Janurary 2, 2013
Terry Statement on House Vote on Biden-McConnell Fiscal Cliff Deal

WASHINGTON, DC – Congressman Lee Terry (R-NE) released the following statement on the Biden–McConnell Fiscal Cliff deal, which passed the House of Representatives:

“From the beginning of the fiscal cliff debates, I held a simple position – not to entertain raising taxes unless there was fundamental reform and real spending cuts that would put us on a path to reducing our deficit. I do not believe the offer we were given by the Senate accomplished that goal.

The President promised us during his campaign a ‘balanced’ approach, yet, refused any offer of ‘shared pain’ to solve our fiscal crisis. Raising taxes with little to no spending cuts is not a balanced agreement. Instead, the Biden-McConnell deal makes a token gesture for spending with a $1 cut for every $41 of increased taxes and no structural changes to save Medicare, Medicaid and Social Security for future generations. Nothing in this deal puts us on a path to fiscal responsibility. Nothing in this deal reduces the trillion dollar deficit our country incurs yearly or helps pay down the $16 trillion dollars in debt our country already owes.

Our country has a spending problem. We must get it under control or we will go the way of other struggling economies. I pledge to you to continue the fight on behalf of Nebraska’s second district and the entire United States. This is not just for us, but for our children and generations to come.”

From NASCAR to rum, the 10 weirdest parts of the ‘fiscal cliff’ bill

By Brad Plumer , Updated: January 2, 2013

Washington Post

By now, we've heard all about the big stuff in the fiscal cliff bill that finally passed on Tuesday. The Bush tax cuts will become permanent for all individual income below $400,000 (and family income below $450,000). The sequester spending cuts will be delayed two months. And so on.

But Congress also managed to include all sorts of corporate tax breaks and other arcane provisions into the final bill, covering everything from electric scooters to NASCAR racetracks to taking the subway to work. Most of these tax breaks were already longstanding provisions — Congress has been working to renew them all year. They're just being extended again for another year (or sometimes two), at a total cost of roughly $77 billion.

So let's take a look at 10 of the more curious tax provisions in the fiscal cliff bill—it offers some insight into how messy the tax code is, and will continue to be for another year. (You can find the full text of the cliff bill here, with the individual tax extenders in Title II and the corporate tax extenders in Title III.)

1. A $9 billion "sop for Wall Street banks and major multinationals"

Check out Section 322 of the bill. "Extension of the Active Financing Exception to Subpart F." Sounds dull, right? Not quite.

As Dan Eggen has reported, this provision, first created in 1997, allows manufacturers and banks to defer taxes when they engage in a special type of financial transactions known as "active financing." The break now costs $9 billion per year, and critics claim it encourages firms to create jobs overseas. But it's a top lobbying priority for companies like GE and JP Morgan, who say that it helps them compete abroad, and it will get extended another year.

Now, there are a ton of other costly business tax breaks in the deal, too, from tax credits for R&D to bonus depreciation (which studies have found are ineffective at stimulating the economy). But the $9 billion active financing credit was arguably the hardest-fought.

2. A rum tax for Puerto Rico

Another longstanding item—this one dates back to 1917. Congress currently levies an excise tax worth $13.50 per gallon on all rum produced in or imported to the United States. Most of that money is transferred to Puerto Rico and the Virgin Islands, who use the revenue to support their rum industries. In 2009, this tax raised some $547 million. The cliff deal would extend the current arrangement another year. (By the way, Puerto Rico's non-voting representative in the House, Pedro Pierluisi, thinks this tax set-up is too favorable to rum distillers.)

3. Cheaper office space for Goldman Sachs

Okay, it's certainly not called this. Section 328 of the bill extends tax-exempt financing for the "Liberty Zone," the area around the former World Trade Center, for another year. As Matt Stoller points out, this tax provision was supposed to help fund reconstruction after 9/11. Yet a recent Bloomberg investigation found the bonds have mostly helped finance new luxury apartments, not to mention the construction of Goldman Sachs' new headquarters. Developers say the bonds were necessary to revitalize downtown Manhattan, but there's a fierce debate over how they've been used.

4. Help NASCAR build racetracks

The so-called NASCAR loophole, in place since 2004, allows anyone who builds a racetrack to receive a small tax benefit through accelerated depreciation. This tax break cost roughly $43 million the past two years and will get extended for another year. Sounds tawdry, right? And yet, supporters claim the break is necessary so that NASCAR can compete on a level playing field with other theme parks. Looks like they got their wish.

5. Treat coal from Indian lands as an alternative energy source

The fiscal cliff deal has a bunch of provisions for clean energy—notably, it extends a key tax credit for wind power for one more year, thus preventing the U.S. wind industry from downsizing. (That credit will cost about $1.2 billion per year for 10 years.)

