Fiscal and Monetary Policies Adopted during Great Recession and Impact on U.S. Economy

Economic recession refers to a period of general decline in the economy (Elwell 2010). The falling economic activities may last for months. It is characterized by a collapse in the financial sector, inflation, and high unemployment levels among other factors. In the year 2008, the United States of America experienced this scenario (Elwell 2010). During this period, there was an increase in federal debts, fall in private residential investments and rise in petroleum prices. Unemployment rates moved from 5% to 10% reflecting a 10 million decline from 2008 to 2009 (Elwell 2010). The federal government had to adopt fiscal and monetary policies to restore economic growth (Rochon 2011). The following essay explains the impacts of the policies that have since been used to restore economic growth and development.

Fiscal policies are measures put in place to regulate government spending and taxation (Baumol et al. 2015). In periods when there is low demand for goods and services, the government lowers its level of taxation (Rochon 2011). As a result, the purchasing power is enhanced. Increasing the real income of consumer will reflect on the improved gross domestic product as well as in the per capita incomes (Baumol et al., 2015). Living standards will improve as people can access basic commodities. Further effects are seen in increased number of jobs created. A reduction in tax level leads to high investment expenditure (Rocho 2011). Having created the incentive to invest, private sector investments also increase. As result, more employment opportunities are created thus reducing the level of unemployment.

Baumol et al., (2015) argues that government expenditure is also used as a fiscal tool to regulate the economic activities. It has direct effects on incomes, national output as well as on the revenue. During the recession, the government spends more to increase private spending

(Rochon 2011). Additionally, expenditure on public works such as building roads, schools and airports will help absorb the unemployed labor (Baumol et al., 2015). They also serve as useful assets in enhancing industrialization process. Reducing the amount of money spent on public works leads to a fall in the effective demand (Baumol et al. 2015). As the disposable income of consumers reduces, their purchasing power also declines. The growth of the economy is enhanced with a strong incentive for industrial growth through investment in public works.

Monetary policies refer to activities carried out by the government through federal bank to regulate money supply in the economy. Monetary tools such as bank reserve requirements, open market operations, and bank rates are used (Rochon 2011). As an expansionary measure, when the demand for goods and services is low, bank reserve rates are reduced. The lessening of the amount of money held by the commercial banks leads to an increase in purchasing power (Baumol et al. 2015). Open market operations such as selling and buying of securities are also used (Rochon 2011). The federal bank can buy securities to increase the amount of money flowing into the economy. Raising funds flow also involves reducing bank rates (Elwell 2010). A reduction in the rate at which banks borrow money from the federal bank will enable commercial banks to give loans at low-interest rates.

Government intervention to save the economy from recession involved the use of demand side policies. Majorly expansionary monetary and fiscal policies were used (Elwell 2010). As a result, some extent of success has already been achieved. A move to ease the economic hardship was made through the economic stimulus Act of 2008 (Elwell 2010). As a fiscal policy strategy, the federal government used tax rebates. Each family received an additional amount of tax back. For instance, in 2008, households received 152 dollars. An increase of up to 1200 dollars in 2009 was remitted to each family (Elwell 2010). A business incentive tax credits were also used.

Consumers increased their expenditure through this enticement. Loan limits were increased to enhance economic growth as well. These fiscal measures adopted stimulated economic growth.

Government expenditure as a fiscal policy tool was adopted. Resources were channeled through public works (Elwell 2010). It is one of the most labor-intensive projects. Putting up major infrastructures such as building roads, establishing large power generation plants were undertaken. As more workers were absorbed in the newly created employment opportunities, the economy gradually moved from recession (Baumol et al., 2015). A more balanced budget was created. It formed the basis of future recession while solving the ongoing situation that was at hand. For instance, deficit financing was adopted to enhance consumer confidence and increase the effective demand (Elwell 2010). Additionally, expenditure on public works generated substantial assets which are incentives to future economic growth.

Monetary policy measures were also implemented. Since recession necessitated the reduction of interest rates, bank rates could not be lowered further (Elwell 2010). Such attempts would have led to negative rates of interest resulting in the worse economic situation. However, other measures such as open market operations were adopted (Elwell 2010). Quantitative easing was part of the recovery actions taken. It involved purchasing of corporate bonds. As an expansionary measure, assets from the organization were bought by the federal bank (Rochon 2011). The use of cash in this transaction helped increase the amount of money supplied in the economy. Due to these measures, unemployment had gradually reduced from 9.5% in 2008 to 5.8% in October 2014 (Elwell 2010). Labor Force Statistics showed an improvement in the creation of jobs as a result of the quantitative easing.

In conclusion, fiscal policies and monetary policies are important measures. In solving the recession in America, expansionary policy tools have been used majorly. Fiscal policy

measures such as proper government spending and regulation of money supply through interest rates have been used. However, monetary tools involving control of the rates of interests as well as taxation also help the United States out the recession in 2008. The impacts of these measures are still experienced to date. Recovery process being gradual, America still has a long way to be completely restored from the effects of the recession.