LETTERS

Off the Marx

JOHN JUDIS (*ITT*, JUNE 21) IS MISTAKEN IN ASSERTing categorically that Marx believed socialism would be "achieved through violent revolution." Judis observes further that from 1875 to the Russian Revolution, socialist parties in Europe and the U.S. "diverged from Marx's rigid formulations," presumably of violent revolution.

Initially, Marx and Engels did expect successful working-class uprisings to follow the bourgeois revolutions of 1848-50. But as Engels later acknowledged, they soon concluded they were wrong. They did not, in fact, concern themselves often with explicit modes of revolutionary change. But in 1872, during the First International's Hague Congress, Marx told a workers' mass meeting in Amsterdam: "We do not deny that there are countries, such as America, England, and I would add Holland if I knew your institutions better, where the working people can achieve their goal by peaceful means."

A few years later he wrote: "If, for instance, in Britain or the United States the working class should win a majority in Parliament or in Congress, then it could in a constitutional manner abolish the laws and institutions obstructing its advancement." After Marx's death in 1883, Engels included France among the nations specified as capable of peaceful, constitutional revolution. He indicated what distinguished these nations: "One can picture the old society growing into the new one peacefully in countries where the National Assembly concentrates all power in its hands, where anything one wishes may be done constitutionally as soon as one is backed by the majority of the nation." After Germany repealed its Bismarckian anti-socialist laws in the early 1890s, Engels envisaged the possibility of an eventual socialist majority emerging there.

Lenin, later seeking to reconcile his embrace of the necessity of violent socialist revolution with the Marx-Engels view, argued that the rise of militarism and imperialist bureaucracies in democratic capitalist countries since their day had eliminated the possibility of peaceful transformation.

Marx's and Engels' predictions were often wrong. But their views merit accurate reporting.

Max Gordon
Boca Raton, Fla.

Moonwalk

I AM SOMEWHAT SURPRISED AT YOUR STAND ON the flag issue (*ITT*, July 5). Considering your positions on common(ism) food, common(ism) clothing, common(ism) housing and common(ism) wealth, I would think you would be more understanding of those demanding a common(ism) symbol.

When I buy a flag, it becomes my property to do with as I please. If my actions hurt another, I owe reasonable physical or financial restitution, and government has a right to intercede. Likewise if those actions were limited by some explicit or implicit contract. The same is true of buying video tapes, audio tapes, a car, a home, a business, apartments, land, food, water, etc. You recognize these inalienable property rights with an inexpensive flag but apparently in not much else.

Murder, embezzlement and pollution have served as political expressions for centuries, i.e. war, civil and otherwise. They are historically more common and much more effective methods of social-political change than flag burning.

Nick Schroeder
Colorado Springs, Colo.

Phantom aid

THE SUPPOSED ARGREEMENT ON AID TO EDUCAtion mentioned by John B. Judis (*ITT*, July 5) is not reflected in federal and state budgets for the coming fiscal year. There simply isn't enough money being appropriated to deal with a current crisis that threatens to degrade our primary and secondary education for 40 years.

This crisis is the retirement of approximately half of the teaching staffs that began a year or two ago and will continue in the next few years. The only hope for recruiting superior replacements for these retirees is to raise the starting salaries for new teachers, especially for mathematics and science slots.

Even Arkansas, whose governor is one of the few politicians plugging better education, is balking at raising the appropriations for the state's education system. Congress has swept the need for federal subsidies to the states to raise teacher salaries under the carpet. You cannot get most members of Congress to comment on this!

The chances of improving education in the future are also being worsened by the failure of the White House and Congress to lay out the kind of money required to shore up the American family through paid maternal leave and adequate day care for the children of working mothers. There is ample evidence now that the crumbling American family, which has a 50 percent divorce rate today, has produced children with poor self-images, and that this cripples children in school.

There is very little hope for revitalizing our industrial system unless there is a drastic shift in spending priorities in Washington, away from the arms race to all the programs that work for a new generation of heathier, psychologically sound and well-educated youth. We will otherwise see the ownership and top management of our best industry in foreign lands, while our second best industry will fade away.

