DeFi and a Balanced US Budget

By: www.ProfitableInvestingTips.com

Despite all of the fuss and bother the US will somehow get past the current debt limit crisis. Then they will have to address the problem of a steadily climbing national debt. The argument regarding these issues is typically about what happens as the debt grows and grows. But what happens if they solve the issue by balancing the budget. For folks in the world of cryptocurrencies and related businesses this could be a major issue. How about DeFi and a balanced budget brought about by lower spending and/or higher taxes?

DeFi Did Not Exist the Last Time They Balanced the Budget

It was at the end of the Clinton administration when the US last had a balanced budget. It did not last long because as soon as Republicans took over during the Bush II administration, they cut taxes and deficits resumed. **DeFi** did not come into existence until 2015 with the introduction of the Ethereum blockchain and smart contracts. During the first years of DeFi's existence interest rates were historically low and cryptocurrencies were on the rise. Decentralized finance businesses all too often relied on a rising crypto tide as the basis for their business plans. Crypto winter caused all **crypto businesses plans** to be adjusted. This included decentralized finance businesses. Will Congress and the President manage to balance the budget on top of averting a debt ceiling crisis? If so, DeFi businesses may need to make more adjustments in their business models.

How Will a Balanced Budget Affect the Economy?

If Congress and the President want to balance the budget, they will need to raise taxes, cut spending, or do some of each. Now we need to consider if higher taxes will result in less spending, lower net earnings, and a downturn of the economy. Will the stock market fall and take cryptocurrencies with it? Economists tell us that to balance the budget without raising taxes they need to cut every budget item by 18%. Alternatively, they can keep military spending, Social Security, and Medicare the same and cut other items by at least half.

What Happens if They Raise Taxes to Balance the Budget?

When taxes go up that reduces the amount of money available for investment, savings, and spending. Surprisingly, tax increases tend not to hurt the stock market. They do, however, affect consumer spending for those whose taxes go up. Sufficiently less spending would slow the economy. That would mean lower income and less money paid as taxes. Less tax revenue would mean Congress and the President would need to further cut spending or raise taxes to keep the budget balanced. This could become a downward cycle driving the economy into a prolonged recession. We would not expect to see DeFi be exempt from factors that drive the business cycle and the economy. Thus, the effect of higher taxes and reduced spending on DeFi would likely be negative.

Is DeFi Isolated from the Regular Economy?

An argument for crypto up until crypto winter was that crypto was unique and separate from the rest of the economy. Then inflation hit and crypto was not a hedge against it. Interest rates went up and crypto followed the stock market down. Russia invaded Ukraine and crypto was not a refuge in times of economic and social unrest. While decentralized finance using smart contracts is an efficient way to do business without using banks and other middlemen, it is still affected by things that drive the regular economy. Thus, folks working in DeFi, just like everyone else, need to think about how balancing the budget with a combination of higher taxes and less government spending will affect their bottom line.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

Educational Resources

Click the links below to get your FREE training materials.

Free Weekly Investing Webinars

Don't miss these free training events!

http://www.profitableinvestingtips.com/free-webinar

Forex Conspiracy Report

Read every word of this report!

http://www.forexconspiracyreport.com

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

http://www.candlestickforums.com

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.