

Major Debates Over Macroeconomic Policy

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There are a number of unresolved macroeconomic issues currently hitting up political debates in the United States of America. However, the most discussed issues are the active monetary and fiscal policies and increased government spending that are aimed at fighting recession. These two macroeconomic issues make up today's most discussed microeconomic issues in America. The economist and even the society are all concerned about the future economy and the future markets for their goods and services. Consumers are also worried about future prices if the current condition goes unchecked. This paper, therefore, will discuss the two macroeconomic issues from both the advocacy side and the critics' side while trying to bring out the effects the two policies can have on the economy if they are implemented.

Active Monetary And Fiscal Policy

The active monetary policy consists of resolutions set by the government with the aim of controlling the money supply and interest rates in the economy. This is done by the Federal Reserve Board, which is responsible for deciding which monetary policies should be implemented at a certain time and why. This monetary policy can have significant effects on the long-run rate of inflation, prices, and other real or nominal variables that run the economy. This is because monetary policies basically have the power to control the buying and selling in the economy. This is possible because monetary policies can have the power to add or remove the amount of money circulating in the economy. This consequently affects the amounts of money that firms and individuals are willing to spend (Bianchi & Ilut, 2017).

Fiscal policy, on the other hand, involves the government's action to change the tax rates and the level of government spending so as to change the amount of money circulating in the economy. There are two types of fiscal policies, and the expansionary fiscal policy is the one that is commonly used. It stimulates economic growth by increasing government expenditure and reducing tax rates, thus increasing the amount of money circulating in the economy. The main aim of this policy is to increase the amount of money in the consumers' hands, thus making them spend more. This ensures that businesses continue running and increases the number of jobs in the economy. The expansionary fiscal policy is impossible for state and local governments. This is because they have a mandate to maintain a balanced budget for the state (Bianchi & Ilut, 2017). Therefore, if they are not able to create a surplus during the boom period, they must cut on the expenditures during the recession. The second type is the contractionary fiscal policy. This works by increasing taxes and reducing government expenditure. This policy is not commonly used as it slows economic growth. This kind of fiscal policy is only used when the government is aiming to curb inflation in the economy.

There are different debates regarding the two policies that are there to help run the economy. There are those who advocate for the policies and how they have helped the United States Economy. However, there are those who feel the policies have more harm to the economy than benefits. For instance, there have been continuous debates by politicians regarding which one works better. The advocates of supply-side economics prefer tax cuts by the government, a factor that will consequently increase the demand for their goods and services. They argue that this move will ensure that business continues running and also be able to create more jobs, thus reducing the rate of unemployment in the country.

Tax cuts will also motivate new inventors to venture into business and create more jobs, thus reducing unemployment. On the other hand, advocates for the demand side argue that additional spending is much more effective than cutting taxes (Sims, 2016). For instance, the public works or the unemployed benefits give consumers money directly, thus enabling them to go out and buy the products and services the business offers. However, this side of the argument is criticized by many people, who tend to argue that it does not facilitate any form of development. Tax cuts and tax incentives to businesses affect a lot more aspects than public expenditure. This is because tax cuts lead to the development of businesses that help the government in reducing unemployment in the country. In addition to that, the contractionary fiscal policy is not subjected to debates as it is rarely used. But when the policy is used, critics tend to argue that it only retards the development of a nation. This is because most businesses shut down, and others cut down the number of employees since the amount of money circulating in the economy is limited (Sims, 2016). However, for the advocates, this is the only shot in most countries that have been hit by inflation. The fiscal policy helps stabilize the country's economy by reducing the amount of money circulating in the economy. This further reduces the amount of money consumers are willing to spend, thus reducing demand and, consequently, the prices of goods and services.

On the other hand, monetary policies are entirely executed by a country's central bank. The policy utilizes a number of tools, but it primarily raises or lowers the fed funds. This, in turn, guides the other interest rates charged by banks and other money-lending institutions. When the interest rates are low, people tend to borrow more, thus increasing the amount of money in circulation in the economy. The economy heats up, thus avoiding a recession. Most countries separate the central bank from any influence by politicians or any other party.

In the United States, the Federal Reserve Bank is tasked with a primary mandate of achieving maximum employment and price stability (Sims, 2016). But when a country's economy grows so fast, the rate of inflation also increases as the amount of money in the economy increases with the development of the economy. In this case, the central bank will enact policies meant to reduce and tighten the amount of money supplied to the economy. This effectively lowers the amount of money circulating in the economy and also the rate at which new money is pumped into the system. One of the tools used by the central bank is raising the prevailing risk-free interest rates. This increases the cost of money and thus increases the borrowing costs. This, in turn, reduces the demand for money a factor that leads to a reduction of loans in the economy due to the high interests charged.

Regarding the monetary and fiscal policies, it is evident that the policies, in one way or the other, help in stabilizing the economy. For instance, in the case of inflation, monetary tools help in regulating the rate of inflation in any economy. The imposition of interest rates targeting to control inflation in the country helps regulate the rate at which the economy is growing. In addition to that, monetary policies are free from any influence by politicians or any other interested parties, as the central banks in many countries operate as independent entities. Therefore, using monetary policies to control the economy is the best shot a country has. In addition to that, monetary policies can be implemented fairly easily as banks act independently without subjecting their decisions to debates, as is the case with fiscal policies.