Frederick S. Lightfoot
Greenport, N.Y.

Fincapp remembered

KUDOS TO WOODY IGOU FOR HIS PIECE ON PHILOSopher Magnus Fincapp (*ITT*, June 21). However, I must take issue with the omission from his essay of a discussion of one of Fincapp's great works from his very, very ordinary period.

I am speaking, of course, of "MY OTHER CAR IS A PIECE OF SHIT, TOO" (*Road and Track* magazine, February 1986). In this work, we do find the evidence of ouzo abuse chronicled by Igou and his otherwise splendid commentary. However, we also find here Fincapp at his cutest, reflecting an ironic prole self-loathing rather than the challenge of the later "HOW'S MY DRIVING? CALL 1-800-EAT-SHIT."

But I quibble. It would be impossible to improve upon Igou's sodden memorial to this great innovator. However, I thought it appropriate to remind your readers that even as Fincapp was declining and showing signs of renal failure, enough sparks of his old self remained that he could engage in inappropriate chortling with respect to the great issues of our day.

Andrew D. Thomas
Evansville, Ind.

Cracked bell

THE "LOGICAL FLAW" IN *YOUR* ARGUMENT (EDITORial, July 5) is that any and all flag burners must be "crazies on the left." How exactly is it that you can presuppose the motives of a person using such a broadly interpreted symbol for self-expression? If what the flag stands for is democracy and civil rights, then I too would consider those who burn it "crazy." But what if it also "stands for" capitalism? Or the majority of wars the U.S. has involved itself in? Or an array of other shameful acts? And what if some people are getting a little tired of what America stands for and want to make provocative statements about what it actually *is*?

I notice you try to qualify your epithet with the phrase "as was the case here." And just what was it about the "case" here? Was it the case Gregory Johnson would make for a radical redistribution of wealth (recall *In These Times*' squeamish endorsement of Capitol Hill salary hikes) or the fact that it directly affronted an electoral process, albeit the *other* one than the one *In These Times* embraces?

Let freedom someday ring. I just wish your defense had rung a little more clearly.

Carol Reid
Albany, N.Y.

Editor's note: *The truth is we think Gregory Johnson is a political ding-dong.*

Desecration of justice

THE PRESIDENT'S VOICE QUIVERED WITH EMOTION during his June 27 press conference when he said, "The flag of the United States should *never* be the object of desecration! Flag burning is *wrong*."

But since when is Mr. Bush—who belongs in prison himself—so concerned over what is wrong?

As of June 27 there were some 41 co-sponsors in the Senate and more than 100 in the House of Representatives for a constitutional amendment prohibiting flag burning as a form of free speech. All night June 28 members of the House waxed eloquent in nostalgia and praise for Old Glory and abhorrent of anyone who would stoop so low as to "desecrate" our flag. How does one desecrate dishonor by exposing it?

Where in all this is any concern for the real wrong, the overriding desecration, that passes unmentioned? Where is concern for the injustice, the destruction, the suffering resulting from historic and present U.S. policy?

What about a nation of "Brotherhood from Sea to Shining Sea" built on genocide, which continues genocidal policies to this day? What about the Big Mountain Navajo being forced from their lands for energy development?

What about a government that has lied and continues to lie to its people about the dangers of nuclear weapons testing, nuclear power generation, pesticide use?

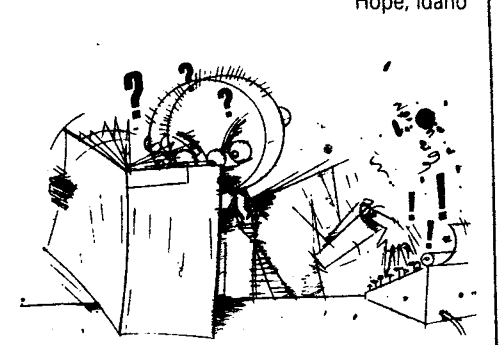
What about top government officials breaking the law with impunity?

What about a foreign policy so unjust as to be putrid?!

