Who speaks for the 99%?

From Grand Bargain to Grand Collusion
Austerity American Style By Jack Rasmus

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ON APRIL 10, 2013, president Obama released his formal budget, ushering in what this writer predicts will be the final stage of recent negotiations involving deficit cuts — Austerity American Style — a process that began with Obama's creation of a Deficit Cutting Commission in the summer of 2009.

Chaired by arch-conservative retired Senator Alan Simpson and Bill Clinton's former chief of staff, now investment banker, Erskine Bowles, the Simpson-Bowles Commission issued its report and recommendations for deficit cutting in November 2010 immediately after the midterm Congressional elections, calling for cutting approximately $4.4 trillion from the U.S. deficit over the coming decade in a 'mix' of 25% tax hikes and 75% spending cuts. That report has served as the "template" for deficit cutting negotiations from 2010 to the present.

With Obama's publication of his 2014 budget proposals, the current round of deficit cutting set in motion by Simpson-Bowles may be coming to a conclusion of sorts by this coming September. What might this final negotiations farce actually produce? The ultimate deal will be an agreement that is less a "grand bargain" and more accurately the result of a "grand collusion" between the Obama administration and House Republicans.

The key events driving a convergence of the two corporate parties included: Obama's signing a token "Fiscal Cliff" tax agreement on January 1, 2013 raising taxes on only the wealthiest 0.7% households while effectively removing the Bush tax cuts from the deficit debate; the Obama administration and Republican radicals in the House jointly allowing the $1.2 trillion in 'sequestered' spending cuts to take effect on March 1; and then Obama's unilateral offer to the Republicans, within days of the sequestered cuts taking effect, to cut an additional $630 billion from Social Security and Medicare.

Both sides cozily agreed not to confront each other in negotiations on March 27 and May 18, first when the government required additional funding and then when the debt ceiling deadline loomed once again. Not least is the event yet to occur: a major revision of the entire U.S. tax code — of a magnitude and scope not witnessed since 1969 or 1981 — now working its way on a fast track through the Tea Party-controlled House Ways and Means Committee.

The convergence of these five developments, all occurring since the November 2012 national election, signal a final deal on deficit reduction that's virtually assured between Obama and House Republicans before year end 2013 — a deal likely mapped out initially in close collusion in the closing months of 2012.

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"Let's Do the Numbers"

As of May 2013, $2.8 trillion of the Simpson-Bowles originally recommended $4.4 trillion in deficit reductions had been achieved, including $1 trillion in social program spending cuts enacted as part of the August 2011 debt ceiling deal. Another $600 billion in "Fiscal Cliff" measures were implemented January 1, 2013, plus another $1.2 trillion in sequester cuts that went into effect March 1.

Obama's unilateral offer to cut Social Security-Medicare by another $630 billion — now on the negotiating table as a minimum offer to the Republican radicals — brings the total deficit cuts to $3.43 trillion. That's three-fourths of the way to the Simpson-Bowles initial target of $4.4 trillion, and represents a path to a 87%-13% "mix" in spending cuts vs. tax hikes — a "mix" even more extreme than the original Simpson-Bowles 75-25% blueprint.

The President and the Speaker: political rivals, partners in austerity.

Given that Obama and the House radicals are less than $1 trillion apart, it was not surprising that House Republicans reconsidered their brinksmanship strategy in recent months and agreed to continue to fund the federal government on March 27. It was equally unsurprising Republicans then further decided to avoid another "debt ceiling" showdown on May 18, 2013, when the federal government was supposed to reach its legal debt ceiling limit once again.

You could almost hear the House Tea Party radicals debate in their caucus last March 2013: "Why fight over a goal almost reached, and on terms already extremely generous to the wealthiest households? Millionaires and billionaires got to keep the lion's share of their $4.6 trillion Bush tax cuts with the January 2013 fiscal cliff deal. Obama has already unilaterally offered to cut $630 billion from Social Security and Medicare. We can extract even more entitlement and spending cuts from the Obama administration in a final deal.

