

# US House approves record budget cuts

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The US House of Representatives voted by a 269-161 margin Monday night to approve the budget agreement between congressional Republicans and the Obama administration that will cut nearly \$3 trillion from federal spending over the next ten years, the bulk of it from domestic social programs.

The Republican majority in the House backed the bill by a top-heavy 174-66 margin, while the Democratic minority split evenly, 95-95. The two top House Democrats, Minority Leader Nancy Pelosi and Minority Whip Steny Hoyer, backed the administration-supported bill.

The comfortable margin of more than a hundred votes belied suggestions in the media that a combination of ultra-right Tea Party Republicans and liberal Democrats might defeat the bill. In the end, the Tea Party elements fell in behind the Republican leadership, while the liberals made impotent and insincere protests about the devastating cuts to social spending and the complete absence of any tax increases on the wealthy.

The Senate began discussion of the budget deal with presentations to the caucuses of both parties, with a vote expected either Monday or sometime on Tuesday. The legislation was expected to pass by a large majority of both parties, with both Senate Majority Leader Harry Reid and Minority Leader Mitch McConnell endorsing it.

The agreement reached Sunday night in negotiations at the White House raises the federal debt ceiling by at least \$2.1 trillion, including an immediate boost of \$400 billion once the legislation is approved, staving off a default on US government obligations that the Obama administration claimed could have taken place as early as Tuesday.

The major provisions of the agreement, as spelled out in a fact sheet released by the White House late Sunday night, are the following:

**Debt ceiling:** A three-part increase in the federal debt

ceiling, now at \$14.3 trillion, will include \$400 billion as soon as the legislation passes; \$500 billion more on Obama's request, unless Congress passes a resolution of disapproval over his veto, which requires a two-thirds majority; \$1.2 trillion to \$1.5 trillion next year, again on Obama's request, unless Congress passes a resolution of disapproval.

The total of at least \$2.1 trillion means that there will be no further debt-ceiling vote required before the 2012 elections. Treasury officials suggested that they would not have to come back for an increase until early in 2013.

**Budget cuts:** Nearly \$1 trillion will be cut from discretionary spending (excluding entitlements and interest payments) over the next ten years, of which \$350 billion will come from the military, and more than \$600 billion from domestic social spending, particularly in education, environmental protection, transportation and housing.

The details of the cuts will be determined through the appropriations process, with House and Senate committees working on overall spending targets and selecting which programs are to get the axe. More than a dozen appropriations bills are already moving through both houses for the 2012 fiscal year, which begins October 1. Each one must be approved by the Republican-controlled House and the Democratic-controlled Senate, then signed by Obama.

While the Obama administration claimed that the \$350 billion in defense cuts were the largest since the end of the Cold War, the figure is actually \$50 billion less than that proposed by Defense Secretary Robert Gates in the spring, and the cuts will not begin until the 2014 fiscal year, while Gates proposed they would commence in 2013. Annual military spending would be higher, in real dollars, in every year of a two-term Obama administration than at the height of the Cold War under the Reagan administration.

**Bipartisan committee:** Congressional leaders will appoint a 12-member bipartisan committee to identify up to \$1.5 trillion in further deficit reduction over ten years from all sources, including entitlement programs and taxes. The committee must propose legislation by November 23, 2011, and both houses of Congress must vote on it by December 23, 2011.

The Obama administration claimed that the language permitting the committee to consider tax increases constituted “fairness” and “shared sacrifice,” but this is a flat-out lie. Even if the committee could recommend the type of tax increases Obama has suggested, closing minor loopholes for corporate jets, hedge funds and oil companies, this would be dwarfed by the scale of the social spending cuts.

In actuality, however, there is technical language in the agreement that effectively prevents the committee from proposing a tax increase, insuring that the entire deficit reduction to be proposed by that panel will come from spending cuts.

**Enforcement mechanism:** In the event that the bipartisan committee fails to agree on deficit reduction legislation, or the legislation falls short of \$1.2 trillion over ten years, automatic spending reductions would be triggered to begin in 2013, divided evenly between domestic social programs and military/security programs, but excluding Social Security and Medicaid and other programs for low income families and individuals.

Medicare could be cut by up to 2 percent across-the-board as part of the automatic reductions, with the cuts limited to reimbursement to providers, rather than directly affecting benefits. This would have a huge indirect effect on Medicare recipients, however, since hospitals, doctors and other providers will begin refusing Medicare patients, just as now happens to millions of Medicaid recipients because of low reimbursement rates.

A critical element of the deal, largely covered up in the media coverage and the statements of Democratic and Republican politicians, is the timing of the cuts, which are heavily back-loaded.

While the total cuts over a ten-year period will be as high as \$2.8 trillion, the actual spending cut for fiscal year 2012, which begins October 1, is \$7 billion, while only another \$3 billion in spending will be cut during fiscal year 2013. This means that less than one-half of

one percent of the total cuts will take place during the next two years.

The White House fact sheet claims that the purpose of phasing in nearly all the cuts after fiscal year 2013, which ends on September 30, 2013, is to “avoid harming the recovery” that the Obama administration claims is under way in the US economy.

The White House also claimed that enforcement mechanism to be triggered in the event that Congress fails to enact sufficient cuts “would not be made effective until 2013, avoiding any immediate contraction that could harm the recovery.”

A major reason for the delayed introduction of the cuts and the enforcement mechanism is to disguise their impact before the 2012 election, allowing the Democrats to campaign as purported opponents of budget cuts they have already endorsed.

More fundamentally, changes of such a vast magnitude as those envisioned in the deficit reduction deal require administrative and political preparation. The cuts will escalate exponentially during the balance of the ten-year period.

Much of the White House document consists of open boasting about the degree of austerity that the Obama administration is imposing. For example, the statement declares that the nearly \$1 trillion cut in discretionary spending “will put us on track to reduce non-defense discretionary spending to its lowest level since Dwight Eisenhower was President.”

The America of the 1950s was, however, a very different country: before the introduction of Medicare and Medicaid, federal aid to education, and many other social programs on which tens of millions now rely, before the Environmental Protection Agency and many other agencies that support the US infrastructure.



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