Obama’s budget plan: Cut social spending, lower tax rates for the rich

Joseph Kishore
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The Obama administration released its plan Monday for reducing the federal budget deficit by $4 trillion over 10 years. The measures, presented as a proposal to the bipartisan deficit committee established by the debt-ceiling bill passed in August, would slash hundreds of billions of dollars from social programs.

Among the services and programs targeted are the primary government health care programs Medicare and Medicaid, federal workers’ retirement benefits, veterans’ benefits, unemployment insurance and the US Postal Service.

Obama’s cynicism and dishonesty are perhaps most clearly revealed by his tax proposals, which are being presented by the media as an effort to increase taxes on the wealthy and corporations. In fact, the administration is strongly backing comprehensive “pro-growth” tax reform, which would significantly reduce the top income tax rate and the corporate tax rate in exchange for the elimination of certain loopholes in the tax code.

The administration’s plan, “Living Within Our Means and Investing in Our Future,” was presented to the “super committee” of six Republican and six Democratic congressmen that is tasked with submitting a proposal by December for at least $1.5 trillion in deficit reduction. Any agreement reached in the coming weeks will inevitably be even more directly tailored to the interests of the corporate elite than Obama’s plan.

If an agreement is not reached, mandatory cuts are to be implemented in Medicare and military spending, with a large portion of the latter coming from veterans’ health benefits.

Obama’s proposal follows calls from a group of corporate executives and politicians of both political parties for the congressional committee to “go big” and enact cuts far in excess of what is required by the debt ceiling legislation. Thirty-six Democratic and Republican senators issued a statement last Thursday calling for a debt reduction package of about $4 trillion.

“Congress should seize the opportunity that this new committee presents to do much more so that we can put the country on a sustainable fiscal path, which is critical for our long-term growth and competitiveness,” the president wrote in the introduction to his proposal.

The plan includes a debt cap that will trigger across-the-board spending cuts if debt-to-GDP targets are not reached by 2014.

In his remarks introducing the proposal, Obama presented the deficit-cutting measures as part of his “jobs” campaign. His American Jobs Act—a package dominated by corporate tax cuts and pro-business infrastructure proposals—is included in the plan for the committee. This is intended to make clear that his paltry jobs initiatives are entirely subordinated to the overall goal of slashing government spending.

The budget plan includes “structural reforms to reduce the cost of health care in programs like Medicare and Medicaid,” Obama said. He added that these “reforms” would build upon his administration’s health care overhaul passed in 2010. That was an initial step in cutting corporate and government spending on health care to the detriment of working people’s access to drugs, procedures and tests.

Cost reductions would come from “changing some incentives,” making health care “more efficient and more accountable,” and ensuring that “instead of just paying for procedures, providers will be paid more when they improve results.”

Such verbal bromides, including the standard Orwellian line that the cuts are aimed at “strengthening Medicare and Medicaid over time,” are intended to cloak the actual consequences of the measures—the reduction or elimination of care for millions of people.

Medicare spending would be cut by $248 billion over 10 years, and Medicaid and other health care programs would be slashed by $73 billion. The administration is anticipating more than a trillion dollars in reduced spending the following decade. The administration’s proposal would strengthen the Independent Payment Advisory Board, tasked with finding ways to reduce Medicare costs.

The cuts in Medicaid are significantly underestimated, as the program is jointly funded by the states, which will implement a large portion of the cuts.

An additional $257 billion would be cut from non-health government spending. This is on top of the $1 trillion in cuts already passed after the debt ceiling debate in the summer. These earlier cuts are included in $4 trillion figure.

Among Obama’s new proposals are:

• Cuts of $21 billion by “better aligning” the retirement program for government workers “with the private sector.” That is, the cuts in pensions being implemented by corporations throughout the country will serve as a model for the federal government.

• At least $27.3 billion in cuts in military retirement and health benefits, including increasing co-pays and introducing a $200 annual fee for TRICARE-For-Life, a supplemental health insurance program for veterans over 65.

