

The Commentator
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All hail (and fear) America's middle class
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All hail America's middle class, the vast majority of families who apparently must never pay a penny more in federal taxes or receive a penny less in services. All hail them; all fear them; all bow before them.

That's the message behind Washington's successful effort to strike a deal that averted the "fiscal cliff" but largely postponed the serious work of reining in long-term budget deficits for some future date. That, more importantly, is the message behind the commitments that both parties have made to the middle class in recent years.

What neither President Obama nor congressional leaders nor most rank-and-file lawmakers of both parties will do is tell Americans the truth about our fiscal challenge – that it's the vast middle class that must pay more and accept less because they pay most of the taxes and they get most of the benefits.

The longer that America's leaders continue their middle-class kowtowing, the longer they will avoid the steps needed to restore fiscal sanity, raising risks of a short-term economic crisis and leading to long-term U.S. decline.

America's middle class – the backbone of our country, the engine of our economy, the source of our national strength. They're the men and women who build our roads and work in our factories and teach our kids – and, by the way, elect our leaders.

They are neither poor nor rich. They're the 85 percent of Americans who are above the official poverty "threshold" – which is about \$23,000 a year for a family of four. They're also the families that make less than... well... some big amount – \$1 million? \$500,000? \$250,000? (We have no official definition of "rich.")

As everybody knows, the "fiscal cliff" was the combination of tax increases and spending cuts that were scheduled to take effect around January 1st unless President Obama and Congress cancelled them.

Taxes would have risen for the vast majority of Americans, while across-the-board budget cuts would have hit defense and domestic "discretionary" spending – the category that funds education, environmental protection, food safety, research, science, housing, and other "non-entitlement" programs.

In Washington, nobody wanted to go "over the cliff." Everybody said they wanted to replace the cliff changes with a rational plan to reduce long-term deficits. In fact, policymakers had constructed the cliff months earlier with that goal in mind – figuring that, when confronted with

it, they would force themselves to replace it with something more rational and more fiscally significant.

Confronted, however, with basic fiscal arithmetic – with the sheer facts of who gets what and who pays what – they blinked.

Nobody wants to raise taxes, not just now but apparently forever, on middle class Americans. Nor apparently do policymakers want to force middle class Americans to accept fewer public benefits or services.

Under the White House-congressional deal, income taxes will rise only for couples that make over \$450,000 a year. Taxes on capital gains and dividends will rise for those taxpayers as well. Various exemptions will begin to phase out for couples making over \$300,000 a year. So, the burden of permanent changes in the income tax will fall only on the top two percent of earners.

To be sure, the deal ends a temporary cut in payroll taxes (which workers at all levels pay) that was designed to boost a weak economy, but that just restores payroll taxes to their normal level; it doesn't raise them.

On spending, the two sides agreed to delay the across-the-board cuts (known as “sequestration”) for two months, with the questionable expectation that they will find a more thoughtful substitute for them in the meantime.

But, dig deeper in the fiscal debate and you'll find even more evidence of political kowtowing to the middle class.

In the negotiations, Republicans had sought to replace the Consumer Price Index – the tool for calculating, for instance, annual cost-of-living adjustments for Social Security and changes in tax brackets – with a more accurate inflation measure known as the “chained CPI.” Democrats refused, noting the effects on Social Security benefits – even though such a change should be, politically speaking, the easiest way to generate significant budget savings by adjusting federal benefits.

Worse, all sides seem to agree that, in any deficit-cutting effort, the President and Congress will not adjust Social Security and Medicare benefits for anyone who's at least 55 years old. Nobody – whether rich or in the vast middle class – will have to sacrifice one penny once they've reached that age, even though no one in America is eligible for Social Security until 62 or Medicare until 65.

Moreover, even those who acknowledge that real long-term deficit reduction will necessitate reforms to Medicare and Social Security are reluctant to say that that will mean some changes in benefits.

America is on an unsustainable budget path, with debt that will surge in the coming decades to such levels that, at some point, our lenders will question whether we'll be able to meet our obligations to them and, eventually, stop lending to us.

The surging red ink is driven by the aging of America's population and rising health care costs – which, together, will greatly increase our federal health and retirement obligations – and revenues that will not offset those obligations.

Overwhelmingly, middle class Americans receive those benefits and pay the taxes to support them. We can't address our long-term fiscal problems without forcing the middle class to receive less, pay more, or probably both.

Those who suggest otherwise are kidding themselves – and us.

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