Fiscal Cliff Repercussions

Now that President Obama and most of his key congressional allies are safely re-elected and the so-called "fiscal cliff" negotiated, the full consequences of the most recent elections are coming into view. Despite repeated assurances he would not raise taxes on any but the wealthiest Americans, the president (with the grudging support of many congressional Republicans), has — before even being sworn into his second term in office — enacted massive tax hikes that will affect almost every working American.

The move has come as a surprise to a majority of Americans, and especially Obama supporters, who weren't paying close attention last fall when politicians and the media made it clear that no one in Washington had any intention of preventing one major New Year's tax hike: the expiration of a two year-old "tax holiday" (i.e., tax cut) enacted by none other than President Obama himself, which lowered the rate of paycheck "withholding" for Social Security from 6.2 to 4.2 percent. Everyone inside the Beltway knew, of course, and neither party was prepared to say boo about it. As the Associated Press warned back on October 12, in a piece apparently noticed by very few:

> President Obama isn't talking about it, and neither is Mitt Romney. But come January, 163 million workers can expect to feel the pinch of a big tax increase regardless of who wins the election.
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> A temporary reduction in Social Security payroll taxes is due to expire at the end of the year and hardly anyone in Washington is pushing to extend it. Neither Obama nor Romney has proposed an extension, and it probably wouldn't get through Congress anyway, with lawmakers in both parties down on the idea.
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> Even Republicans who have sworn off tax increases have little appetite to prevent one that will cost a typical worker about $1,000 a year, and two-earner family with six-figure incomes as much as $4,500.
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> Republicans question whether reducing the tax two years ago has done much to stimulate the sluggish economy. Politicians from both parties say they are concerned that it threatens the independent revenue stream that funds Social Security.
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> They are backed by powerful advocates for seniors, including AARP, who adamantly oppose any extension.
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> ''The payroll tax holiday was intended to be temporary and there is strong bipartisan support to let that tax provision expire,'' said Senator Orrin Hatch of Utah, the top Republican on the Senate Finance Committee. ''The continued extension of a temporary payroll tax holiday has serious long-term implications for Social Security and, frankly, it's not even clear that it has helped to boost our ailing economy.''

Of course, this amounts to a tacit admission that exactions for Social Security and Medicare are simply spent, not set aside in any kind of trust fund for deserving retirees. Official Washington, desperate for tax monies to continue funding its various boondoggles and wealth redistribution schemes, is essentially raising taxes on most lower and middle-class working Americans at a time when the economy is still in the doldrums.

And many Obama supporters aren't happy at the rude awakening. "My boyfriend has had a lot of expenses and is feeling squeezed right now, and having his paycheck shrink really didn't help," wrote one disgruntled Democrat on a comment feed for the website DemocraticUnderground.com." Wrote another, "What happened that my Social Security withholding's in my paycheck just went up? My paycheck just went down by an amount that I don't feel comfortable with. I guarantee this decrease is gonna' hurt me more than the increase in income taxes will hurt those making over 400 grand. What happened?"

What happened is that yet another "No New Taxes" pledge has been cast by the wayside by a president whose top priority, as always, is to appease Washington insiders and the special interests groups (like the AARP) who control them. It is certainly instructive to note that, while congressional Republicans mounted a fierce and at least halfway principled attempt to avoid raising taxes directly on America's wealthiest (the hated "two percent"), not one of them, so far as this author is aware, uttered a whisper of concern over the looming tax hike to be inflicted on the rest of us. The result? Taxes went up sharply for those required to pay the Social Security tax on all earnings (those earning less than $113,700.00 per year; any amount over that is not assessed for Social Security purposes) and for those individuals earning more than $400,000.00 per year; the upper middle class earners between those two figures stand to benefit the most, although the toll to be taken by scrapped exemptions and closed loopholes has yet to be fully reckoned.

Republicans in Congress, exhausted by the fiscal cliff fiasco, have nevertheless proclaimed that further tax increases are absolutely, positively off the table. "The tax issue is finished, over, completed," said Republican Senator Mitch McConnell after the fiscal cliff vote. "That's behind us. Now the question is what are we going to do about the biggest problem confronting our country and our future, and that's our spending addiction."

Strong words, but official Washington has no intention of making meaningful spending cuts anytime soon. House Minority Leader Nancy Pelosi is already signaling an intention to raise taxes further in the near future. Calling the new revenue secured by the fiscal cliff deal "significant" but "not enough," Pelosi told CBS' "Face the Nation" that "the President had originally said he wanted $1.6 trillion in revenue. He took it down to 1.2 as a compromise in this legislation. We get $620 billion dollars, very significant, high-end tax, changing the high-end tax rate to 39.6 percent, but that is not enough on the revenue side." And President Obama, speaking of the looming fight to raise the debt ceiling yet again, claimed to recognize a need for spending cuts, but that any cuts "must be balanced with more reforms to our tax code."

It is not hard to predict the outcomes of both the debt ceiling debate and the fight over spending cuts, which was tabled for a few weeks to ram through the fiscal cliff tax hikes: The debt ceiling will be raised, in exchange for promises to make meaningless cuts in government spending in the comparatively distant future (i.e., when a new Congress is in session), and no meaningful cuts in government spending will be enacted. However, it is very likely that, as the economy slips back into recession and the federal deficit continues to spiral out of control, further tax hikes will be instituted as the political classes make yet another desperate bid to shield their own from the austerities they have inflicted upon the rest of us.

The sordid cycle of tax, spend, and borrow will not change until the American people demand it. In the meantime, we Americans who have elected the leadership in Washington will get the government we paid for, and will continue to pay for the government we get. And pay, and pay, and pay.