

Obama, Congress move towards deal on budget cuts

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In a series of closed-door meetings and public appearances, officials of the Obama administration and Democratic and Republican congressional leaders appeared to be moving closer to a deal to cut more than \$1.5 trillion in federal social spending.

Obama's chief budget cutter, Jacob Lew, director of the Office of Management and Budget, was the administration spokesman on three television interview programs Sunday, reiterating the president's support for a deficit reduction package totaling at least \$4 trillion, more than what has been proposed by the Republican-controlled House of Representatives.

"I think there's still time to get something big done," Lew said on NBC's "Meet the Press" program. Obama had "made clear he wants the largest deal possible," Lew said.

"We've said for some time now, as have most, that we need to do on the order of \$4 trillion of deficit reduction over the next 10, 12 years. We would like to get that done now."

Republicans have opposed such a deal because Obama included minor increases in taxes on the wealthy, largely through closing loopholes for hedge fund managers, the oil industry and companies that buy corporate jets, although there is no general increase in tax rates for the super-rich.

There is obvious disarray among the congressional Republicans, who were described by the *New York Times* Saturday as wanting to go back on the offensive "after a week in which many felt out-flanked by the White House." In other words, Obama has staked out a position in the budget debate to the right of the Republicans, by proposing cuts in Social Security and Medicare that go beyond anything they have proposed.

House Budget Committee Chairman Paul Ryan, interviewed on CNN July 14, expressed this sentiment, pointing out that Obama had gone beyond the House Republican plan—identified with Ryan himself—to phase out Medicare for those under 55, while leaving the program's structure unchanged for those 55 and older.

Obama has rejected the proposed privatization of Medicare

for future recipients, Ryan said, only to cut benefits for current recipients. "We think we should reform Medicare for the younger generation and keep it alone, keep it as it is, for the current generation," he claimed.

At the same time, comments from House and Senate leaders indicated growing support for a proposal authored by Senate Minority Leader Mitch McConnell and modified by Senate Majority Leader Harry Reid. The bipartisan McConnell-Reid plan would cede to Obama the authority to raise the debt ceiling in stages by the \$2.5 trillion requested by the Treasury.

As initially proposed by McConnell, there would no quid pro quo except that Obama, not Congress, would bear the political blame supposedly attached to raising the debt ceiling. Reid, however, insisted that the proposal be reformulated in a more right-wing direction to attract support among House Republicans.

Under the modified McConnell-Reid plan, mandatory spending cuts of as much as \$1.5 trillion would accompany the rise in the debt ceiling, but no tax increases. While these cuts would not include changes in either Social Security or Medicare, they would include devastating cuts in discretionary social spending, programs including education, the environment, housing, transportation, and other infrastructure.

According to an analysis by the Economic Policy Institute, this portion of the federal budget has averaged 3.3 percent of GDP over the past five decades, since the modern structure of the federal government was established in the 1960s. Obama's 2012 budget request would cut this to 2.2 percent of GDP, while the budget adopted by the House Republicans would cut it to 1.5 percent of GDP.

The McConnell-Reid plan would incorporate most of the budget cuts discussed in bipartisan talks chaired by Vice President Biden during May and June. The resulting figure would roughly split the difference between the original Obama budget request and the House Republican budget, cutting discretionary social spending to less than 2 percent of US GDP.

The report concluded that such cuts would mean “Crumbling roads and bridges, a second-class education system, a dirty and hazardous environment, lax consumer protections, and a government that cannot function.”

The Biden-led talks also agreed to \$100 billion in cuts from Medicaid, whose fate under the McConnell-Reid plan is uncertain. It was noteworthy, however, that at a press conference Friday, House Minority Leader Nancy Pelosi vowed to defend Social Security and Medicare from cuts, but pointedly did not mention the third major entitlement program, Medicaid.

There are ongoing negotiations over the procedural framework to be used to force the cuts, with various proposals, including the establishment of a bipartisan House-Senate committee, modeled on last year’s Simpson-Bowles commission, whose recommendations would automatically receive an up-or-down vote in both houses of Congress.

In his television appearances, OMB Director Lew emphasized his support for the most right-wing possible version of the McConnell-Reid plan—i.e., the version with the largest amount of mandatory spending cuts. He said that Obama “wants to do the most we can to reduce the deficit. But he also said that if we can’t get the most done, then in addition to extending the debt we should do as much as we can.”

The number two Republican in the Senate, Minority Whip Jon Kyl, appeared on the ABC Sunday interview program “This Week” and indicated that the McConnell-Reid plan was the likely fallback option.

He said that the House and Senate would take up Republican proposals for a constitutional amendment requiring a balanced budget—an ultra-reactionary measure that would freeze total federal spending at 18 percent of GDP, a level that last prevailed in the Eisenhower administration.

After that amendment fails to win the required two-thirds majority in both houses, the focus would shift back to McConnell-Reid. “That’s what the Senate is proceeding with,” he said. “Now the House of Representatives has to make its decision about what it will do... At the end of the day, I don’t think there will be a default.”

Even the Senate Republican most identified with the ultra-right Tea Party faction, Jim DeMint of South Carolina, admitted in an interview that White House officials who said Congress would not permit a US default on debt are “probably right on that.”

The threat of a US debt default, as well as of a downgrade of the US debt rating by agencies like Moody’s and S&P, is being employed for two political purposes. The immediate focus of the maneuvering in Washington is to pressure enough House Republicans to drop their opposition to an

increase in the debt ceiling to enable some deal to go through.

On Friday, Budget Committee Chairman Paul Ryan briefed the entire House Republican delegation on the debt ceiling, emphasizing that failure of the US government to meet its obligations after August 2 was a real threat. Ryan said that he had reviewed cash-flow reports from the Treasury and there was no doubt that the US government would not be able to pay all its August bills from its current revenues without borrowing, which is currently banned because of the debt ceiling.

The more fundamental political purpose of invoking the debt ceiling is to paralyze opposition to the budget cuts from working people, with the argument that the alternative is a financial crash that would send the entire US economy into a depression.

Typical in this regard were the comments of former Treasury Secretary and Obama economic adviser Larry Summers, who described a default as “an unthinkable risk to take,” telling CNN it would cause “a cascade that makes Lehman Brothers look like a very small event.” He was referring to the collapse of the Wall Street firm that touched off the 2008 financial collapse.

The financial markets, however, appear to well understand the game that is being played in Washington. Interest rates for US government debt are at record lows, and there has been no significant erosion of investor demand for US securities.

In any case, the working class must adamantly oppose all the cuts in social spending being proposed, from the most draconian to the supposedly most “moderate.” All of the plans being debated in Washington are part of a conspiracy by the financial aristocracy, working through both its political parties, to impose the burden of the capitalist world crisis on the backs of working people.



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