But the production tax credit isn't just for renewable energy sources like wind. There's also a provision, section 406, to continue subsidizing coal produced on Indian lands at about $2 per ton. Again, this isn't new. Nor is it a huge deal (it will only cost about $1 million). But it's a reminder that not all of the clean-energy provisions in the bill are entirely green.

6. Promote plug-in electric scooters.

For years, Congress has been trying to promote electric cars through various tax breaks and subsidies. But what about electric bikes and scooters? Section 403 of the bill extends a credit for "2- or 3-wheeled plug-in electric vehicles." Yes, these things do exist: The Observer recently reported that e-bikes have become ubiquitous in New York City, used for everything from Chinese food deliveries to expensive joyrides. Only problem? They might well be illegal to ride in New York, although the rules here are awfully confusing.

7. Repair the railroads

Section 306 of the fiscal cliff bill will extend a hefty tax credit to railroads for maintenance work. Congress originally passed this credit because there was a worry that many of the hundreds of "short line railroads" would abandon their small sections of track, which would in turn fracture the national shipping network. This credit costs about $165 million per year and will survive another year.

8. Subsidize Hollywood films

The fiscal cliff bill renews "special expensing rules for certain film and television productions," at a cost of some $75 million per year. Studios in Hollywood and elsewhere can deduct up to $15 million of their costs if more than three-fourths of the movie's production takes place in the United States. (They can get up to $20 million in deductions if they produce the film in a low-income community.)

9. Crack down on tax cheats... in prison

The Internal Revenue Service has long worked with state and federal prisons to tamp down on fraud among prisoners who are filing tax returns. Yet as more and more states have been contracting out their jails and prisons to for-profit companies, the IRS has had difficulty sharing its data with private contractors. Never fear, section 209 of the fiscal cliff bill addresses this concern and allows the IRS to share its files with private prisons.

10. Provide incentives for commuters to take the bus or train

Hey, not all of the lesser-known aspects of the fiscal cliff deal are seedy giveaways to big corporations. There's also a small tax break that gives people incentives to take mass transit. (This provision was originally part of the 2009 stimulus but expired last year.)

For the past year, the tax code has subsidized driving to work over taking transit. If you drove, your employer could cover up to $240 per month in parking expenses tax-free. If you took the bus, your employer could only cover $125 in expenses per month tax-free. The two benefits have now been set at equal levels once again for 2012 (retroactively) and 2013. There's some evidence that this change will induce more people to take transit to work, though it will cost $220 million.

Original Article Here

'Fiscal cliff' deal does little to tame threats from debt ceiling, high unemployment rates

By Zachary A. Goldfarb, Published: January 1, 2013

Washington Post

The deal to which the House gave final approval late Tuesday will head off the most severe effects of the "fiscal cliff" by averting a dangerous dose of austerity but still leaves the economy vulnerable to both immediate and more distant threats.

The agreement, which the Senate approved only hours after the government hit the limit on federal borrowing, fails to defuse the prospect of a catastrophic national default two months from now. The deal does not raise the debt ceiling, leaving the Treasury to use what it calls "extraordinary measures" as long as it can to pay the government's bills.

Nor does the package do anything to address stubbornly high levels of unemployment, with 12 million Americans out of work. Instead, the deal could aggravate the problem. By allowing the payroll tax cut to expire, the deal takes money out of the hands of many Americans, sucking it out of the economy and slowing economic activity.

And, finally, the deal is too modest to fundamentally tame the government's soaring debt. The nation's long-term finances remain in peril, with federal spending projected to rise dramatically as a wave of retiring baby boomers turns to the government for help in paying for ever-more-costly health care.

Michael Feroli, chief U.S. economist at J.P. Morgan Chase, cautioned that the deal is a stopgap measure at most.

"What's challenging is that we're still going to have some slowing in growth because of the tax hikes," said Feroli, who estimated Tuesday that the deal will subtract 1 percentage point from already meager growth. "What's not good is that deficits are still going to be large and it doesn't begin to touch the longer-term horizon."

Vincent Reinhart, chief U.S. economist at Morgan Stanley, said the deal does not even relieve the anxiety of businesses and consumers because so many economic challenges are left unresolved. "There's an immediate fiscal drag, and there's no offsetting bonus in confidence because fiscal uncertainty is still considerable," he said.

Some benefits

Despite the drawbacks, the bipartisan deal may well have been the heaviest lift a deeply divided Congress could have accomplished. And the package, no doubt, has its benefits.

It is likely to prevent the nation from dipping back into recession. It cancels massive tax increases facing middle-class and poor Americans. And it delays deep and blunt government spending cuts for two months.

And while the agreement does nothing to reduce joblessness, it renews unemployment benefits that would have otherwise expired, offering vital help to the jobless and averting another blow to economic activity.

