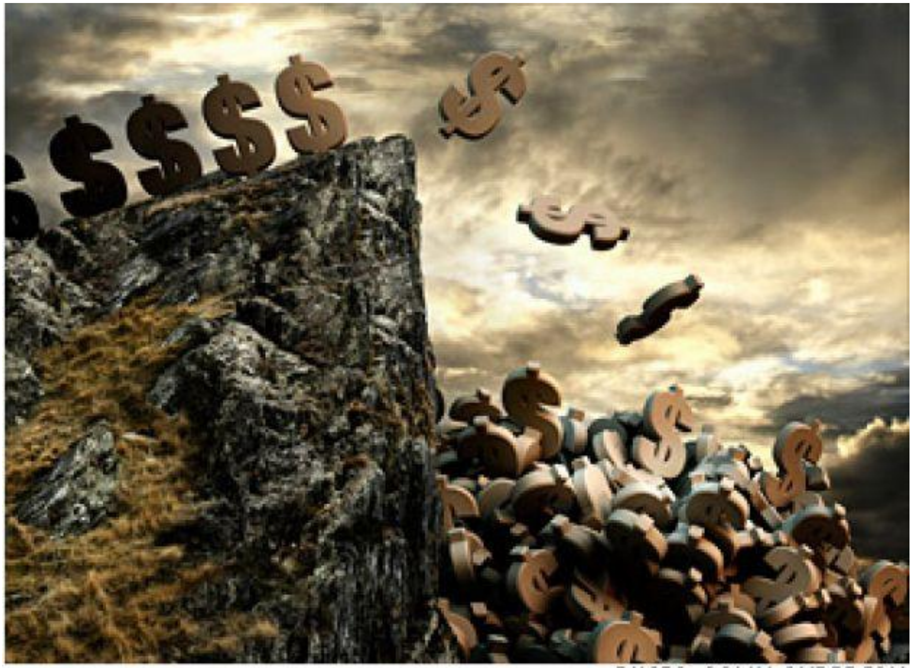
What Is the Fiscal Cliff?

- **The "fiscal cliff" is a term used to describe a bundle of momentous U.S. federal tax increases and spending cuts**
- The so-called fiscal cliff describes the automatic tax increases and spending cuts due to take effect on 1 January, a combination which economists say would push the US into recession - with global consequences.

- In the 1970s and 80s, it was used to describe the precarious state of city, state and federal budgets, most notably in relation to New York City's brush with bankruptcy in 1975.
- One of its first uses in the Obama era was by Senator Jim DeMint in 2008, speaking about the president's spending programme.



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- The fiscal cliff would increase tax rates and decrease government spending through sequestration, and lead to an operating deficit (the amount by which government spending exceeds its revenue) which was projected to be reduced by roughly half in 2013.
- The previously enacted laws leading to the fiscal cliff had been projected to result in a 19.63% increase in revenue and 0.25% reduction in spending from fiscal years 2012 to 2013.

- The **Congressional Budget Office estimates** the economy would contract in 2013 by 0.5% and unemployment would rise to 9.1%.
- But the White House and Congress are trying to agree a package of measures that would divert the country from the fiscal cliff.

- The term *fiscal cliff* has been used in the past to refer to various fiscal issues. The term started being used in the context of the expiration of the Bush tax cuts in 2010. In 2011, the term started to be used to refer to the deficit reductions that would have occurred in 2013 under a fiscal-cliff scenario.