Notes

December 2015
Vol. I, No. 3

Season's Greetings from the spiritual and physical heart of neoliberal North America, where financialization, privatization and austerity reside with their permanent companions: massive corruption, police repression and social marginalization.

Thanksgiving arrived this year with a political debacle precipitated by the murder of Lacquan McDonald at the hands of the police in 2014. Following 13 months of inaction, murder charges were filed against the officer who did the shooting, only after the police's dash-cam video was released in response to a free-lance reporter's Freedom of information Act request. It wasn't the local big media who went after this story. They didn't even look into the matter after Emanuel and the City Council approved a $5 million payment to the victim's family three days after the April municipal election. Violence, deception and corruption are the hallmarks of this episode and emblematic of the Emanuel years in Chicago. But the venal failures of the city's political class are just local variants of broader themes related to a pulseless economy and increasing violence across a fluid and dangerous world strategic and political scene.

After Syriza's betrayal, the Left seemed to lose traction during the second half of 2015 across Europe and Latin America. Yet paradoxical signs of vigor have emerged in the British Labour Party, Spain and Portugal. In a welcome domestic political breakthrough, the Financial Transaction Tax has been discussed by the Democratic Party presidential candidates. Yet, looming on the horizon, the Trans Pacific Partnership trade treaty promises to be an intercontinental NAFTA, fostering deeper US-Asia integration, only without China as a signatory. As US and world economic performance continue eroding, and the jobs situation diminishes with too, a proposal discussed locally offers a policy tool to raise the minimum wage, increase revenue and improve living standards. That's the trifecta available through the Responsible Business Act under consideration by the Cook County Board of Commissioners.

This edition of *CPEG Notes* takes up some of these topics below.

As with every issue, we welcome our readers to share their thoughts through the CPEG website and social media such as Academia.edu and Facebook. We look forward to sharing your correspondence in future editions. Likewise, we encourage you to share this publication with friends and colleagues interested in these topics. Thank you for your readership. We wish all a peaceful and loving holiday season.

National note by Joseph Persky

The US Economy Limps Along

The third quarter real GDP data showed continuing sluggishness. GDP growth was originally reported as a slow, 1.5%, at an annual rate. Subsequently the Bureau of Economic Analysis revised the figure up to 2.1%. The business press has emphasized that despite the low overall growth rate, the consumption sector increased at a stronger rate of 3.0%. Final sales of domestic products were up 2.7%. In this reading, the fly in the ointment has been a large inventory sell-off, as firms have met demand with past, rather than current production. Perhaps this sell-off will be reversed in the fourth quarter, at least that's the prediction of the business press.

It's not clear, however, that the growth in consumption can be maintained. Real disposable income, the driving force of consumption spending continues to lag GDP growth. In the third quarter it grew at a robust 3.9% annual rate. Over the past three years, however, disposable income has lagged behind GDP growth. Since the third quarter of 2012, the share of disposable income in GDP has fallen from 76.1% to 74.8%. Unless a higher share of GDP finds its way into workers' hands, any consumption spurt must be limited by households' borrowing capacity. Nor does support look strong from the government sector. Government expenditures in the last two quarters rose because of modest increases in state and local spending. It is not clear state and local spending can continue rising. While federal spending growth remained sluggish at 0.1% in the third quarter after no change in the second quarter. Public discussions over the federal budget give no reason to expect a sharp increase in these figures. Overall, the economy remains on the edge.

International note by Mel Rothenberg

Crises in Europe

Refugees from Africa and the Middle East, including approximately two million Syrians, have made their way to Europe over the past few months. Of late, the crisis has overshadowed the political, social and economic malaise gripping Europe since the onset of the Lesser Depression, from which Europe has not fully recovered.

Perhaps Europe's solution lies in a deal with Putin to end the West's anti-Assad campaign. While the Obama administration has made some ambiguous gestures suggestive of their openness to this prospect, other U.S. government factions would strongly object. Republicans, militarist Democrats, and a large section of the military brass would howl over what they would deem an ignominious retreat. The Gulf states, Saudi Arabia in particular, who have bet the barn on getting rid of Assad would similarly feel betrayed by their Western partners were they to move in this direction. Even an end to the war in Syria would not entirely stem the outflow of refugees. Meanwhile, rebuilding the physical infrastructure and social order in Syria, Iraq Yemen, Libya and Afghanistan, will, in any event, remain a multi-year project.

