

Michael Hudson on the Debt Ceiling. Imposing a Radical Pro-Rich Agenda

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President Obama and Republican House Speaker John Boehner are allegedly close to a \$3 trillion deficit-reduction package as part of a deal to raise the federal debt ceiling before an Aug. 2 deadline. But the deal is coming under fire from both congressional Democrats and Republicans. Part of it calls for lowering personal and corporate income tax rates, while eliminating or reducing an array of popular tax breaks, such as the deduction for home mortgage interest. Some Democratic lawmakers expressed outrage on Thursday because the Obama-Boehner agreement appears to violate their pledge not to cut Social Security and Medicare benefits, as well as Obama's promise not to make deep cuts in programs for the poor without extracting some tax concessions from the rich. We're joined by economist Michael Hudson, president of the Institute for the Study of Long-Term Economic Trends, a Distinguished Research Professor of Economics at the University of Missouri, Kansas City, and author of "Super Imperialism: The Economic Strategy of American Empire." [includes rush transcript]

JUAN GONZALEZ: President Obama and Republican House Speaker John Boehner are said to be close to a \$3 trillion deficit-reduction package as part of a deal to raise the federal debt ceiling before an August 2nd deadline. But the deal is coming under fire from both congressional Democrats and Republicans.

According to the Washington Post, part of the deal calls for lowering personal and corporate income tax rates while eliminating or reducing an array of popular tax breaks, such as the deduction for home mortgage interest. Some Democratic lawmakers expressed outrage on Thursday because the Obama-Boehner agreement appears to violate their pledge not to cut Social Security and Medicare benefits, as well as Obama's promise not to make deep cuts in programs for the poor without extracting some concessions from the rich.

AMY GOODMAN: Meanwhile, more details have emerged about the massive government bailout of the banking industry. On Thursday, the Government Accountability Office issued an audit of the Federal Reserve's emergency lending programs. It revealed the Fed provided more than \$16 trillion in secret loans to bail out American and foreign banks and businesses. Independent Senator Bernie Sanders responded to the audit by saying, quote, "This is a clear case of socialism for the rich and rugged, you're-on-your-own individualism for everyone else."

To talk more about the debt debate in Washington, as well as the overall economic crisis here and in Europe, we're joined by economist Michael Hudson, president of the

Institute for the Study of Long-Term Economic Trends, Distinguished Research Professor of Economics at the University of Missouri, Kansas City, and author of *Super Imperialism: The Economic Strategy of American Empire*.

Welcome back to Democracy Now!, Professor Hudson. What about these latest revelations?

MICHAEL HUDSON: If you're talking about the revelations of the Senator, these are the second big story to come out in the last two weeks. The first story, really, was two weeks ago when Sheila Bair finished her five-year term at the Federal Deposit Insurance Corporation. And now that she left, she was able to talk about the arguments that were going on while all of this money was being given away. She opposed it. She said none of this money, not a penny, had to be given away at all. She said the job of the FDIC was to do what it did with Washington Mutual and IndyMac. They could have closed down Citibank, they could have closed down AIG and the others. Depositors insured by the FDIC wouldn't have lost a penny. She said, "That's what the FDIC does."

She was overruled by Geithner and by the Treasury Department, and especially by Bernanke, who essentially said, "We have to save the rich first. We have to save the gamblers." There was plenty of money in all of the banks to cover all of the retail vanilla deposits for businesses and families. What there was *not* money for was for all the cross-gambles that they had made on derivatives—that is, which way interest rates would go, which way currencies would go. And so, this was really a casino. These were bets. And people like the AIG couldn't pay. And the question is, how are you going to get the winners in this casino to get money from the losers, who are broke? So these \$16 trillion worth of loans were all for junk securities. They weren't for the solid securities that did back out the deposits. These were all for junk gambles, having nothing to do with the real economy at all.

And the result was that while many of the \$16 trillion have been repaid, there has been a residue of \$13 trillion added to the government debt since September 2008, when all of this began. All this was created simply on a computer keyboard at the Treasury. So the question is, if they can create a \$13 trillion on a computer keyboard, taking over Fannie Mae and Freddie Mac, and the Federal Reserve can simply give this money, why can't they, over 50 years, pay the trillion dollars for the Medicare and the Social Security? It's—obviously, it's a charade.

JUAN GONZALEZ: Well, that was precisely my question. Where did this \$13 trillion come from? So this was basically all paper, paper loans.

MICHAEL HUDSON: Well, not even paper. It's electronic. We've sublimated the whole thing. The Federal Reserve can create a deposit, just like a bank does. If you go into a bank, you sign an IOU, and the bank adds money to your account. It's done on a computer keyboard. That's what money—how it's created these days. And the government can do exactly what the bank can do. They can create the money on their own computer keyboards. And that's—usually, they do that by running a budget deficit. That's why the economy needs a budget deficit to grow. When the government runs a budget deficit, that puts money into the economy and helps us recover from the recession. That's pretty obvious.

