Fiscal Policy Essay, Research Paper

Policy that uses taxation and government spending to steer the economy.

Fiscal policy describes two governmental actions by the government. The first is taxation. By levying taxes the government receives revenue from the populace. Taxes come in many varieties and serve different specific purposes, but the key concept is that taxation is a transfer of assets from the people to the government. The second action is government spending. This may take the form of wages to government employees, social security benefits, smooth roads, or fancy weapons. When the government spends, it transfers assets from itself to the public. Since taxation and government spending represent reversed asset flows, we can think of them as opposite policies.

During the Great Depression, unemployment was high and production along with spending was completely down. In this large sea of chaos one voice was loud enough to be heard. This was the theory of John Maynard Keynes; he proposed the idea that government has the responsibility to keep the economy running smoothly, and the only way to do this was by government spending. At first Roosevelt and his advisors were not to optimistic of Keynes?s ways. Although by the end of the 1930?s and at the beginning of World War II, Roosevelt had cut taxes and increased government spending.

When Harry Truman took over as president he stated, ?War is hell, but peace maybe worse?. Truman was pretty much saying that without the mass production from the war business will decrease their employment leading the country back into the depression. To prevent this from occurring, Truman set-up the Economic Council of Advisors in 1946, and to this day they still meet with the president. Also the Full Employment Bill was signed in Jan. 1945, giving the right to be employed. The 1950?s brought automatic stablizers such as Socil Sercurity and unemployment. These actions lead to a great decade of prosperity of the American people.