Beyond the refugee crises, the main long-term challenge facing European elites and their governments is sustaining working class austerity. As a result, the political picture in Europe is varied. While the populist Right with its neo-Fascist, anti-immigrant politics will profit from the refugee crises, some developments are also strengthening the left.

Syriza in Greece had been the most promising recent phenomenon after attaining parliamentary power last January on an anti-austerity platform. However, its surrender to the EU ruling elite, despite a popular referendum opposing austerity, was a major defeat for the European Left and anti-austerity movements. By July, Syriza abandoned its anti-austerity pledge, causing the Party's left wing, including about 1/3 of its parliamentary representation, to split and form Popular Unity. But before Popular Unity could even develop a viable strategy, Tsipras and the remaining Syriza leadership shrewdly called a snap election in September. Counting on political exhaustion and confusion, the Syriza old guard retained control in a low-turnout vote. Remaining differences within the Left, demoralization, and the determination of Syriza's old guard to retain power by accommodating themselves to a neoliberal austerity agenda means Greece's anti-austerity forces are in for a rough period.

Podemos, the Spanish Left anti-austerity party formed last year. After dominating the local spring elections, it looked to be a contender in the coming national elections. Spain's depression-like job situation makes for a deep reservoir of potential working class support. Podemos' economic program, stretched between a Marxist, class-based approach and Social Democratic Keynesianism, might still enable the Party to lead Spain's organized anti-austerity politics. However, recent polls measure its support at 17%, behind the two mainline neoliberal parties. Undoubtedly, much of this slide can be attributed to the failure of Syriza, which it regarded as a sister party.

In the recent Portuguese parliamentary election, the dominant neoliberal party, the PaF, received the most votes while losing more than 10% of its previous support and its Parliamentary majority. The Socialist Party increased its vote but the big winner was the "Left Bloc" which doubled its vote, receiving more than 10% of the total, giving the broad left wing parties the majority in Parliament. While the PaF tried to peel off 'softer left' votes to build a governing coalition, the Left Bloc, and Communists offered to participate in a Socialist Party-led regime provided it adopts an anti-austerity agenda. This parliamentary coalition succeeded in bringing down the PaF and initiating a new Socialist Party led government, which agrees at least verbally, on ending austerity. Any attempts to modify the austerity regime will run into the stern opposition of the European Union financial elite which holds the bulk of Portuguese debt and which sabotaged a similar attempt in Greece to ease austerity. Whether the softer approach of the PSU and the harder line of the further left can be integrated remains to be seen.

Perhaps the most promising and unexpected development in European politics is Jeremy Corbyn's ascension to the leadership of British Labour. Excluded from leadership, and marginalized in Parliament over the past three decades by the neo-liberal followers of Tony Blair, the labor left led by figures such as Tony Benn and Ken Livingston, has remained an ideological and moral force, within the Party. They remained guardians of the old, working class, Social Democratic vision which Blairite "New Labor" couldn't extinguish. Corbyn, a determined opponent of austerity, hails from this school of old-fashioned socialists.

Corbyn's victory in the leadership contest resulted, in the first instance, from an enormous blunder by the Blairite apparatus. The party establishment, confident of its control, opened the election of the next party leader to the rank and file. The left, seeing an opening, simply out organized the Blairites and elected Corbyn by a large margin. Formerly a popular backbencher the Left critic of New Labor emerged untainted by the corruption, cynicism and opportunism of the establishment candidates.

Whether Corbyn's rise reflects a real shift in British politics, or a fluke remains to be seen. Corbyn's traditional leftism: pro trades union posture, opposition to NATO (but not the Euro zone), and

support for an independent Palestine, are among his signature positions. He has already appointed John McDonnell, a self-identified Marxist, as his chief economic advisor. Yet, their economic program remains vague, involves raising taxes on the rich, anti-privatization and support for the existing social welfare structure.

