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# From Bush to Obama – America's Fiscal Collapse

BOOK PREVIEW: Excerpt from "The Global Economic Crisis: The Great Depression of the XXI Century."

By Prof Michel Chossudovsky
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*The following is an excerpt from a chapter by Michel Chossudovsky in Global Research's new book entitled:*

*"The Global Economic Crisis: The Great Depression of the XXI Century."*
Michel Chossudovsky and Andrew Gavin Marshall, editors, Global Research, Montreal, 2010

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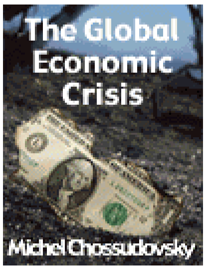


What has been implemented under Obama is strong economic medicine with a "human face". "Promise amid peril". The stated priorities of the Obama economic package are health, education, renewable energy, investment in infrastructure and transportation. "Quality education" is at the forefront. Obama has also promised to "make health care more affordable and accessible" for every American.

At first sight, the budget proposal had all the appearances of an expansionary program, a demand-oriented "Second New Deal" geared towards creating employment, rebuilding shattered social programs and reviving the real economy.

The realities are otherwise. Obama's promise is based on a mammoth austerity program. The entire fiscal structure is shattered, turned upside down. To reach these stated objectives, a significant hike in public spending on social programs (health, education, housing, social security) would be required, as well as the implementation of a large-scale public investment program. Major shifts in the composition of public expenditure would also be required, i.e. a move out of a war economy, requiring a shift out of military-related spending in favor of civilian programs.

In actuality, what we are dealing with is the most drastic curtailment in public spending in

American history, leading to social havoc and the potential impoverishment of millions of people. The Obama promise largely serves the interests of Wall Street, the defense contractors, the oil conglomerates and Big Pharma. In turn, the Bush-Obama bank "bailouts" have led America into a spiraling public debt crisis. The economic and social dislocations are potentially devastating.

War and the Economic Crisis

The worldwide meltdown of financial markets occurs at the crossroads of a major military adventure. The global financial crisis is intimately related to the war. (For further analysis, see chapters 9-12). A spiraling defense budget backlashes on the civilian sectors of economic activity. The war economy has a direct bearing on fiscal and monetary policy. Defense appropriations are in excess of 700 billion dollars (for the 2010 fiscal year). An impending fiscal crisis is looming which threatens to undermine the entire structure of public spending.

"War is Good for Business": the powerful financial groups which routinely manipulate stock markets, currency and commodity markets, are also promoting the continuation and escalation of the Middle East war. The financial crisis is related to the structure of U.S. public investment in the war economy versus the funding, through tax dollars, of civilian social programs. "More broadly, this also raises the issue of the role of the US Treasury and the US monetary system, in relentlessly financing the military industrial complex and the Middle East war at the expense of most sectors of civilian economic activity."

The war is profit-driven, financed through the massive worldwide expansion of dollar denominated debt. War and globalization go hand in hand. Wall Street, the oil companies and the defense contractors have concurrent and overlapping interests. The oil companies were behind the 2008 speculative surge in crude oil prices on the London energy market, which preceded the collapse of the stock market in September-October of 2008. In turn, resulting from the military agenda, the U.S. civilian economy is in crisis as the nation's resources, including tax dollars, are diverted into funding a multibillion dollar Middle East war.

Defense Outlays for the Wars in Iraq and Afghanistan

This is a "war budget". The austerity measures hit all major federal spending programs with the exception of defense and the Middle East Central Asian War, the Wall Street bank bailout and interest payments on a staggering public debt. The nation's budget diverts tax revenues into financing the wars in Iraq and Afghanistan, not to mention the set-up of new military bases in Colombia. It legitimizes the fraudulent transfers of tax dollars to the financial elites under the bank bailouts.

The pattern of deficit spending is not expansionary. We are not dealing with a Keynesian-style deficit which stimulates investment and consumer demand, leading to an expansion of production and employment. The bank bailouts (involving several initiatives financed by tax dollars) constitute a component of government expenditure. Both the Bush and Obama bank bailouts were handouts to major financial institutions. They did not result in a positive spending injection into the real economy. In fact, the opposite is true. The bailouts have contributed to financing the restructuring of the banking system, leading to a massive concentration of wealth and centralization of banking power.

