US: Cuts in Social Security, Medicare to pay for bank bailouts

Tom Eley
14 May 2009

A government report made public Tuesday indicates that Social Security and Medicare will deplete their trust funds more quickly than previously forecast. This has sparked new demands from within the US financial elite for substantial cuts in the two entitlement programs, which pay retirement and medical benefits for tens of millions of working class Americans.

The report was issued by the programs' trustees, a group of four Obama administration officials headed by Treasury Secretary Timothy Geithner. Because regressive payroll taxes on workers' earnings fund the two programs, mounting unemployment has worsened the projections. Since December 2007, 5.7 million jobs have been lost, and the official unemployment rate now approaches 9 percent.

The slump has slowed the rate of inflation to below the level required by law to trigger a cost-of-living raise for Social Security recipients. As a result, the trustees project that in 2010 and 2011, for the first time since automatic cost-of-living raises were incorporated into Social Security in the 1970s, there will be no increase in retirement benefits, and only a minuscule 1.4 percent rise in 2012. The effective freeze in retirement benefits will be combined with substantially higher monthly premiums for many Medicare recipients.

Since the trustees base their projections of the fiscal state of both programs by estimating future economic growth, the current slump has moved forward the projected point at which each program will begin to run a deficit. Social Security currently operates at a surplus, which the report anticipates will end in 2016, when the program would finally have to begin withdrawing from its own fund—potentially cutting into the other areas where the federal government currently funnels the money.

Even by its alarmist critics' own admission, Social Security is not about to collapse under its own weight. It would deplete its funds by 2045, thirty years from now, according to the trustees' report. For years, Social Security funds have been used to pay directly or indirectly for reactionary federal budget priorities—including tax cuts for the rich, bank bailouts, and the wars in Iraq and Afghanistan.

The Obama administration has shelled out hundreds of billions, no strings attached, to the biggest financial institutions, under the false rationale that this would "kick-start" lending and generate jobs. All told, between direct cash infusions, loans, and guarantees on debt, Washington has handed over around $10 trillion to Wall Street in less than a year. In comparison, Medicare would need $13 trillion and Social Security $5 trillion *over the next 75 years* to remain solvent, according to the report. In other words, retirement benefits and healthcare benefits for several generations of the elderly could be secured at the cost of one year's bailout of the financial aristocracy.

But the vast payouts to Wall Street and the imperialist wars abroad *require* the plundering of Social Security and Medicare. After giving hundreds of billions to the banks and setting a new record for military spending, Obama has no other credible target for "fiscal discipline." Yesterday the White House revised upwards its budget deficit estimate by 5 percent from February to $1.84 trillion.

Secretary Geithner's dual role as Wall Street frontman and "trustee" of the retirement and health care for the working class underscores the duplicitous nature of the Obama administration. Disregarding the trillions he has handed over to the banks, Geithner claimed yesterday that "there is no more important long-term fiscal measure than gaining control of the growth of Medicare costs."

The first target for cuts will be Medicare, followed by Social Security. Geithner explained: "After we have passed health-care reform that puts our nation on a path to lower growth in health-care costs and expanded affordable coverage, this president will work to build a bipartisan consensus to ensure the long-term solvency of Social Security."

Geithner's reference to "bipartisan consensus" is Washington code for the sort of reform that can bring the most far-right, pro-market forces aboard. To make sure the significance of this was not lost, Geithner reiterated that Obama “explicitly rejects the notion that Social Security is untouchable politically.” Republican lawmakers reacted favorably.

Thus, after only four months, the historical significance of the Obama administration’s “domestic agenda” has come into focus. As it took a Democratic president, Bill Clinton to undo welfare, it will be a Democrat in the White House who takes the axe to Medicare and that last vestige of Franklin Roosevelt’s New Deal, Social Security.

The freeze in cost of living increases for Social Security and increased user payments for Medicare are only the beginning. The Obama administration used the release of the new data to amp up its demands for what it calls a “major overhaul” of health care in the US.

Health and Human Services Secretary Kathleen Sebelius, also a trustee of the two programs, called the report “a wake-up call for anyone concerned about Medicare. ... it’s another sign that we can’t wait for real, comprehensive health care reform.”

In fact, the revelations on Social Security and Medicare only served to underline that Obama’s health care “reform” will be predicated on a sharp curtailment of the provision of medical services to the working class. The entire effort will take as its starting and ending point the defense of the profit margins of the various “players” in the health care industry—the insurance corporations, the HMOs and the pharmaceuticals.

Earlier this week, Obama gained pledges from representatives of five health industry trade groups and the Service Employees International Union that they would “try” to rein in costs by 1.5 percent per year for the coming decade. There will be no penalties for non-compliance and Congress is likely to authorize generous tax incentives to pay for cooperation. Obama claims that the voluntary pledges could result in an increase in annual health care costs of 5.5 percent compared to the currently forecast 7 percent for the coming years. In other words, even in the best-case scenario, the health care burden on workers would increase only slightly less rapidly.

The industry players have been tempted to cooperate with potentially lucrative promises from the Obama administration. “Groups like the insurance industry hope that cuts to their payments would be offset by new rules that would require all Americans” to pay for private insurance plans, the *Wall Street Journal* reports. Other groups “want to head off regulations that could pose new burdens or curb their profits.” (“Health-Care Providers Pledge to Try to Curb Costs.”)

Frozen out of Obama’s discussion on health care reform are advocates of government-run or “single-payer” health insurance schemes, such as those that prevail—and are being rolled back—in Canada and Western Europe.

On Tuesday, police removed about thirty nurses and doctors from Senate Finance Committee hearings convened to consider financing changes to the health care system. The health care workers had launched a protest against the exclusion of single-payer advocates from the discussion.

Any new health care bill will be funded by cuts in other social programs and taxes on workers. On Wednesday, House Speaker Nancy Pelosi said that a health reform bill would be on the House floor by July 31. According to an analysis by the Associated Press, “the final financing package is likely to include a mix of tax increases and spending cuts in federal health programs. Among the possibilities are tax increases on alcoholic beverages, tobacco products and sugary soft drinks, and restrictions on other health care-related tax breaks, such as flexible spending accounts.”

An article in Wednesday’s *Wall Street Journal*, “Idea on Hill: Taxing Health Benefits,” pointed to a growing consensus among lawmakers and Obama administration officials that workers’ health care benefits should be taxed to pay for any reform.

Ensuring the best health care and a secure retirement for all is not a technical, but a political question. The looming attack on Social Security and the transparent bankruptcy of Obama’s health care “reform” are dictated by powerful financial interests who believe that workers should work until they can work no longer, and that thereafter they should expect little or nothing in the way of public assistance or medical care to maintain themselves. That is considered too costly.

There is no resolution outside of a struggle against this financial aristocracy. The medical industry must be wrested from the hands of the insurers, pharmaceuticals and for-profit hospital chains and placed under the democratic control of its doctors, nurses and health care workers, who will determine how medicine’s enormous potential can be best deployed to meet human needs, ensuring long and healthy retirements.