And finally, by raising a little more than $600 billion in fresh tax revenue from the wealthy, the deal takes a step toward bringing spending and taxes into line for the next few years — though economists say much more needs to be done over the long run.

President Obama had sought a larger agreement that would raise taxes by more than double what he got in the deal. He also wanted to take the debt ceiling off the table and offset deep spending cuts with more taxes and more targeted savings in entitlements — including Medicare and Social Security. He also asked for new economic stimulus measures to help bring down unemployment, including an extension of the payroll tax holiday.

Republicans had also wanted a deal that would cut the deficit more, though their prescription was different from Obama's. Instead of taxes, they preferred deeper cuts to domestic spending and changes to entitlements.

The debt ceiling danger

The deal fell somewhere in between. But by gaining the support of both sides, it did not achieve what many economists believe is necessary for the short- and long-term success of the U.S. economy.

Leaving the fate of the debt ceiling up in the air will cause anxiety among businesses and individuals, potentially crimping hiring, investing and consumer spending.

In many ways, the threat of default in two months is a more serious risk than the Jan. 1 fiscal cliff deadline. If Congress does not increase the debt ceiling, the government will quickly run out of ways to pay the nation's bills and make interest payments on the nation's outstanding debt. Any failure by the government to meet its financial obligations could be seen as a default, shaking world financial markets, given the special role that U.S. government bonds play in the global economy.

And while a default would be all but certain to push the economy into recession, growth is likely to be slow — and job-market improvement slight — even without such a cataclysmic event. The unemployment rate, which stands at 7.7 percent, is not expected to fall below 7.4 percent by the end of this year, and not below 6 percent until at least 2016 or later.

In the midst of the recession, the government stepped in with spending programs and deep tax cuts to lift growth and reduce unemployment. A majority of economists say those efforts worked.

But federal stimulus has been winding down. And the spending cuts and tax hikes set for 2013 are expected to be a drag on the economy — with government policy offsetting much of the robust recovery being experienced in the private sector.

Nor does the agreement do what many analysts say is necessary to achieve long-term budget savings and tame the federal debt, which is projected to grow rapidly as a percentage of the economy in the coming decades.

Both Obama and House Speaker John A. Boehner (R-Ohio) have proposed plans to trim just enough from federal deficits during the next decade to stabilize borrowing over that period — though not reduce it. In general, economists worry that when the debt gets too large, it slows economic growth — though defining "too large" is a matter of much debate.

Today, the debt stands at about 73 percent of gross domestic product — the size of the overall economy — and is projected to rise rapidly over coming years. The plans from Obama and Boehner, over the next decade, would each bring the ratio of debt to GDP back down to about where it is today, according to rough estimates from the Committee for a Responsible Federal Budget, a group advocating a big deal to tame the debt.

The Senate package is also projected to come close to achieving that, though not quite as close as Obama's and Boehner's plans. And even that relies on allowing the deep sequester spending cuts to happen or replacing them with other spending cuts or tax hikes.

None of the plans under discussion would keep borrowing a decade from now from starting to soar again. Much of the budget is projected to be consumed by health-care spending over the coming three decades.

"We have real problems in Medicare that we're not addressing at all — such as the fact that health-care costs continue to rise faster than the economy," said Leonard Burman, a public finance professor at Syracuse University. "The fact is we can't spend unlimited amounts of money on health care."

Obama administration officials say they hope their efforts to slow spending through the Affordable Care Act, the 2010 health-care law, will make this problem less severe. Republicans have in the past advocated a broad overhaul of federal health insurance programs. Yet neither side is now proposing a specific plan to deal with those long-run challenges.

Original Article Here

December 28, 2010

Many of my constituents believe that Congress and the President must act to avert the Fiscal Cliff. I agree, which is why my colleagues and I have been working tirelessly to enact legislation that will extend our current tax rates for a year, as we put into place a plan designed to reduce federal spending, begin to pay off our federal debt, and reform our federal tax code.

Unfortunately, the President has only offered a plan that will raise taxes on small businesses and families with no spending or deficit reforms.

Taxes inversely reduce freedom and hurt people economically. This is a core value for me and something from which I have never wavered.

Yet, I am willing to consider tax reform but only if spending reform is considered at the same time. Our country cannot afford to continue to spend beyond its means without real spending reform.

Over the last 6 months, Republicans have voted time and time again on legislation that would help our country avoid going over the Fiscal Cliff. I have voted for and the House of Representatives has sent to the Senate the following bills for their consideration:

- **H.R. 5652 – Sequester Replacement Reconciliation Act of 2012** – This legislation would replace the automatic 10% across the board cuts outlined in the Budget Reconciliation Act of 2011 with responsible reductions.