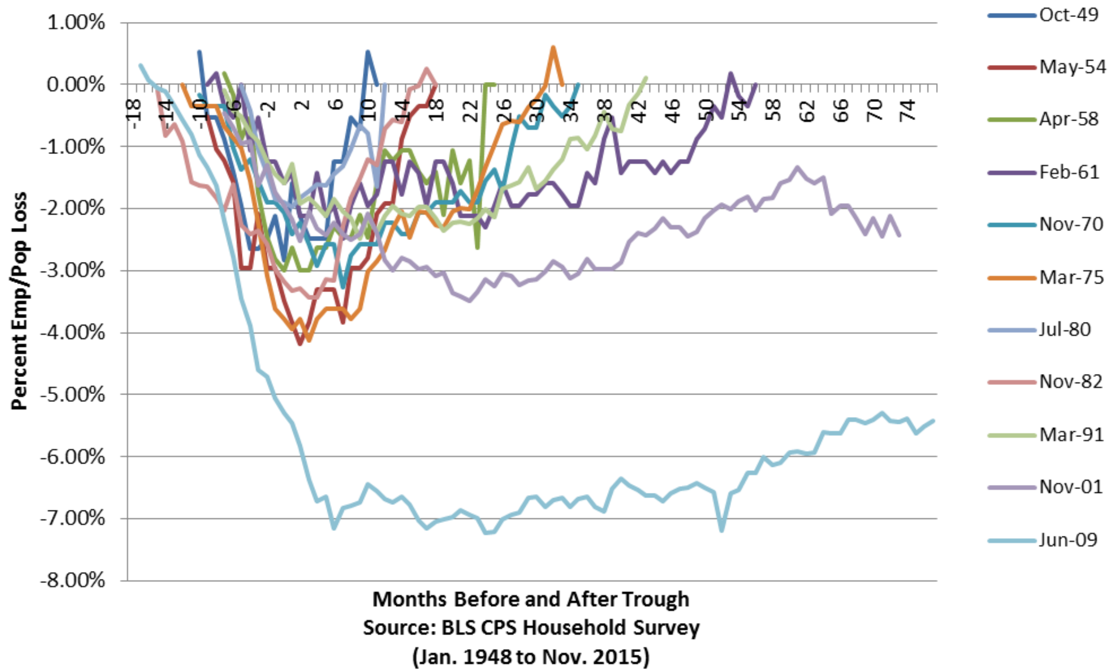
Corbyn's Labour Party leadership may yet prove to be more than an accidental result of political misjudgment, but reflect something deeper. Between the outraged howl of the neoliberal Labour establishment, and the vicious response of the ostensibly pro-Labour establishment press such as the Guardian, the Blairite politicians are busy announcing Corbyn's imminent demise, and their own refusal to serve in his shadow cabinet (though they haven't been asked). In the meantime the Blairites blocked with the Tories in Parliament, against the policy of the Corbyn leadership. To intensify the British participation in the ongoing air bombardment in Syria, presumably against ISIS, but hoping to strengthen the anti-Assad forces. Meanwhile the leading right wing neo-liberal outlets, such as *The Economist* and *The Financial Times*, are shedding crocodile tears over Labour's 'self-destruction,' which, in their rhetoric, Corbyn's leadership will surely yield. But the neoliberals protest too much. It is not only young radicals who embrace Corbyn. He could not have been elected without rising dissatisfaction across the working class base of the party. If Corbyn, the trades unions, and other left forces around him can succeed in keeping this base mobilized around an anti-austerity platform, he may yet have the last laugh.

