

Why We May Have to go Over the Fiscal Cliff

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Abstract

In a contribution to *USA Today*, Bill Gale asserts that going over the cliff might be the only way to stimulate the economy and implement gradual, balanced fiscal consolidation over the next decade.

Document date: November 30, 2012

Released online: November 30, 2012

USA Today

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No one wants to go over the "fiscal cliff." Ideally, the president and Congress would agree to stimulate the economy now and implement gradual, balanced fiscal consolidation over the next decade. Yet going over the cliff might be the only way to reach that outcome.

Why? About 90% of Republicans in Congress have tied their hands by signing the no-new-taxes pledge (although a few have recanted recently). Yet polls indicate that 70% of Americans want a package with tax increases and spending cuts. And President Obama won re-election while advocating \$1.6 trillion in higher taxes on high-income households.

To achieve these or similar changes, Republicans have to violate the pledge or taxes have to rise a lot first — by going over the cliff, which does not require a vote — and then possibly come down some in subsequent negotiations. This would be a silly and potentially dangerous way to make law, but it is the only path to a balanced fiscal plan if Republicans won't violate the pledge.

If we do go over the cliff, all is not lost.

Going over the cliff is the opposite of "kicking the can down the road." It does the heavy lifting of budget reform by raising revenues, cutting spending and putting the nation on a more sustainable fiscal path. Policymakers could still negotiate further changes — just from a new starting point.

Despite the "cliff" metaphor, going over the cliff would not have immediate sharp impacts, nor would it be a manufactured crisis the way defaulting on national debt payments would be. But we would need to provide economic stimulus at least large enough to offset the short-term impact of the cliff, including payroll tax cuts or tax rebates, aid to the states, and increased assistance to the needy and unemployed.

If would be nice if our political leaders could simply negotiate a deal. But Republicans have tied their own hands, making already difficult negotiations even harder. If they do not violate their pledge, going over the fiscal cliff, coupled with stimulus, will be the only path to a sensible and balanced solution.

Other Publications by the Authors

- William G. Gale

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