsequent spread, has rocked the complacency of the financial elite and their political bagmen. The Finance Minister was compelled to issue a statement on August 16 acknowledging that "Canada is not immune to fluctuations in global financial markets. Clearly there are stresses in some corners of the Canadian money markets." The dissolution of complacency, however, did not imply a rejection of the underlying ideology. The Finance Minister pointedly issued a call for private sector players in the financial sphere to "pursue orderly market solutions to this liquid situation" (available at [www.fin.gc.ca/news07/07-065e.html](http://www.fin.gc.ca/news07/07-065e.html)). The Minister reaffirmed this position in a speech to the Canada West Foundation on August 30, 2007: "But the Canadian economy is the strongest it has been in a generation. That fact, along with important initiatives taken by the Bank of Canada and the private sector, have supported the functioning of the market. ... Our government and the Bank of Canada continue to monitor the situation closely as it unfolds."

The Bank of Canada's support of the functioning of the market amounted to more than rhetoric and monitoring. As early as August 9, the Bank publicly announced that it was willing to provide the necessary liquidity "to support the stability of the Canadian financial system and the continued functioning of financial markets," emphasizing that this was part of the Bank's "normal operational duties relating to the stability and efficiency of Canada's financial system." The commitment to provide liquidity was continually re-affirmed in the weeks that followed. Events have required the Bank to act on this pledge.

The Bank had undertaken a number of liquidity interventions in the overnight market in June and July, with injections totaling \$5-billion and \$7.5-billion respectively. An additional \$1.3-billion was provided in the first week of August, followed by a further \$4.3 between August 9 and 15. This seemed to stabilize pressure on the bank's overnight lending rate for a while, but another \$4.3-billion infusion was provided in the September 27 to October 3 span. The Bank attributed part of this to routine increased liquidity requirements at the end of the third quarter.

However, in its *Monetary Policy Report: October 2007* the Bank provided data showing that these interventions continued

well into the middle of the month. Another wave of liquidity injections were unleashed in mid- to late-November, totaling at times up to \$2-billion per day ("Bank urged to extend liquidity provisions," *Globe and Mail*, 27 November 2007). These developments suggest first of all that the liquidity problems confronting Canadian financial institutions and, implicitly, the liquidity problems of other businesses and institutions that lie behind those in the financial sector, has become a chronic rather than episodic problem. Liquidity interventions have been undertaken by the Bank of Canada's counterparts in the U.S. and Europe over this period as well. Unlike these other central banks, however, the Bank of Canada has confined its interventions to the overnight market (less than 24 hours).

While these actions help keep the overnight lending rate close to its desired target, they have been less successful in pulling down the short term and midterm interest rates. Spreads have widened, forcing the Bank to reconsider not just its means of providing short-term liquidity, but also its entire monetary policy stance. It is significant that the bank reacted by not raising its target for the overnight rate through the fall of 2007, and that it then felt compelled to actually lower this rate by a quarter of a percentage point on December 4, 2007. This is the first reduction of interest rates delivered by the Bank since early 2004. The fact that it comes at a time when employment levels are rising, when unemployment rates have fallen to a 33-year low, and when wage gains have exceeded increases in the CPI (Statistics Canada, "Latest release from the Labour Force Survey," November 2, 2007) signals that suddenly the Bank is more worried about a recession and the consequences of a deepening crisis than about inflationary pressures.

Loathe as the bank may be to admit it, this is a change in its monetary policy stance. The belated reaction of the Bank in terms of significant rate cuts reflects its reluctance to renounce its previous contention that, given time, the markets will correct the mispricing of risk with minimal fallout. The deepening crisis, however, also points to the real possibility that there are limits to what monetary policy can do to stabilize an economy.

In the USA, the Federal Reserve has been much more aggressive in reversing its pre-crisis policy of raising and sustaining interest rates. After rising sharply from mid-2004 to mid-2006, the U.S. federal funds rate had been held at 5.25% from mid-2006 through the emergence of the crisis in the summer of 2007. Heightened concern about the seriousness of the crisis precipitated a 50 basis point reduction in September and a further 25 point reduction at the end of October. Minutes from the Fed's Open Market Committee meetings of October 30-31 reveal that the Fed believed that these reductions should serve to "forestall some of the adverse effects" of the credit hand housing crisis on the broader U.S. economy."

### **THE DEEPENING CRISIS**

This more vigorous action on the part of the U.S. central bank, in comparison to the Bank of Canada, reflects in part the larger and more direct exposure of U.S. financial institutions to the →



problems associated with American real estate markets. However, recent events suggest that the 'adverse effects' have not been mitigated, but are in fact are gaining momentum. The woes in American real estate market have continued to deepen. The October figures revealed another drop in existing home sales – down 1.2% from September (seasonally adjusted) and down 20% from September 2006 (at [www.realtor.org/press\\_room/news\\_releases/2007\\_q1.html](http://www.realtor.org/press_room/news_releases/2007_q1.html)). Lenders reported another 225,451 foreclosures in October, with estimates reaching 1.4 million for 2008 ("Foreclosures like 'one Katrina' a month: economist," *Globe and Mail*, 1 December 2007).

### THE SUB-PRIME ICEBERG

In its mid-November Beige Book report on the U.S. economy, the Federal Reserve Bank noted lower construction levels and falling prices for both new and existing homes. It called the residential real estate market "depressed" and identified "only a few tentative and scattered signs of stabilization amidst the ongoing slowdown." Moreover, problems emanating from the subprime and nonprime mortgage markets were poised to escalate further in the months ahead, due to the fact that many of these mortgage rates are scheduled to be reset at higher rates. The November OECD report, *Financial Market Trends*, indicates that the bulk of mortgage resets are slated for the first seven months of 2008. These adjustable rate mortgages comprise about half of the entire U.S. subprime mortgage market, and the total value of subprime and nonprime mortgages slated for resets in 2008 amounts to \$1.9 trillion (US). The delinquency rate for subprime resets is already

16% and the report calculates total losses in the subprime and nonprime markets that could run into the \$200 billion to \$300 billion range (Adrian Blundell-Wignall, "Structured Products: Implications for Financial Markets," *Financial Market Trends*, No. 93, 2007).

Through November, newspaper reports recorded the cumulative effects of the deepening crisis at the apex of American financial capital. Significant write-downs of the values of financial assets on their balance sheets were announced by a number of leading financial firms, including Bank of America (\$3 billion), Bear Stearns (\$700 million) and Merrill Lynch (\$8.4 billion). Citigroup, which had just announced a \$5.9 write-down in October, warned of the possibility of a further write-down for the fourth quarter in the range of \$8 billion to \$11 billion. Freddie Mac, the second largest buyer and guarantor of home loans in the U.S., announced a \$2 billion third quarter loss. The carnage extended to the resignation of the CEOs of both Citigroup and Merrill Lynch.

The deteriorating situation and the prospect of more damage ahead underlined a growing appreciation of the need to exert some control over the crisis. Central bank provisions of short-term liquidity and recent and expected future reductions in the bank rate, combined with the 'normal' efficient functioning of markets, could no longer be relied upon to protect the interests of capital. Reality punctures ideology and non-market alternatives are called upon. The Montreal Accord, initiated back in August by some of the most heavily exposed financial institutions to the Canadian commercial paper crisis, is one notable and early example of players

opting to transcend the market in the management of the crisis. It is significant that both the Bank of Canada and the federal government explicitly voiced their support for this private sector initiative.

The belated U.S. counterpart was the formation of the so-called multi-billion dollar 'super-fund', orchestrated by Citigroup, J.P. Morgan and Bank of America, to buy securities that were formerly viewed as being highly liquid, but which had become virtually impossible to sell at anything more than a fraction of their original value. Equally significant have been the efforts of the US government, led by Treasury Secretary Henry Paulson, to work with some of the largest banks, mortgage investors and consumer groups to freeze mortgage rates for existing homeowners who have mortgages that are in line for rate escalation in the upcoming months. A plan involving a five-year rate freeze for eligible households was announced by the administration on December 6, 2007 ("Mortgage freeze has critics dreading thaw," *Globe and Mail*, 7 December 2007).

Such extra-market initiatives hope to effectively "freeze" certain market developments in a joint quest for stabilization and an orchestrated and voluntary apportioning of the costs and losses. Such arrangements cannot, however, transcend the vested interests of the parties seated at the table, so the inherent economic and political power of the parties will shape the contours of the agreement. Furthermore, without a single dominant player or one with coercive power, agreement can remain elusive. The Montreal accord, which froze the assets of some 23 commercial paper trusts, was initially scheduled to produce its asset management plan in mid-October. As of early December, only one of the 23 trusts has had its situation resolved.

## PROGNOSIS

The development of the credit system can, in 'normal' times, provide welcome flexibility for agents in the sequence and timing of their many buying and selling activities. The credit system is, however, prone to escalation which amplifies the economy's expansion, and capable of sharp contraction, ushering in a period of cold economic reckoning. In capitalism, however, the implied optimality and tranquility of 'normal' times are best understood more as a convenient fiction redolent in abstract theory than as a description of an actual state of the world. Turbulence is the rule, not the exception, but the interplay and outcomes of these economic forces have their own conjunctural characteristics and implications.

The weakening of the U.S. housing market has been apparent throughout 2007, but the crisis is dated in the summer of 2007 due to dramatic reactions and adjustments in financial markets, hence the label 'credit crisis.' The adverse effects of the crisis on the balance sheets of financial corporations have become increasingly apparent. As noted above, the November news was less favourable than the reports from previous months, and the downside risk for the months ahead has been rising. Nevertheless, 2007 was an exceptionally good year for the financial sector.

In Canada, fiscal year-end financial statements for the big six Canadian banks show that their combined profits exceeded \$19.5-

billion (up from the \$19-billion for fiscal 2006), despite their incurring credit market-related writedowns of more than \$2-billion ("At CIBC, the bad old days are back," *Globe and Mail*, 7 December 2007). Wall Street and Bay Street firms also had a good year, aided by lucrative fees and commissions from record levels of mergers and acquisitions has characterized the first six months of 2007. Shareholders, as whole, will be unhappy only insofar as the excellent financial performance over the first two quarters had led them to anticipate even higher earnings.

The major financial institutions appear to be sufficiently well capitalized to be able to sustain their current credit woes into the first half of 2008, although this may result in some reduction in share prices and earnings per share. Lower grade bond holders are more at risk as the credit crisis spreads, and the markets have already witnessed the flight to quality. The majority of wealth holders, however, have diversified financial portfolios, so the accumulation of losses from assets directly implicated to troublesome real estate markets will be offset by other portfolio holdings. Their larger concern is the weakening of the macroeconomy as a whole, as the contagion effects from the real estate/credit crisis spills over to the wider components of domestic demand. This can be sure to adversely affect profits in 2008.

For the working class, especially in the U.S., the prospects are bleaker. They carry the bulk of home mortgages, especially those in the nonprime category. The cuts in central bank lending rates have not trickled down to their mortgage rates, or their credit card rates, and, as noted above and notwithstanding the U.S. government's new mortgage freeze proposal, many homeowners will be facing rate rises in the months ahead. The negative demand effects emanating from the crisis have yet to run their course, but already it looks as if the rate of job creation of previous years is unlikely to be replicated in 2008.

Wealth holders can and do protect themselves to some extent from risk and unexpected shocks through a strategy of asset diversification. For much of the working class, their only real assets are their home and their capacity to work. This is a portfolio which cannot be diversified. They are not protected from a crisis that hits residential real estate markets and the exposure imposes considerable hardship on many and extreme hardship on some. Furthermore, a slowdown in job creation, and the real possibility of net job losses, at least in the U.S., as the spectre of a U.S. recession looms ever larger, implies that for workers the value of their other asset – their capacity to labour – will also take a hit. Inevitably, the distribution of this burden will be felt unequally across working class households and communities.

The costs of adjustment are likely to escalate in 2008 and the potential severity of the credit crisis is also likely to widen the range of state involvement. It is imperative that labour and other progressive organizations mobilize in order to avoid assuming most of the burden and to ensure they secure a leading role in constructing a way out. **R**

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# **Loonies, Greenbacks & American Empire**

Ingo Schmidt

Record lows of the U.S. Dollar are common news these days. Central banks around the world announce gradual shifts of currency reserves from Dollars to Euros. There even is talk about oil-trade partially moving from the U.S. to the European currency. Against this background financial pundits are musing about the Euro as the next international reserve currency. Largely unnoticed by global finance, but with considerable effects on the Canadian economy, the Loonie recently has not just risen against the Greenback but also outpaced the Euro. Thus, the purchasing power of Canadian Dollars in other countries is rising. Assets whose value is expressed in such Dollars appreciate vis-à-vis Greenback-Euro- and other assets.

Many Canadian consumers along the 49th parallel happily take their newly won wealth to shopping tours across the border, while mass media stirs up sentiments about unfair over-pricing in Canada. Besides global finances and Canadian consumers money talk there is a third current of debate that focuses on interest rate differentials between Canada and the U.S., the rising Loonie and its impact on Canadian exports. Engaged in this debate are mostly Canadian union economists who ignore tectonic shifts between the U.S. Dollar and the Euro as much as they downplay the effect of Canadian resources, namely oil exports on the Loonie's exchange rate. The economic policy goal they identify is the promotion of manufacturing exports that is meant to stabilize wage

and employment levels in that sector. The main barrier to achieve that goal, according to that view, is the Bank of Canada. Instead of lowering interest rates in tandem with the U.S. Fed, fear for inflation led Canadian monetary authorities to maintain interest rates in Canada. As a consequence, interest rates in Canada have risen vis-à-vis the U.S., have attracted foreign capital, triggered unprecedented Loonie appreciations and hampered exports.

More interesting than statistical tests of the relative importance of Canadian oil and other resources, exports and interest rate differentials for the Loonie exchange rate or consumer prices in Canadian compared to American shopping malls, however, are the issues that are neither raised by union economists nor the mass media in Canada. No matter whether consumer prices in Canada will eventually be lowered or not, no matter whether the country exports more resources or manufactured goods; given the level to which the Canadian economy is integrated into the American empire the formers prospects are very much dependent on the latter's fortunes. Thus, the debate on the state of the U.S. Dollar and hegemony helps us understand the economic conditions under which progressive politics have to be developed in Canada. Boosting manufacturing exports through cheap Loonies certainly doesn't improve the condition of the Canadian working class. Such a mercantilist strategy helped to swell the coffers of Canadian export businesses for about three decades. During the same time

attacks on labour rights and social standards led to deteriorating working and living conditions for the majority of Canadian workers.

Moreover, the much debated manufacturing crisis does not only affect Canada but other countries as well. Hardest hit by this crisis, it should not be forgotten, are the U.S., whose exports flourish under the impact of a sliding Greenback. However, changes in exchange rates and exports don't revive U.S. manufacturing, much less the working class in this sector. Changes in the world economy, of which the current Greenback decline is a part, go hand in hand with a re-composition of working classes in individual countries. This, much more than pleas for lower interest rates and exchange rates, is the basis for progressive politics.

### RECURRENT SPECULATION ABOUT U.S. DECLINE

The leadership roles of the U.S. currency and economy have recurrently been called into question since the 1970s. This discussion cycle was tightly bound to the ups and downs of the Dollar and the aggregate economy. Skeptics saw major depreciations of the Dollar and each economic downturn, respectively, as the beginning of the end of U.S. hegemony. In defiance of such predicted decline the U.S. is still No. 1 within the capitalist world system; at least relative to other imperialist powers. The U.S.-led cartel of imperialist world domination is still intact. That's why we have to keep on asking whether current and future Dollar weaknesses and U.S.-triggered economic crises are just another cyclical phenomenon that essentially reproduces U.S. hegemony or whether actual crises indicate major power shifts among capitalist states and social classes, respectively.

This time around star economist and *New York Times* columnist Paul Krugman issued the catchword for the debate on the future of the Dollar and the U.S. economy. In one of his last *New York Times* pieces he compared the Dollar with Wile Coyote who's in abeyance before gravity pulls him down. According to this analogy last summers housing crises was the last edge "Dollar Coyote" was running over. In the meantime the gravity of current account deficits led to depreciations, which, however, can hardly be called a crash. Whether Krugman's grim prediction, according to which the diving Dollar will crash land, will come true remains to be seen. However, it is certain that the downward trend of the Dollar, particularly vis-à-vis the Euro, already started after the New Economy crisis in 2001. Thus, the current Dollar plunge was not triggered by last summer housing crisis.

At the same time the U.S.'s foreign deficit reached record highs; contrary to market logic that predicts smaller current ac-

count deficits in the case of currency depreciation. This is new. In the past depreciations and decreasing current account deficits actually went hand in hand. What does the current de-linking of Dollar rates and current account position imply?

### IRRATIONALITY OF CAPITALISM – LIMITS TO BOURGEOIS ECONOMICS

To answer this question we have to look at Dollar, current account and economic trends over the last three decades. Thereby two things stand out. First, the Dollar went through two phases of significant appreciation since the 1970s, which peaked in 1985 and 2001, respectively. Secondly, only during the first of these two phases have Dollar rates and current account deficits moved, just as market logic predicts, in opposite directions. Since the economic downturn of 1991 the deficit increased constantly, showing almost no connection to Dollar rates or the state of the business cycle. If the foreign deficit depended on exchange rate developments, foreign deficits would have reined in by Dollar depreciations since 2001. This did not happen.

Keynesian economists dispute the relation between exchange rates and foreign trade that figures so prominently in neoclassical economics anyways. According to their view, trade flows, which are statistically recorded in the balance of current account, depend on the purchasing power of companies as well as private and public households. From this angle the 2001 crisis was followed by a recovery based on credit expansion and massive inflows of foreign capital. These two factors generated additional purchasing power, parts of which were happily spend on imported



goods, no matter how the Dollar developed but certainly causing ever higher current account deficits. In the Keynesian story capital markets are in the driver's seat of the economy, there the finances that can later be used to buy goods and services are generated and allocated. Plausible as this explanation may be, it is not totally convincing because capital inflows imply higher Dollar demand and, therefore, should have triggered currency →

appreciations eventually. This happened just as little, as actually occurring Dollar depreciations did not bring down the foreign deficit.

