Economic Coup d'Etat: Debt and Deficit as Shock Therapy

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When Naomi Klein published her ground-breaking book The Shock Doctrine (2007), which compellingly demonstrated how neoliberal policy makers take advantage of overwhelming crisis times to privatize public property and carry out austerity programs, most economists and media pundits scoffed at her arguments as overstating her case. Real world economic developments have since strongly reinforced her views.

Using the unnerving 2008 financial crash, the ensuing long recession and the recurring specter of debt default, the financial oligarchy and their proxies in the governments of core capitalist countries have embarked on an unprecedented economic coup d'état against the people, the ravages of which include extensive privatization of the public sector, systematic application of neoliberal austerity economics and radical redistribution of resources from the bottom to the top. Despite the truly historical and paradigm-shifting importance of these ominous developments, their discussion remains altogether outside the discourse of mainstream economics.

The fact that neoliberal economists and politicians have been cheering these brutal assaults on social safety-net programs should not be surprising. What is regrettable, however, is the liberal/Keynesian economists' and politicians' glaring misdiagnosis of the plague of austerity economics: it is all the "right-wing" Republicans' or Tea Partiers' fault, we are told; the Obama administration and the Democratic Party establishment, including the labor bureaucracy, have no part or responsibility in the relentless drive to austerity economics and privatization of public property.

Keynesian and other liberal economists and politicians routinely blame the abandonment of the New Deal and/or Social-Democratic economics exclusively on Ronald Reagan's supply-side economics, on neoliberal ideology or on economists at the University of Chicago. Indeed, they characterize the 2008 financial collapse, the ensuing long recession and the recurring debt/budgetary turmoil on "bad" policies of "neoliberal capitalism," not on class policies of capitalism per se [1].

Evidence shows, however, that the transition from Keynesian to neoliberal economics stems from much deeper roots or dynamics than pure ideology [2]; that neoliberal austerity policies are class, not "bad," policies [3]; that the transition started long before Reagan arrived in the White House; and that neoliberal austerity policies have been pursued as vigorously (though less openly and more stealthily) by the Democratic administrations of Bill Clinton and Barack Obama as their Republican counterparts [4].

Indeed, it could be argued that, due to his uniquely misleading status or station in the socio-political structure of the United States, and equally unique Orwellian characteristics or personality, Mr. Obama has served the interests of the powerful financial oligarchy much better or more effectively than any Republican president could do, or has done—including Ronald Reagan. By the same token, he has more skillfully hoodwinked the public and harmed their interests, both in terms of economics and individual/constitutional rights, than any of his predecessors.

Ronald Reagan did not make any bones about the fact that he championed the cause of neoliberal supply-side economics. This meant that opponents of his economic agenda knew where he stood, and could craft their own strategies accordingly. By contrast, Mr. Obama publicly portrays himself as a liberal opponent of neoliberal austerity policies (as he frequently bemoans the escalating economic inequality and occasionally sheds crocodile tears over the plight of the unemployed and economically hard-pressed), while in practice he is a major team player in the debt "crisis" game of charade, designed as a shock therapy scheme in the escalation of austerity economics [5].

No president or major policy maker before Obama ever dared to touch the hitherto untouchable (and still self-financing) Social Security and Medicare trust funds. He was the first to dare to make these bedrock social programs subject to austerity cuts, as reflected, for example, in his proposed federal budget plan for fiscal year 2014, initially released in April 2013. Commenting on this unprecedented inclusion of entitlements in the social programs to be cut, Christian Science Monitor wrote (on 9 April 2013):

> "President Obama's new budget proposal . . . is a sign that Washington's attitude toward entitlement reform is slowly shifting, with prospects for changes to Social Security and Medicare becoming increasingly likely."

Mr. Obama has since turned that "likelihood" of undermining Social Security and Medicare into reality. He did so by taking the first steps in turning the budget crisis that led to government shutdown in the first half of October into negotiations over entitlement cuts. In an interview on the second day of the shutdown (October 3rd), he called for eliminating "unnecessary" social programs and discussing cuts in "long-term entitlement spending" [6].

Five days later on October 5th, Mr. Obama repeated his support for cutting Social Security and Medicare in a press conference, reassuring congressional Republicans of his willingness to agree to these cuts (as well as to cuts in corporate tax rates from 35 to 28 percent) if the Republicans voted to increase the government's debt limit:

> "If anybody doubts my sincerity about that, I've put forward proposals in my budget to reform entitlement programs for the long haul and reform our tax code in a way that would … lower rates for corporations" [7].

Only then, that is, only after Mr. Obama agreed to collaborate with the Republicans on ways to cut both the entitlements and corporate tax rates, the Republican budget negotiators agreed to the higher budget ceiling and the reopening of the government. The consensus bill that ended the government shutdown extends the automatic across-the-board "sequester" cuts that began last March into the current year. This means that "the budget negotiations in the coming weeks will take as their starting point the $1 trillion in cuts over the next eight years mandated by the sequestration process” [8].

