

Fiscal Policy

An Introduction to Basic
Fiscal Policy Options

Learning Targets

- I can explain what fiscal policy is, and discuss the different policy options available to state and federal government.
- I can discuss the details and merits of both expansionary (easy) and contractionary (tight) fiscal policy.
- I can evaluate the distributive effects of fiscal policy options.

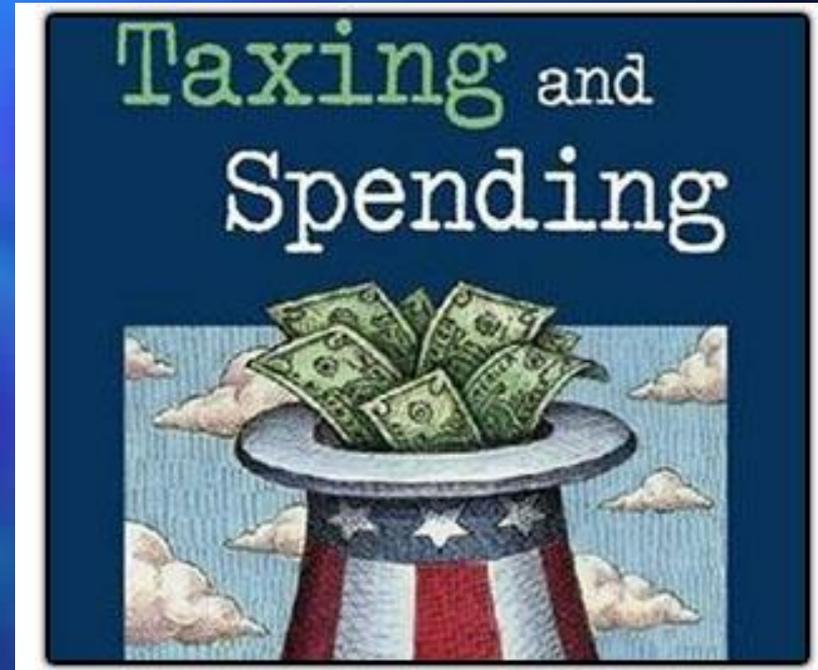
What is it?

- The use of government revenue collection (taxation) and expenditures (spending) to influence the economy.
- It is NOT “*physical policy.*”



In the simplest sense...

- The provides services to people. (roads, schools, a navy, etc.)
- It collects taxes to pay for that.
- Sometimes, that's all there is to it.



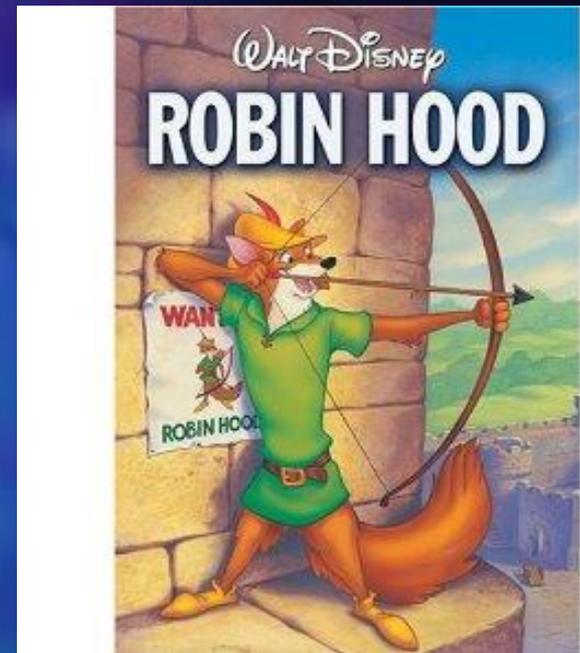
Incentives

- Other times, we use tax policy to influence behavior.
 - Tax credits for investments, charitable donations, etc.
 - Tax penalties for certain behaviors (like smoking)



