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## Washington's Gift for the New Year: Another Kicked Can January 4, 2013

On Wednesday, President Obama signed into law a package to permanently extend most of the 2001/2003/2010 tax cuts and temporarily delay other components of the fiscal cliff. Relative to current law, the legislation would increase deficits by about \$4.6 trillion over the next ten years. Relative to a current policy baseline, it would reduce it by only \$650 billion.

This marks the third year in a row that policymakers have squandered opportunities to address rising deficits and debt over the medium and long-term.

"At the beginning of every year, policymakers of both parties pledge to reduce our deficit and bring the country's finances under control," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "But instead of abiding by their past New Year's resolutions, policymakers have forgone many opportunities to tackle the debt – often making things worse instead of better."

A CRFB recap shows that in each of the last three years policymakers have called for substantial deficit reduction, missed real opportunities to achieve that deficit reduction, and then at the end of the each year agreed on packages that increased the debt relative to current law and failed to stabilize it over the medium-term.

"End-of-the-year irresponsibility is not for a lack of opportunity, but rather a lack of political will," added MacGuineas. "In the last three years we've had the Fiscal Commission, the Super Committee, the Obama-Boehner talks leading up to the fiscal cliff. Instead of coming together on a bipartisan basis to make hard choices, our leaders seem to find it easier to come together and horse-trade over how to make things worse or further delay the necessary changes."

"Stumbling over self-imposed hurdles month after month may be what it takes to ultimately make the changes that are needed, but I am confident lawmakers can come together to embrace a big deficit reduction package. It's time to start expecting more from our elected leaders. Let's make 2013 the year we hold our leaders to their New Year's resolutions."

## A Timeline of Missed Opportunities

### 2010 – Enacting New and Existing Deficit Increasing Tax Cuts in the Wake of the Fiscal Commission’s Recommendations

#### *New Year’s Resolutions*

*“...if we don’t take meaningful steps to rein in our debt, it could damage our markets, increase the cost of borrowing, and jeopardize our recovery — all of which would have an even worse effect on our job growth and family incomes.”*

*President Barack Obama, January 27, 2010*

*“We cannot afford to keep kicking the can down the road. Republicans and Democrats must find some bipartisan way to take real action to put an end to all the government spending.”*

*House Speaker John Boehner (R-OH), February 5, 2010*

*“This, then, is our turning point and our choice: the point at which we join the debt-ridden powers who saw the story of their greatness end in fiscal ruin, or the point at which we as a nation refuse that ending and write a new chapter.”*

*Representative Steny Hoyer (D-MD), February 28, 2010*

*“The President’s words about the importance of deficit reduction are timely. The times require that we build upon these modest proposals. Americans are concerned about what kind of country we will leave to our children.”*

*Senator Mitch McConnell (R-KY), January 27, 2010*

#### ***Opportunity to Act***

In late November 2010, the President’s Fiscal Commission released deficit reducing recommendations that were supported by a politically and professionally diverse group of 11 out of 18 commission members. With support from five Democrats, five Republicans, and one independent, the Commission’s plan would have put the debt on a clear but gradual downward path as a share of the economy with over \$4 trillion in savings projected at that time over the following ten years. The plan was heralded by many experts and the media as a breakthrough, showing that lawmakers could bridge their differences to make needed changes to the budget – including spending cuts, comprehensive tax reform, and real reforms to entitlement programs. It was truly a unique opportunity to take action on addressing long-term deficits.

#### ***Year-End Result***

In the end, not only did policymakers ignore the recommendations of the Fiscal Commission, but in just over two weeks after the Commission’s final recommendations they agreed to extend all tax cuts for two years, along with other policies, without offsetting any of the costs. In fact, lawmakers ended up enacting even more deficit-financed policies than both sides originally sought. Republicans sought to extend all of the expiring tax cuts for ten years, while Democrats sought to extend them only for households earning less than \$250,000. The final agreement

extended all the tax cuts for two years, but also added a one-year temporary payroll tax holiday, extended unemployment benefits, and extended other expiring provisions, some designed to be temporary stimulus, without paying for a dime of the new costs. The final bill added \$1.25 trillion to the deficit relative to current law at the time. While economic and political realities certainly presented a valid case for continuing many of these measures, lawmakers set a dangerous precedent of agreeing to a deficit-financed, last-minute deal instead of working together to produce a bipartisan deficit reduction plan.

