



The Looming “Fiscal Cliff”

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About Me...

- § New to KU – I joined in January 2012
- § Spend 95% of my time in Washington – 5% in Kansas
- § In my Washington role I'm bi-partisan; I'm not an "R" or a "D" – I'm a Jayhawk!
- § Before KU, I represented the University of Massachusetts for 5 years
- § Worked for 3 Massachusetts Governors
- § Congressional staffer on the House Committee on Education and the Workforce
- § Former Sergeant of Marines & former Naval Officer
- § Born and raised in Swarthmore, Pennsylvania

Sequestration, "Fiscal Cliff", "Taxmageddon"



Please **STOP** me if you have a question.

What Washington Says Will Happen. We're Going Off the Cliff!!!



What Will Really Happen.



What's Happening Right Now.

§ President's objective: **Reduce the Deficit and have a Balanced Budget**

1. Maintain Entitlement Programs
2. Tax Increase for Americans earning over \$250K
3. Extend current tax rates for middle income families
4. Total of \$1.6T in tax increases over 10 years

§ GOP's objective: **Reduce the Deficit and have a Balanced Budget**

1. Reform / Strengthen Entitlement Programs
2. Extend Bush-Era / Obama-Extended Tax Rates for all Americans
3. Tax Reform



How Did We Get Here?

- § IMPORTANT – this “crisis” was created by Congress
- § Budget Control Act (BCA) of August 2011



- § The Super Committee was to identify \$1.5T in cuts from the Federal Gov't – they failed
- § Triggering “Sequestration”; across the board cuts of \$1.2T
- § When? – Wednesday, 2 January 2013

What Exactly Happens After December 31, 2012?

Part 1: Tax Increases – it is law

(Here's What will Go Away)

§ 2001 - 2003 (Bush Era & Obama Extended) Tax Cuts
Expire - \$203B

§ 2009 Stimulus; -- \$10 billion

§ Payroll Tax Holiday - \$115 billion

§ **AMT Patch - \$114 billion**

§ Tax Extenders - \$109 billion



What Exactly Happens After December 31, 2012?

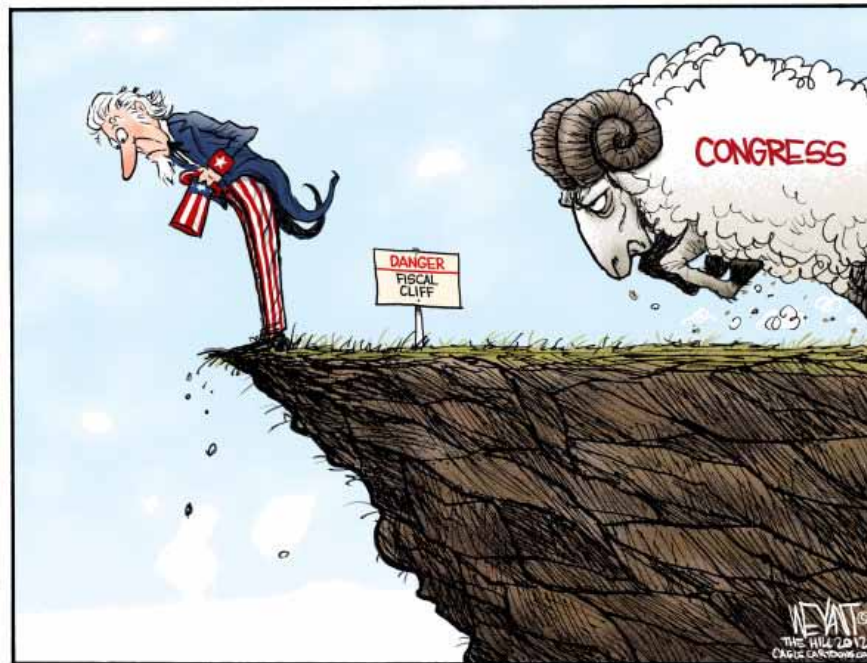
Part 2: Federal Spending Cuts for FY13

- § The “sequester” takes affect – a \$110 billion cut
- § Budget Caps are implemented for Federal agencies -- \$78 billion cut
- § “Doc Fix” – Medicare cuts to doctors by almost 30%; \$14 billion cut
- § Unemployment Insurance expires; \$39 billion cut



Will This Really Happen?

