

US central bank chief backs budget cuts and privatization

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Federal Reserve Board Chairman Alan Greenspan intervened in the ongoing discussion in US ruling circles about the mounting federal budget deficit, using his semi-annual appearance before Congress Wednesday to call for major cuts in federal spending as well as privatization of Social Security.

Speaking at a hearing of the House Budget Committee, the head of the US central bank cited figures from both the White House and the Congressional Budget Office that showed “our budget position is unlikely to improve substantially in the coming years unless major deficit-reducing actions are taken.”

Greenspan called on Congress to act on the deficit “sooner rather than later,” warning that otherwise the United States could plunge into a downward spiral of growing deficits, heavier government borrowing, rising interest rates, and economic slump.

“When you begin to do the arithmetic of what the rising debt level implied by the deficits tells you, and you add interest costs to that ever-rising debt, at ever-higher interest rates, the system becomes fiscally destabilizing,” he said. “Unless we do something to ameliorate it in a very significant manner, we will be in a state of stagnation.”

Greenspan suggested the crisis was not imminent, saying there could be “very grave difficulties” by 2015. But there is no question that more short-run dangers underlay his comments, especially the ongoing slide of the dollar on currency markets.

The Fed chairman called for bipartisan collaboration between the Bush administration and Republicans and Democrats in Congress to carry out the attack on the deficit. He posed as being evenhanded in his approach to the two big business parties, using language that rebuked both White House aspirations for more tax cuts

and Democratic opposition to cuts in domestic social spending.

“Addressing the government’s own imbalances will require scrutiny of both spending and taxes,” he said. “However, tax increases of sufficient dimension to deal with our looming fiscal problems arguably pose significant risks to economic growth and the revenue base.”

This nod in the direction of the Bush administration was combined with support for the congressional Democrats’ position on fiscal restraint. The “overriding principle” had to be deficit reduction, he said, adding—in a veiled reference to White House plans for more tax cuts—“It’s the principle that I think is involved here, namely that you cannot continuously introduce legislation which tends to expand the budget deficit.”

Greenspan explicitly endorsed the position taken by the Democrats that Congress should reestablish so-called PAYGO, budget rules which require that any new spending measure or tax cut should be offset by an equivalent cut in spending or increase in revenues, so as not to worsen the deficit. House Republicans blocked renewal of PAYGO—first enacted in 1990—insisting that only spending increases, but not tax cuts, should be offset.

The Fed chairman is famous for convoluted and opaque statements aimed at masking both the Fed’s own policy intentions and his attitude to specific legislative initiatives. His March 2 comments were unusually direct, however, explicitly revealing the class content of the budget discussion in Washington. The problem with budget deficits caused by escalating costs for Medicare, Medicaid, Social Security and other entitlement programs, Greenspan explained, was that “they would drain an inexorably growing volume of

real resources away from private capital formation.”

In order to avoid this outcome, he urged Congress to move to “close the fiscal gap primarily, if not wholly, from the outlay side.” This would require “significant structural adjustments in the nation’s major retirement and health programs.”

There is little left to the imagination here: the health care needs and retirement income of working people must be sacrificed to insure “private capital formation”—the enrichment of the financial oligarchy of multi-millionaires which dominates American society and controls both the major political parties.

Within that context, Greenspan laid far more stress on cutting Medicare than Social Security, because the future costs of the health care program for the elderly are likely to rise at a far faster rate because of increases in life expectancy and improvements in medical techniques.

In what amounted a slap at the Bush administration’s enacting of a Medicare prescription drug benefit in 2003—which does not take effect until next year—Greenspan warned of the political dangers of any increase in government social benefits. “The critical reason to proceed cautiously is that new programs quickly develop constituencies willing to fiercely resist any curtailment of spending or tax benefits ... Programs can always be expanded in the future should the resources for them become available, but they cannot be easily curtailed if resources later fall short of commitments.”

On Social Security itself, Greenspan flatly declared, “I fear that we may have already committed more physical resources to the baby-boom generation in its retirement years than our economy has the capacity to deliver.”

This is a remarkable statement. The United States, the richest society in the history of the world, is, according to its top economic policymaker, incapable of meeting extremely modest commitments to provide adequate health care and retirement income to the working people who have produced its immense wealth. By itself, this is a staggering admission of the bankruptcy of American capitalism and the incompetence of the capitalist ruling class.

Greenspan gave his strongest-yet endorsement of the Bush administration’s drive to privatize Social Security, declaring that “a retirement system with a

significant personal accounts component would provide a more credible means of ensuring that the program actually adds to overall saving and, in turn, boosts the nation’s capital stock.” Again, the undisguised class language is worth noting: privatization will be better for the capitalists.

He was nearly as explicit about the consequences for working people, concluding, “The one certainty is that the resolution of the nation’s unprecedented demographic challenge will require hard choices and that the future performance of the economy will depend on those choices. No changes will be easy, as they all will involve setting priorities and, in the main, lowering claims on resources.”

It will, of course, not be the capitalists who lower their claims on the resources of the US Treasury. They have already plundered trillions in tax cuts under the first Bush administration, and the White House, congressional Republicans and the Federal Reserve Board chief all agree that those cuts should be extended and made permanent.

Those who will be lowering their expectations are the pensioners of today and of the future, who see their benefits slashed and their Social Security payroll taxes siphoned into private investment accounts to enrich Wall Street.



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