

**THE "FISCAL CLIFF": MACROECONOMIC
CONSEQUENCES OF TAX INCREASES AND SPENDING
CUTS**

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Is the "Fiscal Cliff" a Threat to the Economy? | Mises Institute

A major policy concern for Congress has been when and whether to address the "fiscal cliff," a set of tax increases and spending cuts that.

ine the details of the expiring stimulus, its potential impact on economic Tax Increases AND Spending Cuts Making the "Fiscal Cliff" even steeper is the.

in federal taxes and spending, may accompany better understand the fiscal cliff and its overall economic implications, exam- . spending cuts or tax increases.

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There is a sizable interaction between the AMT patch and the Bush tax cuts, which reduced income tax liability without adjusting the AMT correspondingly thereby pushing more households into the AMT. Uncertainty Remains about Spending Cuts Two white elephants remained in the room after the fiscal cliff deal passed: . In the old Keynesian one-period models, this could only occur at full employment i. As a result, should sequestration occur and continue for a substantial period. If the Republicans had waited a year and let the economy fully recover, they could have been heroes. So we can expect some significant impact on economic growth. A fiscal cliff dive, on the other hand, would significantly slash the deficit. In other words, the trajectory of spending increases is reduced, but spending is not frozen at levels.