Who's Behind the Deficit Crisis

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From the U.S. to Europe media and politicians are singing the same tune: "budget deficits must be drastically reduced — by cutting social programs — so that global bond investors do not threaten the economy."

Not since the "war on terror" was announced has government policy been so shrouded in confusion and unanswered questions. In the same way we are not to ask how U.S. foreign policy has angered millions in the Middle East, we must remain equally silent about questioning the recent history behind the current "deficit crisis."

When speaking about the U.S. deficit crisis, the media and politicians focus exclusively on Social Security and Medicare, while ignoring the far more important causes resulting from engaging in multiple wars, running a huge defense budget, bestowing extremely generous tax breaks on the rich and allowing corporate taxes to steadily decline. Then, in addition to these factors, the corporate-based Economist broke ranks and told the truth about how the debt exploded as a result of the expensive bank bailouts near the start of the recession:

"Having spent a fortune bailing out their banks, Western governments [U.S. and Europe] will have to pay a price in terms of higher taxes to meet the interest on that debt. In the case of countries (like Britain and America) that have trade as well as budget deficits, those higher taxes will be needed to meet the claims of foreign creditors." (May 23, 2009).

But who exactly are the bondholders that working people must sacrifice their social programs for? The media would like us to focus exclusive attention on China, and other "foreign" investors. But, as usual, the enemy is closer to home.

The biggest holder of U.S. debt is the U.S. Federal Reserve. The amount of money the Federal Reserve "loaned" to the U.S. government has skyrocketed during the Great Recession, due in no small part to the multiple bank/corporate bailouts of AIG, Bear Stearns, and other entities. To this day, the amount of money the Fed has squandered on guaranteeing the bad loans of Wall Street banks remains a state secret, although rumored to be in the trillions of dollars.

The second largest holder of U.S. debt is a mixed group of U.S. corporate entities, super rich individuals, and other forms of rich investor groups. This group has grown in size since the start of the recession, when they fled from the risky stock market for safer investments in U.S. Treasury debt. The New York Times explains:

"Bond traders surfed the global liquidity wave, buying up government debt all over the world in the view that, just as most big banks were too big to fail, so were sovereign economies, no matter how crushing their fiscal picture." (December 14, 2009).

In short, the wealthy people who owned the banks and were bailed out by the U.S. government, used much of their bailout money to buy U.S. Treasury bills (U.S. debt), and are now demanding that their taxpayer-funded investment be made safe by slashing social programs.

To accomplish this, Social Security and Medicare are being targeted by President Obama's Deficit Commission. Former Federal Reserve chairman Alan Greenspan recently said that the recommendations from Obama's deficit commission were inevitable:

"The only question is, is it before or after a bond market crisis? Because there's no alternative." (Rueters, November 14, 2010).

There is indeed an alternative; many in fact. The most obvious one is that taxes be drastically raised on the wealthy bond holders and other rich individuals. It is extremely revealing that no one in the federal government is discussing this option, as President Obama has quickly surrendered on his promise to undo the Bush tax cuts for the wealthy.

The entire discussion over the U.S. deficit reveals that the priorities of President Obama and the Democrats are the same as those of President Bush and the Republicans: the very wealthy first and working people last.

Unless labor and community groups massively mobilize working people in fighting for a pro-worker solution to the deficit crisis, austerity measures– like reducing Social Security and Medicare — will be forced upon us.

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