"Now that the individual income tax issue is resolved (Bush tax cuts made permanent), let's focus on getting big tax cuts for our corporate and business friends. We'll get him to reduce corporate tax rates from 35% to 28% or less, which he already promised publicly. We can lower taxes on multinational companies too, make other business tax cuts permanent, plus other measures — which will more than offset the loophole changes."

Austerity as Multi-Act Farce

If the "grand bargain" has already been largely agreed to, why haven't Obama and the House Republicans already agreed to the final deal? They're waiting on the massive tax code change proposals to work their way through the House by late summer. At the center of those changes will be historic cuts in corporate taxes and a "broadening of the tax base" — a code phrase meaning more taxes on the middle class. That's when the real horse trading will begin: big cuts in Social Security, Medicare, education and other social programs in exchange for a restoration of defense spending and an overhaul of the tax code.

Republicans will extract big cuts in exchange for the token loophole closings and a peace deal on debt ceiling brinksmanship at least beyond the 2014 midterms. Much of this tradeoff has already been agreed upon in principle between the two parties. But the final numbers must wait on the final "glue" of the deal — the tax code revisions.

The August 2011 debt ceiling deal was the first act in the farce. Both political parties then mutually agreed to table their 'deficit dance' during the 2012 election year, and talked about economic programs and proposals they had absolutely no intention of introducing once the elections were over. Just days after the November 2012 election, both sides immediately restarted the deficit cutting process under the catchphrase of the phony "fiscal cliff," the second act in the farce.

Having cost the U.S. Treasury $3.4 trillion in the preceding decade, extending the Bush tax cuts from 2012 to 2022 would cost another $4.6 trillion, according to the Congressional Budget Office's 2012 estimates. So the "fiscal cliff" deal agreed to by Obama sliced off a mere $0.6 trillion, allowing $4 trillion in tax cuts to continue (80% of which go to the wealthy and corporations).

Had all the Bush tax cuts been allowed to expire at year end 2012, the U.S. deficit for the next 10 years would have been only $2.3 trillion, or $230 billion a year — about a trillion dollars less each year than during 2009-2012 under Obama.

Require multinational corporations to pay taxes on their offshore cash hoard of $1.9 trillion, and place a 1% financial tax on common stock trades of more than 100 shares, and you have balanced budgets for the next decade and no need for any spending cuts. However, allowing the extension of $4 trillion of the $4.6 trillion Bush tax cuts in the "fiscal cliff" deal raises the deficit by more than $4 trillion more over the coming decade, to a total of around $7 trillion — just about what two decades of Bush tax cuts, from 2001 to 2022, will have cost.

A Review of Deficit Cutting, 2010-2012

To better understand how the past four years of deficit cutting negotiations between Obama and House Republicans represents a grand collusion, it is useful to recap briefly the milestones in the history of deficit (aka austerity) cutting.

Within days after the Teapublicans took over the House of Representatives following the 2010 midterm elections, the Obama administration fully embraced the Simpson-Bowles Commission's recommendations as the basis for negotiating a "grand bargain" in deficit reduction.

The Commission's approximate $4.4 trillion total target was agreed to, moreover, by virtually all parties in Congress, including Tea Party radicals — and has been ever since. That includes House Tea Party annual budget proposals in 2011-12 by Paul Ryan, by the Gang of Six in the Senate, and by outsiders like ex Senators Domenici and former budget director Alice Rivlin, and all others.

It's always been $4 trillion and change as the total deficit reduction target. The difference between Obama and Democrats on the one hand and Tea Party radicals on the other was the 'mix' between spending cuts and tax revenue hikes, between defense spending and social program costs; and between taxing the wealthiest 2% and the middle class.

In June 2011, Vice-President Biden was assigned by Obama to begin negotiating the basis for the "grand bargain." He and House Speaker Boehner attempted and failed, even though Biden had offered a package of 87% spending cuts to only 13% tax hikes. The following month, Obama took over the negotiations with Boehner. With no counter concession from Boehner, the president offered to cut Social Security and Medicare by $700 billion. Indeed, from the very beginning offering big cuts in Social Security-Medicare has been the Obama bargaining tactic by Obama to entice the Teapublicans to a Grand Bargain.

