

US budget slashes social spending to fund war and tax cuts for the rich

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In the wake of George W. Bush's State of the Union address, the White House and the Republican-led Congress have moved swiftly to implement a series of budget measures that will slash funding for health care and education while allocating vast new sums for the wars in Iraq and Afghanistan and tax cuts for America's wealthy elite.

The House of Representatives approved a \$39.5 billion five-year budget-cutting package on Wednesday. More than half of the savings has been carved out of funding for Medicare and Medicaid, the principal programs that provide minimal health care coverage to the elderly, poor and disabled.

On Thursday, Congressional sources reported that the White House was preparing to ask Congress for another \$70 billion to pay for the US wars in Iraq and Afghanistan. This comes on top of \$50 billion approved just last December, and brings the total allocated for these military interventions in little over four years to more than \$420 billion, the vast majority of it spent on the aggression against Iraq.

Before the year is out, the administration will seek yet another supplemental appropriation to pay for the military operations in the two countries. It is anticipated that before the end 2006, the cost of these wars will top the \$500 billion mark—ten times the amount estimated by the administration prior to the invasion of Iraq.

Meanwhile, the Senate continued debate on a \$56 billion tax cut that has already been passed by the House.

Taken as a whole, these legislative initiatives will deepen the social misery in America while widening the already enormous gulf separating a tiny financial oligarchy from the masses of working people. They further underscore American capitalism's growing dependence upon militarism to offset the decline in its economic position in the world arena.

The House bill is misnamed the Deficit Reduction Act. In fact, it will do next to nothing to reduce the US budget deficit, which is expected to rise to \$360 billion this year. While draconian in their impact on those who depend on the

programs being slashed, the budget cuts hardly make a dent in this deficit and account for less than 3 percent of the \$14.3 trillion in federal spending projected over the next five years.

The House leadership and the Bush White House praised the budget package for taking what one Republican congressman termed a "first step toward long-term fiscal discipline." However, it is clear that discipline is being demanded only from those at the bottom of the social ladder, who will pay for the amassing of even greater personal fortunes by those at the top.

The tax package that is currently under consideration is centered on the extension of capital gains and dividend tax cuts, over half of which would go to the top 0.2 percent who have incomes in excess of \$1 million a year. Over three-quarters of the tax cuts benefit only households making more than \$100,000 a year—just 14 percent of the population. According to some estimates, the real cost of this give-away to the super-rich and the most privileged sections of the upper-middle-class will be closer to \$100 billion in lost federal revenues over the next five years.

The biggest spending cuts enacted by Congress include \$6.4 billion slashed from Medicare, the health program for the elderly, and \$4.8 billion from Medicaid, which provides health coverage for the poor and disabled.

The legislation marks a fundamental shift in federal policy, allowing state governments to impose premiums and co-payments on Medicaid benefits and further limit eligibility. Its approval came just days after the Congressional Budget Office (CBO) released a report pointing to the barbaric consequences the budget-cutting measures will have for millions of Americans.

According to the CBO report, over the next decade the changes in Medicaid will increase costs on prescription drugs for some 20 million low-income recipients and force at least 65,000 out of the program altogether—60 percent of them children. The report estimated that the greatest savings from the legislation will come from higher co-payments and premiums, causing people to drop out of the program or not

seek needed medical care because they will be unable to afford it.

“In response to the new premiums,” the report warned, “some beneficiaries would not apply for Medicaid, would leave the program or would become ineligible due to nonpayment.” It added, “About 80 percent of the savings from higher cost-sharing would be due to decreased use of service.”

The areas expected to be targeted with new premiums include mental health services, intensifying a national crisis that already sends three times as many mentally ill people in the US to prisons than to mental health facilities.

Additional savings will result from repealing federal standards and allowing states to deny Medicaid benefits for such things as wheelchairs, crutches, canes, eyeglasses and hearing aids.

The savings in the Medicare program for the elderly come from a series of changes including increased premiums, cuts in funding to hospitals and a freeze on funding for home health agencies. Another punitive provision aimed at elderly nursing home residents would deny them Medicaid benefits if they had given away money over the previous five years. This would include money donated to charity or contributed to the college tuition of a grandchild.

While slashing benefits for the poor and elderly, the legislation was carefully crafted to protect the interests of the managed health care industry and the major drug companies. Provisions in the Senate version of the bill that would have required the big pharmaceutical firms to give larger rebates on drugs bought by states under Medicaid and cut overpayments to HMOs covering Medicare beneficiaries—which alone would have saved an estimated \$22 billion over 10 years—were stripped from the legislation. Some in Congress charged that the final language of the bill was directly dictated by lobbyists for HMOs and drug companies, which are among the largest campaign contributors to both major parties.

Another socially regressive provision will sharply increase interest rates on college loans to students and their parents. The interest rate on PLUS loans to parents will rise from the current 6.1 percent to 8.5 percent next July, while the rate on federal Stafford Loans used by some 10 million students will climb from 5.3 percent to 6.8 percent.

This change amounts to a cut in financial aid that will ultimately deprive a section of working class youth of the right to a higher education. It is projected to generate as much as \$14 billion in revenue over five years, money that will be used to defray the cost of tax cuts for the rich.

The legislation also includes stiffer work requirements for some 2 million adult Americans on welfare. The burden, which will require most recipients to spend 40 hours a week

either working or in job training, will fall most heavily on single mothers. At the same time, the bill includes only \$1 billion in new funding for childcare—\$11 billion less than what is needed to allow parents to manage the extended work requirement, according to an estimate by the Congressional Budget Office.

This measure deepens the attacks initiated under the so-called welfare reform introduced by the Democratic administration of Bill Clinton in 1996.

The 216-214 vote on the final legislation split largely on party lines, with 13 Republicans joining the Democratic minority in opposing the bill. Its passage underscored once again the inability of the Democratic Party to offer any alternative to the reactionary social agenda of the Bush administration.

The Deficit Reduction Act is a holdover from last year. The administration is already preparing to introduce even deeper cuts in social programs and further increases in military spending in a fiscal 2007 budget that it will present to Congress next week. Declaring his support for the bill passed by Congress, Bush vowed he would “continue to build on the spending restraint we have achieved.”

The 2007 budget will continue the sharp and protracted growth in US military spending. The proposed Pentagon budget for the next fiscal year will rise to \$439.3 billion, a 4.8 percent increase over last year. This includes \$84.2 billion to be allocated for new weapons, an 8 percent rise in such purchases over fiscal 2006. This budget is over and above the supplemental funding requests for the wars in Iraq and Afghanistan and does not include more than \$6 billion spent each year to maintain the US nuclear arsenal.



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