Case study on firms hit brakes before fiscal cliff

Economics, Budget

The “ fiscal cliff” refers the laws that will be put into effect at the end of the year 2012 that could result to tax increases, cuts on spending and budget deficit reduction (Sunner 8). Tax cuts initiated by former president George. W. Bush are set to expire at the end of the year, culminating into increases in tax from the corporate sector (Sunner 8).

The fiscal cliff will bring to end the tax cuts that businesses were enjoying and significantly reduce the federal government’s expenditure in a bid to reduce the budget deficit. Budget deficit refers to the difference between the federal government expenditure and tax revenue. The government is required to borrow to fund the deficit a practice which culminates into the country having a huge national debt.

The fiscal cliff has so far failed considering the threat the country faces in sliding into recession. Increase in taxes will impact negatively on the economy as businesses will be forced to reduce their spending thus creating unemployment (Sunner 26). Businesses and other potential investors are much against the tax increases. They are proposing that the government should instead focus on cutting down spending only even though that approach will have no significant effect to debt reduction. The republicans are opposing tax increases thus putting an impediment to the policy.

Congress is likely to address the problem before the US goes off the fiscal cliff. There are policies being deliberated on the amount to be cut as well as the percentage to which business will be taxed. If they reach a compromise, then the country is unlikely to go off the fiscal cliff. If the appropriate sectors are identified to implement the cuts on expenditure, then the federal government will effectively avoid the fiscal cliff.

Work cited

Sunner, Michael. William. Borrowing Through the U. S. Treasury's Fast Money Tree: The Need to Balance Austerity and Growth in the 21st Century. New York: AuthorHouse, 2012. Print.