## **2011 – Missed Opportunity with the Super Committee**

### ***New Year's Resolutions***

*"We need to take responsibility for our deficit and reform our government. That's how our people will prosper. That's how we'll win the future."*

*President Barack Obama, January 25, 2011*

*"Our debt is out of control. What was a fiscal challenge is now a fiscal crisis. We cannot deny it; instead we must, as Americans, confront it responsibly."*

*Representative Paul Ryan (R-WI), January 25, 2011*

*"Our spending has caught up with us, and our debt will soon eclipse the size of our entire economy. Hard work and tough decisions will be required of the 112th Congress. No longer can we fall short. No longer can we kick the can down the road."*

*Speaker Boehner (R-OH), January 5, 2011*

### ***Opportunity to Act***

The August Budget Control Act not only capped and reduced discretionary spending, but also established a special Joint Select Committee (Super Committee) on Deficit Reduction with broad powers and instructions to reduce the debt. Over the course of the fall, the 12-member committee met on an ongoing basis in the hopes of identifying at least \$1.2 to \$1.5 trillion of deficit reduction. The Super Committee was given unprecedented power to make recommendations which, if they achieved a simple majority, would have to be voted on through a fast-track process. All the normal hurdles to passing legislation – amendments, filibusters, and other rules – would have been waived for this legislation. Encouragingly, Republicans on the Super Committee put forward serious revenue, Democrats serious entitlement cuts, and both sides more in deficit reduction than was required.

### ***Year-End Result***

After weeks of negotiations where Democrats and Republicans on the Super Committee swapped proposals, committee members came to an impasse. Republicans complained Democrats were asking for too much revenue without any structural entitlement reform. Democrats complained Republicans were not serious enough about revenue to merit extending the tax cuts, and were demanding more health cuts than the system could bear. Ultimately, two

days before its deadline, the Super Committee co-chairs conceded that “after months of hard work and intense deliberations, we have come to the conclusion today that it will not be possible to make any bipartisan agreement available to the public before the committee’s deadline.” Rather than pick up where the Super Committee left off in order to negotiate a broader deal, Congress and the President instead turned toward measures that would *increase* the deficit. Specifically, they extended the temporary payroll tax cut for another two months, along with a year-long extension of unemployment benefits and a “doc fix.” Though the initial bill was paid for over ten years, a subsequent agreement to further extend the payroll tax holiday and other provisions added nearly \$90 billion to the debt. Neither bill made progress on addressing the country’s budget path.

## **2012 – Missed Opportunity on the Fiscal Cliff**

### ***New Year’s Resolutions***

*“The American people know what the right choice is. So do I. As I told the Speaker this summer, I’m prepared to make more reforms that rein in the long-term costs of Medicare and Medicaid, and strengthen Social Security, so long as those programs remain a guarantee of security for seniors.”*

*President Barack Obama, January 24, 2012*

*“It is time to put the checkbook away and make the tough choices that real leadership requires.”*

*Senator John Cornyn (R-TX), January 31, 2012*

*“To achieve long-term economic growth we must also enact a plan now to steadily and predictably reduce our deficits and debt. The issue is not whether we enact a plan to reduce the deficit, the question is how.”*