A large part of the bailout money granted by the U.S. government has already been transferred electronically to various affiliated accounts including the hedge funds. The largest banks in the U.S. are also using this windfall cash to buy out their weaker competitors, thereby consolidating their position. The tendency, therefore, is towards a new wave of corporate buyouts, mergers and acquisitions in the financial services industry.

In turn, the financial elites will use these large amounts of liquid assets (paper wealth), together with the hundreds of billions acquired through speculative trade, to buy out real economy corporations (airlines, the automobile industry, telecoms, media, etc.), whose quoted value on the stock markets has tumbled. In essence, a budget deficit (combined with massive cuts in social programs) was required to fund the handouts to the banks, as well as finance defense spending and the military surge in both Iraq and Afghanistan.

Obama's 2010 Budget

Obama's budget for the 2010 fiscal year was of the order of 3.94 trillion dollars, an increase of 32 percent. Total government revenues for the 2010 fiscal year, according to estimates by the Bureau of Budget, were quoted at 2.381 trillion dollars. This puts the predicted budget deficit at 1.75 trillion dollars, equaling almost twelve percent of the U.S. Gross Domestic Product.

1. Defense spending of 534 billion dollars for 2010, a supplemental 130 billion dollars appropriation for fiscal 2010 for the wars in Afghanistan and Iraq, and a supplemental 75.5 billion dollars emergency war funding for the rest of the 2009 fiscal year. Defense spending and the Middle East war, with various supplemental budgets, was (officially) of the order of 739.5 billion dollars. Some estimates placed aggregate defense and military related spending at over one trillion dollars.

2. A bank bailout of 750 billion dollars announced by Obama, which was added on to the 700 billion dollars in bailout money already allocated by the outgoing Bush administration under the Troubled Assets Relief Program (TARP). The total of both programs is a staggering 1.45 trillion dollars, to be financed by the Treasury. (See Table 1.3 next page). It should be understood that the actual amount of cash financial "aid" to the banks is significantly larger than 1.45 trillion dollars.

3. Net interest on the outstanding public debt was estimated by the Bureau of the Budget at 164 billion dollars in 2010.

The magnitude of these allocations is staggering. Under a "balanced budget" criterion – which has been a priority of government economic policy since the Reagan era – almost all the revenues of the federal government amounting to 2.381 trillion dollars would be used to finance the bank bailout (1.45 trillion), the war (739.5 billion) and interest payments on the public debt (164 billion). In other words, no money would be left over for other categories of public expenditure.

The Budget Deficit

Three categories of expenditure, namely defense, the bank bailout and interest on the public debt, had virtually swallowed up the entire 2010 federal government revenue of 2381.0 billion dollars.

Moreover, as a basis of comparison, all the revenue accruing from individual federal income taxes (1.061 trillion dollars in fiscal 2010), that is, all the money households across America paid annually in the form of federal taxes, did not suffice to finance the handouts to the banks, which officially amounted to 1.45 trillion dollars. This amount includes the 700 billion dollars granted during fiscal year 2009 under the TARP, program plus the proposed 750 billion dollars granted by the Obama administration.

Bush's Troubled Assets Relief Program and Obama's 750 billion dollar bank bailout – although disbursed over more than one fiscal year – nonetheless represented almost half of total government expenditure (half of Obama's 3.94 trillion dollar budget for fiscal 2010), which was financed by regular sources of revenue (2381 billion dollars), plus a staggering 1.75 trillion dollar budget deficit, which ultimately required the issuing of Treasury Bills and government bonds. The feasibility of a large short-term expansion of the public debt at a time of crisis was yet another matter, particularly with interest rates at abysmally low levels.

The budget deficit was 1.58 trillion dollars according to official sources. Obama acknowledged a 1.3 trillion dollar budget deficit, inherited from the Bush administration. In actuality, the budget deficit was much larger. The official figures tended to underestimate the seriousness of the budgetary predicament. The 1.58 trillion dollar budget deficit figure was questionable because the various amounts disbursed under TARP and other related bank bailouts including Obama's 750 billion dollar aid program to financial institutions were not acknowledged in the government's expenditure accounts.

The aid hasn't been requested formally, but appears in a line item "for potential additional financial stabilization efforts," according to the budget overview. The budget office calculated a $250 billion net cost to taxpayers this year, because it anticipates it would eventually recoup some, though not all, of the money expended to help financial companies.

The funds would come on top of the $700 billion rescue package approved last October by Congress. The White House budgets no money for fiscal 2010 and beyond for such aid.

