

The Debt Ceiling Set For Progressive Repealing

By [Prof Michael Hudson](#)

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Mr. Obama's scare tactics to get Democrats to vote for his Republican Wall Street plan

The Wall Street bailout melodrama should be viewed as a dress rehearsal for today's debt-ceiling non-crisis.

You know that the debt kerfuffle is as melodramatically staged as a World Wrestling Federation exhibition when Mr. Obama makes the blatantly empty threat that if Congress does not "tackle the tough challenges of entitlement and tax reform," there won't be money to pay Social Security checks next month. In his debt speech last night (July 25), he threatened that if "we default, we would not have enough money to pay all of our bills - bills that include monthly Social Security checks, veterans' benefits, and the government contracts we've signed with thousands of businesses."

This is not remotely true. But it has become the scare theme for over a week now, ever since the President used almost the same words in his interview with CBS Evening News anchor Scott Pelley.

Of course the government will have enough money to pay the monthly Social Security checks. The Social Security administration has its own savings - in Treasury bills. I realize that lawyers (such as Mr. Obama and indeed most American presidents) rarely understand economics. But this is a legal issue. Mr. Obama certainly must know that Social Security is solvent, with liquid securities to pay for many decades to come. Yet Mr. Obama has put Social Security at the very top of his hit list!

The most reasonable explanation for his empty threat is that he is trying to panic the elderly into hoping that somehow the budget deal he seems to have up his sleeve can save them. The reality, of course, is that they are being led to economic slaughter. (And not a word of correction reminding the President of financial reality from Rubinomics Treasury Secretary Geithner, neoliberal Fed Chairman Bernanke or anyone else in the Wall Street Democrat administration, formerly known as the Democratic Leadership Council.)

It is a con.

Mr. Obama has come to bury Social Security, Medicare and Medicaid, not to save but them. This was clear from the outset of his administration when he appointed his Deficit Reduction Commission, headed by avowed enemies of Social Security Republican Senator Alan Simpson of Wyoming, and President Clinton's Rubinomics chief of staff Erskine Bowles. Mr. Obama's more recent choice of Republicans and Blue Dog Democrats be delegated by Congress to rewrite the tax code on a bipartisan manner - so that it cannot be challenged - is a ploy to pass a tax "reform" that democratically elected representatives never could be

expected to do.

The devil is always in the details. And Wall Street lobbyists always have such details tucked away in their briefcases to put in the hands of their favored congressmen and dedicated senators. And in this case they have the President, who has taken their advice as to whom to appoint as his cabinet to act as factotums to capture the government on their behalf and create “socialism for the rich.”

There is no such thing, of course. When governments are run by the rich, it is called oligarchy. Plato’s dialogues made clear that rather than viewing societies as democracies or oligarchies, it was best to view them in motion. Democracies tended to polarize economically (mainly between creditors and debtors) into oligarchies. These in turn tended to make themselves into hereditary aristocracies. In time, leading families would fight among themselves, and one group (such as Kleisthenes in Athens in 507 BC) would “take the people into his party” and create a democracy. And so the eternal political triangle would go on.

This is what is happening today. Instead of enjoying what the Progressive Era anticipated – an evolution into socialism, with government providing basic infrastructure and other needs on a subsidized basis – we are seeing a lapse back into neo-feudalism. The difference, of course, is that this time around society is not controlled by military grabbers of the land. Finance today achieves what military force did in times past. Instead of being tied to the land as under feudalism, families today may live wherever they want – as long as they take on a lifetime of debt to pay the mortgage on whatever home they buy.

And instead of society paying land rent and tribute to conquerors, we pay the bankers. Just as access to the land was a precondition for families to feed themselves under feudalism, one needs access to credit, to water, medical care, pensions or Social Security and other basic needs today – and must pay interest, fees and monopoly rent to the neo-feudal oligarchy that is now making its deft move from the United States to Ireland and Greece.

The U.S. Government has spent \$13 trillion in financial bailouts since Lehman Bros. failed in September 2008. But Mr. Obama warns that thirty years from now, the Social Security fund may run a \$1 trillion deficit. It is to ward it off that he urges dismantling the plans for such payments now.

It seems that the \$13 trillion used up all the money the government really has. The banks and Wall Street firms have taken the money and run. There is not enough to pay for Social Security, Medicare or other social spending that the Blue Dog Democrats and Republicans now plan to cut.

Not right away. The plan will be to “paper over” the current crisis by delegating the plans to a “Deficit Reduction Commission #2,” appointed from Congressional members.

Finally, we have “Change we can believe in.”

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The Faux Crisis

Usually a crisis is needed to create a vacuum into which these toxic details are fed. Wall

Street does not like real crises, of course - except to make quick computer-driven speculative gains on the usual fibrillation of today's zigzagging markets. But when it comes to serious money, the illusion of a crisis is preferred, staged melodramatically to wring the greatest degree of emotion out of the audience much like a good film editor edits a montage sequence. Will the speeding train run over the girl strapped to the tracks? Will she escape in time?

The train is debt; the girl is supposed to be the American economy. But she turns out to be Wall Street in disguise. The exercise turns out to be a not-so-divine comedy. Mr. Obama offers a plan that looks very Republican. But the Republicans say no. There is an illusion of a real fight. They say Obama is socialist.

