Automatic stabilizer

AUTOMATIC STABILIZERS To maintain a nation's economic balance, aside from fiscal policy, automatic stabilizers are employed. Without any direct intervention from the government, it functions as a means of adjusting its expenses when there is a threat to bring the national economy off balance. Having been built into the government structure, ratification of any new laws or approving of bills through a governing body becomes unnecessary. This avoids long process of acquiring financial authorization, ensuring that vital adjustments can be applied with no delay.

Automatic stabilizers primarily deal with minor shifts that could harmfully affect one or more sections of economic classes. They are unable to cope with major changes, as those are usually resolved with legislations that utilize greater funding. The population assisted by the shift becomes aware that their situation is not as deeply affected by a change in the economy while the process remains publicly unnoticed.

Its action can be best illustrated during recession, wherein income employs displays multiplier effect on progressive tax for it not to drop exceedingly. Correspondingly, transfer payments and services for the poor increases in multiplier effect as well. Automatic stabilizers work as a means to reduce fluctuations in GDP. During recession, the size of the government deficit tends to increase keeping the national income high through a multiplier. Moreover, recession tend to keep imports low, keeping more money in the domestic economy. Being progressive, government tax revenue tends to fall in proportion to national income. In as much as corporation tax, with greater regards to profits than turnovers, decreases with lesser economic activity. There are instances when transfer payment and government purchase increase as opposed to income decline. This becomes apparent when government expenditure consequently increases during recession. Government's unemployment and welfare benefits serves can be describe as such.

This is exemplified in United States' economic model during 1997(Figure 1). During the early 1997, its government planned to reduce its deficit to zero to the next century. Due to steady growth of production, unemployment has been reduced to its lowest for the past years. Consequently, this has increased tax revenues and cut transfers. By the end of the year government deficit had decline much to what had been projected.

Figure 1. U. S. A's 1997 Economic plan

Employing automatic stabilizers, this could have been an ingenious plan. This may serve to prove that despite the broad consensus amongst economists that automatic stabilizers often exist and function in the short term, they still imply great economic significances if appropriately applied.

Sources:

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