

# The Debt Ceiling Debate and the Global Economic Crisis

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## *Revolution Interviews Raymond Lotta*

Revolution: Raymond, we're speaking just as President Obama and congressional leaders on the Democratic and Republican sides have reached a tentative agreement that would cut trillions of dollars in federal spending in the next ten years. Congress will soon vote on raising the debt ceiling. There are many important questions to get into, but let's start with some basics. What is the debt ceiling?

Raymond Lotta: The debt ceiling is the limit imposed on how much money the federal government can borrow to finance its spending. Such spending includes military expenditures, programs like Medicaid and Medicare, government administration and salaries, and repayment of principal and interest on debt held by investors in U.S. Treasury securities. When the government spends more than it takes in as revenues, the difference is the deficit.

The national debt is over \$14 trillion. This is the debt accumulated to underwrite past budgetary deficits.

The debt ceiling is raised when the government runs out of funding to meet its obligations. If the government is not able to pay creditors, then you have a default.

Revolution: Why is government debt so large?

Lotta: Three factors are driving the huge run-up in government debt of the last few years.

The first is the severe contraction of the economy in 2008-09. The slowdown in economic activity led to a steep decline in government revenues. And continuing sluggishness of the economy has lowered the amount of taxes the government collects and increased the amount of money the government spends on things like extensions on unemployment benefits, food stamps, and so forth.

Second, the tax cuts adopted under Bush in 2001 and 2003 put limits on the amount of taxes the government can take in.

Third, America's imperial wars of conquest in Afghanistan and Iraq have swelled the deficit. In the last decade, the U.S. spent over \$1 trillion on these wars. The military occupation of Afghanistan, as it widened under Obama, costs about \$2 billion a month.

Military expenditure is one of the "dirty little secrets" of this fiscal crisis. It doesn't get

talked about. Nor its real scale. If we take the 2012 budget, military outlays amount to about \$700 billion. But this is not an accurate picture of military-security expenditure. It's really much higher, about \$1.2 trillion, or close to 40 percent of the budget, when you factor in CIA and National Security Agency expenditures, nuclear weapons research by the Department of Energy, payment on debt from past wars and weapons systems. All this to maintain U.S. dominance over the planet.

And just as the debt and budget debate was beginning to heat up in Congress, Obama opened a new military front—in Libya .

The federal deficit of the U.S. is now about 9 to 10 percent of the gross domestic product... which is about three times the average of the last 30 years.

Revolution: So these are the main drivers of the debt. But then there's the whole debate going on.

Lotta: People look at this in a certain way, and people have a lot of misconceptions.

It's no accident. The media, politicians, and so-called experts have framed this in a certain way—and many people have gotten sucked in. I'm talking about the idea that there's a selfish "partisan divide" in Washington that has to be bridged for "greater good of the country." I'm talking about the mantra from Obama that everyone has to equally sacrifice for the greater good of the country, and that the wealthy have to pay their fair share of taxes—and this populism had a certain appeal for a while. There's the chauvinist declaration that it would be awful to "America 's standing" if it defaulted on its debt.

All these notions are either not true at all or don't really get to the essence of what's really going on here. People don't really understand what the Republicans and Democrats agree and disagree on and what they are fighting over. And I have to make it clear right at the outset that this "compromise" agreement that they came up with—was a compromise between two programs that were BOTH not in the interests of the people.

Revolution: So what is the essence of what is going on?

Lotta: The struggle over the debt ceiling is an expression of deep problems confronting U.S. imperialism. I am speaking of the effects of the crisis in the world economy... an international economic environment in flux... and real budgetary constraints and contradictions bound up with the vast accumulation of government and private debt.

At the same time, powerful ruling class forces have used the specter of default to continue and intensify an unprecedented attack on government social spending on things like education and health and so-called entitlement programs, like Social Security. They are seizing on this moment to ratchet up an ideological offensive aimed at rallying public opinion around the idea that "government is living beyond its means," that social spending has gotten out of control, the reactionary argument that we all have to stop making demands on government, that government shouldn't be giving "handouts" to those who don't deserve them, and who are living off the government.

