

# Democrats, Republicans work toward “fiscal cliff” deal

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The Obama administration and top Republicans and Democrats in Congress continued to discuss options Friday for legislation to avert the so-called “fiscal cliff.” A meeting between the president and the Democratic and Republican leaders in the House and Senate did not lead to a definite agreement, but negotiations continued on a possible deal.

In a statement following the meeting, Obama said Senate Majority Leader Harry Reid (Democrat of Nevada) and Senate Minority Leader Mitch McConnell (Republican of Kentucky) were working on a proposal. Calling the meeting “constructive,” Obama insisted, “We’ve got to get this done.” Reid called the meeting “very positive.”

White House officials, including Treasury Secretary Timothy Geithner, also held a private conference call with corporate CEOs Friday evening to discuss the current state of negotiations.

Obama said that if the Senate leaders were not able to reach an agreement, he would call for an up-or-down vote on his own proposal, which would extend tax cuts for households earning less than \$250,000 and keep in place federal extended unemployment benefits. It is doubtful that this proposal, if it got through the Democratic-controlled Senate, would be passed by the Republican-controlled House of Representatives.

The “fiscal cliff” is an arbitrary deadline that includes the expiration of Bush-era income tax cuts, federal extended unemployment benefits, and payroll tax cuts that affect the majority of workers. It also includes automatic spending cuts to domestic spending and the military.

The Obama administration and the Republicans have sought to create a crisis atmosphere around the “cliff” to facilitate passage of highly unpopular measures. These efforts will continue in the new year if no

comprehensive agreement is reached by December 31.

The most significant immediate consequence of the fiscal cliff is the end of federally funded extended unemployment benefits for more than 2 million long-term jobless workers. This socially devastating prospect is treated by the two big business parties as a bargaining chip. Continuing these benefits was not part of a Republican proposal in the House earlier this month, and it may not be included in any final agreement.

An end to this program would halt cash benefits for a million people over the next several months in addition to the 2 million-plus who would be impacted immediately. “Other consequences of going over the fiscal cliff won’t be felt for some time,” noted Christine Owens, director of the National Employment Law Project, “but losing Emergency Unemployment Compensation will deliver an immediate and severe blow to people who are already down.”

According to the *New York Times*, citing congressional officials, one compromise plan under discussion would extend all expiring Bush income tax cuts for families with less than \$400,000 in income (as compared to the official proposal from Obama to extend tax cuts for incomes up to \$250,000).

In addition, the *Times* writes, “Some spending cuts would pay for a provision putting off a sudden cut in payments to medical providers treating Medicare patients. The deal would also prevent an expansion of the alternative minimum tax to keep it from hitting more of the middle class. It would extend a raft of expired business tax cuts, like the research and development credit, and would renew tax cuts for the working poor and the middle class included in the 2009 stimulus law [the payroll tax cuts]. The estate tax would stay at current levels.”

There is no mention of unemployment benefits, and all spending cuts would remain in place.

Highlighting the class character of the discussions is the fact that the estate tax is emerging as a central issue. The estate tax, currently at 35 percent, affects a tiny fraction of the population—those leaving behind estates with a value of more than \$5.12 million dollars.

The tax would rise to 55 percent on estates over \$1 million if nothing is done by the end of the year. Obama has proposed returning the tax rate to what it was in 2009—45 percent, with an exemption of up to \$3.5 million.

According to a report in the *Hill*, “Addressing the estate tax rate could be the key to getting Republican and centrist Democratic support for higher income taxes”—that is, for the expiration of tax cuts on the super-rich. There is also talk of keeping dividend tax rates at their current levels—again affecting only a small layer of wealthy investors.

As for spending, if the across-the-board cuts are allowed to go forward into next year, these will likely be replaced early in the year by proposals from both parties targeting Medicare, Medicaid and Social Security.

Any increase in income taxes on the wealthy will be used as a fig leaf by the Obama administration for further devastating cuts in these programs, aimed ultimately at dismantling the principal health care and retirement programs upon which tens of millions of people depend.

Earlier this month, the Obama administration presented a proposal that included \$700 billion in cuts from health care and other social programs over the next decade. This is on top of over \$1 trillion in cuts passed last year. Obama has boasted that the cuts already approved reduce non-military discretionary domestic spending as a percentage of GDP to the lowest level since 1962.

Speaking on the “Today Show” Friday morning, Charles Schumer, the third-ranking Senate Democrat, said he was “hopeful for a deal that avoids the worst parts of the fiscal cliff, namely taxes going up on middle-class people.” He said nothing about the expiration of unemployment benefits.

Schumer added, “We know we have to cut some of the mandatory programs and do other cuts, but it has to be accompanied with revenues... the problem has not

been Democrats being willing to do cuts—we did a trillion of them last year. We’re willing to do more this year.”

Whatever tax agreement is worked out by the end of the year, moreover, will likely be replaced next year by a “comprehensive tax reform” supported by both parties. This refers to the reduction of corporate and income taxes, combined with the elimination of deductions that benefit many working people.

Behind the smoke and mirrors of the “conflict” between the Democrats and Republicans over the fiscal cliff is a common agreement that the working class must pay for the capitalist crisis through a drastic reduction in social programs and living standards.



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