2001 - 2017

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Fiscal Policy – 2007 to 2009

- 2007 to 2009 – Great Recession
- Increased government spending – US ratio of GDP to Government spending increased to about 4.4% in the same period (Oh & Reis, 2011)
- American Investment Recovery and Reinvestment Act of 2009 - economic stimulus package pushed about $831 billion into the economy
- Income tax cut - aimed at majority of working families
- Worked to increase employment in the country
- Protect at risk jobs
- Boost the banking sector
- Offer relief to affected
- Invest in healthcare, infrastructure, and renewable energy

The period of 2007 to 2009 was during the great recession. This point saw an increase in government spending which led to the development of a ratio of GDP to Government spending of about 4.4%. The American Investment Recovery and Reinvestment Act of 2009 was developed which was an economic stimulus package that enabled about $831 billion to enter the economy. There was income tax cuts which were targeted at the majority of the working families. This worked to increase the employment levels in the country. This was also used to protect at-risk jobs and boost the banking sector. The people who were highly affected were also targeted with relief. There was also a target on the investment in healthcare, infrastructure and renewable energy to boost government expenditure.

Fiscal Policy Actions

- Increased government spending and tax cuts to increase consumption to boost industry and reduce unemployment
- Keynesian consumption function
- Consumption depends on income

- (U.S. Bureau of Economic Analysis, 2020)

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Keynesian consumption function states that consumption is dependent on income and changes in income. As such, during a recession, the consumption reduces but is increased as a function of government pumping income to the citizens through the use of tax cuts and increasing expenditure in areas such as infrastructure, education, and healthcare. During the recession – 2007-2009 – there was a great dip in personal expenditures which reduced the consumption levels. As such, there was reduced activity in industry leading to low workforce. Increasing consumption by increasing amount of money in people's pockets helps to increase demand thus increasing the need for industry and workforce thus increasing employment.

Fiscal Policy Impact

- Policy worked as intended
- Consumption went up as indicated in previous graph
- Unemployment was at below historical average - 4.7%
- Record of 75 straight consecutive months of high digit employment creation opportunities (Stettner, 2017)
- Over 20 million individuals were enrolled for health insurance which helped to reduce the deficit in the budget

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The fiscal policy implemented at the beginning of 2009 worked as intended. On the side of consumption, there was an increase as indicated in the personal expenditure graph above. There was a decline in unemployment which went below the historical average of 4.7%. The record of 75 consecutive months of high employment creation opportunities was set during the period. Additionally, the expenditure of government on healthcare was led to over 20 million individuals to be enrolled in the health insurance plan and was responsible for reduction in the budget deficit.

References

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