But Boehner and the Teapublicans did not bite on Obama's offer. Instead they demanded an "all spending cuts" agreement in exchange for raising the federal government debt ceiling in August 2011. They got their way: Obama and the Democrats caved in on all his demands for some tax revenue hikes. All they got from the August 2011 "debt ceiling deal" was an agreement from the Teapublicans not to raise the debt ceiling issue again until after the November 2012 elections.

This was very convenient for the president and the Democrats; not so for the rest of us since the August deal involved $1 trillion in immediate social spending only cuts, mostly in public education, with another $1.2 trillion in the "sequestered cuts" initially scheduled to take effect on January 1, 2013.

Regardless of who won the November 2012 election, the Simpson-Bowles template was waiting in the desk top drawer, to be resurfaced afterward. And that's exactly what happened. Within days being re-elected, Obama immediately again offered $340 billion in "entitlement" program cuts in his attempt once again to resurrect the grand bargain negotiations.

But the Teapublicans and big corporate interests, in the form of the Business Roundtable in particular (the biggest and most influence corporate lobbying group composed of CEOs of the largest U.S. corporations), were really interested in "decoupling" the tax extension issue from the sequestered spending cuts issue. The primary goal was always to protect and extend the Bush tax cuts; cutting spending and deficits has always been secondary, and spending cuts should be at the expense of social programs.

The Teapublicans initially wanted all the Bush cuts extended permanently, but the Business Roundtable wanted some kind of settlement on the tax issue first. Otherwise the Roundtable's even bigger objective of a major revision of the entire tax code, including cuts in the top rate of corporate taxes from 35% to 26%, already working its way through Congress, could not proceed. To preserve as much of the Bush tax cuts as possible the issue had to be decoupled from the scheduled sequester.

Following the November elections, the Roundtable therefore blocked with Obama against the House Teapublicans. To get the public onboard, the media spin given to the Bush tax cuts extension was the need to prevent the artificial "Fiscal Cliff." Although the media included the sequester spending cuts as part of the "Fiscal Cliff," the sequester was separated tactically by both the Roundtable and Obama weeks before January 1, postponing those cuts until March 2013.

With the assistance of House Speaker Boehner, Obama plus the Roundtable prevailed over the Teapublicans. It was touch and go, with Teapublican leaders like Ryan and Cantor wavering and taking a neutral stand to protect their ultra-conservative credentials. But in the end, no doubt campaign finance spending by the Roundtable big corporations prevailed and the Obama-Roundtable-Boehner nexus were able to swing a sufficient number of House Republicans to get a Januaary "tax deal."

And how sweet a deal it was. Only $60 billion a year of the deficit was reduced, impacting less than 0.7% of the wealthiest households — far fewer than Obama's promised 2%. Moreover, as part of the deal, the Alternative Minimum Tax was permanently repealed (amounting to about $100 billion a year tax cut benefit to the wealthy), the Inheritance Tax cut even more generously than under Bush, and all the other Bush tax cuts made permanent — no need ever to extend them again.

Now the attack on spending could begin in earnest once again, focusing on entitlements — most importantly Social Security, Medicare and Medicaid — in particular.

In signing the "fiscal cliff" deal on January 2, Obama declared more tax revenue hikes would have to be negotiated in future deals. No doubt he and Democrats believed that the March 1 date would put pressure on the Teapublicans to compromise on more tax hikes in exchange for avoiding the approximate $500 billion in defense spending cuts that were part of the sequestered $1.2 trillion.

There was also the March 27, 2013 date when the Federal government would run out of money to pay its bills. Surely, the Teapublicans didn't want to get blamed again for that fiasco, as they had been in the past? And thereafter there was the May 18 revisiting of the debt ceiling extension. Obama undoubtedly believed that somewhere along this line the Republicans would give him the token tax hikes he needed as cover to agree to his massive cuts in Social Security, Medicare and Medicaid he was always willing to make in the "grand bargain."