Labor note by Ron Baiman

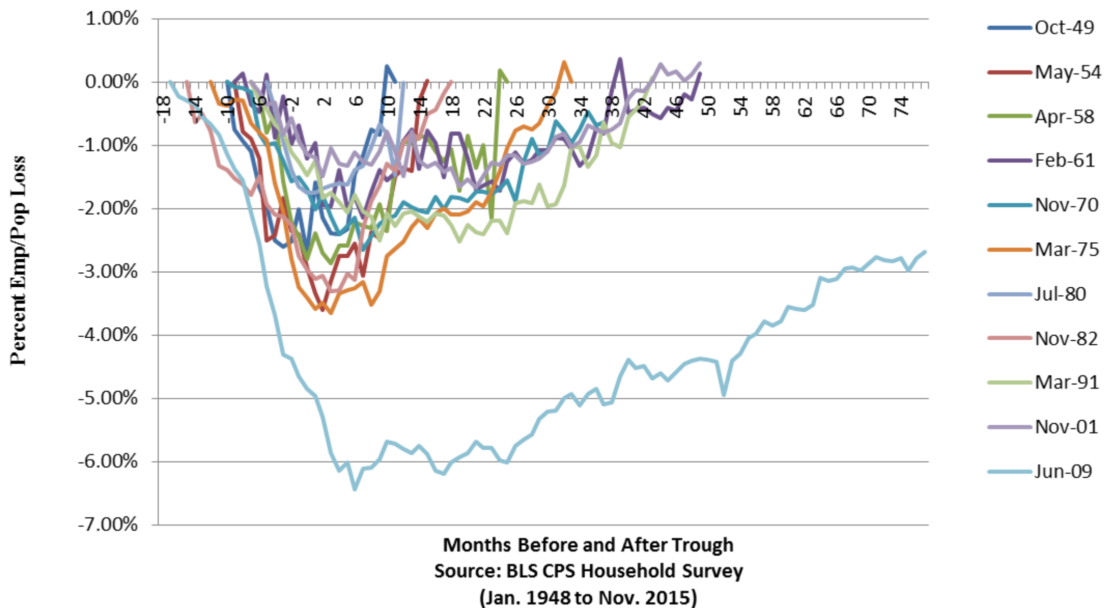
Jobs, the Fight for $15, and the Cook County Responsible Business Act

CPEG and the National Jobs for All Coalition have been calling for a large scale federal green jobs program since before the start of the Lesser Depression in December 2007 (see: http://www.cpegonline.org/reports/jobs.pdf). We have continued documenting the need for this program in monthly job reports and past issues of *CPEG Notes*. The December 2015 BLS jobs report once again confirms our prognosis that without large-scale public policy support, the U.S. economy will not generate sufficient living wage jobs.

It now appears increasingly certain, per Figure 1 below, that the expansions out of the Lesser Depression, and the period prior to the November 2001 business cycle, will be the only post-war cycles that did not return to starting Employment-to-Population ratios within 56 months of their corresponding recessionary troughs. Moreover, it appears highly likely the Lesser Depression will end with a percentage drop in Employment-to-Population ratio far exceeding the roughly 2.5% decline at the end of the November 2001 cycle. Figure 1 shows the percent change in Employment-to-Population ratios relative to the starting ratio for all U.S. post-war recessions.



While an aging population may cause a secular decline in Employment-to-Population ratios in the U.S. economy, it is instructive to control for this by fixing 16-24, 25–54, and 55 and over, population age cohorts at their November 2015 level and doing the same analysis. The result is depicted in the figure below. Although adjusting for changing long-term population demographics may explain the lackluster result of the November 2001 recessionary cycle, such an adjustment fails to address the dismal showing since the June 2009 Lesser Depression. Moreover, for the improvement in Employment-to-Population ratios shown in the adjusted analysis to benefit the workforce in the same way as the unadjusted Employment-to-Population ratios of the first table, there must be productivity gains and redistribution of income from employed to non-employed population adequate to offset the difference between the *actual* reductions in Employment-to-Population ratios of Figure 1 and the *non-actual* adjusted reductions of the second table.



So much for employment, what about income? In seasonally adjusted current dollars, median incomes of employed, full-time, wage and salary workers as expressed by the alternative measure, Usual Weekly Earnings (UWE), rose from $232 in the first quarter of 1979 (when the series began) to $809 in the third quarter of this year (the most recent data available). But in real terms, the median UWE has barely budged: based on the CPI-U, the current $809 would have been worth $247 in 1979. Furthermore, whatever wage increases there have been since 2000 have almost all gone to upper income earners. BLS data show that adjusted by the CPI-U from 3rd QTR 2000 to 3rd QTR 2015, real UWE for full-time wage and salary workers have been flat for the lowest quartile, barely increasing (1%) for median workers, only risen by 7.8% for workers in the third quartile, and only 8.5% for workers in the ninth decile.