- **H.R. 8 - Job Protection and Recession Prevention Act of 2012** - HR 8, which passed the House in August 2012, would extend the current tax rates for all Americans for 1 year, which are set to expire on January 1, 2013.

- **H.R. 6684 - Spending Reduction Act of 2012** - This legislation would suspend the sequestration, or automatic spending cuts, for one year, replacing it with other reasonable federal spending cuts.

The Senate has all three bills in their chamber awaiting them to act on one or all of them as soon as possible; thus, averting the Fiscal Cliff.

Please use this section of my webpage as a resource to stay up to date on the latest new on the Fiscal Cliff.

Real Housewives of the Beltway

How the script for the fiscal cliff melodrama was written.

Wall Street Journal: December 28, 2012, 6:46 p.m

The fiscal-cliff melodrama has become one of those bad cable reality shows, a sort of "Real Housewives of New Jersey" without the sincerity though not without the plastic surgery. In the latest episode on Friday, the actors met at the White House in a last-ditch attempt to avert the cliff they had created, and that they all claim would be a catastrophe to jump off, but that they hope they can blame on each other if they do.

On second thought, this script would be laughed right off cable.

It's impossible to assess any last-minute deal before it is struck. But at this point we know there will be a big tax increase of some kind, which will finance more spending but which won't come close to helping the economy grow faster or reduce America's debt. The only question is the extent of the policy damage.

So for today we thought we'd explain again how we got to this sorry pass. The mistakes are political and bipartisan. But they are also intellectual, which means there is some hope to avoid them in the future if we learn the right lessons.

The first mistake goes back to the original compromises to pass the Bush tax cuts of 2001 and 2003. Those lower tax rates are expiring now because they weren't made permanent then. The 2001 tax cut was for 10 years and the 2003 tax cuts were for five years, and later they were extended a year or two at a time, in order to satisfy arcane budget rules that didn't require 60 Senate votes.

The second mistake was the Alternative Minimum Tax, which Democrats passed in 1969 to capture a few millionaires who had used loopholes to avoid a 70% marginal tax rate. But the tax was never indexed for inflation, even when Bill Clinton raised AMT rates in 1993. Republicans also didn't index it in 2003 or 2005 because it would have "cost" too much in lost revenue under Washington's silly budget scoring rules. So now the AMT threatens to engulf 27 million Americans if it isn't patched each year.

The third and biggest blunder is the Keynesian mantra of "timely, targeted and temporary" tax cuts and spending. We thought this had been buried by the Reagan years. But it made a comeback in 2008 with Nancy Pelosi and Harvard economist Larry Summers.

The economic theory is that Congress can, in its ever-present wisdom, calculate precisely the right amount and timing of temporary tax cuts and spending increases to stimulate the economy. But the tax cut must be temporary so as not to add to the "long-term" deficit. And the tax cut must be targeted, lest it benefit someone who makes more money than Ms. Pelosi and Mr. Summers like.

So they and President Bush gave us the $168 billion temporary tax rebate of February 2008 that goosed official GDP for a quarter but did nothing to change incentives to work or invest. Then they and President Obama gave us the $830 billion spending and targeted-tax-cut stimulus of 2009, which included the temporary making-work-pay tax credit and later the temporary home buyer's tax credit.

All of this did so little for the economy that after the 2010 election even Mr. Obama agreed to a two-year extension of the Bush tax rates to avoid another recession. He also insisted on the temporary payroll tax cut of 2010 (extended in 2011), and the 2010 temporary boost in business expensing.

The problem with all of this temporary policy is that Americans aren't stupid. They know it is all going to expire. So they either don't change their behavior, or they move up investment or purchases they were likely to make anyway to take advantage of the tax break. In the end there is no permanent change in incentives and little or no change in the underlying rate of economic growth.

Oh, and when these temporary tax cuts expire, by definition they create a tax cliff like the one we are now facing. By contrast, a truly stimulative tax cut would be immediate, permanent and apply at the margin to the next dollar of income made by all taxpayers.

We should add that the one part of the cliff not to worry about are the automatic spending cuts (the "sequester") that will start to hit on January 1. The Keynesians who believe that government spending is the main source of growth are portraying this as a calamity. But when has Washington ever seriously cut spending other than after a war?

The sequester would cut a mere $109.4 billion in 2013, with half from defense and half from domestic (mostly non-entitlement) accounts. It would be smarter to decide which programs to eliminate, rather than cut across-the-board. But the size of these cuts are small in a nearly $4 trillion budget. And to the extent that they signal at least *some*spending restraint, they would help the economy by reducing the need for future tax increases.

The larger point here is that the fiscal cliff is an entirely made-in-Washington fiasco that is the result of bad policy choices. It reflects a dominant political class—mostly Democrats but increasingly many Republicans and conservative intellectuals—who think that growth derives from government spending and that tax rates don't matter. Until that policy fever is broken, the Beltway's cable ratings aren't likely to improve.