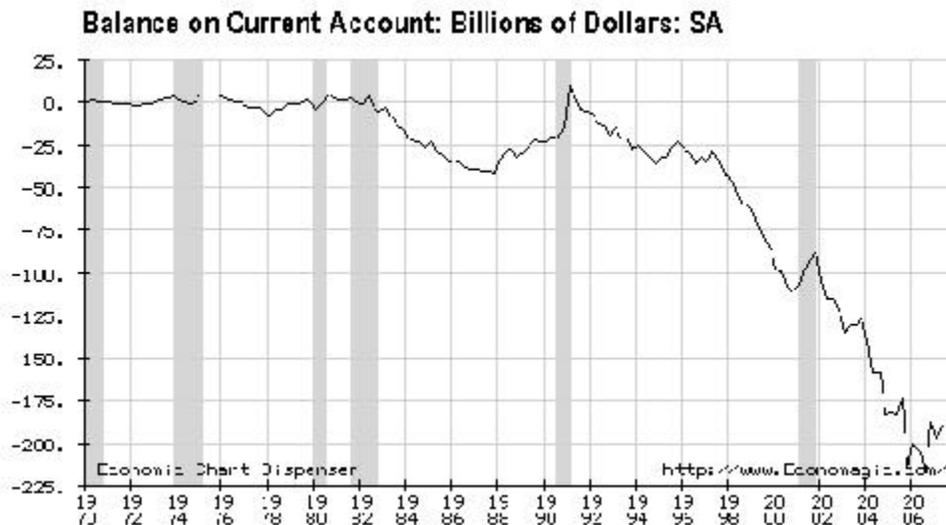
From the fact that neither the logic of goods markets nor that of capital markets can explain the development of Dollar rates and U.S. foreign deficits convincingly, some economists, most prominent among them Yale professor Robert Shiller, have drawn the conclusion that economic agents' irrational behavior, such as herd behavior of financial investors, must be the reason for "market-adverse" developments of currencies and current accounts. This is also the line of Krugman's fear according to which badly informed investors have taken the nominal Dollar rate at face value, i.e. as a proper representation of the value that is produced in the U.S. economy, for too long, but will be forced to give up their imagined wealth once the Dollar crashes.

New Keynesian economists like Krugman and Shiller view excessive greediness and lack of information as the causes of irrational exuberance, to use Shiller's terminology, which, in turn, triggers economic crises. Accordingly, such developments could be avoided if investments were calculated objectively, based on complete information instead of, to use Keynes' term, animal spirits. However, such perceptions are not only hopelessly naïve in terms of the possibilities to gain complete information; the recognition of ignorance in economic decision-making actually was Keynes' point of departure from (neo)classical economics. The New Keynesian turn towards incomplete information that could be completed through proper governance structures also disregard the fact that private property includes the right of property holders to either withhold information from the public and the right of top managers to provide sugarcoated information to shareholders. Equally neglected is the fact that capitalist competition is not only a breeding ground for the greed for profit, but makes investment driven by such greed a precondition for survival, no matter that they cause over-accumulation and crises at the same time. Thus, Keynes "animal spirits" may better be called "capitalist spirits."

Following Marx we can therefore speak about an irrational system within which individual capitalists may behave more or less rational. However, their socially uncoordinated behavior produces crises that appear as the result of individual misbehavior to practicing capitalists and contemplating economists alike. The highest form of misbehavior, of course, is political intervention because it completely runs counter to market logic. Thus, apologists of capitalism like Friedman see political intervention as misguided shackles to the market's invisible hand. However, if individual capitalists' appetite for profit and political intervention are both seen as indispensable parts of the capitalist mode of production, as Marxists do, it is possible to explain the de-linking of Dollar rates, current account deficits and business cycles in reasonable ways without swinging wildly between theoretical assumptions of complete information and the practical retreat from reason into irrational instincts.

### FIRST RECURRENCE OF A STRONG DOLLAR: COLD WAR II AND INDUSTRIAL RESTRUCTURING

The disintegration of the Bretton Woods system of fixed exchange rates, economic crises and an upswing of anti-imperialist and workers struggles in the 1970s challenged the capitalist world order, which largely had been shaped by the U.S. in the aftermath of World War Two. The U.S.-bourgeoisie, after recovering from the shock of not being invincible, reacted to these challenges with a declaration of war against the Soviet Union, anti-imperialist movements and the American working class. This war against the world's subordinated classes aimed at the expansion of world markets and a shift of the income distribution from wages to profits. Propertied classes from all capitalist countries honored the strategic farsightedness and boldness, by which the program for profit expansion was carried out by the American bourgeoisie, through massive investments in the USA. These capital inflows led to a rising Dollar, which also indicated the trust capitalists of all countries had in restored U.S. leadership.



Each increase in the Dollar value from 1979 to 1985 pushed organized labor in the U.S. further onto the defensive. Imported goods that became more competitive as a result of the rising Dollar limited the sales opportunities for domestic industries. U.S. bosses happily used tighter markets as a reason to attack the incomes and working conditions of their workers.

The anti-socialist rollback – in this regard it should be remembered that American union bureaucrats and Soviet apparatchiks are nothing but varieties of the same socialist breed in the world view of U.S. conservatives – soon started to bear fruit. Soviet interim leader Andropov already suggested, albeit vaguely, the concessions vis-à-vis the U.S.-led West that would materialize under Gorbachev. The AFL-CIO under Lane Kirkland, much more bound to class collaboration than the Soviet leaders who had committed themselves to peaceful coexistence, was at a loss with the capital offensive right from its beginning. Under these circumstances the Dollar reins were slackened. Pushed by the U.S. government the American, German and Japanese central banks heavily intervened in currency markets in 1985. Through this the Dollar was turned around and competitive pressures were loosened, giving some relief to U.S. industries. Increasing masses of surplus value that had been squeezed out of American workers could thus be realized through increasing market sales.

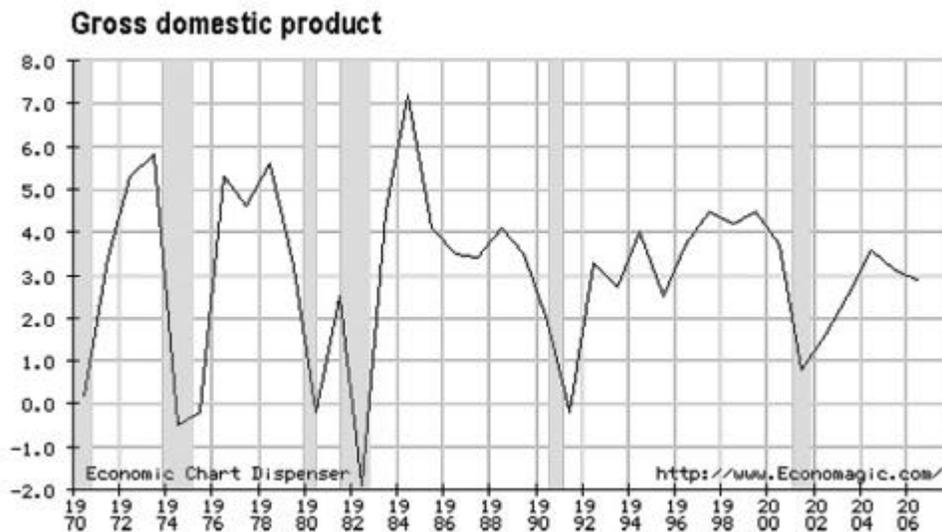
**SECOND RECURRENCE OF A STRONG DOLLAR:  
NEW WORLD ORDER AND NEW ECONOMY**

The Dollar slump from 1985 to 1995 was abandoned in the same way it was started, through coordinated central bank intervention. As much as industrial capital in the U.S. enjoyed increasing sales and profits in the slipstream of a declining Dollar, Wall Street was concerned about the future of the U.S. as the world’s financial center. In the early 1990s – the U.S. had just gone through recession and were manufacturing a new world order after the disintegration of the Soviet empire – big

money could persuade the government and central bank that negative Dollar records were incompatible with the reputation of the remaining superpower. Steered by the emerging Wall Street Treasury Complex, to use the term of liberal economist Jagdish Bhagwati, world capitalism entered a phase of multilaterally negotiated market expansion, computer-based reorganization of global supply chains and financial explosion.

Profits were up for grabs again and the Dollar was rising again – until the New Economy bubble burst in 2001. After this the military-industrial complex increasingly replaced Wall Street’s threadbare capital fetish. Not the invisible hand of the markets but the iron fist of the U.S. army was now declared guarantor of profit. However, the U.S. army’s inability to end militarily slim insurrections in Iraq and Afghanistan closes the circle between the crisis of U.S. hegemony in the 1970s and the present day. Back then the American Way of Life had reached its limits of productivity and profit growth and also lost much of its appeal. Notably the Vietnam debacle showed the U.S., depending on individuals’ perspectives, as either a dirty paper tiger ready to be overthrown or a superpower yoked by union bosses and civil rights activists needing the restoration of American values. Since that time U.S. and Dollar hegemony were restored twice, first in the name of a Second Cold War and after that under the slogans of New World Order and New Economy. The continuance of this fragile hegemony currently depends on the absence of serious challengers, be it imperialist rivalries or anti-capitalist movements. Until such challenges turn up, U.S. leadership, and the Dollar with it, will be in abeyance. **R**

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# Of 'Cultural' Crimes and Denials

Haideh Moghissi and Shahrzad Mojab

A zealot Muslim father killed his daughter in Toronto this past December in a rage over her refusal to wear hijab. Racist Muslim-phobes had a field day. Islamist leaders denied that this tragedy had anything to do with Islam. And many Canadian feminists and human rights activists, as well as some on the left, stayed silent in order not to be accused of Islamophobia or racism.

Media reports and commentaries ranged from a few unconditional condemnations of this horrific act of patriarchal violence, and the cultural and religious beliefs behind it, to a cautious disapproval that insisted that this was only another example in the general pattern of violence against women. Still others identified the violence as an isolated case and warned against jumping to any conclusions.

## **VIOLENCE AGAINST WOMEN**

Without doubt violence against women is a cross-cultural social problem rooted in patriarchal control of women. In this case, religious justification in Islamic moral codes of conduct were distortedly invoked to take the life of a teenaged girl who had rebelled against the forceful imposition of a dress-code that her father saw as central to his faith.

In Canada, we are facing a very serious and growing problem of the rise of religious zealotry. Canadian multiculturalism is failing to combat racism and Islamophobia. And it is gradually moving towards adopting a faith-based multiculturalism, which may further encourage the formation of cultural ghettos immune from social and legal scrutiny against violations of human rights. This politics serves the interests of conservative Muslim leaders. Enjoying the formal recognition by the political parties and different levels of government, they openly reject civic norms of conduct and preach an obscurantist and rigid understanding of 'piety' and 'modesty' to an audience that struggles to adjust to life in the diaspora.

The comments made by some religious leaders in a press conference, in the aftermath of Aqsa Pervez's murder, were instructive. They warned that culture cannot supersede religion and urged that their followers should 'convince' their daughters to wear the hijab, indirectly supporting the patriarchal father's motivation in committing the crime.

Aqsa Pervez's case represents a revealing example of the lives of many children of Muslim immigrants who came to Canada, predominantly in the 1990s, and now are coming of age. The vast majority is inevitably influenced by the dominant Canadian culture and behavioural patterns. Many parents have no problem with this and adopt a healthy mix of broader cultural practices and their cultural heritages. A growing number of families, frustrated by the difficult conditions of life and influenced by imported orthodox Imams, however, venture the impossible task of replicating their past way of life in their country of origin. They try to force their own 'choices' on their children.

## **ISLAM & DIVERGING VIEWS OF ISLAMIC TRADITIONS**

Many of these young Canadians, particularly young girls and women, live a double life and have to hide their true feelings and submit to their parents' imposition. Aqsa Pervez shed the mask of compliance with the Muslim womanhood her father wanted her to wear. Hence he undertook the harshest imaginable punishment into his own hands.



All of us who make up the diversity of Canadian society, including public policy makers, urgently need to understand and appreciate the remarkable cultural diversity of the people who come from Muslim-majority countries and their divergent views about Islamic traditions and the varying degrees of their religiosity and secularism. Islam itself has had different readings from almost the very beginning, with a strict and rigid literalist reading on the one hand and a rationalist interpretive reading on the other. For centuries, the latter was the

dominant perspective for the vast majority of Muslims. It is only

in recent decades, due to political and economic failures, imperialist policies towards Muslim-majority societies, authoritarianism, and the unresolved struggle over Palestine, that a rigid totalitarian ultra-conservative Islam has risen to prominence.

Taking this voice as ‘the voice’ of Muslims is a fatal mistake with dire consequences. Worse, wittingly or unwittingly, bowing to their demands in the name of respecting their cultural heritage is to give up on principles of citizens’ equality before the law and the hard-won norms of women’s rights. Still worse, tip-toeing around harmful cultural practices, as some are doing, is tolerating for ‘Others’ what is intolerable to ‘us’. It promotes patriarchal control over women who have had a misfortune of not being born white and Western. It is to deny the agency of millions of women (and men) who in all Muslim societies, without exception, have launched the most remarkable challenge to the misogynist, conservative interpretation of Islamic legal and moral traditions. Abandoning one’s racist gaze of national and cultural superiority could be done without adopting a hands-off approach.

All levels of government in Canada need to recognize these facts and abandon a pattern of listening only to the most conservative voices within the large Muslim population. As feminists have pointed out, the ‘family’ can be, and often is, the site of the

most serious repression. Violation of rights in this ‘private’ domain, and repression of daughters, often occurs with the active participation of mothers.

Government policy in this and similar cases of violence against women is very important. It should be both punitive and educational. A firm stand will show what is not tolerable, regardless of alleged sacred cultural and religious values are at issue. It also sends a strong message to family members, Muslim preachers, and those community organizations that support zealotry, about the consequence of their acquiescence, preaching and advocacy. **R**

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Shahrazad Mojab is Professor and Director of the Women and Gender Studies Institute at the University of Toronto, and the co-editor of *Violence in the Name of Honour: Theoretical and Political Challenges* (2004).

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# China and the World Market: Thirty Years of the ‘Reform’ Policy

Gregory Albo

It is now thirty years since the People’s Republic of China announced its market reform policy at the Third Plenum of the Central Committee of the Chinese Communist Party (CCP) in December 1978, under the then new leadership of Deng Xiaoping. The policy followed the death of Mao in 1976 and the purging of ‘leftists’ in the Party and the state, symbolically represented by the trial of the ‘Gang of Four’. The policy was the declaration of the end of ‘Maoism’ as the economic and political framework for the Chinese revolution, although Maoism has continued to endure as a source of ideological legitimacy for the CCP.

At the Third Plenum, the Central Committee declared an end to class struggle of a “mass” kind and a focus of “Party work on socialist modernization”. This was to be accomplished by combining “adjustment by the market” with “adjustment by the plan”. It meant introducing market reforms and disciplines into collectivist agriculture in the countryside and state-owned enterprises (SOEs) in the cities. It was tied to the ‘open-door’ policy of 1979 to increase flows of foreign trade and finance, the development of special economic zones for unfettered capitalist factories utilizing cheap - and most often female and migrant - labour close

to Hong Kong and Taiwan in Guangdong and Fujian provinces, and the formalizing of diplomatic relations with the US. The opening of the collectivist economy to market forces inside China and integration into the world market was to be via the guidance of the CCP and without political democratization. China’s market-opening policies of 1978, in this wider sense, remain the guiding policy for China and the CCP. The Deng leadership would term this policy ‘socialism with Chinese characteristics’. It would actually mark the transition to capitalism in China.

## THE CHINESE REVOLUTION

The Chinese Revolution of 1949 was led by the CCP, under the leadership of Mao Zedong, and emerged out of a confluence of war, internal political collapse and peasant rebellion. Not the least of these was the subordination of China in the world market, more than a century of humiliation by colonial domination, the division of China by the imperialist powers and ineffective opposition by despotic emperors and the dictatorship of Chiang Kai-Shek. The revolutionary government inherited a deeply →

backward feudal economy, with only enclaves of capitalist markets largely dominated by foreign capital, and a bureaucratic state directed at extracting as much of the economic surplus out of the peasantry as possible.

The core of the Chinese development strategy was similar to the Soviet economies: the means of production nationalized as state property; central command planning; building up of heavy industry; protective security without political rights for workers and peasants; suppression of the consumption levels of workers and peasants to maximise the potential economic surplus; and conversion of the surplus into high rates of investment in infrastructure and industry. With its enormous peasant population, agricultural collectivization and a village commune system also became a central component of Chinese development.

As with other revolutionary regimes, the imperialist powers broke trade linkages and isolated China from the world market. Great political campaigns and social upheavals over how to drag China out of its isolation and backwardness, configured as a debate between ‘leftists’ and ‘capitalist roaders’, ensued. The first decade of the revolution brought land reforms, nationalization of foreign capital, collectivization and the first five-year plan. The ‘Great Leap Forward’ of 1958-60 attempted to use mass political mobilization to advance self-reliant productive capacity via the expansion of the village commune system. The ‘new economic policy’ and the ‘Four Modernizations’ that followed increased the space for market activity and adopted a technocratic model of central administration with a focus on science and technology. This strategy was disrupted by Mao’s last political campaign, the ‘Cultural Revolution’ from 1966-69, to deepen collectivism and root out bureaucratic conservatism, before slowly emerging again in the 1970s in the internal political CCP struggles that preceded Mao’s death.

It is hard to dispute the accomplishments of the first decades of the revolution for Chinese modernization. From the 1950s to the mid-70s, average industrial output grew by about 11% a year and built productive capacity across virtually all sectors. Mass famines (except for the period of the Great Leap) and pestilence were wiped out; medical services for the masses meant infant mortality rates and life expectancy advanced ahead of all other low income countries; mass education was provided for all, with many peasants even gaining access to university education; efforts at ‘equalising’ social relations in all spheres were undertaken; and the ‘iron rice bowl’ provided social security for all Chinese people. Two areas, however, lagged in performance: food production consistently grew but only doubled its output in this period and just matched population growth, barely raising peasants’ money incomes; and consumer good production grew at only half the pace of heavy industry.

### **MARKET POLICIES SINCE 1978**

The political failings of the Cultural Revolution provided the space for the return of the ‘Four Modernizations’ policy in the

1970s and eventually the market-opening policies of 1978 noted above. These policies, in turn, generated additional market building policies. In the initial period of 1978-83, the SOEs were given greater enterprise autonomy, including over employment terms for workers, sales of goods (once planning targets were met) and control over the re-investment of earnings. Small enterprises were allowed – with limits on the number of employees abolished in 1987 – and grew from a few hundred to over four million by the mid-80s. Collective enterprises were also greatly expanded. In 1980, the de-collectivization of agriculture began with almost all peasants becoming dependent on the market for sale of their produce under the household responsibility system. The Maoist commune structures were replaced in 1982 by the Township and Village Enterprises (TVEs). By the early 1990s, these locally-based market enterprises numbered 25 million and employed 125 million workers.

The Third Plenum of the 12th Congress of the CCP in 1984 endorsed the notion of a “planned commodity economy”. SOEs were to finance more of their own operations and subjected to profitability criterion; TVEs were given increased autonomy to respond to market forces. A process of price reforms was started to move away from state-set prices to market pricing. Reforms were also begun to universalize the commodification of labour in the state sector that was already occurring in the private sector and in the special economic zones. Enterprise rights to set contracts were expanded, and new workers hired would not be subject to social protections such as healthcare, pensions and job security. In 1987, the CCP announced a policy to develop an “export-oriented economy”. This further expanded the special zones to encompass almost all the coastal area, formalised that foreign investors would no longer be required to seek out joint ventures, and promoted even more tax and regulatory breaks for foreign capital. In the decade from 1978 to 1988, foreign trade quadrupled as foreign capital poured in and Chinese export capacity increased.