*Representative Chris Van Hollen (D-MD), March 21, 2012*

### ***Opportunity to Act***

The “Fiscal Cliff” scheduled to occur at the end of 2012 created a massive action-forcing mechanism with enough pain for both sides (and the economy) to motivate real negotiation. Immediately after the 2012 election, House Speaker John Boehner gave a conciliatory speech which for the first time publicly and explicitly put revenue on the table. President Obama followed with a speech announcing the need for entitlement reform and calling for the beginning of negotiations. In the subsequent weeks, the parties kept up negotiations with offers moving increasingly close to one another. By the last set of offers, the Speaker was calling for \$1 trillion of revenue and the President for \$1.25 trillion; the Speaker for \$1 trillion in spending and the President for \$925 billion. Both sides agreed rates would increase above some threshold (\$400,000 versus \$1 million), health savings would be substantial, the chained CPI would be included, and they reportedly considered raising the debt limit one to two years. The so-called “grand bargain” – or at least a modest version of it – was within reach.

**Year-End Result**

Leaders in Washington once again missed an opportunity to bridge the ideological divide to enact a plan sufficient to stabilize and reduce the debt as a share of the economy over the coming decade. Negotiations over the “grand bargain” ultimately broke down and were replaced with smaller negotiations over how to avert most parts of the fiscal cliff. Though the fiscal cliff package did include more than \$600 billion in additional revenue beyond current policy, it did so at a price of permanently extending almost all the tax cuts and without a plan to put the debt on a downward path or address tax or entitlement reform. Relative to current law (i.e. going over the fiscal cliff), the legislation will increase the deficit by \$4.6 trillion over a decade. Americans will start a new year with the same gift lawmakers have bestowed on them in the past – another kicked can.

| Attempts at a “Go Big” Deficit Reduction Plan  | Ten-Year Budget Impact<br>(Note: Different Budget Windows)                   |                        |
|--|--|------------------------|
|  | Against Current Law  | Against Current Policy |
| <b>Calendar Year 2010</b>  |  |                        |
| <b>Forgone Opportunity:</b> Fiscal Commission Proposal Supported by 11 out of 18 Members   | \$1.5 trillion   | \$5 trillion           |
| <b>Final Action Taken:</b><br>The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010                             | -\$1.25 trillion   | -\$300 billion         |
| <b>Calendar Year 2011</b>  |  |                        |
| <b>Forgone Opportunity:</b> Super Committee Charged with Identifying at Least \$1.5 Trillion in Savings  | Offers ranged from \$1.2 trillion to \$2.6 trillion (Baseline Not Specified) |                        |
| <b>Final Action Taken:</b> The Temporary Payroll Tax Cut Continuation Act of 2011 and The Middle Class Tax Relief and Job Creation Act of 2012 | -\$90 billion*<br>(Including 2-Month and 10-Month Extensions)                |                        |
| <b>Calendar Year 2012</b>  |  |                        |
| <b>Forgone Opportunity:</b> Fiscal Cliff Negotiations  | Unknown Costs  | \$2-\$2.5 trillion^    |
| <b>Final Action Taken:</b> The American Taxpayer Relief Act Of 2012  | -\$4.6 trillion  | \$650 billion          |

Note: Costs estimated against a current law baseline with different 10-year budget windows

\*Net cost of combined 2-month deal and 10-month deal to extend payroll tax holiday, unemployment insurance, and the doc fix.

^Range reflects savings from several offers between the White House and Congressional Republicans.

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Leaders in Washington will have to do much more in the weeks and months ahead to truly solve the country's debt problem. The fiscal cliff package delayed the sequester for two months, setting up another opportunity for policymakers to take the next step on enacting deficit reduction measures in the near future. Hopefully, lawmakers will take advantage of the opportunity to agree to much more savings than they have agreed to in the past, while setting up a clear process in 2013 for undertaking comprehensive reforms to the tax code and the country's entitlement programs – including Medicare and Social Security. By putting everything on the table, lawmakers can ultimately put the debt on a downward path as a share of the economy.

CRFB hopes that the President and Congressional leaders will make it their 2013 New Year's resolution to put in place a plan sufficient in size and scope to control the debt. Nothing less will do.