Fiscal cliff legislation is passing in the lame duck because of bipartisan compromise. Cowan:“On eve of fiscal cliff talks, positions harden,” Richard Cowan. Reuters. November 15th, 2012. http://www.reuters.com/article/2012/11/15/us-usa-fiscal-idUSBRE8A80WV20121115

In the run-up to Friday's White House gathering, Republicans and Democrats were jockeying for the upper hand in the negotiations and in public opinion. **McConnell**, speaking on the floor of the Senate, **said: "It's the president's turn to** propose a specific plan that **bring**s **both parties together**. That's what a president is elected **[T]o** do." Before the election, lawmakers speculated that if Obama won a second four-year term, he would promptly unveil a new comprehensive set of proposals for **avert**ing **the fiscal cliff[,].** But Obama's solid win, coupled with an expanded Democratic majority in the Senate and a larger Democratic minority in the House, has caused the president to pivot, according to some Democratic congressional aides. An emboldened **Obama**, the aides say, **will** now **focus on urging Republicans to accept a** Democratic **bill** passed in the Senate last July **to extend expiring** income **tax cuts** - first enacted by President George W. Bush - **except for** those **families making more than $250,000** a year in adjusted income**.** **"If Republicans have other ideas** on how to raise revenues now, **they should bring them"** to the White House, said one Senate Democratic aide. While differences over raising income taxes are large, some have spotted in the week's rhetoric some openings for compromise. Those include raising Obama's $250,000 income threshold to $500,000, or letting the top income tax rate rise to something less than the 39.6 percent Obama wants, from the current 35 percent. There is also growing talk of extending a payroll tax break for 160 million American workers to stimulate the economy by putting about $1,000 a year in extra spending power in their pockets. The payroll tax is set to expire at year's end and will be part of the White House negotiations, leaders said. The negotiators will also have to decide what to do about $109 billion in across-the-board spending cuts set to be triggered on January 2. Even if **Obama and Congress** can forge a deal to avert the fiscal cliff by December 31, they will still have plenty of work ahead of them early next year on tax and budget policy. That is when the most arduous work is expected on revamping the outdated U.S. tax code and retooling expensive "entitlement" programs like Medicare, the government healthcare program for the elderly. "We **are open to a grand bargain** - however we get to the place where we can have significant deficit reduction," Pelosi told reporters.

Universal healthcare alienates Congressional Republicans. They perceive it as a political scam. Schunick:  
“Romney gifts comment: Romney quote proves Republicans are out of touch with America,” George Shunick. PolicyMic. November 15th, 2012. http://www.policymic.com/articles/19124/romney-gifts-comment-romney-quote-proves-republicans-are-out-of-touch-with-america

The problem for Jindal and **the Republican Party**, however, isn’t that Romney went off the rails and blamed voters for his defeat. It’s that in doing so, he enunciated the subtext of the Republican Party’s policies. Romney legitimately **believes that** policies such as **universal health care**, access to female contraception, or forgiving interest on student loans are **[is] the byproduct of the desire of Democrats to secure political positions, rather than** policies viewed as a moral imperative or an **investment in** the quality of life and **economic security of** **the future.** Romney’s statements encapsulate the failure of the Republicans to identify with constituents who actually require these policies to obtain basic living standards. Maybe that’s why [Republican policies](http://www.nationalmemo.com/the-gop-is-the-food-stamp-party/) actually contribute to their constituents’ failure to obtain those standards, even as they decry liberals for doing exactly that for political purposes.  Republicans don’t do this out of malice, but out of indifference or ignorance. The party has become so ideologically driven, obsessed with an unrealistic view of how basic economics function and how society ought to act, that its policies are actively detrimental to those of us who operate under the constraints of reality. Which is to say, most of us.

The GOP is uniquely key to fiscal cliff legislation. Nothing will get done if Republicans won’t cooperate. Cowan 2:

"What we won't do is raise tax rates," Senate Republican leader Mitch McConnell warned on Thursday. But raising income taxes on the wealthy to help shrink the deficit was exactly what Obama highlighted during his first post-election news conference on Wednesday. Twenty-four hours later, Obama spokesman Jay Carney argued that public sentiment was firmly behind the newly re-elected president. Obama "will not sign, under any circumstances, an extension of tax cuts for the top 2 percent of American earners," Carney told reporters aboard Air Force One en route to New York to survey recent devastating storm damage. With those tough battle lines drawn, **Obama** at 10:15 a.m. (1515 GMT) on Friday **will bring together the four top leaders of Congress** for the first time since the November 6 election. McConnell, Senate Majority Leader Harry Reid, House of Representatives Speaker John Boehner and House Democratic leader Nancy Pelosi are scheduled to talk with him for about an hour at the White House. "Let us go to the table **in good faith that** **we want** **something to happen**," Pelosi told reporters, adding, **"If nothing happens, the consequences will be great."** While **all five leaders** have **registered the need for cooperation after Democrats scored a** healthy **win in last week's elections**, all signs point to difficult negotiations on how to avoid **[T]he "fiscal cliff" on January 1**. That **is when** about $600 billion worth of **broad tax increases and deep spending cuts occur if Congress cannot decide how to replace them** with less extreme deficit-reduction measures. The overall push for fiscal responsibility is being fueled by budget deficits that have topped $1 trillion for each of the past four years, pushing the country's debt beyond the $16 trillion mark. Uncertainty about the fiscal cliff prompted analysts this month to cut early 2013 economic growth expectations, a Reuters poll showed on Thursday. Investors are also rattled. The S&P 500 is down nearly 2 percent for the week, further eroding the market's 2012 gains. The Obama-led talks begin amid growing fears there will be new demands on Washington for bailouts that could further increase deficit spending. The U.S. Postal Service announced on Thursday a record net loss of nearly $16 billion last year, more than triple its loss the previous year. The cleanup from East Coast wreckage brought by superstorm Sandy could require Congress to approve billions of additional dollars in aid - just as the U.S. Federal Housing Administration is indicating it might need a bailout for the first time in its 78-year history because of bad loan deals. Much larger bailouts of U.S. financial and automotive industries a few years ago sparked outrage among many lawmakers and voters.

Failure to pass fiscal cliff legislation collapses the US economy by killing investor confidence. Moon:  
“Wall Street falls on Wal-Mart results, ‘fiscal cliff’ fear,” Angela Moon. Fox Business. November 15th, 2012. <http://www.foxbusiness.com/news/2012/11/15/wall-street-falls-on-wal-mart-results-fiscal-cliff-fear/>

**Stocks fell** in choppy trading **on Thursday**, with the S&P 500 on track to fall for a third day, **as** Wal-Mart Stores Inc reported disappointing results and **investors feared the "fiscal cliff" will harm the economy.** Stocks have struggled recently to hold onto even slight gains, such as on Wednesday when they opened higher but ended down more than 1 percent. **Investors worry the economy could slip into recession if no deal is reached in Washington to avoid the fiscal cliff** - budget cuts and tax hikes that begin to take effect in the new year. The S&P 500 is off about 2 percent for the week so far. President Barack Obama, who plans to meet with Republican and Democratic leaders of Congress on Friday, pressed his bargaining position at a news conference Wednesday that the wealthy must pay more in taxes as part of a deal. "In terms of the market, **all eyes now are on the congressional meeting** tomorrow **with the White House**," said Peter Boockvar, managing director at Miller Tabak & Co in New York.

US is key to global economy. Helbing et al:  
Thomas, advisor in the IMF's Research Department where he focuses on commodity market prospects \*Peter Berezin, Ph. D in Economics from the University of Toronto, a Master of Science (Economics) from the London School of Economics and a Bachelor of Arts (Economics) from McMaster University. He has extensive experience in analyzing global economic and financial market trends \*Ayhan Kose Ph.D. in Economics, H. B. Tippie College of Business, University of Iowa. \*Michael Kumhof, PhD at Stanford in Econ \*Doug Laxton, the Head of the Economic Modeling Unit of the IMF's Research Department. \*Nikola Spatafora, Senior Economist in the Research Department, Development Macroeconomics Division, of the IMF “Decoupling the Train? Spillovers and Cycles in the Global Economy” http://www.contexto.org/pdfs/FMIecdecouplingUS.pdf

As a starting point, it is useful to establish some basic facts about the relative size of the U.S. economy and its linkages with other regions. • **The U**nited **S**tates **remains** by far **the** world’s **largest economy** (Table 4.1). When measured at PPP exchange rates, **the U.S. economy accounts for** about one-fifth of global GDP. In terms of market exchange rates, it accounts for **slightly less than one-third of global GDP**. These ratios have not changed much in the past three decades. • **The U**nited **S**tates **is the largest importer in the global economy.** It has been importing, on average, about one-fifth of all internationally traded goods since 1970. It is the second largest exporter after the euro area. • In line with the generally rapid growth in intraregional trade, **the share of trade with the U**nited **S**tates **has greatly increased in the Western Hemisphere** region, including in neighboring countries—Canada and Mexico— and some others in Central and South America (Figure 4.2). Compared with the euro area and Japan, the United States has seen a larger increase in trade with emerging market and other developing countries in general, not just with countries in the Western Hemisphere. Export exposure to the United States—the share of exports to the United States as a percent of GDP—has generally continued to increase, even for countries where the U.S. share of total exports has declined, as trade openness has increased everywhere (Table 4.2). Export exposure to the United States also tends to be larger than that to the euro area and Japan, except in neighboring regions. • Overall, U.S. financial markets have been and remain by far the largest, reflecting not only the size of the economy but also their depth. Changes in U.S. asset prices tend to have strong signaling effects worldwide, and **spillovers from U.S. financial markets have been important, especially during** periods of **market stress.** In particular, correlations across national stock markets are highest when the U.S. stock market is declining (Box 4.1). • Reflecting the size and depth of its financial markets, as well as its increasing net external liabilities, claims on the United States typically account for the lion’s share of extra-regional foreign portfolio assets of the rest of the world (Table 4.3). At the same time, the share of foreign portfolio liabilities held by U.S. investors typically also exceeds the holdings of investors elsewhere, except for the euro area, where intraregional holdings are more important. This illustrates the extent of important international financial linkages with U.S. markets.