The 14th Congress of the CCP in 1992 committed to a “socialist market economy”. The slogan represented a final push by the Deng leadership to consolidate the development of capitalism in China. The mass privatization of SOEs took numerous forms, including the sale of shares on the newly opened stock exchange in Shanghai. Former managers, party cadres and connected CCP family members turned themselves into capitalist entrepreneurs by seizing SOE assets, more often than not by various means of corruption. This was also the case for the TVEs in the countryside. From providing about half of manufacturing employment in 1978, SOEs had only 15% in 2001. The 1994 labour law reforms for SOEs generalized the contractual status of wage-labour and further ‘smashed the iron rice bowl.’

The 16th Party Congress in 2002 adopted the strategy of the “Three Represents”, which included representing the most advanced productive forces. Capitalists were thus welcomed to join the CCP; a policy to attach party committees to private companies logically followed.

Since abandoning the collectivist policies of the Maoist period, China has pursued high growth at all costs, with Deng and his successors ridiculing any efforts to lower the growth rate to meet social or ecological needs. This has sustained Chinese growth rates at over 10% per year since 1978. China will soon be the second largest economy in the world and is steadily closing the gap with the USA. On a per capita GDP basis, however, China remains a poor country at about \$2,800 (US).



### CHINESE SOCIALISM RENEWED?

China is now securely integrated into the circuits of capital as one of the dominant poles of world accumulation. The CCP, with its some 74 million members, has remained in control of this process, neither repudiating the revolution nor socialism as the basis for its ideological legitimacy. As with Deng's initial turn to 'market socialism' in 1978, the recent policy for a 'harmonious society' of the current Hu Jintao and Wen Jiabao leadership, as stated at the National People's Congress in 2005 and during the 17th CCP Congress in October 2007, was put forward within these terms. This is the contradiction at the centre of the evolution of the market reform policy: the CCP set in motion, directly and indirectly, the social forces and market imperatives leading to the development of capitalism in China in the name of building socialism.

The legitimization of market liberalisation in terms of socialist and Maoist thought has, paradoxically, served as a means 'de-ideologize' the process and 'depoliticize' Chinese society. Although authoritarian measures to forcefully put-down democratic

uprisings have been regularly deployed – such as against the Democracy Movement of the late 1970s and at Tiananmen Square in 1989, or worker and peasant demonstrations – the party-state has been most effective in maintaining its ideological legitimacy as defender of the revolution and the nation.

The space for political struggle that might create an alternate trajectory for Chinese development has thus been powerfully contained. A measure of civil activism and liberalisation, partly pushed by the new urban middle class for increased accountability and participation, and partly by peasants and villagers fighting for their rights, has been channelled through the party and state apparatuses. This has been the case, for example, with many ecological and anti-corruption campaigns. The some seventy to eighty thousand incidents of protests, illegal strikes and civil unrest reported to be occurring annually across China now, however, speak to deeper conflicts that the existing state and development model have not been able to absorb. These include the large numbers of protests by peasants fighting for their land tenure rights and workers, particularly female and migrant workers, struggling for their organizational rights and against exploitation in the capitalist factories and construction sites of the coastal cities.

The civil unrest has had difficulty moving from spontaneous resistances to organized anti-capitalist protest. Some support for these protests may be found in the 'old left' inside the All-China Federation of Trade Unions (ACFTU) and the CCP who remain committed to the original values of the revolution. However, these are now marginal currents in formal party-state institutions. Some 'Maoists' also maintain a base amongst peasants and workers. But the protests and strikes occur in relative isolation, linked only by minimal means of communication. The protests also remain, at this point, largely separated from a significant 'new left' forming in intellectual, student and other circles in the urban centres and universities. The formation of connections across these locations is where an alternate development trajectory for China most likely resides. As the Hu and Wen project for a 'harmonious society' falters in addressing the imbalances of China's market-driven development model in the next years, the protests and connections are apt to grow. For Chinese workers and peasants, this is the political space in the making for the renewal of Chinese socialism. **R**

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## Post-Socialist Transition and Unionism in the 'Workshop of the World'

Étienne Cantin and Marcus Taylor

The People's Republic of China (PRC), it is often said, is becoming the 'workshop of the world.' With its manufactured exports having increased by 16.9% yearly from 1990 to 2000 and its share of world manufactured exports having expanded from 1.7% in 1990 to almost 7% in 2003, China is now East Asia's dominant exporter and is predicted to be the world's foremost goods exporter by 2008, surpassing both the United States and Germany. Chinese workers increasingly produce for the world markets, but what kind of workers are produced in the process of China's post-socialist transition and integration within global capitalism? And what are the prospects for genuine trade-union representation of these workers' grievances?

### COMMODIFICATION OF LABOUR-POWER & INDUSTRIAL CONFLICT

Most accounts of the rise of China as the workshop of the world simply assume the presence of 'cheap labour' as an a priori factor in productive restructuring. Yet, such an assumption ignores the manner in which new Chinese workforces have been created, reproduced and profitably utilised within global capital circuits through an ongoing revolution in China's labour relations. Whereas economists tend to see production simply as the innate offshoot of adding capital to a universal, pre-existing labour force, this ignores the way in which labour forces with particular attributes are socially constructed and reproduced.

This has resulted in the creation of multiple Chinese labour forces, each structured by different social institutions and differentially integrated into Chinese productive structures and, therein, the international division of labour. Two fundamental processes of working-class formation stand out: the formation of migrant labour forces that are central to the expansion of industrial production in China; and the reshaping of workforces located in the

state-owned enterprise (SOE) sector who formerly enjoyed the job-security and welfare privileges of the 'iron rice bowl.' The processes of creating migrant labour forces and breaking the 'iron rice bowl' of urban workers are part of a wider commodification of labour-power ongoing within China in this era of capitalist restoration. The commodification of labour-power involves 'freeing' workers to contract openly in the market to any willing employer in return for a wage. Concurrently, commodification also 'frees' the worker from any alternative form of subsistence and makes them dependent on repeatedly securing wage labour for survival.

This stands in marked contrast to labour conditions in China during the Maoist era, when labour was centrally managed in accordance with the designs of the planned economy and China's working classes in both rural and urban spheres were formed within a series of institutional arrangements that made incorporation within capitalist production relations problematic. In the rural sphere, the collectivised agricultural sector assigned people to work teams at birth and strictly limited their mobility into urban areas through a household registration (*hukou*) and food distribution system. Linking income and consumption to fixed production teams prevented movement into alternative rural occupations. Similarly, urban labour mobility was restricted through a system of bureaucratic job allocation that tied a worker to a particular work unit (*danwei*). The latter functioned not only as a lifelong place of employment, but also as an enterprise-based system of social welfare through which a range of social goods – including housing, healthcare, education, and childcare – was provided (the 'iron rice bowl').

Restructuring these institutions and (re)making workforces suited to integration within the circuits of global capitalism has proved an essential yet tension-laden undertaking for the Chinese Party-state and capital in the era of 'market reforms.' The progressive deepening of 'market reforms' in the PRC have led to radical changes in labour relations and growing industrial conflict. Existing urban labour forces, previously protected by state or collective enterprises, have been profoundly restructured and subjected to new forms of institutionalised discipline and work relations. The traditional guarantees of employment, wages and welfare have been eroded as SOEs have been progressively freed

from state control and subjected to increasingly competitive market pressures and capitalist development has seen the rapid expansion of new forms of non-state enterprises in which none of the traditional guarantees exist.

The subordination of enterprises to capitalist market imperatives was tempered through the 1980s and 1990s by a degree of state intervention, particularly but not exclusively in SOEs, to preserve the 'socialist' character of the 'socialist market economy.' However, the institutional framework and the financial resources required to maintain such intervention have been progressively eroded as responsibility for economic management and financial solvency has been passed to the enterprises. The withdrawal of support for the once privileged SOE employees has provoked a rapid increase in spontaneous industrial conflict and social protest since the early 1990s and in the near future.

Concurrently, new labour forces pivotal to the expansion of Chinese manufacturing have been constructed through rural-to-urban migration. By institutionally differentiating migrant from non-migrant workers, the former are routinely denied basic social rights and are effectively 'captured' within disciplinary labour regimes that are themselves shaped by the restructuring of global capitalism. This restructuring of Chinese labour forces, however, has not occurred without contestation. The intensification of work, the precarisation of employment, illegal overtime, illegal wage rates and below-subsistence income have led to an increased number of workplace conflicts involving migrant workers.

### **WORKING-CLASS RESISTANCE & POST-SOCIALIST LABOUR RELATIONS**

In the planned economy, the reconciliation of the interests of workers, managers and the state was achieved within an administrative framework guaranteed by the government and the Communist Party of China (CPC). With integration into the world economy, these guarantees have gone. The development of the enterprise, and consequently the jobs and living standards of the employees, is subordinate to market pressure on management to be competitive in both domestic and global markets, and to secure increasing profits. The growing divergence of interests between employers, employees and the Party-state has been expressed in a dramatic increase in the number of formally registered individual and collective labour disputes and, more worryingly for the government, in the growth of spontaneous strikes and mass social protest.

The Chinese Party-state is regularly accused of depriving workers of the right to freedom of association, independent trade unions, and thereby turning the world's largest reserve of labour into bonded labour. While the commodification of labour-power, the formation of labour markets and enterprise privatisation have subordinated workers to capitalist production relations; political authoritarianism has largely deprived them of formalised collective organizational means to resist oppressive labour conditions and industrial relations. Yet, there is a second, crucial dimension to Chinese labour relations. When we look at the volume of la-

bour unrest, conflict and demonstrations in the past decade, we see remarkable radicalization. Far from being docile, Chinese workers have staged significant resistance.

Workers with grievances usually begin their collective action by lodging complaints, requesting local government intervention. In so doing, workers are following a well-established channel of political participation under Chinese Communist rule. Dating back to the 1930s, petitioning to the Letters and Visits Bureau is an institutionalized and legitimate means of making demands and expressing popular discontent toward the government. Officials handling the petitions usually direct workers to labour-arbitration committees or pressure state enterprises to redress workers' grievances. When repeated visits to the labour bureau fail to deliver owed pensions, or when migrant workers are frustrated by pro-employer decisions of labour arbitrators or judges, petitioners are prone to take their demands from the courtrooms to the streets. There is an important difference in migrant workers' and state sector workers' proclivity to street action.

Migrant workers, no matter how marginalized, are indispensable to local economic development, whereas laid-off, unemployed, and retired workers in the rustbelt are a liability to the local government. Therefore, regions with more migrant workers also have a more developed legal infrastructure. The result is that migrant workers are more susceptible to bureaucratic processing, routinization and rationalization of labour-conflict resolution. Veteran state workers in rustbelts are more inclined toward spontaneous mass and radicalized action. In rare cases, such unconventional and what workers call 'radical' actions can lead to city- or neighbourhood-wide, multi-day confrontations. Violent clashes with police, or even the armed forces sent in by the higher authorities, have also led to arrest and imprisonment of workers' leaders.

Mounting working-class 'unrest' creates a number of social contradictions in a country where the Party-state still hails workers as the 'masters of society.' Indeed, in terms of the statutes of existing labour law, Chinese workers enjoy a range of rights and protections. Nonetheless, the developmental dynamics unleashed by China's capitalist transition have undermined the existing pro-labour policies and those proposed by the central government since the onset of 'market reforms.' The notable feature of these regulations is the provision for important labour protections, including those concerning minimum wage, work hours, and social insurance for internal migrant workers citywide. However, precisely in the course of these government-initiated labour reforms, at least two broad concerns surfaced: first, state and collective workers have been hard-hit by industrial restructuring (their mass unemployment further exposing the lip-service that government pays to labour); second, labour policies and labour regulations are unevenly implemented at local levels and hence protection for workers is seldom enforced.

Amidst China's post-socialist transition, illegal overtime, illegal wage rates and below-subsistence income have therefore become endemic grievances, which trade unions are best →

suited to address. Capitalist development has led to an accumulation of such grievances as enterprise directors sought to ensure the profitability of their enterprises by all available means. Moreover, employers sought to avert conflict with their employees by denying responsibility, thereby trying to turn the workers' grievances against the Party-state, so that capitalist development implied not only an increase in the potential for industrial conflict, but also the transformation of such conflict into social contestation with the formulation of political demands, including demands for the enforcement of existing labour laws.

To date, industrial conflict and social agitation in both the state and non-state sectors remains diffuse and localized, without cross-class or cross-region collaboration. The most significant working-class protests took place in 1989, when state sector workers joined students, intellectuals, and private entrepreneurs in a nationwide anti-corruption, anti-inflation, pro-democracy movement. The government's deadly crackdown, coupled with heavy sentences for worker leaders, resulted in labour acquiescence for the first half of the 1990s. Facing an increasingly volatile labour market since the mid-1990s, however, both migrant and state workers have once again become restive.

### **WORKING-CLASS 'UNREST' & CHALLENGES FACING TRADE UNIONISM**

The accumulation of grievances and the ensuing industrial and social 'unrest', almost entirely spontaneous and outside trade union structures, have presented a challenge to the legitimacy of the official trade unions as representatives of the interests of workers and to their function for the state of neutralizing industrial conflict and maintaining social peace. China has only one national union movement, the All-China Federation of Trade Unions (ACFTU), which has a quasi-governmental status and is organised and managed from top to bottom, without strong democratic roots at its base. At no other time in its history has the ACFTU been regarded with more disdain by workers than at present, when both the state and the non-state sector workers need help more than ever before.

The migrant workers' need for industrial representation in the new labour regime is greater than that of other worker categories, but is seldom met. Given their precarious, temporary situations working in industrial districts where they are vulnerable outsiders, migrant workers are in a particularly weak position to mount protests. Nevertheless, there are a growing number of wildcat labour actions that are not sanctioned by the government, and other less confrontational forms of resistance have erupted in an increasing number of foreign-funded factories, especially large manufacturing establishments. Accounts of labour insurgency in official statistics of arbitrated labour disputes and other studies about strikes and protests show that migrant workers have been increasingly taking collective action to fight for their legitimate interests.

As a result of the profound transformations of PRC's productive structures that have occurred in the context of its post-socialist transition, the center of gravity of China's working class has

shifted decisively. The representative model of a Chinese worker as a SOE employee with lifetime guarantees of employment, welfare, housing, health and education is no longer adequate as a picture of the present and certainly not of the future. The dominant employment form of the future is more likely to involve contracted workers in non-state enterprise employment who will be privately responsible for much of their own and their families' welfare.

The new Chinese working class in the process of formation does not identify with the interests of their managers, employers, Party, or state to the same extent as in the past, for there is much less that binds them to these bodies. This shift has profound implications for China's political economy since the CPC relied for much of its legitimacy on the proclaimed identity of interests it shared with the working class. As elsewhere in East and South-east Asia where there are large movements of the workforce from agriculture into industry, workers whose employment is precarious, who were previously considered peripheral and were marginalized by industrial institutions, are now central to the process of capitalist development in China.

The only means of industrial representation for this new class is the official ACFTU, which still owes its primary allegiance to the Party-state and management. Moreover, the public sector provides the traditional organisation base for the ACFTU and its decline has meant that absolute numbers of union members nationally have declined through the 1990s. The ACFTU was thus forced to both hold onto public sector organisation rates whilst developing strategies to organise the burgeoning new sectors of employment. However, this has proved difficult for two main reasons.

First, the growing non-public sector does not have a structural mechanism in which the unions can easily enter the enterprises. Managers and owners have a high degree of autonomy and this means that unionisation largely depends on convincing managers to accept unions. Although advanced employment practices and higher wages are often (but not always) provided by 'western' and some Japanese employers in foreign-invested enterprises, South Korean and overseas Chinese are increasingly being identified as exploitative. The private-owned enterprises are even more elusive, often because they are small or have been established, drawing on particular connections the owners have with local officials, to conduct their business. The township and village enterprises, which sometimes employ large numbers of migrant workers from outside the village, often run as small fiefdoms of the village-cum-party-leader-cum-company president.

The second reason for declining union membership comes from the declining 'union identification' of Chinese workers. Many of the new manufacturing, construction and service sector workers that shouldered the economic boom of the 1980s and 1990s came from the peasant class, which had no direct experience of unions or the discipline of factory work. They often feel, with good reason, that they are not welcome in the union and are 'second' class citizens in cities. However, even for the urban workers, with a few well-documented exceptions, workers are unfamiliar

with unions in China. The present form of unionisation is essentially a politically constituted organ instituted from the top by the CPC in Beijing, and the union does not have a strong workerist tradition, such as developed in Russia, or much a memory of collective struggle, which existed to some extent in the 1920-1930s.

If we put these two internal problems together, despite claims that the union acts as a transmission belt ensuring social stability for the Party and representing collective interests for the workers, most workers see the union as rather irrelevant. The ACFTU is, accordingly, facing a membership crisis. As membership rates fall and the political significance of those sectors that are highly organised also decline, the role of the ACFTU will decline. The ACFTU has had a chequered history, with significant but highly politicised growth in urban areas during the revolutionary period. However, once the country was solidified under CPC leadership, the ACFTU was brought firmly under party control and its role as an organiser of workers became less important as union membership in the state sector became automatic for SOE workers. Their role withered more or less to complete formality, being mostly suspended during the Cultural Revolution (1966–1976). In 1978, the ACFTU was resurrected with the twin goals of representing membership interests in particular within the context of representing workers interests in general (throughout the country).

This latter goal meant the unions should maintain national interest above worker demands. Many within the ACFTU gradually concentrated on improving member interests, which culminated in many being actively involved in the 1989 Tiananmen protest movement. The result was both a reaffirmation of the second goal, of the ACFTU serving national interests, and to underline this, a much stricter subjugation to party control was enforced. Without the flexibility or clear mandate to represent individual workers' interests or membership concerns, the ACFTU again became remote from the working class in China. With growing demands for improved working conditions and real income, the vacuum would be filled by independent unions, which is something the CPC could not tolerate. Given the imperative to maintain the presence of state-centred unions, the ACFTU is charged with organising workers so as to avert alternative unions and minimise social unrest from wildcat strikes, street protests and demonstrations.