A version of this article appeared December 29, 2012, on page A12 in the U.S. edition of The Wall Street Journal, with the headline: Real Housewives of the Beltway.

See editorial Here

House eyes Sunday return as 11th hour work on fiscal cliff begins

By Daniel Strauss - 12/27/12

Congressional leaders will meet at the White House on Friday and he House will come back into session on Sunday night, setting the stage for an eleventh-hour push on legislation to avoid the "fiscal cliff."

Majority Leader Eric Cantor (R-Va.) informed lawmakers in a GOP conference call Thursday about the new House schedule, which could allow lawmakers to vote Sunday or Monday on a fiscal cliff deal — if one can be put together by President Obama and the Senate.

Hours later, a White House official said President Obama would host Speaker John Boehner (R-Ohio), Senate Majority Leader Harry Reid (D-Nev.), Senate GOP Leader Mitch McConnell (Ky.) and House Minority Leader Nancy Pelosi (D-Calif.) at the White House on Friday afternoon.

Obama spoke to leaders from both parties and chambers before his trip back from Hawaii on Air Force One. He cut that trip short to return to Washington in an attempt to reach a deal before the end of the year.

Some signs suggested Thursdya that work on a new deal had already begun.

Sen. Scott Brown (R-Mass.) said he understood the president had reached out to Senate Republicans with a proposal, while a GOP leadership aide in the Senate said: "We're expecting the Democrats to finally act."

McConnell later on Thursday struck an optimistic tone, and said he was looking forward to a proposal from Obama.

"Hopefully there is still time for an agreement of some kind that saves taxpayers from a wholly, wholly preventable economic crisis," he said.

McConnell also warned the White House and Democrats should not expect Senate Republicans to simply roll over and "write a blank check" for anything Senate Democrats put forward "just because we find ourselves at the edge of the cliff."

"That wouldn't be fair to the American people," McConnell said on the Senate floor.

Senate Democrats and the White House said no formal legislation was headed from Obama to Capitol Hill, but Friday's meeting and the scheduling maneuvers showed a final effort was in the works to prevent tax hikes and spending cuts scheduled for January that economists warn would trigger a recession.

House Majority Leader Eric Cantor (R-Va.) said the House could remain in session through Jan. 2, noting that the 113th Congress will be sworn in the day after.

Talks have been stuck since the House failed to move Boehner's "Plan B" proposal last week.

Boehner's bill would have extended tax rates on annual incomes below $1 million, but the Speaker pulled his legislation before it reached the floor because of a lack of support from his own conference.

During the conference call, Boehner reiterated what he and other GOP leaders had said publicly, which is that the House had acted on a pair of bills that would prevent the crisis and that it is up to the Senate to act.

The Speaker argued that legislation approved by the House in August to extend all of the current individual tax rates, coupled with a bill moved by the lower chamber last week that would replace spending cuts known as the "sequester," would prevent the nation from going over the fiscal cliff.

He said it was up to the Senate to amend those bills and return them to the House if they are not acceptable in their present form.

"Once this has occurred, the House will then consider whether to accept the bills as amended, or to send them back to the Senate with additional amendments," Boehner said, according to a source familiar with his comments. "The House will take this action on whatever the Senate can pass — but the Senate must act."

While Senate and House Republicans have both called on Senate Democrats and Obama to move, Boehner's failed gambit with his $1 million proposal appeared to increase the president's leverage in the talks. Obama already enjoyed an advantage over Republicans because of his decisive Election Day victory, and polls that suggest Republicans could take more of a blame if the nation goes over the cliff.

Obama last week said he would reach for a smaller deal that would extend tax rates on annual incomes below $250,000 while allowing rates above that threshold to rise. Obama also said he would seek an extension of unemployment benefits, but would put off broader entitlement reforms until next year, as well as a hike to the debt ceiling.

It is unclear whether Republicans would move legislation that only extends rates on annual incomes below $250,000, however.