I don't think so.



Here's why...

Fiscal Cliff = Instant Recession.

§ The Economy will shrink by 0.5 percent in 2013

§ Unemployment rate would soar to 9.3% — up from 7.7%

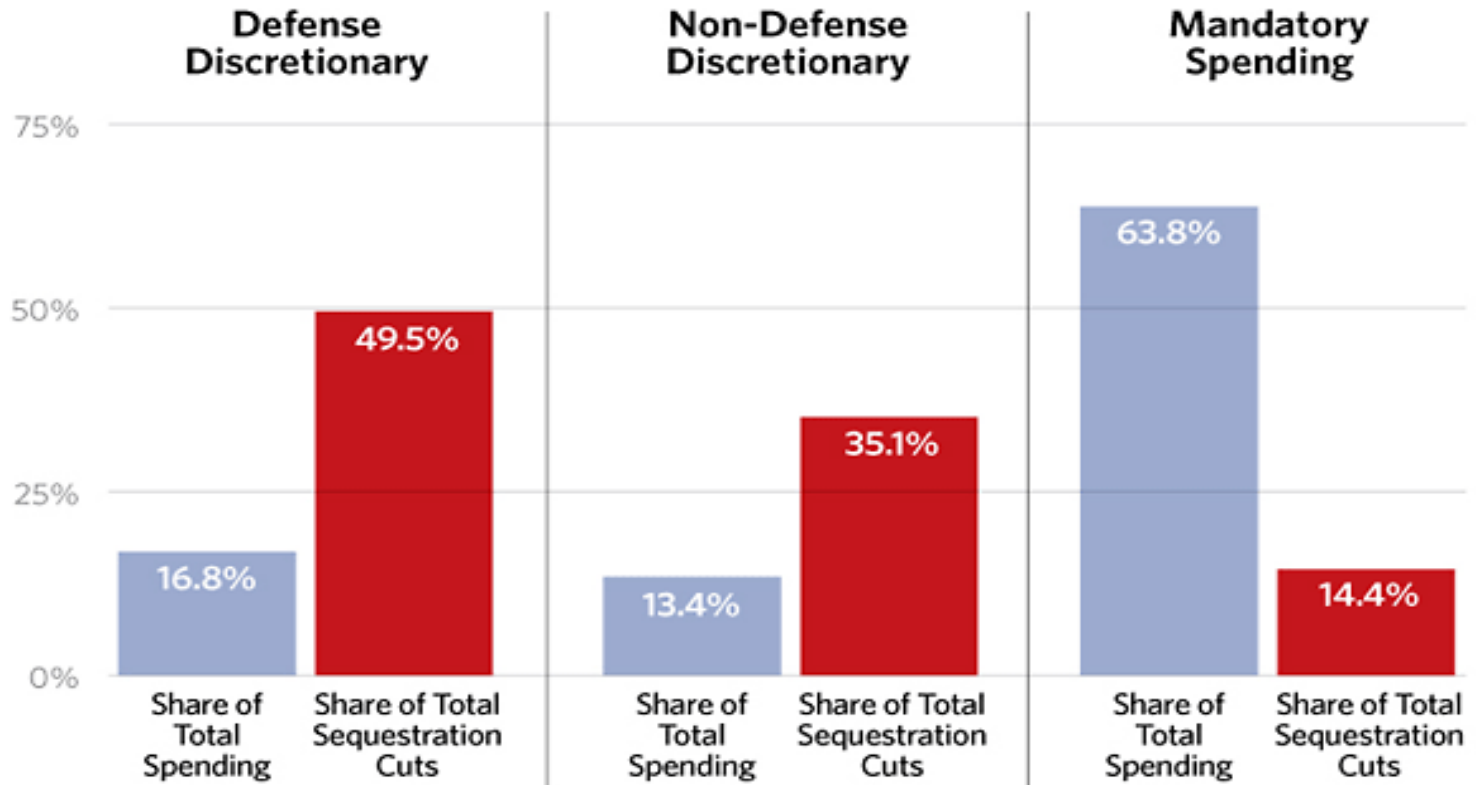
§ **True! THE DEFICIT CUT IN HALF** – from **\$1.128T** to **\$641B** (\$640B Reduction). But GDP from 2.7% to 0%.