### THE ACFTU IN CRISIS

The choice now facing Chinese trade unionism is whether to seek to retain or reconstitute traditional socio-political and management functions or whether to transform into 'real' trade unions, able to independently articulate and express the aspirations of their members on the basis of their collective organisation. In a context in which the ACFTU is unable (and unwilling) to escape from the control of the CPC and to independently represent the interests of workers, it has seen the promotion of union recognition instrumentally. Increasing membership increases the number of workers covered by a conflict minimising/avoiding/managing apparatus and thus ensures continued relevance to the CPC as a facilitator of social stability. Moreover, the search for new enterprises in which to set up unions provides the hope of other sources

of funds for union coffers in the face of the growing membership/financial crisis of the ACFTU.

However, the strategy has not been very successful because, first, local governments see it as potentially disrupting their goals of economic expansion based on attracting foreign and private investment and, second, because of opposition and resistance from non-state sector employers. To deal with the first problem, the trade unions have sought to gain what assistance they can from local governments and Party organs. To resolve the second problem, the trade unions adopted a package of compromise or concessional strategies, such as guaranteeing no collective action, allowing the employer to appoint effectively the chairperson of the union and reducing union dues owed to the union by the employer, in exchange for allowing a union to be formed.

The result of both these strategies has been to undermine the grass-roots unions' ability to represent the interests of workers and operate independently. Although primary trade union organizations may no longer be subject to the routine intervention of the Party-state, the social and institutional structures within which labour relations are regulated have not changed radically, and they will not change until the enterprise trade union develops into an organization that, in its structure and practices, disengages from management to represent the interests of its members. Such a change is not likely to occur spontaneously, even under the pressure of growing conflict between employees and management, unless unions at a higher level recognize the need for the change and develop their capacity to support genuine collective bargaining at the enterprise level. China's official unions are top-down, quasi-state organs, which are not 'owned' by their members.

Providing little protection for workers is the main reason for the crisis of trade unionism in China. The question remains whether the official Chinese trade union movement can realise its goal of stemming the decline in membership by recognising unions in private enterprises. While the collapse of the state-socialist system and the contested process of capitalist restoration have removed the basis on which the state socialist 'trade unions' performed their traditional functions, their transformation into organisations which could represent their members and participate in the regulation of the employment relationship would have to involve far more than their establishing their independence from the Party-state. More fundamentally, it would have to involve the adoption of entirely new and unfamiliar functions and practices. **R**

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# Unions in China:

## A View from a Canadian Unionist

Cathy Walker

The standard of living in China has improved since 1978 with Deng Xiaoping's policy of opening up China, and has improved dramatically since his 1992 visit to the economic experiments in the south (places like Shenzhen near Hong Kong). The standard of living of the rich has dramatically improved but it has also significantly improved for ordinary people such as workers *with jobs*, shopkeepers and even peasants, though the latter still do back-breaking work in the countryside. For laid-off workers, however, and peasants who are displaced from their land, things have economically deteriorated.

State-owned enterprises (SOEs) are continuing to contract, with closures and privatization ongoing. As a result, the former urban worker 'iron rice bowl' guarantees of jobs for life, health care, subsidized housing and food and free education, are going by the wayside. In the SOEs, unions in the past played the role of social convenor, counsellor, production booster, health and wellness promoter and recreation committee. Today, their role is often similar.

Today, foreign owned enterprises, joint ventures and domestic enterprises are flourishing, but are often provide precarious employment that flouts the law. About 70% of the Chinese economy is now in the private sector, more than some European countries. Foreign companies are making enormous profits and under-cutting the standards of living, hard-won by their employees in the home country. Unions are usually not organized in these workplaces. Former National Union of Mineworkers' Director of Research, Dave Feickert, asks, "Who is present in China to affirm a model of society, which is not neoliberal but which develops a social market concept and a social model with a global dimension? China will be the biggest economy in the world quite soon. What model will it have: neoliberal or social market?" Shouldn't the union movement in China play a role in challenging the neoliberal agenda?

The Chinese government's removal of agricultural taxes and higher prices for agricultural products has helped to make life a bit easier for peasants, which helps them to remain in the countryside. Knowing about unsafe working conditions, forced overtime, low wages and often unpaid wages in the cities have convinced many migrant workers from the countryside to stay home. Labour shortages on the eastern coast have increased workers' power to bargain for better wages and working conditions, making it easier to organize workers into unions and easier to secure collective agreements.

According to the Chinese Ministry of Labour and Social Services, in the first half of 2004 alone the Ministry handled 6,400 collective labour disputes, which involved 184,000 persons, "considerably more than in the past".

In this context, what is the role of unions in China? Has it changed as a result of the consequences of reforms and opening up? Should it change more? I think the answer to both the latter questions is 'yes'.

### ACFTU and Labour Law

The official trade union, the All-China Federation of Trade Unions (ACFTU), is the only legally recognized trade union in China. Independent trade unions are not legal in China nor do they function in even clandestine ways. While the ACFTU appears from the outside to be a monolith, in practice it functions very differently in different workplaces and is composed of trade unionists with a wide variety of opinions about how trade unions should function in China.

Laws protecting union rights in China are better than in many other countries. With 25 worker signatures in a workplace, the employer must recognize the union. Once recognized, the employer must pay 2% of payroll to the union and the workers must pay 0.5%. The new *Labour Contract Law*, which will come into effect January 1, 2008, will help to ensure unions have the right to negotiate collective agreements.

### Contact with Canadian Unions

Over the past half dozen years, more and more trade union delegations from China are visiting Canada and other countries. Unions such as the CAW, CUPE, Power Workers, OPSEU, HEU, the BGEU and others have put on sessions for them on a wide range of issues, from the nuts and bolts of collective bargaining and occupational health and safety, to the broader questions of globalization and the corporate agenda. Responses have varied but the Chinese trade unionists have generally listened carefully and taken careful notes. After one hard-hitting presentation by Herman Rosenfeld at the CAW office in Toronto condemning globalization, I thought the high-ranking trade unionist from China was literally going to kiss Herman. It's obvious that some people in China are not keen about going down the capitalist road. Eng-

lish translations of letters and essays by former ACFTU officials critical of admitting capitalists to the Communist Party, published in *Monthly Review*, reflect the same point of view.

## Wal-Mart Organizing, 2006-07

The first official delegation of the Vancouver & District Labour Council to visit China took place in August 2006. The Wal-Mart stores were being organized throughout China as the delegation was visiting in August 2006. The Beijing Municipal Federation of Trade Unions (BMFTU) told us that the contact they had had with Canadian unions, especially the descriptions of how to go about organizing unorganized workers, had been invaluable to them as they tried to organize the Wal-Mart stores.

The ACFTU organized the notoriously anti-union Wal-Mart stores in China using a variety of tactics, including meeting with workers in the middle of night in clandestine meetings. This grassroots union organizing is new to the ACFTU but it is being greeted with enthusiasm by some of the ACFTU organizers. In her analysis of Wal-Mart organizing, Anita Chan quotes the ACFTU homepage: “Setting up these unions encountered many ups and downs. It did not come about easily... It is a major breakthrough in creating something new that will definitely open up a new stage!” Will such efforts continue at other foreign-owned enterprises? Will the ACFTU be able to negotiate an effective collective agreement with Wal-Mart? Will the Communist Party branches set up now in the Wal-Mart stores impede the ACFTU in defending workers’ interests? Does the CCP still fear the possibility of a de-stabilizing Polish-style Solidarnosc trade union developing in China?

The BMFTU returned the visit a year later. We were told they still have no first collective agreement. What should progressives in Canada make of all this?

## Unions in Chinese Auto Plants

I had a chance to visit four automotive assembly plants during 2004 and 2006, to investigate production and working conditions and the structure and role of the unions at the plants. Each plant was about the same size, with several thousand workers assembling cars that were designed in other countries but produced vehicles for the domestic Chinese market. As a result, the plants were required to be joint ventures with approximately half the ownership in Chinese hands (Honda has recently opened a plant producing for the export market and for this reason is not compelled to have a joint venture).

The Shanghai GM plant was similar in many ways to the GM Oshawa car plant and made the same product. The Shanghai GM, Tianjin Toyota and Hyundai in Beijing were very modern plants with a young, city-bred workforce. The Beijing Jeep plant was the first joint venture in China (beginning in 1983) with an out-



“It’s true, we are leaders, but at Citroen the revolution never stops.”

moded production system. The plant was about to be closed and re-opened in the suburbs of Beijing.

In each plant, Tianjin Toyota, Shanghai GM, Beijing Jeep, and Hyundai in Beijing, the ACFTU was the union that represented the workers. Yet in each plant, the union was structured and functioned quite differently. I’ll describe the different procedures of selection of the union leadership to demonstrate this.

### General Motors Shanghai plant (2004)

The visit to the GM Shanghai plant was arranged through the company and I spent the day with the GM health and safety director for China. I met with the trade union representatives at the end of the plant tour and also at dinner. The translation was provided by the GM health and safety director. Three people are responsible for conducting trade union elections, which are held by secret ballot vote. The 5,000 workers elect 200 trade union representatives. These 200 union representatives in turn select the full-time trade union leadership (the equivalent of twelve and a half people since the chairman is also the chairman of the Communist Party organisation), who in turn select the chairman. The trade union was led by older representatives chosen by the workers. →

They had worked in a variety of workplaces (eg. tractor plant, power plant, etc) prior to working at SGM.

Trade union elections were held last year and are held every five years. During this five-year period the company cannot fire any of the union representatives. Lost time for the union representatives, both full and part-time, are paid by the company as required by law. The salary of the union chairman is almost the same as the president of the company and the salary of the vice-chairman is at the company director level.

We had a lengthy discussion about the problems of return to work and permanent disability. The union has made a real breakthrough in this regard and the union chair was quite proud of this. Sickness benefits are normally paid through the trade union, but due to ten workers in the plant being off on long term or permanent disability with such conditions as cancer, the trade union chair got an additional 20 Million RMB (about 1.9 million Euro) to provide for the workers off on disability. This money goes both for medical treatment and for sick pay which varies according to the number of workers' dependants.

Wages and benefits are relatively high, with wages for an average worker 2,200-2,500 RMB per month, and with profit sharing it can be double that (workers took home 25 months' salary last year). These bonuses are paid quarterly. Overtime can be required up to one hour per day. Sometimes there is Saturday work but the workers always at least get Sundays off. As well, there are housing subsidies.

The company encourages workers to buy cars and provides a special benefit and fuel subsidy if they do. Workers on the line can afford to buy a small car and the company gives them a discount (six months' salary if they are a first timer). So far, more than 500 people have purchased cars but most of them are management. Workers still mostly take the bus.

#### ***Beijing Jeep (2004)***

I toured the Beijing Jeep plant and met with the leadership of the union as a result of arrangements made by the China Workers' Center for International Exchange (basically part of the All-China Federation of Trade Unions), the officers of which accompanied me.

There are presently 3,259 union members of whom 603 are women. Many of the workers are older but there have been new hires. Recently, 90 college graduates and 278 other workers have been hired. Before new hires begin, they receive training on

safety. The trade union was established in 1984 and it is run through a system of congresses, the first of which was held in 1985. There have been six congresses, to date. The congress selects the trade union working committee consisting of 11 people and one chairman. There are ten full-time trade union representatives and about 25 part-time trade union representatives. There are eight specialised working groups, among them there are four major ones: salary and welfare; labour production; labour protection; and women.

They have a signed collective agreement that includes six terms including safety protection, labour conditions, protection of women and health examinations. All workers get a copy of the collective contract as part of their employees' manual.

When building in a new area, the trade union takes part in the decision-making process. Every Wednesday afternoon there is a two-hour meeting to discuss building the new plant where the trade union takes part. Also, in the collective contract, there is a provision to ensure investment is made in improving working conditions, which is 1.5 Million RMB.

#### ***Tianjin Toyota (2004)***

My tour of the Toyota Tianjin plant was conducted by one of the four full-time trade union representatives at the plant. This



young woman was fluent in English and I asked her how she had got the job. She told me three of the four full-time representatives had been newly hired for the position by Toyota (the other was chosen by the FAW, the Chinese partner). When she was interviewed for employment by Toyota, she was offered the job of being a trade union representative. I asked her what the role of the union representatives was. She explained that they were basically go-betweens between the workers and the management. There was a meeting once a month with the workers and this was an opportunity for them to raise issues and for the union leadership to attempt to deal with them. They see their roles as co-ordinators. If workers were still dissatisfied, they would give the workers additional explanations as to why something couldn't be done. An example she gave was the problem of salaries. The workers wanted salary increases but the administration wanted to give only modest increases. The role of the full-time union representatives was to explain the needs of the market and the pressures the company was under. They told the workers if they got too much that they might be fired and that there are lots of other people waiting for work. She was quite candid that threatening the plant might close wasn't really true, but they were supposed to communicate that to the workers.

There were also ten part-time union representatives, elected by the workers by a system of secret ballot (writing the names on a piece of paper) on a departmental basis. I asked her what would happen if the company didn't like the workers' choices for the part-time union representatives. She told me that was too bad for the company; as they were the real union representatives. She meets with these part-time representatives every day and said that they also raised suggestions or ideas with her, not just problems or dissatisfaction.

### ***Hyundai in Beijing (2006)***

In 2006, I visited the Hyundai plant in Beijing with the Vancouver & District Labour Council delegation. The Co-chair of the ACFTU union at the Beijing Hyundai plant gave a brief introduction to the trade union. He explained that there is international misperception about the union movement in China. In fact, the history of the union movement in China is almost as old as the Chinese Communist Party. There were famous strikes in Chinese history such as the February 7th strike (*the General Rail Strike began in Zhengzhou on February 7th, 1923 and was violently repressed three days later with much bloodshed*) and the Anyuan Miners Strike (*In January 1922 Mao Zedong sent a representative of the Hunan Communist Party to the coal mines at Anyuan in eastern Jiangxi Province to begin organizing. Within nine months Anyuan miners had become one of the most successful unions in all China.*) which were led by Chinese workers prior to the establishment of the People's Republic of China in 1949. These strikes were for workers' rights and benefits.

The Co-chair said the principles of the trade union in China are not very different from unions elsewhere: to protect and defend the union's legal rights. With China's opening up and reforms, there are fewer and fewer SOEs and more and more

private companies. The union's role in defending workers' rights becomes more and more important.

He explained that the union at Hyundai has a shared concept, to develop harmonious relationships and help workers defend their rights. He said there are three principles of the Beijing Hyundai union:

- 1) The trade union here develops the majority of workers' interests. Because the composition of the trade union members consists of blue-collar workers and white-collar workers, right up to the CEO of the company, the membership composition is diverse and it represents differing parties' interests. Thus the trade union work is not directed by individual workers' demands. The main issue is whether it represents the majority of workers' interests or not?
- 2) We maintain our basic task is to defend workers' fundamental rights. This includes safety and health as two fundamental rights. The trade union keeps close watch on this issue and will talk to management if it sees a violation.
- 3) Workers' long term interests cannot be separated from the companies' long term development. If labour relations become tense, it could bankrupt the company and workers' interests would not be represented. Therefore the Beijing trade union and the company are not in favour of strikes. Strikes are a fierce problem solving method. Negotiations, discussions, arbitrations and lawsuits, as well as the intervention of the Communist Party, are better methods of solving problems.

## **We Need to Continue to Talk with the Chinese Unions**

Today there are a variety of union structures in Chinese workplaces, including the auto plants. This is probably true for all industry in China today as it continues to change so rapidly. The trade union delegates who have visited us in Canada and the people we met with in China have had a variety of perspectives on their role in China. Some have emphasised their need for stability, moderation and co-operation with employers. Some have stressed the need for understanding how unions function in a market economy as China moves more and more toward a market economy. All have been interested in what we do and most recognise the need for the union movement in China to change with the times. A number have emphasised the need for examples from the Western trade unions to give them the opportunity to argue for change in China. We need to continue to talk to them both in Canada when they visit and by visiting China in return. **R**

Cathy Walker is the former health and safety department director at the Canadian Autoworkers.



# Elephant versus Dragon: India and China in the World Economy

Kanchan Sarker

In this new phase of capitalist development, the world is eagerly watching as two of the world's oldest civilizations emerge as key players in the world economy. In recent years, both China and India have significantly increased their gross domestic product (GDP), lifted large numbers of their citizens above the poverty line, reduced illiteracy (although mass poverty remains) and moved upward in the Human Development Index (see Tables 1 and 2). According to a widely-cited Goldman Sachs report of 2003, by 2050 the absolute size rank of the world economies will be as follows: (1) China, (2) USA, (3) India, (4) Japan, (5) Brazil, (6) Mexico, and (7) Russia. The significance of these developments has become the center of discussion in the international media, business, and policy circles.

In 1980, China and India had roughly the same income per head, but now China's is about double that of India. The nearly 9% annual growth rate of real per capita gross domestic product (GDP) that China has averaged over the last quarter-century is unprecedented. The average per capita GDP growth rate of nearly 4% a year since 1981 (more than 6% since it opened its economy in the 1990s) in India is also notable, particularly as trend growth rate has been picking up.

After a long period of relative economic isolation, both countries are now integrated into the international economy. India became a member of the World Trade Organization (WTO) in 1995

and China gained membership in 2001. India began to open its economy to foreign trade and long-term investment in early 1990s with the end of its long-standing trade relationship with the Soviet Union, and China in the late 1970s with the Deng Xiaoping 'open-door policy.' In 2005, China had a merchandise trade ratio to GDP exceeding 60% (more than double that for India) and direct foreign investment of \$79 billion a year (about 13 times that for India). China has more than 10 times as much foreign direct investment, and five times India's share of world trade.

## Uneven Development & Inequalities

However, characteristic of capitalist growth processes, the income from economic growth has been spread unevenly. While rapid economic growth has led to a lowering of poverty for many, large segments of workers and peasants in both countries have been left behind in both relative and absolute terms. This unevenness is reflected in the rising income inequality.

According to the World Bank's poverty-line of \$1 a day per capita (at 1993 purchasing power parity), the proportion of people below that poverty line in China fell from 63.8% in 1981 to 9.9% in 2004. If, instead, this is measured with a national poverty line of 850 yuan per year for rural China and 1,200 yuan for

urban at 2002 prices, the National Bureau of Statistics data suggest the proportion of people living in poverty declined from 53% to 8% between 1981 and 2001. Seldom in history have so many millions – a rough estimate is around 400 million – been lifted above the poverty line in such a short period of time. While a decline in poverty is clearly present, there should be a note of caution here as well in interpreting these figures. A recent study by the Carnegie Endowment from a former World Bank official suggests that the original 1980 estimate was too low and that some 300 million Chinese still live on less than \$1 per day.

The annual Chinese national poverty estimates, as well as World Bank estimates, show that the largest part of the decline in poverty had already happened by the mid-1980s, before the large openings in foreign trade and investment in China in the 1990s. Much of the extreme poverty was concentrated in rural areas and initial land reforms in China during this period were probably one of the most important reasons for the massive poverty alleviation (although rural incomes in China are now under severe strain, and rural poverty enormous).

