

# US Debt Ceiling Maneuvers Set the Stage for New Budget Cuts

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The Republican-controlled House of Representatives pushed back the deadline for raising the federal debt ceiling Wednesday, voting for a measure that would suspend the current limit on federal borrowing until May 19. The vote averted an immediate crisis over the debt ceiling that threatened to destabilize US and world financial markets.

The move sets the stage for negotiations over the next several months between the two big-business parties over deep cuts in social programs.

The White House endorsed the postponement of the debt ceiling, issuing a conciliatory statement Tuesday, the day before the vote, with White House press secretary Jay Carney saying that if the bill “reaches the president’s desk he would not stand in the way of the bill becoming law.”

Senate Majority Leader Harry Reid hailed the House action, declaring, “I’m very glad that they are going to send us a clean debt-ceiling bill.” Democratic Senator Patty Murray of Washington state, chair of the Senate Budget Committee, immediately embraced the requirement in the House bill that the Senate pass a budget by April 15.

As the price of voting for this extension, more Republicans demanded an intensification of the assault on essential social benefit programs like Social Security, Medicare and Medicaid. This is comprised of at least three separate initiatives:

- The House will adopt a budget resolution, drafted by Budget Committee chairman Paul Ryan, aimed at reducing the annual federal deficit to zero over the next ten years. While Ryan gave no details, the cuts required would go far beyond his two previous proposals, in 2011 and 2012, which included transforming Medicare into a voucher program and effectively eliminating Medicaid.
- Congressional Republicans will enter the next round of fiscal negotiations on the so-called sequester, spending cuts that take effect March 1, with the demand that the full \$110 billion in across-the-board cuts take effect. Any rescinding of scheduled cuts, for example in military spending, as demanded by many congressional Democrats and Republicans, would require equivalent offsetting cuts somewhere else.
- The debt ceiling extension is tied to a requirement that the Democratic-controlled Senate adopt a budget resolution of its own by April 15. Murray’s support means that Senate Democrats will go on record with their own proposal for cuts in entitlement programs for the first time since Obama entered the White House in 2009.

These maneuvers set the stage for a new and greatly accelerated attack on the social programs on which tens of millions of working, disabled and elderly Americans rely on for their health coverage and basic income.

Pushing the debt ceiling back into May gives priority to the budget talks over the sequester cuts, set to take effect March 1, and to a measure that would authorize federal spending for the remainder of the 2013 fiscal year. The current authorization, known in Washington jargon as a “continuing resolution,” was adopted before the 2012 election and expires March 27. At that point, many federal operations would be shut down for lack of funding.

The Treasury hit the previous debt ceiling of \$16.4 trillion on December 31 and has been engaged in stopgap measures to avoid further borrowing. Treasury Secretary Timothy Geithner had said that these efforts would be exhausted as early as mid-February, warning that federal payments, including March 1 Social Security checks, might be endangered.

The House bill does not raise the debt ceiling now, but rather suspends enforcement of it, a largely semantic distinction, since the measure automatically increases the debt ceiling May 19 to whatever level of borrowing has been reached by then.

The Treasury would presumably adopt a new set of stopgap measures after May 19, with some financial market commentators suggesting that the effect of the House bill is to defer any further debt ceiling crisis until late summer.

The vote for the temporary suspension of the debt ceiling was 285-144, with most Republicans supporting the bill (199 for and 33 against) while Democrats were split (86 for and 111 against). Most Democrats withheld their votes until all the Republicans had voted, in an effort to compel as many Republicans as possible to support the measure, which was opposed by Tea Party groups.

The House Republicans decided to push back the debt ceiling deadline largely because of pressure from corporate America, where there was concern that another debt ceiling crisis, like that which led to a downgrade in the US credit rating in August 2011, could have a shock effect on the US and world financial system. This is especially so under conditions of slowdown in China and other previously fast-growing economies in Asia and Latin America, and outright slump in Europe.

The *Wall Street Journal* voiced the consensus in financial circles with an editorial Wednesday endorsing the House Republican leadership’s decision to put off any direct clash over the debt ceiling, even though they dropped their insistence that any rise in the debt ceiling be matched, dollar for dollar, by spending cuts.

The editorial declared, “Mr. Boehner’s tactical retreat buys some time and puts more spending pressure on Democrats. The automatic sequester cuts that Congress agreed to in 2012 will arrive on March 1, causing an immediate cut of \$69 billion in discretionary spending, to \$974 billion.”

This argument reflects calculations that there was a better chance to reach a bipartisan budget-cutting deal with the Obama administration in talks over the sequester and the continuing resolution during the next two months.

Obama has repeatedly signaled his willingness to revive a tentative deal with House Speaker John Boehner, reached in July 2011, which called for substantial cuts in both

Medicare and Social Security: raising the eligibility age for Medicare from 65 to 67, and cutting future cost-of-living increases for Social Security recipients by changing the formula by which they are calculated.

The Obama administration was quick to welcome the Republican move on the debt ceiling because, while it is concerned about the status of US treasuries, it is united with Republicans on its commitment to enforce unpopular cuts to key social programs.

Liberal commentators have hailed Obama's Second Inaugural address as a renewed commitment to "modern liberalism." What this means is the combination of empty demagoguery and identity politics with a historic attack on the working class.

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