Democrats express shock at the giveaway being threatened. Many say, "Where is the real Obama?" But it seems that the real Obama turns out to be a Republican Wall Street imposter in Democratic clothing. That is what the Democratic Leadership Committee basically is: Wall Street Democrats.

This is not as much of an oxymoron as it may sound. There is a reason why today's post-Clinton Democrats are the natural party to undo what FDR and earlier Democrats stood for. A Democratic Senate never would stand for such giveaways to Wall Street and double-cross of their urban constituency if a Republican president would propose what Mr. Obama is putting before them.

Here's what the next Republican presidential candidate can say: "You know that whatever we Republicans want, Mr. Obama will support us. If you don't want a Republican policy, they you should vote for me for president. Because a Democratic Congress will oppose a Republican policy if we propose it. But if Mr. Obama proposes it, congress will be de-toothed, and cannot resist."

It's the same story in Britain, where the Labour Party is called upon to finish up the job that the Conservatives start but need New Labour to subdue popular opposition to privatizing the railroads and a Public/Private Partnership financial giveaway for the London tube line. And it's the same story in France, where a Socialist government is supporting the privatization program dictated by the European Central Bank.

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Round up the Usual Fallacies

Whenever one finds government officials and the media repeating an economic error as an incessant mantra, there always is a special interest at work. The financial sector in particular seeks to wrong-foot voters into believing that the economy will be plunged into crisis if Wall

Street does not get its way – usually by freeing it from taxes and deregulating it.

Mr. Obama’s first fallacy is that the government budget is like a family budget. But families can’t write IOUs and have the rest of the world treat it as money. Only governments can do that. It is a privilege that the banks would now like to obtain – the ability to create credit freely on their computer keyboards, and charge interest for what is almost free, and what governments can indeed create for free. (That is the State Theory of Money. See the UMKC Economics Blog.)

“Now, every family knows that a little credit card debt is manageable. But if we stay on the current path, our growing debt could cost us jobs and do serious damage to the economy.” But economies need government money to grow – and this money is provided by running federal budget deficits. This has been the essence of Keynesian counter-cyclical spending for more than half a century. Until the present, it was Democratic Party policy.

It’s true that Pres. Clinton ran a budget surplus. The economy survived by the commercial banking system supplying the credit needed to grow – at interest. To force the economy back into this reliance on Wall Street rather than on government, the government needs to stop running budget deficits. The economy will then have a choice: to shrink sharply, or to turn almost all the economic surplus over to banks as economic rent on their credit-creation privilege.

Mr. Obama also pretends that credit ratings agencies are able to act as mascots for their clients, the large financial underwriters, by making the entire economy pay even higher interest rates on its credit cards and banks. “For the first time in history,” Mr. Obama dissembled, “our country’s Triple A credit rating would be downgraded, leaving investors around the world to wonder whether the United States is still a good bet. Interest rates would skyrocket on credit cards, mortgages, and car loans, which amounts to a huge tax hike on the American people.”

The reality is that running a budget surplus would increase interest rates, by forcing the economy into captivity to the banking system. The Obama administration is now deep into its Orwellian rhetorical phase.

Why Wall Street needs Obama Democrats to shepherd Rubinomics #2 through Congress

During Mr. Obama’s speech I could not help feeling that I had heard it all before. And then I remembered. Back in 2008, Treasury Secretary Henry Paulson sought to counter Sheila Bair’s argument that all FDIC-insured depositors would be able to ride out the September crisis, with only the reckless gamblers losing the gains they hoped to make on their free credit. “If the financial system were allowed to collapse,” he warned in his Reagan Library speech, “it is the American people who would pay the price. This never has been just about the banks; it has always been about continued prosperity and opportunity for all Americans.”

But of course, it is all about the banks! Wall Street knows that to get sufficient Congressional votes to roll back the New Deal, Social Security, Medicare and Medicaid, a Democratic president needs to be in office. A Democratic Congress would block any Republican president trying to make the kind of cuts that Mr. Obama is sponsoring. But Congressional Democratic opposition is paralyzed when President Obama himself – the liberal president

par excellence, America's Tony Blair – acts as cheerleader for cutting back entitlements and other social spending.

So just as the City of London backed Britain's Labour Party in taking over when the Conservative Party could not take such radical steps as privatizing the railroads and London tube system, and just as Iceland's Social Democrats sought to plunge the economy into debt peonage to Britain and Holland, and the Greek Socialist Party is leading the fight for privatization and bank bailouts, so in the United States the Democratic Party is to deliver its constituency – urban labor, especially the racial minorities and the poor who are most injured by Pres. Obama's austerity plan – to Wall Street.

So Mr. Obama is doing what any good demagogue does: delivering his constituency to his campaign contributors on Wall Street. Yves Smith has aptly called it Obama's Nixon goes to China moment in reverse.

The Republicans help by refraining from putting forth a credible alternative presidential candidate. The effect is to give Mr. Obama room to move far to the right wing of the political spectrum. Far enough so that it is his own Democrats who are most intent on scaling back Social Security, not the Republicans.

This is done most easily under pressure of near panic. This worked after September 2008 with TARP, after all. The Wall Street bailout melodrama should be viewed as a dress rehearsal for today's debt-ceiling non-crisis.

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