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Democrats Steer America Toward a "Fiscal Cliff"

The Democrat Senate during the first session of the 112th Congress (2011) was among the "laziest in 20 years," in terms of productivity (days and hours in session). Through the first 263 days of this year (through September 19), the Senate has been in session only 107 days, and Senators have gone to the floor to vote on just 65 days. Majority Leader Reid has indicated that he intends to put off many important issues until after the election—during the lame duck session. If the Senate were to meet every day between the elections and the end of the year -- including weekends, Thanksgiving, and Christmas -- it would have just 55 days to resolve a host of policies that could determine the path of America's economy.

Meanwhile the Federal Reserve continues to warn of a "fiscal cliff" and has called on Congress to act on major issues like the expiration of current tax policy and sequestration. And this Monday, September 17, the Federal Reserve Bank of San Francisco quantified the effect of uncertainty on the economy. In an Economic Letter they wrote, "had there been no increase in uncertainty in the past four years, the unemployment rate would have been closer to 6 percent or 7 percent than to the 8 percent to 9 percent actually registered."

The List of Unfinished Issues Is Long and Growing

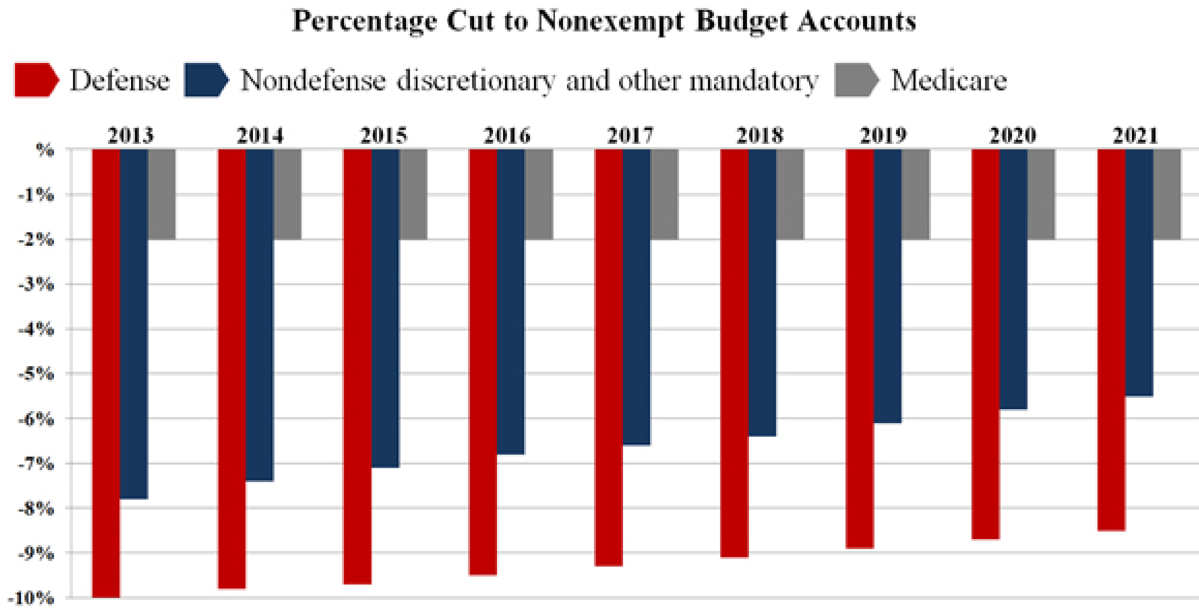
Among the many issues that must be addressed this year, but which Democrats have failed to act on or schedule:

Spending Provisions:

Appropriations Bills (equal to $1.047 trillion for one year)
The Senate has not passed a single appropriations bill this year. Without regular order on funding bills, Congress is expected to pass a six month continuing resolution that will fund the government through March 2013.

Sequester ($110 billion for one year)
The sequester resulting from the Budget Control Act is set to take effect in January 2013 for a savings of $1.2 trillion through 2021. Aside from safety net programs, most federal spending will be cut. Of the $1.2 trillion savings, 18 percent ($216 billion) is interest savings. The remaining

$984 billion is divided equally over nine years for an annual cut of about $110 billion split evenly between defense (budget function 050) and non-defense spending.



