No signs of agreement on U.S. "fiscal cliff" as deadline rapidly approaches

by Matthew Rusling

WASHINGTON, Dec. 11 (Xinhua) -- No agreement between U.S. Congress and the White House has yet been reached as the nation heads toward an end-of-year deadline to avoid the "fiscal cliff."

A spate of tax hikes and spending cuts are due to kick in on Jan. 1 if the government fails to reach a budget compromise amid gridlock between the White House and Republicans over spending cuts and taxes for higher earners.

At a speech Monday in the state of Michigan, President Barack Obama reiterated his vow not to back down on his plans to tax higher earners, continuing to contend that higher tax brackets must pay their "fair share," although he left open the possibility of some yet unspecified compromises.

The president's plan to boost taxes for those earning more than 250,000 U.S. dollars per year has been derided by Republicans who say it would harm small businesses, typically the main engine of job growth in the world's largest economy.

Other critics of Obama's plan note that those earning around 250,000 U.S. dollars per year may not be particularly wealthy, especially those with two or more children and living in expensive cities such as Washington DC or New York, where that money does not go very far.

The "fiscal cliff" would mean a higher tax burden for all Americans -- an average of 2,000 U.S. dollars per family per year -- and could spark another recession even as millions remain jobless and the economy slogs toward recovery from the worst downturn in decades.

Polls show that Americans would blame Republicans if the economy takes a nose dive over the "fiscal cliff," and Obama has over the last week gone back on the campaign trail in a bid to convince Americans to back his plan amid criticisms that he should stay in Washington and hammer out of deal with House Republicans.

James F. Smith, chief economist at Parsec Financial, said if the two sides fail to compromise, the worst-case scenario would see U.S. stock markets plunge and a surge of 500,000 to a million layoffs nationwide, sparking panic in Washington, which would take swift but temporary action. The most likely scenario, however, is an agreement before March and probably by Jan. 15 to extend all current taxes and spending rules, Smith said.

The rules under which the government is spending come to a halt on March 31 next year, and if no agreement comes before then, the first quarter will show a decline in real GDP at a 3.6 percent seasonally adjusted annual rate (SAAR).

If they agree on a deal in March, the second quarter will rebound at a 7.2-percent SAAR and there will be no recession call. If they don't agree before June 1, the second quarter will be negative as well and the NBER Business Cycle Dating Committee might call the episode a recession, Smith said.

Meanwhile, a Gallup report released Tuesday found that Americans see the "fiscal cliff" as harmful to their finances, and three-quarters believe tax hikes will negatively impact the United States.

Of three major "fiscal cliff" measures -- cuts in defense spending, cuts in domestic spending, and tax increases -- Americans are most likely to see the tax increases as harmful to the United States, the survey found.