



Fiscal Cliffnotes For Democrats

Federal Reserve Chairman Ben Bernanke Is Sounding The Alarm On The Weak Economy And Reckless Plans To Raise Taxes

BEN BERNANKE HAS A WARNING FOR DEMOCRATS STARING DOWN THE FISCAL CLIFF, PAST THE EVIDENCE, AND THROUGH RECENT ECONOMIC FORECASTS



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Testifying Before The Senate Banking Committee, Bernanke Warned That Fiscal Cliff Inaction Would Result In A “Shallow Recession.” BERNANKE: “That recovery could be endangered by the confluence of tax increases and spending reductions that will take effect early next year if no legislative action is taken. The Congressional Budget Office has estimated that if the full range of tax increases and spending cuts were allowed to take effect, a scenario widely referred to as the fiscal cliff, a shallow recession would occur early next year and about one-and-a-quarter million fewer jobs would be created in 2013.” (Senate Banking Committee, U.S. Senate, [Hearing](#), 7/17/12)

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Bernanke Said That The Reduction In The Unemployment Rate “Seems Likely To Be Frustratingly Slow.” BERNANKE: “However, given that growth is projected to be not much above the rate needed to absorb new entrants to the labor force, the reduction in the unemployment rate seems likely to be frustratingly slow.” (Senate Banking Committee, U.S. Senate, [Hearing](#), 7/17/12)

- **Bernanke Indicated That The Fed Had Lowered Growth Projections, “Reflecting The Generally Disappointing Tone Of The Recent Incoming Data.”** “Specifically, our projections for growth in real GDP prepared for the meeting had a central tendency of 1.9 to 2.4 percent for this year and 2.2 to 2.8 percent for 2013.1 These forecasts are lower than those we made in January, reflecting the generally disappointing tone of the recent incoming data.” (Senate Banking Committee, U.S. Senate, Hearing, 7/17/12)

Bill Gross, Who Runs The World’s Largest Mutual Fund At Pacific Investment Management Co., Says That We Are Heading Towards Another Recession. “Bill Gross, who runs the world’s largest mutual fund at Pacific Investment Management Co., said the U.S. is approaching a recession as BlackRock Inc. (BLK) (BLK) expects the Federal Reserve to take more steps to support growth.” (Shamim Adam and Masaki Kondo, “Pimco’s Gross Says U.S. Is Nearing Recession,” [Bloomberg](#), 7/17/12)

- **FLASHBACK - President Obama: “The Last Thing You Want To Do Is Raise Taxes In The Middle Of A Recession.”** (President Obama, [Remarks During An Interview With NBC](#), Elkhart, IN, 8/5/09)
- **FLASHBACK – Vice President Biden: “It’s A Depression For Millions And Millions Of Americans.”** (Vice President Biden, [Remarks At A Campaign Event](#), Dubuque, IA, 6/27/12)

“DEMOCRATS THREATEN TO PUSH AMERICA OVER ‘FISCAL CLIFF’ IN ABSENCE OF TAX INCREASES”

ABC News Headline: “Democrats Threaten To Push America Over ‘Fiscal Cliff’ In Absence Of Tax Increases.” (Rachel Rose Hartman, “Democrats Threaten To Push America Over ‘Fiscal Cliff’ In Absence Of Tax Increases,” [ABC News](#), 7/16/12)

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Obama Is Calling For The Tax Cuts To Expire At Year's End, "Sounding Every Bit Like The Candidate He Is."

"Sounding every bit like the candidate he is, President Barack Obama called Monday for a one-year extension of Bush-era tax cuts on annual income up to \$250,000, while letting those that chiefly benefit the very wealthy expire on schedule at year's end. The proposal reignited an election-year fight designed to polish his credentials as a champion for middle-class Americans." (Oliver Knox, "Obama: Let The Bush -Era Tax Cuts For The Wealthiest Expire," [ABC News](#), 7/9/12)

Sen. Patty Murray (D-WA) Has Indicated That Democrats Are Prepared To Allow The Fiscal Cliff To Materialize Unless Republicans Sign On To The Expiration Of Tax Cuts.

"In the latest turn of events, Sen. Patty Murray, a leading Senate Democrat, said Monday that no deal will be cut until Republicans agree to raise taxes on high-income households. 'If we can't get a good deal, a balanced deal that calls on the wealthy to pay their fair share, then I will absolutely continue this debate into 2013 rather than lock in a long-term deal this year that throws middle class families under the bus,' Murray said in prepared remarks at the Brookings Institution." (Jeanne Sahadi, "Fiscal Cliff Fight Is On, And Economy Suffers," [CNNMoney](#), 7/16/12)

- **Several White House Officials Have Said Obama Would Allow All Of The Bush Tax Cuts To Expire If A Deal Is Not Reached By The End Of The Year.** "Several White House officials I talked to made it clear that if a deal, or at least the framework for a deal, is not reached before December 31st Obama would allow all the Bush tax cuts to expire—a tactic that would achieve huge deficit reduction, but in a particularly painful and ill-conceived fashion." (Ryan Lizza, "The Second Term," [The New Yorker](#), 6/11/12)

New Study Suggests That Such Tax Increases Would Be Devastating For The Already Weak Economy**A New Ernst & Young Report On The Looming Fiscal Cliff Found That The Expiration Of Tax Cuts Would "Result In A Smaller Economy, Fewer Jobs, Less Investment And Lower Wages."**

"The confluence of fiscal policy changes scheduled to occur at the end of 2012 – sometimes referred to as the 'fiscal cliff' – poses serious challenges for policy makers. One area of disagreement is the increase in tax rates for high-income taxpayers resulting in part due to the sunset of elements of the 2001 and 2003 tax cuts. ...This report finds that these higher marginal tax rates result in a smaller economy, fewer jobs, less investment, and lower wages. Specifically, this report finds that the higher tax rates will have significant adverse economic effects in the long-run: lowering output, employment, investment, the capital stock, and real after-tax wages when the resulting revenue is used to finance additional government spending." (Drs. Robert Carroll and Gerald Prante, "Long-Run Macroeconomic Impact Of Increasing Tax Rates On High-Income Taxpayers In 2013," [Ernst & Young LLP](#), 7/12)

- **"Employment In The Long-Run Would Fall By 0.5% Or, Roughly 710,000 Fewer Jobs, In Today's Economy."** "Employment in the long-run would fall by 0.5% or, roughly 710,000 fewer jobs, in today's economy." (Drs. Robert Carroll and Gerald Prante, "Long-Run Macroeconomic Impact Of Increasing Tax Rates On High-Income Taxpayers In 2013," [Ernst & Young LLP](#), 7/12)
- **The Joint Committee On Taxation Found President Obama's Tax Hike Would Raise Taxes On Nearly One Million Households And Small Businesses.** "According to JCT, next year 940,000 households within the top 2 percent will report net positive business income and will face marginal tax rates that would be 36 percent or 39.6 percent under Obama's plan, up from 33 percent and 35 percent now. That represents 3.5 percent of taxpayers who have business income and 53 percent of net positive business income, the analysis said." (Richard Rubin, "Obama Plan Means Higher Taxes On Business Profits: Study," [Bloomberg](#), 6/19/12)

- **Obama's Tax Hikes Would Hit 53 Percent Of All Business Income.** "President Barack Obama's plan to raise tax rates for the top 2 percent of U.S. households would mean higher taxes on the people who report 53 percent of business income reported on individual returns, according to the Joint Committee on Taxation." (Richard Rubin, "Obama Plan Means Higher Taxes On Business Profits: Study," [Bloomberg](#), 6/19/12)