Democrats, Republicans vow trillions in US spending cuts

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21 July 2011

Talks on raising the federal debt ceiling resumed at the White House Wednesday, as leaders of both the Democratic and Republican parties declared their support for rival measures that would slash trillions from Social Security, Medicare and other vital federal social programs.

President Obama summoned congressional leaders to the White House, saying it was time to "talk turkey" on a plan to avert a default on the federal debt next month, when the Treasury projects that it will be unable to pay all the bills that fall due, beginning with Social Security checks set to go out August 3.

The framework for the bipartisan budget talks continues to shift to the right, in the wake of Obama's decision to put Social Security on the table and propose overall cuts even greater than those initially demanded by the Congressional Republicans.

In the Senate, a bipartisan group of three Democrats and three Republicans, dubbed the "Gang of Six," resumed its efforts to craft a budget-cutting deal, releasing a proposal Tuesday backed by all six senators. Conservative Republican Tom Coburn of Oklahoma left the group in May, but he returned after the three Democrats agreed to his demand for $117 billion in additional cuts in Medicare and Medicaid.

The brief four-page outline proposed by the Gang of Six was presented to a bipartisan group of 49 senators, 25 Democrats and 24 Republicans, nearly half the total membership of the upper house. It calls for $3.7 trillion in spending cuts over ten years, and $1 trillion in "additional revenue," defined in such a way that net taxes on the wealthy will decrease, not increase, in the long term. The tax rates on corporations and the wealthy would be significantly cut as part of the deal.

Like proposals from Republicans in the House of Representatives, and Obama's proposal for a "big deal" pegged at $4 trillion in deficit reduction, the Gang of Six plan is notably light on detail. All factions in the official budget debate are clearly reluctant to spell out exactly what programs will be cut and for who, for fear of the mass opposition from the American people such a declaration would inevitably provoke.

The Gang of Six proposal calls for an immediate $500 billion in deficit reduction, with an additional $3.2 trillion allotted to various areas—healthcare, transportation, the military, agriculture, etc.—but with the actual selection of programs to be left to the congressional committees with jurisdiction over those departments.

The plan proposes to hold the growth of spending on Medicare and Medicaid to the rate of inflation plus 1 percent, although healthcare costs have been rising much faster than that for decades. It also calls for changes in Social Security that would require a 60-vote super-majority, and without that, the entire plan would be voided.

The six senators include the number two Democrat, Majority Whip Richard Durbin of Illinois, as well as Senate Budget Committee chairman Kent Conrad of North Dakota. Mark Warner of Virginia, a telecommunications multi-millionaire, is the third Democrat. The three Republicans include Coburn, Mike Crapo of Idaho, and Saxby Chambliss of Georgia.

Durbin admitted that the group's plan could not be drafted as legislation in time to meet the debt ceiling deadline August 2. He described it as a concept, saying, "What we're trying to do is to build these concepts into a long-term debt-reduction" plan."

President Obama hailed the Gang of Six proposal while at the same time admitting he had not even read it, but was endorsing any effort based on a bipartisan agreement. "We have a Democratic president and administration that is prepared to sign a tough package that includes both spending cuts and modifications to Social Security, Medicaid and Medicare," he said, adding, "we now have a bipartisan group of senators" who agree with such an approach.

The number three Republican in the Senate, Lamar Alexander of Tennessee, attended the unveiling of the Gang of Six plan and gave his support, noting, "It helps that the three Republicans senators are three of the most conservative" in the Senate.

Meanwhile, the Republican-controlled House of Representatives, where members had complained of being "outflanked" on the right by Obama, sought to regain the initiative by passing Tuesday the most draconian plan ever adopted by either house of Congress.

The "Cut, Cap and Balance" legislation passed by a near party-line vote of 234 to 190. It would mandate $5.8 trillion in unspecified spending cuts over the next ten years and require adoption of a constitutional amendment for a balanced budget in return for raising the federal debt ceiling.

The bill would cap overall spending at the level of the long-term budget resolution adopted by the House in April, which includes the phasing out of Medicare and its replacement by private insurance, paid for by a federal voucher that would steadily decline in value compared to the actual cost of the insurance, shifting ever-greater costs to the elderly.

The constitutional amendment would enshrine a privileged position for the wealthy in the US Constitution, by requiring a two-thirds vote of both houses of Congress to raise taxes, while only a simple majority would suffice to cut spending on social programs on which tens of millions of working people depend.

This legislation cannot pass the Democratic-controlled Senate, and Obama has repeatedly said he would veto the bill. The whole purpose of the exercise was to allow the House Republicans to reclaim a position on spending cuts to the right of Obama—and to allow ultra-right Republicans linked to the Tea Party movement to posture before they bow to the demands of Wall Street and raise the federal debt ceiling.

Wall Street celebrated the increasing scale of the proposed budget cuts, from both the Senate and the House, with the Dow Jones Industrial Average soaring 202 points Tuesday, its best showing of 2011. The Dow began to rise sharply just after Obama made an unexpected appearance in the White House pressroom to declare his support for the Gang of Six effort.

White House spokesman Jay Carney revealed a significant shift in Obama's position on the process to be used to raise the debt ceiling, indicating that Obama was no longer refusing to sign a short-term extension of the debt ceiling, provided that there was agreement on a larger deficit reduction package and the purpose of an extension was to give Congress time to enact it.

"The president has been clear that he will not support a short-term extension of the debt ceiling," White House spokesman Jay Carney said. "What we mean by that is we would not support a short-term extension absent an agreement to a larger deal. That's not acceptable. Obviously, if both sides agree to something significant, we will support the measures needed to finalize the details of that."

The clear purpose of this maneuver is to open the door to a deal along the lines of the Gang of Six proposal, which has not yet been rejected by the House Republicans. As a stopgap measure, the White House is backing the McConnell-Reid plan, which would give Obama the power to raise the debt ceiling August 2, while requiring up to $1.5 trillion in spending cuts.

There is still no resolution in the congressional deadlock, with House Republicans opposing any measure that would raise taxes on the wealthy, no matter how minor, and a substantial minority questioning whether breaching the debt ceiling would actually produce a broader financial crisis.

House Budget Committee Chairman Ryan praised the Gang of Six proposal for lowering the tax rate for the wealthy from 35 percent to 29 percent, as well as lowering corporate tax rates, but he complained that it did not sufficiently cut healthcare spending.

Meanwhile the debt rating agency Moody's Investor Services put additional pressure on US public finances, naming five states—Maryland, New Mexico, Virginia, Tennessee and South Carolina—for potential downgrades because of their heavy reliance on federal revenues. "Should the U.S. government's rating be downgraded to Aa1 or lower, these five states' ratings would likely be downgraded as well," Moody's announced Tuesday.

The author also recommends:

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[19 July 2011]