

CLIFF DIVING

What the Fiscal Cliff Deal Didn't Solve



AP Photo/Charles Dharapak

Dashiell Bennett 7:19 AM ET

The best thing you can say about the New Year's Day fiscal cliff deal is that it's unlikely to hurt the U.S. economy. Unfortunately, it does almost nothing to help it. Congress may have avoided the "fiscal cliff," but the economic issues that created this situation in the first place are far from being resolved.

First, let's look at what they did do. The budget bill passed last night raises the top marginal tax rate for people making more than \$400,000 a year to 39.6 percent (the level it was under President Bill Clinton); raises the capital gains tax rate for those same people to 20 percent; makes the Bush-era income tax rates, including the Alternative Minimum Tax, permanent for everyone below that level; raises the estate tax rate to 40 percent (but raises the threshold to only include estates worth \$5 million or more); and extends emergency unemployment benefits for one more year. Oh, and it includes an eight-month extension of the farm bill, temporarily avoiding an increase in milk prices. (Update: And an extension of wind farm tax credits.)

All told, these tax changes will raise about \$620 billion in new revenue over the next decade. That won't even make a small dent in the annual budget deficit. Those increases also come with no new spending cuts. Rather than

reach an agreement on the automatic sequester that was set to happen on January 1, it merely delayed those cuts until late February, right about the time that a vote will be required on raising the debt ceiling.

So it's easy to see why, despite averting near disaster, no one is happy with this bill. Here are the other things it doesn't do: It doesn't actually fix the "cliff," since as we said, billions in spending cuts will still need to be negotiated in the next few weeks—or will take effect automatically without another deal. **It doesn't fix the debt ceiling problem**, which was one of the President's original conditions for a bargain. A failure to raise the debt limit and thereby force the Treasury into default will do way more damage to the global economy than the cliff would have. That means another showdown in a matter of weeks—one that Barack Obama vows not to back down from. (Liberals are trying not to get their hopes up on that.)

It also doesn't address the payroll tax, which was lowered by 2 percent in 2010, and will now go back up in 2013. It's the one tax that affects nearly every American (anyone with a job, that is) and will be felt immediately, as take home pay—and consumer spending—will fall with the first paychecks of the year. This is probably the most painful "non-action" taken on the cliff, yet extending that holiday was never even considered by Congress.

Worst of all, the deal does almost nothing to actually lower the deficit. All of these budget fights of the last four years have revolved around political calls to lower that nation's debt. The fiscal cliff was created as way out of the last debt ceiling fight in 2011, and was supposed to goad the two parties to strike a real "grand bargain" that would tackle our ballooning debt payments. (Even though there's little evidence that investors care about our debt or that austerity will actually fix it. If debt was all that mattered, going over the cliff wouldn't have been a problem.) Well, the cliff didn't work, and another debt fight will happen again before the first quarter of the year is even out. We may have temporarily avoided a rather painful austerity crunch, but all Congress really did was put it off a little longer.

Finally, because Congress spent all of its time since the November election fighting over this non-deal, it has neglected several other important issues. Late last night, the House refused to vote on a \$60 billion relief package for areas affected by Hurricane Sandy, meaning that much-needed money will not show up at least until the new Congress convenes later this week. That bill may eventually get worked out, but it wasn't a good way to end the 112th Congress. Or considering their record-level of inaction and incompetence, perhaps it's the perfect way.

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