Obama champions “grand bargain” to slash entitlement programs

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With the US elections out of the way, the corporate and political establishment is getting down to the business of slashing federally guaranteed health care and retiree benefits, while implementing even greater tax cuts for big business and the wealthy.

An atmosphere of crisis is being stoked up with the approach of the December 31 “fiscal cliff” to prepare public opinion to accept extremely unpopular measures, including trillions of dollars in spending cuts and an historic attack on Medicare, Medicaid and Social Security.

Without an agreement, some $700 billion in tax increases and budget cuts will go into effect January 1, including cuts in military spending and an increase in income, capital gains, dividend, interest and estate tax rates. Such a circumstance is unacceptable to the ruling class.

The media has been filled with dire predictions of another market collapse, crushing tax hikes for working people and a sharp increase in unemployment if a bipartisan agreement is not reached.

On Thursday, the major daily newspapers carried banner headlines designed to create the appropriate mood: “Back to Work: Obama Greeted by Looming Fiscal Crisis” (*New York Times*), “After Obama win, overtures on debt” (*Washington Post*), “New battle follows hard on Obama win” (*Financial Times*).

Obama signaled his priorities in his victory speech early Wednesday morning, in which he placed a bipartisan deal for “deficit reduction” and “reforming our tax code” at the top of his agenda. The president is scheduled for a White House address on the subject today.

Just hours after Obama’s victory, Fitch Ratings warned there would be “no fiscal honeymoon for President Obama.” On Wednesday, there was a major selloff on Wall Street, intended in part to pressure the administration and Congress.

Congressional leaders from both parties have portrayed the election, which returned Obama to the White House and a Republican majority to the House of Representatives, as a popular mandate for the two parties to reach a “grand bargain” to slash social spending.

In fact, the sentiment of the voters was the exact opposite. Exit polls showed only one in ten voters said reducing the deficit should be the next administration’s priority. A survey conducted by the AFL-CIO union federation found, by a 64 to 17 percent margin, that voters want to protect Social Security and Medicare benefits and address the deficit by increasing taxes on the rich, rather than cutting entitlements.

But the Obama administration’s policies are not determined by the will of the people—as the AFL-CIO and various liberal and ‘left’ supporters of Obama claim—but by the corporate and financial elite, which controls the entire political system.

Well before the November 6 election, representatives of both parties agreed to the basic framework of some $4 trillion in deficit reduction over the next 10 years. This was outlined by the National Commission on Fiscal Responsibility and Reform, a bipartisan panel appointed by Obama, which is co-chaired by former Bill Clinton Chief of Staff Erskine Bowles and former Wyoming Republican Senator Alan Simpson.

In a commentary in the *Washington Post* Thursday, Bowles wrote, “In a way we have never seen before, both sides will have to move beyond contentious electoral politics and come together in the spirit of good governance…”

The commission, Bowles said, recommended “a package large enough to put the debt on a clear downward path, relative to the economy, and designed well enough to promote, rather than disrupt, economic growth. It's a package that includes real spending cuts and structural entitlement reforms to make Social Security solvent while slowing the growth of federal health spending while protecting vulnerable populations."

In addition, Bowles said, the proposed package "institutes fundamental tax reform that simplifies the code and encourages economic growth by cutting spending in the tax code to reduce rates and generate additional revenue for deficit reduction."

Bowles has been cited in the media as a possible choice to replace Treasury Secretary Timothy Geithner in Obama's second term cabinet. Also cited as a prime candidate for the Treasury job is Jacob Lew, Obama's current White House chief of staff and former budget director. According to the *New York Times*, "Mr. Lew has experience in such bargaining dating to his work as a senior advisor to Congressional Democrats 30 years ago in bipartisan talks with President Ronald Reagan."

Lew served as senior advisor to then-Democratic Speaker of the House Tip O'Neill who authored a bipartisan deal in 1983 with the Reagan administration undermining Social Security protections. The deal, reached after a campaign predicting the imminent financial collapse of the federal pension program, raised regressive payroll taxes and the retirement age two years, to 67.

For their part, top corporate CEOs and business leaders have signaled their support for the Obama administration in its negotiations with the Republicans. Former Republican Governor of Michigan John Engler, the current president of the Business Roundtable, said on Wednesday that Republican House Speaker John Boehner will have to recognize that "he's a minority in government. You can't sit back and say, 'It's my way or the highway.'"

"We're looking forward to having some real conversations, real dialogue with the administration," said Jay Timmons, president of the National Association of Manufacturers, according to a report in the *Wall Street Journal.*

Obama's proposals are largely in line with the recommendations of 80 CEOs contained in the so-called "deficit manifesto" published shortly before the election, which explicitly endorsed the Bowles-Simpson plan.

The administration is also reportedly considering bringing in more Republicans and business executives into cabinet and other top advisory positions, "to help rebuild bridges to both camps," according to the *New York Times*.

President Obama and the Democratic Party have publicly campaigned for an end to Bush-era tax cuts for the rich as part of the "grand bargain" of spending cuts and other tax breaks for big business. This would entail a relatively small increase in taxes—from 35 to 39.6 percent—for those making $250,000 or above. The higher rate pales in comparison to the 50 percent rate the rich paid during the Reagan years, let alone the 90 percent rate in the 1950s, under Eisenhower.

Nevertheless, the Republicans have rejected any such tax hikes, saying they will only agree to revenue increases from closing "loopholes"—which would likely include eliminating home mortgage deductions many working- and middle-class families receive—or from higher tax receipts generated by a supposed economic recovery, which, they say, would be fueled by lower deficits.

The Democrats' demand for a marginal increase in taxes on the wealthy is only a political fig leaf. Whether or not it is eventually dropped in the name of reaching a compromise with the Republicans, these increases will be more than offset by a bipartisan "tax reform" plan in the making. Such a plan will lower corporate and individual taxes on the wealthy and introduce a more regressive taxation system that punishes working people.