

# **US economy - Obama's Speaking Tour : More « Talk the Talk » Again**

samedi 10 août 2013, par [RASMUS Jack](#) (Date de rédaction antérieure : 8 août 2013).

Over the last week, President Obama has kicked off a series of speeches on the subject of the economy. The deeper purpose of his speaking tour is to stake out his position for the upcoming budget and deficit cutting battle that will likely occur within the next few months, as both the new budget year begins on October 1 and a new « debt ceiling » extension deadline concurrently approaches.

The hiatus in deficit cutting that has characterized recent months is now coming to an end. A new round of austerity negotiations between the administration and radical conservatives in the House of Representatives is about to begin. [1].

Obama's new Treasury Secretary, Jack Lew, provided the administration's first « shot across the bow » last week, announcing that the administration would not tolerate another « debt ceiling crisis » in the coming months like that which occurred in August 2011. Once again, House Republicans simply shrugged, having recently cut food stamps for millions and engineered a phony agreement on student debt interest payments.

In the first August 2011 debt ceiling fight, the crisis was « resolved » by the Obama administration agreeing to cut \$2.2 trillion in spending—\$1 trillion in cuts which took immediate effect and another \$1.2 trillion in cuts implemented this past March 2013 in the form of the « sequester. » In between the \$1 trillion and \$1.2 trillion in spending cuts, Obama agreed to raise personal income taxes a mere \$0.6 trillion on just the wealthiest 0.7% households, instead of on the wealthiest 2% he promised during the 2012 elections.

As part of the token \$0.6 trillion in tax hikes for the wealthiest 0.7%, Obama agreed to eliminate the Alternative Minimum Tax altogether and to reduce the Inheritance Tax even more than under George W. Bush. The \$0.6 trillion, or \$60 billion a year, tax hike on the super-wealthy will thus prove over the coming decade to be no more than a « smoke and mirrors » increase in the personal income tax on the wealthy—with additional massive tax cuts still to come for the wealthy and their corporations along with the Tax Code overhaul now working its way through Congress.

To date, the total deficit reduction amounts to \$2.8 trillion. That leaves a remaining \$1.6 trillion in deficit reduction to go, in order to reach Obama's original Simpson-Bowles 2010 Deficit Commission's recommendations of \$4.4 trillion in deficit reduction for the next decade.

However, this past March, Obama's 2014 initial budget proposed to cut another \$630 billion in Social Security and Medicare, thereby raising the total in deficit reduction enacted or conceded by the administration to \$3.4 trillion. Safely assuming at least that much will occur in further Social Security and Medicare spending reductions, that leaves about \$1 trillion minimum in still further cuts to be negotiated in the renewed deficit debates that will unfold in the next few months.

The temporary hiatus in deficit cutting occurred as both parties—House Republican radicals and Obama and Senate Democrats—await the historic tax code reform now working its way on a fast

track through the House Ways & Means Committee.

That tax code bill will include massive additional cuts in corporate income taxes, especially in the top corporate tax rate and in taxation of multinational corporations, who are currently hoarding \$1.9 trillion in cash with their foreign subsidiaries in order to avoid paying taxes. Corporations are eager to reduce their top corporate rate from 35% to 28% or less—a proposal which Obama has already agreed during his last campaign. They argue that the 35% rate is the highest among advanced economies. What they don't say, and what the press conveniently ignores, is that US corporations actual effective rate is a mere 12% of total profits—the lowest among advanced economies. They also decline to mention that the 12% rate is about half of what they previously paid annually between 1989-2008.

Notwithstanding all of that, both Obama and the House Republicans will agree on a massive tax code change in the coming months that will include hundreds of billions more in tax cuts for Corporate America. That in turn will mean that more than \$1 trillion (\$4.4 Simpson-Bowles target, minus \$3.4 spending cuts to date) will be demanded by House Republicans. That means more than Obama's already proposed \$630 billion in Social Security and Medicare cuts will be on the bargaining table alongside significant middle income tax hikes.

More spending cuts and middle income tax hikes are thus on the agenda. They will come at a time when the US economy is clearly faltering once again and the global economy continues to weaken even more.

Contrary to the continuing media hype since the beginning of 2013, the US economy has been slowing significantly over the past year, growing on average less than 1% annually when special, one-time effects like a pre-election defense spending surge last July-September and a similar one time inventory spending blip January-March 2013 are backed out of US GDP results this past year. In the next few weeks, 2<sup>nd</sup> Quarter GDP results will show an economy growing at less than 1%. (For more information, see « Predicting the US and Global Economy, » Z Magazine, July 2013).

US Federal Reserve missteps this past June 2013, attempting prematurely to reduce the \$85 billion in monthly free money injections to banks, investors and stock-bond market speculators resulted in mortgage interest rates rising by more than 1% in just a matter of weeks, bringing the very fragile US housing sector's recent recovery to a virtual halt. And despite the Fed turning on the free money spigot in July once again, banks will almost certainly keep mortgage interest rates at the higher rate, thus ensuring a further slowdown in residential housing that stalled last month and the continuing depression in commercial construction that has been the rule since 2009.