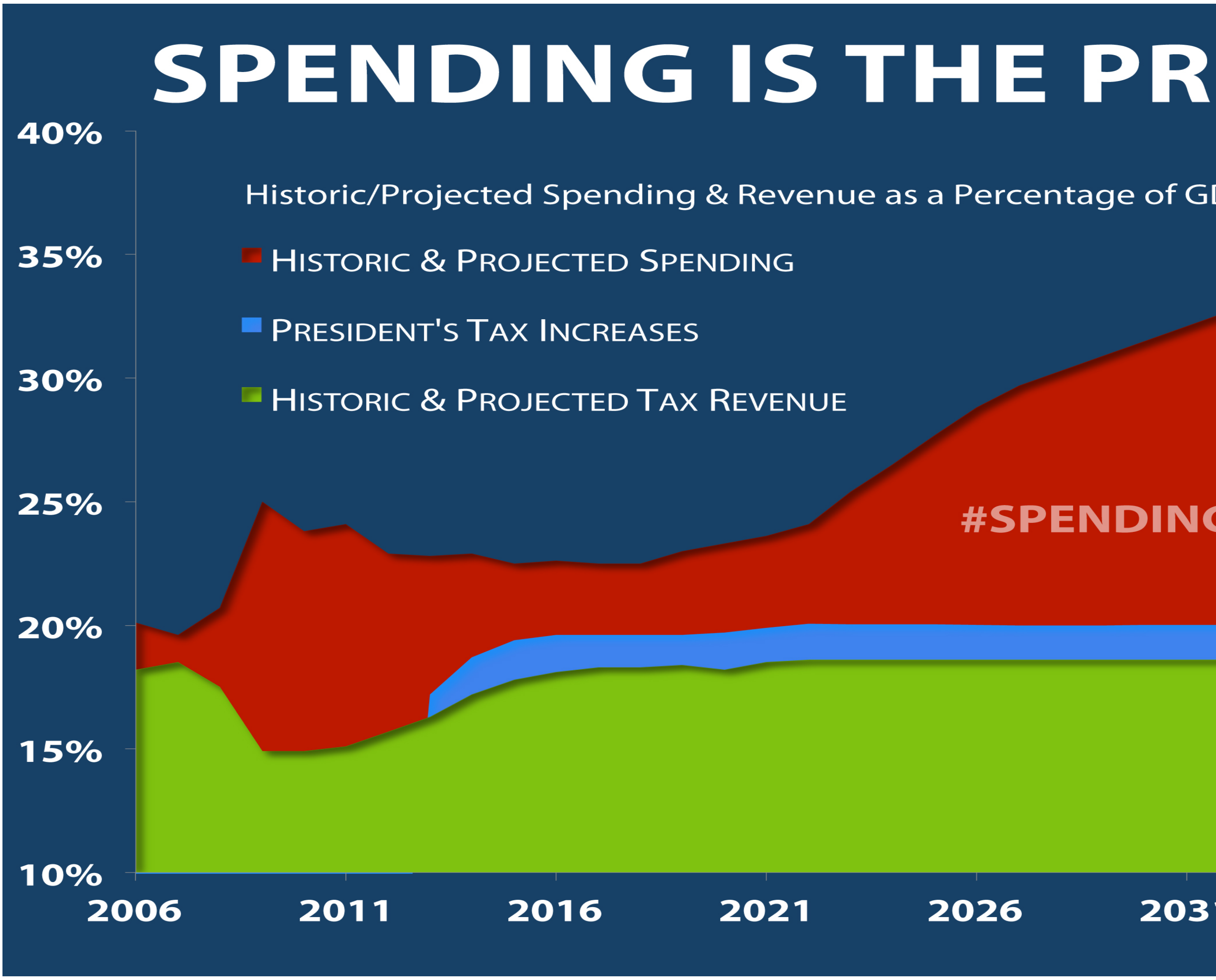
While McConnell seemed to offer some hope that a deal could be reached, Reid on Thursday said a deal seemed unlikely before the end-of-year deadline.

"I have to be honest — I don't know, time-wise, how it can happen now," Reid said.

In a later appearance on the Senate floor, he scolded Republicans for obstructing a deal and criticized House Republicans for leaving town.

Peter Schroeder contributed to this story.

See Article [Here]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-This chart demonstrates our growing spending problem.

CNBC Fiscal Cliff Interview

On Tuesday December 11, 2012 I was interviewed on CNBC about the fiscal cliff. You can watch the interview below.

Drive Time Lincoln interview - December 3

On December 3rd I was on KLIN Drive Time Lincoln to talk about the fiscal cliff and my frustration with the lack of progress being made with the negotiations.

Hear interview HERE .

VIDEO: CNN - Anderson Cooper Interview November 30, 2012

On November 30, I was on Anderson Cooper's program on CNN to talk about the fiscal cliff.

VIDEO: Hardball interview November 29, 2012

On Thursday November 29, I was on Hardball with Chris Matthews to discuss the fiscal cliff.

‘Cliff’ Plans Exchanged; Reid Says Deal Unlikely Before Christmas!

Published: Tuesday, 11 Dec 2012 | 5:03 PM ET

By: CNBC.com with Wires

House Speaker John Boehner's office said Tuesday that Republicans have made a counterproposal in "fiscal cliff" talks with the White House. Word of the offer came after Senate Majority Leader Harry Reid said it will be hard to reach a deal before Christmas.

