

**Defend Jobs  
Health Care for All  
Keep People in Their  
Homes**

# **Economic Recovery That Benefits *Everyone***

## **The Roots of the Crisis**

The unregulated growth of a wildly speculative financial system – that is, a frantic attempt to “make money on money” rather than from productive investment – and the steady decline of the purchasing power of the global working class are the two main causes of the current near-depression. The global economic crisis stems, in part, from the classic case of underpaid workers overall not having money to buy the very goods they make. To compensate for their loss of purchasing power, American working families turned to credit cards and borrowed against inflated home equity values. Once the housing bubble burst, as all economic bubbles eventually do, the intricate financial world of collateral debt obligations and credit-default swaps came tumbling down, taking with them working families’ ability to sustain their living standards.

Therefore, stricter government regulation of the financial industry must be central to any long-term economic recovery. The government must regulate the finance and banking industry so that it prioritizes providing credit on reasonable terms to productive enterprises. In addition, raising the floor under workers’ wages, benefits, and working conditions must be central to a long-term economic recovery program.

## **Restore Working Families’ Purchasing Power**

The “economic recovery program” being debated in Congress must be large enough to revitalize consumer spending. Given that GDP declined by five percent in the fourth quarter of 2008, it is reasonable to expect that the economy will operate for some time to come at five percent or more below normal “full-employment” capacity. Thus, a stimulus program of roughly one trillion dollars per year, rather than the current Democratic House version of \$825 billion over 2 years, would be wise.

The most disabling myth promoted by both the right and

moderate Democrats is that government cannot efficiently spend large sums of money fast enough. But, as Robert Kuttner points out, the federal government could instantly engage in a trillion dollars of useful stimulus simply by writing checks. Here’s how. The federal government should:



- Provide \$200 billion in block grants to state and local governments to make up for the annual loss in state and local revenue.
- Allocate \$100 billion to pay for half the increased costs in Medicaid that states will face.
- Spend \$100 billion to pay for COBRA coverage for laid-off workers and to allow people over 55 to buy into Medicare.
- Use \$50 billion to increase unemployment insurance and expand eligibility. (Currently only one-third of unemployed workers receive unemployment insurance!)
- Use \$100 billion to expand the number of Pell grant recipients and to increase the grants.
- Move \$450 billion to the Social Security Trust Fund so that workers would receive a one-year respite from paying the regressive FICA tax. Such a measure would radically stimulate consumer demand.

## **Invest in Housing, Infrastructure and Alternative Energy**

The second part of a stimulus package should include longer-term investments that would restructure the American economy so that it depends less on an over-expanded financial sector and more on production of goods and services that benefit ordinary people.

Congress should immediately create a modern version of FDR’s Home Owners Loan Corporation. This public entity should engage in direct federal lending to refinance distressed mortgages and, where necessary, reduce the outstanding principal amount. The initial cost might be about \$200 billion, but most of the additional debt would eventually be repaid by home owners paying off newly affordable mortgages.

To enhance the long-term competitiveness and efficiency of the economy, as well as generate millions of high-wage jobs, the federal government should invest in a broad range of infrastructure programs. These could include traditional outlays on roads, bridges and mass transit as well as 21<sup>st</sup> century infrastructure projects such as retrofitting homes, installing universal broadband, and creating a smart-grid electricity system. Major public investments should be made in green technologies and green jobs. Job training could especially target historically under-employed communities. While this program would cost \$300 billion, the benefit in long-run growth would be incalculable.

Moderate Democrats and Republicans will call for a “restoration of fiscal discipline” and “balanced budgets” at the first sign of economic recovery. What many of these “budget hawks” do not realize is that even in prosperous times the federal government should engage in long-term investments in infrastructure and research and development.

Restoring a moderately progressive tax system in the United States and cutting exotic and outlandish defense programs would readily provide sufficient revenues to fund a vibrant and efficient public sector.

**Abolish Neo-Liberalism,  
Restore Financial Regulation, and Build  
Global Social Democracy**

Many of the Clinton re-treads in the Obama economic team supported the deregulation of exotic financial instruments such as credit-default swaps. Therefore, strong popular pressure from below will be needed to achieve the re-regulation of the finance industry. The deregulation of the savings and loan industry that began under Jimmy Carter destroyed a New Deal institution that provided reasonable credit for the sole purpose of families purchasing homes. The subsequent destruction of the Glass-Steagall Act’s separation between commercial banking and finance banking led to “super banks” having the incentive to market to individual and institutional investors the very financial instruments they underwrote, regardless of the risk of these instruments.

Paul Krugman correctly argues that the federal government should nationalize these insolvent banks and clean out their shareholders. The government should transfer these banks’ “toxic assets” to a special institution, a Resolution Trust Corporation; pay off enough of the nationalized banks’ debts to make them solvent; and sell the fixed-up banks to new owners. This would avoid the government paying an inflated value for the “toxic assets” that are dragging down the asset value of the banks. It would also enable taxpayers to recoup

some of the TARP funds when and if the government sells to private investors those “toxic assets” that recover when the housing market stabilizes.

In addition to democratically regulating the finance industry, a long-term economic recovery plan must include raising the floor under workers’ wages, benefits and working conditions. Universal health care coverage and restoring an effective legal right to form unions cannot wait. The restoration of the democratic right to form free trade unions in the United States – and the extension of that right around the globe through fair trade and labor rights accords with teeth – should play a central role in a new “global New Deal.” For if United States workers must compete with repressed workers abroad, then U.S. workers’ living standards will inevitably fall to the level of their competitors.

A successful economic recovery act needs to restructure the U.S. economy so that it prioritizes the well-being of working people over the short-term drive for profit of unrestrained finance capital. Anything short of this democratic restructuring of U.S. capitalism will fail to address the root causes of the greatest global economic crisis since the Great Depression.

Urge your Senators and Representatives to work for **an economic recovery plan with more spending on infrastructure and no tax cuts for business: 202.224.3121.**

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