• $25 billion in revenue by increasing the "Aviation Passenger Security Fee," a tax applied to every airline fare to reimburse the government for the police-state security measures implemented at airports throughout the country.

• $19 billion in federal deficit reduction through cuts in the US Postal Service. These include cuts in health care contributions, authority for the Postal Service to shift to a five-day delivery schedule (which will be accompanied by thousands of job cuts), and increases in postal rates.

• $33 billion to be saved through changes in unemployment insurance payments

• $4.2 billion in cuts to the National Flood Insurance Program

• $22 billion in deficit reduction through the sale of government assets, including radio spectra and property.

The administration did not include proposals for cuts in Social Security, but Obama insisted in his remarks that "both parties are going to need to work together on a separate track to strengthen Social Security." During the summer, Obama called for changes to the cost of living formula in the retirement program aimed at reducing benefits.

The plan also factors in $1 trillion in cuts from reduced spending on the wars in Iraq and Afghanistan. Such cuts have been included in all the various budget proposals, including those drawn up by the Republicans. In the likely event that these reductions don't materialize, the difference will have to be made up through additional cuts in social programs.

Obama called for "tax reform" that would: lower individual and corporate tax rates; cut tax breaks that are "inefficient, unfair or both;" increase "job creation and growth" by "increasing the incentive to work and invest in the United States;" and satisfy the "Buffet rule" that no household making over $1 million should pay a lower effective income tax rate than a middle-class family.

These changes would supposedly reduce the deficit by $1.5 trillion over ten years.

The "Buffet rule" has been cited as a call for a significant increase in taxes on the wealthy. In fact, it is compatible with a substantial reduction in tax rates for corporations and the rich, as called for by previous deficit reduction committees. The co-chairmen of the panel set up by Obama last year, Alan Simpson and Erskine Bowles, proposed reducing the top income tax rate from 35 percent to 23 percent.

In his remarks, Obama repeated a dozen times his insistence that everyone should pay his "fair share." Responding to Republican charges that his tax proposals constituted "class warfare," Obama said, "I reject the idea that asking a hedge fund manager to pay the same tax rate as a plumber or teacher is class warfare. I think it is just the right thing to do."

Not once in his remarks did Obama defend the principle of the progressive income tax—that the wealthy should pay significantly more as a percentage of their income than the poor. There is no contradiction between the "Buffet rule" and a flat income tax, and Obama's denunciations of an overly complex tax system mirrored similar rhetoric used by right-wing advocates of a regressive income tax overhaul.

"Nobody wants to punish success [i.e., wealth] in America," Obama declared. However, he added, "those who have done well, including me, should pay our fair share in taxes."

The elimination of loopholes was presented by Obama as if it would target only deductions exploited by corporations and the wealthy. In fact, many of the proposals that have been presented by previous bipartisan committees, such as the elimination of the mortgage tax deduction, would hit broad sections of the population.

"We have one of the highest corporate tax rates in the world," Obama declared. He said he wanted to "work with Democrats and Republicans to reform our entire tax code."

Arguing that his proposals were corporate-friendly, he said, "Some companies get out of paying a lot of taxes, while the rest of the end up having to foot the bill. And this makes our entire economy less competitive and our country a less desirable place to do business."

In the event that a comprehensive tax overhaul is not carried out, the administration is proposing other specific measures to increase revenues, including an end to the Bush tax cuts for the wealthy, the elimination of certain subsides for oil companies, and the like. The White House is well aware that any such measures will be rejected by the Republicans and therefore will not be proposed by the committee. The committee was deliberately structured so that the Republicans could block any significant tax increase on the wealthy.

The remarks by Treasury Secretary Timothy Geithner in a press conference following Obama's speech underscored the cynical and demagogic character of the White House's talk of cutting tax loopholes for big business and ending the Bush tax cuts for the wealthy. "The president did lay out very detailed changes for individuals and corporations if we are trying to get more out of the current tax system," Geithner said. He stressed, however, that "the best strategy for the country is to try to reform the overall system, so that we are bringing down rates where we can, we are eliminating all the wasteful subsidies and preferences in the tax code… That is the best way to go."