Fiscal Collapse

A major crisis of the federal fiscal structure was in the making. The multibillion dollar allocations to the war budget and to the Wall Street bank bailout program backlash on all other categories of public expenditure. In November 2008, the federal government's bank rescue program was estimated at a staggering 8.5 trillion dollars, an amount equivalent to more than sixty percent of the U.S. public debt estimated at fourteen trillion dollars (2007). Meanwhile, under the Obama budget proposal, 634 billion dollars were allocated to a reserve fund to finance universal health care.

At first glance, it appears to be a large amount. But it is to be spent over a ten year period, i.e. a modest annual commitment of 63.4 billion. Thus public spending will be slashed with a view to curtailing a spiraling budget deficit. Health and education programs will not only remain heavily underfunded, they will be cut, revamped and privatized.

The likely outcome is the outright privatization of public services and the sale of state assets, including public infrastructure, urban services, highways and national parks. Fiscal collapse leads to the privatization of the state. The fiscal crisis is further exacerbated by the compression of tax revenues resulting from decline of the real economy. Unemployed workers do not pay taxes, nor do bankrupt firms. The process is cumulative. The solution to the fiscal crisis becomes the cause of further collapse.

## The Structure of the Public Debt

This large-scale appropriation of liquid money assets under the bank bailouts by a handful of financial institutions serves to increase the public debt overnight. When the U.S. Treasury under the Bush administration allocates 700 billion dollars to the Troubled Assets Relief Program, it constitutes a budgetary outlay which inevitably must be financed from within the structure of government revenues and expenditures. A similar reasoning applies to the bank bailouts under the Obama presidency.

Unless all other categories of public expenditure including health, education and social services are slashed, the various outlays under the bank bailouts will require running a massive budget deficit, which in turn will increase the U.S. public debt. Bear in mind, this budget deficit is not expansionary (in the Keynesian context). It does revive investment and consumer spending. It has no direct bearing on the real economy. It is a money transfer from U.S. tax payers into the coffers of a handful of financial institutions.

America is the most indebted country on earth. The United States (federal government) gross public debt is currently of the order of fourteen trillion dollars. This does not include mounting public debts at the state and municipal levels.

This U.S. dollar denominated (federal) debt is composed of outstanding treasury bills and government bonds. The public debt, also called "the national debt" is the amount of money owed by the federal government to holders of U.S. debt instruments. These are held by American residents (as part of their savings portfolios), companies and financial institutions, U.S. government agencies, foreign governments and individuals in foreign countries, but does not include intergovernmental debt obligations or debt held in the Social Security Trust Fund. Types of securities held by the public include, but are not limited to, Treasury Bills, Notes, Bonds, TIPS, United States Savings Bonds, and State and Local Government Series securities.

The proposed solution becomes the cause of the crisis. The 700 billion dollar bailout under the Troubled Asset Relief Program, combined with Obama's 750 billion dollar aid package to the financial services industry, is but the tip of the iceberg. A panoply of bailout allocations in addition to the 700 billion dollars have been decided upon. Moreover, an additional budgetary overrun was implemented under Obama's stimulus package of 787 billion dollars launched in February 2009 under The American Recovery and Reinvestment Act of 2009. The stimulus package, as distinct from Obama's bank bailout program, is in part directed towards the real economy.

## Spiraling Public Debt Crisis

Is the Treasury in a position to finance this mounting budget deficit officially tagged at 1.58 trillion dollars through the emission of Treasury bills and government bonds? The actual budget deficit is much higher.

We are facing the largest ever budget deficit coupled with the lowest interest rates in U.S. history. With the Fed's "near zero" percent discount rate, the markets for U.S. dollar denominated government bonds and Treasury bills are in a straightjacket. Moreover, the essential functions of savings (which are central to the functioning of a national economy) are in crisis.

Who wants to invest in U.S. government debt? What is the demand for Treasury bills at exceedingly low interest rates? The market for U.S. dollar denominated debt instruments is potentially at a standstill, which means that the Treasury lacks the ability to finance its mammoth budget deficit through public debt operations, leading the entire budgetary process into a quandary. The question is whether China and Japan will continue to purchase U.S. dollar denominated debt instruments. Washington is running a public relations campaign to lure Asian investors into buying T-bills and U.S. government bonds.

With the markets for U.S. dollar denominated debt (both domestically and internationally) in crisis, further pressure will be exerted on the Treasury to slash (civilian) public expenditure to the bone, exact user fees for public services and sell off public assets, including state infrastructure and institutions. In all likelihood, this crisis is leading us to the privatization of the state, where activities hitherto under government jurisdiction will be transferred into private hands.