Revolution: The theme of belt-tightening and sacrifice looms large.

Lotta: Sacrifice? When nearly 1 in 6 workers is unemployed, under-employed, or has given up looking for work because jobs are so few... when the average duration of unemployment

is now longer than at any time since the end of World War 2.

Sacrifice? The Pew Foundation just released a study on what happened in the 2005-2009 period to the wealth of U.S. households—as measured in homes, cars, savings, and so forth. Black, Latino and other people of color were hit hardest. The net worth of Latino households fell by a staggering 66 percent, and that of African-Americans fell by 53 percent. One-third of Latino and Black families have zero wealth.

The bulk of this wealth loss is the result of the subprime mortgage crisis. Millions of people were lured into seemingly affordable loans. And millions of people wound up defaulting. Mortgage loans tapped into the savings and future earnings of millions of people. The loans were then bundled into exotic financial instruments and sold on global markets.

Here we see the workings of the market. A basic human need, housing, was turned into an object of investment and speculation. And then it came crashing down. Millions of homes are empty—because it's more important for banks to assert their property rights than for people to have housing.

25 million people were looking for full-time work last month. 10 million households face foreclosure. Income inequality between white households and Black and Latino households stands at its highest levels in decades. And to now demand of people that they sacrifice to rescue a system that destroys livelihoods, that perpetuates and widens social inequality... it's obscene. Of course, all of this packaged as everyone "doing their share."

Revolution: Clearly, the operating assumption in the debt ceiling debate, and especially now as it appears that a deal has been struck, is that government programs dealing with health, education, housing, and so forth must be slashed.

Lotta: For weeks and weeks we've heard about debt and deadlines. Yet through it all, an entire section of the population has been left out of the discourse: the poor and the unemployed. It's as though, for the ruling class, the word poverty has been expunged from the English language. The number of jobless workers has soared to levels not seen since the Great Depression of the 1930s. But, to quote the title of a July 9 New York Times article by Catherine Rampell, "somehow, the unemployed have become invisible."

The way things developed, Obama has become the leading champion of fiscal austerity, of huge cutbacks in government spending on social programs. On the bogus high moral ground of "bipartisan compromise," he put before the Republicans a deficit-cutting plan that would add one dollar of new taxes for every four dollars of budget cuts.

Revolution: What about the agreement reached on July 31?

Lotta: From what I've read so far in the press, it seems that the tentative deal will cut three trillion dollars in domestic spending over the next ten years. This includes what's spent by federal agencies. It includes different types of social spending and its early effects will impact education, public housing, mass transit, environmental protection, and the Medicaid program. And then a new wave of cuts will be phased in after the 2012 election.

Revolution: A lot of this will hit the poor very hard.

Lotta: You're right. And let's consider the consequences. In late June the American Journal of

Public Health published the results of a very revealing study. It quantified how many deaths are caused by poverty, low levels of education, and other social factors in the U.S. It found that in the sample year of 2000, 176,000 deaths were due to racial segregation and 133,000 deaths were due to individual poverty. These are unnecessary deaths. We're talking about the conditions of housing and work; we're talking about inferior access to health screening, to quality health care; and the inability to get health insurance.

And now with this new debt reduction plan, Medicare and Medicaid cuts are in the offing. What kind of system puts human lives on the chopping block of fiscal austerity? This is the logic of capital. This system cannot act in the interests of the people. It can't because it operates according to the rule of profit above all else.

So there is a move to drastically restructure government spending. People think that Obama has sold out to or caved in to the Republicans. But there is a bipartisan consensus about the need for cuts, even as they have disagreements over how to do this.

Revolution: But we've seen such acrimonious debate over cuts and the debt ceiling.

Lotta: There is a section of the ruling class—mainly right-wing Republicans—who want to go further. They want to dissolve any semblance of a state that engages in spending on social programs. It has very little to do with deficits. I mean Bush raised the debt ceiling seven times. But getting further into debt wasn't a big deal for these Republicans when it came to financing the U.S.'s wars for greater empire, it was acceptable to push off the revenue loss of the Bush tax cuts into the future by incurring more debt.

