

[By Jonathan Weisman](#)

Senate Democrats — holding firm against extending tax cuts for the rich — are proposing a novel way to circumvent the Republican pledge not to vote for any tax increase: Allow all the tax cuts to expire Jan. 1, then vote on a tax cut for the middle class shortly thereafter.

The proposal illustrates the lengths lawmakers are going to in an effort to include new federal revenues in a fix for the "fiscal cliff," the reckoning in January that would come when all Bush-era tax cuts expire and automatic spending cuts to military and domestic programs kick in.

Virtually every Republican in Congress has taken the pledge, pushed by Grover Norquist's Americans for Tax Reform, never to vote for a tax increase — a pledge both parties see as a serious impediment to a tax compromise. But if tax rates snap back to the levels of the Clinton presidency on Jan. 1, any legislation to reinstate some of those tax cuts — but not all of them — would be considered a tax cut.

"Many Republicans are starting to realize something important: On Jan. 1, if we haven't gotten to a deal, Grover Norquist and his pledge are no longer relevant to this conversation," Senator Patty Murray, Democrat of Washington, said this week in a speech at the Brookings Institution. "We will have a new fiscal and political reality."

The idea inflamed passions on both sides on Tuesday, when fiscal issues careening toward Congress roiled hearings and deliberations and spurred political recriminations as Republican leaders accused Democrats of steering the economy back into recession.

"Democrats in Congress are now saying that they would rather see taxes go up on every American at the end of the year than let about a million businesses keep what they earn now," Senator Mitch McConnell of Kentucky, the Republican leader, said Tuesday. "This isn't an economic agenda. It's an ideological crusade."

Democrats accused Republicans of holding the vast majority of the Bush-era tax cuts hostage to the fraction aimed only at the rich. They praised the tough line adopted by the Democratic leadership, which is aligning with President Obama on the tax issue.

"This is all about leverage being on the side of the Democrats," said Representative Peter Welch, Democrat of Vermont. "If Democrats want to use that leverage, we can't blink."

Lawmakers on both sides are now lamenting the fiscal train wreck that many of them voted to create, a confluence of spending cuts and tax increases that the Federal Reserve chairman, Ben S. Bernanke, said Tuesday could send the economy into recession.

At the same time, former Vice President Dick Cheney was meeting with Senate and House Republicans, in part to warn them of the dire consequences he sees in \$500 billion in automatic military cuts that will begin to hit on Jan. 2. Off Capitol Hill, a broad bipartisan coalition of fiscal hawks, led by the co-chairman of President Obama's 2010 fiscal commission, Erskine B. Bowles, restarted efforts to pressure Washington to reach a "grand bargain" on deficit reduction.

But taxes remain a chasm in the Capitol as Senator Harry Reid of Nevada, the majority leader, moved to force votes in the coming days on Democratic tax proposals.

"If you want to join Democrats to protect the middle class and avoid this fiscal cliff that we hear so much about, all you have to do is say yes," Mr. Reid said to Republicans. "Surely you can at least agree that 98 percent of the families in this country shouldn't see their taxes go up."

Numerically, Republicans and Democrats are not as far apart as the exchanges would suggest. President Obama has proposed allowing tax cuts to lapse on incomes over \$250,000, raising the top two income tax brackets, allowing capital gains tax rates for affluent families to rise slightly and letting dividend income be taxed as ordinary income, as it was before 2003. Of the \$5 trillion in tax increases that will ensue over 10 years if nothing is done, Mr. Obama's plan would stave off all but \$849 billion.

That tax increase on the rich would amount to 0.38 percent of the economy, considerably

smaller than the tax increase secured by President Bill Clinton in 1993, which equaled 0.63 percent of the economy, according to White House calculations.

Next week, Senate Democrats will push tax legislation that makes a significant concession to Republicans. It would secure Mr. Obama's tax increases on the rich, but it would tax dividends and capital gains at a 20 percent rate for households that earn more than \$250,000. The White House this year proposed allowing dividends to be taxed again at ordinary income rates, a plan that would increase tax rates on dividends to as high as 44.7 percent, from 15 percent, according to a new report by the accounting firm Ernst & Young.

Neither party was interested Tuesday in emphasizing what their proposals had in common. Republicans highlighted Ernst & Young's conclusion that tax increases on the affluent would cost around 710,000 jobs, cut wages and "have significant adverse economic effects in the long run." Democrats pointed to the line in the report that Republicans tended to drop, which said the adverse economic impacts would hit "when the resulting revenue is used to finance additional government spending." The tax increases Democrats want would instead be part of a deficit reduction package.

Robert Greenstein, president of the liberal Center on Budget and Policy Priorities, pointed to a report by the private equity giant Carlyle Group, which suggested that simply extending all the tax cuts and avoiding the automatic spending cuts in January could be more dangerous than letting the fiscal hammer fall. The "fiscal cliff" would lower the nation's indebtedness by \$7.8 trillion over 10 years and bring the budget nearly to balance by 2016. In contrast, a last-minute deal to punt the deficit issue down the road would send a signal to world markets that the United States government is not willing to confront its red ink.

Senator Kent Conrad of North Dakota, chairman of the Budget Committee, said the offer to let all the tax cuts lapse, then reinstate most of them days later, was a legitimate way to free Republicans from their no-new-taxes pledge.

But Mr. Norquist, the keeper of the pledge, said the idea "doesn't pass the laugh test."

And Republicans likely to work with Democrats on any deficit deal rejected it out of hand. Senator Lamar Alexander, Republican of Tennessee, called Ms. Murray's suggestion "a

startling comment for a United States senator."

Senator Mike Johanns, Republican of Nebraska, said, "That just doesn't sound sensible to me, with all due respect to Patty," adding, "We should be working on this now."