Chapter 15: Fiscal Policy

Section 1: Understanding Fiscal Policy

* Fiscal means “basket” or “bag”
* The word came to be linked with a bag of money.
* It specifically means a bag or pool of money held by the government.
* **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** – the use of government spending and revenue collection to influence the economy.
* Fiscal Policy as a Tool
  + The federal government spends about $435.8 million every hour.b10.45 Billion per day.
  + Fiscal policies are used to achieve economic growth, full employment, and price stability.
  + Fiscal Policy decisions – how much to \_\_\_\_\_\_\_\_ and how much to \_\_\_\_\_\_ – are important decisions made by the Gov’t.
* The Federal Budget
  + It is a written document indicating the amount of money the government expects to receive for a certain year and authorizing the amount the government can spend that year.
  + **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** – the twelve month calendar year. US Government runs October 01st to September 30th.
  + Before the budget can be put together, each federal agency writes a detailed estimate of how much it expects to spend in the upcoming fiscal year.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the agency that puts together all requests.
    - OMB is part of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
  + Most agencies have to defend their request to the OMB.
  + The President takes the budget that is prepared by the OMB and presents it to Congress in January or February.
  + Congress can make changes to the budget as they go over the budget requests.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ helps congress economic data to make the decisions about the budget.
  + Small committees do the work of Congress in both houses.
  + Either house can hold hearings to gather more information on the budget requests.
  + In early September, Congress votes on the budget.
  + The President signs the budget or vetoes it.
* Fiscal Policy & the Economy
  + The government officials who work with the budget decide how much should be given to each agency.
  + **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** - fiscal policies that try to increase output.
  + **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** – fiscal policies intended to decrease output.
  + Expansionary Policies
    - The Government uses these to raise the level of output in the economy.
    - They try to encourage \_\_\_\_\_\_\_\_\_\_.
    - 2 ways to do this:
    - Increase government spending.
    - Cut taxes
  + Contractionary Fiscal Policies
    - The government tries to decrease aggregate demand (demand in the whole economy), by decreasing demand they reduce the growth of economic output.
    - 2 ways to do this:
    - Decrease government spending
    - Increase taxes
    - Limits of Fiscal Policy
    - This is difficult to practice.
    - It is hard to increase or decrease the amount of government spending.
    - Mostly because of spending on entitlements is hard to control.
  + Predicting the future is difficult to determine.
  + The changes in fiscal policies are to try prevent big changes in the level of \_\_\_\_\_\_\_
  + It is hard to predict the changes in the economy.
  + Delayed results happen when changes are made and the time frame to implement them. It can’t happen overnight. It could take months
  + Political Pressure by Congress and/or the President to practice \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ fiscal policy – more popular with the people in the country.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ fiscal policy is not popular with the people.
  + You also have to coordinate fiscal policy with the different agencies.
  + Each region of the country could be facing different economic conditions.
  + Some states may have rising unemployment and other states may face rising prices and the fiscal policy may not work in all states at the same time.
  + Some changes may “cool” the economy and lead to a recession.