Officials said President Barack Obama and Boehner had exchanged at least partial proposals in the past two days, although details were sparse and evidence of significant progress scarcer still. Obama and Boehner spoke by phone Tuesday after exchanging proposals.

Earlier, Reid said Democrats aren't going to make an offer on spending cuts. "Until we hear something from Republicans, there's nothing to draft," Reid told reporters in the Capitol, referring to writing legislation to implement a deal.

"It's going to be extremely difficult to get it done before Christmas."

The Nevada Democrat made his comments after House Speaker John Boehner accused President Barack Obama of dragging his feet in "fiscal cliff" negotiations.

"Let's be honest. We're broke. The plan we offered is consistent with the president's call for a balanced approach," Boehner said. "We're still waiting for the White House to identify what spending cuts the president is willing to make as part of the balanced approach that he promised the American people. Where are the president's spending cuts?"

The stock market was taking Tuesday's developments in stride.

Rebutting Boehner moments after he made his comments, House Minority Leader Nancy Pelosi said Obama and Democrats have in fact identified spending cuts they can support as part of a balanced plan to avert a "fiscal cliff" that threatens to send the economy into another recession.

In remarks on the floor of the House, Pelosi said Republicans should permit a vote on Obama's plan to let tax cuts expire at upper incomes, while keeping them in place for the middle class. She predicted the legislation would pass.

"The irony of this is that the White House offer had very specific cuts, the GOP counteroffer had almost none," tweeted the president's communications director, Dan Pfeiffer. White House aides circulated a summary pointing to more than $300 billion in proposed Medicare savings that are included in Obama's budget, as well as another $250 billion in non-health benefit programs.

Rep. Chris Van Hollen, ranking member of the House Budget Committee, told CNBC that while there are still a number of hurdles to overcome, he believes there's a better than 50 percent chance an agreement will be reached by Dec. 31.

"The lines of communication are open, many of our Republican colleagues recognize the strategy they had been pursuing isn't working," the Maryland Democrat said. "And the president also has been very clear he's been willing to make some compromises and tough decisions to reach an agreement."

The chiefs of more than a dozen major corporations, meanwhile, sent a letter to Obama urging both sides to compromise.

"We pledge our active support for a compromise that includes comprehensive and meaningful tax and entitlement reforms that result in market-credible spending reductions and revenue growth," the letter said. Signers included W. James McNerney Jr. of **Boeing** and John Engler of the Business Rountable.

The day's events underscored the difficulty confronting the White House and congressional leaders as they struggle to avert across-the-board tax increases and spending cuts in government programs that are scheduled to take effect at the turn of the year. Economists say the combination could send the economy into recession.

"The longer the White House slow-walks this process the closer our economy gets to the fiscal cliff," said Boehner.

Earlier, Senate Republican leader Mitch McConnell was somewhat more critical.

"The president seems to think that if all he talks about are taxes, and that's all reporters write about, somehow the rest of us will magically forget that government spending is completely out of control and that he himself has been insisting on balance," he said on the Senate floor.

He highlighted several government programs as examples of what he said was wasteful spending.

"A few weeks ago, Senator (Tom) Coburn issued a study that showed taxpayers are funding Moroccan pottery classes, promoting shampoo and other beauty products for cats and dogs and a video game that allows them to relive prom night," McConnell said. "Get this: Taxpayers also just spent $325,000 on a robotic squirrel named RoboSquirrel."

The two sides have presented rival initial offers in the cliff negotiations.

Obama's plan would raise $1.6 trillion in revenue over 10 years, in part by raising tax rates on incomes over $200,000 for individuals and $250,000 for couples. He has recommended $400 billion in spending cuts over a decade.

He also is seeking extension of the Social Security payroll tax, cut due to expire on Jan. 1, a continuation in long-term unemployment benefits and steps to help hard-pressed homeowners and doctors who treat Medicare patients.

The White House summary noted that Obama last year signed legislation to cut more than $1 trillion from government programs over a decade, and was proposing $600 billion in additional savings from benefit programs.

It also noted that the health care law that he signed into law showed savings of $100 billion. Much or all of that funding came from Medicare, even though Obama's aides insisted during his successful campaign for re-election that he had not made any cuts in it.

Boehner's plan, in addition to calling for $800 billion in new revenue, envisions $600 billion in savings over a decade from Medicare, Medicaid and other government health programs as well as $300 billion from other benefit programs and another $300 billion from other domestic programs.

It would trim annual increases in Social Security payments to beneficiaries, and it calls for gradually raising the eligibility age for Medicare from 65 to 67, beginning in a decade.

CNBC's Eamon Javers contributed to this story.

Original article [Here]

Rob Portman: A Truly Balanced Approach to the Deficit

Raising taxes on the well-off would pay for nine days of spending.

