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The Fiscal Cliff

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Distinctly Catholic

The so-called "fiscal cliff" looms before the nation's legislators and newly re-elected President. I am not so sure it is a cliff to begin with, but the economy is not just about data, it is about psychology, and if the Congress and the White House cannot come to terms, the uncertainty of the past few years will be perpetuated into the new year, with potentially devastating consequences for economic growth.

I set aside the deep issue about whether or not a growth model is what our culture needs. This model has inherent economic, moral and, now, environmental consequences that must be addressed but which are not likely to get much attention from the lame duck session of Congress or from the in-coming Congress. Everyone, liberal and conservative, understands that at this moment, the nation's fiscal situation can only be improved with renewed economic growth.

The Republicans fret that raising taxes on the rich will damage economic growth. They like to say that we should not penalize job creators. The Democrats rightly insist that this is hogwash and not just any variety of hogwash but the kind of hogwash we have heard before. In 1993, when newly elected President Bill Clinton passed through a budget that included tax increases, Republicans warned the economy would tank. Of course, as we all know, the economy actually flourished. But, why do Democrats not draw the important inference from this fact and lay it before the voters: Economic growth in the 1990s was not so much the result of Clinton's policies as it was the increased rates of productivity occasioned by the internet and other applications of computer technology to millions of businesses. Accounting and payroll processing became easier and less expensive for all companies. Ordering and inventories became more efficient. New companies emerged because of the internet. That is what produced the economic boom in the 1990s, not the Clinton tax increases. A small businessperson, that is a businessperson who has not achieved special tax breaks via lobbying, who makes his or her decisions based on the tax code is a fool. If you make a product and you think that product will sell and generate profit, you have an incentive to

produce it, no matter what the tax consequences. Does anyone really think that because marginal rates might go up four percent on those making more than \$250,000, that four percentage point increase will suddenly cause an investor or businessperson to lose their ambition?

The Clinton tax increases, however, did achieve something. They laid the groundwork for a balanced budget and they did so in a way that was mostly fair and equitable. While the economy still struggles to gain steam, and while interest rates are at historic lows, I am not sure that deficit reduction is the most important concern for our government, but, again, psychology is at work. If people conclude that our nation has become ungovernable, that will have a dampening effect on new investment and on civic engagement. Will a young woman graduating from law school, with the ambition of running for office someday, will her dream seem more plausible or less so if politics becomes identified with dysfunction?

Yesterday, both Sen. Lindsay Graham and Rep. Peter King distanced themselves from the "Taxpayer Protection Pledge" that was foisted on the GOP by Grover Norquist. The headline in the Post this morning was unintentionally telling about the way Washington works: "Two in GOP: 'Cliff' deal worth defying Norquist." Of course, Republicans were only too happy to sign Norquist's pledge when running for office, confident that the American electorate would endorse their view of the future. This pledge was made to the voters, not just to Norquist, but it is Norquist they worry about now, not the voters. As I noted before in my biography of Jerry Falwell, Norquist exhibits the kind of fundamentalist thinking on taxes that Falwell displayed regarding biblical inerrancy. It is a good thing to see Republicans stepping away from that cast of mind.

Sadly, the Republicans seem to remain wedded to the idea that they do not need to raise tax rates on the wealthy, just reform the tax code. I am all for reforming the tax code, but there is no reason on God's good earth that taxes on the super-rich should not go up. Yesterday, on one of the talk shows, Carly Fiorina opined that a family of four making \$250,000 and living in DC or the tri-state area probably does not feel like they are among the super-rich. Of course, I do not know what it feels like to make that kind of money, so I can only guess. But, what was remarkable is that none of the liberals at the table pointed out that these increases will be in marginal rates. That is to say that the increased four percent is applied to every dollar above the threshold, not below. So, a couple that makes \$350,000 would not see the increased four percent applied to the first \$250,000 of income, only to the \$100,000 above the cut-off. Does anyone think that asking someone making \$350,000 a year to kick in an additional \$4,000 is nascent socialism? A couple making \$251,000 would pay an additional \$40. And so on. The people who would really see a noticeable difference in their tax rates are precisely the people who have gotten very, very rich the past thirty years as corporate profits have soared even while median wages have lagged or fallen.

I suspect the Republicans will end up caving on the higher tax rates, but they are digging in to force concessions from the Democrats on entitlement reform. Here the Democrats must be very cautious. There is room to negotiate Medicare reform, in part because the Affordable Care Act, aka Obamacare, will be fully implemented in 2014. Raising the eligibility age for Medicare would not force people to go without health insurance. It would keep those who can afford insurance paying for it and those who need subsidies would continue to get them. There are tweaks to the Medicaid program that could help restrain the projected cost of that program, but instead of simply cutting benefits to the poor, Medicaid reform should focus on hospice care as an alternative to high-priced hospital care, homecare as an alternative to nursing homes, and other changes that would not only save money but benefit the elderly and their families.

Last week, Ezra Klein had a great article on entitlement reform. Among other things, he noted that raising the retirement age for Social Security may seem attractive to the kind of people making political decisions — people who enjoy their work, enjoy good health and have strong retirement plans, all the people who populate the halls of power in Washington — but that it is not so attractive to a miner or a waitress, people

who earn their bread by the sweat of their brow. Klein also notes that if we lifted the cap on FICA taxes ? currently, after the first \$100k or so, FICA taxes do not apply ? this would raise three times as much money as raising the retirement age. Yet, we hear no one making the case for removing the cap on the amount of income subject to FICA.

It is time for the President to assume the bully pulpit. He must explain, again and again, that the decisions that will be made in the next few months will have long term consequences and cannot be put off. But, he must also make the case that these decisions must be seen against the backdrop of three decades of increasing income inequality in America, as the very rich have received almost all of the benefit of increased economic growth, while middle class Americans have seen their wages stagnate and the poor have found it even harder to break into the middle class. This is not about punishing anyone. This is not class warfare. This is about guaranteeing the stability of our society. Income inequality, when it becomes gross, is a very grave threat to the stability of our society, a society that has benefited the wealthy disproportionately over the past three decades. Asking them to pay a bit more ? I wish we were arguing about a lot more ? to guarantee the future stability of the society that continues to so handsomely reward them is not socialism, it is prudence.

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