Meanwhile, US manufacturing and exports continue to follow the global downward trend, and household consumer income continues to decline in real terms, now showing up once more in stagnating retail sales. The much-hyped recent US job creation is, upon deeper inspection of trends, almost totally part-time and temporary jobs since January 2013. Of the approximate 750,000 new jobs created, more than 550,000 were part-time (and at least another 100,000 temp jobs)—all of which mean low pay and no benefits. Over the same period, more than 240,000 full-time jobs were eliminated. Not surprisingly, recent studies show that 60% of jobs lost since the recession have been high paying (over \$18/hr) while 58% of the jobs created have been low paying (less than \$13/hr). No wonder union membership (higher paying jobs) fell by 500,000 in the past year, as several million low quality jobs have been created.

On the business front, as recent data shows, business spending on inventories continues to decline sharply, fixed investment is diverted to offshore or to financial securities speculation, and corporations' multi-trillion dollar cash hoard is spent on dividend payouts to stockholders, stock

buybacks to raise stock prices to still further record levels, or diverted to overseas subsidiaries to avoid paying US taxes.

In the context of a slowing US economy across the board, the Obama administration and House Republican radicals again approach another round of deficit spending cuts and still more tax cuts for the rich and their corporations. Social Security, Medicare, Medicaid and Education cuts will be high on the agenda, as well as « broadening » the tax base through tax hikes on middle income and working class households. As Obamacare appears to encounter increasing problems of implementation and the administration itself begins to retreat on its implementation, renewed efforts by House Radicals to dismantle it piece by piece will no doubt intensify and become another major item of further spending cuts in upcoming deficit negotiations.

As this writer has previously predicted, another major round of deficit spending cuts in the US and/or banking crisis in Europe will all but ensure the US descent into a double dip recession in 2013-14. And, as recent Federal Reserve attempts to taper the \$85 billion free money injection show, an emerging third factor potentially precipitating another recession could be a renewed effort by the Federal Reserve after September 2013 once again to try to withdraw the free money « cocaine » to which bankers and investors appear now increasingly addicted.

Anyone who believes the US economy is about to enjoy a sustained recovery had better think again and look to the real details about the US economy, rather than the hype from media and politicians. They had better prepare for a deeper attack on social security, Medicare, and education spending in the coming months. They had better resurrect the fight for « Medicare for all » as the only solution while Obamacare continues to unravel by 2016, or else accept the inevitability of Republican radicals' drive for full privatization of healthcare, vouchers, and health services rationing for all but the wealthy. They had better make up their minds if they want a « new normal » economy with only part-time and temporary, low paying jobs and declining real incomes for the vast majority of households, while the wealthy continue to reap ever higher incomes from continuing record gains in stocks, bonds, and other financial investments.

In his forthcoming speeches and tour, Obama will talk in generalities about helping « the middle class, » providing relief to those with inadequate incomes, he'll hype up false job gains, refer to what is actually a fictitious housing recovery, brag about declining government deficits, and tell us how he won't tolerate another debt ceiling debacle—but we've heard the same talk now for five years. Yes, the Republican House is much to blame for the continuing stagnation of the US economy and the falling incomes and wages for all but the wealthiest households. But so too are Obama and the Democrats, having backed off and conceded time and again to House Republicans' retrograde demands and policies—too often making concessions unilaterally to appease conservatives and radicals. Expect more of the same, notwithstanding the optimistic talk that Obama will soon deliver yet again, as a prelude to his concessions that will undoubtedly follow once again as before.

We've seen his « all talk and no walk » scenario now several times since 2008. There's no reason to assume the « leopard will change his spots, » so to speak. To continue the metaphor, the latest leap from his tree to snatch a small piece of political prey will result in abandoning the opportunity once again when challenged, scurrying back to a safe place out on some limb.

Meanwhile, the US economy slips slowly further toward the precipice of recession in 2013-14. Should that happen in 2014, another mid-term election fiasco for Democrats will likely follow next November 2014. It is quite possible, and increasingly so, that Democrats will lose control of the Senate, given that far more Democrats are up for election in the next round. Then the real attack on the middle class, retirees, unions, healthcare, education, and workers in general will begin and make recent events since 2010 pale in comparison.

As in the fall of 2010, this fall of 2013 represents a key juncture in economic and political events that will have implications for years to come. Obama's adoption of corporate-driven policies in the summer of 2010, especially on the jobs and housing front, led to his party's major defeat in the 2010 midterms, resulting in losing control of the House of Representatives and consequences we have been experiencing ever since in the form of austerity for the majority in the US amidst record gains in incomes for the rich and corporate profits. A similar historical repeat may occur in the coming months, with a consequent loss of the Senate and even worse consequences.

If so, it will prove conclusively that the only way out of the continuing crisis is independent political action and new forms of national and local political organization.

**Jack Rasmus**, August 8, 2013

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\* <http://www.solidarity-us.org/site/node/3960>

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## Notes

[1] For a deeper analysis, see « Austerity American Style » in the July/August 2013 issue of *Against the Current*