By ROB PORTMAN

The dangers of the "fiscal cliff" are by now well known. Most agree that the year-end $500 billion in tax increases and $110 billion in arbitrary, across-the-board discretionary spending cuts, including defense, must be averted to avoid plunging the U.S. economy back into recession. But how the danger is averted is important. To keep from getting right back on another cliff, President Obama and Congress must address the underlying problems of excessive spending and weak economic growth.

Washington needs to pursue structural reforms in the country's important but unsustainable entitlement programs and in an inefficient, outdated tax code. By doing so, lawmakers can responsibly avoid the immediate cliff while addressing the long-term fiscal crisis and spurring job creation.

In January 2010, President Obama described the challenge well: "The major driver of our long-term liabilities . . . is Medicare and Medicaid and our health-care spending. Nothing [else] comes close."

The nonpartisan Congressional Budget Office agrees. According to the CBO, virtually 100% of the projected increase in budget deficits over the next 75 years comes from rising Social Security, Medicare, Medicaid and other mandatory spending.

The CBO projects that as the economy recovers, revenues will exceed the historical average of 18% of gross domestic product, even if all 2001 and 2003 tax cuts are extended. Federal spending, meanwhile, already exceeds its historical average of 20% of gross domestic product and is projected to rise to 40% within three decades. Much of this dramatic increase in spending will be the result of adding 77 million baby boomers to a Medicare system that, for the typical retiree, provides benefits of $3 for every $1 paid into the system.

Taxes cannot be raised high enough to chase the enormous spending growth projected—the math simply does not work. That is why House and Senate Republicans last year voted for a budget to begin reining in entitlements and closing the deficit.

President Obama's plan to deal with the fiscal cliff includes raising taxes on individuals and small businesses that make over $200,000 or, jointly, $250,000 a year. He has argued that we should repeal the 2001 and 2003 upper-income tax cuts because they are to blame for much of the increase in the deficit since 2001.

There is a continuing debate over whether and how to raise taxes on small businesses that pay their taxes as individuals and on those individuals earning more than $200,000.

However, CBO and Tax Policy Center data together show that only 4% of the $12 trillion swing from projected surpluses to actual deficits from 2002 through 2011 resulted from the upper-income tax cuts. Two recessions and soaring government spending were the main factors.

Ending all the upper-income tax cuts would pay for just nine days of annual spending. Social Security and health entitlements will cost 27 times more than the revenue from ending those tax cuts over the next decade.

Still, negotiations require give and take, so Republicans have put revenues on the table. For instance, during the fall 2011 bipartisan super committee negotiations, Republicans (using the general Bowles-Simpson model of $3 in spending cuts for every $1 in new revenue) offered $250 billion in new revenues with pro-growth tax reform and entitlement savings. That summer, House Speaker John Boehner offered new tax-reform revenues in return for serious entitlement reforms, and he has continued to look for ways to forge bipartisan consensus. Democrats, however, have rejected all offers and demanded $1 trillion or more in tax increases without a commitment to structural entitlement reform and tax reform.

President Obama has called for a "balanced" solution of tax increases and entitlement reforms. Yet at this point he is essentially re-offering his budget from last February—a proposed $1.6 trillion in tax increases and virtually zero net spending savings. The CBO says the president's budget actually increases spending by $1 trillion over the decade, as its modest entitlement savings would be overwhelmed by new spending. Higher taxes for more spending isn't the kind of balance that Americans expect.

It should surprise no one that this unbalanced approach in the president's budget was rejected 99-0 in the Senate in May and 414-0 in the House in March.

Tweaking Medicare and Medicaid eligibility rules, benefits and payment rates may save some money in the short run, but it won't sufficiently slow the long-term growth of these programs caused by their outdated design. Reforms should not merely squeeze health beneficiaries or providers but should rather reshape key aspects of these programs to make them more efficient, flexible and consumer-oriented.

Especially in this weak recovery, the president's demands for new tax revenues must be met in the most pro-growth way possible. Instead of merely piling higher tax rates on top of our inefficient tax code, the president should agree to join with Congress in pursuing individual and corporate tax reform, including eliminating outdated preferences that often benefit the well-connected. A simpler, fairer tax code for everyone will also increase productivity, thus creating badly needed jobs and economic opportunity.

Avoiding the immediate fiscal cliff is critical to avert a recession and more job loss, but let's also take the opportunity to address the underlying problems causing our steep deficits. President Obama has said he is for tax reform and promises not to "kick the can down the road" on entitlements. Republicans are eager to work with him on both. By working together, both parties can spare America's children from a national debt that now tops $130,000 per household—and do it in a way that helps bring back jobs.

Mr. Portman, a Republican, is a senator from Ohio and a former director of the Office of Management and Budget.

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