In India, official poverty estimates show that the poverty percentage declined from 44.5% in 1983 to 27.5% in 2004-05. This, too, has been a reduction of people living below the poverty line by hundreds of millions. National Sample Survey data for India for the period 1993-2005 suggest that the rate of decline in poverty has somewhat slowed since the 1970s and 1980s. This is also the period in which the Indian economy was intensively opened to international investment. India's export expansion in recent years has largely been in capital- and skill-intensive industries, unlike in China or Vietnam. Recent growth may not have helped large numbers of unskilled workers and peasants get out of poverty.

The pace of poverty reduction in India has not been as great as that in China. This is not only because growth has been faster in China, but also because the same 1% growth rate reduces poverty in India by much less. The so-called growth elasticity of poverty reduction is much higher in China than in India. Besides de-

mographic factors and India's higher population growth rates, this likely has something to do with the differential inequalities in wealth in the two countries, particularly land distribution and educational opportunities. Contrary to common perceptions, these inequalities are much higher in India than in China. The Gini coefficient (a ratio of the asset advantages of the richest against the poorest sections of society) of land distribution in rural India was 0.74 in 2003, while the corresponding figure in China was 0.49 in 2002. India's educational inequality is one of the worst in the world. According to the World Bank's *World Development Report 2006*, the Gini coefficient of the distribution of adult schooling years in the population, a crude measure of educational inequality, was 0.56 in India in 1998-2000. This was not merely higher than the 0.37 recorded for China, but higher than almost all Latin American countries (for example, Brazil measured 0.39).

However, in terms of overall income inequality, China's regional inequality has been consistently higher than in India. According to the recent Human Development Report, 2007, the Gini index of China is 46.9 (44.7 and 40.3 in the previous years) and that of India is 36.8 (32.5 and 32.5 in the previous years). The negative trend in inequality has been increasing in both countries since the period of 'opening-up.' Notably, with the introduction of capitalism in China, extreme poverty – as well as relative income inequalities – has grown.

It is difficult to compare unemployment rate between these two countries as there is differences in the definition of unemployment in China and India; However, from the different sources, it could be concluded that, while China was able reduce its urban unemployment significantly, its rural unemployment is increasing. In India, current development might be termed 'jobless growth' as unemployment is increasing both in urban as well as rural areas. In a rough estimate, China's unemployment rate – to the extent this concept can even be used to assess labour reserves in China and India – is about 4-5%, whereas in India, it is much higher; between 8-10%, considering unemployment and under-employment. →

**Table 1: Trend in Human Development Index (HDI)**

| Year  | 1975  | 1980  | 1985  | 1990  | 1995  | 2000  | 2005  |
|-------|-------|-------|-------|-------|-------|-------|-------|
| China | 0.530 | 0.559 | 0.595 | 0.634 | 0.691 | 0.732 | 0.777 |
| India | 0.419 | 0.450 | 0.487 | 0.521 | 0.551 | 0.578 | 0.619 |

**Table 2: Components of HDI**

|       | Life expectancy at birth ( years) | Adult literacy rate (per cent) | Combined gross enrolment ratio (%) | GDP per capita (PPP US \$) |
|-------|-----------------------------------|--------------------------------|------------------------------------|----------------------------|
| China | 72.5                              | 90.9                           | 69.1                               | 6,757                      |
| India | 63.7                              | 61.0                           | 63.8                               | 3,452                      |

China is far ahead of India in regard to the availability of health care and associated health indicators like infant mortality, maternal mortality as well as in sanitation and nutritional status with the exception of access to safe drinking water sources (Tables 3 and 4). But here, too, liberalisation and marketization in China have adversely affected working class and peasant access to healthcare and education. These are also key features of inequality in China today.

## Capitalist Development

While India was under colonial rule for 200 years, with the exception of some seaports like Hong Kong, China was never acquired by any colonial power. India won its independence in 1947 and China completed its revolution in 1949. India took the path to a mixed economy and China embraced a collectivist economy. While India was colonized through British institutional structures (the civil service, judicial magistrates, police and clerks), China never faced such radical western influences. Historically, the Chinese approach has been to take Chinese tradition as a basis for social organization, and only then to apply western techniques. This was a perspective specifically advanced by Chinese thinkers in the late nineteenth century. The 50 years of Communist Party rule in the People's Republic of China, under the leadership of Mao Zedong and Deng Xiaoping, continued this trend in which the terms of discourse and administration are set by historical Chinese institutional features.

These legacies have partly carried over into the features of their emerging capitalisms. India's domestic corporate sector – strengthened by the country's rule of law, its democratic processes and relatively healthy financial system – has been a source, for example, of substantial competitive advantage over China. India's capital markets work with a transparency that has aided capitalist integration, while China's capital markets remain relatively truncated, casino-like, and less penetrable by foreign capital.

While India's stock market has soared in recent years, the opposite has happened in China. In 2001, the Shanghai Stock Market index reached 2,200 points; by 2005, half the wealth was wiped out. In April 2005, the Shanghai index stood at 1,135 points, and it has now skyrocketed to almost 5000. India's banks report about 10% non-performing loans; China admits to 20% and the true figure could be double that. These sharp swings in Chinese financial markets have occurred against a backdrop of GDP growth regularly exceeding 9% cent a year. It is difficult to find another country that has this strange combination of such strong accumulation and wild financial performance.

However, contrary to neoliberal orthodoxy, 'capital market efficiency' does not necessarily imply superior investment performance. India has just half of China's level of domestic investment in new factories and equipment, and only 10% of China's foreign direct investment. While China's GDP growth in the last two years has remained high, in 2003 and 2004 it was investing close to 50% of its GDP in domestic plant and equipment – roughly equivalent to India's entire GDP. That is higher than any other country, exceeding even China's own strong levels in the pre 'open-door' era of central planning. These trends suggest some differences in their growth models: China's rapid growth partly stems from massive accumulation of resources and extensive accumulation, while India's growth has been coming more from increasing efficiency of the existing capital stock and markets, or intensive accumulation.

The stronger investment cycle in China than India has had other consequences. China's infrastructure – in the form of bridges, roads, ports and the like – is incomparably better than India's. Anyone who has ever been to both Shanghai and Bombay, the countries' respective commercial capitals, does not need any convincing that Shanghai is the more modern and efficient city. China's one-child policy means that it has less demographic pressure than India. It will face the adjustment to a rapidly aging population much sooner than India.

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**Table 3: Health Indicators**

|              | Infant mortality rate /1,000 live births | Maternal mortality rate /100, 000 live births | Probability at birth of not surviving to age 40 | Physicians /100,000 persons | Per capita expenditure on health PPP US \$ | Public health expenditure % of GDP | Private health expenditure % of GDP |
|--------------|--|---|---|-----------------------------|--|------------------------------------|-------------------------------------|
| <b>China</b> | 23                                       | 45  | 6.8   | 106                         | 277  | 1.8                                | 2.9                                 |
| <b>India</b> | 56                                       | 450   | 16.8  | 60                          | 91   | 0.9                                | 4.1                                 |

**Table 4: Water, Sanitation and Nutritional Status**

|              | Population using improved sanitation (%) | Population using improved water source (%) | Children under Weight for Age (% Under Age 5) | Children under height for age (% under Age 5) | Infants with low birth weight (%) |
|--------------|--|--|---|---|-----------------------------------|
| <b>China</b> | 44                                       | 77   | 8   | 19  | 4                                 |
| <b>India</b> | 14                                       | 86   | 47  | 51  | 30                                |

Source for tables: Human Development Report. 2007-08

By 2015, China will have almost double the elderly population to that of India.

### Open to International Capital

An economic litmus test in this period of neoliberal globalization is not whether a country can attract a lot of FDI, but whether it has a business environment that nurtures entrepreneurship, supports international competition and is relatively free of political intervention. In this regard, India might be considered doing a better job than China in opening up to international capital as well as internationalizing its national capitals.

In 2003, for example, a survey by the Federation of Indian Chambers of Commerce and Industry found that 40% of companies were 'positive' on India as an investment destination; last year, that figure rose to 73%. A group of world-class companies has recently emerged out of India. These include Infosys, Satyam, TCS in software, Ranbaxy in pharmaceuticals, Tata, Bajaj, Mahindra in automobiles, Reliance in petrochemicals, Tata, Reliance in telecommunications, Mittals, Tatas in steels, Birlas, and Tatas in cement. In contrast, the Chinese state has been more active in governing foreign investment, and also controlling Chinese outward direct investment. The latter may be shifting now as China seeks to invest its huge holdings of dollar assets, attempts to lock-in controls over key natural resources, and seeks to secure market access by foreign investments.

India, as well, is producing more young professionals, and ones that might be considered better qualified professionals for international capital in high value-added sectors. According to a survey of local recruiters, only 10% of China's engineers have the skills necessary to work in a multinational corporation, compared

to 25% of engineers in India. By 2008, India's total pool of qualified graduates will be more than twice as large as of China. If India's universities continue to provide top-notch talent, its younger, cheaper, English speaking, and larger professional workforce could help India edge out its neighbor to the east. Whereas China's higher literacy rate along with a much disciplined labour force has helped China to get more initial FDI in manufacturing, particularly low value-added production, this advantage could be narrowing.

### From 'Open-Door' to Open Revolt?

In any event, neoliberal globalization has dramatically altered the relationship of the Indian and Chinese behemoths to the world market. The Deng 'open-door policy' now can be seen, in retrospect, as one major initial step in altering the trajectory of Chinese development. It was followed by India more than a decade later. Capitalist development in both countries is radically changing the international circulation of capital globally, and geo-political relations and rivalries. Even if this is peering into the future, it is worthwhile to ask if, in the new millennium, India will become the technological hub for the world, and China will become the manufacturing hub as presently seems to be evolving? Will these emergent capitalist powers, finally, begin to shift geo-political power away from the Anglo-American axis? And what will happen to – and what will be the political response – of India and China's poor and working classes? Much more than the fate of progressive politics and social justice in these two countries rests on the answers to these questions. **R**

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# *The Apology Effect:*



## *The Mystification of Class Exploitation in Japan and China*

Ken C. Kawashima

The curious ritual of Japanese apologies to Asian countries for Japan's imperial atrocities, followed by continuing acts of denial within Japan that these atrocities ever happened, followed by anti-Japanese mobilizations in South Korea and China and a new cycle of apologies by the Japanese government, could seem to be simply expressions of Japanese diplomacy and national antagonisms. But this cycle of apology, denial, protest, apology plays a very important ideological role in blurring the realities of class oppression and class struggle in each of these countries. We need to remind ourselves that "Japanization," which has a long history that is not reducible simply to the militarism of World War Two, was a mystifying ideology that disavowed class antagonisms in pre-war Japanese society. Contemporary anti-Japanism thought and movements in countries such as China in turn produce ideological effects that distract workers from the oppression of Japanese capital in China and the collaborative role of the Chinese state and Chinese business. There is a symbiotic relationship and a shared function between Japanese apologies, Chinese and South Korean anti-Japan rhetoric and mobilizations, and Japanese capital in China. They blur the realities of capitalist oppression and the collaborative role of the governments of the respective countries.

Apologies by the Japanese government to countries such as South Korea and China for its imperialist and fascist past have become almost commonplace. As the anti-Japanese demonstrations across China not long ago showed the world, the issues surrounding these apologies are well known and still extremely volatile. The Japanese government continues to deny its imperialist, colonial and fascist past in Ministry of Education sponsored textbooks for school children in Japan; its government leaders, especially in the Liberal Democratic Party (LDP), still make public visitations to Yasukuni Shrine, the state sponsored shrine for Japan's war dead; the managers of the Shrine refuse to acknowledge the deaths of thousands of former colonial subjects of the Japanese empire; and the Japanese government still refuses to

acknowledge how hundreds of thousands of women from Japan's former colonies were coerced into becoming sex workers for Japan's imperial army during World War Two. In light of these persistent problems, East Asian countries have long demanded formal apologies from Japan. Now the governments of the United States and the Netherlands have also demanded formal apologies from the Japanese government, especially in regard to the wartime "comfort women" issue.

The diplomatic rituals surrounding these apologies, however, has become something of an East Asian sit-com series. China and the two Koreas demand that Japan formally apologize for wartime atrocities; leaders of the Japanese government are humiliated on the global stage, and in a performance of sovereign shame are compelled to stare at the floor and bow and apologize repetitively and publicly to their East Asian neighbors, apologizing and expressing remorse and regret. Soon afterward, however, a Japanese leader inevitably either contradicts the grounds for apologizing, or finds new "evidence" (usually produced by reactionary historians) to argue that there is no reason for the apology itself. This gives the Chinese and Korean governments a new opportunity to demand "real" apologies (again), and the cycle begins anew. Japan bows and apologizes, but the rest of East Asia then says back to Japan: do it again – because your apologies are actually never enough. Bowing and re-bowing in apology has arguably become a leading form of postwar Japan's foreign diplomacy, but if it wasn't known before, Japan's act of bowing in apology only seems to hold meaning insofar as it creates conditions for future acts of bowing in apology. Indeed, if there is any historical meaning to the articulations and re-articulations of apology by the Japanese government, it is that the history of fascism is never a thing of the past. Rather, it is an immanent possibility of the present.

The relevant question is not Japan's "sincerity" in apologizing but the meaning of the cycle of apology, domestic retraction, external criticism and new apologies. Without denying important

other elements influencing these tensions and apologies, a central aspect of the apologies is how it effects ideological mystifications in the different nations involved. What, then, is the ideological effect of this repetitive apologizing within the transnational, capitalist project of Japan and other East Asian countries?

I argue that the cycle of apologies conceals two problems. First, insofar as the apology issue is largely discussed only in terms of Japanese atrocities from World War Two, Japan's repetitive apologies produce a mass belief that Japanese ultranationalism and fascism are ultimately only a problem of wartime militarism. This conceals the fact that Japanese ultranationalism and fascism have a clear social, political, and ideological history that involves, but goes far beyond, the problem of militarism. It begins most clearly after 1917 as a counter-revolutionary mass movement and form of thought. Second, the ping-pong match around the apology issue, especially between Japan and China, has fostered anti-Japanese Chinese nationalism in contemporary China that conceals the historical reality of working class struggles and antagonisms in present-day China. Insofar as Japan has invested heavily in the new economic zones in China where many of these working class struggles have taken place over the past decade, Japan's repeated apologies to China has to be considered a crucial part of a larger, transnational strategy to ideologically conceal Chinese working class struggles as a means to protect and legitimate the reproduction and accumulation of capital on the Asian continent. This displacement and propagation has been carried out by concealing the relationship between two phenomena that historically coincide with each other: the dramatic rise in Japanese foreign direct investment in the new economic zones of China, especially since the 1990s; and the meteoric multiplication of Chinese working class protests, strikes, and demonstrations in China, especially since China entered the WTO in 1997.

The apology rituals generally only consider Japan's wartime past, thereby limiting discussions of Japanese ultranationalism and fascism to the post-1937 period of militarism. Japanism should rather be considered an ideological formation that emerged with particular clarity during the heyday of so-called "Taisho Democracy" of the 1920s, when liberalism and parliamentary party politics were ascendant in Japan. During this time, discourses of Japanism, familialism, and "Asian spirituality" were disseminated widely throughout Japanese society through various institutional nodes of power, such as the school system (including universities), the army reserve system (formed after World War One) and the police force (which was reorganized in 1917 under the slogan of "the massification of the police, and the policification of the masses," or *keisatsu no minshūka to minshū no keisatsuka*). Most importantly, the thought of Japanism was created to counter Japanese working class movements, especially those influenced by Bolshevism during the chronic recession of the 1920s decade. As the Japanese Marxist philosopher Tosaka Jun argued in his 1935 text, *The Japanese Ideology*, "Japanism" – as well as liberalism – became a "common sense" (*jōshiki*) in Japan precisely during this period. The thought of right-wing Japanese ultranationalists thus cannot be considered apart from this counter-revolutionary history, prior to the outbreak of the Pacific War.

These nationalists articulated a Japanese nation without class antagonisms and produced a national fantasy without all of the contradictions that capitalism had produced in Japan. It was this thought that would eventually find expression in the fascist ideology of the Greater East Asian Co-Prosperity Sphere, most clearly articulated by the militarists during the Pacific War. To borrow the words of Slavoj Žižek, Japanism, Asian 'Spirituality' and Pan-Asianism thus became an ideology of "capitalism without capitalism". The point here, however, is that a proper understanding of Japanism cannot be reduced simply to the question of militarism of the late 1930s and early 1940s.

In the present historical context, repeated articulations of Japanese exceptionalism and xenophobia operate in a similar way to disavow the class contradictions stemming from a general social malaise, most clearly visible during the post-bubble recession of the 1990s, and in the social phenomena of homelessness and the widespread existence in Japan of the so-called *freeters* (or "free *arbeiter*"), that mass of workers, mostly between the ages of 15 and 34, who move from 'non-regular' job to non-regular job, and who therefore represent Japan's most precarious and super exploited work force. Gone completely now are the policies and rhetoric of 'lifetime employment' of which Japan boasted during its high growth period of the 1950s. Since 1982, the number of *freeters* has increased from 500,000 to 2.17 million in 2003, or as much as 2% of the total labor force. This trend continues unabated in the present, and the number of *freeters* is predicted to rise to more than 10 million by the year 2014.

It is with this backdrop of the 1990s recession and social insecurity that Japanese investment has grown by leaps and bounds in China while it has decreased throughout the rest of the world. By 2004, Japan had invested some \$66 billion (USD) in China and Japanese banks were leading international lenders to China. By 2005, not only multinational Japanese corporations but small and medium-sized firms had invested and arrived in China to take advantage of relatively cheaper labour costs. Moreover, Japanese private schools have started to operate in Beijing, Shanghai and Shenzhen, and in 2004, the number of people traveling between Japan and China exceeded 4 million. Japanese imperialism today is clearly hooked on China: Mitsui, the giant conglomerate, has more than 110 joint ventures in China; Matsushita (formerly known as Panasonic) operates more than 49 major factories; and Canon wants to establish its largest factory in China.

The common pattern now is that Japan does the capital-intensive work of supplying high-tech parts to China, while China does the low-wage assembly and manufacturing. The shared goal between them is to use Chinese manufacturing as a pipeline to export goods from China, notably to U.S. markets. Reflecting this general trend are statistics from the Bank of Japan, as well as from the Japanese Ministry of Finance. According to these statistics, the strong increase in Japanese investments in China goes counter to Japan's decreased investments abroad. Japanese foreign direct investment since the 1990s in "developed countries" such as the USA and Canada, as well as in most "developing countries" (e.g., in Africa, the Middle East, Southeast and →



South Asia, the Pacific islands, and most of Central Europe) have all decreased dramatically. Even Japanese foreign direct investment in Hong Kong, Indonesia, South Korea, and Taiwan – all major centers of heavy Japanese financial investment since at least the 1950s and 1960s – have also decreased.