Under Clinton, we had a budget surplus. And what that meant was, normally, that would have pushed the economy down, but the gap was all provided by banks, commercial

banks, on their computer keyboards, at interest. They cleaned up. And that's a situation that President Obama is trying to restore today. Instead of the government creating free money on its keyboard with a deficit, all of the increase in money used by the American economy will be created by Wall Street at interest. It's completely unnecessary.

JUAN GONZALEZ: Now, let me ask you about the \$3 trillion deal that no one yet knows the specifics of, but we're already getting the outlines of it leaked little by little. This whole issue of eliminating the tax deduction that millions of Americans use for home mortgage interest, this was supposedly what helped so many people be able to buy homes. With the entire housing industry of the United States in crisis, why would they eliminate mortgage interest deduction, which it seems to me would make—mean fewer houses are bought and sold in the United States?

MICHAEL HUDSON: The banks normally wouldn't back anything that was going to lead to more foreclosures. But in this case the government has told the banks: "Yes, there are going to be a lot more foreclosures, but we're going to bail you out, because we've insured the mortgages." Eighty percent of the mortgages in America are now insured by the government, so the banks won't lose the money. By cutting the deduction, this is going to lead to a huge—a higher bailout by the government to Wall Street on the guarantees that Fannie Mae and the Federal Housing Authority have done.

Now, you said one thing, that making mortgage interest deductible makes homes more affordable. It really doesn't. What happens is, it enables the banks to make a larger loan against the value of the home, and the buyer now has to pay more interest and take on a larger debt, because they have more free money to pay. Whatever the tax collector relinquishes is available to be paid to the banks as interest. So all this tax deductibility in the first place was an attempt to un-tax real estate, so that home buyers could take out larger mortgages. And 80 percent of banks' business is making mortgage loans.

AMY GOODMAN: Michael Hudson, let me ask you about the Republican proposal dubbed "cut, cap and balance." It passed the House earlier this week, and the Senate will vote on the measure today. This is House Speaker John Boehner.

SPEAKER JOHN BOEHNER: Also this week, the House passed our "cut, cap and balance" legislation that represents exactly the kind of "balanced legislation" the President has talked about. It provides him with the debt limit increase that he's requested. But it gives families and small businesses the real spending cuts and reforms that they're demanding without any job-crushing tax hikes. What this legislation also shows, that it's not only important to avoid default, it's also important that we take a meaningful step toward real deficit reduction. This means, in addition to cutting and capping spending now, there should be real structural reforms to our entitlement programs. And there will be no tax increases.

AMY GOODMAN: Senate Majority Leader Harry Reid described the "cut, cap, balance" bill as one of the worst bills in the history of the country.

SEN. HARRY REID: I think this piece of legislation is about as weak and senseless as anything that has ever come on this Senate floor. And I am not going to waste the Senate's time, day after day, on this piece of legislation, which I think is an anathema to what our country is all about. So everyone understand, we're going to have a vote tomorrow. I'm not going to wait 'til Saturday. We're going to have a vote tomorrow, and I feel confident that

this legislation will be disposed of, one way or the other. The American people should understand that this is a bad piece of legislation, perhaps some of the worst legislation in the history of this country.

AMY GOODMAN: Michael Hudson, your response?

MICHAEL HUDSON: He's quite right. This is an awful piece of legislation, and it's too bad that Mr. Obama supports it. But you could see it all coming even before Mr. Obama took office, when he appointed the Deficit Reduction Commission. He appointed opponents of Social Security to the commission: Republican Senator Simpson and Erskine Bowles, who was Clinton's chief of staff. Obama really believes in trickle-down economics. He believes that Wall Street are job creators, not downsizers and outsourcers and foreclosures. That's the tragedy of all this.

Now, how—the question is, how can a Democratic president put forth a Republican program? There has to be a crisis. Now in reality there is no crisis at all. In reality, raising the debt ceiling has been done for a hundred years automatically. There is no connection between raising the debt ceiling and arguing over tax policy. Tax policy takes many years to work out. All of a sudden, Mr. Obama is going along with the charade of saying, "Wait a minute, let's create a crisis." As his former manager Rahm Emanuel said, a crisis is too important an opportunity to waste. But Wall Street doesn't like *real* crises, so there's an artificial non-crisis that Obama is treating as a crisis so that he can put forth the recommendations of the Deficit Reduction Commission to get rid of Social Security that he has supported all along. That's the problem. He believes it.

JUAN GONZALEZ: You know, I wanted to ask you specifically about that, because every time you turn on the TV now or you read a mainstream newspaper, there are all these quotations from Moody's and this rating agency and this expert that August 2nd will be a financial Armageddon for the country. And I'm saying to myself, we've already been through a financial Armageddon for the last couple of years, and now they're suddenly saying that, on this date, if this stuff is not passed, if a deal is not reached, suddenly the entire world financial system will be under severe strain.

MICHAEL HUDSON: Well, you had this kind of debt ceiling come up, I think, maybe 20 times under Bush's administration. It's a non-threatening thing. It's something automatic. It's technical. It's sort of like going to the corner and having a notary public certify what you've done. It's a technical thing that has nothing to do with real economy or policy at all. They're pretending it's a crisis because they have a plan. And the plan is what Mr. Boehner has put forth. Just like after 9/11, the Pentagon pulled out a plan for Iraq's oil fields, Wall Street has a plan to really clean up now, to really put the class war back in business and get rid of Medicare, get rid of the programs for the poor, and say, "There's no money for you. We've given it all away in the bailouts."