Their bristling at "big government" is ideological. It's an attack on the very idea that society has any kind of organized responsibility to the well-being of the people. It is institutionalized callousness: "if you're unemployed, it's your fault;" "no health care, that's your problem."

The Wall Street Journal ran a piece last week that concentrated some of the aspects of the ideological assault being waged by conservative forces. It argued that the issue is not just Obama...the problem goes back to Franklin Delano Roosevelt and this so-called "culture of entitlement" and "re-distributionism." And they're arguing that now's the time to settle accounts. The Tea Party gives this a veneer of grass-roots outrage at "government excess."

Bob Avakian's analysis of the "pyramid of power" in the U.S. really sheds a lot of light on what is happening here. You have a situation where the U.S. ruling class is sharply divided at top—again, approximating the Democrats and Republicans. That section of the ruling class roughly corresponding to the Republicans has been on the offensive and moving society in an increasingly fascistic direction. The Democrats sharply differ with Republicans on some of the particulars of how to maintain U.S. global domination and how to maintain "social order at home." But they don't differ on whether to do that... that they have basic agreement on.

This dynamic is at play in ruling class infighting over how to handle the debt. There's intense struggle, with political and ideological agendas as big factors. The Republicans have had the initiative, and they continue to hold it in this debt battle.

A Real Crisis Interacting With an Ideological Assault

Revolution: How do you see the relationship between the ideological assault and the underlying economics of the budgetary crisis?

Lotta: Here I must point out that most progressive and radical critiques are arguing that this whole debt crisis has just been manufactured as a way to push political-ideological agendas. I think this is wrong. It's more complicated than that... but more fundamentally, there IS a global economic crisis which is the larger backdrop to all this.

What is really going on here is that there is a real crisis which is interacting with, and further fueling, an ideological assault bound up with establishing new norms of social control and repression.

It would be wrong to conclude that ruling-class concern over deficits and debt is simply political manipulation. There are real imperatives for capital to cut costs and enhance competitiveness. There are real constraints on expansive government spending. This has to do with capitalism's "rules of the game." This is a system of production for profit based on the exploitation of wage labor. This is a system of competitive accumulation in which the great powers seek advantage and dominance on a global playing field.

Crisis Unfolds and Presents Major New Challenges

Revolution: So let's get deeper into the political economy.

Lotta: We have to step back and put this fiscal emergency in global perspective, and trace the development of the larger global economic crisis.

In late 2008, the private-financial core of U.S. imperialism, I'm talking here about the large transnational banks, was facing collapse. These banks were suffering huge losses on unsustainable loans, they couldn't raise capital, and they were unwilling to lend to others. I can't get into all of this now, but this was an expression of the anarchy of capitalism. You had these banks creating ever-more complex financial instruments to make profits and push risks on to others. Again this was the rules of capitalism at play here and for an analysis of this I would encourage people to look at an article I wrote back in October 2008, "Financial Hurricane Batters World Capitalism: System Failure and the Need For Revolution."

This turbulence threatened to spread and to undermine the global financial system. The U.S. imperialist state as the guardian of the interests of capital stepped in quickly. The Federal Reserve injected huge amounts of capital into the banking system. The state became a creditor, making low-interest loans to the banks. It encouraged mergers and consolidation at the top tiers of the private banking sector. It made it possible for Citigroup, JPMorgan Chase, and Bank of America to profitably incorporate, buy out, the assets of failed or failing banks.

There's a strategic dimension here. The U.S. banking system, with its extensive and deep credit markets, and the dollar, which is the main currency in the world economy, are linchpins of U.S. imperial hegemony in the world capitalist system. At the same time, the U.S. faces new challenges, like the emergence of the European Union as a more consolidated bloc, and China as a potential rival.

By 2009, this situation entered a second phase. The financial crisis had developed into a generalized economic downturn affecting the entire world economy. This was the worst economic crisis since the Great Depression of the 1930s. The volume of trade between countries fell sharply. World industrial output fell. The U.S. economy slowed down. You had GM facing bankruptcy. Unemployment shot up.

