

# Massive US deficit spells austerity policy for next administration

Jerry White  
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The Bush administration this week predicted that the US budget deficit will hit a record \$482 billion in 2009. This means that the next president, whether Democrat Barack Obama or Republican John McCain, will follow a policy of unprecedented austerity, including gutting entitlement programs, such as Medicare and Social Security.

Although the deficit figure is \$74 billion higher than what the White House predicted just two months ago, it is widely acknowledged that it severely underestimates the real scope of the coming shortfall. The amount announced by White House budget director Jim Nussle includes only \$70 billion for the wars in Iraq and Afghanistan—which could cost at least three times as much.

Moreover, the estimate ignores the \$100 billion—or hundreds of billions, which could be the eventual cost—being allocated for the Treasury Department's rescue of the mortgage finance companies, Fannie Mae and Freddie Mac.

The estimate was based on projections of better-than-expected economic growth, corporate tax revenues, unemployment and inflation estimates and a slowing down of the fall in housing prices. These were quickly discredited by news that real estate prices had fallen by a record 15.8 percent in 20 major US cities over the past year. The same day that the White House released the estimate, Merrill Lynch was forced to write-down \$5.7 billion in mortgage-backed assets and was essentially bailed out by investors from Singapore.

“That’s not the real number,” former Bush Treasury Secretary Paul O’Neill said of the deficit in a comment cited in the *Washington Post*. “It’s upward of \$500 billion and counting. It’s a mind-boggling number.”

This staggering rise in government indebtedness—which has more than doubled in the current 2008 fiscal year to \$389 billion, from \$162 billion in 2007 and will be nearly half a trillion in 2009—further undermines the international creditworthiness of the US and places even greater

downward pressure on the US dollar.

According to the *New York Times*, “When Mr. Bush took office, he predicted that federal debt held by the public—the amount borrowed by the government to pay for past deficits—would shrink to just 8 percent of the gross domestic product in 2009. He now estimates that it will amount to 40 percent.”

There is an overwhelming consensus in the economic and political establishment that ordinary Americans will have to pay for the crisis of American capitalism and a budget deficit that has been fueled by massive war spending, tax cuts for the wealthy and the provision of unlimited public resources to bail out major financial institutions.

“This is going to make it extraordinarily difficult for whoever’s going to become president,” Senate Budget Committee Chairman Kent Conrad (Democrat-North Dakota) told the *Washington Post*. “I don’t care who the president is—when they come and meet with their secretary of the Treasury, the Federal Reserve chairman, their top economists, it will be a sobering moment.”

If he wins the November elections, whatever minimal spending proposals Barack Obama has made during the campaign—including his so-called universal health care plan, tax credits for middle and low-income families and miniscule increases in infrastructure spending—will quickly be shelved in the name of “fiscal responsibility.”

Moreover, the political groundwork for major cutbacks in vital social services is already being laid. In their reports on the budget deficit, both the *New York Times* and the *Washington Post* complained of “fiscal pressures” due to the growing Medicare and Social Security costs—a thinly veiled suggestion that the next president will have no choice but to gut these programs, upon which tens of millions of seniors depend for income and health care.

Nowhere is there a suggestion that military spending—which at nearly \$700 billion consumes well

over half of the US government's discretionary spending and is more than the rest of the world's military spending combined—should be cut, let alone eliminated.

For his part, Obama has pledged to expand the military by nearly 100,000 soldiers and marines and increase spending. Given the costs of the ongoing wars in Iraq and Afghanistan, as well as new weapons systems, “It’s hard to see how we could spend less on the military in the near term,” Richard Danzig, a former Navy secretary who advises Obama on national security, told Reuters in an interview last week.

While McCain calls for the extension of Bush’s tax cuts for the rich, Obama would only raise the top tax rates to the levels that existed under the Clinton administration—to 36 percent and 39.6 percent, from the current 33 percent and 35 percent. He has repeatedly rejected any return to higher tax rates on the wealthy as “confiscatory” and has told the *Wall Street Journal* he would also consider cutting corporate taxes.

On Monday, Obama held a Washington meeting with leading figures from corporate America and both Democratic and Republican parties. These included billionaire financier Warren Buffett, the CEOs of JPMorgan Chase, PepsiCo and Google, as well as Bush’s former Treasury Secretary Paul O’Neill, now a special advisor to the private equity firm Blackstone Group.

Also participating were top Obama economic advisors Robert Rubin, chairman of Citigroup and Clinton’s former treasury secretary, and Paul Volcker, who served as Federal Reserve chairman under the Carter and Reagan administrations. Ruben played a decisive role in the deregulation of the financial markets that helped create the mortgage and real estate bubble and made billions for wealthy speculators.

Volcker spearheaded the attack on the working class in the early 1980s by driving up interest rates to record levels and deliberately provoking the worst recession since the Great Depression of the 1930s in order to use unemployment as a hammer to drive down wages and living standards.

With bureaucrats from the AFL-CIO and Change to Win union federations present to perpetuate the fraud that Obama speaks for the interests of workers, the Democratic presidential candidate said, “There were some irresponsible decisions that were made on Wall Street and in Washington. In the past few years, I think we learned an essential truth that in the long run we can’t have a thriving Wall Street if we don’t have a thriving Main Street.”

Bipartisan measures were needed, he said, to “stabilize financial markets” and encourage entrepreneurship and the free market.

On Tuesday, Obama held discussions with current Federal Reserve Chairman Ben Bernanke and Bush’s Treasury Secretary Henry Paulson, where he signaled support for the government’s bailout of mortgage giants Fannie Mae and Freddie Mac.

While unlimited public funds are being made available to bail out wealthy investors, there will be no relief for masses of working people in the US facing layoffs, home foreclosures, unsustainable levels of personal debt, declining wages and skyrocketing prices for basic necessities.

Once again, both parties will use the lie that there is “no money” to meet social needs, while hundreds of billions are squandered on imperialist wars and channeled into the pockets of the wealthiest one percent of the population.

This guarantees that under the next administration, the working class occupants of “Main Street” will continue to face unprecedented levels of social distress and economic insecurity, while the country’s infrastructure—its roads, schools, bridges and public services—continue to crumble from neglect

Meeting the basic needs of the population—for decent paying jobs, high quality health care and education and affordable housing—requires a complete reorganization of economic life. Social and political priorities must be turned inside out, rejecting the anarchic prerogatives of the capitalist market and placing the needs of working people first.

This underscores the need for a break with the Democratic and Republican parties and the building of a mass political movement of the working class based on a socialist alternative to the profit system.



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