The exception to this general trend is found in Japan’s foreign direct investments in China, which have more than tripled between 1991 and 2003, especially in the new economic zones of southern China. In other words, the repetition of apologies sends to the dustbin of mass consciousness the fact that, despite Chinese anger towards Japan, and despite persistent anti-Chinese forms of Japanese ultranationalism in the present, Japanese capital is being exported to and invested in China on a vast scale to help Japanese big business extricate itself from its post-bubble recession. The cycle of apology rituals thus conceal the fact that Japanese imperialism, led by Japanese finance capital, is very unapologetically investing in Chinese soil and contributing to the exploitation of China’s working class, especially in China’s southern industrial cities.

Chinese capital, which is trying to figure out its identity in the so-called “socialist market economy”, is welcoming Japanese foreign direct investment despite the Chinese government’s repeated blues with the Japanese government’s continued disavowals of Japan’s imperialist, colonial, and fascist past. The function of the repeated apologies, however, displaces in thought this welcoming of Japanese capital, for to do otherwise would risk showcasing the staggering number of working class struggles in contemporary China that have been born precisely out of this kind of foreign direct investment in China’s post-reform economy.

Numerous scholars and critics have already pointed out the extent of these working class struggles. In 1994, there were already over 19,000 cases of labour disputes in China involving nearly 80,000 workers. By 2003, more than 800,000 workers were

involved in labor disputes, and by 2006, there were over 447,000 documented cases of labor disputes. As Simon Gilbert has shown, there are three prevailing kinds of labor unrest in China today [Gilbert, Simon. “China’s Strike Wave”, June 29, 2005, www.isj.org.uk]. The first kind, found mostly in northeast and southwest China, represent struggles by workers and pensioners of formerly state-owned firms who are struggling against waves of privatization, which has led to mass lay offs and undelivered worker benefits. The second kind are struggles led by workers in foreign funded manufacturing sweatshops and factories along China’s southern and eastern coast, and in cities such as Shenzhen. Here, female workers are leading the way, primarily against despotic management, unpaid wages, and forms of physical coercion and discipline [For an excellent ethnography of female worker struggles in Shenzhen, see Pun Ngai’s superb book, *Made in China: Women Factory Workers in a Global Workplace*, Durham: Duke University Press, 2005]. Lastly, male construction workers in China are leading enormous labor protests to combat myriad forms of capitalist chicanery in the public works business, where the prevailing demand by workers is for the payment of wages in arrears. In 2002, construction workers were owed a total of more than 2.2 billion *yuan* in unpaid wages.

In the present moment, the issue of Japanese apologies has extended beyond the geopolitical space of East Asia. At the same time, recent discussions and debates surrounding the apology issue continually fall short of exposing the ideological effect of repeated apology rituals. In the United States, the House of Representatives has recently considered a nonbinding resolution that would call for Japan to acknowledge and apologize unequivocally for its wartime sex slavery. More recently, and in a highly unusual move, the lower house of the Dutch parliament passed a unanimous motion in November 2007, urging Japan to apologize for, and financially compensate, the wartime use of women as sex workers during World War II.

However admirable and important it is to bring international pressure upon the Japanese government to come to grips with its imperialist, colonial, and fascist past, the problem nonetheless remains that the repetition of Japanese apologies effectively does two things that these contemporary discussions consistently fail to address. The apologies obscure the degree to which Japanese fascism and ultranationalism were not simply a wartime problem, but an historical reaction to international Bolshevism and domestic working class struggles in Japan since 1917. The repeated apologies also turn attention away from contemporary Chinese working class struggles and shift attention to various forms of anti-Japanese Chinese nationalism. What we see, therefore, is that the repetitive cycles of apologies/retractions/mobilizations, rather than expressing a sharp division between the Chinese and Japanese nation-states, in fact, serves the interests of both of their dominant classes. **R**

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# The Ever Changing World

Corvin Russell

*Shijie (The World)*, directed by JIA Zhangke (2004).  
143 minutes. Producer: Office Kitano.  
International Distribution: Celluloid Dreams.  
DVD release: Zeitgeist Films, 2006.

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Chinese director Jia Zhangke's 2004 film *The World* is one of the most moving and devastating critiques of neoliberal capitalism in contemporary cinema. Set in World Park, a Beijing theme park (which Jia has blended with Shenzhen World Window, in southern China) where famous world monuments like the Eiffel Tower or the Taj Mahal are recreated in scaled-down versions, the story centres on a troupe of young performers who work in the park, modelling stereotypical costumes and enacting hackneyed versions of dances from around the world.

The linchpin of the story is the relationship between Tao, a young dancer, and her boyfriend Taisheng, who is head of security at the park. Other friends and stories surround them and connect to them. Wei and Youyou are fellow dancers: Wei's boyfriend Niu is pathologically jealous; Youyou is calculating and ambitious, and ends up sleeping with the park's director. Mu. Taisheng, meanwhile, has a group of young men from his village to whom he is an older brother: the feckless and troublesome Erxiao, a security guard, and Sanlai and a young man nicknamed 'Little Sister,' who work at a construction site. All around the park and in the city there is the bustle of activity and construction. Work crews building and delivering goods while factory smokestacks rise in the background. The characters in the story have all come from the hinterlands to seek a better future in this Beijing.

## Globalization's Spectacle: Seeing Without Tasting

The film begins with a striking sequence, as the young performers are dressing for a show. Tao is in an Indian *bharatanatyam* dance outfit, walking down a corridor asking repeatedly and loudly for a band-aid for her foot. We glimpse an atmosphere with lots of energy, colourful costumes, smiles and joking. Tao is brash and immediately seems bright, lively, moral, independent and likeable. Between the performers there is a lot of camaraderie. But the rest of the story is also foreshadowed in a rapid succession of images. After the band-aid sequence, we see the troupe's performance on stage, which is a spectacle of glitz and caricatures out of fantasies of foreign lands. Traditions are reduced to a pastiche of shallow gestures, caricatures for the most transient consumption.

The park's cultural offerings encapsulate the 'sham cosmopolitanism' of globalization, as one critic calls it: our menu

of choices becomes more prolific, but increasingly superficial. As the title sequence ends, the camera cuts to the empty change room corridor, retreating. Shortly after, a passing shot of a peasant or labourer shouldering a load, against the hazy, distant Beijing skyline evokes the vanishing of tradition against the vast, impersonal forces of modern capitalism. This sequence of images very compactly establishes one of the basic tensions in the movie: World Park as a kind of virtual reality offering an utterly unsatisfying fantasy of happiness through consumption and reproduction of a shallow imaginary, on the one hand, and the utter emptiness of lived experience, on the other.

This will bear out in the story arc, too. Slowly, the horizons of all the characters diminish. Wei ends up marrying her abusive, jealous boyfriend. There is nothing new to capitalism about a jealous boyfriend and a dysfunctional relationship, but even in a world where people are supposedly free to choose love, the choices are constrained by other forces. Youyou sleeps her way into a promotion, but finds it utterly unsatisfying, as she confides to Tao. In the first scene, smiles and camaraderie seem genuine; by mid-movie, the women have a party where they are 'trying to be happy'; and by the end of the movie, at the wedding of Wei and Niu, the fun is desperate, but mandatory for all that. The theme song of the park is 'Ode to Joy.'

## What We Love is Far Away

Soon after the opening sequence, Tao receives a visit at work from her ex-boyfriend, Liangzi, who is backpacking to Mongolia. Alone among the characters, he seems to be a free spirit, laconic and uninterested in superficial consumption. But even he contributes to the sense of rootlessness and anomie, where everyone comes from somewhere else and wants to be somewhere else. His departure shrinks the world of those left behind and begins one of the ongoing counterpoints in the movie: between the scale of the world 'out there,' the vast impersonal forces that operate on the characters, and the small scale of the replica world in which they live their petty, disappointing lives. Tao at one point says she doesn't know anyone who has been on an airplane, yet she portrays a flight attendant on a grounded airplane that gives visitors to the park an experience of "the magic of air travel." Those who do travel abroad belong to a strange and distant, or very lucky, class. →



As the movie unfolds, the hopes of Tao and Taisheng unravel in a series of devastating blows. Early on, a group of Russian women arrives to join the troupe. The subtext is that they have been smuggled in, and their arrival alludes to a globalized regime of cheap, exploited labour of all kinds. Tao befriends one of the performers, named Anna, who at one point is seen to have welts on her back. Anna's dream is to visit her sister in Ulan Bator, whom she has not seen since her marriage. In *The World*, what one loves and wants is far away. Anna and Tao, who can't understand each other's language, make a fast emotional connection. Anna goes on to become a sex worker for businessmen in a hotel. When Tao discovers this, she is devastated. Yet for a time, even as her illusions about the way the world works are shattered, she holds on to a faith in human relationships as a refuge.

Taisheng, meanwhile, has an affair with Qun, the sister of a dubious business associate of his. She runs a shop that makes knock-offs of the latest foreign fashions. Her husband has been in France for 10 years, one of the survivors of a group of people smuggled in. There is disappointment in both of them – when Taisheng arrived in Beijing he pledged that he would become someone, but now he is a security guard. Taisheng and Qun find solace and eros in each other's company. Qun leaves for France to rejoin her husband, but without any romance about what that life will be like.

### **Three Yuan to the Noodle Stand in Front of the School**

While visiting Qun, Taisheng receives an urgent text message that Little Sister has been hurt. He rushes to the hospital, where Little Sister lies dying. He had been working overtime at the construction site when a cable snapped, dropping steel on him.

Sanlai, Little Sister's protector from their home village, is also at the hospital. Little Sister manages to write the last words he urgently wants to communicate. It is a list of his small debts: what, in this world, his whole life reduced to. Sanlai breaks down and Taisheng is blank, devastated. Tao is sent to fetch Little Sister's parents and cousin from their hometown. They come to Beijing to receive the compensation for their son's death.

The company man, dressed in suit and tie, sits at his desk surrounded by ledgers, files and a computer, not showing the least compassion for Little Sister's parents, who are dressed in simple peasant garb. They don't speak a word, but grief is written on their faces and resounds in their silence. As the father puts the money in his jacket, he closes his jacket up with care pregnant with grief, and finally, wipes moistened eyes. His wife is utterly silent and almost motionless. It is a shattering scene. Afterwards, we see the parents sitting silently, late into the evening, at the vast grid of a construction site where Little Sister worked and died.

### **The Structure of Emptiness**

From there, the film moves relentlessly to its denouement, which comes as no surprise. The ending is perhaps the most forced moment in the otherwise masterfully balanced counterpoint of the film. Throughout the film, Jia uses architectural space and urban space as an objective correlative of the inner emptiness and alienation the characters experience, lingering on shots of distant cityscapes, or the arid geometrical grid of concrete pillars on a huge construction site. Empty roads, highway interchanges and long corridors recur – often with a retreating camera – to suggest a disappearing horizon. He makes use of off-screen dialogue to create a sense of space beyond the camera and uses idle periods

to connote the emptiness of experience. The powerful soundtrack by Taiwanese experimentalist Lim Giong is used judiciously to show the characters' mood, but in the most wrenching scenes there is no music at all. Jia's craft keeps the complex repertoire of characters, motifs, and themes woven together with subtle devices to preserve the sense of flow.

The ubiquitous intermediation of technology and the image is embodied in the pervasive and highly personal use of cell-phones and text messaging. Throughout the movie, text messages are used in an interesting way as transition devices. Jia shows the text in Flash animation on the screen, often giving way to an animated fantasy sequence that reveals the inner feelings of Tao and Taisheng, taking them away from the world around, expressing their desire for freedom from it and emphasizing the tension between the inner space of fantasy and the reality of life. The animation always separates the audience from the material world of the film. As the film moves on, the animations become less dreamy and much darker. When Tao discovers Taisheng's unfaithfulness by reading Qun's text to him during the wedding party, we see and hear fish moving in dark water as the noise of the party disappears.

### Feeding the Fantasy

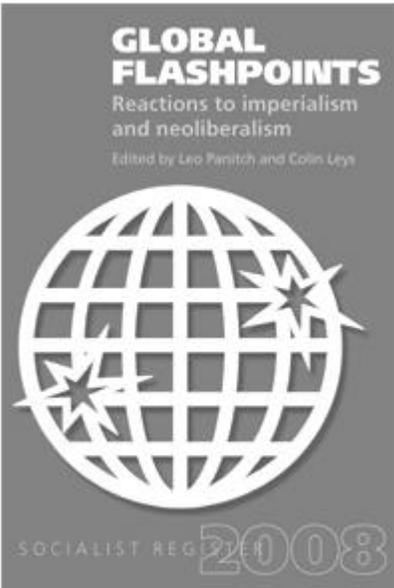
The border between fantasy and real experience is constantly shifting and layered, from the spectacle of the park to the inner dreams of the protagonists. But these are seen to be mutually conditioned – as each fantasy feeds the other – while experience exposes their limits. Modernity promises that in liberation from tradition we can forge a new identity, a new narrative in the “smithy of our soul.” Hearts search for the meaning that capitalism promises but ultimately denies through a substitution of post-modern allusions to meaning and culture; self-fulfillment is de-

ferred, and consumption takes its place. Shopping bags from expensive stores are a common motif, as the performers bring their purchases home to cramped and spartan living quarters. Expensive clothing is handwashed in a common sink area, with hot water from a flask. Underneath the spectacle, people must be fed, clothed and watered, and the labour of production goes on, with all the human tragedy it entails.

Is fantasy capable of sustaining capitalism? The movie answers with a double pessimism. Fantasy can't sustain the belief in capitalism and its promise is belied by the emptiness of lived experience, where meaning is snatched from the recesses capitalism has failed to scour. The glittering image subjugates performer and audience, desire, and desired, within a historical process of self-negation that promises self-becoming. But at the same time, capitalism is stronger than all the individual disappointments and despair in the world, so long as these remain individual. Individual self-expression and authenticity are impossible, but politics and democracy as alternative subjectifications are notable only by their complete absence from *The World*, which has moulted from the hyper-collectivised social order of Maoist China. The lesson of this film, like that of *Madame Bovary* and much of art since then, is: conform to bourgeois social norms or die; and even conformity is a kind of death.

The transformations the film touches on go beyond China and beyond the specific experience of neoliberalism. The last section of the film is called ‘The Whole World is Changing’ and there are understated allusions to even broader changes on the horizon, as Tao remarks twice on the strange absence of snow. In the last moment of the film, Taisheng asks Tao: “Are we dead?” She answers, “No. This is only the beginning.” **R**

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# Who is Imagining Pan-East Asian Culture?

laam Hae



Since the 1990s, transnational flows of pop culture have steadily increased in the East Asian region. Cultural products made in Japan, Korea and Taiwan have been exported to countries like China, Vietnam, Cambodia and Thailand. Enthusiastic ‘fans’ have been produced in these latter countries and have become major subculture phenomena in their own right. To be sure, American pop culture enjoys a great deal of popularity across most parts of Asia. But East Asia transnational cultural flows are increasingly seen as attractive, appealing, and modern, and as an attractive alternative to American pop culture. In 2004, for instance, Chinese television broadcasted more than 100 Korean shows and soap operas, most of which were hugely popular.<sup>1</sup>

In ever greater numbers, youth in countries like China, Cambodia, Vietnam and Indonesia are tuning in to J-pop and K-pop, characterized by cool, up-tempo dance beats, and fancily-clad young Asian idols. The popularity of these Japanese and Korean pop cultures has also triggered a dramatic increase in the ‘conspicuous consumption’ of electronics, automobiles and fashion brands produced in Japan and Korea. The Korean pop culture trend called *Han-liu*, for example, has resulted in an increase in sales of the Korean-made Hyundai cars in China. Similar trends are apparent in the case of Samsung flat-screen computers and LG air-conditioners and microwave ovens.<sup>2</sup>

## Pop Culture & East Asian Regionalism

Many see these new pop cultural linkages – the focus here being on Japan, Korea and China – as having a positive impact on regional economic cooperation in East Asia. Quite a few policymakers argue that the linkages serve as a platform for a ‘spirit of common sense’ among East Asians, with Asian pop culture paving the way for the creation of regional unity that would

later serve to develop East Asian regional integration in a manner parallel to the European Union.<sup>3</sup>

Among some academics, the development of pop cultural linkages among East Asian countries serves as a vindication of the viewpoint, prevalent in particular among cultural studies scholars, that globalization does not necessarily create a homogenous cultural zone dominated by US pop cultures.<sup>4</sup> For such academics, the pop cultural boom across East Asian countries is a signifier of the power of local and regional cultures. But how well do such perspectives explain the material and social forces behind the regional cultural integration of East Asia?

It has been common to argue that so-called ‘Asian values’ have enabled East Asians to more easily accept pop cultures developed in other East Asian countries in recent years. Han Zhenqian, a professor at the Korea Research Center at Peking University in Beijing, contends that, “Chinese and Koreans have a lot in common in their ideology system. Both countries are based on Confucian philosophy... So lots of plots and conflicts in Korean dramas can be easily understood by Chinese audiences, such as stories of parents interfering with children’s marriage.”<sup>5</sup>

Students of Japanese pop culture have argued in a similar vein. The success of Japanese pop culture in East Asia, they suggest, is predicated upon the “cultural proximity, between countries in East Asia, such as ‘shared sensibilities’” and the “East Asian psyche.”<sup>6</sup> Such assessments resemble nothing so much as Samuel Huntington’s culturalist ‘clash of civilizations’ thesis. They posit traditional cultures, or value systems, as in their essence resistant to change, and, more or less, ‘fundamental’ in explaining a particular region and its populations.

These discourses leave out important questions related to the political economic changes in East Asian countries that have

enabled these pop cultural linkages. The Korean or Japanese soap operas and films may carry 'Asian' themes that might appeal to Chinese people, such as issues related to 'family relations'. But the more alluring aspects of such dramas are undoubtedly the stylish visuals and personas closely associated with trendy and 'cool' urban lifestyles represented in the images of megacities like Seoul and Tokyo in these soap operas and films. The most appealing aspect of Japanese and Korean pop music for Chinese youth is the upbeat dance music and fashions associated with dance music idols or hip-hop artists. As Iwabuchi Koichi argues, what Japanese or Korean culture promises to Chinese audiences is not only the traditional, common sensibilities, but rather the 'modern' that the landscape, lifestyle and personas in such pop cultures embody.<sup>7</sup>

The modern landscapes represented in Japanese and Korean pop cultures are oriented toward a sophisticated and spectacular consumerism. The media coverage of Chinese people seeking 'inspiration' from Korean pop cultures invariably conveys Chinese voices that admire Japanese or Korean cultures as the epitome of an advanced consumerist society.<sup>8</sup> As with the American pop culture broadcast to Japanese and Korean people in the 1970s and 1980s, the Japanese and Korean pop culture being broadcast to China seems to provide the promise of a 'glorious and affluent' consumer society that will come to all of China in the near future.

