

Cliff Talks: All Talk Could Still Lead to No Action

By: Eric Pianin - December 11, 2012

Lawmakers and policy gurus were heartened by the resumption of talks between President Obama and Republican House Speaker John Boehner over the weekend because they now see a clearer path to a deal before the end of the year that would avert a fiscal cliff calamity.

Whether the two sides split their differences over tax increases, spending cuts or entitlement reform, experts gathered in Washington on Monday said it was all but unthinkable that Congress would adjourn this month without a compromise on long term deficit reduction. What's at stake is \$600 billion worth of economic jarring tax increases and spending cuts that could drive the economy back into recession.

"I don't see why we can't avert it," said Rep. Xavier Becerra, D-Calif., the new-elected chairman of the House Democratic Caucus and a member of the Ways and Means Committee. Becerra served on a joint House-Senate "super committee" that tried but failed to agree on major deficit reduction policies a year ago. This time around, he thinks Republicans and Democrats will work out their differences. "The math hasn't changed. It's pretty straight forward," he said.

The experts participating in the conference sponsored by Politico cautioned that the talks were fraught with political danger, and that it was still possible that Obama or Boehner would overplay their hands in seeking political advantage.

"One thing that worries me is that I keep picturing two wrestlers faking wrestling at the edge of the cliff, but you can still go over by accident," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget, an anti-deficit group. "They could really keep this negotiation going on for too long while trying to break the other side instead of working together."

What's more, MacGuineas and others said, finding common ground on taxes and entitlement reform will be far more challenging than many assume, and that the negotiations over the framework of a long-term deficit reduction plan could run right up to New Years Eve.

"It's a very complicated spider's web you're talking about, and it's not going to be solved with a silver bullet," said Rep. Jim McDermott, D-Wash., a liberal member of the House Ways and Means Committee. He said, "Anybody who thinks this thing will be done in two weeks before Christmas is asleep or doesn't know what the world's about."

During a campaign-style appearance at an auto plant in Redford, Mich., yesterday, Obama warned that he "won't compromise" on his demand that the wealthiest 2 percent

of Americans pay a higher tax rate – focusing on one of the chief sticking points with Boehner and other Republican leaders.

The president said the country couldn't afford a "manufactured" crisis and pledged to cheering auto workers that he would fight to extend Bush-era tax cuts for the middle class before they expire at the end of the year. "That's a hit you can't afford to take," Obama said.

Republicans have long opposed Obama's call for higher tax rates on the wealthy, but some GOP lawmakers are suggesting that the party give in on taxes in order to win concessions from the president on changes to benefit programs such as Medicare and Medicaid. Sen. Bob Corker, R-Tenn., said over the weekend, "There is a growing group of folks that are looking at this and realizing that we don't have a lot of cards as it relates to the tax issue "

Still, Boehner's office indicated Monday that the speaker wasn't ready to take that step – at least just yet. "The Republican offer made last week remains the Republican offer," said Brendan Buck, a Boehner spokesman. He was referring to a GOP plan that offered \$800 billion in new revenue over the next decade through reducing or eliminating unspecified tax breaks on upper-income earners, but not by raising tax rates. During Politico gathering, seven lawmakers and policy experts generally agreed that a deal was in the offing, but with three major caveats.

Two-man talks are high risk. Negotiations over a comprehensive deficit reduction plan began in earnest shortly after the Nov. 6 election, with the newly reelected president inviting Boehner, Senate Majority Leader Harry Reid, D-Nev., Senate Minority Leader Mitch McConnell, R-Ky., and House Minority Leader Nancy Pelosi, D-Calif., to the White House for a preliminary chat. But after the talks stalled and Boehner repeatedly complained about a lack of progress, the circle of principal negotiators in the room shrank to two—Obama and Boehner.

McDermott complained that Obama and Boehner had essentially hijacked democratic procedures and were running the risk of negotiating a compromise that they can't sell to rank and file Democrats and Republicans. "We're sitting here watching two people running democracy," he said.

Political brinksmanship could backfire -- Obama appears to be holding the upper hand in the talks, in the wake of his strong election victory and polls showing that nearly two thirds of Americans favor raising taxes on the rich. During campaign style trips to Michigan and Pennsylvania, the president has made his case for a more "balanced" approach to deficit reduction, including twice as much in new tax revenues as the Republicans are willing to accept. Boehner says the Republicans won't budge any further on taxes – or at least not until the Democrats explain how they would achieve additional major savings in entitlement programs.

But the dueling rhetoric on television is getting tiresome, and time is fast running out for the two sides to stitch together a comprehensive plan that Congress and the White House can flesh out next year.

MacGuineas, an organizer of the Campaign to Fix the Debt, said it's clear that neither Obama nor Boehner wants to take the economy over the cliff, but their "partisanship and

disagreements are a model for how you don't want to run out the clock on the discussion.”

Tax reform could be a nightmare. Obama and Boehner are still far apart on taxes, especially over a rate increase on the wealthiest Americans. While some increase in the top income tax rates seems inevitable, finding agreement on ways to broaden the tax base by limiting or wiping out popular deductions such as for charitable deductions and mortgage interest could prove extremely difficult.

Even among conservative economists who think base broadening is definitely the way to go, nobody is kidding himself that it will be easy to either cap or eliminate these tax expenditures. Kevin Hassett, director of Economic Policy Studies at the American Enterprise Institute and an adviser to former Republican presidential nominee Mitt Romney, said that raising \$800 billion in new revenues by eliminating tax deductions is quite doable. But politically, “there are a lot of moving parts” that will make changes daunting. And if special interest groups championing the most costly deductions succeed in protecting them, Congress will fall far short of true tax reform. “For me, [even] \$800 billion [in new tax revenue] over ten years is unambitious,” he said.

Chris Edwards, director of Tax Policy Studies at the libertarian Cato Institute, said he doesn't understand why Obama is insisting on raising the top tax rate when “from a tax economists' point of view, raising rates is the most inefficient thing you can do for the economy.”

“The people at the very top [of the income scale] are the most responsive to tax rate changes” in finding clever ways to mitigate their tax bills, “which means the government won't get as much revenue as they think they're going to.”

But William Gale, an economist at the Brookings Institution, pooh-poohed the concerns of the conservatives, saying the Obama administration has a clearly enunciated plan for raising \$1.6 trillion over the coming decade, with much of it coming from the wealthy. “The [tax] money is definitely there, and the administration wants to raise it from people earning \$250,000 and above,” he said. “Obviously if you go lower than that you can raise more money. Chris's comments were about the administration's ‘obsession’ with raising the top rate. I guess you could turn that around and say the Republicans' obsession is not raising the top rate. We had a 39.6 percent [top] rate in the 1990s, and the economy did quite well.”

“I don't see doom or disaster if the tax rates go up a few percentage points,” Gale added.