AMY GOODMAN: So, Michael Hudson, what could President Obama do?

MICHAEL HUDSON: He could say, "This debt ceiling has nothing to do with policy. You want to argue about the tax policy? Fine, let the Democrats and Republicans do it under non-crisis conditions. But this has nothing to do at all with the debt ceiling. If you want to refuse to increase the debt and plunge the economy into disaster, maybe you'd better talk to your

campaign contributors and see what they want. Because I know what they say. Your campaign contributors in the Republican camp are my own campaign contributors: Wall Street. And they don't like crises." If he said this, you would find that the charade would pop, just like pricking a balloon.

AMY GOODMAN: Well, what about that? I mean, the very people that are supporting the Tea Party, you know, congressmen activists, are these very same financial institutions that, of course, are demanding a lifting of the debt ceiling.

MICHAEL HUDSON: What they're pushing for really isn't a default on the debt. They're pushing for a crisis to let Mr. Obama rush through the Republican plan. In order for him to do it, the Republicans have to play good cop, bad cop. They have to have the Tea Party move so far to the right, take a so crazy a position, that Mr. Obama seems reasonable by comparison. And of course he is not reasonable. He's a Wall Street Democrat, which we used to call Republicans.

JUAN GONZALEZ: And in terms of the danger to Social Security and Medicare, how do you see the direction that they are hoping to go into, in terms of the reductions on this deal?

MICHAEL HUDSON: As Mr. Obama's Deficit Reduction Commission said, we have to get rid of Medicare, we have to get rid of Social Security, put the Social Security funds into the stock market, create a stock market boom, create new business for his—for Wall Street. He believes in trickle-down economics.

JUAN GONZALEZ: And the retirement accounts.

MICHAEL HUDSON: Yes. That's what he believes in. And this would be a disaster, as people have already seen the last time the market crashed.

AMY GOODMAN: What about unemployment? How does it fit into this picture? We say 9.2, but in fact it is so much higher in so many communities. We're talking 30 and 50 percent.

MICHAEL HUDSON: That's right. And it's getting worse. The interesting thing is when you look at the press reports, the adjective you always see is "unexpected" or "surprising." What that means is plausible deniability, as if nobody could have foreseen it, while every economist I know says, "Look, we're in the middle of debt deflation."

In fact, before he took office, Mr. Obama said he was going to fight to make sure that mortgages—relief was given to mortgage debtors, because if there were foreclosures, there was going to be unemployment. He then did absolutely nothing. He broke his promise. And everything that he warned about has taken place. So it really should not be surprising.

JUAN GONZALEZ: I also wanted to ask you about the connection to—from what's going on here to what's going on in Europe, and especially in Greece, the situation there. On

Thursday, European leaders agreed to a new \$155 billion bailout for Greece. Manuel Barroso, who is the European Commission president, said this:

JOSÉ MANUEL BARROSO: We needed a credible package. We have a credible package. It deals with both the concerns of the markets and of citizens. It responds also to the concerns of all member states of the euro area. It is a package that every government has signed up to. For the first time, the crisis, politics and markets are coming together. Now I expect every one of them to go out and defend and implement, with determination, this package.

JUAN GONZALEZ: The connections, if any, between what's going on in Greece and Europe and the battle we're having here?

MICHAEL HUDSON: Well, Greece's should be viewed as a dress rehearsal for the United States. It's exactly the same thing. Greece didn't really get any bailout funds at all. All of the bailout funds were given by European creditor governments to the banks that held the Greek bonds. And Greece was told, "Well, there's a 50 billion euro loss on your bonds that have gone down. You have to sell off and privatize €50 billion of your land and property in the public domain." So for every euro that the bankers lose, Greece has to sell off an equivalent amount. The idea is to carve up the government and privatize it, just like Illinois and Chicago and Wisconsin and California are doing. So it's a dress rehearsal for what's happening here.

AMY GOODMAN: If you talk about dress rehearsal, there are massive protests—there have been—in the streets of Greece, in Spain, when we were just in Britain, in London. What about here?

MICHAEL HUDSON: You've seen the protests in Madison, Wisconsin. And in the Greek Parliament Square, in front of the parliament building, there were signs up to say, "We are Wisconsin." There was a very clear connection they were making that this is a worldwide struggle. What's happening across the world is an attempt by the financial sector to really make its move and say this is their opportunity for a power grab. And they're creating this artificial crisis as an opportunity to carve up the public domain and to give themselves enough money. They're taking the money and running, because they know that unemployment is going up. The game is over. They know that. And the only question is, how much can they take, how fast?

AMY GOODMAN: Michael Hudson, we want to thank you very much for being with us, president of the Institute for the Study of Long-Term Economic Trends, Distinguished Research Professor of Economics at the University of Missouri, Kansas City, and author of the book *Super Imperialism: The Economic Strategy of American Empire*.

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