

Is Government Driving U.S. Over Fiscal Cliff?
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The Mayans may have predicted the end of the world in 2012, but all signs in Washington point to Jan. 1, 2013 as the day of reckoning as expiring tax cuts and mandatory spending cuts combine to create what's commonly referred to as a "fiscal cliff."

The main ingredients are tax-cut measures that are set to expire, and automatic spending cuts that were set in motion to force lawmakers to do something larger about the deficit. But Congress failed to do anything larger, or agree on extending the cuts, which has the U.S. economy hurtling toward the twin threats that don't make anyone particularly happy.

Think of Senate Majority Leader Harry Reid and House Speaker John Boehner as this year's Thelma and Louis. Will they drive their 1966 Ford Thunderbird convertible off the Grand Canyon or apply the brakes to find common ground?

Right now there seems to be little common ground to be found, especially on the issue of the Bush tax cuts, which are one of the provisions set to expire at the end of the year.

If we can't get a good deal -- a balanced deal that calls on the wealthy to pay their fair share -- then I will absolutely continue this debate into 2013, rather than lock in a long-term deal this year that throws middle class families under the bus," said Sen. Patty Murray, D-Wash. today at a panel at the Brookings Institution in Washington, D.C.

Hill Republicans today also weighed in on the tax debate with some finger-pointing of their own.

"This is what passes for governance among Democrats these days: Put the American people up against a wall, pick their pockets and hope that in the midst of the scuffle, they blame it -- and the recession that would follow -- on Republicans," said Sen. Minority Leader Mitch McConnell, R-Ky., in a floor speech.

There is some disagreement over how big the drop on the other side of the cliff will be -- a government-induced fiscal apocalypse or an ultimately harmless Y2K bug?

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Will Democrats and Republicans head off a fiscal cliff at year's end, Thelma and Louise style, or will they kick the can down the road?

Conservative think-tanks, like the Heritage Foundation, argue that the uncertainty created by Congress's inaction is already affecting the economy, and will only get worse as the deadline approaches. The Center on Budget and Policy Priorities, a more left-leaning organization, published an article debunking doomsday reports, saying instead that a failure to act before the end of the year would not plunge the economy into recession.

Federal Reserve Chairman Ben Bernanke first used the term "fiscal cliff" in February to warn lawmakers that the economy could go into decline if Congress allows major tax cuts to expire and \$1.2 trillion in spending cuts to go into effect at the same time.

"Under current law, on Jan. 1, 2013, there's going to be a massive fiscal cliff of large spending cuts and tax increases," Bernanke told the House Financial Services Committee. "I hope that Congress will look at that and figure out ways to achieve the same long-run fiscal improvement without having it all happen at one date."

While there is disagreement among economists and policy analysts on how severe and immediate the economic impact will be if Congress does not act before Jan. 1, most agree that Congress should act quickly to resolve the simultaneous tax increase and spending cuts and work towards a long-term deficit solution.

If no action is taken before the year is up, on New Year's Day seven different tax policies will expire, effectively raising taxes by \$494 billion. The Bush tax cuts, the payroll tax cut and tax cuts from the 2009 stimulus bill are among the policies that, as of now, will end at the start of 2013.

While those seven tax cuts are set to expire, five tax increases will go into effect as part of the revenue raising provisions of the Affordable Care Act, including the start of the 3.8 percent Hospital Insurance tax on earners over \$250,000 and investment income over that amount.

Compounding this "taxmageddon" is the sequestration process outlined by the Budget Control Act of 2011, which imposes across-the-board spending cuts in national defense and domestic discretionary spending in January 2013 after the Super Committee failed to reach agreement on deficit reduction measures back in November of 2011.

The process will reduce spending authority evenly between defense and non-defense programs by \$109.3 billion each year from 2013 through 2021. Social Security and Medicaid are exempt from the cuts; however there will be a 2 percent decrease in Medicare payments to physicians.

The Congressional Budget Office estimates the combined effect of the tax increases and spending cuts will be a \$483 billion reduction in the deficit for the 2012-2013 fiscal year.

According to Ron Haskins, senior fellow of Economic Studies at the Brookings Institution, the cuts will have a real impact at the local level, with defense contracts not being honored and cutbacks in popular programs, such as Head Start, the national pre-schooling programming for low-income children.

Among the people affected could be some of the nation's most vulnerable, who rely on federal programs for assistance.

In a letter sent to Rep. Ed Markey, D-Mass., on June 29, Assistant Secretary for Financial resources Ellen Murray detailed what the cuts could mean to the Health and Human Services department.

"[Up] to 100,000 children would lose Head Start services and approximately 80,000 fewer children would receive child care assistance. In addition, approximately 12,150 fewer patients would receive benefits from our AIDS Drug Assistance Program. Approximately 169,000 fewer individuals would be admitted to substance abuse treatment programs and an estimated 14,200 fewer people who are homeless would receive assistance," she wrote.

Although Haskins supports a more rational approach to spending cuts than the ones currently in place, he says such deep and drastic measures are necessary for the nation's fiscal health.

"We spent too much money. We can't afford it and people are going to be cut back and people are going to be hurt," Haskins said. "These cuts, and more, will eventually be imposed on the American public, if not now, then later."

The political stand-off certainly means the country will continue moving closer to the cliff until the November election cycle is over, with the results of those elections likely to determine how the issue will be resolved in the lame-duck session that ends before the December holidays.

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