

Time to Pull Back from the 'Fiscal Cliff'

Written by Harry C. Alford

Friday, 21 September 2012 08:15



Beyond the Rhetoric

Ignorance is not bliss. However, there are too many of us who are ignoring the discussion about a legislative maneuver known as “sequestration.” This is also known by a more descriptive term – “fiscal cliff.” (Federal Reserve Chairman Ben Bernanke is credited with coining the phrase). Unless this is updated, all financial rules and budgeting will come to a halt on December 31, 2012. Let me tell you about a few of the programs that are at risk.

One program is the funding of our military. If we don't fix the fiscal cliff, our forces will be reduced by 300,000. America would then have the smallest military troop since 1940. That small force tempted Nazi Germany and Imperial Japan and led to World War II. Putting troops in the unemployment lines and reducing our ability to defend ourselves may quite easily put us into a serious war with a major opponent.

Another vital program is the Transaction Account Guarantee. This FDIC program, which is fully paid for by the banking industry, provides insurance for checking accounts. If Congress fails to extend the TAG coverage beyond its December 31 expiration, approximately \$1.4 trillion in deposits will become uninsured overnight. This could be devastating to our local communities. Imagine all the small business owners, households and others having their cash flow at total risk. Abruptly ending this deposit coverage will disproportionately affect minority-owned businesses and their local lenders. Small banks make more than 60 percent of all small business loans and use this coverage to support local lending. Because our economic recovery remains fragile, allowing this coverage to expire carries the risk of countless unintended consequences for small businesses just regaining their footing from the past recession. A high percentage of our banks will close their doors and reduce capital access even further.

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Besides the banking industry all corporations and individual stock owners will lose value. If the fiscal cliff occurs the current tax rate on stock dividends will increase from 15 percent to more than 49 percent. This will quickly cause personal investors avoid straight stock purchases. Wall Street will do the same. The value of many of our corporations, pension funds and local governments will drop immensely. Plants, jobs, retirements plans will begin to shrink and many will go away. Many companies will move their headquarters abroad for a more business friendly environment. Every community and household will feel this pain.

If you are on Medicare the pain will also hit there. The amount of payment going to your doctor will decrease by 30 percent. You are going to be responsible for paying that portion of the bill.

If you do business with the federal government, you are at serious risk. Invoice payments will be seriously delayed – if you get paid at all. A noticeable amount of federal vendors may face economic ruin, forcing them to close down. For those surviving, plan on going into international other markets.

To avoid this calamity, all Congress needs to do is come to agreement, but that hasn't happen in over a decade. I pray that they snap out of it and start realizing that this nation's future is on the line. Sometimes I am confident that they will but then I realize that the Senate has been operating without passing a budget in three years.

According to Wikipedia, if there is no legislation, come January 1 we will see: 1) The expiration of the 2-year extension of the Bush tax cuts provided for in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. 2) The expiration of a Social Security payroll tax cut, most recently extended by the Middle Class Tax Relief and Job Creation Act of 2012. 3) Across the board spending cuts to most discretionary programs as directed by the Budget Control Act of 2011. 4) The expiration of federal unemployment benefits. 5) New taxes imposed by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. 6) The expiration of measures delaying the Medicare Sustainable Growth Rate from going into effect and 7) The reversion of the Alternative Minimum Tax thresholds to their 2000 tax year level.

And that's just on January 1. The rest of the damage will all occur by the end of March.

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Failing to write legislation will have global implications. Nations holding our debt, such as China, Japan and Great Britain, will start panicking. Our dollar will start shrinking. Our economic growth will slow to about 1 percent during 2013. It all sounds very frightening – and it is! If the Senate and House decide to act, they will do it during the appropriately named “lame duck” session after the elections. We should all pray that they do.

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