

Obama to propose more than \$1 trillion in deficit reduction

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The Obama administration will release a federal budget today for the fiscal year beginning October 1 that cuts the total federal deficit by as much as \$1.1 trillion over the next decade, two thirds of it through cuts in domestic spending, according to press reports over the weekend.

Among the social programs to be gutted are Pell Grants for working-class college students and the LIHEAP program, which provides heating assistance for low-income families and the elderly. (See “Obama to slash home heating assistance for low-income families and seniors”).

According to the Associated Press, “An administration official says President Barack Obama is proposing to cut \$100 billion over a decade from the Pell Grant program through belt-tightening, but use the savings to keep the maximum college financial aid award at \$5,550.”

No details were provided, but apparently the plan is to reduce the number of recipients of Pell Grants in order to avoid reducing the dollar amount of the individual awards. The result will be tens of thousands fewer students from low-income families receiving a college education.

The *New York Times* reported, “Two-thirds of the reductions that Mr. Obama will claim are from cuts in domestic spending programs, including many he has supported in the past.”

The total deficit reduction is more than double the \$400 billion Obama proposed last month to save by freezing domestic discretionary spending at the 2010 level for the next five years. About \$300 billion is to come from tax increases, leaving another \$400 billion to come from reductions in spending below the 2010 level.

The *Times* also reported that the Obama budget will call for ending the Bush tax cuts for families with incomes over \$250,000 a year, which were extended for two years in a deal with the congressional Republicans in December.

Despite Obama’s claim at the time that he would oppose any

further extension of the tax cuts for the wealthy, the administration budget does not include any increased revenue from closing that huge tax loophole—effectively conceding that hundreds of billions in additional tax handouts to the wealthy will continue. In other words, Obama’s promise of a “fight” over tax cuts for the rich in 2012 is so much hot air.

While Obama declared in his Saturday radio and Internet speech, “This budget asks Washington to live within its means, while at the same time investing in our future,” it is the poorest sections of the working class who will be compelled to sacrifice.

The Obama budget freezes pay for federal government workers, imposes the five-year spending freeze for domestic programs, and slashes community action programs, the Community Development Block Grant, and heating assistance.

The gargantuan Pentagon budget would face only a minor trim—\$78 billion over ten years, or barely one percent of the cumulative trillions in military spending envisioned over that period. Even this cutback is based on the shaky assumptions that a complete US military withdrawal from Iraq will take place by December 31, 2011, and that US troop strength in Afghanistan will decline from present levels.

The Obama budget will propose \$62 billion cuts in federal health spending over ten years to offset the cost of increasing Medicare reimbursement payments to doctors by the same amount. The only significant tax increase, a limit on the value of itemized deductions for wealthy households, is intended to offset the cost of adjusting the Alternative Minimum Tax to prevent it from hitting taxpayers in the \$150,000 to \$250,000 bracket—a benefit for the more well-off sections of the middle class, not hard-pressed working-class families.

While the Obama administration presses ahead with an austerity budget for FY 2012, the federal government is operating in the fifth month of FY 2011 without a budget. The Democratic-controlled Congress did not pass a single spending bill last year, ending the year by passing a continuing resolution

funding federal departments through March 4.

This means that the incoming Republican-controlled House can take immediate action to slash current levels of spending, using the March 4 deadline as leverage. House Republicans wrangled all last week on various proposals to cut current spending by as much as \$100 billion, with fissures opened up between the party leadership and the 87 newly elected members, many of them radical right-wingers aligned with the Tea Party groups.

An initial proposal by House Budget Committee chairman Paul Ryan of Wisconsin to slash \$32 billion from current spending was opposed in the House Republican caucus as too small. That plan called for an \$8 billion increase for the Pentagon and homeland security and a \$40 billion cut from domestic spending, and would have compelled some agencies to cut 20 percent or more.

House Republicans eventually agreed on a plan for \$74 billion in cuts, which Ryan will formally introduce this coming week. It calls for a 9 percent reduction in non-military discretionary spending, including eliminating all federal funding for family planning services, the AmeriCorps national service program, high-speed rail services, the Legal Services Corporation, which provides legal assistance for the poor, and the Corporation for Public Broadcasting.

The budget for the Environmental Protection Agency would be slashed by a staggering 30 percent. Other cuts include:

- The Women, Infants and Children program, providing milk and other food for low-income pregnant women, mothers and young children, cut \$758 million, about 10 percent
- Head Start preschool education, cut \$1.1 billion, about 14 percent
- Community health centers, cut \$1 billion
- The District of Columbia budget, cut \$240 million, mainly from the Metro system.

There are moves in both the House and Senate to pass the 2011 Defense Appropriations Bill intact, which would effectively exempt the military budget from any cuts in the revised continuing resolution.

One month later, Congress must act to raise the ceiling on the national debt—another action that could have been taken by the previous Democratic Congress. House Republicans aim to use the debt ceiling vote as another means of compelling drastic cuts in spending.

A bipartisan group of at least 31 US senators is discussing plans for long-term austerity measures, including cuts in key

entitlement programs like Social Security, Medicare and Medicaid. The organizers of this group, Democrat Mark Warner of Virginia and Republican Saxby Chambliss of Georgia, have been meeting with four senators who served on the Obama deficit commission that filed a report in December calling for major cuts in entitlements, in order to reach a consensus approach to making the sick and the elderly pay for a deficit which is caused by two wars, the bailout of Wall Street, and huge tax cuts for the wealthy.

Similar discussions are under way between the Obama White House and House Republican leaders. On February 9, Obama, Vice President Joseph Biden and chief of staff William Daley held a closed-door meeting with the three top Republicans, Speaker John Boehner, Majority Leader Eric Cantor and Majority Whip Kevin McCarthy, to discuss budget and regulatory issues, among others, without aides present.

The talks were conducted in the wake of a report by the Congressional Budget Office estimating that the federal deficit for the current fiscal year will grow to \$1.48 trillion, up from \$1.3 trillion in fiscal year 2010. For the following year, the CBO projects a deficit of \$1.1 trillion. All these figures are indicators of financial bankruptcy, with the government deficit approaching 10 percent of US GDP in the current year, a level comparable to Greece.

Contrary to the mythology of the corporate-controlled media and both big business parties, the deficit is not the result of runaway spending on domestic social programs or entitlements. Federal tax receipts have plunged to only 14.8 percent of GDP, the lowest level in 60 years, in part because of the tax cuts for the rich, in part because of the economic slump.



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