COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

CBO Report Makes the Case for Replacing the Fiscal Cliff with a Comprehensive Deficit Reduction Plan
May 23, 2012

The latest paper from the Congressional Budget Office (CBO) is yet another warning that the U.S. cannot afford to sleep walk over the "fiscal cliff." The analysis finds that if the policy expirations and across-the-board spending cuts (the sequester) are allowed to happen at year's end as scheduled, the economy would contract at an annual rate of 1.3 percent in the first half of 2013. On the other hand, CBO warns of "substantial economic costs over the longer run" if deficits and debt are allowed to continue to grow by extending current policies.

"Lawmakers are between a rock and a hard place where the easiest solutions will either throw us back into recession or put us on a path to fiscal crisis," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "This choice can be avoided only by replacing the cliff with a smart package of reforms that gradually puts the debt on a downward path."

According to CBO, enacting a package that reduces the deficit more gradually than the fiscal cliff "would tend to boost output and employment in the next few years by holding down interest rates and by reducing uncertainty and enhancing business and consumer confidence" and "although there are trade-offs in choosing when policy changes to reduce future deficits should take effect, there are important benefits and few apparent costs from deciding quickly what those changes will be."

"Instead of going over the fiscal cliff or allowing an ever growing mountain of debt, we should rise to the challenge and enact a comprehensive plan with more targeted and thoughtfully crafted measures," added MacGuineas. "A smart debt reduction plan put in place this year would reassure businesses, markets, and individuals that the country can indeed control its rising debt - a move that would surely be a boon to confidence. But we must act now, even if it is an election year."

* * *

For press inquiries, please contact Trina Williams at WilliamsT@crfb.org.