

Republicans demand massive cuts in social spending as countdown begins for debt ceiling crisis

Patrick Martin
19 January 2023

Treasury Secretary Janet Yellen notified the leaders of the House and Senate in a letter Thursday that the US government has reached the debt ceiling of \$31.4 trillion, set in a 2021 law, and that her department would begin a series of “extraordinary measures,” deferring some payments within the federal government itself, that would allow normal operations to continue until early June.

These measures include suspending payments into health and retirement funds for federal and postal workers, with the pledge to make up the shortfall after Congress raises the debt ceiling to allow for additional federal borrowing. “Federal employees and retirees will be unaffected by these actions,” Yellen claimed in her letter to Congress.

Because of the influx of tax payments linked to the April 15 deadline for filing the federal income tax, Yellen said that the “debt issuance suspension period” would last through June 5.

But she acknowledged, “The period of time that extraordinary measures may last is subject to considerable uncertainty, including the challenges of forecasting the payments and receipts of the government months into the future... I respectfully urge Congress to act promptly to protect the full faith and credit of the United States.”

Congress has raised the federal debt ceiling or suspended its effect nearly 80 times since 1960, according to the Treasury Department, but in the last 25 years this has become a contentious action when Congress and the presidency were controlled by different parties. The first such standoff took place in 1995, with Republican Newt Gingrich as House Speaker and Democrat Bill Clinton in the White House.

In 2011, the Republican-controlled House of Representatives came close to forcing a US government default on debt and the Obama administration agreed to the passage of the Budget Control Act, which straitjacketed federal domestic social spending for the next seven years. The restrictions were only lifted when the Republican administration of Donald Trump wanted to cut taxes on the wealthy by \$1.7 trillion while boosting military spending, and the Republican-controlled Congress enthusiastically obliged.

A federal default would affect the core interests of the

financial oligarchy, since it would threaten the value of US Treasury bonds, the most important financial security in the world market and the expression of US global dominance. An earlier letter from Yellen to new House Speaker Kevin McCarthy warned that a default would threaten “global financial stability.”

This shock would come under conditions where the world financial system is particularly fragile. It faces runaway inflation and the prospect of multiple defaults among heavily indebted countries in Latin America, Africa and Asia, as well as the stresses induced by the ongoing pandemic, the US-NATO proxy war against Russia in Ukraine, and mounting tensions between the US and China, the first- and second-largest national economies. There is also the impact of financial manipulations such as the cryptocurrency market, exposed as a colossal fraud by the collapse of FTX.

Zachary D. Carter, the author of *The Price of Peace: Money, Democracy and the Life of John Maynard Keynes*, told *Business Insider* a default on the national debt would throw the country back to some of the worst days after the Great Recession in 2008, but with even more severe risks. The US Treasury bond “is the basic unit of global finance,” Carter said. “We are talking about every single financial institution in the world having to suddenly revalue the price of a basic asset that is used to settle balances every day.” He added, “We’d just be setting off a global financial crisis. What happens after that? No one knows.”

One estimate suggested GDP would drop 4 percent, families would lose \$15 trillion in wealth, and unemployment would climb back to 9 percent.

The political considerations surrounding the debt ceiling are a mixture of cynical electoral calculations and a deepening determination in the US ruling elite to carry out savage cuts in domestic social spending, particularly in so-called entitlement programs like Social Security and Medicare, the two most expensive federal programs (not counting the military), which provide retirement income and health insurance coverage for the elderly.

The Republican Party has repeatedly used the debt ceiling to

push through cuts in social spending, but in 2023 this will be taken to a new level with the new powers enjoyed by the outright fascists in the House of Representatives. A group of 20 held up the election of McCarthy as Speaker until the 15th ballot while they demanded more and more concessions on House rules to ensure that massive spending cuts would be incorporated into future budgets and debt deals.

Up to now, neither the Freedom Caucus nor McCarthy himself has spelled out what their demands on social spending will be, only that they will go to the brink of a debt default to enforce them. The rules changes suggest a total reduction of \$130 billion, but do not specify which programs will be wiped out or otherwise affected.

A handful of ultra-right Republicans have suggested that defense spending will be included in the cuts, but they are certain to be outvoted by the majority of both Republicans and Democrats. Indeed, the only hard line taken by the Democrats so far is to insist that there can be no reduction in the funding of the war in Ukraine.

The Democratic response to the debt ceiling issue combines cynicism and capitulation. According to press reports, congressional Democratic leaders view a confrontation over the debt ceiling as politically advantageous, as Republicans will spearhead cuts and Democrats can blame them while going along.

There is little question that the Democrats wanted this issue to arise in the way that it has, with the Republicans on the offensive. In the first two years of the Biden administration, there were multiple calls from advocacy groups and “left” Democrats to include temporary or permanent repeal of the debt ceiling in one of the multiple “reconciliation” bills that bypassed a Republican filibuster in the Senate.

Watch David North’s remarks commemorating 25 years of the *World Socialist Web Site* and donate today.

Majority Leader Charles Schumer and President Biden always rejected this, not just because of opposition by right-wing Senate Democrats Joe Manchin and Kyrsten Sinema, but because they tacitly support the cuts that will now be the price of a debt ceiling increase.

Similarly, Biden has rejected the many workarounds outlined by various media commentators and legal/financial experts to bypass the debt ceiling blockade. These include: the Treasury minting a new coin and valuing it at a trillion dollars (entirely legal); invoking the 1974 Impoundment Act, which requires that the president spend money on purposes authorized by Congress; the 14th Amendment, whose public debt clause mandates that all of the federal government’s financial obligations be honored.

The White House has rejected all these unilateral actions in favor of a convoluted congressional maneuver called a “discharge petition,” in which a majority of the House, consisting of all the Democrats and five or more Republicans, sign a document forcing the Speaker to hold a vote on raising

the debt ceiling. This would have to be combined with 10 Republican senators voting with the Democrats to approve the measure.

Biden supports this approach, not because it is likely to succeed, but because it represents a bipartisan effort to partner with House and Senate Republicans. He has already engaged in cordial discussions with McCarthy. In an interview program Sunday on *Fox News*, McCarthy said he had a “very good conversation” on the debt ceiling with the president and he believed the Democrats would agree to cap government spending as the price of a deal.

While backroom negotiations proceed, the White House can engage in non-stop demagoguery, as in the remarks by Press Secretary Karine Jean-Pierre Wednesday, when she attacked the House blockade on the debt ceiling, telling reporters, “They’re threatening to kill millions of jobs and 401(k) plans by trying to hold the debt limit hostage unless they can cut Social Security, cut Medicare, cut Medicaid.”

Senate Majority Leader Schumer and new House Democratic Leader Hakeem Jeffries said in a joint statement Friday that “a default forced by extreme MAGA Republicans could plunge the country into a deep recession and lead to even higher costs for America’s working families on everything from mortgages and car loans to credit card interest rates.”

This is now the characteristic language of the Democrats as they seek to divide Republicans into MAGA Republicans, with whom one can do business, and “extreme MAGA Republicans,” which refers only to those Republicans who reject any deal with the Democratic administration, no matter how right-wing it is.

Ultimately, there will be an agreement because the financial markets demand one. But the position of Wall Street is complicated. The billionaires want the top demands of both sides to be enacted: a rise in the debt limit, protection of military spending, particularly for the war in Ukraine, and major cuts in domestic social spending. If left to its own devices, the capitalist two-party system will produce such an outcome.



To contact the WSWs and the
Socialist Equality Party visit:

wsws.org/contact