But the Teapublicans again called his bluff. They let the sequestered spending cuts, including the defense cuts, go into effect, then agreed to fund the government past March 27 and suggested as well the debt ceiling would not be an issue. This left Obama with no bargaining leverage for insisting on tax revenue hikes. His answer, for a third time in less than two years, was to offer big Social Security and Medicare cuts.

Either Obama is an incredibly inept and incompetent negotiator, offering unilaterally such a generous concession without anything in return; or he truly believes that cutting such entitlements (which are really deferred social wages) is a desirable objective for the U.S. economy and for 60 million American seniors and retirees, disabled, single women heads of households with children, and others who are the primary recipients of Social Security and Medicare. It is likely both reasons, unfortunately.

After tactically blocking with Obama prior to the January 1 deal, the Roundtable has since adopted the Teapublicans position on subsequent spending cuts in total. In February 2013, the Roundtable came out with its position paper on the matter of sequestered cuts and entitlement spending. It proposed to cut the Social Security COLA adjustment, introduce a means test for Medicare, raise the eligibility age for both Medicare and Social Security to 70, and convert Medicare into a voucher system in 2022 — exactly the Teapublican-Paul Ryan program.

With big corporate interests now firmly in their corner, why should the Teapublicans agree to any further tax hikes on the rich? And why go to the brink over shutting down the government on March 27? By March 1 the Teapublicans were already almost three-fourths of the way to the $4 trillion deficit target, with a total of $2.8 trillion in spending cuts and token tax hikes – only $1.2 trillion to go!

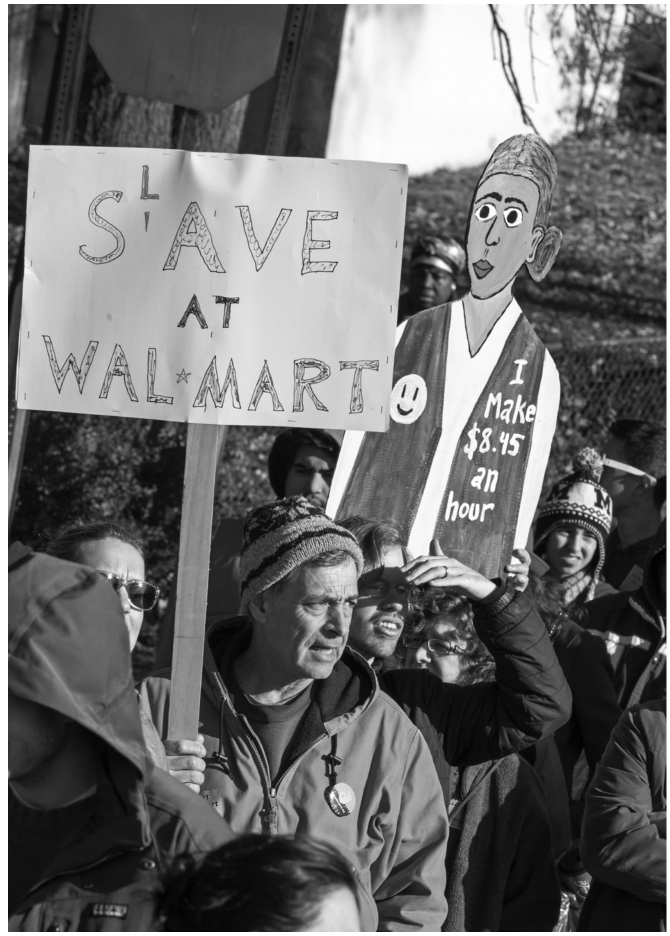
The Teapublicans in effect did to Obama on the topic of defense spending what Obama had the opportunity to do to them on the topic of Bush tax cuts. Obama could have let all the Bush tax cuts expire on January 1, then reintroduced middle class tax cuts only on January 2. That would have put the Teapublicans in the position of having to vote down middle class tax cuts. But he settled instead for the paltry 0.7% hike on taxes on the wealthy, some of which will undoubtedly be reversed again, buried deep in the legislation, when the major tax code negotiations conclude later this year. The Teapublicans can also always reintroduce legislation piecemeal to restore many of the defense cuts.

