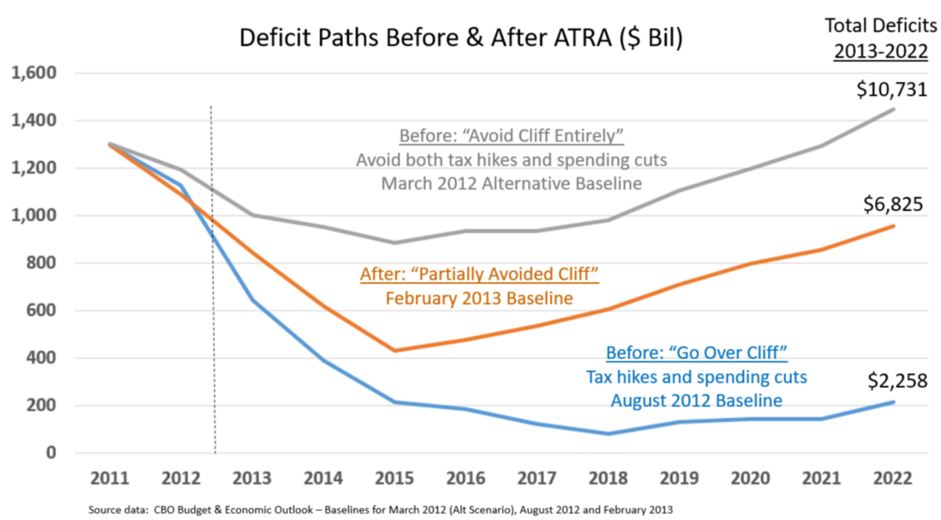
Fiscal cliff

In economic history, fiscal policy has been performed as a potential factor to extend the economy for many decades. Using the British economist -John Maynard Keynes- theories, the economy is influenced by the revenue and expenditure of the government. From a macroeconomic perspective, the agents which are Household, Government, and Firm are all affected by changes in the system. Many variables occurred for understanding the process of adjustment. These are called economic variables for instance demand-supply, inflation rate, or unemployment rate. Nevertheless, the fiscal policy has its own economic goals to be achieved which are to stimulate the whole economy with the least negative impacts -Inflation and unemployment. To balance the effect, we needed to stabilize the government budget or control some economic variables. On the other hand, if we cannot manage the balance, we will face a negative impact on stimulating the economy such as recession, stagflation, or “Fiscal cliff”.

The word “Fiscal cliff” is starting to be well-known from the US economic situation in 2013. The Fiscal cliff will occur when the deficit in the government budget becomes to be bigger and bigger. The solution to that situation is to increase government revenue which is taxes and a decrease in government spending but by doing that there will be a possibility to have a mild recession. So, the situation happened in January 2013 as known as “The United States fiscal cliff”. The problems are coming from cutting the government budget and increasing tax rates at a huge amount in the same period. The Bush tax cuts which is the policy in 2001 to 2003 aim for significantly lowering the marginal tax rates to all US citizen by using the Alternative Minimum Tax (AMT) are going to be expired on December 31, 2012. Moreover, The Budget Control Act of 2011 due to balancing the deficit of the government budget is coming at the same time. Therefore, The Congressional Budget Office (CBO) is concerned that if the two policies are becoming effective together, it would lead to a big recession with a higher unemployment rate, lower household income, and reducing in investment. However, to avoid the situation to happen the White House called a meeting for fixing this issue which at that moment Both sides are Democrats and Republicans.

First, the purpose of both sides did not come the same way. The Democrats wanted to have more of revenue so they can keep the government spending continues, therefore, they increased the tax rates for the nation's wealthy and keeping the tax cuts for the middle class. As a result, the deficit of the government budget becomes lesser. On the other hand, the Republicans consist to have less in government spending specifically the Medicare part as a result the deficit also decreased. In the end, the US government turns up with The American Taxpayer Relief Act of 2012 (ATRA) to respond to a Fiscal cliff situation. On the revenue side, they applied smaller tax increases than expiring all the Bush tax cuts. To be specific, they increased 2 percent of the tax rate for people who have income up to $113,700 and they change some of Bush tax cuts including individuals making more than $400,000 and couples making over $450,000. Furthermore, the Investment sector also affected by this changed. They increase the tax on investment income from 15 percent to 23.8 percent and a 3.8 percent surtax on investment income for individuals having more than $200,000 and couples having more than $250,000.

To conclude, The US can step through the Fiscal cliff by knowing the right adjustment. After the situation, it makes them more considered to a budget crisis. In short-run, they will be a negative effect by increasing some part of the tax rates therefore household and investment sector will affect to have less potential to spend but for a better long-run adjustment we needed to clear all problems before it too late and to avoid the huge recession. Every choice has its own opportunity cost and we always wanted to choose the lowest one.



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