Fiscal Cliff's Impact on Spending

Sequester Cuts Are Unbalanced

PERCENTAGE OF FY 2013 BUDGET AUTHORITY



Source: Congressional Budget Office, *An Update to the Economic and Budget Outlook: Fiscal Years 2012 to 2022*, Tables 1-3 and 1-4, <http://cbo.gov/publication/43543> (accessed August 23, 2012).

WHY CAN'T OUR CURRENT TAXES KEEP UP WITH SPENDING ON SOCIAL SECURITY AND MEDICARE?

More people collecting benefits

- § For the next 20 years, an average of 10K people each day will reach the age 65.
- § Life expectancy has increased since Social Security was created in 1940 so people are collecting retirement for 5 – 6 years longer.
- § The Social Security Board of Trustees projects that the trust funds will be exhausted in 2033.

Health care is more expensive

- § Medicare spending will almost double in the next 23 years.

Life Expectancy at 65 yrs.

Year	Men	Women
1940	77.7 yrs.	79.7 yrs.
2012	83.7 yrs.	85.7 yrs.
2030	85 yrs.	86.9 yrs.

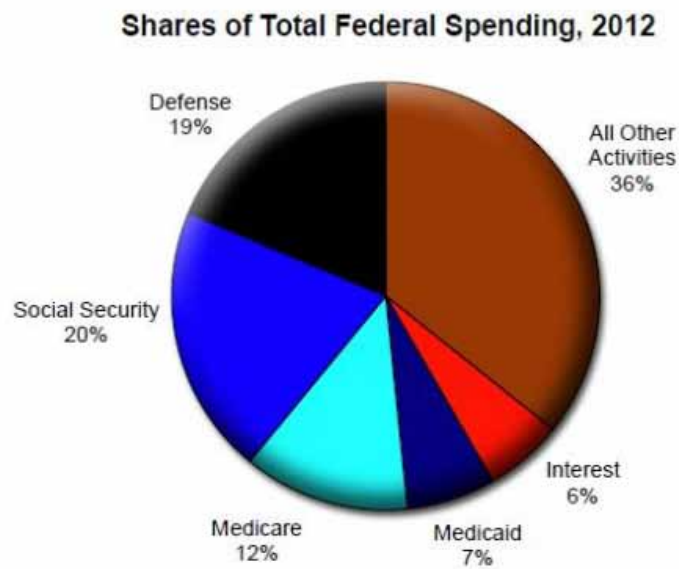
Entitlement / Tax Reform Required

§ Over 150 University Chancellors & Presidents wrote a letter to the President and Congress encouraging them to address these issues

It should be noted, when the Budget Control Act was passed Congress in August 2011, discretionary spending was cut \$1.5T over 10 years.

