



The Daily Dish

Good morning —

The policies that comprise the fiscal cliff have been around for nearly a year and the phrase itself was coined by Fed Chairman Ben Bernanke earlier this year, but in the several months since Chairman Bernanke warned of the effects of the fiscal cliff, really nothing has changed.

Headlines indicate that in addition to increasing taxes on the wealthy, fixes to Medicare, Medicaid and Social Security are now in the discussion of the fiscal cliff. [The WSJ reports](#) that “the fiscal cliff has revived an old idea that long seemed unfeasible: gradually raising the Medicare eligibility age to 67 from 65.” And then there’s Social Security. [The NYT reports](#) “while a potential change in calculating Social Security increases was part of the talks with Speaker John A. Boehner last year, the White House press secretary, Jay Carney, made clear on Monday that the administration was not considering changes to the retirement program as part of the deficit talks.”

As negotiations continue to evolve it is absolutely essential that President Obama and leaders in Congress remember that the fiscal cliff is [7 legislative components](#) — nothing more. Quality tax reform or entitlement reform requires more time and attention than a lame duck period can provide. What Washington needs to do is [bring the economy safely into 2013](#) (the sooner the better) where they can take seriously the underlying drivers of our debt.

On our radar: Bernanke speaking at 8:30 AM; Durable Goods Orders for October from

[Census](#) at 8:30 AM. Bloomberg prediction [here](#); 9:00AM: [S&P/Case-Shiller](#) Home Price Indices; 10:00AM: [Conference Board](#) Consumer Confidence, [FHFA](#) House Price Index, [Richmond Fed](#) Manufacturing Survey, [State Street](#) Investor Confidence Index.

Doug's Daily Economic Outlook

Warren Buffett is at it again. Writing in the [New York Times yesterday](#) he argued for an immediate, new minimum tax. For those with taxable income of between \$1 million and \$10 million, there would be a minimum 30 percent rate, and for taxable income above \$10 million there would be a 35 percent rate. I wish Mr. Buffett would stop writing op-eds and just write a check to Treasury to assuage his guilty conscience:

1. The new minimum tax would be layered on top of the broken income tax, and the broken Alternative Minimum Tax. At a time when there is a consensus for tax reforms, this is a decisive step in the wrong direction.
2. The new minimum tax would not do one single thing to address the looming threat of the fiscal cliff. Indeed, it would be a step in the wrong direction again.
3. The new minimum tax would make a trivial contribution to solving the nation's debt and deficit woes, something that must be done by mid-2013 to keep the faith of markets.

From a political perspective, Mr. Buffett's advocacy continues the general drumbeat for higher taxes that the Administration substitutes for a specific plan of entitlement reforms that would "balance" its approach. However, at a substantive level, it is a step away from sound policy that his introspective decision that taxes don't matter is permitted to substitute for the volumes of research showing the impact of tax policy on saving, investment, portfolio choice, human capital accumulation, labor force participation, decisions to rent versus own, decisions on business location, and even the timing of births (never give birth on January 1 if you can get another year's exemption by doing so on December 31st). Indeed, Mr. Buffett seems blissfully unaware that by basing his tax on "taxable income" he has dodged addressing the hardest question: what should be taxed?

It would be good if history showed that December 2012 was the month the fiscal cliff was dodged. And that 2013 was the year of fundamental tax reform. In those histories, there would be no Buffett tax.

What We're Reading

On 'fiscal cliff,' both sides lay groundwork for debate's next phase — Boehner...was laying plans Monday for top Republicans to meet with Erskine Bowles, a chief of staff in the Bill Clinton administration who also has close ties to Obama's White House. Ahead of the Wednesday meeting, GOP aides noted that Bowles offered a debt-reduction plan last fall in line with Republican principles...In addition to pursuing private talks, the White House began making a public push on Monday. Obama is strongly considering holding events in Washington or elsewhere later this week to argue for extending current tax rates for 98 percent of Americans and letting rates rise for the wealthy, according to administration officials. ([WaPo](#))

Mortgage Interest Deduction, Once a Sacred Cow, Is Under Scrutiny — A tax break that has long been untouchable could soon be in for some serious scrutiny. Many home buyers deduct their mortgage interest when assessing their tax bill, a perk that has helped bolster the income of millions of families - and the broader housing market. But as President Obama and Congress try to hash out a deal to reduce the budget deficit, the mortgage interest deduction will likely be part of the discussion. ([NYT](#))

Obama to meet executives, go to Pennsylvania for fiscal push — On Tuesday, a White House official said, the president will meet with a group of small-business owners. On Wednesday he will host an event with "middle class Americans who would be impacted if Congress fails to act to extend the middle class tax cuts," the official said. He will also hold a meeting with business leaders, something he has done previously. On Friday, he will visit a manufacturing facility of The Rodon Group, a small business that is a manufacturer for K'NEX Brands, a toy company with products including Tinkertoy and Angry Bird Building Sets. ([Reuters](#))

Dividends Come Early to Avoid Fiscal Cliff — More U.S. companies are racing to get ahead

of the looming fiscal cliff. Faced with a possible tax increase on dividends next year, boards are approving bigger payouts and cutting checks faster to avoid 2013 rates. ([WSJ](#))

OECD Slashes Global

Growth Forecasts for 2013 — The OECD slashed its global growth forecasts on Tuesday, warning that the debt crisis in the recession-hit euro zone is the greatest threat to the world economy. In light of the dire economic outlook, the Organisation for Economic Cooperation and Development urged central banks to prepare for more exceptional monetary easing if politicians fail to come up with credible answers to the debt crisis. ([Reuters](#))

Medicaid expansion poses 'modest' state costs — President Barack Obama's \$1 trillion plan to expand Medicaid would raise state costs by only 3 percent and extend health coverage to more than 21 million low-income people as part of the new healthcare reform law, a study said on Monday. The report released by the nonpartisan Kaiser Family Foundation said states would spend an extra \$76 billion over the new decade to implement the Medicaid expansion, or 2.9 percent more than they would without the reform law. ([Reuters](#))

New SEC head faces fights on several fronts, legal straitjacket — Mary Schapiro's successor as head of the U.S. Securities and Exchange Commission is going to have to hit the ground running. While an ongoing battle over regulating the \$2.5 trillion money market fund industry, some 63 unfinished rule makings required by the 2012 Dodd-Frank Wall Street reform law and continuing fears about market stability and high frequency trading, the new top securities regulator will have a lengthy list of critical issues to address on day one. ([Reuters](#))

Also from the Forum

The Week in Regulation: November 19-23 — Two Dodd-Frank regulations and a Federal Communications Commission (FCC) proposal implementing inventive auctions highlighted another week in regulation. The regulatory pace appears to have increased, with regulators adding more than \$400 million in costs and close to one million paperwork burden hours. ([Breakdown here](#))

Tough Choices Ahead - The Coming Catastrophe for Financial Aid — While all eyes anxiously wait to see whether Congress and the administration can reach agreement to avert the fiscal cliff, federal financial aid races a fiscal cliff all its own. ([Blog here](#))