

Government impact on economy

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Unemployment is one of the serious economic problems that any economy tries to deal with. This is also one of the reasons why full employment is always included in the economic goals of any administration. The government, through its monetary and fiscal policies, is thinking ways on how to achieve full employment or at least lower the unemployment rate each year. The role of the government in the employment environment is very evident but the real question here is how much role should the government play?

Some economists, such as William McChesney Martin, view the economy as inherently unstable while others, such as Milton Friedman, argue that it is naturally stable (Mankiw, 1997). Due to this argument, policymakers view economic stabilization as one of their primary responsibilities. So they make laws that will try to stabilize the economy. These lawmakers, together with many economists, believed that in the absence of an active government role in the economy, events like the Great Depression could occur regularly (Mankiw, 1997). Recessions are periods wherein the economy experiences high unemployment rate, as a result there will be lower income and reduced economic well-being. Monetary and fiscal policies can prevent recessions by responding to the shocks in the aggregate demand and supply. Economists also view it wasteful if the policy instruments were not used to stabilize the economy. However, the economic stabilization would be easy if the impacts of both monetary and fiscal policies were immediate because sometimes the lags between the implementation and effects of policies make stabilizing the economy more difficult. Then, the need for automatic stabilizers comes in. These are the policies designed to reduce the lags associated with stabilization policy.

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It is very clear that the government should and must take a hands-on approach to macroeconomic policy to affect the employment environment. They should take full control over the policies that would have impacts on the economy especially on the employment environment.

REFERENCE

Mankiw, N. G. (1997). *Macroeconomics*. New York: Worth Publishers.