'Fiscal cliff' imperils recovery

Analysis predicts 9.1% unemployment, 0.5% slowdown

By Andrew Taylor
Associated Press

WASHINGTON — Austere "fiscal cliff" tax increases and federal spending cuts set for the end of the year would send the economy back into recession and cause a spike in the jobless rate to 9.1 percent by next fall, congressional budget analysts said Thursday.

The tax and spending changes, which a lame-duck session of Congress will dig into next week, would cut the federal deficit by $503 billion through next September, said the Congressional Budget Office report.

But the adjustments also would cause the economy to shrink by 0.5 percent next year.

The report, updating an analysis from last May, comes as a newly re-elected President Barack Obama and Congress seek ways to avert or at least ease possible damage from the scheduled changes.

All sides are promising cooperation, but many difficult decisions await, and the politics of raising tax revenue and cutting federal benefits programs is exceedingly tricky.

The new study estimates that the nation's gross domestic

See ANALYSIS, Page 3A

ANALYSIS

Continued from Page 1A

product would grow by 2.2 percent next year if the Bush-era tax rates were extended and would expand by almost 3 percent if Obama's 2 percentage-point payroll tax cut and current jobless benefits for the long-term unemployed are extended.

All sides want to avoid the automatic austerity plan, which is a one-two punch of expiring tax cuts and major across-the-board spending cuts to the Pentagon and domestic programs. It is the looming punishment for previous failures of a bitterly divided Congress and White House to deal with the government's spiraling debt or overhaul its unwieldy tax code.

Bush tax cuts

The largest component of the changes — dubbed a "fiscal cliff" to be avoided if possible — comes with the expiration of tax cuts enacted in 2001 and 2003 and extended two years ago. Extending the full range of Bush tax cuts would cost the government $330 billion through the September end of the 2013 budget year.

Republicans want to temporarily renew all of the Bush tax cuts, but Obama wants to hike the top two income tax rates to Clinton-era levels. The top tax rate is now 35 percent; Obama would raise that to 39.6 percent. If the rival sides can't enact a bargain by January, the full menu of tax cuts would expire.

Payroll taxes

The spending cuts would be imposed as a consequence of the failure of last year's deficit-reduction "supercommittee" to reach an agreement. There are other elements, chiefly a 2 percentage-point cut in payroll taxes orchestrated by Obama and benefits for the long-term jobless that would disappear.

Extending the payroll tax relief and renewing the long-term unemployment benefits would add $108 billion to the deficit through September. It's unclear whether lawmakers will seek to avert that in the upcoming deal-brokering.