Inforum Study Outlines Economic Effects of the Fiscal Cliff

Press Release

October 26, 2012

On behalf of the National Association of Manufacturers,[1] Inforum conducted a study of the economic impacts of fiscal policies currently scheduled to be implemented at the beginning of 2013. These policies include the expiration of tax rate cuts from 2001, 2003, and 2010 and the reduction of federal spending called for by sequestration. The report's findings include:

- Combined, the pending increase in federal tax increases and expenditure reductions total over 3 percent of GDP in 2013.
- Because of the uncertainty surrounding fiscal policy, consumers and businesses already have reduced spending significantly, cutting perhaps 0.6 percentage points of annualized GDP growth over 2012.
- Compared to a baseline of moderate growth, the level of GDP will be at least 3 percent lower in 2013 and almost 5 percent lower in 2014.
- By 2014, the fiscal contraction will result in the loss of almost 6 million jobs compared to the baseline, and the unemployment rate could reach over 11 percent.
- Given the increase in tax rates, real personal disposable income drops almost 10 percent by 2015, compared to the baseline.
- It will take most of the decade for economic activity and employment levels to recover from the fiscal shock. In addition, there is a significant threat that another recession could deal a substantial blow to long term economic potential, permanently reducing living standards in the American economy.

Jeff Werling, author of the study and Executive Director of Inforum, noted that "one of the most important lessons learned since the financial crisis is that when consumers are deleveraging and the interest rate is stuck at zero then fiscal multipliers are particularly large. We saw this with the positive effect of the stimulus program through 2010, and we certainly have noticed this with the disastrous austerity programs across Europe." He concludes: "It is clear that resolving the federal deficits will require both significant discretionary spending cuts and revenue increases. Ultimately, we will have to restructure entitlement programs as well. But such measures must be accomplished steadily and gradually over time so as not to unduly harm near term economic growth. Instead, beginning in 2001 and culminating with the debt ceiling debacle of 2011, we have engineered a fiscal train wreck that would have enormous consequences to economic growth now and into the future. We need to change course as soon as possible."

A press release prepared by the National Association of Manufactures, a report summary, and the full report are available from the NAM web site.[2]

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[1] National Association of Manufacturers, http://www.nam.org.

[2] http://www.nam.org/Communications/Articles/2012/10/Manufacturers-Fiscal-Shock-Already-a-Drag-on-Economic-Growth.aspx, http://www.nam.org/~/media/CF4C211314D340B08E2C6AA4FFD07FBB.ashx, and http://www.nam.org/~/media/CF4C211314D340B08E2C6AA4FFD07FBB.ashx, respectively.

ADDITIONAL INFORMATION:
Inforum stands for the INterindustry FORecasting project at the University of Maryland. Since its founding forty-five years ago, Inforum has been dedicated to improving business planning, government policy analysis, and the general understanding of the economic environment. For information regarding Inforum's research, forecasts contact Jeffrey Werling, Executive Director of Inforum and Faculty Research Associate in the University of Maryland's Department of Economics. He may be reached at (301) 405-4607 or werling@econ.umd.edu.

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