Figures 1 and 2 also suggest that labor shortages are not likely to push up wages as the Fed appears to believe based on outdated and discredited NAIRU calculations (see for example *Financial Times* Dec. 16, 2015 comment – unfortunately not linkable). Perhaps if it were not such a captive of financial interests and Neoclassical economic doctrine, the Fed would not be raising short-term interest rates. It would instead attempt to deflate the financial asset price bubble with other measures, and do what it could to *stimulate* wage increases rather than worrying about them.

In 2013, Cook County, which includes Chicago, had a population of 5.2 million people and a federal poverty rate of 17.8%, above the 2014 national figure of 14.8%. Thus, nearly one million people in Cook County live below the abysmally low federal poverty threshold. That's why CPEG continues providing support and expert testimony for the "Responsible Business Act" (RBA) for Cook County Illinois. The RBA is designed to induce large businesses to raise wages and help reimburse the County

which subsidizes employers who push the social costs of their low-wage employees onto County government. Introduced by County Commissioner Robert Steele earlier this year, the RBA would bolster county revenues by requiring businesses with more than 750 full or part-time employees not paying the County Living Wage (approximately $15 an hour by 2019) to pay a $750 per employee fee on every dollar under the mandated wage floor. The County's mandated wage floor will gradually rise from $10.00 to approximately $15.00 an hour from 2015 to 2019.

The Center for Urban Economic Development at UIC (UICCUED) estimates over the course of a four-year phase-in, the ordinance would impact 67 large employers.[1] The UICCUED study estimates if these employers raise wages only when it costs less than paying the fee, the ordinance would generate as much as $500 million during its first four years, and $200 million per year after it is fully phased in. As almost all but a few of these 67 large employers are place-bound service sector firms, there should be little or no employment loss, and a possible net employment gain from the act, according to the UICCUED study. Net employment gains may come from increased public sector job growth for health, criminal justice, and family services funded by the act, and from increases in local spending by low-wage workers benefitting from the law. As Cook County is the second largest county in the country, the RBA's impact would be greater than that of a similar law passed in many smaller states. The RBA thus represents another important tool in the arsenal of using public policy to raise minimum wages and improve living standards.

Trade note by Bruce E. Parry

TPP, Not Just Another NAFTA

The North American Free Trade Agreement (NAFTA) was an agreement between the U.S., Mexico and Canada. The Trans-Pacific Partnership (TPP), so far, involves 12 countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S. and Vietnam), comprising more than a quarter of total world trade. Although final terms were negotiated Oct. 5, 2015, the signatories have two years to ratify the pact which can go into effect if just six countries adopt it, provided their Gross Domestic Products (GDPs) constitute 85 percent of the bloc's total, making U.S. approval essential. After granting President Obama "fast track" authority, Congress will likely vote it either up or down, without amendment, in early 2016 in the heat of the Presidential election. There is already substantial opposition, particularly from the dairy, pharmaceuticals and auto industries and organized labor. Looking at the two agreements side-by-side provides greater context for considering the TPP's likely impact and what may be in store once negotiations around the Trans-Atlantic Trade and Investment Partnership (TTIP) – a pact to deepen U.S. and European Union integration — conclude next year.

Key NAFTA Provisions

NAFTA was the first free trade agreement between developed countries and a developing country. Most of the tariffs between Canada and the U.S. had already been abolished, so NAFTA mainly eliminated tariffs and non-tariff barriers between the U.S. and Mexico, doing so incrementally until all its provisions took full force in 2009.

[1] "The Economic Impact of the Proposed Cook County Fair Share Ordinance", UICCUED, March 2015.

Lifting tariffs and other barriers to trade. Agriculture was a particularly sensitive area of negotiations. For example, about 60 percent of agricultural imports to Mexico from the U.S. were previously subject to restrictions. Capital controls limited foreign investment in specific sectors.