The audiences for Asian pop culture cuts across Chinese society. But it is the middle classes, particularly in the large metropolitan areas, which have been responsible for the boom of the Japanese and Korean pop cultures in China. The Chinese transformation to an increasingly open market economy has propelled growth of consumerism among the affluent urban middle class – equipped with purchasing power and ample leisure time, particularly in the cities that have experienced rapid economic growth – that has been most striking.<sup>9</sup> According to Otmazgin, an increasing cultural awareness and desire for 'advanced' pop cultures amongst these middle classes in China has also generated a demand for more sophisticated consumer goods that have been developed in neighboring countries, as well as in the USA. This 'conspicuous consumption' has fueled the massive import of pop cultures made in Japan and Korea into China (and across East Asia).

The new middle classes are not simply spectators of Asian-pop, but also active consumers of the products associated with it. The affluent middle class population purchases clothes, fashion accessories, mobile phones and even automobiles made by Japanese and Korean companies incorporating pop cultural icons. This can be seen in the ubiquitous 'Hello Kitty' imagery or the Korean film actresses becoming popular in China and used as marketing and branding tools for their products. Indeed, a new tourist market has arisen as these middle classes visit Japan or Korea to glimpse the film or soap opera sites that they have watched on television in Shanghai or Beijing. And some even travel for cosmetic surgery in order to look like the actors in films or soap operas.

## **Media Alliances & the Making of the East Asian Cultural Market**

The popularity of Japanese and Korean pop culture has generated alliances between media companies in East Asia in an effort to create a regional cultural market as a field for new investment and capital expansion. There are numerous examples of this phenomenon: Pan-Asian movies, Channel V's broadcasting of 'Asian music,' Sony's Asian pop music compilations and Star TV's broadcasting of Asian dramas. These media alliances underpinning the East Asian regional market for pop cultures are the main forces creating the imagery of modern 'East Asia'. The media provides the cultural content to bolster such an imaginary amongst the middle classes, and especially youth. The dominant discourses celebrate the promise of pop cultural linkages in East Asia in facilitating the creation of the pan-East Asian community.

But such discourses do not address vital questions: what constitutes the new East Asian imageries, who are the main players in realizing such imageries of East Asian communities; and, importantly, who are left out and marginalized in the process. The East Asian imagery is largely being created around entertainment like pop cultures and film and video. These are primarily oriented toward elite and middle-class-consumption. The other issues that plague East Asian populations, such as growing social polarization and uneven development, are neglected for a celebration of the consumerism prevalent in the major urban centers. More fundamentally, the colonial past, the current geopolitical conflicts and the nuclear militarization of the dominant countries of East Asia is simply ignored. The real politics of East Asia are disregarded by images of a consumer utopia bringing a 'spirit of common-sense' and regional unity among East Asians.

The academic cultural studies celebration of the creation of an East Asian cultural community is premised upon such imagery. The formation of the East Asian cultural region has vindicated the notion that the world's popular cultural scene is increasingly diverse. The notion that globalization means homogenization by American cultural products is, in this view, patently false. But the analytical, and indeed political, feasibility of rejoicing in an East Asian cultural market in contradistinction to a U.S.-dominated cultural market is quite tenuous. The Japanese and Korean pop cultures associated with the imagery of East Asian urban lifestyles are, for instance, a hybrid of Asian and western cultural values. The 'hipness' and certainly consumerism in Asian pop cultures, in spite of their Asian 'feel', are not radically different from what is present in Western pop culture. The regional market for East Asian cultures is, so to speak, merely a niche of the global pop market, dominated by American cultural industries and imageries, which increasingly focus on delivering the 'consumerist lifestyle' to its targeted audience of a global middle class. →

## The Capitalist Production of Asian Pop Culture

The production of pop cultures in Japan and Korea, and its transportation to China and other developing East Asian countries, faithfully follow the Western capitalist model of industrial production and overt commercialism. Korean pop culture has, for example, overtly commercialized and commodified talent, beauty and sex. K-pop has been rightly dubbed an 'idol factory' that constantly reproduces images of trendy stars. These icons, in turn, become standardized elements of fantasy and move from cultural industries to related commercial fields such as film, fashion, and so on.

The dominance of such pop culture systems has been criticized as being responsible for the demise of the 'meaningful' – that is, traditional and contemporary artistic production that is non-commercial and dependent upon extra-market resources – cultural scene in Korea. As financial and speculative capital in Korea and Japan increasingly enter into culture industries, the production of pop culture in Korea now, more than ever, follows the logic of profit. This means that while the 'national' and 'local' content of these cultural commodities may be differentiated from

U.S. pop culture, it is not at all clear how they are that much different from the ones produced in western societies. It is the capitalist logic of cultural commodification, with its crass commercialism and materialist hunger for profits, that dominates in both cases.

It also needs noting that Asian pop culture has at times reinforced nationalist conservatives in both Japan and Korea in adopting a cultural imperialist approach. This is what Iwabuchi has called 'Oriental Orientalism.'<sup>10</sup> They have interpreted the popularity of their national pop cultures as demonstrating their own cultural superiority over other countries in East Asia. The imagery of East Asian cultural linkages may have the look of 'unity' and even an "alternativeness" to U.S. pop culture; but it may well be fraught with a dangerous chauvinism alongside its crude commercialism.<sup>11</sup>

## An Alternative East Asian Imagery

In opposition to this type of cultural regionalization in East Asia, progressive and socialist scholars and cultural activists in Korea, Taiwan, and Japan have tried to form an alternative regional paradigm in East Asia. Some of these examples include the



Center for *Asia-Pacific/Cultural Studies* coordinated by Kuanhsing Chen at the National Tsing-Hua University in Taiwan, and the *Forum for the East Asian Cultural Community* headed by Young-bok Shin and Won-dam Paik at Sung-Kong-Hoe University in Korea. The latter has promoted discussions over the history of Western imperialism, capitalist exploitation and *Minjung* (grassroots) movements shared by East Asian countries. They have insisted on exploring new identity-formation in East Asia through regional anti-colonial and anti-capitalist projects in the region. This is quite distinct from the neoliberalism driving the current regionalization initiative in East Asia, and the pop culture imagery of elite and middle-class consumerism.

The *Forum* has worked to introduce 'Line 1' to China, an originally German musical adapted in Korean, and directed by Min-ki Kim, a musician, director and activist who has been involved in the *Minjung* movement. The musical was expected to be an opportunity to create a forum between Korean and Chinese people to discuss the problems of uneven development,

pauperization and alienation that capitalism has created in Asian cities. These were the main subjects of the musical, based on the lives of marginalized people living in Seoul, in the shadow of the spectacular growth of consumer society. Members of the Chinese audience have stated that the musical has introduced an alternative Korean pop culture to their country, and highlighted the rarely-revealed reality of the struggles of people on the margins living in Seoul.

Sharing cultural products like 'Line 1' and starting discussions over the geo-political and social realities of East Asia are important steps to creating a genuinely alternative anti-capitalist and anti-imperialist imagery of the East Asian region. The enthusiastic welcome this musical received in China demonstrates that the creation of such imagery is entirely possible.

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## Notes

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<sup>3</sup> See: "A new Asia finds itself," *Newsweek*. December 27, 2004.

<sup>4</sup> For example, Nissim Kadosh Otmazgin, "Cultural commodities and regionalization in East Asia," *Contemporary Southeast Asia*, 27: 3, 2005.

<sup>5</sup> "Bond grows between China, South Korea" *Los Angeles Times*, May 29, 2005.

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<sup>7</sup> *Recentring globalization: popular culture and Japanese transnationalism*, Duke University Press, 2002.

<sup>8</sup> Norimitsu Onishi, "China's youth Look to Seoul for inspiration," *New York Times*. January 2, 2006.

<sup>9</sup> Richard Walker and Daniel Buck, "The Chinese road: cities in the transition to capitalism," *New Left Review*, 46, 2007.

<sup>10</sup> "Uses of Japanese popular culture: trans/nationalism and postcolonial desire for 'Asia.'" *Emergences*, 11:2, 2001.

<sup>11</sup> See in Korean: Hye-Jeong Cho-Han, ed., *Korean Wave and Popular Culture in Asia*, Yonsei University Press, 2003.

# VENEZUELA: NOT WHAT YOU THINK

Robin Hahnel

In the case of Hugo Chavez and the Venezuelan Bolivarian Revolution the mainstream media and politicians in the United States have elevated their game of demonizing all who oppose US foreign policy and business interests to a higher level of absurdity than usual. According to the mainstream media the only newsworthy stories in Venezuela are one sided diatribes lifted from the discredited, opposition-owned media in Venezuela. For example, we read about Chavez shutting down opposition TV stations. We hear that Chavez is rewriting the Venezuelan Constitution so he can be President for life. Chavez is a dictator, QED.

All the badly outgunned, alternative media in the U.S. can do is try its best to rebut the bias in the storylines defined by the mainstream media. The tiny fraction of Americans who visit the alternative media discover that Chavez has submitted a *proposal* to change the Venezuelan Constitution in a number of ways, *one* of which is to eliminate term limits on the office of President. All changes will first have to be approved by the democratically elected Venezuelan National Assembly, and then also approved in a popular referendum before they become law. Only Americans who search out the alternative media discover that Hugo Chavez was elected President by a comfortable margin in 1998, survived an opposition sponsored recall in 2004, and most recently was re-elected in December 2006 with more than 60% of the vote. International observers certified all three elections as fair and square. George Bush, on the other hand, was selected President by a partisan Supreme Court after losing the popular vote in 2000, and won re-election only because enough black voters in Ohio were disenfranchised by a partisan Republican official to keep the Buckeye State in the Republican column in 2004. Few observers believe Bush could survive a recall election today, but of course this basic element of democratic rule is not permitted by the U.S. Constitution. Nonetheless, the only storyline ninety-nine percent of Americans hear remains: Hugo Chavez is a dictator and George Bush is the democratically elected leader of the free world.

Similarly, only the small fraction of Americans who access the alternative media learn that RCTV was *not* shut down because it campaigns openly against the government – which it has for nine years. Instead, when its license came up for renewal its application was denied because it had violated 200 conditions of its licensing agreement – many violations having to do with its role in helping to organize an unconstitutional military coup that nearly toppled the duly elected President of the country. Moreover, the station continues to broadcast on a cable network, and the opposition in Venezuela still broadcasts on more major TV channels than there are channels sympathetic to the government. In

stark contrast, the alternative media in the U.S. cannot be viewed on any major channel. Consequently the vast majority of Americans receive all their news from a mainstream media which never questions whether the U.S. has any right to dominate other nations, but only debates the wisdom of alternative strategies for doing so, and would never dream of questioning the desirability of an economic system dominated by their corporate owners. Nevertheless the storyline most Americans hear remains: Freedom of the press is dead in totalitarian Venezuela, but alive and well in the democratic United States.

It is important to distinguish between whether mainstream coverage of issues like amendments to the constitution and the TV license is biased, whether there are grounds for reproaching the Venezuelan government, and whether the policies are wise. Clearly the mainstream media has failed to report relevant facts and their coverage has been grossly unfair. From what I know, the procedure that led to non-renewal of the TV license was unobjectionable, and the proposed constitutional amendment will be decided by a thoroughly democratic process. So while there are ample grounds for reproaching mainstream media coverage in the U.S., as far as I can see there are no grounds for reproaching the Venezuelan government in either case. However, this does not mean the policies are necessarily wise. Those in Venezuela who argue that the revolutionary government would be hammered by the imperial press in any case are surely correct. On the other hand, that does not mean either initiative is good policy, independent of the news coverage it receives. Moreover, giving one's enemies an easy chance to focus on a negative storyline seems unwise – unless the policy has important benefits.

Unfortunately, the fact that only a tiny fraction of the American public are ever exposed to balanced coverage of the Venezuelan stories defined by our mainstream media is only one problem. A larger problem is that practically nobody in the United States ever hears anything about truly newsworthy stories in Venezuela. Stories about exciting new political and economic initiatives that are dramatically reducing poverty and challenging popular myths about the abilities of ordinary people to make good political and economic decisions for themselves go virtually uncovered in the United States. I intend no criticism of alternative media coverage of Venezuela. For the most part the alternative media does the best it can given the restrictive conditions under which it operates. In particular, [www.venezuelanalysis.com](http://www.venezuelanalysis.com) provides high quality, professional coverage of Venezuela on a regular basis.

I speak fluent Spanish, have lived and worked in Latin America on two occasions, and have traveled extensively in Latin America

for over forty years. One of the few Latin American countries I had never visited before a year ago was Venezuela. I have now made two trips to Venezuela in the past nine months at the invitation of the Centro Internacional Miranda.

I was in Caracas for one week last October – before the December 2006 presidential elections that provided Chavez with a popular mandate to pursue a more aggressive socialist agenda. During that visit I met with officials in the Planning Ministry and faculty and students in the planning ministry school. I had long discussions with people at the Miranda Center working on projects in critical pedagogy, participatory budgeting, new models of production, human development through popular participation, new forms of political participation, and new models of socialism for the twenty-first century. I also visited health clinics, subsidized food distribution centers, community radio stations, and adult education centers in poor neighborhoods in Caracas.

During a two week visit in July 2007 I visited the rural state of Lara as well as Caracas. In Caracas I participated in numerous seminars and meetings at the Miranda Center, attended an adult education class at the new Bolivarian University, met again with officials in the Planning Ministry and students in the planning ministry school, met with officials in the new Ministry for the Communal Economy, and visited with workers in a “recuperated” factory and activists in a “nucleus of endogenous development.” In Lara I attended meetings of three rural communal councils, a meeting of spokespersons from ten other rural communal councils, a meeting of spokespersons from all the communal councils in the town of Carora, and talked with citizen directors of a communal bank. I also met with the mayors of Carora (state of Lara) and Libertador (state of Carabobo) who pioneered participatory budgeting initiatives in their municipalities. What follows is an account of some stories I believe many Americans would find truly newsworthy.

## Economic Progress

Like most Latin American economies, the Venezuelan economy deteriorated during the 1980s and most of the 1990s. From 1998 to 2003 real per capita GDP continued to stagnate while the Chavez government survived two general strikes by the largest Venezuelan business association, a military coup, and finally a devastating two month strike by the state owned oil company. However, after Chavez survived the opposition sponsored recall election, annual economic growth was 18.3% in 2004, 10.3% in 2005, and 10.3% in 2006, and the unemployment rate fell from 18.4% in June 2003 to 8.3% in June 2007. Moreover, most of the growth was in the non-oil sectors of the economy, as the oil sector barely grew during 2005 and 2006. While this impressive growth would not have been possible without the rise in international oil prices, it also would not have been possible had the Chavez government not ignored the warnings of neoliberal critics and pursued aggressive expansionary fiscal and monetary policies.

At the height of the oil strike the poverty rate rose to 55.1% of households and a startling 62.1% of the population. However,

by the end of 2006 the poverty rate had declined dramatically to 30.6% of households and 36.3% of the population, which compares favorably with a pre-Chavez rate of poverty in 1997 for households of 55.6% and for individuals of 60.9%. While much of this decrease in poverty was due to strong economic growth, it was also due to a dramatic increase in social spending by the Chavez government. Social spending per person by the central government increased by an average of 19% per year from 1998 to 2007. However, this does not include social spending by the state owned oil company. If social spending by PDVSA is included, there was an increase of 35% per person per year since 1998.

The most dramatic increase in social spending was in the area of health care. In 1998 there were over 14,000 Venezuelans for each primary healthcare physician, and few physicians worked in rural or poor urban areas. By 2007 there was one primary healthcare physician for every 1,300 Venezuelans, and many of the new physicians were working in clinics in rural areas and poor barrios that had never had physicians before. There are also now 16,000 stores in poor areas throughout the country selling staples at a 30% discount on average.

## Building the Social Economy

**Reforms First:** For eight years the Chavez government went out of its way not to threaten the private sector. Despite relentless hostility and numerous provocations from the Venezuelan business association and the privately owned media, there were few nationalizations and the state sector did not grow appreciably. While the government did launch a serious land reform, the program proceeded more cautiously than government rhetoric and landowner complaints would lead one to expect. Instead, Chavez concentrated on redirecting profits from the state owned oil company to social programs to benefit the poor, and financing development of what the government called the “social economy.” In addition to increasing spending dramatically on healthcare and food subsidies, the government launched a massive program of adult education. Millions of poor Venezuelans have now overcome illiteracy, and hundreds of thousands have received →

### Further Impressions of Venezuela

John Riddell and Suzanne Weiss, members of Socialist Voice, visited Venezuela from November 19 to December 2, 2007, during the referendum campaign. Visit the Toronto-based Venezuela, We Are With You's blog for their commentary and pictures.

[venezuelawearewithyou.blogspot.com](http://venezuelawearewithyou.blogspot.com)

primary diplomas and secondary degrees studying in store-front schools named Mision Robinson I (literacy), Mision Robinson II (primary), and Mision Rivas (secondary.)

But none of this addressed the high rate of unemployment and the most pressing economic needs of those who had voted Chavez into office. The business sector was hostile to the Chavez government from the outset and oscillated between economic sabotage and capital flight. So the private sector could not be relied on to increase investment, production and employment. Nor was extensive nationalization an attractive option because Chavez wanted to avoid provoking the business community unnecessarily, and there was a shortage of competent officials who were also politically trustworthy to run more state enterprises. Moreover, neither Chavez nor his closest associates were enamored of the “state socialist” model. So increasing employment by expanding the state sector was also not seen as a desirable option. Determined not to renege on electoral promises to better economic conditions for his supporters as many populists in Latin America have in the past, Chavez launched a massive program to create worker-owned cooperatives in both rural and urban areas.

**Cooperatives:** New worker-owned cooperatives not only provided much needed jobs producing much needed basic goods and services, they also featured what was soon to become a hallmark of Bolivarian socialism – popular participation at the grassroots level. When Chavez was first elected President in 1998 there were less than 800 legally registered cooperatives in Venezuela with roughly 20,000 members. In mid-2006 the National Superintendence of Cooperatives (SUNACOO) reported that it had registered over 100,000 co-ops with over 1.5 million members. Generous amounts of oil revenues continue to provide start-up loans for thousands of new cooperatives every month and the Ministry for the Communal Economy continues to spearhead a massive educational program for new cooperative members. However, the ministry provides more than technical assistance regarding technology, accounting, finance, business management and marketing. It also teaches participants about cooperative principles, economic justice, and social responsibility.

