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Fiscal Cliff, Fiscal Slope, or the Common Good

The U.S. Debt and Deficit Crisis, Lame Ducks, and a New Responsibility

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INSIDE:

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Now that the election is over, a lame duck Congress has returned to Washington and a "new Congress" convenes in January. Facing both is the so-called "fiscal cliff" of automatic budget cuts (sequestration) and the termination of the Bush tax cuts created by the failure of the so-called Congressional Super-Committee to reach a bi-partisan agreement last year on tax income, budget cuts, the deficit, and our ever-increasing national debt, now at $16 trillion (as of October 2012).

If Congress does nothing to change the current law, the Congressional Budget Office (CBO) indicates that in January the following changes will occur and have the largest cumulative impact on the budget and the economy:

- A host of significant provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) are set to expire, including provisions that extended reductions in tax rates and expansions of tax credits and deductions originally enacted in 2001, 2003, or 2009. (Provisions designed to limit the reach of the alternative minimum tax, or AMT, expired on December 31, 2011.)
- Sharp reductions in Medicare's payment rates for physicians' services are scheduled to take effect.
- Automatic enforcement procedures established by the Budget Control Act of 2011 (P.L. 112-25) to restrain discretionary and mandatory spending are set to go into effect.
- Extensions of emergency unemployment benefits and a reduction of 2 percentage points in the payroll tax for Social Security are scheduled to expire.[1]

Those "automotive enforcement procedures" from the Budget Control Act include the following key "sequester cuts," which do not include certain defense and non-defense programs which were exempted in the Act (see chart on page 2).

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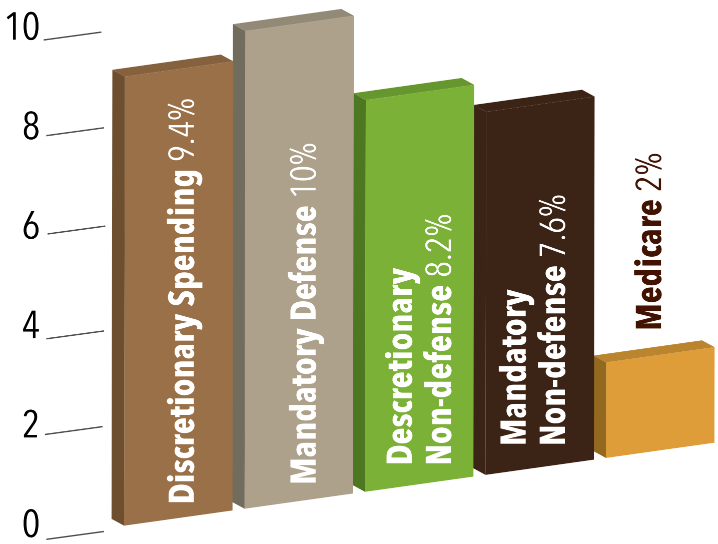
January 1, 2013, Sequester Cuts



Among the programs specifically exempted from the sequester cuts are: Medicaid, the Children's Health Insurance Program (CHIP), Social Security, the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program), child nutrition, Supplemental Security Income (SSI), refundable tax credits such as the Child Tax Credit and the Earned Income Tax Credit, veterans' compensation and other benefits, and federal retirement.[2]

CBO's "baseline" projections for the budget and economy, if no action is taken by Congress to change the law, follow:

- The deficit will shrink to an estimated $641 billion in fiscal year 2013 (or 4.0 percent of GDP), almost $500 billion less than the shortfall in 2012.
- Such fiscal tightening will lead to economic conditions in 2013 that will probably be considered a recession, with real GDP declining by 0.5 percent between the fourth quarter of 2012 and the fourth quarter of 2013, and the unemployment rate rising to about 9 percent in the second half of calendar year 2013.
- Because of the large amount of unused resources in the economy and other factors, the rate of inflation (as measured by the personal consumption expenditures, or PCE, price index) will remain low in 2013. In addition, interest rates on Treasury securities are expected to be very low next year.[3]

The term "fiscal cliff," used by Federal Reserve Chairman Ben Bernanke on February 29, 2012, in House testimony has come to connote frightening implications, compounded by Senator John McCain's assertions that defense department sequesters "would destroy the military" and cause an "inability to defend the nation."[4] Others counter that this is more "fiscal cliff hysteria"[5] than disaster and that the changes are more of a "fiscal slope, not a cliff"[6] because most of the cuts come on a monthly basis, many tax increases won't be paid until later, and Congress has time to work out various modifications to eliminate the risk many see of an eventual recession if nothing is done.

The United States currently spends over 40 percent of the combined military spending of the entire world. China spends only 7.9 percent, Russia 3.7 percent. Even if the complete sequesters were to go into effect, U.S. spending would still far outpace all other nations. While the blunt instrument of across-the-board cuts is considered acting "in an incredibly un-strategic manner, cutting both the good and the bad by the same portions with no planning,"[7] it is hardly catastrophic. Calling it such creates needless fears among our allies. The reductions in defense spending under the worst case sequestration, when viewed over the past 60 years of defense budgets, "would take the U.S. defense spending not to the bottom of the historic trough but the rough average of overall spending."[8] Such a drawdown actually is typical of the periods following wars.

Actually, many commentators hope that the "fiscal cliff" fears will provide an opportunity for a kind of "grand bargain" whereby the two houses of Congress and the presidential administration would be pressured to work out a reasonable compromise to achieve debt reduction in a realistic fashion that meets the needs of the nation both domestically and overseas, while creating economic conditions that will speed the recovery of the nation.

