

After collapse of “supercommittee”

# Obama, Congress make new austerity plans

**Patrick Martin**  
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The official demise of the congressional deficit-reduction “supercommittee” has become the starting point for the next round of austerity demands from both the Democratic and Republican parties.

Both parties represent and respond to the interests of the corporate financial elite, where there is unanimous agreement on making the working class pay for the crisis of American capitalism but divisions over the best political strategy to impose this outcome.

The Republican Party, representing the most rapacious factions of the ruling elite, seeks to make the most of a political framework in which the working class has no representation or influence on government policy. It rejects even one dollar of additional taxes on the wealthy and seeks to impose the entire burden of deficit reduction on working people, through cuts in social spending, primarily the destruction of Medicare, Medicaid and Social Security.

One party strategist quoted in the press this weekend suggested that the Republicans expected to defeat President Obama for reelection, win control of the Senate and retain control of the House of Representatives, giving them complete control of the federal government. In that event, he said, the Republicans would adopt the plan for privatizing Medicare and turning Medicaid over to state governments that was proposed by House Budget Committee Chairman Paul Ryan earlier this year and endorsed by the House of Representatives in its budget resolution, on a party-line vote. The result would be the effective abolition of entitlement programs enacted in the 1960s upon which tens of millions of people depend for basic health care.

The Democratic Party represents, not working people, but that faction of the financial elite which is concerned that too overt a policy of favoring the wealthy will

provoke a political upheaval from below. They are alarmed by the popular support for the Occupy Wall Street protests, which Democratic mayors have sought to suppress through a combination of flattering phrases and brutal police violence.

The Democrats seek to use minor increases in taxes on the wealthy as a political fig leaf. This would allow the Democrats to claim they have achieved “equal sacrifice,” as though a dollar taken from a janitor, a secretary or a college student is the same as a dollar taken from a multi-millionaire. In any case, the tax increases on “millionaires and billionaires” will be evaded or passed on to workers through the manipulation of the tax system.

Democrats on the supercommittee and in the congressional leadership denounced the Republicans’ intransigence on taxes as the cause for the failure of the deficit reduction negotiations, declaring that the single-minded obsession with protecting the wealthy had blocked a wider budget deal just when it was within reach.

Insider accounts of the supercommittee talks reveal that the Democrats offered unprecedented cuts in Medicare and other social spending, but found the Republicans focused on extending the Bush tax cuts for the wealthy past their scheduled expiration at the end of 2012.

President Obama sounded the same theme in a brief appearance before television cameras Monday to comment on the supercommittee’s failure. He said that Republicans in Congress “have refused to listen to the voices of reason and compromise.”

At the same time, he adopted the stance of intransigent budget-cutter, pointing out that the bipartisan agreement that created the supercommittee already provides for \$1 trillion in cuts over ten years,

and an additional \$1.2 trillion in cuts over the same period, to take effect in January 2013, is triggered by the supercommittee's failure to agree on a plan.

He rejected calls by congressional Republicans to overturn the automatic cuts, half of which will be applied to the military budget. "Already some in Congress are trying to undo these automatic spending cuts," he said. "My message to them is simple: No."

He continued, "I will veto any effort to get rid of those automatic spending cuts ... there will be no easy off-ramps on this one. We need to keep the pressure up to compromise, not turn off the pressure."

It must be emphasized that when Obama speaks of "compromise," he means not some middle ground, but a bipartisan agreement to intensify the attacks on working people, this time by invoking "national security" to shift the cuts from the military to social programs.

Obama's defense secretary, Leon Panetta, has already decried the prospect of across-the-board cuts in military spending, claiming they would result in "the smallest ground force since 1940, the smallest number of ships since 1915, and the smallest Air Force in its history." The reality is that the United States, before and after the "cuts," which are actually reductions in future increases, will spend more on soldiers, bombs, missiles, planes and ships than all other countries in the world combined.

A new round of political horse-trading and maneuvering will begin when Congress returns to session after the Thanksgiving holiday break. Several major measures that were to be included in the supercommittee proposal will now have to be taken up separately, without the expedited procedures available to the supercommittee that included a ban on Senate filibusters and other delaying tactics.

These items include proposals to extend the one-year payroll tax cut for most American workers that has been in effect this year. The temporary two-percentage-point cut in Social Security and Medicare taxes was worth about \$900 to the average US household, meaning an effective tax hike of that amount starting January 1, 2012 if the program is not extended.

Extended unemployment benefits for the long-term jobless also expire on New Year's Eve, meaning that the entire working class, employed and unemployed, will face a substantial cut in income. An estimated 2.1

million workers will exhaust their unemployment benefits by mid-February unless a further extension is passed by Congress and signed into law by Obama.

The Obama administration has called for extension of both the tax cut and extended unemployment benefits, citing the danger that expiration could undermine consumer spending and plunge the economy back into full-scale recession. JPMorgan Chase recently estimated that the expiration of the payroll tax cut and extended benefits would subtract 1.5 to 2 percent from 2012 gross domestic product growth.

Congressional Republicans are opposed to extending unemployment benefits and ambivalent on the payroll tax cut extension. The two measures combined will cost \$168 billion, and under congressional budget rules must be offset by budget cuts or tax increases elsewhere.

In a speech in New Hampshire Tuesday, Obama called for extending both measures, while proposing a sweetener for the Republicans: a \$69 billion cut in the employer portion of the payroll tax, also for one year. The combined effect of the payroll tax cuts will be to reduce revenues for Social Security and Medicare by nearly \$200 billion, undermining both programs just as they are under unprecedented attack by both parties.

Two other major fiscal measures are expiring at the end of the year: the annual adjustment of the Alternative Minimum Tax so that it doesn't affect a better-off layer of middle-income families; and an annual deferment of scheduled cuts in reimbursements to doctors who treat Medicare payments. In each instance, measures that were adopted for the purpose of deficit-reduction have been repeatedly postponed for fear of the reaction in sections of the middle class.



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