It's not surprising that Republican Senator Lindsey Graham and others in Congress in recent weeks have offered "deals" amounting to another $1.2 trillion in deficit reduction. That number is not coincidental. Graham's proposal is for $600 billion in Social Security and Medicare cuts and another $600 billion in unspecified tax revenues. A close look at Obama's 2014 budget reveals almost the same "mix."

Obama's Planned Sellout

The past three years of deficit cutting show clearly that Obama planned all along to cut Social Security and Medicare. In signing the Bush tax cuts deal on January 2, he stated: "Medicare is the Main Cause of Deficits." Again, in his February State of the Union address Obama publicly noted he liked the Simpson-Bowles recommendations concerning Medicare cuts.

And what are those Simpson-Bowles recommendations? They call for a new $550 a year deductible for Parts A and B of Medicare, and only 80% coverage for Part A instead of the current 100% (which would require another $150-$300 a month in private insurance to cover the remaining 20%, much like Part B now). Together that amounts to another $195-$350 taken out of monthly Social Security checks, when the average for Social Security benefit payments is only $1100 a month today.



In other words, Medicare benefits won't be cut — but if seniors want to maintain current levels of benefits, they'll have to pay even more for them. Alternatively they could choose to have fewer benefits and not pay more. It's all about rationing health care, just as Obamacare, the Affordability Care Act of 2010, for those under 65 is essentially about rationing — as were Bush's proposals to expand health savings accounts (HSAs) and Bill Clinton's health maintenance organization (HMOs) solution.

In the weeks just prior to releasing his 2014 budget, Obama once again unilaterally offered to reduce Social Security COLA increases, suggest an increase in age eligibility for retirement benefits, cut disability eligibility, and to introduce other measures to cut Medicare. The proposals were kept general and without specific details or numbers. In contrast, he indirectly suggested that the roughly $500 billion in sequestered defense spending might have to be largely restored.

Medicare in the 2014 Budget

To understand the proposals in Obama's budget it is useful to compare those proposals, and their economic impact on the deficit, with the Congressional Budget Office's "baseline" budget estimates of the spending and tax revenue levels for the coming decade. Since Obama himself has been quoted as indicating Medicare is the main cause of future deficits, we can begin with that program.

The Medicare program has five basic spending categories:

hospitals (Part A), doctors (Part B), nursing homes, prescription drugs (Part D), and government payments to private insurance group plans including the private insurance subsidy to "Medicare Advantage."

The CBO baseline costs for Medicare for 2012-2023, prior to the 2014 Obama budget, shows Medicare costs for Part A (Hospitals & Nursing homes) and Part B (Doctors fees) rising by an increment of $195 billion from 2012 to 2023. However, receipts and revenues will rise by $227 billion. In other words, the two main programs will continue to show a net surplus of receipts over expenditures by 2023. So where's the cost crisis?

The answer lies with the Prescription Drug program (Part D) and the Medicare program's subsidies to Group Plans, including the Medicare Advantage private insurance supplement. The Prescription Drug program was introduced by George Bush in 2005. The legislation provided for no payroll tax to cover the cost of the program. From the very beginning of the program and continuing today, it has been totally paid for out of the general U.S. budget, has cost more than $500 billion since its initial passage, and is still rising in costs terms as pharmaceutical companies continue to inflate prices for their products by double digits every year.

The Bush law specifically prevents any limits on drug company cost increases. States and cities cannot even negotiate drug price reductions. Nor can they legally purchase the same drugs from outside the United States, often produced by the same company. Nor can individuals buy drugs legally from Canada. Free trade is OK for businesses, but not for government or consumers!

Part D cost increases in the CBO baseline are projected to rise by an additional $114 billion over the coming decade. But there are no receipts or revenues whatsoever to pay for the program! Similarly, Medicare program subsidies for group plans are projected to rise by an additional $127 billion by 2023. That's a combined total of $241 billion in increased costs through 2023.