Investment protection. NAFTA removed significant investment barriers. Now foreign companies receive equal treatment to domestic companies, with some exceptions. For instance, no foreign investment is allowed in the Mexican energy sector.

Intellectual property rights. Intellectual property rights are protected, including copyrights, patents, trademarks and trade secrets.

Disputes resolution. NAFTA set up an arbitration system to settle disputes both between governments over issues such as "dumping" (export of subsidized goods), and between individual companies and governments.

Side agreements. To gain passage of NAFTA, President Clinton agreed to two side agreements, the North American Agreement on Labor Coordination (NAALC) and the North American Agreement on Environmental Cooperation (NAAEC).

NAFTA Impacts

Canada. Manufacturing employment did not fall in Canada, despite a general downward trend internationally. By 2002, takeovers comprised 98 percent of all foreign direct investment as more than 10,000 Canadian firms had been taken over by foreign investors. Both imports and exports have more than doubled since NAFTA was adopted.

Mexico. By 2005, the owners of the *maquiladoras* — the foreign-owned plants along the U.S.-Mexican border — experienced a 15.5 percent rise in income. The number of immigrants to the U.S. from Mexico has more than doubled. There was also an increase in the population of non-border metropolitan areas due to the dislocation of millions of workers, primarily from the agricultural sector. Deregulation in the financial sector has profoundly affected Mexico's banking system. The U.S. is Mexico's leading partner in merchandise trade. Corn prices have been particularly volatile; the price of corn fell significantly in Mexico. Since 2001, corn production has stabilized with subsidies.

United States. U.S. industries, particularly automotive, electronics, appliances and machinery, have been able to internationalize throughout the three countries. Much of this is based on exporting jobs to lower wage areas to take advantage of labor costs. Estimates show 40 percent of the content of U.S. imports from Mexico and 25 percent of the content of U.S. imports from Canada are of U.S. origin. In short, we are exporting parts to them and reimport them as assembled goods. By way of comparison, only four percent of U.S. imports from China contain U.S. content. The AFL-CIO, Public Citizen and the Economic Policy Institute estimate anywhere between 700,000 and one million jobs have been lost in the U.S. as a result of NAFTA. U.S. trade within NAFTA has more than tripled, outpacing trade with the rest of the world.

With free trade has come the ability of employers to force workers to accept lower wages and benefits. Unionization in the NAFTA period has declined precipitously. Companies have been able to leverage their access to Mexico to receive special economic benefits from localities based on plant location. Intellectual property rights have also been devastating to workers. These include maintaining

trademark and patent rights on drugs and agricultural goods, with U.S. drug prices increasing substantially over the NAFTA period.

The Trans-Pacific Partnership

In all, the free trade agreements have been crafted to free up capital and to restrict the rights and power of workers. We can expect the results of the TPP, and eventually the Trans-Atlantic Trade and Investment Partnership (TTIP), to be magnified versions of NAFTA. Like NAFTA, the TPP removes or reduces tariffs and other barriers on 18,000 items from beef, dairy products, wine, sugar, rice, horticulture, and seafood to manufactured products, resources and energy. Like NAFTA, the TPP aims to lower trade barriers, establish a common framework for intellectual property rights and allow the free flow of capital among the member countries. Significantly, special provisions have been made for the protection of labor and of the environment, areas covered by the separate NAFTA side agreements. Also, the public outcry has forced a reduction in the number of years patent rights are retained on drugs - from 12 to 8 years - allowing generics to be produced sooner.

The TPP allows multinational companies to challenge local laws and regulations that constitute "unfair barriers to trade," although there are "safeguards" written into the agreement to protect against abusive claims. Governments are given the right to enforce health, labor, safety and environmental regulations in the public interest. Tobacco companies are specifically banned from challenging health regulations. The right to unionize is part of the agreement. There are also provisions that protect the rights of foreign investors; although these may force governments to change laws at the behest of private interests. There are many details in the 5,200-page agreement. Some appear as giveaways to powerful interests, including the pharmaceutical industry, recording studios, agribusiness among others.

