UPDATE

NAPS Leg/Reg Update - December 27, 2012

Heading Toward the Cliff

With five days until the United States goes over the fiscal cliff, the prospects in Washington for a budget deal look increasingly bleak. Talk on Capitol Hill of a comprehensive deal, or grand bargain, has all but ceased. The President earlier today announced he would send legislation to the Congress to provide a smaller temporary patch to avoid the impending tax increases and spending cuts. But whether the President's proposal was too little and too late remained uncertain.

Senate members and the President have returned to Washington from their holiday break, but the House Speaker says he will not call House members back until the Senate has sent a budget package to the House. As a result, it looks right now like tax hikes and automatic spending cuts will take effect on January 1 (at least technically), though their longevity will probably be short, with a more robust package being approved in early 2013. The political conditions for reaching a deal then, after tax rates have gone up, will have improved, providing lawmakers the political opportunity to claim that they "cut" taxes for most Americans and made additional spending cuts.

Government Pension Assets Tapped to Avoid Debt Ceiling

The Treasury yesterday announced it would take certain "extraordinary measures" to avoid hitting the debt ceiling on December 31, largely by temporarily using its civil service pension assets to reduce or stop government borrowing. The Treasury said it would suspend its daily reinvestment of

Treasury securities held by the G Fund, the money market fund within the Federal Thrift Savings Plan. And it would redeem certain existing investments and suspend new investments in the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund as well to reduce government borrowing. Without such measures, the Treasury said, the government would reach the $16.4 trillion debt ceiling on December 31. The Treasury has taken similar measures in the past, most recently in August, 2011, when it came perilously close to breaching the debt ceiling. The Treasury's announced moves are just one more way that the government uses its sizable federal and postal retirement assets as a piggy bank, even if only temporarily, to keep government finances afloat.

Postal Reform Prospects Go Cold

And as the lame duck session drew closer to its end, chances for passage of final postal reform legislation appear to have died. Over the past month, talks between Senators Joe Lieberman (D-CT), Tom Carper (D-DE) and Susan Collins (R-ME) and House members Darrell Issa (R-CA), Dennis Ross (R-FL), Elijah Cummings (D-MD) and Stephen Lynch (D-MA) and their staffs had continued, largely building off the postal reform legislation (S. 1789) passed by the Senate last spring. But the group still has not reached a final agreement, and is not likely to in the little time that remains in this Congress. The two stumbling blocks, sources say, continue to remain six-day delivery and the government workers' compensation program.

The collapse of postal reform in the 112th Congress will mean that new postal bills will need to be reintroduced and the legislative process reset in the upcoming Congress. There is no reason to think that the political lift will be any easier next year, but for the fact that the Postal Service warns that it will run out of money by early next fall.

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