Name:

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Tax Cut Impacts

Low tax cuts leads to an increase in consumer spending power due to a rise in discretionary income. Citizens will keep more of the gross income and ultimately more money available for spending. In addition, there would be a rise in the growth of the economy since consumer spending power is one of the components of aggregate demand, thus an increase in spending leads to a rise in aggregate demand and ultimately economic growth (Hoffman et al p 12 ).

The spending power of the citizens is however likely to vary given some may prefer saving the extra amount of money at their disposal. Moreover, there is a likelihood of decline in the level of exportation, a decline in house prices and a probable increase in unemployment in states that implement tax cuts (Hoffman et al p 15 ). In a nutshell, the effective implementation of tax cuts is highly dependent on the state of the economy; if the tax cuts are done during recession, they are likely to make the aggregate demand fall.

The move however has dire consequences that end up affecting the entire economy of state. A case in point Texas state that has for a long time been struggling covering the ten billion revenue gap that could be used for financing public services. Low taxation also has negative effects on the economies of states in as much as the move may be appealing (Murphy p 20). Reason being, state governments will have a hard time financing the operation of schools as well as additional services within the states. A move that will directly hinder effective provision of public services.

The revenue gap will also force the government to consider borrowing in a bid to meet the revenue shortfall thus increase in government borrowing. On the other hand, the state government can opt to increase productivity in a bid to offset the decline in level of revenue (Murphy p 23). In conclusion, tax cuts are more harmful to the economy of a state more than it would ever benefit the citizens.

Works Cited

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