

# As US debt tops \$12 trillion, Obama calls for austerity

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At the end of his visit to China Wednesday, President Barack Obama warned that the US economy faces the threat of a “double-dip recession” unless the government carries out fiscal austerity measures designed to slash the mounting public debt.

Obama’s remarks came just a day after the Treasury Department announced that the US public debt had passed the \$12 trillion mark, a record high. The debt has soared from \$10 trillion in September 2008, at the outset of the world financial meltdown. The unprecedented rise reflects above all the massive deficit spending that the government has used to bail out Wall Street and to assume responsibility for the bad debts of major banks and finance houses.

“Our first job was to get the economy to recover. And we’re seeing that,” Obama told Fox News in an interview conducted in Beijing.

He continued, “I think it is important, though, to recognize if we keep on adding to the debt, even in the midst of this recovery, that at some point, people could lose confidence in the US economy in a way that could actually lead to a double-dip recession.”

In reporting the remarks, the *Financial Times* noted pointedly that their timing, coming at the end of his three-day visit to China, raised the question of whether “his Chinese counterparts delivered stern warnings to Mr. Obama about the consequences of continuing high US budget deficit spending.”

China, which holds nearly \$800 billion in US Treasury bonds, is the US economy’s biggest creditor. As the *Financial Times* noted, “some presented his [Obama’s] state visit to China as that of a debtor visiting his banker.”

In a separate interview with NBC News, Obama defended his policy when asked whether he should have acted sooner on jobs, asserting that his administration’s policies had been designed “to make sure we didn’t slip into a Great Depression.”

Obama went on to qualify his boast about economic recovery, acknowledging that “people are really hurting right now” because of the unemployment crisis. The only proposals that he raised for spurring employment growth, however, were providing

corporations with a tax incentive to hire new workers and boosting US exports, which he cited as “an example of something we could do without spending money.”

The administration continues to rule out any direct job creation measures by the government itself.

Top officials in the Obama administration also stressed deficit reduction in a conference of CEOs held by the *Wall Street Journal* this week. White House Chief of Staff Rahm Emanuel said that a plan for slashing federal deficits will be “a key component” of Obama’s annual State of the Union address in January. “It is foremost on his mind and the mind of his economic team,” he told the assembled corporate executives.

Speaking at the same conference, White House budget director Peter Orszag stressed that the administration’s so-called health care reform will add nothing to the deficit. He acknowledged that the current deficit, which reached \$1.4 trillion in the fiscal year that ended in September—roughly 10 percent of gross domestic product—is unsustainable. Orszag said that the administration would present a plan for slashing it to 3 percent of GDP, but declined to spell out what measures would be taken.

Meanwhile, the administration will be compelled to ask Congress to once again raise the federal debt limit beyond the \$12.1 trillion ceiling that it established earlier this year in order to stave off a government shutdown.

That the US debt is unsustainable is beyond question. According to the Treasury Department, Washington was compelled to pay \$383 billion over the course of the last fiscal year just in interest on the public debt. Given that total revenues from individual federal income taxes amount to \$904 billion, 40 cents out of every dollar paid by US taxpayers is going to service the debt.

Meanwhile, the tensions with China are indicative of global concerns over record US deficits and Federal Reserve lending rates of near zero that are driving central banks internationally to shift their holdings from the US dollar to other currencies such as the euro and the yen, as well as to gold.

The rise in US debt and the fall of the dollar are both



symptomatic of the protracted decline of American capitalism and its shift from being the world's manufacturing leader to the center of global financial parasitism and speculation.

The Obama administration's focus on fiscal austerity is not designed to avoid a "double-dip recession"; in terms of the real economy, slashing government funding will make one all the more likely.

Rather, it is aimed at placing the full burden of the economic crisis on the backs of working people.

That this process is already well advanced was made clear in Federal Reserve Chairman Ben Bernanke's unusually frank assessment of the "jobless recovery" presented in a speech to the Economic Club of New York earlier this week.

"Since December 2007, the US economy has lost, on net, about 8 million private-sector jobs, and the unemployment rate has risen from less than 5 percent to more than 10 percent," Bernanke told his audience of business and financial executives. "Both the decline in jobs and the increase in the unemployment rate have been more severe than in any other recession since World War II."

According to the government's more comprehensive figure, encompassing involuntary part-time workers and so-called "discouraged" workers, the real unemployment rate has topped 17.5 percent, a depression level.

Bernanke also noted that the number of part-time workers who cannot find full-time jobs has doubled since the onset of the crisis, while the average workweek has fallen to 33 hours, the lowest level since the Great Depression.

"With the job market so weak, businesses have been able to find or retain all the workers they need with minimal wage increases, or even with wage cuts," the Fed chairman continued. "Indeed, standard measures of wages show significant slowing in wage gains over the past year. Together with the reduction in hours worked, slower wage growth has led to stagnation in labor income."

Bernanke pointed to the sharp growth in productivity—a 5.5 percent annual rate so far this year—attributing it to employers carrying out layoffs and then "asking their remaining workers to provide extra effort."

He concluded, "The best thing we can say about the labor market right now is that it may be getting worse more slowly."

The truth of even this limited claim was called into question by the release of subsequent figures showing US housing starts falling to their lowest level in six months—a 30.7 percent decline since October of last year—and a fall in factory production in October, the first such decline since June.

One sector of the economy is booming, however. New York State's comptroller, Thomas DiNapoli, released a report Tuesday stating that profits on Wall Street will set a new record in 2009, with its four largest investment firms—Goldman Sachs, Merrill Lynch, Morgan Stanley and JPMorgan Chase—having already earned \$22.5 billion in the first nine months of the year.

As the *New York Times* pointed out, "Fueling the gains were extraordinary profits from the firms' own securities trading accounts as they borrowed at near-zero interest rates and put the money to work in the securities markets."

The report also predicted that bonuses paid at six of the top bankholding companies—Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley and Wells Fargo—are likely to top their 2007 record of \$162 billion. Given that Wall Street will have eliminated 35,000 jobs by the end of this year, this means substantially richer year-end paydays for the top executives and traders.

This is the reality of the Obama administration's policy. Massive bailouts and cheap credit policies are fueling a new financial bubble and even greater fortunes on Wall Street, while the working class is facing mass unemployment, growing impoverishment and increased exploitation.

The promises of fiscal discipline and austerity amount to the kind of structural adjustment program that Washington, through the International Monetary Fund and the World Bank, previously imposed upon indebted countries from Latin America to the former Soviet bloc. Now, similar measures are being prepared against working people in the US.

The proposed health care "reform," designed to cut costs and ultimately the life expectancy of American workers, is only the first phase of a planned destruction of the limited social gains won by working people in the US since the 1930s.

The conditions described by Bernanke—mass unemployment being used as a bludgeon to extract wage cuts and increased productivity from workers—is, from the standpoint of America's ruling oligarchy, not the problem but the solution. Combined with the fiscal austerity and budget cutting policies being championed by Obama, this assault on living standards and basic rights is aimed at making American workers pay for the crisis created by capitalism.



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