And so, once again, the great compromiser gave in, and gave away—all at the expense of his (unquestioning) supporters.

To prepare the public for the long-awaited attack on Social Security, Medicare and other socially vital programs, the bipartisan ruling establishment has in recent years invented a very useful hobgoblin to scare the people into submission: occasional budget/debt crises and the specter or the actual pain of government shutdown. As Sheldon Richman recently pointed out:

> “Wherever we look, there are hobgoblins. The latest is … DEFAULT. Oooooo.
>
> Apparently the threats of international terror and China rising aren’t enough to keep us alarmed and eager for the tether. These things do tend to wear thin with time. But good old default can be taken off the shelf every now and then. It works like a charm every time.
>
> No, no, not default! Anything but default!” [9].

Economic policy makers in the White House and the Congress have invoked the debt/deficit hobgoblin at least three times in less than two years: the 2011 debt-ceiling panic, the 2012 “fiscal cliff” and, more recently, the 2013 debt-ceiling/government shutdown crisis—all designed to frighten the people into accepting the slashing of vital social programs. Interestingly, when Wall Street speculators needed trillions of dollars to be bailed out, or as the Fed routinely showers these gamblers with nearly interest-free money through the so-called quantitative easing, debt hobgoblins were/are nowhere to be seen!

The outcome of the latest (2013) “debt crisis management,” which led to the 16-day government shutdown (October 1-16), confirmed the view that the “crisis” was essentially bogus. Following the pattern of the 2010, 2011 and 2012 budget/debt negotiations, the bipartisan policy makers kept the phony crisis alive by simply pushing its “resolution” several months back to early 2014. In other words, they did not bury the hobgoblin; they simply shelved it for a while to be taken off when it is needed to, once again, frighten the people into accepting additional austerity cuts—including Social Security and Medicare.

The outcome of the budget “crisis” also highlighted the fact that, behind the apparent bipartisan gridlock and mutual denunciations, there is a “fundamental consensus between these parties for destroying all of the social gains won by the working class over the course of the twentieth century” [10]. To the extent there were disagreements, they were mainly over the tone, the temp, the magnitude, the tactics, and the means, not the end. At the heart of all the (largely contrived) bipartisan bickering was how best to escalate, justify or camouflage the brutal cuts in the vitally necessary social spending.

The left/liberal supporters of Mr. Obama, who bemoan his being “pressured” or “coerced” by the Tea Party Republicans into right-wing compromises, should look past his liberal/populist posturing. Evidence shows that, contrary to Barack Obama’s claims, his presidential campaigns were heavily financed by the Wall Street financial titans and their influential lobbyists. Large Wall Street contributions began pouring into his campaign only after he was thoroughly vetted by powerful Wall Street interests, through rigorous Q & A sessions by the financial oligarchy, and was deemed to be their “ideal” candidate for presidency [11].

Mr. Obama's unquestioning followers should also note that, to the extent that he is being "pressured" by his political opponents into compromises/concessions, he has no one to blame but himself: while the Republican Party systematically mobilizes its social base through offshoots like Tea Partiers, Mr. Obama tends to deceive, demobilize and disarm his base of supporters. Instead of mobilizing and encouraging his much wider base of supporters (whose more numerous voices could easily drown the shrill voices of Tea Partiers) to political action, he frequently pleads with them to "be patient," and "keep hope alive."

As Andre Damon and Barry Grey have keenly observed,

> "There was not a single mass organization that denounced the [government] shutdown or opposed it. The trade unions are completely allied with the Obama administration and support its policies of austerity and war" [12].

Mr. Obama's supporters also need to open their eyes to the fact that, as I have shown in an earlier essay [13], Mr. Obama harbors ideological affinities that are more in tune with Ronald Reagan than with FDR. This is clearly revealed in his book, The Audacity of Hope, where he shows his disdain for "…those who still champion the old time religion, defending every New Deal and Great Society program from Republican encroachment, achieving ratings of 100% from the liberal interest groups. But these efforts seem exhausted…bereft of energy and new ideas needed to address the changing circumstances of globalization" [14].

(Her own shortcomings aside, Hillary Clinton was right when, in her bid for the White House against Obama, she pointed out that Obama's economic philosophy was inspired largely by Reagan' supply-side economics. However, because the Wall Street and/or the ruling establishment had already decided that Obama was the preferred choice for the White House, the corporate media let Clinton's comment pass without dwelling much on the reasons behind it; which could readily be examined by simply browsing through his own book, The Audacity of Hope.)

The repeated claim that the entitlements are the main drag on the federal budget is false—for at least three reasons. To begin with, the assertion that the large number of retiring baby-boomers is a major culprit in budgetary shortfalls is bogus because while it is true that baby-boomers are retiring in larger than usual numbers they do not come from another planet; before retiring, they also worked and contributed to the entitlement trust fund in larger than usual numbers. This means that, over time, the outflow and inflow of baby-boomers' funds into the entitlement trust fund must necessarily even each other out.