While Catholic teaching does not provide hard and fast answers for this current political and economic crisis, the overall responsibility of every elected office for the common good does dictate caution against political grandstanding and working towards a common search for a way forward. The lines of that agreement were spelled out in what the U.S. Catholic Bishops wrote to House members a year ago, before Congress failed to agree on a debt reduction plan:

> *A just framework for future budgets cannot rely on disproportionate cuts in essential services to poor persons. It requires shared sacrifice by all, including raising adequate revenues, eliminating unnecessary military and other spending, and addressing the long-term costs of health insurance and retirement programs fairly.*[9]

These moral criteria are rooted in Catholic moral principles for a just society, including the common good of the nation and the global community, the preferential love for the poor and vulnerable, distributive and contributive justice, intergenerational responsibilities, and progressive taxation, among others.

The Catechism notes, "It is incumbent on those who exercise authority to strengthen the values that inspire the confidence of the members of the group and encourage them to put themselves at the service of others."[10] Failure to reach agreement on issues so important to the well-being of the nation hardly inspires confidence in the U.S. citizenry and the world community.

Readers are referred in particular to the full text of the November 13, 2012 letter on sequestration from the U.S. Bishops to the Congress at www.usccb.org/issues-and-action/human-life-and-dignity/federal-budget/upload/sequester-letter-senate-2012-11-13.pdf *for detailed analysis.*

—Endnotes on back cover

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ENDNOTES

1 Congressional Budget Office, An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022, August 22, 2012, at http://www.cbo.gov/publication/43539 (accessed October 18, 2012).

2 Richard Kogan, How the Across-the-Board Cuts in the Budget Control Act Will Work, April 27, 2012, Center for Budget and Policy Priorities, at http://www.cbpp.org/cms/?fa=view&id=3635 (accessed October 18, 2012).

3 CBO, op. cit.

4 Cited in Peter W. Singer, Separating Sequestration Facts from Fiction, Brookings, September 23, 2012, p. 1, at http://www.brookings.edu/research/articles/2012/09/23-sequestration-defense-singer (accessed October 19, 2012).

5 Citizens for Tax Justice, Don't Buy Into the Fiscal Cliff Hysteria, Blog, August 23, 2012, at http://www.ctj.org/taxjusticedigest/archive/2012/08/dont_buy_into_the_fiscal_cliff.php (accessed October 19, 2012).

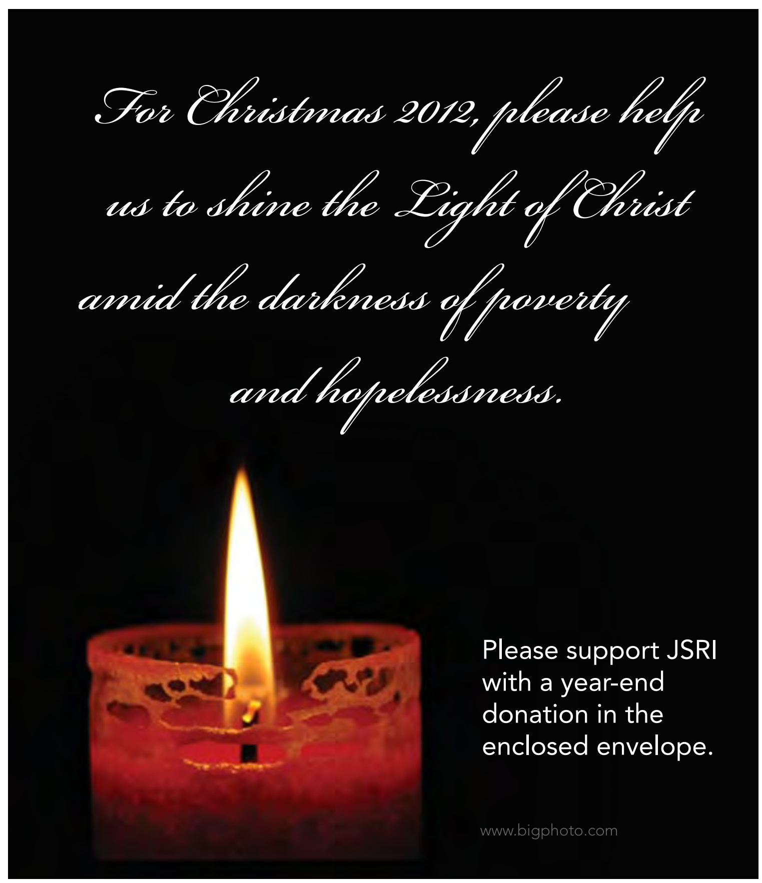
6 David Callahan, It's a Fiscal Slope, Not a Cliff, Policy Shop-Demos weblog, August 22, 2012, at http://www.policyshop.net/home/2012/8/22/its-a-fiscal-slope-not-a-cliff.html (accessed October 19, 2012).

7 Singer, op. cit., p. 17.

8 Ibid., p. 5.

9 Bishops Stephen E. Blaire and Howard J. Hubbard, Chairmen of USCCB Committees on Domestic Justice and Human Development and International Justice and Peace, Letter to U.S. House of Representatives, July 26, 2011. Also quoted in the fall 2012 edition of *JustSouth Quarterly*.

10 Catechism of the Catholic Church, no. 1917.



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