

# US Federal Reserve chief rules out loans to the states

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Testifying last Friday before the Senate Budget Committee, Federal Reserve Chairman Ben Bernanke rejected any aid to state or local governments across the country that are facing massive budget deficits. “We have no expectation or intention to get involved in state and local finances,” Bernanke said, adding later that the states “should not expect loans from the Fed.”

Bernanke was seconded by the Democratic chairman of the committee, Kent Conrad of North Dakota, who said neither the House of Representatives nor the Senate would be “very interested in bailouts to the states.”

The flat rejection of aid to the states by the head of the US central bank makes clear the social priorities and class interests represented by all of the institutions of the government.

Having placed the US Treasury at the disposal of the Wall Street banks, plundering the national wealth to the tune of trillions of dollars to bail out the financial elite, the Fed and the Obama administration contemptuously dismiss any suggestion that funds should be allocated to maintain basic social services—education, sanitation, fire protection—and programs for health care, housing and nutrition on which tens of millions of people rely.

This comes only weeks after Obama’s deal with the Republicans to extend the Bush-era tax cuts for the rich, with the added windfall of a cut in estate taxes that will give some 6,600 families an additional \$23 billion.

Bernanke, meanwhile, is maintaining interest rates at near zero and electronically printing up hundreds of billions of dollars in order to pump up the stock market and keep corporate profits at record levels by providing virtually free credit to the banks and corporations. Tacitly acknowledging that this policy will do nothing to resolve the jobs crisis, he complacently predicts that unemployment will remain near or above 9 percent for years to come.

Forty of the 50 US states have a combined deficit of

\$140 billion for the coming fiscal year. State revenues fell by nearly a third between 2008 and 2009 as a result of the recession, while costs for social programs such as Medicaid, the federal-state health care program for the poor, soared. City governments are facing a similar crisis.

The universal response, by Democratic as well as Republican officials, has been to slash social programs and basic services and attack government workers. Last year, local governments cut 212,000 jobs, adding to the worst jobs crisis since the Great Depression. Across the country, workers have been furloughed without pay and suffered reductions in pay and benefits.

The limited aid to the states provided in the Obama administration’s 2009 stimulus bill has run out, heightening the states’ fiscal crisis. Neither Obama nor Democratic congressional leaders have any intention of providing new subsidies to help state and local governments manage their budget crises.

Despite the official talk of a “recovery,” the media has begun 2011 with an orchestrated campaign to depict public workers as overpaid parasites. The purpose of this operation is to justify unprecedented attacks on wages, pensions, collective bargaining rights and the right to strike, and divert popular anger over deeper cuts in social programs away from the corporate-financial elite and the Democrats and Republicans who do its bidding.

The *New York Times* on January 2 published a front-page article headlined “Public Workers Facing Outrage in Budget Crisis.” The article made the spurious claim that politicians demanding further cuts in government workers’ jobs and wages are responding to popular sentiment. This was followed two days later by another front-page article about mounting attacks by state officials on public-sector unions. The article quoted Scott Walker, the newly elected Republican governor of Wisconsin, as saying, “We can no longer live in a society where the public employees are the haves and the taxpayers are the

have-nots.”

Reflecting the international nature of the turn to austerity by the ruling class, the British *Economist* magazine emblazoned the front page of its January 8 edition with the headline “The Battle Ahead: Confronting the Public-Sector Unions.” It wrote, “People in the private sector are only just beginning to understand how much of a banquet public-sector unions have been having at everybody else’s expense.”

In reality, public employee unions in the US and around the world have been working might and main to suppress the anger and resistance of their members and the working class as a whole and enable governments to impose austerity measures. In the US, however, wage-cutting has not gone as far, to this point, in the public sector as in the private. This is what the American ruling elite is seeking to change.

The Obama administration gave the signal for wage-cutting across the private sector by forcing General Motors and Chrysler into bankruptcy and imposing a 50 percent wage cut on newly hired auto workers. Now, Obama has signaled his support for the assault on public workers with his wage freeze on non-military federal workers.

This week, Democratic governors such as Andrew Cuomo of New York and Jerry Brown of California have announced plans for savage cuts in Medicaid, education and welfare programs along with wage cuts or freezes for state employees. Their Republican counterparts such as Chris Christie in New Jersey and John Kasich in Ohio are proposing similar measures.

The main difference between the two parties is that the Republicans are attacking the unions as institutions, threatening the interests of the union bureaucracies, while the Democrats downplay anti-union rhetoric in order to more effectively utilize the unions to impose layoffs and wage cuts. This is why Gerald McEntee, the president of the American Federation of State, County and Municipal Employees (AFSCME), is attributing the attack on state and local workers entirely to the Republicans, depicting it as retribution for the unions’ fund-raising and campaigning for the Democrats. “I see this as payback for the role we played in the 2010 elections,” he told the *New York Times*.

The Fed’s rejection of any aid to the states exposes the fraudulent character of the official talk about creating jobs and reducing unemployment. In reality, both the central bank and the Obama administration are deliberately keeping unemployment high, in order to blackmail

workers into accepting wage cuts and other concessions. Corporate cost-cutting has been the main factor in driving profits up to record levels in the midst of the economic slump.

In a front-page article Tuesday, the *Wall Street Journal* fairly gloated over the rapid drop in American workers’ wages. It noted that of long-term workers who were laid off between January 2007 and the end of 2009 and who found new full-time jobs, 54.9 percent are receiving lower wages. The wages of more than a third are down 20 percent or more. “While difficult for individual workers,” the *Journal* wrote, “lower wages can make US industries and companies overall more competitive....”

Similarly, Wall Street and the government want to keep the states and cities in dire fiscal straits so as to push through unprecedented and permanent cuts in social services and workers’ wages and benefits.

This is part of the class strategy of the American bourgeoisie to use the crisis of its own creation to make decent wages and economic security for workers a thing of the past. The Obama administration and both parties are fully committed to this class-war agenda. They rely on the trade unions to suppress and sabotage resistance from the working class.

To defend the right to a job, a livable income, pensions and social programs, the working class must break with the Democratic Party and its trade union adjuncts and mount an independent political struggle for socialism. To develop the fight for a new revolutionary movement of the working class, the Socialist Equality Party is holding public conferences in Ann Arbor, Michigan, on April 9-10, Los Angeles on April 16 and New York on April 30. We urge all those who see the need for this struggle to make plans to attend today.

(For information on the conferences, click here.)

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