In other words, the total additional cost for the Medicare program in general over the coming decade is approximately equal to the cost for prescription drugs. The Medicare cost problem is therefore essentially the refusal to enact a payroll tax for prescription drugs and to allow drug companies to price gouge the public and government.

So why not finally pass a tax to pay for Part D? Why not introduce some price cost limits on prescription drugs? Fund part D and there's no Medicare cost crisis whatsoever. But the root cause of the $7 trillion projected deficit is not Medicare; it's not even prescription drugs. The root cause of the $7 trillion in projected deficits is the $4 trillion extension of the Bush tax cuts, plus the continued trillion dollar per year U.S. military spending program.

Another simple solution to the $119 billion total incremental cost for Medicare over the decade is proposed by the Trustees of the Social Security program themselves in their 2011 annual report. According to their own calculations, a mere 0.25% increase in the payroll tax for Medicare (now at only 1.45%) would solve all Medicare cost issues through 2022. Another 0.25% after 2022 would solve all shortfalls for a further second decade.

To summarize, even according to government estimates (CBO and Trustees), there is no Medicare cost crisis. The problem is unfunded escalating prices for prescription drugs — but you won't hear that mentioned in the corporate media. Up to now, the Obama administration's solution to runaway drug costs and escalating subsidies to Medicare Advantage and other group plans — which together are the true source of Medicare cost problems — has been to cut payments to doctors and to draw down the surplus in the Part A hospital fund.

Unlike the projected 17% a year increase in payments to drug companies, payments to doctors in the CBO baseline are to decline from current $68 billion in 2012 to $61 billion in 2016 when Obama gets ready to leave office. Cutting payments to doctors will mean more leaving the Medicare system and refusing to take Medicare patients. That will accelerate the consolidation of a two-tier U.S. health care system.

But even cutting doctors' payments and drawing down the surplus in the Medicare trust funds are not long term solution; this will exhaust the remaining trust funds by the end of this decade. Obama and Republicans know this, and are therefore preparing to implement major cuts in Medicare coverage and to raise Medicare recipients out-of-pocket costs. That comes next in the Medicare cost cutting plan that neither Republicans or the Obama administration are ready to make public.

Recall the Simpson-Bowles solution: make Medicare recipients pay 20% more of Part A hospital coverage, pay more deductibles, and raise the eligibility age beyond 65. Or as the Business Roundtable and Teaparty radical Paul Ryan have proposed: privatize Medicare starting in 2022 and provide vouchers. Obama prefers the former; Republicans in the House prefer the latter. But in either case it amounts to rationing of health care services for all but the wealthy who can afford to pay.

In his Budget, Obama has proposed to cut Medicare by $364 billion over the decade. Not included is a second proposal to freeze payments to doctors over the decade at 2013 rates, starting with an immediate 24% reduction in doctors' payments followed by a slow adjustment thereafter. The Obama 2014 budget unfortunately does not indicate the total "savings" from this reduction and freeze, but one can probably assume the cumulative total is around $100-$150 billion over the decade. The total proposed cuts to Medicare alone are thus at least $500 billion.

Social Security Cuts — Going for Broke

First, it is essential for readers to understand that the Social Security retirement trust fund (OAS) currently has a $2.77 trillion surplus, which those arguing that Social Security is "going to go broke soon" conveniently ignore. As with Medicare, the truth about the condition of Social Security lies in understanding the financial condition of its separate programs.

Like Medicare, Social Security is composed of multiple components, the retirement program (OAS) and the disability insurance program (DI). The OAS has the massive $2.77 trillion surplus, and remains virtually fully funded from payroll taxes through 2023 without having to draw down the surplus. It's the DI program that has funding trouble: Since the economic crisis erupted in 2007-08, approximately two million more workers went on disability. The lack of real job recovery has meant fewer payroll tax contributions to the DI fund, resulting in a shortfall of about $30 billion every year.

But the DI shortfall is used by opponents of Social Security to argue that the entire program is in trouble. They also use a base year of the recession and poor job recovery, extrapolated out for decades. That dishonest approach to calculating costs and revenues creates a false picture of tens of trillions of liabilities for Social Security in general, requiring the major cuts to benefits that both Republicans and Obama now propose.

