Tax deal delays finding solution to rising deficit

By Don Lee
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WASHINGTON â€" The tax deal struck by President Obama and congressional Republicans reflects an enduring political reality: Regardless of partisan divisions or eventual consequences, fear of the present almost always trumps fear of the future. Forced to choose, leaders in Washington, D.C., kick long-term problems down the road.

Less than a week after a bipartisan commission said severe spending cutbacks were needed to avert a potentially dangerous surge in the deficit, Obama and Republican leaders announced agreement on a two-year plan that economists say would add $900 billion to the deficit.

And, far from being temporary, the record suggests the tax breaks and their negative impact on the deficit could continue for years.

Senate leaders planned to begin debate as soon as Thursday as rank-and-file Democrats warmed to the deal.

Democrats still were angry about what they viewed as Obama's capitulation to GOP demands to preserve Bush-era tax cuts for the wealthiest Americans and exempt estates worth as much as $10 million from a revived inheritance tax.

But lawmakers said the magnitude of the concessions Obama won came into sharper focus as the White House highlighted independent forecasts predicting the package could create as many as 2.2 million jobs next year.

"Members are more open today as they read the analyses of this package," said Illinois Sen. Dick Durbin, the No. 2 Senate Democrat. Citing prominent liberals such as John Podesta, head of the Center for American Progress, and Robert Greenstein, executive director of the Center on Budget and Policy Priorities, who endorsed the plan, Durbin said, "These are people that progressives respect and go to, and they've said positive things."

Vice President Joseph Biden faced a far tougher crowd while trying to sell the deal in the House. During a two-hour meeting, dozens of lawmakers interrogated him about the deal â€" almost all speaking in opposition, participants said.

"There remain very serious reservations on the House side," said Rep. Chris Val Hollen, D-Md. "I think that there's still a very serious question whether this package can pass in the form it's in now."

Administration economic officials argued for passage of the compromise.

"Failure to pass this bill in the next couple of weeks would materially increase the risk that the economy would stall out, and we would have a double dip" recession, warned Lawrence Summers, director of the National Economic Council.

But outside analysts were skeptical about the long-term outlook.

"The 'compromise' shows that policymakers, for the most part, have almost no intention of actively pursuing fiscal austerity, in our view," economists at Bank of America Merrill Lynch said this week.

"Each side is basically getting what it wants. This may aid the recovery in the short term, but raises concerns over the nation's long-run fiscal sustainability."

While supporters argued that the tax breaks were authorized only on a temporary basis, economists noted that dozens of special tax provisions reach expiration dates every year.

Many are extended quietly â€” sometimes at the behest of interest groups and sometimes because large segments of the public have come to expect them.

"It's absolutely a worry," said Roberton Williams, a senior fellow at the nonpartisan Tax Policy Center. "If you just go by history, these things come up every year, and Congress renews them every year."

Obama has said repeatedly that the country cannot afford to continue tax cuts for the wealthy, but the president agreed to extend current rates â€” as well as those for all Americans â€” for two years.

In exchange, Republicans agreed to support a 13-month extension of aid for long-term unemployed workers and a one-year reduction in Social Security payroll taxes. Those provisions will cost an estimated $56 billion and $120 billion, respectively.

The White House says this payroll tax cut won't hurt the Social Security fund because the deal would provide a transfer of general revenue into the fund for the elderly.

But that simply means the government will be moving money from the left hand to the right â€” money it receives only by deficit spending.

"It's all going to be put on the government credit card," Williams said.

Moreover, while touted as a one-year measure, the payroll tax cuts will come up for renewal as the 2012 presidential campaign shifts into high gear.

"It's very hard to imagine either party [agreeing] to increase payroll taxes at the beginning of an election year," said Robert Shapiro, an economic adviser to former President

Clinton and chairman of consulting firm Sonecon. More likely, he said, the payroll tax would revert to the current 6.2 percent rate gradually.

As for renewing extended unemployment benefits when they expire, he said, "that'll be a fight."

Underlying the Obama-GOP deal is the belief that the economy and the job market, with unemployment at 9.8 percent, need further help.

The payroll tax cuts, extended unemployment benefits and other middle-class tax breaks, such as credit for college tuition, would amount to a new stimulus program of around $200 billion â€" about one-fourth of Obama's Recovery Act package passed in early 2009.

Private economists widely agree the compromise would boost consumer spending and increase economic growth next year â€" in the range of 0.5 percentage point to a full percentage point.

By one rule of thumb, a full percentage-point increase in economic output would translate into 1 million jobs and virtually ensure that the economy would not fall back into recession, a persistent worry until recently.

"I think we would have made our way through without an additional stimulus, but this seals the deal," said Mark Zandi, chief economist at Moody's Analytics, which sees unemployment dropping to 8.6 percent next year.

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is included in this report.