China's exclusion is notable. It would seem the agreement was developed to oppose China growing economic and political presence on the world scene. Conversely the TPP would entrench the U.S. presence in East Asia. The TPP will probably allow some small growth of GDP but foster substantial job losses and wage-lowering in the U.S. It allows for the free flow of capital for buying foreign companies, the cheapening of goods and services that will bankrupt small business, and restrictions on the use of intellectual property to the detriment of workers. The environmental protections, while seemingly stronger than NAFTA, will continue to be insufficient. The TPP can be expected to do for Asia what NAFTA did for North America and the TTIP for Europe: further deregulate industry and the flow of capital, establishing three huge free-trade zones linking North America, parts of Asia and Europe.

National note by Bill Barclay

Transaction Taxes, HFT and All That

The idea of a tax on the trading of financial assets dates to at least 1694 when a stamp duty was imposed on London Stock Exchange transactions, making it the oldest tax in British history. In the world of modern finance, John Maynard Keynes, in *The General Theory of Employment, Interest and Money*, proposed such a tax on US stock trading. This was followed in the 1950s by James Tobin's suggestion that such a tax be imposed on the currency trading. The idea even made it into the President's Advisory Panel on Federal Tax Reform in the early 2000s.

But until recently, visible support for a Financial Transaction Tax (FTT) has been limited in US policy circles and political discourse. Then, in January 2015, Rep. Chris Van Hollen (D-MD) put forth a series of revenue proposals that included an FTT. However, it wasn't until presidential candidate Sen.

Bernie Sanders made an FTT a part of his campaign announcement that visibility of – and support for – the tax began to grow significantly.

The brilliance of Sanders' proposal is that it links the tax, the escalating costs of college, and the collapse of the public sphere in the US. Sanders specified that revenues from the tax would be used to make college free at **publicly funded** colleges and universities. Sanders proposal for the tax was quickly followed by another from former Maryland governor Martin O'Malley, one of the other prominent Democratic presidential candidate. And then, even more remarkably, Hilary Clinton came out in favor of a financial transaction tax – sort of.

The very important difference between Sanders and O'Malley on the one hand, and Clinton on the other is the scope of the tax and the likely revenue raised. Sanders and O'Malley both propose a tax on all trading of financial assets, consistent with legislation sponsored by Rep. Keith Ellison (D-MN). Thus, the tax is intended to raise revenue and only secondarily to impact the nature of trading, specifically high frequency trading (HFT). Clinton, in contrast, wants her version of the tax to target "harmful high frequency trading." While it is not completely clear what she has in mind, it appears that she means HFT that has a high ratio of cancellations to executions. The revenue raised would likely be limited and the narrowness of the proposal would probably invite the creation of algorithms designed to game the specifics of the tax.

Which takes us to a very interesting recent court case in Chicago, the conviction of Michael Coscia for spoofing. Spoofing is an HFT strategy in which a trader places a very large number of orders with the intent of quickly canceling them with the goal of "pumping" the market, causing price movement in a particular direction that will then benefit the spoofer's other non-cancelled orders. The practice was outlawed under Dodd-Frank as a form of market manipulation, but Coscia's was only the first conviction under the law. Coscia's Panther Trading created an algorithm that entered and cancelled thousands of orders in less than 100 milliseconds (it takes the human eye about 250 – 400 milliseconds to blink). Coscia's defense was that this was legitimate trading activity. The jury didn't agree. It took them less than 2 hours after a week-long trial to return a conviction.

Back to Chicago: Coscia's conviction wasn't the only FTT action. The day before the jury's decision in the Coscia's case was handed down, Moral Monday demonstrators blocked the doors giving access to the Chicago Mercantile Exchange trading floors. Their demands included an FTT that would cover the several billion contracts traded on the CME every year.

And on the other side of pond, eleven EU countries are close to a framework deal with announcement expected in December. The proposed EU FTT will probably be broad, covering stocks and derivatives. Despite intense industry lobbying, the tax would also cover intra-day trading, that is all transactions rather than just net end of the day positions. All in all, some difficult times for financial traders.