The fiscal policy, on the other hand, uses taxation rates and government expenditure to control the economy. The process of decision-making involves long debates and discussions, but when the policy is finally passed, it has a direct influence on the economy. For instance, there is increased employment, thus helping the government curb another aspect of macroeconomics. The effects of the policies are faster than those of monetary policies. Therefore, from the arguments above, I choose to advocate for the active monetary and fiscal policies since they are the real drivers of the economy. An active fiscal policy will ensure a constant check on the amount of money circulating in the economy. An expansionary policy will lead to increased investments and, consequently, the creation of employment. The monetary policy, on the other hand, will help maintain the levels of inflation in the country, thus facilitating the continuous development of the economy.

Increased Government Spending To Fight Recession

A recession in economics is a business cycle that results in a general slowdown in economic activities. It is indicated by the macroeconomic indicators such as the gross domestic product, capacity utilization, household income and investment spending. There has also been an increase in the rate of unemployment and bankruptcies in the economy. Recessions occur due to a widespread drop in spending. This may be due to a series of events like a financial crisis, external trade shock or the bursting of an economic bubble. Governments mostly respond to this situations by applying the tools of macroeconomics such as reduction of taxes and increasing of government. The most recent recession in the US has made policymakers apply macroeconomic tools to mitigate the downturn. One of the most used tools is government expenditure, where the government is actively purchasing goods and services (Nevile & Kriesler, 2016). The idea behind this is that the government demand can offset the weak demand of the households. However, for this policy to be effective, the government needs to know the extent to which its spending can stimulate the economy, especially in the case of a severe recession.

An increase in government spending typically increases the amount of money that is in circulation in the economy. This provides households and firms with enough money in their hands that they can

spend. This availability of cash stimulates an increase in demand for goods and services. An increase in demand means that businesses will stabilize and others will start. This will not only increase economic development but also facilitate job creation, thus increasing the gross domestic product. A reduction in the rate of unemployment in an economy means that there is an increase in the national per capita income, thus further increasing household spending. Government spending also reduces the cost of production as most firms are subsidized by the government, and taxation rates are also reduced. A reduction in production costs means that there is a reduction in the prices of commodities. This means that the overall prices of commodities will be reduced, thus increasing demand for goods and services.

However, in increasing its expenditure, the government should be keen not to pump so much money into the economy. Since so much money will be spent on the economy, it will lead to increased inflation. Advocates of the idea of increasing government spending to fight recession argue that government spending is the key to saving an economy from a recession. This is because government spending increases the amount of money in the economy, thus increasing the demand for goods and services. This will attract investors and produces to produce more goods and services, thus helping businesses that could have collapsed stabilize (Nevile & Kriesler, 2016). Stabilization of businesses in the economy means more profits that, in turn, contribute to the gross domestic product. In addition to that, increased government spending will give people confidence in their spending as they will not be afraid of losing their jobs. People will stop saving more of their money and start spending.

Advocates of this policy argue using the paradox of thrift, where people are nervous about saving more, which is a factor that leads to a reduced consumption of goods and services. The government will also try to use the expansionary fiscal policy that involves the reduction of tax rates and increasing its spending. This will cause higher government borrowing since there will be a higher budget deficit. Critics take this into the hand as more government spending and lower taxes mean that there will be a large deficit in the budget. This leads to the government resolving to borrow so as to meet the increased expenditure. This may save the day in the short run, but it has adverse effects on the value of the dollar in the long run. This is due to the lower interest rates and lower taxes. Critics believe that instead of increasing government expenditure, the government should use tax reductions to stimulate consumers to spend. In addition to that, reduction in taxes will lead to an increased business development in the economy (Traum, & Yang, 2015). Tax incentives will lead to new investors venturing into business in the economy, thus creating employment and increasing the gross domestic product.

In my opinion, government spending can be used as a tool to fight the recession. But to some extent, it will lead to increased government borrowing that will increase the national debt which will not be favourable to the economy. In some cases, government spending will lead to an increase in the amount of money circulating in the economy, which may lead to inflation and devaluation of the currency. However, in order to achieve the maximum impact of fiscal policies, the government should use both tax reduction and increased government spending. Reduction of taxes leads to more people investing in the economy, thus creating employment.

The increase in government expenditure. In addition to that, tax cuts make workers want to work more since they know they will have more at the end of the month (Traum & Yang, 2015). This will lead to an increase in the per capita income. The unemployed also will be aggressive in looking for employment due to a reduction in taxes. This will lead to the creation of businesses and also more people getting employed, thus contributing to the gross national product. Finally, government spending to fight recession is a good move in the short run as it pumps money directly into the economy. But if it continues for a long time, it will lead to inflation as a lot of money will circulate in the economy. On top of that, the government will increase the national debt that will be carried forward to the next generations to pay, thus inhibiting economic development. Therefore, in trying to fight the recession, the government should not use increased spending. Instead, it should reduce taxes or use both fiscal tools to stabilize the economy.

In conclusion, the government should take into consideration all the macroeconomic aspects before making a decision to implement a certain policy. There are other policies that may solve the current issue in the short run but have adverse effects in the long run. For instance, the increase in government spending may help fight a recession. However, if the spending is not checked, it may lead to the accumulation of national debt to levels that may be unhealthy for the economy in the future. In addition to that, government spending may lead to too much money in the economy a factor that may contribute to increased rate of inflation. Therefore, governments and the economic drivers should consider all the factors and outcomes before implementing a certain economic policy.

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