Economic crisis causes war and terrorism–strong statistical support. Royal:  
Jedediah, director of Cooperative Threat Reduction at the U.S. Department of Defense, Economics of War and Peace: Economic, Legal, and Political Perspectives, pg 213-215

Less intuitive is how periods of economic decline may increase the likelihood of external conflict. Political science literature has contributed a moderate degree of attention to the impact of economic decline and the security and defense behavior of interdependent states. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow. First, on the systemic level, Pollins (2008) advances **Modelski and Thompson**’s (1996) work on leadership cycle theory, **find**ing **that rhythms in the global economy are associated with** the rise and fall of a pre-eminent power and the often **bloody transition from one** pre-eminent **leader to the next.** As such, exogenous **shocks** **such as economic crises** could **usher in a redistribution of** relative **power** (see also Gilpin, 1981) that leads to uncertainty about power balances, **increasing** the risk of **miscalculation** (Fearon 1995). Alternatively, even a relatively certain redistribution of power could lead to a permissive environment for conflicts as **a rising power may seek to challenge a declining power** (Werner, 1999). Separately, Pollins (1996) also shows that global economic cycles combined with parallel leadership cycles impact the likelihood of conflict among major, medium and small powers, although he suggests that the causes and connections between global economic conditions and security conditions remains unknown. Second, on a dyadic level, Copeland’s (1996, 2000) theory of trade expectations suggest that “future expectation of trade” is a significant variable in understanding economic conditions and security behavior of states. He argues that interdependent states are likely to gain pacific benefits from trade so long as they have an optimistic view of future trade relations. However, **if** the **expectations of future trade decline**, particularly for difficult to replace item such as energy resources, **the likelihood for** **conflict increases**, as states will be inclined to use force to gain access to those resources. Crises could potentially be the trigger for decreased trade expectations either on its own or because it triggers protectionist moves by interdependent states. Third, others have considered the link between economic decline and external armed conflict at a national level. Blomberg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write, The linkages between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict tends to spawn internal conflict, which in turn returns the favor. Moreover, the presence of a recession tends to amplify the extent to which international and external conflicts self-reinforce each other. (Blomberg and Hess, 2002, p. 89) **Economic decline has also been linked with** an increase in the likelihood of **terrorism** (Blomberg, Hess and Weerapana, 2004), which has the capacity to spill across borders and lead to external tensions. Furthermore, **crises** generally **reduce the popularity of a sitting government.** “Diversionary theory” suggests that, **when facing unpopularity arising from economic decline, sitting** **governments have** increased **incentives** **to fabricate** external military **conflicts to create a “rally around the flag” effect**. Wang (1996), DeRouen (1995) and Blomberg, Hess and Thacker (2006) find supporting evidence showing that economic decline and use of force are at least indirectly correlated. Gelpi (1997), Miller (1999), and Kisangani and Pickering (2009) suggest that the tendency towards diversionary tactics are greater for democratic states than autocratic states due to the fact the democratic leaders are generally more susceptible to being removed from office due to lack of domestic support. De DeRouen (2000) has provided evidence showing that periods of weak economic performance in the United States and thus weak Presidential popularity are statically linked to an increase in the use of force. In summary, recent economic scholarship positively correlates economic integration with an increase in the frequency of economic crises, whereas political science scholarship links economic decline with external conflict at systemic, dyadic and national levels. This implied connection between integration, crises and armed conflict has not featured prominently in economic-security debate and deserves more attention. This observation is not contradictory to other perspectives that link economic interdependence with a decrease in the likelihood of external conflict, such as those mentioned in the first paragraph of this chapter. Those studies tend to focus on dyadic interdependence instead of global interdependence and do not specifically consider the occurrence of and conditions created by economic crises. As such the view presented here should be considered ancillary to those views.