

Fiscal Policy Case Study

Navigating the Fiscal Cliff

POLICY CONTEXT

In late 2012, the U.S. was in the midst of an extended period of intense political partisanship. Congress was in a stalemate on nearly every issue. In particular, fiscal policy came to a standstill. By the end of the year, it became clear that Congress would be unable to agree on a budget. Congress had previously mandated in 2011 that if a deal were unable to be reached, certain automatic budget cuts and tax increases would be enacted on January 1, 2013. As it became known, the “fiscal cliff,” included the expiration of the Bush tax cuts, the expiration of the payroll tax holiday, and spending cuts across most federal agencies. Amidst a fragile economic recovery, such sudden and substantial fiscal contraction would certainly have a significant impact on economic growth. Clients were deeply concerned about whether the U.S. would indeed “go over the fiscal cliff”, and if so, what it would mean for the U.S. economy.

APPROACH

Keybridge's economists provide a number of services to clients concerned with fiscal policy and how it might impact the U.S. economy and their business. Through regular correspondence, Keybridge has delivered timely and insightful analysis and guidance to clients.

- (1) *Political Analysis:* Keybridge closely follows the latest movements in the Administration and Congress to gauge the overall political climate, appetite for compromise, and balance of power on fiscal policy issues. Based on more than 30 years of “inside the Beltway” experience, Keybridge's economists and policy experts sort through political theater and noise to determine the range and likelihood of political outcomes.
- (2) *Webinars:* Shortly after the November 2012 election, Keybridge hosted a webinar to discuss the election results and implications for fiscal policy. Dr. Robert F. Wescott, PhD (economist and President of Keybridge) and Eric Ueland (political expert and Vice President of Duberstein Group) identified the key political and economic themes, handicapped a range of plausible fiscal policy scenarios, and discussed their potential economic impacts.

RESULT

Keybridge's advice on fiscal policy issues helped elucidate Washington politics and fiscal policy outcomes for clients, which in turn helped them make more informed and strategic business decisions. Global investors have gained greater understanding of the timing and magnitude of fiscal policy actions (or inaction). Chief Economists at Fortune 100 companies garnered new insights that they have used to advise their executives on key strategic decisions amidst heightened political uncertainty; and trade associations have used Keybridge's views on fiscal policy to help shield their members from adverse policies and/or unintended consequences of policy shifts.