Lame duck US Congress moves to cut taxes for rich, end benefits for unemployed

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The Democratic Party-controlled 111th US Congress on Monday entered its final session, with Democratic leaders signaling their willingness to capitulate to Republican demands for an extension of Bush-era tax cuts for the wealthiest Americans. Meanwhile, most commentators expect that Congress will fail to extend federal benefits for the long-term unemployed when funding expires on November 30.

The “lame duck” session—so-called because it falls between the November elections and the convening of the new Congress in January—will determine whether and for whom the 2001 and 2003 tax cuts, set to expire on December 31, will remain in place.

Since their victory in the midterm elections, Republicans have demanded that the tax cuts be made permanent for all taxpayers, including those in the very highest income brackets. Democrats, including President Obama, campaigned on the promise that they would be extended only for households whose income was under $250,000 per year for a married couple or $200,000 per year for an individual.

This opposition from the Democrats was largely for show and has been quickly abandoned, in the first place by Obama, who has in recent days indicated that he would be willing to accept a temporary extension of the tax cuts for the rich, supposedly so that tax cuts for the middle class can be carried on. No serious observer can doubt that this so-called temporary continuation would mean anything less than the tax cuts’ permanent implementation.

In fact, prior to the election the Republican congressional leadership was only seeking a two-year extension, so Obama has effectively capitulated to their position. Two far-right Republicans, Senator Jim DeMint of South Carolina and Senator-elect Rand Paul of Kentucky, appearing on separate Sunday news programs, signaled their willingness to accept such a “compromise.” “If that’s all we can get, that’s better than nothing,” Paul told CBS.

For their part, the Democratic congressional leadership, in the lead-up to the election, maneuvered to stall legislation that would have extended tax cuts only for middle-class families because, they claimed, any tax increase—even for multimillionaires—would be politically unpopular.

Other leading Democrats, for example Senator Charles Schumer of New York, have also proclaimed their willingness to compromise. Schumer recently broached a scheme whereby the tax cuts will be extended for everyone except those making more than $1 million per year, approximately the top two tenths of one percent of US households.

Based on the utter prostration of Obama and Schumer, one might conclude that it is the Republicans and not the Democrats who currently control the presidency and Congress by lopsided margins.

If the tax cuts for the rich are extended—and all indications suggest that they will be—it will be a searing indictment of the entire political order. Under conditions of the worst social crisis since the Great Depression, a tiny stratum of the elite—the same layer whose reckless financial speculation set into motion the economic collapse—are about to receive a windfall estimated at $700 billion over the next decade. This is about the same amount allocated for the now-ending stimulus package, the American Recovery and Reinvestment Act. (It should be noted that in the Great Depression the high-end tax rate was actually increased from 24 percent in 1929 to 81 percent in 1940.)

The Democrats’ move toward extending tax cuts for the rich is no mistaken policy or political miscalculation, as a number of liberal commentators have suggested. The Democrats, just as much as the Republicans, are servants of the financial aristocracy—a fact underscored this week by Obama's National Commission on Fiscal Responsibility, whose chairmen proposed tax "reform" that would actually lower the top-end income tax rate by one third, from 35 percent to 23 percent, along with a similar cut in the corporate tax rate. Budget balancing would be entirely at the expense of the working class, through cuts to Social Security and Medicare, new regressive taxes, and cuts in the jobs and pay of government workers.

While the continuation of the tax cuts for the rich appears to be a near-certainty, the extension of special funding for approximately 2 million long-term unemployed American workers is unlikely to be met by the November 30 deadline. This means that benefits will immediately dry up for 800,000 workers, followed by another 1.2 million by the end of December.

According to most media accounts, there is virtually no chance the jobless benefits extension will be acted on by November 30. After that, liberal Democrats may barter away tax cuts for the rich for an agreement on the extension of the long-term benefits until next year, when the program is almost certain to be scrapped. But other Democrats have indicated they might propose a bill that would gradually draw down the benefits. "There is a desire to see that any reduction in weeks be connected to the state of the economy," a Democratic congressional aide told the *Wall Street Journal*.

The tale of the two extensions—jobless benefits for the unemployed and tax cuts for the rich—exposes the blatant hypocrisy of the supposed concern in ruling circles over deficit spending. The long-term unemployed benefits would likely cost about $35 billion for six months, the same price tag, on an annualized basis, as the cost of the extension of the tax cuts for the rich.

However, as most economists acknowledge, benefits to the unemployed have an immediate benefit for the economy, as the jobless quickly spend the money on necessary consumer goods.

"When you give a dollar to the unemployed they're the most likely to spend it," said Betsey Stevenson, chief economist with the Labor Department. "That's one where you really do get a lot of stimulus on the economy." According to Alec Phillips, an economist with Goldman Sachs, expiration of the jobless benefit extensions will cut GDP growth by 0.5 percent. And a new report issued by the economic research firm IMPAQ estimates unemployment benefits saved an average of 1.6 million jobs each quarter during the recession.

Another major piece of legislation to be debated during the lame duck session is the funding of the government itself, which is set to expire on December 3. Democrats favor combining over a dozen separate spending bills into an omnibus package of $1.108 trillion that would determine the budget for much of the next year. Their proposal is less than what Obama requested and modeled on what Republican Senate Minority Leader Mitch McConnell said he would support. House Republicans will instead fight for a short-term spending package that will allow their new majority to enforce a fresh round of cuts to social spending early next year.

A law to repeal the military's ban against openly gay and lesbian service members is not expected to advance. Neither is the DREAM Act, which would have offered citizenship to the children of undocumented immigrants if they enlist in the military or attend college.

Ratification of a new nuclear arms treaty with Russia is also expected to fail to emerge from the lame duck session.