Until the U.S. flag truly represents peace, ecological responsibility and justice, I can't respect it or find within myself any criticism for those who "desecrate" it. I can't in good conscience pledge allegiance to that flag. It's beyond me how a people responsible for so much injustice and suffering in the world can so totally deny that responsibility.

Rather than make flag burning illegal, wouldn't it be more constructive to consider why people find such protest necessary?

Constance Reed
Hope, Idaho



SYLVIA **by Nicole Hollander**

EVERYBODY'S BUSINESS

By David Kotz

S&L hell: loan wolves howl all the way to the bank

By David M. Kotz

We've grown accustomed to learning about economic problems that keep getting bigger. The budget and trade deficits of the '80s came to public attention as large, scary numbers were announced. And those numbers were soon replaced by a series of much bigger numbers as both deficits rose rapidly.

This familiar process of rapid escalation of the dollar size of a crisis produces a numbing effect. How can one get upset at the current estimate of the size of a problem when it will probably soon be doubled or tripled?

The saving and loan association (S&L) crisis is perhaps the most extreme example of this syndrome. In March of 1986 Edwin Gray, then chairman of the Federal Home Loan Bank Board (FHLBB), warned that resolving the S&L crisis would cost $16 billion. In December, 1987 the new chairman of the FHLBB, M. Danny Wall, estimated a $17.4 to $22.7 billion cost. Seven months later he upped it to $30.9 million and three months later, in October of 1988, to $45-50 billion.

Bailout bonanza: The Bush administration's S&L bailout bill, sent to Congress in February of this year, placed the price tag at $126 billion. Three weeks later, the administration raised the cost estimate to $157.6 billion. Of this latest estimate, $135 billion represents the funds required to bail out the depositors of insolvent S&Ls, with the remainder largely going to pay interest on bonds sold to raise the funds needed. Some experts warn that the total cost could go as high as $200 billion. In three years, the official estimate grew nearly tenfold. (By comparison, the combined cost of the past public bailouts of PennCentral, Lockheed, New York City, Chrysler, Continental Illinois National Bank and the Farm Credit System came to $18 billion.)

Many commentators warned that the federal budget deficits and trade deficits would cause the sky to fall. The fact that it has not might lead to complacency regarding the current headline-grabbing debt crisis, but that would be a mistake. While the budget and trade deficits are serious problems, they do not represent debts that Americans are likely to have to pay back any time soon, or even in the future. But the S&L bailout cost will indeed have to be paid, with most of the burden likely to fall on the taxpayers. The Financial Democracy Project, a coalition pressing for a progressive solution to the crisis, has estimated that the proposed bailout could cost taxpayers as much as $1,000 per household on average.

How did this enormous crisis develop? How did it grow so rapidly? Where did the countless billions in depositors' money, which the S&Ls no longer have and the taxpayers are now asked to repay, end up?

Home-loan history: Savings and loan associations developed in the early 19th century as specialized financial institutions that took in small savings deposits and lent money to enable people to buy a home. Until recently S&Ls were all "mutuals," meaning they were owned by their depositors rather than profit-seeking shareholders. Along with other financial institutions, they suffered from the stormy course of American financial history up through the Great Depression.

In 1933-34 the wave of New Deal legislation that created a new regulatory system for commercial banks also set up a system for the S&Ls. The Federal Home Loan Bank Board (FHLBB) was given regulatory authority over S&Ls, and the Federal Savings and Loan Insurance Corporation (FSLIC) was created to insure S&L deposits. This regulatory apparatus helped establish stable institutions to provide financial resources for homeownership.

After World War II the system—supplemented by other federal programs to steer financial resources into housing—worked reasonably well. Millions of Americans got mortgages on favorable terms. From 1950 through 1970, 31 million housing units were built, including 20 million single-family homes. The percentage of owner-occupied housing units rose rapidly from 43.6 percent in 1940 to 61.9 percent in 1960, then inched up through 1980 to 64.4 percent.