Here are the facts: For the OAS program, benefit payments are projected to rise at a rate of 11% a year from 2012 to 2023, from $773 billion in 2012 to $1.422 trillion. But revenues from the payroll tax are projected to rise at nearly the same annual rate, of 10.5%, from $570 billion to $1.125 trillion. Other revenues (interest, taxes on benefits, etc.) increase the revenue total by 2023 to $1.320 trillion. So we're talking about a $100 billion shortfall by 2023, which is not bad considering that 77 million baby boomers are expected to retire starting in 2013.

Why not start drawing on the $2.77 trillion surplus, instead of making retirees pay the difference? After all, the payroll tax rate was increased in 1986, justified at the time as necessary precisely to create the surplus in anticipation of the boomers retiring.

Another simple solution is to raise the annual income "cap" for Social Security taxation, to cover the 15% of wage earners whose income since 1986 has risen faster than the income base. Currently, the payroll tax covers only 85% of wage earners, when the law intended 100%. Raising the cap would generate revenue by 2023 well in excess of the $100 billion shortfall, and do so for several additional decades with money left over.

But none of these or other simple solutions are being considered by Obama or House Republicans. Instead both sides are in agreement to cut retirees' annual cost of living adjustments by changing the COLA formula, and to raise the eligibility age for Social Security retirement benefits. Reducing the cost of living adjustment is already baked into Obama's 2014 budget; raising the retirement eligibility age to 68 or higher will likely come as part of the budget deal.

To reduce annual cost of living adjustments for retirees, Obama proposes to replace the Consumer Price Index with a "Chained CPI" index. The latter will reduce expenses by $232 billion, bringing the total deficit reduction from Medicare and Social Security retirement to more than $700 billion (the amount Obama offered to cut the programs initially back in the summer of 2011).

But this $700 billion is just the beginning offer to cut Social Security spending. Additional DI program spending cuts are being worked out administratively and through court action — all off budget. Eligibility for DI is being raised and benefits reduced, to add at least another $100 billion in benefit cuts over the coming decade. So Obama is offering and presiding over no less than $800 billion in Social Security-Medicare cuts — and that's before further cuts are part of the final deficit deal later, integrated with corporate tax cuts and the tax code revision.

It is clear, in other words, that both Republicans and Obama are targeting about $1 trillion in Social Security-Medicare spending cuts over the decade. That $1 trillion, plus the $2.8 trillion already obtained in deficit reduction from the Fiscal Cliff and Sequestration, means only another $500-$600 billion in deficit cutting remains for a final deficit deal later this year to reach the $3.4 trillion target.

But that's not quite the full story. The tax code revisions will result in hundreds of billions more in corporate tax cuts that will have to be offset by further tax hikes and/or additional spending cuts. There is also the restoration of defense spending cuts of $500 billion required by the "sequestered" spending provisions. So another $1 to $1.5 trillion will have to be extracted in tax hikes and/or spending reductions.

Tax Proposals in the 2014 Budget

Throughout the 2012 election period Obama was explicit in advocating a major reduction in the corporate tax rate, from the current 35% to 28% — essentially the position of Republican candidate Mitt Romney.

Obama also publicly favored publicly working out a compromise for multinational corporations, reducing their offshore tax liability to entice them to pay some part of the current $1.9 trillion they are hoarding in offshore subsidiaries without paying taxes. (Actually, the "offshore" accounts are located in New York). His budget proposes taxing "international income" only at the rate of $15 billion a year. At that rate it will take more than 50 years to tax the current $1.9 trillion.

Obama has also been an advocate of even more generous tax cuts for smaller businesses and for Research & Development. His budget proposes raising the business R&D credit to 17%, resulting in a tax cut of $118 billion, and allowing small businesses to write off equipment investment immediately, resulting in another $69 billion in revenue loss. Just these two items, plus the corporate tax rate reduction and letting multinational companies off the tax hook, will cost the U.S. budget at least $700 billion to $1 trillion.