Who will be buying state assets at rock bottom prices? The financial elites, who are also the recipients of the bank bailout.

Consolidation of the Banks

A massive amount of liquidity has been injected into the financial system, from the bailouts but also from pension funds, individual savings, etc. The stated objective of the bank bailout programs is to alleviate the banks' burden of bad debts and non-performing loans. In actuality what is happening is that these massive amounts of money are being used by a handful of institutions to consolidate their position in global banking. The exposure of the banks, largely the result of derivative trade, is estimated in the tens of trillions of dollars, to the extent that the amounts and guarantees granted by the Treasury and the Fed will not resolve the crisis. Nor are they intended to resolve the crisis.

The mainstream media suggests that the banks are being nationalized as a result of TARP. In fact, it is exactly the opposite: the state is being taken over by the banks, the state is being privatized. The establishment of a worldwide unipolar financial system is part of the broader project of the Wall Street financial elites to establish the contours of a world government.

In a bitter irony, the recipients of the bailout under TARP and Obama's proposed 750 billion dollar aid to financial institutions are the creditors of the federal government. The Wall Street banks are the brokers and underwriters of the U.S. public debt. Although they hold only a portion of the debt, they transact and trade in U.S. dollar denominated public debt instruments worldwide. They act as creditors of the U.S. State; they evaluate the creditworthiness of the U.S. government; they rank the public debt through Moody's and Standard and Poor; they control the U.S. Treasury, the Federal Reserve Board and the U.S. Congress; they oversee and dictate fiscal and monetary policy, ensuring that the state acts in their interest. The government hands money to assist the banks under the bank bailout. As a result, its credit rating established by Wall Street is affected.

The U.S. Government Finances its Own Indebtedness: Circular and Contradictory Relationship

Since the Reagan era, Wall Street dominates most areas of economic and social policy. It sets the budgetary agenda, ensuring the curtailment of social expenditures. Wall Street preaches balanced budgets but the practice has been to lobby for the elimination of corporate taxes, grant handouts to corporations and tax write-offs in mergers and acquisitions, all of which lead to a spiraling public debt. It oversees the U.S. public debt and the banks are involved in the sale of treasury bills and government bonds on financial markets in the U.S. and around the world. They also hold part of the public debt and are the creditors of the U.S. government.

In a bitter irony, the massive increase in the public debt (2009-2010) required to "rescue the banks" was financed and brokered by the financial institutions which were the direct beneficiaries of the Bush and Obama bank bailouts.

The Federal Reserve System is a privately owned central bank. While the Federal Reserve Board is a government body, the process of money creation is controlled by the twelve Federal Reserve banks, which are privately owned. The shareholders of the Federal Reserve banks (with the New York Federal Reserve Bank playing a dominant role) are among America's most powerful financial institutions.

The increase in the U.S. public debt in 2009-2010 was a direct result of the bailout monies transferred to the banks. To finance the bank bailouts, the Treasury was obliged to run up a massive budget deficit. While the Federal Reserve creates money out of thin air, the multibillion dollar outlays of the Treasury (including the Bush and Obama bank bailouts) required a massive emission of public debt in the form of Treasury Bills and government bonds. Only part of these T-Bills are held by the Fed.

We are dealing with a pernicious circular relationship. When the banks pressured the Treasury to assist them in the form of a major bank rescue operation, it was understood from the outset in September 2008 that the banks as creditors would in turn "assist" the Treasury in coping with a skyrocketing public debt.

Public opinion had been misled. A diabolical circular process had been set in motion. The U.S. government is in a sense financing its own indebtedness: the money granted to the banks is in part financed by borrowing from the banks. To finance the 1.45 trillion dollar bailout, the government needs to borrow, through the emission of public debt. Where does the government go? To the banks. In other words, with the money the banks lend to the government, the Treasury finances the bailout in favor of the banks.

In turn, the banks impose conditionalities on the management of the U.S. public debt. They dictate how the money should be spent. After having cashed in on their bailout money, they impose "fiscal responsibility" on the U.S. Treasury; they demand massive cuts in public spending, which eventually results in the collapse and/or privatization of public services; they impose the privatization of urban infrastructure, roads, sewer and water systems, public recreational areas – everything is up for privatization.

This public debt crisis triggered by Wall Street is all the more serious because the U.S. federal government does not control monetary policy. All public debt operations go through the Federal Reserve, which is in charge of monetary policy, acting on behalf of private financial interests. The government as such has no authority over money creation. This means that public debt operations essentially serve the interests of the banks.

