

# Good research paper on deficit spending

[Finance](#), [Investment](#)



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## **Introduction**

Deficit spending is one of the economic measures that any government intends make use of in case the economy is under recession. It is an economic application that originated from John Maynard's theories in economics. During the economic recession, the government is unable to maintain the best levels of unemployment. This is because there are minimal positions from which the government has to source funds to run its programs. Ideally, there is usually a shortage of funds within the economy as compared to other countries (Cogan, Cwik, Taylor, & Wieland, 2010). The government takes the position and borrows from international funders and government.

Ideally, the government has to continue with its functions instead of cutting out some of the basic but essential roles. Therefore, the government is identified to have more expenditures than the revenue it gathers. It means that the government spending inform of borrowings is termed as an essential

tool of navigating the economy of the country through the recession period. Ideally, the deficit spending program is very essential in reinstating the economy back to its economic flow where employment opportunities are encouraged.

### **Advantages of deficit spending**

One of the advantages of government spending is based on the opinion of recession. Ideally, the downfall of the economy leads to an immediate befalling of the taxation income to the government. That is; there exists budget deficit (Galí, López-Salido, & Vallés, 2007). However, the government can utilize the borrowings to resolve the budget deficit. This indulges a positive multiplier that is intended to establish economic openings that will encourage the factors of employment to open up. In addition, the economy is expected to take an affirmative direction towards achieving the national economic goals.

Secondly, the recession period deters the government from effective provision of services it has pledged to extend to the ‘poor’ population. Therefore, the government is required to have special efforts in order continually to offer the public goods. The government utilizes the deficit spending to boost the productivity of the economy (Cogan, Cwik, Taylor, & Wieland, 2010). Ideally, the government may not also manage to increase the productivity to such a large extent. In terms of investment, the rates that the government imposes on the loan offers are high. This deters private investors from engaging in an exploitive business at the current time of economic recession. This is what we refer to as the crowding out effect.

## **Disadvantages of deficit spending**

Deficit spending is one of the strategies that most governments intend to use during the recession. However, there are some shortcomings that are closely related to the same. First, the strategy may cause a rising cost situation. That is; it incorporates the spending of money that cannot be effectively refunded results to an increase in the levels of costs. For instance, some charges such as the interest charges which arise, as a result, of deficit spending s.

At the organizational and individual level, the deficit spending makes the entity less attractive. For instance, an individual who takes part in the deficit spending program is said to live in a food and mouth situation. Similarly, the organizations are not preferred by the potential investors. Ideally, the investors believe that the budgetary system of these organizations is due to fail.

## **Crowding effect**

Introduction of the system of deficit spending incorporates the increase in the interest rates. For instance, the funds borrowed by the government are provided to the public at alarming interest rates. Therefore, most of the companies that have the capability to take the funds at the designated high interest rates are public related (Cogan, Cwik, Taylor, & Wieland, 2010). However, most of the private investors are unable to reach the funds. Therefore, they are selected out, and this is what we call the crowding effect.

## **Conclusion**

Ideally, the conclusion by most of the economic analysis is the most feasible solutions. That is; it is not the best solution for any government or organization. On the other side, the balanced budget strategy or surplus budget are better than the incorporation of deficit spending. However, it depends on the extent to which the extra funds are used and how the funds are going too refunded in the future. Most of the developed countries professionally utilize the deficit spending strategy.

## **References**

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