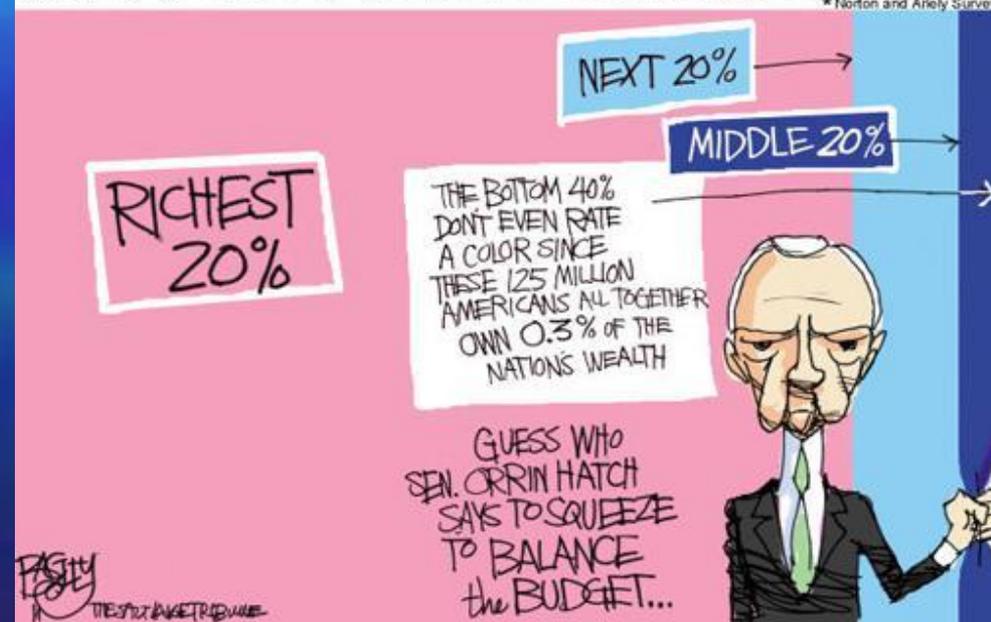
Redistributive effects

- Sometimes, we get really creative.
 - You can collect taxes from one group of people, and spend that money in a way that benefits another.
 - This can go many different ways.



WEALTH DISTRIBUTION in U.S.*

* Norton and Anely Survey



Economic Controls

- We often use fiscal policies to influence economic growth.
 - If there isn't enough money being spent, the government can spend some and create growth.
 - If there's too much growth, the government can slow things down.



Advantages/Disadvantages

- We can be very specific and focused with the spending.
 - Who are we taxing?
 - Who are we spending it on/giving it to?
- It isn't permanent.
- Typically popular.
- Potential for deficit/debt problems.
- Relatively slow.
 - Requires legislatures to pass laws, governors and presidents to sign them, etc.

Fiscal Policy Options

- Fiscal Policy can go in two directions.
 - An Expansionary (Easy) fiscal policy would encourage economic growth.
 - A Contractionary (tight) policy would slow down growth



Two Schools of Thought

- Supply side (or trickle-down) economists:
 - Use fiscal policy to influence investors.
 - You have more control over the economy when you deal with producers
- Demand side (Keynesian) economists:
 - Use fiscal policy to influence demand.
 - You have more control of the economy when you deal with consumers.

Why an “easy” policy?

- If there is no growth in the economy.
- If unemployment is high.
- If there is a lack of investment (homes being built, businesses started, etc.)



Expansionary (Easy) policy

- Supply-siders would want to see:
 - Tax cuts, particularly for wealthier Americans in the best positions to invest large sums of money
 - Why?
- Keynesians would want to see:
 - More government spending.
 - Tax cuts for the middle and poorer classes, to help them buy more stuff.
 - Why?

Why a (tight) policy?

- If unemployment is “too low.” (huh?)
- If inflation is a problem
 - With everyone having a job, demand goes up.
 - So then, do prices.



Contractionary (Tight) Policy

- Supply-siders would want:
 - Increased taxes.
 - Why?
- Keynesians would want:
 - Less government spending
 - Raise taxes on consumption.
 - Why?

Criticism of Fiscal Policy

- Government spending can drive up labor costs and “crowd out” other firms.
- Serious, serious debt problems.
 - Spending more money than you have is problematic if you lack the discipline to balance it back out later.
 - Seriously. 16 trillion dollars. That’s \$16,000,000,000,000. Count the zeroes. That’s more zeroes than I have dollars. It’s so hard not to type a rant right now. How does this happen? It took me longer to type the number than to do anything in this presentation. How did we ever get that bad? I can’t even begin to count that high. One, two, three, lots. That’s all I got. Wth. Can we just nuke it all and start over? When’s the rapture, or zombie apocalypse, or mayan calendar thingy supposed to happen? Whatever, it hurts to think anymore. I’m totally starting to understand how MTV is popular. 5 minutes of “real housewives of wherever” and I lose the ability to even care about math anymore. Blaaaaaaaaaargh. I just need my own caribbean island or something. Maybe learn Icelandic, or Klingon, or something. Maybe I’ll just beat my head with this stapler. Twelve frickin’ zeroes. Unbelievable.