Where is the Money Going?

The Obama economic stimulus program constitutes a continuation of the Bush administration's bank bailout packages. The proposed policy solution to the crisis becomes the cause, ultimately resulting in further real economy bankruptcies and a corresponding collapse of the standard of living of Americans. Both the Bush and Obama bank bailouts are intended to come to the rescue of troubled financial institutions, to ensure the payment of "inter-bank" debt operations. In practice, large amounts of money transit through the banking system, from the banks to the hedge funds, to offshore banking havens and back to the banks.

The government and the media tend to focus on the ambiguous notion of "inter-bank debts". The identity of the ultimate creditors is rarely mentioned. The legitimacy of the creditors is never questioned. Multibillion dollar transfers are conducted electronically from one financial entity to another. Where is the money going? Who is collecting these multibillion debts, which are in large part the consequence of financial manipulation and derivative trade?

There are indications that the financial institutions are transferring billions of dollars into their affiliated financial entities and hedge funds. From these hedge funds, money is also being used to acquire real economy assets. Through what circuitous financial mechanisms were these debts created? Where is the bailout money going? Who is cashing in on the multibillion dollar government bailout money? This process is contributing to an unprecedented concentration of private wealth.

Financial manipulation is an integral part of the New World Order. It constitutes a powerful means to accumulate wealth. It has contributed to destabilizing the U.S. fiscal structure. Under the present political arrangement, those responsible for monetary policy are quite deliberately serving the interests of the financiers, to the detriment of working people, leading to economic dislocation, unemployment and mass poverty.

More generally, this restructuring of global financial markets and institutions (alongside the pillage of national economies) has enabled the accumulation of vast amounts of private wealth, a large portion of which has been amassed as a result of strictly speculative transactions. This critical drain of billions of dollars of household savings and state tax revenues paralyzes the functions of government spending and spurs the accumulation of a public debt, which can no longer be financed through the emission of U.S. dollar denominated debt instruments.

What we are dealing with is the fraudulent confiscation of lifelong savings and pension funds and the appropriation of tax revenues to finance the bank bailouts. To understand what has happened, follow the money trail of electronic transfers with a view to establishing where the money has gone. What is at stake is the outright criminalization of the financial system, financial theft on an unprecedented scale.

The monetary system, which is integrated into the state budgetary process, has been destabilized. The fundamental relationship between the monetary system and the real economy is in crisis. The creation of money "out of thin air" threatens the value of the U.S. dollar as an international currency. Similarly, the financing of a mammoth U.S. budget deficit through dollar denominated debt instruments is impaired as a result of exceedingly low interest rates. Moreover, the process of household savings is undermined with interest rates close to zero.

What we have dealt with in this chapter is one central aspect of an evolving process of global financial collapse. While the financial apparatus has not collapsed, the Great Depression of the 21st century is by no means over. We can expect a renewed wave of bank failures, mergers and acquisitions in the years to come.

Financial Disarmament

The complexity of this crisis is overwhelming. While specific ad hoc measures including the freeze of speculative trade can be envisaged, there are no ready solutions under the prevailing global financial architecture. What is at stake is the power configuration behind these measures. Economic policy quite deliberately serves the interests of the financial elites, who in turn control the political process. Meaningful policies cannot be achieved without radically reforming the workings of the international banking system.

What is required is an overhaul of the monetary system including the functions and ownership of the central bank, the arrest and prosecution of those involved in financial fraud both in the financial system and in governmental agencies, the freeze of all accounts where fraudulent transfers have been deposited and the cancellation of debts resulting from fraudulent trade and/or market manipulation.

People across the land, nationally and internationally, must mobilize. This struggle to democratize the financial and fiscal apparatus must be broad-based and democratic, encompassing all sectors of society at all levels, in all countries. What is ultimately required is to disarm the financial establishment:

– confiscate those assets which were obtained through fraud and financial manipulation

– restore the savings of households through reverse transfers

– restore home ownership to those who lost their homes through the process of foreclosures

– return the bailout money to the Treasury

– freeze the activities of the hedge funds

– freeze the gamut of speculative transactions including short-selling and derivative trade

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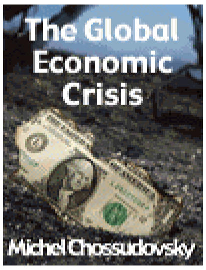

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