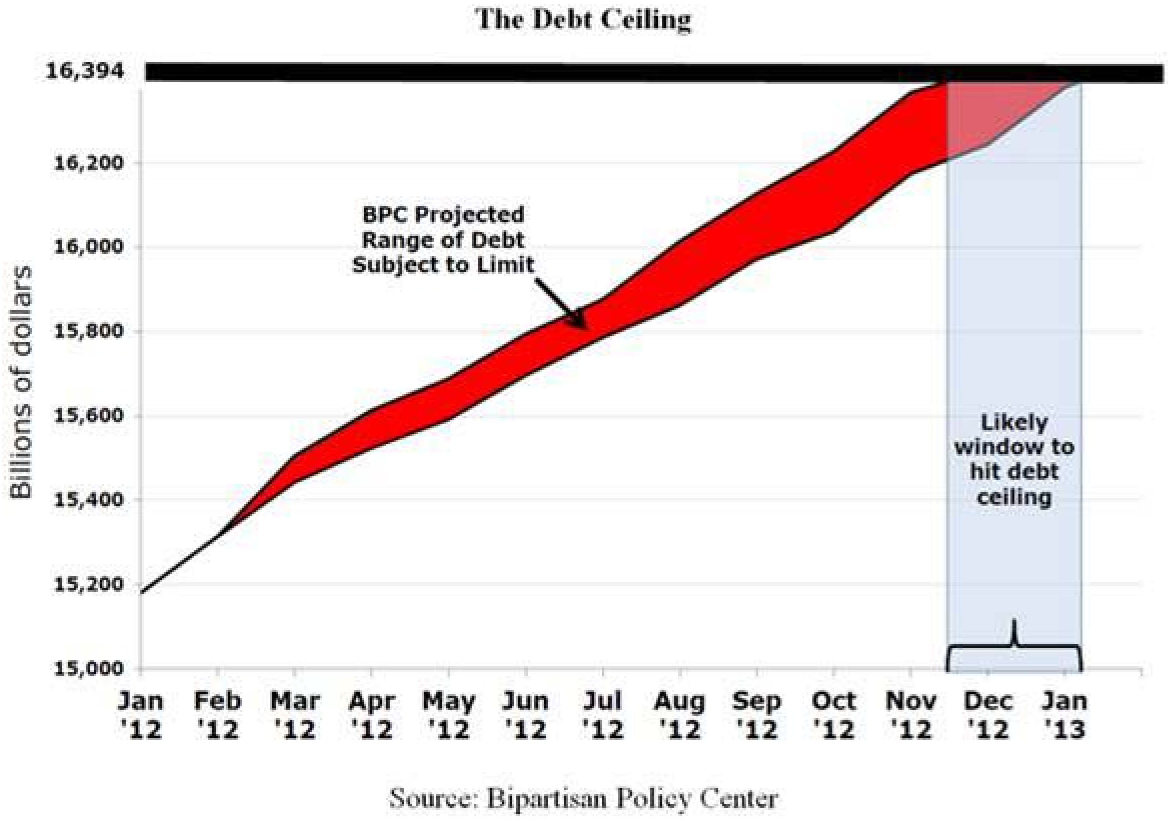
- *Defense.* $55 billion cut, equal to approximately 10 percent in 2013.
    - Defense discretionary: $54.599 billion cut (9.4 percent)
    - Defense mandatory: $0.068 billion cut (10 percent)
- *Non-Defense.* All non-exempt budget accounts will be cut by the percentage necessary to achieve a $55 billion cut. Reduction to most of the Medicare program is capped at two percent.
    - Nondefense discretionary: $38.021 billion cut (8.2 percent)
    - Medicare: $11.085 billion cut (2.0 percent)
    - Indian and community health: $0.027 billion cut (2.0 percent)
    - Other mandatory: $5.443 billion cut (7.6 percent)

Sustainable Growth Rate/"Doc Fix" ($11 billion for one year)
The latest extension of the Medicare physician fee "doc fix" expires at the end of the year. Without congressional action, physician reimbursements will be reduced by 27 percent under the sustainable growth rate mechanism.

Unemployment Benefits ($38.5 billion for one year)
The emergency Unemployment Compensation program expires at the end of the year. Additionally, the temporary federal financing of the Extended Benefit program and the option that allows states to use three-year lookback calculations to determine eligibility expires at the end of the year.

Temporary Assistance for Needy Families (TANF)
The TANF program expires September 30, 2012. Recent extensions of the program have been coupled with extensions of unemployment benefits and the payroll tax holiday.

Debt ceiling (~$1 trillion)
The United States' current debt ceiling is $16.394 trillion. The debt stands at just over $16 trillion. Estimates are that President Obama will ask to increase the debt ceiling for a fifth time around December 2012. Treasury Secretary Geithner has indicated that the debt ceiling will be reached "significantly after the end of the fiscal year, but before the end of the calendar year." An increase of another $1 trillion would pay for one more year of deficit spending. Any increase of the debt limit would need a corresponding amount of spending cuts.



