

# Consumers Already Falling Off Fiscal Cliff

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Automatic spending cuts and tax hikes are set to go into effect Jan. 1, absent a compromise over the budget, and consumers are worried about the impending "fiscal cliff."

President Barack Obama and Republican congressional leaders are still trying to negotiate at the 11<sup>th</sup> hour. If a deal isn't reached, there could be serious consequences for consumers.



President Obama and House Speaker John Boehner

## Another Recession Looms

The so-called fiscal cliff refers to the end of 2012, when provisions of the Budget Control Act of 2011 go into effect. That law provides for \$500 billion in tax increases and \$200 billion in spending cuts, according to the Washington Post, which adds, "That's equal to about four percent of GDP, which is, according to the Congressional Budget Office, more than enough to throw us into a recession."

Five expiring tax measures and four spending cuts are expected to deliver the one-two punch, absent a deal. Democrats generally want to extend tax cuts for all but the most wealthy Americans, and Republicans want to preserve those cuts.

"The two parties also disagree about how and where to cut spending," according to the Post. "Republicans want to make more dramatic reforms to Medicare, Medicaid, and other entitlement programs, as well as bigger cuts to domestic discretionary spending."

## Confidence Plummets

Consumer confidence has decreased as the cliff has approached, according to several different studies. The Conference Board Consumer Confidence Index declined in December. "Consumers' optimism about the short-term outlook plummeted in December," according to the Board.

"The percentage of consumers expecting business conditions to improve over the next six months declined to 17.6 percent from 21.3 percent," according to the most recent index, "while those expecting business conditions to worsen increased to 21.5 percent from 15.8 percent."

"Discounted prices and record low interest rates have forestalled declines in buying attitudes, but consumers are likely to reduce purchases if income or payroll taxes increase in 2013," said the University of Michigan Institute for Social Research, which sponsors a monthly survey of consumers.

## Twin Factors, Little Hope



"The 'cliff' effect has already hit the economy," says Alvin Lurie, a lawyer with the Wagner Law Group in Boston. Lurie, who recently wrote about the fiscal cliff for the Workplace Prof Blog, tells Lawyers.com the public is also suffering from a loss of confidence that negotiating leaders will reach an agreement.

He points to disappointing Christmas sales and a declining stock market as evidence. "These in turn feed on themselves and radiate throughout the economy," he explains. "So bad things are already happening."

"The longer this impasse drags on, the more drastic will its effect be, even if the two prongs of the cliff - drop in government spending and rise in taxes across the board - do not immediately come into force," says Lurie.

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Alvin D. Lurie

“Since there are these twin factors, each impacts the economy – spending cuts which Obama resists and higher taxes which the Republicans resist. Both can hurt consumers and the stock market, and thus the economy at large,” he

adds.

He says solving the problem would take fine-tuning, but, Lurie adds, “there is little reason to expect either side is capable of rational action. One can only hope I’m wrong.”

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