Obama outlines policy of austerity at budget summit

Tom Eley
24 February 2009

In advance of his address to Congress on Tuesday and the release of his federal budget on Thursday, President Barack Obama on Monday hosted a White House Federal Budget Summit to launch a campaign for "fiscal responsibility."

While largely a public relations event, the gathering underscored the right-wing character of the new administration's policies. Obama's opening remarks, taken together with those delivered by other speakers, indicated that his administration will seek to reduce spending on major entitlement programs such as Social Security, Medicare and Medicaid, upon which tens of millions of Americans depend for retirement and health care.

Social Security is the federal retirement insurance system in the US based on the payroll contributions of current workers. Medicare provides health insurance to the elderly and Medicaid provides health assistance to the poor.

Though left unstated, resources drained from these and other social programs will be redirected to the coffers of the financial aristocracy. Underscoring the hypocrisy of Obama's calls for "shared sacrifice" and "living within our means," that very morning the Treasury Department and the Federal Reserve Board issued a statement reassuring Wall Street of the government's open-ended commitment to bailing out the banks and major financial firms and keeping them in private hands.

In his address, Obama announced a goal of cutting the federal deficit, currently at over $1.3 trillion, in half by the end of his first term to $530 billion. Considering the enormous outlays his administration has already made to Wall Street and its promise to carry on "the global war on terror," this can only mean massive cuts to social spending.

Obama's four-year budget plan is based on a best-case scenario that envisions savings generated largely from improvements in government efficiency and a reduction of expenditures on the war in Iraq. The notion that finances will be saved on the Iraq war has been publicly thrown into doubt by statements from members of the military brass contradicting Obama's proposals for a rapid troop drawdown. More importantly, his proposals do not appear to take into account the rapid increase in spending that will inevitably accompany his escalation of hostilities in Afghanistan and Pakistan.

While the speakers at the summit who preceded Obama—Peter Orszag, director of the Office of Management and Budget; Robert Greenstein, director of the Center on Budget and Policy Priorities, a liberal Democratic think tank; and Mark Zandi, chief economist at Moody's Economy.com—emphasized the need to limit spending on health care, they said nothing about the trillions handed out to the financial industry nor the enormous cost of military spending and the wars in Iraq and Central Asia, which at nearly $700 billion in 2008 nearly doubled spending on Medicare.

That the event was designed to conciliate the Republican right was indicated by the presence of leading congressional Republicans and Zandi, who was a top economic advisor to defeated 2008 Republican presidential candidate John McCain. Zandi was given prominence as the event's first speaker. Also in attendance were union leaders, promising the labor bureaucracy's political support for cuts in social spending.

Greenstein argued that "the increases projected in federal spending in coming decades as a share of the economy are due entirely to the projected growth in Medicare, Medicaid and Social Security." Among these "problems," Greenstein emphasized Medicare costs.

Likewise Orszag, who addressed himself "to my fellow budget hawks in this room and in the rest of the country," emphasized that "health care reform is entitlement reform. The path to fiscal responsibility must run directly through health care."

After the speeches, the conference's 120 attendees entered discussions in various "breakout groups" moderated by administration officials. Upon completion of these sessions, the entire group reconvened and Obama took questions. He called on McCain to raise the first question.

Among the topics discussed in the breakout sessions was Social Security. Social Security has long been a target of Wall Street, which seeks access to the financial resources allocated to the retirement savings program created during President Franklin Roosevelt's New Deal in response to the Great Depression. In spite of claims that the program is or will soon be insolvent, Social Security has run large surpluses for decades, from which the federal government has borrowed to fund tax cuts for the wealthy and military spending.

The creation of private Social Security accounts invested in Wall Street has become a political impossibility given the financial collapse. Orszag has long advocated a different sort of solution, co-authoring a book in 2004 called *Saving Social Security: A Balanced Approach*, in which he advocated a combination of payroll and "benefits adjustments"—i.e., cuts in social security payments to retirees.

Beyond the ominous warnings of cuts to entitlements and vague reference to rooting out "inefficiency" in spending, there was only one specific policy proposal made. Obama said that he would seek to reinstate budgetary "pay-as-you-go" rules previously instituted during the Clinton administration. Significantly, Obama characterized the measure as "insist[ing] upon any spending increases being offset by spending cuts from elsewhere in the federal budget," omitting any reference to tax increases.

The statement issued earlier by the Treasury and the Federal Reserve revealed the class interests that underlie the Obama administration's campaign for "fiscal responsibility." It announced a change in the terms of taxpayer handouts to the banks, retroactive as well as going forward, that will relieve the financial firms of interest payments and allow them to voluntarily convert government-held preferred stock to common stock in order to bolster their balance sheets, while assuring the banks that the government will protect their shareholders and avoid nationalizing them.

"The US government stands firmly behind the banking system [and] will ensure that banks have the capital and liquidity they need," the statement read. It concluded that "the strong presumption of the Capital Assistance Program is that banks should remain in private hands."

Since the onset of the financial crisis, economists estimate that the government has allocated somewhere between $7 trillion and $9 trillion to the big financial institutions in the form of direct cash infusions, low-cost loans, guarantees of bad debt and other subsidies. In comparison, the total federal budget for 2008 was $2.9 trillion, of which approximately $1.2 trillion was allocated to Social Security, Medicare and Medicaid.