Tax Provisions:

2001/2003 Tax Rates ($177 billion for one year)
At the end of the year, the following 2001/2003 tax provisions will expire:

- Lower personal income tax rates for all taxpayers
  - Current rates: 10%, 15%, 25%, 28%, 33%, 35%
  - Rates without action: 15%, 28%, 31%, 36%, 39.6%;
- 10 percent bracket for low-earners would increase to 15 percent;
- Marriage Penalty relief;
- Dividends rate of 15 percent would increase to as high as 45 percent;
- Capital gains rate would rise from 15 percent to 23.8 percent (including Obamacare tax increases);
- Adoption credit of $10,000, plus $10,000 exclusion;
- Dependent care credit of $3,000;
- Credit for employer-provided child care;

- Education savings accounts;
- Personal exemption phase-out for high earners will return, as will the Pease itemized deduction phase-out for high earners.

Alternative Minimum Tax ($190 billion for 2012 and 2013)
The Alternative Minimum Tax will hit more than 31 million taxpayers. The cost associated with the AMT includes a fix for 2012, which was never enacted into law, as well as a fix for 2013.

Death Tax ($31 billion for one year)
Estate and gift taxes will increase from a top rate of 35 percent to 55 percent, and the exemption will drop from $5 million to $1 million. This tax increase will affect 55,200 more families than it did last year.

Business Tax Extenders ($26 billion for one year)
Business tax extenders including the R&D credit, 100 percent bonus depreciation (it will be 50 percent in 2012 and zero in 2013), work opportunity tax credit, and others end this year.

Policy Provisions:

Budget
The Senate Budget Committee met in April to mark up the fiscal year 2013 budget. Senate Democrats essentially cancelled the mark up by only allowing opening statements. No amendments or votes were allowed. The Budget Committee Chairman announced the committee would postpone the mark up until after the election. The statutory deadline of April 15 for a budget resolution has passed.

National Defense Authorization Act
Major issues dealing with the national security of the United States are set forth in the annual defense bill, which Congress has passed every year since 1961. This year the issues are even more daunting than usual. A looming sequester of approximately $55 billion waits next year. The defense bill will also have to deal with issues related to the nuclear complex, TRICARE fees, shipbuilding, end-strength levels, and major programs such as missile defense. Country specific issues relating to Syria, Iran, and North Korea may also arise.

Foreign Intelligence Surveillance Act (FISA)
The FISA Amendments Act of 2008 sunsets at the end of the year. The Director of National Intelligence has testified that reauthorizing this law is his highest legislative priority. The official legislative proposal from the Administration seeks an extension to June 1, 2017, but Senate Democrats have reported legislation that sunsets FISA in 2015. FISA provides a statutory framework for the use of electronic surveillance and other intelligence tools in the context of foreign intelligence gathering, particularly within the United States.

Midnight Regulations
According to one study, the number of regulations in the final quarter of election years, known as midnight regulations, averages 17 percent higher than the same time in non-election years. According to one estimate, there are at least 25 significant regulations that could be finalized at

the end of the year at a cost to the economy of $220 billion. Potential opportunities for Congress to review major regulations by the end of the year include several pending rules at the Labor Department to be finalized by the end of the year. These include OSHA “fall protection” regulations at a cost of $1.5 billion; controversial workplace dust rules at a cost of $5.5 billion; and a new application of the Fair Labor Standards Act to domestic service at a cost of $122 million and 1,706 jobs.

Do-Nothing Senate Democrats

Coming off one of its least productive years in modern history, the Senate has set a snail’s pace so far in 2012.

- In 2011 the Senate spent 195 days out of session — 53 percent of the year.
    - The days it was in session, the Senate averaged 6.5 hours of work, the second lowest since 1992.
    - Compared to 2009, the number of amendments offered plummeted 55 percent, and the number of roll-call votes dropped 40 percent.
- So far in 2012, the Senate has taken just 193 recorded votes – just two-thirds of what it took by this date in 2009.
- It has been more than three years since the Senate last passed a budget.
- Senator Reid has “filled the tree” on amendments 65 times – more than double the number by the four previous majority leaders combined.

The Democrats who control the Senate have been unusually sluggish for more than a year. By wasting time on messaging instead of governing, Democrats have shown themselves unwilling to lead. America faces a $16 trillion dollar debt, four straight years of trillion-dollar deficits, and unemployment over eight percent for 43 straight months. After this week, the Senate isn’t expected to meet again for two months. Senate Majority Leader Harry Reid may want to run out the clock until November, but the American people deserve better from their elected representatives.