Second, even assuming that this claim is valid, the "problem" can easily be fixed (for many years to come) by simply raising the ceiling of taxable income for Social Security from the current level of $113,700 to a slightly higher level, let's say, $140,000.

Third, the bipartisan policy makers' hue and cry about the alleged budget/debt crisis is also false because if it were true, they would not shy away from facing the real culprits for the crisis: the uncontrollable and escalating health care cost, the equally uncontrollable and escalating military/war/security cost, the massive transfer of private/Wall Street debt to public debt in response to the 2008 financial crash, and the considerable drop since the early 1980s in the revenue side of the government budget, which is the result of the drastic overhaul of the taxation system in favor of the wealthy.

A major scheme of the financial oligarchy and their bagmen in the government to substitute the New Deal with neoliberal economics has (since the early 1980s) been to deliberately create budget deficits in order to justify cuts in social spending. This sinister feat has often been accomplished through a combination of tax cuts for the wealthy and spending hikes for military/wars/security programs. David Stockman, President Reagan's budget director and one of the main architects of his supply-side tax cuts, confirmed the Reagan administration's policy of simultaneously raising military spending and cutting taxes on the wealthy in order to force cuts in non-military public spending:

> "My aim had always been to force down the size of the domestic welfare state to the point where it could be adequately funded with the revenues after the tax cut" [15].

That insidious policy of intentionally creating budget deficits in order to force neoliberal austerity cuts on vital social needs has continued to this day—under both Republican and Democratic administrations.

Although the bipartisan tactics of austerity cuts are subtle and obfuscating, they can be illustrated with the help of a few simple (hypothetical) numbers: first (and behind the scenes), the two sides agree on cutting non-military public spending by, let's say, $100 billion. To reach this goal, Republicans would ask for a $200 billion cut, for example. The Obama administration/Democratic Party, pretending to represent the poor and working families, would vehemently object that this is too much . . . and that all they can offer is $50 billion, again for example. Next, the Republican negotiators would come up with their own counter-offer of, let's say, $150 billion. Then come months of fake haggling and passionate speeches in defense of their positions . . . until they meet eventually half way between $50 billion and $150 billion, which has been their hidden goal ($100 billion) from the beginning.

This is, of course, an overly simplified hypothetical example. But it captures, in broad outlines, the essence of the political game that the Republican and Democratic parties—increasingly both representing big finance/big business—play on the American people. All the while the duplicitous corporate media plays along with this political charade in order to confuse the public by creating the impression that there are no alternatives to austerity cuts, and that all the bipartisan public bickering over debt/budgetary issues vividly represents "democracy in action."

The atmosphere of panic and anxiety surrounding the debt/deficit negotiations is fabricated because the central claim behind the feigned crisis that "there is no money" for jobs, education, health care, Social Security, Medicare, housing, pensions and the like is a lie. Generous subsidies to major Wall Street players since the 2008 market crash has lifted financial markets to new highs, as evinced by the Dow Jones Industrial Average's new bubble above the 15000 mark. The massive cuts in employment, wages and benefits, as well as in social spending, have resulted in an enormous transfer of economic resources from the bottom up. The wealthiest one percent of Americans now own more than 40 percent of the entire country's wealth; while the bottom 80 percent own only seven percent. Likewise, the richest one percent now takes home 24 percent of the country's total income, compared to only nine percent four decades ago [16].

This means that there really is no need for the brutal austerity cuts as there really is no shortage of financial resources. The purported lack of resources is due to the fact that they are concentrated largely in the deep coffers of the financial oligarchy.

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Notes

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[2] Jan Toporowski, Why the World Economy Needs a Financial Crash and Other Critical Essays on Finance and Financial Economics, London: Anthem Press (2010).

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[4] Alan Nasser, "New Deal Liberalism Writes Its Obituary,"counterpunch.org, September 21, 2009: <http://www.counterpunch.com/nasser09212009.html>.

[5] Pam Martens, "The Obama Bubble Agenda," counterpunch.org, May 6, 2008: <http://www.counterpunch.org/martens05062008.html>.

[6] Andre Damon, "Republicans, White House move toward deal to extend debt ceiling, cut social programs," World Socialist Web Site, 11 October 2013: <http://www.wsws.org/en/articles/2013/10/11/budg-o11.html>.

[7] Andre Damon, "Amid government shutdown, Obama signals cuts to Social Security, Medicare," World Socialist Web Site, 9 October 2013: <http://www.wsws.org/en/articles/2013/10/09/budg-o09.html>.

[8] Ibid.

[9] Sheldon Richman, "The Default Circus: The Latest Hobgoblin,"counterpunch.org, November 18, 2013: <http://www.counterpunch.org/2013/10/18/the-default-circus/>.

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[16] Henry Blodget, “America Today: 3 Million Overlords and 300 Million Serfs,” Business Insider, April 10, 2013:
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