In response, the Obama administration undertook a spending program that involved

government expenditures on goods and services, various infrastructure and energy projects, tax credits, unemployment extensions, and some financial assistance to the states. This was meant to stimulate major growth but it didn't.

Revolution: So this is a complicated picture involving economic developments and conscious policy, informed by ideological and political agendas.

Lotta: The enormity of the financial crisis has continued to pose new challenges to imperialist policymakers. The measures that have been taken have produced new strains on government finance. A big challenge for the ruling class now is to work down debt in a way that does not cause major disruptions to these economies. It's a very unstable situation. And how the U.S. manages and finances government debt will have big effects on the world economy.

There is the state of the world economy—the fact that it has not recovered from the financial crisis and steep downturn in 2008-09. There are intense competitive pressures in the world economy.

In relation to this deficit battle, people ask, why can't the corporations be taxed more? Well, in the midst of crisis, taxes on huge capitalist corporations that are a key part of the U.S. economy and U.S. economic growth can cut in to their ability to gain competitive position and advantage in the global struggle for markets, for new technologies, and their ability to buy out other firms.

But more is going on. This is a world economy in transition; major realignments are taking place in the world economy. This is a huge topic and again I would encourage people to read the series I wrote on the crisis to get a fuller background and analysis of this. But here I can provide some of the basic contours of this situation.

As the financial-economic crisis hit, China emerged as the second largest economy in the world. It will soon overtake the U.S. as the world's largest manufacturer. China is now the single largest foreign holder of U.S. government debt. Its export earnings, based on super-exploited labor in vast industrial zones, have been recycled into U.S. financial markets. China now has increasing leverage in the world economy.

If China and other large holders of U.S. Treasury debt sense instability and begin to shift out of dollar-based securities into other currencies and investment instruments, this would put enormous pressures on the dollar. It could set off a major flight from the dollar. If foreign creditors saw dangers in holding U.S. long-term debt, the U.S. would have to borrow on a shorter time frame. And this would make the U.S. more vulnerable to financial upheavals and uncertainties.

As I said, the international role of the dollar gives the U.S. enormous advantage and sway in the world economy. At this juncture, no other currency is able to replace the dollar as the world's key currency. But the position of the U.S. dollar is eroding. It faces new competitive threats.

All of this constricts the maneuvering room of U.S. imperialism, while conditioning policy responses and intra-ruling class debate.

What began as a banking crisis has morphed into a long-term government debt crisis. And the world economy remains in deep economic trouble.



The U.S. imperialists face a major contradiction. They are saddled with huge and mounting debts. The U.S. economy is not growing. Historically, one of the ways this has been dealt with is by increasing government spending with the goal of stimulating the economy. But this results in higher deficits and government debt.

Revolution: We've covered a lot of ground. Do you see more people becoming disaffected with Obama, among those who have been supporting him? And will there be more openness to fundamental change?

Lotta: Over the last year, there has been a growing sense of bitterness and betrayal. I think this budget episode is leading to more of that feeling. This sentiment runs deep among a growing section of people. And it counts for something in the current atmosphere. But where will this go?

This underscores the importance of what Bob Avakian has been bringing forward, that there is no permanent necessity to existing conditions. Things do not have to be this way. The Revolutionary Communist Party has recently published the Constitution for the New Socialist Republic in North America (Draft Proposal). It sets forth an inspiring vision and concrete measures for building a new society. This is a socialist society. This would be an economic system NOT based on exploitation and profit but on meeting the needs of the people, overcoming the great social inequalities of society, protecting the planet, and contributing to the advance of the world revolution. A society aiming for the final goal of a communist world, where human beings everywhere would be free of exploitation and oppression and destructive antagonistic conflicts, where human beings could be fit to be caretakers of this planet.

This vision can play a tremendously powerful ideological role on the current terrain. Projecting this vision is a crucial part of building a movement for revolution that can bring such a new society into being.

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