S&Ls provided the bulk of the mortgage financing for this vast expansion of homeownership and grew rapidly during this period. In 1945 S&L assets were less than 5 percent as large as commercial bank assets, but by 1965 they had grown to 39 percent as large as the commercial banks. Despite the rapid expansion, the life of an S&L was tranquil. The roughly 5,500 S&Ls took in deposits through passbook savings accounts paying low interest rates and lent most of the deposit money out for home mortgages in their local area at rates 2.5 to 3 percentage points over the rate they paid their depositors. The difference covered the S&Ls' administrative costs. Failures were almost unknown among S&Ls through the mid '60s, and the few that occurred were associated with criminal activity.

Federal regulations insured S&L deposits regardless of an institution's financial condition. This prevented the fear-driven runs on S&Ls that had closed healthy institutions as well as ailing ones in the past. S&Ls' lending activities were limited to such safe areas as home mortgages and government securities. The regulatory authorities set interest rate ceilings to effectively keep S&L deposit rates at a level slightly above the commercial bank rate. The regulators set the deposit rates at a level that would assure an adequate spread between mortgage and deposit interest rates, thus assuring that well-managed S&Ls would remain healthy.

From stability to crisis: The smooth working of the S&Ls was not isolated from the rest of the economy. From the mid '40s to the late '60s, the American economy as a whole had only mild ups and downs. Despite conservative politicians' constant warnings, there was little inflation and low interest rates promoted rapid economic growth.

In the late '60s conditions began to change, as the economy entered what would turn out to be a long period, not yet over, of instability and stagnation. Inflation began to rise, and in the '70s it became a major problem. With it came rising interest rates as lenders demanded higher rates to compensate themselves for the depreciation of the value of their loans caused by inflation. From 1950 to 1965 interest rates on 3 month treasury bills varied between 1 percent and 4 percent, but from 1966 to 1979 these rates ranged as high as 10 percent.

The high interest rates threatened to undermine the ability of the S&Ls to obtain deposits. People getting 5.25 percent interest on their savings heard about the high money market rates and wondered why little folks couldn't get such rates. Wall Street saw a profit opportunity, and Money Market Mutual Funds (MMMFs) were born. Beginning in 1972, they allowed middle-income savers to buy shares, the proceeds of which were invested in large denomination securities that paid high money market rates. As MMMFs expanded during the late '70s, people made large withdrawals from savings and loans, a process known as "disintermediation."

The regulatory authorities' response contained the seeds of worse disasters ahead. To allow the S&Ls to compete with the MMMFs, in 1978 they authorized S&Ls to issue 6-month money market certificates paying rates slightly above the 6-month treasury bill rate. This helped stop disintermediation, but at a price. The S&Ls' cost of obtaining funds, previously kept low by regulation, now began to rise with the money market rates. S&Ls income, however, came from long-term, fixed rate mortgages. Thus, the S&Ls' income rose only slowly as old mortgages were paid off and new ones were made at higher rates, while their costs of funds rose rapidly. This squeeze helped set off the '80s S&L crisis.

The crisis began in two stages. From 1979 to 1982 regulatory changes and actions plus economic recession created hundreds of insolvencies among S&Ls. Then in the mid-'80s, the problem worsened as the economy of the Southwest collapsed.

A fateful summer: In the summer of 1979 a decision was made that would have fateful consequences. Under intense pressure to rein in inflation and stabilize the dollar in international currency markets, President Carter named Paul Volcker, the international banking community's choice, to head the Federal Reserve System. In October of that year, Volcker made a radical change in monetary policy. Giving up the past practice of stabilizing interest rates, the Fed sharply contracted the supply of money and credit, driving interest rates up to the highest levels of this century.

By 1981 the prime lending rate had reached 21.5 percent. The high interest rates attracted foreign capital into the country, restoring the international value of the dollar. And, by plunging the economy into the deepest recession since the '30s, it broke the back of the inflation process, as the inflation rate fell below 4 percent in 1982.

The Fed-induced astronomical interest rates hit the S&Ls just as a second government innovation was arriving: financial de-

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'PERHAPS WE SHOULD AT LEAST TEACH THE JERK TO SAY GRACE...'