

Amid government shutdown, Obama signals cuts to Social Security, Medicare

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US President Barack Obama restated his support for cutting Social Security and Medicare in a press conference Tuesday, reassuring congressional Republicans of his willingness to agree to these cuts if the Republicans vote to increase the government's debt limit.

Obama for the first time in his Wednesday press conference went on record in supporting a short-term increase in the debt ceiling, saying, "If they can't do it for a long time, do it for the period of time in which these negotiations are taking place."

As the October 17 deadline for raising the US government's borrowing limit approaches, both sides are zeroing in on their real goals: a "Grand Bargain" to make sweeping cuts to social programs, while lowering corporate taxes.

Obama reiterated that the Democrat-controlled Senate has already passed a budget at funding levels demanded by Republicans, and that "we're willing to have conversations about anything." He added, "I will sit down and work with anyone of any party, not only to talk about the budget; I'll talk about ways to improve the health care system ... I'll talk about ways that we can shrink our long-term deficits." This is Washington-speak for cutting social programs.

Obama added, "If anybody doubts my sincerity about that, I've put forward proposals in my budget to reform entitlement programs for the long haul and reform our tax code in a way that would ... lower rates for corporations."

Leaders of both parties had been angling for such a deal during the 2011 debt ceiling crisis, but such a sweeping agreement proved elusive. Instead, the White House and Congressional Republicans approved a more limited series of cuts that largely left Social Security and Medicare intact.

Obama made a stark admission of his broader goals in the debt negotiations during the press conference, when, in response to a reporter's question, he said, "Whenever I see John Boehner to this day, I still say, you should have taken the deal that I offered you back then, which would have dealt with our long-term deficit problems, would not have impeded growth as much, would have really boosted confidence."

Obama's 2011 proposal, according to documents leaked in 2012, included over \$1 trillion in cuts to Medicare and Social Security as part of \$2.8 trillion in total cuts.

Julie Pace of AP, who was preselected to pose the first question, asked, "If Congress does pass a clean [continuing resolution] and a clean debt ceiling bill, those may just be short-term measures. If that happens, does your offer to negotiate with them on issues like health care and spending and deficit reduction still stand in the intervening weeks if they pass measures that are just perhaps six weeks or two months long?"

To this, Obama Replied, "Absolutely. I mean, what I've said is that I will talk about anything."

Obama's remarks came amid growing calls from Wall Street and major US creditors to prevent any threat to default on the US government debt. Japanese Finance Minister Taro Aso told reporters this week, "The US must avoid a situation where it cannot pay [for its debt] and its triple-A ranking plunges all of a sudden." He added, "The US must be fully aware that if that happens, the US would fall into fiscal crisis."

The International Monetary Fund (IMF) likewise warned of the consequences of a US default. "Failure to lift the debt ceiling would be a major event," said IMF economic counsellor Olivier Blanchard on Tuesday. He added that "the effects of any failure to repay the debt would be felt right away... leading to potentially major

disruptions in financial markets both in the United States and abroad.”

Obama noted these concerns in his press conference, saying that “according to many CEOs,” a failure to raise the debt limit by the US Congress would be “insane, catastrophic, chaos.”

Obama met with the CEOs of major banks last week at the White House to discuss the potential impact of the US government’s failure to raise the debt limit. “We’d like to see the fight not be on this ground,” said Goldman Sachs CEO Lloyd Blankfein as he left the meeting, adding that, “They shouldn’t use the threat of causing the US to fail on its obligations to repay its debt as a cudgel.”

The Dow Jones Industrial Average fell 159 points Tuesday, while the Chicago Board Options Exchange Volatility Index, the so-called “fear gauge,” hit the highest level since the start of the year. The index is up by 22 percent since the beginning of the US government shutdown.

The borrowing costs of the US government, meanwhile, hit the highest level in five years Tuesday, while the cost of insuring bonds against a possible default grew by up to ten percent.

During the press conference Obama repeatedly stressed his administration’s debt-cutting credentials, gloating, “Our deficits are falling at the fastest pace in 60 years.” He noted, moreover, that the continuing resolution passed by the Senate “is at Republican spending levels. It’s their budget that Democrats were willing to put votes on just to make sure the government was open.”



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