Chairmen of Obama deficit panel propose cuts in Social Security, Medicare

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The chairmen of the bipartisan commission appointed by President Obama to rein in US deficit spending on Wednesday released a proposal that would include new taxes on consumption and employee health care benefits and cuts to the federal old-age insurance programs, Social Security and Medicare, and to the jobs and pay of government workers. It would at the same time include massive tax cuts for the rich and for corporations.

The plan, worked out behind closed doors by the co-chairs of the National Commission on Fiscal Responsibility, former Republican Senator Alan Simpson and former Clinton administration chief of staff Erskine Bowles, would go into effect starting in 2012 if it is approved by the 18-member commission and then by the US Congress during its December lame duck session.

The plan is significant less for the details, since it is unlikely to be enacted in the specific form presented, as for its political impact, in raising publicly the demand to cut spending on programs on which tens of millions of elderly people depend, as well as to abolish tax provisions relied on by large numbers of middle-class homeowners.

Public release of the proposal was intentionally timed to occur after the midterm elections so that candidates of both parties could avoid taking a position on what is in fact a bipartisan consensus in favor of making the working class foot the full bill for the crisis of US capitalism.

Whatever its fate, the publication of the Bowles-Simpson plan is the latest demonstration that the American state is a government of, by, and for the rich. With debt as a share of GDP at 62 percent—its highest level since the end of WWII—and on a steady spiral upward toward 100 percent and beyond, Washington's creditors are demanding it rein in spending. The plan's $3.8 trillion in expected savings by 2020 are to be achieved almost entirely through further and deeper attacks on the broad mass of the population, even as new giveaways are proposed for the financial and corporate elite.

The plan aims a blow at Social Security, one of the last vestiges of the reforms put in place during the Great Depression, and what was once known as the "third rail" in US politics because, the thinking went, it could not be touched.

Benefits to the majority of retirees would be cut by reducing cost-of-living adjustments currently calibrated to increase with inflation. The proposal would raise the retirement age to 69 by 2075. In a symbolic gesture designed to make these cuts more palatable, the plan proposes increasing the income on which Social Security payroll taxes are levied from the present $106,800 a year to $200,000 per year.

Simpson and Bowles present this assault on Social Security as an act of magnanimity designed to keep it solvent for the next 75 years. In fact, Social Security—a payroll tax imposed on current workers to support retired ones—is likely the only aspect of US government that is functionally solvent, with analysts predicting that the program could continue uninterrupted in its current form for 40 or 50 years, during which time simple measures could be put in place to ensure its longer-term viability.

Under the plan, Medicare would also see deeper cuts along with a bevy of other new measures that would deepen the Obama administration's attack on health care. The plan further proposes increased patient co-pays for Medicaid (the health insurance program for the poor) and cutting $54 billion in funding for graduate medical education. Finally, it calls for "comprehensive tort reform”—this means making it more difficult for patients to bring medical malpractice lawsuits, a longtime objective of the Republican Party.

The plan also calls for reducing the size of the federal workforce by 10 percent by 2015. This would likely be the single largest workforce reduction in US history, the direct loss of over 200,000 jobs, under conditions in which economists anticipate that the official unemployment rate, currently 9.6 percent, will remain high for years to come.

One of the most provocative elements of the plan is its proposal to cut the highest-end federal income tax rate to 23 percent from its current 35 percent—to the primary benefit of those making above $373,000 per year. This goes far beyond the Bush administration tax cuts for the wealthy, which the lame duck session of Congress is about to discuss extending.

The corporate tax rate would also be sharply reduced, from 35 percent to 26 percent, and the commissioners would make permanent a research and development tax shelter for corporations.

Meanwhile, for lower income groups, income tax rates would be reduced by a much smaller percentage. Those now making under $8,375, the desperately poor, would see a tax rate reduction from 10 percent to 8 percent. Only three income tax brackets would exist: a “high end” rate of 23 percent, a second tier taxed at 14 percent, and the bottom rate of 8 percent.

The income tax cuts—which clearly have nothing to do with eliminating deficits—would be offset by imposing new taxes, including penalizing employee health care benefits as taxable cash income and by more than doubling the current federal tax on gasoline to about 30 cents per gallon and imposing new “user fees” on motorists. In this way the entire federal budget for transportation and highway spending would be offloaded onto the working class.

Obama created the National Commission on Fiscal Responsibility last year, appointing 12 members of Congress—six Democrats and six Republicans—as well as six private citizens, including Bowles and Simpson. For its recommendations to be approved, 14 of the 18 panel members must support them.

Most commissioners, including the Republican members, have said that there are aspects of the Bowles-Simpson plan they could support, and others that they would oppose. The most likely scenario is that the proposed cuts will become part of a larger discussion in ruling circles over how far any attack on Social Security, Medicare and social spending should go.

The Bowles-Simpson plan is to be followed in short order by another bipartisan deficit-cutting proposal that reportedly goes even further in its recommendations. This commission, sponsored by the Bipartisan Policy Center, is headed by former Republican Senator Pete Domenici of New Mexico and former Clinton budget director Alice Rivlin.

White House spokesman Bill Burton released a statement withholding comment on the proposals issued by Obama’s own appointees. “The president will wait until the bipartisan fiscal commission finishes its work before commenting,” Burton said. “He respects the challenging task that the co-chairs and the commissioners are undertaking and wants to give them space to work on it.”