

The Debt Crisis

The more threatening dangers in the political handling of recent "debt crisis" are not over with the legislation to raise the debt ceiling. Even beyond the legislation's disastrous consequences of for the poor, the process used to arrive at the decision poses a direct threat to democracy. The direct power of the financial industry over government has also become explicit.

The so-called debt crisis is over. It had little to do, however, with the national debt and the real crisis is far from over.

Government

The debt crisis was completely manufactured. Everyone knew from the very beginning that the ceiling on the national debt limit would have to be raised because the country *must* take on more debt in order to pay its

past
debts

whether or not future expenditures are decreased. Cutting expenditures and/or raising revenue ultimately will have to be done through the annual budget process regardless of the conditions on the debt ceiling. The radical right, however, decided to use this routine issue, ordinarily passed on voice vote, as a pretext, holding the government hostage until Congress agreed to their egregious conditions; worse, the rest of the Republicans in the House went along.

If the rest of Congress had not given in to their demands and the debt ceiling had not been raised, the exact consequences are hard to know. What we do know is that the US credit rating would have suffered, requiring the country to pay hundreds of billions of dollars in new expenses in order to pay the increased interest on the national debt. The US economy would have suffered even more egregiously than it will now. The risk of global financial crisis would have been higher than it is now. These are virtually certain consequences. Even more certain is that the poor would have suffered more than anyone else.

The real crisis, however, is the drastic threat to our democracy that the radical right's *method*

represents. Government depends on compromise. Government depends on trust. But a small group of Congresspeople was willing to throw the world's financial system into crisis, throw the country deeper into recession and in the process increase the deficit even more if its conditions were not met.

A new low in government dysfunction has been reached, which will now likely become the new norm. From here on in, it will probably be acceptable to block the will of the majority by such hostage-taking. Why should the radical right not do the same thing when it's time to pass the annual budget, shutting down the government unless its demands are met? Why should it ever compromise when it can get exactly what it wants by threatening the country's physical safety? "Hostage-taking" is the term that has been used. That's not a metaphor.

Although more imbedded in history, there is similar process on the Senate side: filibuster. The right to filibuster is not in the Constitution but in the Senate rules (that could be changed). Since southern segregationists began using the filibuster to shut the Senate down to prevent civil rights legislation in the 1950s, the use of the filibuster has gradually become routine, requiring a sixty-vote supermajority to cut it off. Even the threat of a filibuster is usually enough to stop consideration of a bill. That use of the filibuster is just as damaging to majority rule as the recent hostage-taking, but it does not remotely threaten the integrity of government in the same way.

Even the media seems to have forgotten the principle of majority rule, referring routinely to "the sixty votes needed for passage" without further comment.

When a minority controls the process, people in the majority no longer have equal rights to the minority. The fundamental condition of democracy is no longer met. What will the next wound be? We are still, I believe, a long way from fascism, but another step has been taken.

Global Finance—a Second Threat

Hardly remarked upon in the media, international corporate finance used the debt crisis to move toward undermining American political independence. Before the resolution of the crisis, the credit rating agency Standard and Poor (S&P) threatened to downgrade the US rating not only if Congress failed to raise the debt limit but also if the agreement did not contain at least a \$4 trillion reduction in the deficit over the next ten years. Moody's (another credit rating agency) also released a similar, though vaguely worded, statement that did not mention a specific

amount. S&P followed up on its threat and lowered the rating, which, if each of the three main agencies had followed suit, would have raised interest rates the government would have to pay on its loans, creating billions of dollars in annual expenses.

The established purpose of the agencies is to determine the likelihood that bondholders will get their money back. Even after the crisis, investors still flocked to buy US Treasury bonds as the safest in the world. So why the threats of downgrade?

It's true that S&P's downgrading has had little noticeable effect and that Moody's didn't carry out its threat despite an agreement that didn't meet its implied requirements. But notice what just happened. For the first time in our history, a finance agency threatened to force specific US legislation under threat of economic disaster. It is not uncommon, of course, for global finance to require other countries to modify their economic policies in the face of large debt. This was, for instance, what the IMF was primarily about during the 1980s and 1990s. It is now what has precipitated the crisis in the Euro zone over Greece. But this is the first such threat to the United States. Once again, no one doubts that the US will pay its bills; Treasury bonds are still the safest place to put your money. China and others are not going to stop buying Treasuries if we fail to cut the deficit by \$4 trillion. Rather, S&P (and to a lesser extent Moody's), very powerful financial firms, have used the manufactured debt crisis to threaten serious consequences if Congress doesn't fulfill their conditions. It is a very significant marker of the decreasing economic power of our country and the blatant control by the financial elite.

The Wrong Time to Cut Government Spending

Most economists believe that the initial government financial stimulus two years ago was inadequate to revive the economy; most still believe that another similar or greater stimulus is necessary. Most economists, therefore, believe that the US must temporarily take on more debt not less and that now is absolutely the wrong time to decrease government expenditures. In other words, in spite of the economic danger of its recommendations, S&P and Moody's are threatening the country with financial ruin unless Congress ignores the economists and follows its prescription.

Such threats are eventually inevitable. It's clear that the US empire is in decline, its government is dysfunctional, and its people unable to consume less than they earn. At some point the markets will dictate our internal politics, too. But I don't think we are there yet. The threats from Moody's and S&P are just shots over the bow in the coming crises.

This point, it's uncertain what the effect of the S&P downgrading will be. So far it hasn't seemed to bother investors.

It's clear that, in spite of its current strength, the US empire is in decline, its government is dysfunctional, and its people unable to consume less than they earn. At some point the markets will dictate our internal politics, too. We aren't there yet. Moody's threat and S&P's downgrading are just shots over the bow in the coming crises.

What's next?



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