Wall Street demands action on debt ceiling, deficit

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14 July 2011

Representatives of the Wall Street financial oligarchy are laying down the law to the Obama administration and Congress, demanding speedy action to raise the federal debt ceiling before an August 2 deadline, and massive cuts in spending on social programs like Medicare, Medicaid and Social Security, to slash the federal deficit.

Moody's Investor Service put the Aaa bond rating of the US government on review for a possible downgrade Wednesday, the first time such a step has been taken by any of the bond rating agencies. A statement from Moody's—which has spearheaded demands for austerity and budget cuts in Europe as well—warned of a "rising possibility that the statutory debt limit will not be raised on a timely basis, leading to a default on US Treasury debt obligations."

The ratings agency said it was acting because of "the possibility that the debt limit will not be raised in time to prevent a missed payment of interest or principal on outstanding bonds and notes," adding that even a brief failure to make such payments would mean that the Aaa bond rating "would likely no longer be appropriate." Moody's also placed on review the debt of several government-owned or government-backed corporations, including the mortgage finance companies Fannie Mae and Freddie Mac.

The Obama administration welcomed the Moody's warning as a reinforcement of its demands for major cuts in spending. Treasury Department undersecretary Jeffrey Goldstein said in a statement, "Moody's assessment is a timely reminder of the need for Congress to move quickly to avoid defaulting on the country's obligations and agree upon a substantial deficit-reduction package."

The Moody's action followed by one day the issuance of an appeal from nearly 500 corporate CEOs for immediate action to raise the debt limit and longer-term action on deficit reduction. The appeal took the form of a joint letter from the US Chamber of Commerce, the Business Roundtable, the National Association of Manufacturers and the Financial Services Forum.

Chamber of Commerce president Thomas Donahue declared, "An unprecedented default on the nation's bills would have dire consequences for our economy, our markets, and Main Street Americans." NAM president John Engler, former Republican governor of Michigan, added that even a brief halt in debt payments would "strike an immediate and serious blow to any economic recovery."

The *Washington Post* noted that the CEO letter made no mention of opposition to tax increases, the position taken by the congressional Republicans, "because of differences of opinion among executives over whether to compromise on taxes to get a deal done." A debt default "would be exponentially more painful" than the minor increases in taxes proposed by the White House, one executive told the *Post*.

Federal Reserve Board Chairman Ben Bernanke voiced similar concerns in testimony before a House committee hearing Wednesday. He warned that the August 2 deadline for raising the federal debt ceiling was real and imperative. Failure of the US government to make its debt payments would cause "shock waves through the entire global financial system," he said.

Bernanke compared the impact of a US debt default to the collapse of Lehman Brothers, the investment bank whose bankruptcy triggered the Wall Street and global financial collapse of September 2008. A US default "would create a huge financial calamity which would affect everybody and would set job creation back significantly," he continued.

Bernanke added that the measures that would be forced by a debt default would have colossal social impact, with an immediate 40 percent cut in all federal spending. "There would have to be significant cuts to Social Security, Medicare, military pay or some combination of those in order to avoid borrowing more money," he said.

He emphasized the necessity for major cuts in federal spending in the longer term, but sided with the Obama administration's position that cuts should be phased in over several years rather than applied immediately, because that would plunge the US economy back into recession. This produced a series of sharp exchanges with several Republican congressmen, who rejected the claim that August 2 represented a genuine deadline.

Three Republican congressmen held a press conference Wednesday morning to introduce legislation that would require the Obama administration to pay soldiers first, in the event that it must prioritize among its bills when the Treasury exhausts its resources after August 2.

These statements were the background for the speech by Senate Republican leader Mitch McConnell Tuesday, in which he warned that precipitating a federal default—the public goal of sections of the House Republicans linked to the ultra-right Tea Party groups—would have disastrous political consequences.

McConnell cited the concerns in big business over the prospect of a federal default, saying, “If we’re unable to come together, we think it’s extremely important that the country reassure the markets that default is not an option.”

The Republican leader described Obama’s call for minuscule tax increases on hedge fund operators, oil companies and corporate jets as “poll-tested rhetoric of class warfare,” adding, “The financial security of the nation was being gambled on the President’s wager that he could convince people our problems would be solved if we just all agreed to take it out on the guy in the fancy house down the street.”

Rather than enact such tax increases, or take the blame for a federal default that would crash the financial system, McConnell proposed to allow Obama to raise the debt ceiling on his own, while requiring him to enumerate spending cuts equivalent to the increase in the debt ceiling, even if these cuts were not enacted.

The scale of the budget cuts would have to be determined by the outcome of the 2012 elections, he claimed, adding, “As long as this president is in the Oval Office, a real solution is probably unattainable.”

This proposal came under immediate attack from Tea Party Republicans in the House, because it would involve abandoning the use of the debt ceiling deadline as leverage to force immediate adoption of the major spending cuts. But McConnell reiterated his position, telling a press conference Wednesday, “We’re certainly not going to send a signal to the markets and to the American people that default is an option.”

Both the liberal *New York Times* and the ultra-right *Wall Street Journal* hailed the McConnell proposal in editorials Wednesday—a demonstration of the fundamental unity among the spokesmen for the financial elite, despite their episodic political divisions. Both papers stressed the decisive importance of preventing a resurgence of the financial chaos that erupted in 2008.

The *Times* noted approvingly that the Obama administration has made “proposals that would have cut trillions from federal spending, including entitlement programs,” which the Republicans had rejected because of their phobia over even the slight tax increase for the wealthy. The *Journal* warned of the potential popular reaction, observing, “The polls that now find that voters oppose a debt-limit increase will turn on a dime when Americans start learning that they won’t get Social Security checks.”

Congressional Democrats hailed the McConnell proposal as a breakthrough. Significantly, however, the Obama administration reaction was cool. White House spokesman Jay Carney said a procedural maneuver was “not the preferred option” and that Obama still sought to reach an agreement calling for $4 trillion in deficit reduction over the next decade, a larger package than that proposed even by the House Republicans.

Obama has repeatedly sought to push the framework of the budget talks to the right, raising the prospect of cuts in Social Security last week, although the congressional Republicans had decided not to raise the subject. He also has proposed to increase the age of eligibility for Medicare from 65 to 67.

The budget negotiation is being conducted against the backdrop of an intractable and deepening economic crisis, with unemployment in the United States rising to 9.2 percent, and widespread forecasts that there will be no recovery in the job market before the 2012 elections, if at all.

In an interview Sunday on the NBC television program “Meet the Press,” Treasury Secretary Timothy Geithner made an extraordinary admission about the future direction of the US economy. Asked “when do you think recovery is actually going to start feeling like recovery?” he replied as follows:

“Oh, I think it’s going to take a long time still. This is a very tough economy. And I think for a lot of people … it’s going to feel very hard, harder than anything they’ve experienced in their lifetime now, for some time to come.”

The principal economic policy-maker of the Obama administration, who played a critical role in the Wall Street bailout of 2008 under the Bush administration as well, openly declares that for working people in the United States, conditions are going to be worse “than anything they’ve experienced in their lifetime now, for some time to come.”

This statement is a declaration of bankruptcy for both the Obama administration and for the capitalist system as a whole. This American ruling class is opposed to taking any action to alleviate the mass suffering caused by the 2008 Crash and the ensuing economic slump.

As the budget “debate” demonstrates, the policies demanded by big business and embraced by both political parties, Democrats as much as Republicans, will mean the destruction of programs like Medicare, Medicaid and Social Security, even as mass unemployment continues at the highest levels since the Great Depression.