What is the keynesian explanation for why the economy is currently growing slower...

Business

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Task Business The economic growth of any given country is driven by the forces of demand and supply for commodities within the system. These two factors are in turn influenced by the spending power of the government, which controls the demand and supply for different products. A slow economic growth would be attributed to the low demand, which consequently causes production levels to be reduced as a low level of supply.

There has been a growing need to fund government spending deficits through borrowing. The main problem that occurs once government deficits are funded through borrowing is that the demand for financing grows and this results in the prices of capital increasing. The interest rates being charged by the lending institutions increase superficially, consequently crowding out private investment, and reducing the economic growth in the future (Ireland, 38). This makes an economic recession to become inevitable within the system, and during this period the economic growth remains slow. While monetary policies to reduce the interest rate might be implemented, this only creates an income effect and does not guarantee increased consumption. As a result, the recession might last longer than anticipated. The economy has undergone through a period of recession, and there is need to implement a fiscal policy aimed at changing the condition. This, however, required immediate action and the government was slow in responding to the need for a fiscal policy to end the recession (Kaboub, 84). The fiscal policies required to ensure an effective stimulus for economic growth should be focused on infrastructure development and job creation within the economy. The government policies have however been focused too much towards tax cuts which have resulted in a stimulus package that can be described as too small to end the recession, hence the slow recovery.

References

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