

WHAT IS THE FISCAL CLIFF...AND WHY DO WE NEED TO WORRY ABOUT IT?

The American budget is set to expire at the end of the year, and in simple terms, if there is not an agreement on a new budget, certain tax cuts will expire and program reductions will take place.

Both parties believe that the budget needs to be balanced, but both have differing views on how to do it. The Republicans believe all tax hikes or new taxes are bad and the budget is to be balanced by program reductions. The democrats, on the other hand, believe services and programs should be maintained but taxes increased to pay for them.

IS IT A CLIFF OR A FREIGHT TRAIN?



Picture two freight trains heading toward each other on the same track.

Voters just returned the same people in the same percentage to the White House, Senate and House of Representatives.

Everyone believes in the mandate and the ideology. Both sides are evenly balanced and don't think they need to compromise.

By doing nothing, both trains will collide, driving the economy over the financial cliff.

i.e. higher taxes and program cuts.

Both sides will see the things they campaigned against being implemented in the harshest possible ways.

NOW WHAT?

So both trains are thundering toward each other with a December 31st deadline. Are both sides barreling forward hoping to gain a political advantage? Maybe so. Leadership of the world's largest economy hangs in the balance.

Neither side wants to see the worst case scenario occur. Some compromise will take place. Remember, we had the same situation a year ago and a compromise was reached at the 11th hour.

It is so apparent that something needs to be done about the runaway deficit in the U.S.A. In all likelihood, both sides will agree to an orderly compromise and find some common ground to reduce the debt, and the track controller will be make sure the trains are redirected to other tracks or stopped in time*.

*This article contains general information only and is intended for informational purposes only

