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Don't Keep Kicking the Can Down the Road

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Today, President Obama called for a one-year extension of the expiring 2001/2003/2010 income and estate tax cuts for families making below \$250,000 per year. In a similar but even more costly move, the House of Representatives is expected to vote on a one-year extension of nearly all the 2001/2003/2010 tax cuts this month.

Given the country's current fiscal path, policymakers should avoid extending any policies without either paying for them over a reasonable timeframe or accompanying the extension with a plan to put the debt as a share of the economy on a clear downward path.

Ideally, policymakers would replace the "fiscal cliff" policies at year's end – including the expiration of the tax cuts and the activation of the \$1.2 trillion "sequester" – with a gradual and comprehensive plan to address the debt.

"We can't keep kicking the can down the road," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "No question, the fiscal cliff is bad economic policy and going over it will put us back into recession. But enlarging the mountain of debt we face would be disastrous as well—we have to rely on a more responsible approach. These problems only get harder to solve the longer we delay."

A one-year extension of the tax cuts on income below \$250,000 per year would cost roughly \$175 billion compared to current law (before adding the cost of extending the AMT patch). A one-year extension of all the tax cuts would cost closer to \$225 billion. Permanently waiving the major elements of the fiscal cliff permanent (including the sequester) could cost \$7 to \$8 trillion through 2022, relative to current law.

"We need to reassure our creditors that we are going to get our debt under control," said MacGuineas. "Continuing to delay the hard choices not only increases uncertainty, but hurts our credibility as well. What we really need to do is use the fiscal cliff as an opportunity to overhaul the budget and the tax code to put the country on a more sustainable fiscal path."