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Competing Proposals to Avoid "Fiscal Cliff"

The President and House Republican leadership have submitted proposals to address the impending "fiscal cliff." The President's proposal, details of which are below, was given by Treasury Secretary Tim Geithner to Congressional negotiators last Thursday, Nov. 29th in a closed-door meeting. House Republican leadership's proposal, also detailed below, was submitted to the White House via letter on Monday, December 3rd. The President's proposal drew on his proposed budget for FY 2013, which was defeated unanimously in both the House and Senate earlier this year. For details on the "fiscal cliff," see the Budget and Spending Task Force Report from November 28, 2012.

President's Fiscal Cliff Proposal (as reported):

- Raise taxes by ~$1.6 trillion over 10 years through changes including:
  1. Allowing current tax rates to increase for individuals and families earning more than $200,000/$250,000.
  2. Raising the death tax to 45% on estates larger than $3.5 million and gifts larger than $1 million.
  3. Limiting the value of deductions to the 28% tax bracket rate for those in the top two tax brackets.
- Reduce spending by $400 billion over 10 years, primarily through changes to healthcare spending.
- Spend at least $50 billion in additional "stimulus" for a national transportation bank.
- Extend the temporary 2% employee-share payroll tax cut and stimulus bill tax provisions for one year.
- Suspend the sequester for FY 2013 and extend the "doc fix" and expanded unemployment benefits for one year.
- Effectively end Congress's authority over the debt limit by permanently granting the President the authority to request a debt limit increase subject only to a Congressional resolution of disapproval requiring a 2/3 vote.

House Republican Leadership's Proposal (as reported):

- Raise revenues by $800 billion over 10 years through closing "special-interest loopholes" and deductions.
- Reduce future mandatory spending by $900 billion and future discretionary spending by $300 billion including:
  1. $500 billion in reduced spending on health through unspecified means.
  2. $100 billion in reduced spending through increasing the eligibility age for Medicare.
- Save $200 billion through adoption of the chained-CPI inflation measure across the federal government.

CBO Reports on Approaching Debt Limit

Following last week's report by the Bipartisan Policy Center, the Congressional Budget Office (CBO) has released its own report on the approaching debt limit. The debt limit is currently set at $16.394 trillion, and as of December 3, the current amount of federal debt "subject to the limit" is $16.299 trillion, $95 billion below the limit. Reflecting prior statements by the Treasury Department, CBO expects the Treasury Department to reach the debt limit near the end of December. At that time, however, the Treasury Department will have several "extraordinary measures" available to continue funding government activities. The CBO projects those measures will be sufficient to ensure the availability of funds for government operations until mid-February or early March. Leading Democrats, including Senate Majority Leader Harry Reid, have demanded that an increase to the debt limit be included in a final "fiscal cliff" deal. Speaker Boehner said on Sunday, December 2, that "Congress is never going to give up this power" in response to the President's proposal to end Congress's authority over the debt limit. For more information on the debt limit, see the RSC Policy Brief: The National Debt and the Debt Limit from earlier in the 112th Congress.

Quote of the Week: *"Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership. Americans deserve better."*

--Senator Barack Obama, March 16th, 2006

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THE WALL STREET JOURNAL.

This Unserious White House
By: Kimberly A. Strassel

The White House this week finally explained just how serious it is about averting a fiscal cliff that could throw the country back into a recession. The answer: not serious at all.

The markets and the media in recent days have been operating on an optimistic belief that the administration simply will not let the country fall off the fiscal cliff. They'd best rethink. On Thursday, the president dispatched Treasury Secretary Tim Geithner and White House Director of Legislative Affairs Rob Nabors to Congress to finally outline the White House's offer to avert the coming tax hikes and sequester.

It was something out of Wonderland and Oz combined.

According to sources on Capitol Hill, the White House wants Republicans to pony up $960 billion in immediate tax increases, which will come from hiking the top marginal rates and increasing capital gains and dividends taxes. That is just for starters. The administration also wants the GOP to surrender an additional $600 billion in revenue via later tax reforms.

The president's team specified *no* amounts or details on spending cuts. Rather, the White House wants more spending: at least $50 billion in new stimulus, an extension of unemployment insurance, a one-year deferral of the sequester, new money to refinance underwater mortgages, a Medicare-doctor fix . . . and a partridge in a pear tree.

Oh, the White House also wants Congress to give Mr. Obama the authority to increase the debt limit, whenever he wants, as much as he wants.

What do Republicans get in return? Next year, the White House will agree to talk to the GOP about cutting as much as $400 billion from entitlement programs. Maybe. If Democrats get around to it. Which they won't—because they'll have everything they've wanted.

How to put this tax-and-more-spending offer in perspective? It is far in excess of what the Democrats asked for in last year's debt-limit standoff—when the political configuration in Washington was exactly the same. It is far more than the president's own Democratic Senate has ever been able to pass, even with a filibuster-proof majority. It is far more than the president himself campaigned on this year.

But the president's offer is very much in keeping with his history of insisting that every negotiation consist of the other side giving him everything he wants. That approach has given him the reputation as the modern president least able to forge a consensus.

Don't forget: The man now engaged with Congress to work out a grand deal is the same one who could not pull over to his side a single Republican vote for his stimulus legislation, who had to ram through ObamaCare with procedural tricks, and whose inept handling of last year's debt-ceiling talks ultimately led his fellow Democrat, Senate Majority Leader Harry Reid, to isolate him from the final negotiations. This is not a history to inspire confidence.

Mr. Obama's tendency to campaign rather than lead, to speechify rather than negotiate, has already defined this lame-duck session. The president has wasted weeks during which a framework for a deal has been in place.

Within two days of the election, Mr. Boehner had offered an enormous compromise, committing the GOP to provide new tax revenue, through limits on deductions for the wealthy. Mr. Obama campaigned on making "the rich" pay more—and that is exactly what Mr. Boehner agreed to give him.

All that was left for the president to do was accept this peace offering, pair it with necessary spending cuts, and take credit for averting a crisis. Mr. Obama has instead spent the past weeks campaigning for tax-rate hikes. He wants the revenue, but collected only the way he chooses. And on the basis of that ideological insistence alone, the nation is much closer to a crisis.

Talks that had been at a standstill may now crumble, thanks to the Geithner-Nabors proposal. The president is boxing in the Republicans—offering them a deal they cannot accept, a deal they can't even be seen to be treating seriously. Mr. Boehner is legitimately interested in a bargain that will set the country on sounder footing. Yet the most immediate outcome of such an open slap from the White House will be to make even those Republicans who were willing to cut a deal harden their positions. Someone get the White House a copy of "Negotiating Tactics for Dummies."

Then again, the most frightening aspect of the White House proposal is that it wasn't an error. Perhaps the proposal was thoroughly calculated. This suggests a president who doesn't care about the outcome of the cliff negotiations—who thinks that he wins politically no matter what. He's betting that either the GOP will be far more responsible than he is and do anything to avert a crisis, or that the cliff gives him the tax hikes his partisans are demanding. Win-win, save for the enormous pain to average families across the country.

The Republicans will have to contemplate how to deal with such an unserious offer. But in presenting his demands, the president has now made very clear that there is only one side that is working in good faith.