

# Washington budget talks: Pressure mounts for trillions in spending cuts

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Congressional Republicans walked out of budget talks with the Obama administration and congressional Democrats Thursday, pressing demands that the White House drop any proposal for tax increases and agree to rely exclusively on spending cuts to slash trillions of dollars from the federal budget deficit.

The breakdown of the talks raises anew the threat that Congress will fail to meet the deadline for raising the federal debt ceiling, now set \$14.3 trillion. The Treasury Department stopped issuing new federal debt in mid-May, when the ceiling was reached. It has warned that financial maneuvers to forestall a default will be exhausted on August 2, leaving no money to cover Social Security checks scheduled to be sent out the following day.

House Majority Leader Eric Cantor initiated the walkout and was joined by the other Republican participating in the White House talks, Senate Minority Whip Jon Kyl. The talks, chaired by Vice President Biden, also include four other Democrats—two senators and two House members.

Cantor called on Obama to intervene in the talks, complaining that Biden and the congressional Democrats had continually raised the issue of tax increases on the wealthy, to which the Republicans are unalterably opposed.

“Regardless of the progress that has been made, the tax issue must be resolved before discussions can continue,” Cantor said.

House Speaker John Boehner, the top congressional Republican, said he would be willing to begin top-level talks with Obama, but only on the condition set by Cantor. “These conversations could continue if they take the tax hikes out of the conversation,” he said.

Until the sudden and unexpected breakup of the talks, both Biden and Cantor had expressed optimism about the negotiations, suggesting that they had already identified more than \$1 trillion in spending cuts and were working

on more.

The bipartisan talks are being conducted on the basis of the demand by Boehner and the House Republicans that any increase in the federal debt ceiling be matched, dollar-for-dollar, by cuts in the deficit. For the \$2.4 trillion increase in the debt ceiling that the Treasury has requested, to take the federal government through the 2012 elections, this would mean a reduction in projected deficits of \$2.4 trillion.

The ultimatum presented by Cantor and backed by Boehner amounts to demanding that the entire \$2.4 trillion come from cuts in domestic social spending, since they rule out tax increases, and both Democrats and Republicans have rejected any significant cut in military spending.

The position of the Republicans was strengthened by declarations from one top Democrat in the Senate, Budget Committee Chairman Kent Conrad of North Dakota, who complained that the \$1 trillion in cuts already agreed on in the talks led by Biden was too little. He said he would not vote to raise the debt ceiling unless there was far greater deficit reduction as part of the package.

Conrad is a member of the Gang of Six, the bipartisan group of senators who are seeking to impose the recommendations of the Simpson-Bowles commission, the bipartisan budget-cutting panel that was appointed by Obama last year. The commission chairmen presented a report in December calling for more than \$2 trillion in spending cuts and a total of \$4 trillion in deficit reduction.

In a statement to the press Tuesday, Conrad said, “While I am encouraged by the bipartisan nature of the leadership negotiations being led by Vice President Biden, I am concerned by reports the group may be focusing on a limited package that will not fundamentally change the fiscal trajectory of the nation. That would be a mistake.”

He added, “This is no time for half-measures. A \$2

trillion package sounds big, but I think most serious observers would tell you that it takes a package of at least \$4 trillion to fundamentally change the trajectory we're on."

Earlier in the week, the Congressional Budget Office issued a report projecting much higher deficits and suggesting that cuts of more than \$7 trillion over the next decade would be required just to keep the deficit from growing as a proportion of the Gross Domestic Product.

The CBO report, clearly intended to justify far greater cuts, portrayed a federal fiscal crisis caused entirely by the growth of spending on Social Security, Medicare and Medicaid, with no mention of the bloated Pentagon budget or rapidly rising interest costs, let alone the long-term impact on federal revenues of the tax cuts for the wealthy initiated by the Bush administration and extended under Obama.

The report warned of a "sudden fiscal crisis" in which financial markets would lose faith in the US government's ability to pay its bills, interest rates on Treasury bonds would soar, and ultimately those bonds would become unsaleable.

One figure in the CBO report is especially significant. It notes that more than half the cuts in entitlement programs proposed in the House Republican budget, some \$2.9 trillion over the next ten years, are already incorporated into the cuts in Medicare made by the Obama healthcare program.

In other words, despite the mutual recriminations over Medicare, both parties are committed to gutting the program. The Republicans propose outright privatization for those now under 55 years of age. The Democrats propose to retain the label "Medicare," but starve the program of the funds required to provide decent medical care for the elderly.

Also Tuesday, the Fitch ratings agency said it will downgrade the US government's credit rating on August 2 if there is no deal to raise the debt ceiling.



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