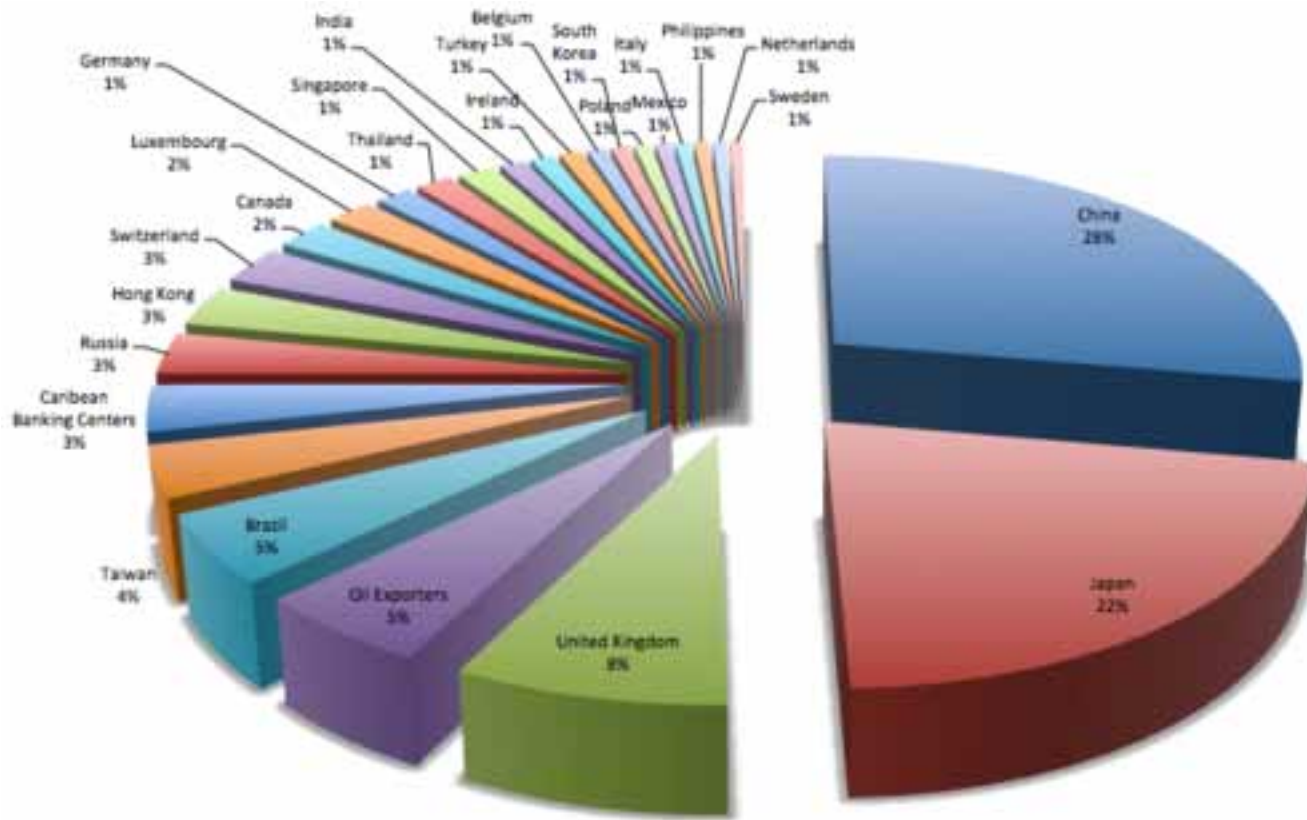
What was NOT cut:

1. Social Security
2. Medicare
3. Medicaid



To Make Matters Worse...

§ Approximately 47% of this debt is held by foreign Investors.



Fact: We Need To Raise the Debt Ceiling.

§ The \$16.4T debt ceiling is expected to hit its limit in mid-Feb.

§ Every President since Truman has added to Nat'l Debt. The debt ceiling has been raised 74 times:

- 2 18 times under Reagan
- 2 8 times under Clinton
- 2 7 times under George W. Bush
- 2 3 times under Obama



§ The US should not default on the debt under any circumstance

§ Why?

Will We Fall Off the Fiscal Cliff?

There are 18 days left.



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