How can tax cuts help revive the economy explain

How Can Tax Cuts Help Revive The Economy? Explain Explanation The economists hold up the fact that for an economy which wants to detain its economiccrisis, it is of extreme importance that spending of the government (within that economy) is increased sharply. Failure to do so can make the economy face the slump for even longer periods of time. For the US economy, the rate of unemployment was feared to increase to more than 9% by the beginning of the year 2010 due to the lack of a stimulus plan. Also during the year 2009 and 2010, the loss on production was estimated to be more than two trillion Dollars which was calculated as the gap between the actual GDP and the potential GDP of the country. Pertaining to the reduction of the gap and to take the economy out of the crisis, the package of fiscal stimulus was observed as an effective way-out for the economy. The planning of the government within the economy was not held effective enough in mitigating the problem of economic crisis. According to the plan of the US government, the amount of public spending consisted in the policy towards enhancing multiplier effect through discretionary fiscal policy was merely about 480 billion Dollars. This amount has a multiplier of about 1. 5 which means government spending of each Dollar would increase the GDP of the economy by 1. 5 Dollar (Shostak, 2009). With regard to the less reliance on the natural forces in the economy, successful management of the government is essential in line with the inducement of individuals’ spending within the economy. Tax cuts act as an economic booster during the times of recession when generally people decrease their level of spending in order to fight with the economic crisis. Tax cuts can be termed as an important aspect of the expansionary fiscal policy of the government and it helps to a greater extent in strengthening the aggregate demand within the economy and thus eliminate the slump resulted due to the economic crisis. It is noteworthy to mention that increasing the aggregate demand during economic crisis is an important task for the government. This is because insufficient demand for goods results in insufficient use of the present capital funds along with labor. Tax cuts aimed towards the businesses within the economy are aimed towards encouragement of more amount of investment by the businesses. This advantage resulting due to tax cuts is however, likely, to benefit the economy not in the short term but in the long term. To this note, it was advised to the US government that as the tax cuts policy set during the year 2009 on both dividends as well as capital gains would expire by the end of the year 2010, the government could induce permanent tax cuts for eradicating massive amount of uncertainty that can provide discouragement towards decision of the businesses related to expansion and investment (Palmer, 2008). In generic terms, tax cuts mean returning the people’s money. As against the economic activity of rebates which is provided a single time, tax cuts are much more effective for an economy with respect to the encouragement of a country’s economic growth. This is because of the reason that tax cuts induce more profitability for the individuals through working and investing simultaneously. It is evident from earlier cases such as that of the year 2001 and 2003 that permanent tax cuts exterminate the economic insecurity that hinders during and after a downturn and that depress the individuals and businesses from creating investment (Palmer, 2008).

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