To pay for the coming tax cuts for corporate America, Obama's budget proposes to limit tax deductions and exclusions for businesses, especially for employer health insurance and pension contributions. That is projected to raise $493 billion. It will also mean the acceleration of employers abandoning their employee health insurance and pension plans, exacerbating those crises and costs to workers. Minimal added taxes on tobacco would raise another $83 billion.

An increase in the Estate Tax would only take place after Obama leaves office, which politically means not at all. A token "financial responsibility" tax on banks is also another proposal likely dead on arrival, given the Republican-dominated House, as will prove similar for the proposal for a token "fair share" tax on millionaires.

Netting out the tax cuts and the tax hikes means a net gain for businesses of about $400-$500 billion, for which other tax hikes on the middle class and spending cuts will be required. That $500 billion, plus the roughly $600 billion gap, means that at minimum $1 trillion in tax hikes and spending cuts — apart from and in addition to the Social Security-Medicare cuts already proposed— will become part of a final deal later this year when tax code revisions are integrated with deficit cutting.

This final $1 trillion will likely come from two general sources: eliminating deductions, credits and exemptions for middle class taxpayers, and further cutting discretionary spending programs like education, transportation and other non-defense programs.

Defense Spending and Some Conclusions

Almost $500 billion in defense-related spending was cut in the March 1 "sequester' provisions. President Obama has vowed to restore at least $400 billion of that. For Fiscal 2013, the sequestered discretionary spending cuts amount to $64 billion, of which Obama has proposed restoring $40 billion.

Over the decade it is clear that the budget strategy involving defense is "moving the money around." Spending for what is called "overseas contingency operations" (which means for wars in Iraq and Afghanistan) would be reduced. Much of the reduction would be in turn transferred to spending on new military equipment, earmarked largely for the Navy and Air Force, as U.S. military strategy "pivots" to the western Pacific. The Army had its land wars in the Middle East; next the money goes to the Navy and Air Force. Military equipment suppliers simply get to change their "product mix" sales to the government and military-industrial complex.

In total, the Obama Budget for 2014 reveals a close collusion on deficit cutting between his administration and the Republican House. The shift from bargaining to collusion began in early 2011, but developed more fully after the November 2012 elections. A final deal on deficit reduction is now on the fast track.

What all these Obama-Republican measures represent is a shifting of the cost burden of Social Security, Medicare, and other discretionary social program in the budget from one sector of the working and middle classes to another; from the wealthiest households to the remaining 95%. Meanwhile, the wealthiest households and their corporations continue to get still further tax reductions and the Pentagon and war corporations get to shift their profits from the middle east conflicts to the western pacific to address a "threat" from China.

What should be done? Clarifying the dimensions and details of the deficit cutting charade — Austerity American Style — that has occurred the past four years is necessary, but not sufficient. It is no longer enough just to reveal and complain.

The leadership of organized labor — the AFL-CIO and Change to Win unions — appear content simply to "talk" and not "walk." They are more concerned about embarrassing their Democratic party friends, in the hope of receiving a few policy crumbs here and there, like appointments to the NLRB and such. They could easily make a major move to do something about the attacks on Social Security, Medicare, education and so forth, and demand taxing the rich and their corporations by calling for a national march on Washington. But they won't.

Writing letters to Congress or the president also won't change anything. This is not the Democratic party of your grandparents that passed Social Security and Medicare. This is the Democratic party that has agreed in principle with Republicans and Teaparty radicals to dismantle these programs slowly and in steps over the coming years and decades. Their only disagreement is how to do so and how fast.

What is now necessary is grassroots organizing to begin the formation nationwide of Social Security-Medicare Defense Clubs. Actually, that's how Social Security started in the first place. Neither party — Democrat or Republican — proposed it initially. A protest organized by grassroots clubs forced President Roosevelt and the Democrats to reverse their initial opposition to Social Security just before the 1934 midterm elections.

Now it's time to re-form the clubs to defend Social Security. Now is the time to organize a million person March on Washington to reverse whatever cuts are surely forthcoming. Now is the time to begin developing forms of independent political action. §