**Participatory Budgeting:** Even before the December 2006 referendum provided Chavez with a popular mandate to deepen the social revolution, the government had moved ahead to add participatory budgeting and local economic development initiatives called “nuclei of endogenous development” to the educational Misiones, subsidized food stores, and worker cooperatives comprising the social economy. Three international experts on participatory budgeting in other countries were part of the Miranda Center work team during my visit in July. Richard Franke (USA) shared his research on the history of participatory budgeting in Kerala India, and Marcos Arruda (Brazil) and Daniel Schugurensky (Canada) shared their research on participatory budgeting in Brazil with those developing the program in Venezuela. What was clear to all of us was that while the practice of participatory budgeting may be more advanced in Kerala and Brazil where decades of experience has helped people learn how to deal with important practical problems like how to combine technical expertise about

public work projects with popular determination about priorities, the prospects for participatory budgeting in Venezuela are much greater.

A hostile national government in India limits how far the left united front government in the state of Kerala can take the program there. And unfortunately the Lula government in Brazil has done little to build other elements of a “solidarity economy” to compliment participatory budgeting, and even damaged the reputation of participatory budgeting by using it to administer austerity measures. In Venezuela, on the other hand, the President and Congress are now fully supportive of participatory budgeting and busy building complementary components of a full scale “social economy.” In Venezuela participatory budgeting is viewed by many not merely as a better way to make decisions about local public goods, but as part of a process to democratize all aspects of economic life. Not surprisingly some local officials have resisted participatory budgeting because it challenges their traditional powers and privileges. Others, like the mayors of Carora and Libertador who turned all municipal revenues over to neighborhood assemblies to use as they saw fit, have embraced the program as well as the changes it brings to the role of mayor.

**Communal Councils:** After the referendum in December 2006 a major campaign to organize and empower communal councils was launched as a new step toward building the social economy. The Ministry of Participation and Social Development, MINPADES, worked to establish the initial components of the social economy. In 2004 the Ministry for the Popular Economy, MINEP, was created to help build new components of the social economy. When the government decided to create communal councils in every neighborhood MINEP was strengthened and renamed the Ministry for the Communal Economy, MINEC. After lengthy debate it was decided that communal councils should be comprised of 20 to 50 households in rural areas and 200 to 400 households in urban areas. Since communal councils are the building blocks of a whole new political structure in Venezuela, it may seem odd that sometimes they are comprised of fewer than fifty families in rural areas. The small size was chosen to ensure that every family, even in rural areas where small villages are often distant from one another, would have a real chance to participate in the most fundamental political decisions that affect them.

All the rural communal councils we visited in the state of Lara had decided that housing was a high priority. Each went through the difficult process of deciding which families would get new houses since there was not enough to provide new houses for all. We asked the members what criteria they used. We asked about nepotism. We asked what happened to families who were disappointed and disagreed with the decisions. While answers varied, the major criterion taken into consideration was need – the state of a family’s existing housing and the number of children. While all tried to reach consensus, in some of the communal councils votes were taken, and in some cases those who were disappointed threatened to leave.

A major difference between councils was how far they



stretched their housing budget by providing materials locally, reducing the number of rooms, or providing labour. In one case a council member was a builder himself who was able to oversee much of the building by community members, thereby stretching the housing budget the farthest. The builder did not receive one of the new houses because, we were told, his house was predictably in decent repair. He said he was not disappointed because he was confident he would receive a new house next year, or the following, after others whose houses were in worse repair got theirs. In another council the disappointed family who had threatened to leave was talked out of it, in part because they thought they had a good chance of getting a house the following year.

Other projects varied a great deal. One communal council built a facility to raise chickens – against the advice of a government agronomist who thought they would be better off upgrading their facilities for goat herding. We asked who would work in the new communal chicken farm, how they would be paid, and how profits would be shared. It was clear from their answers that all of that remained to be thought through, although everyone agreed

that not all would be expected to work in the communal chicken business since some had paying jobs outside the community that nobody expected them to give up. Several councils had mud roads paved over so people would be able to get out to a main road during the rainy season. One built a health clinic. Both these projects required coordination with outside agencies. Council spokespeople lobbied the municipality to pave more of their mud roads and only used communal council funds to pay for the remainder. The ministry of health had to be consulted about staffing the clinic. One communal council decided to build a community building for meetings and festivals.

The meetings we attended were well attended – with representation from over half of the households. That was frequently not the case initially, as facilitators – often municipal employees who had previously worked in educational Misiones – had to help communities organize a second meeting after attendance was poor at the first meeting. Choosing more convenient meeting times, passing out more flyers, and knocking on more doors was often necessary, but making clear residents would →

forego significant funds unless they created a communal council eventually led to functioning communal councils in every community in the municipality. Every communal council had elected a *vocero*, or spokesperson, and a *suptente*, or substitute spokesperson for each theme decided by the communal assembly (for example, health, recreation, electricity, etc.). Of the roughly two hundred spokespersons we met in rural communal councils and urban communal councils in the town of Carora, a disproportionate number were poor women of color with several children. Most of them had only recently become politically active. Almost all of them were strongly Chavista. A disproportionate number of facilitators in the municipality were younger women from working class families who had some college education, who were also strongly pro Chavez.

One spokesperson we interviewed extensively was a middle-aged white man who appeared to be the wealthiest person in his community and was active in an opposition political party. His neighbors were fully aware of his political allegiance, which few of them shared, but expressed complete trust in his integrity and described him as the person in the community who was best at getting things done. For his part, he expressed strong support for participatory budgeting and communal councils for which he credited Chavez and the Chavista mayor of Carora. But he said he had no intention of quitting his opposition political party or becoming a Chavista himself.

**Activists, Politicos and Experts:** While it is important to focus on what is happening on the ground, and what activists in different parts of the social economy are thinking, one should not ignore the influence of politicians and ministries that affect the social economy. More than anyone else, of course, Chavez has the greatest affect on the political agenda in Venezuela and especially on initiatives in the social sector. My impression from his speeches and from what senior fellows at the Miranda Center who are familiar with his thinking have told me, is that Chavez is both the leader of the entire Chavista movement, but also the leader of its radical wing. Over the past nine years Chavez has frequently led the charge to deepen the process of social change – often through new initiatives in the social economy. In this respect the role played by Chavez has been similar to the role Mao played in China during the 1950s and 1960s when he was both the head of government and the party, but also the leader of the left wing faction within the CCP (I am *not* likening Chavez to Mao in any other way, and certainly not suggesting that Chavez is a “Maoist”).

What we might call the “Chavista camp” is an amalgam of small left parties and groups that initially included some small centrist and center-left parties as well – all predating his election – and a much larger diverse group of activists politicized by different campaigns and programs launched by his government. Although there is now an attempt underway to create a unified Venezuelan socialist party comprised of all who typically refer to themselves simply as “Chavistas,” one of the defining features of the last nine years has been the absence of a unified socialist political party driving the political process – for better or worse. A discus-

sion of the pros and cons of attempting to organize a unified socialist party is beyond the scope of this essay. The initial local meetings of the five million Venezuelans who signed up to join the new party were just beginning during my visit in July.

While somewhat arbitrary and imprecise, it is useful to distinguish between two different tendencies within this diverse and loosely knit “Chavista” camp. The vision of the more moderate tendency includes left Keynesian policies combined with further welfare reforms, but does not extend beyond a market system with a “mixture” of private and public enterprise. Since one of the two opposition parties representing the oligarchy, Accion Democratica, is officially a social democratic party and member of the Socialist (formerly Second) International, one has to be careful when using the term “social democrat” in Venezuela. But elsewhere this moderate tendency within the Chavista camp would be described as solidly social democratic, and mostly unmarred – at least so far – by retrogressive “third wave,” or “New Democrat” tendencies. These moderates within the Chavista camp are generally less optimistic than those in the more radical tendency about the ability of ordinary Venezuelans to make good decisions for themselves and therefore tend to be more skeptical about how well what we might call “power to the people” as opposed to “serve the people” initiatives will work.

The guiding vision of the more radical tendency in the Chavista camp reaches far beyond a mixed economy guided by left Keynesian policies and humanized by a substantial welfare state. Most in the radical tendency describe what they are part of as the “Bolivarian Revolution,” and call their guiding vision “twenty-first century socialism.” Because these terms are unique to Venezuela they offer little help to those of us outside trying to understand what they mean. On the other hand, because the terms are new and unique to Venezuela they do help us avoid the mistake of thinking the process and associated vision can be neatly pigeon-holed into familiar leftist categories from the past – which they cannot.

Those in the radical tendency see what is happening as a revolution because they see it as a profound social transformation and dramatic change in power relations among social groups. They also believe this revolutionary transformation should continue until popular self-rule has been achieved in every area of social life. These “Bolivarian revolutionaries” call their vision “socialist” but they do not emulate any models of socialism developed by those who called their societies socialist in the twentieth century.

For example, while they see Cuba as their closest ally, pay homage to Cuba for its lonely but steadfast opposition to U.S. imperialism for half a century and admire all that Cuban socialism has achieved for the Cuban people, they do not see Cuba, much less any other “socialist” country, as the model of socialism they aspire to. In particular, they make clear that their vision of a twenty-first century socialist economy is quite different from the Cuban economic system and the economic systems in all other countries that call or called themselves socialist. Instead, Bolivarian revolutionaries are socialist in the sense that they are

committed to achieving what they believe those who have called themselves socialist dating back to the nineteenth century have all aspired to – an economy qualitatively distinct from capitalism where production is for use not profit, and where workers and consumers plan their own activities democratically and equitably.

One is tempted to describe these radicals in the Chavista camp as libertarian socialists because of their insistence on the centrality of worker and community self-management and their rejection of any models of socialism where it is absent. But this would be misleading in important respects. Few Bolivarian revolutionaries seem to trace their intellectual origins to libertarian socialism. Nor do many of them share the libertarian socialist critique of Marxism-Leninism. While Bolivarian revolutionaries do not believe any who called themselves socialist in the twentieth century succeeded in achieving socialism as they envision it, most of them appear to believe it was the intent of socialists in Marxist-Leninist parties who achieved state power to do so, even if they failed to find the means, or got lost along the way.

They also have a different perspective on reforms than many twentieth century libertarian socialists. They see their Bolivarian revolution as an evolutionary revolution – feeling its way toward new social relations and new human values – rather than as an abrupt reversal of class rule derived from a change in control over the means of production. As best I can tell most Bolivarian revolutionaries also regard reforms in what is still predominantly a capitalist economy as positive steps in the revolutionary process. Libertarian socialists have often been inclined to view reforms within capitalism negatively, as distractions deployed by the enemies of “real” social change to forestall revolutionary momentum.

My ability to gauge the thinking of “experts” working in ministries involved with the social economy is limited. It is based on a few conversations I was able to have with officials in the planning ministry and the ministry for the communal economy, on reactions to presentations I made at both ministries, and on my review of the curriculum students are studying at the planning ministry school. I was constantly surprised and invariably pleased by what these “experts” were thinking. At the beginning of my first visit, at the risk of never being invited back, I decided to take advantage of my opportunity to address the vice ministers, faculty, and first class of students at the planning ministry school to challenge the traditional conception of socialist planning. I began my talk by saying that if they thought their job was to make better and better plans, I thought they were wasting their time at best, and having a negative effect at worst. After an embarrassed silence I went on to say that instead I thought the job of people working in the Venezuelan planning ministry was to help workers in cooperatives and consumers in communal councils and assemblies plan how to cooperate more effectively among themselves.

To my surprise my audience agreed. Moreover, they said they understood this meant they rejected the foundation underlying previous conceptions of socialist planning, and had, in effect, accepted a new prime directive: “Do not plan *for* others, facilitate

planning *by* others.” Since I was invited back I have had several opportunities to confirm that people at the planning ministry were not merely humoring a rude foreigner during my first visit. I have also studied the curriculum and read the texts being used to train those who will soon be key personnel in the planning ministry. It is completely different from standard curricula on national planning, and reflects the perspective of “facilitator” rather than “plan maker.”

At the new Ministry for the Communal Economy the people I met seemed equally clear about what their job was. They are busy creating the basic elements of a social economy – self-managed worker cooperatives, communal councils and communal assemblies. They are busy teaching the elected leaders of these cooperatives, councils, and assemblies that they must work with one another on the basis of mutual respect and solidarity rather than treat one another as antagonists in commercial exchanges. And finally, they are trying to help cooperatives, councils, and assemblies find practical ways to plan their interrelated activities fairly and efficiently among themselves so the market system can be replaced within the social economy. The fact that nobody before has ever succeeded in helping large numbers of autonomous groups of workers and consumers plan their joint activities democratically, equitably, and efficiently themselves does not seem to daunt those I met at MINEC. They are sceptical of formulaic proposals and believe answers for how best to do this will emerge from trial and error over time. But they seem convinced it can and will be done.

*A sum bigger than its parts:* At present the social economy – made up of educational Misiones, healthcare clinics, subsidized food stores, worker cooperatives, nuclei of endogenous development, participatory budgeting, communal councils and assemblies of communal councils – is the most rapidly growing sector of the Venezuelan economy and is the driving force behind the Bolivarian vision of twenty-first century socialism. Its typical promoter in policy circles is a new breed of left intellectual thoroughly convinced that ordinary people can make their own economic decisions and determined to devise means to help them do so. Its typical face is a newly empowered, poor mother of color – and make no mistake, she is a force to be reckoned with! It is in the social economy, not the state sector, where the future of Venezuelan socialism lays. →

For on-going news about developments in Venezuela, as well as to contextualize this news with in-depth analysis and background information, visit:

**[www.VenezuelaAnalysis.com](http://www.VenezuelaAnalysis.com)**

The state sector is in many ways disappointing. Attempts to promote worker participation in state enterprises have been largely unsuccessful. There have been no serious attempts to plan within the state sector, as state appointed managers are expected to keep their individual enterprises out of the red – both economically and politically! What one must hope for in Venezuela is that as the new social economy deepens and grows its values and institutions will eventually absorb not only the private sector but the state sector as well

What I found particularly impressive was how clear Venezuelan revolutionaries are for the most part about how they want their social economy to function, and why it must differ from both a market system and the kind of bureaucratic planning common in twentieth century socialist economies. They have correctly identified the Achilles' heel of centralized planning – failure to allow for self-management. Every component of the new social economy

is self-consciously designed to give “direct producers” and consumers control over the economic decisions that affect them. There are no bureaucrats to tell workers in their cooperatives what to produce and how to produce it. There are no politicians to tell residents of barrios what local public goods to prioritize in the participatory budgeting process. The families in the new communal councils discuss and decide on their own spending priorities in open meetings, and spokespeople from communal councils decide on municipal spending priorities in communal assemblies. Communal banks, whose officers are members of the communal councils the bank serves, allow communities to make their own decisions about who among them most deserve loans and can best make use of available funds. And nuclei of endogenous development are designed to organize local resources to meet local needs through local initiatives in ways that *devotees* of community-based economics in the developed capitalist world can only fantasize about.



But those building the social economy in Venezuela also reject the anti-social effects of commercial relations inherent in the market system. From the very beginning those working with the new cooperatives worried that market forces lead worker cooperatives to prioritize their narrow self-interest at the expense of community and social interests. MINEP training programs for new members emphasized that cooperative values include serving the social interest. The decision to encourage cooperatives to join nuclei of endogenous development was intended to build community ties, involve cooperatives in local planning initiatives and help cooperatives see themselves as part of a larger community. The vision for the social economy is clearly one where producers, in worker councils, and consumers, in communal councils, and communal assemblies, plan their own activities and coordinate their interrelations among themselves equitably.

In his *Alo Presidente* program on September 14, 2003 devoted to the social economy, Chavez emphasized: “The social economy bases its logic on the human being,” and its purpose is “the construction of the new man, of the new woman, or the new society.” Popular participation, equitable cooperation, and solidarity – the defining features of the social economy – also permeate the new Bolivarian Constitution. Article 299 emphasizes the need to ensure “overall human development.” Article 102 calls for “developing the creative potential of every human being.” Article 62 declares that participation by people is “the necessary way of achieving the involvement to ensure their complete development, both individual and collective,” and calls for democratic planning and participatory budgeting at all levels of society. Article 70 refers to “self-management, co-management, and cooperatives in all forms” as examples of “forms of association guided by the values of mutual cooperation and solidarity.”

### **Socialism for the Twenty-First Century**

I was invited to work with the Miranda Center and speak at both the Ministry of Planning and the Ministry for the Communal Economy primarily because my chief research interest is how to make economic planning more participatory. As traditionally studied this subject has two subfields: Most researchers focus their attention on how to broaden and deepen participation of members *within* a worker council, or cooperative, or how to facilitate participation of consumers *within* a consumer, or communal council. A smaller group of us focus our main attention on how production and consumption units that are internally self-managed can coordinate their interrelated activities among themselves fairly and efficiently while preserving their autonomy.

A unique feature of a theoretical model of a participatory economy I helped design is a “participatory planning” procedure which solves this problem without resort to either markets or a planning bureaucracy. The participatory planning procedure is designed to give worker and consumer councils autonomy of action while helping them discover and commit to an equitable and

efficient division of labor among themselves – with as little time wasted in discussion and meeting as possible. To what extent my research in this area proves useful to those building the social economy in Venezuela remains to be seen.

In my opinion all the essentials for a truly participatory, social economy are already in place in Venezuela – worker cooperatives, communal councils and assemblies, and participatory budgeting. A strong political campaign encouraging popular participation, economic justice and solidarity is in full swing. And the search for practical ways for worker cooperatives, communal councils and communal assemblies to coordinate their interrelated activities themselves – democratically, fairly and efficiently – is on. From what I saw during my visit, a great deal is being discovered about how to coordinate effectively with other units in the social economy by those who are making participation within worker cooperatives and communal councils a reality. From what I heard, most involved in developing the social economy in Venezuela understand that traditional solutions to the coordination problem should be studied as negative, not positive examples to learn from. And from what I experienced, those involved on both the grassroots and ministerial levels in the first, great, social experiment of the twenty-first century have open minds about how best to coordinate semi-autonomous groups in their social economy, and are asking all of the right questions about the pros and cons of different options.

There is no guarantee that all of this positive momentum will succeed, and one does not have to look hard to find reason for concern. In the U.S. the foreign policy establishment, which includes the leadership of the Democratic Party, remains adamantly opposed to the Venezuelan alternative to neoliberalism. Prior to the rise of Chavez, socialist political parties were not as strong in Venezuela as in some other Latin American countries, and therefore socialist ideology is still quite new to most Venezuelans. The hostility of the oligarchy and opposition parties has not diminished and it is possible that disagreements between the moderate and radical wings of the Chavista movement will create dangerous political moments in the next few years. And finally, while much of what I saw and described above is extremely encouraging, the process of building the social economy has been very uneven. While millions of Venezuelans have been deeply affected and undergone a profound political transformation, there are still millions who remain passive even if they have benefited materially from a government sponsored program. Socialism is by no means yet secured in Venezuela, and “*all the right moves*” is a lot to ask for. But what is happening in Venezuela should make us all more confident than ever that “*a better world is possible*,” and millions of people in Venezuela are busy building it now. **R**

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