Should i vote for a second fiscal stimulus bill

There are a few assumptions that must be made in accordance with the analysis of a large-open economy such as the United s. In The General Theory by John Maynard Keynes, he proposes that the economy's total income was, in the short-run, defined largely by the planned spending of households, businesses and the government- thus the more people want to spend and the more firms can sell, the more labor they will eventually hire and the more output they will eventually produce. During recessions, the government can encourage consumer spending or capital investments by performing two things: cutting taxes levied on households and firms, thus increasing disposable income, the money that consumers can spend on goods and services and increasing the incentives of creating new businesses; or it may itself spend more to increase the level of demand. Since a fiscal stimulus translates to an increase in government purchases, our focus is on the latter policy.

Now consider an increase in government purchases: An increase in government purchases increases planned expenditure, which then in turn stimulates the production of goods and services and thus increases income. In a pragmatist fashion, when the government spends to create livelihood projects, the number of jobs increases and so does the production of goods and services. This however has ramifications because as people have more income, their demand for products increase, thus they would want to spend more and save less. This in turn increases the interest rate to give people more incentive to save in banks. However, this interest rate however is the same interest rate that firms consider before borrowing money from the bank and investing in a business venture. And this is where the trade-off stems from because the higher the interest rate, the less likely firms will build new businesses and contribute to the increase in output of goods and services and, of course, to economic output or income. Hence, just by simple deduction, a fiscal stimulus really swings both ways in affecting our gross domestic product.

To put things in perspective, according to the United States Department of Labor, Bureau of Labor and Statistics, the unemployment rate decreased from 10. 2 percent last October to 10. 00 percent this November. Productivity increased from 6. 9 percent during the 2nd quarter of 2009, to 8. 1 percent during the 3rd quarter of the same year. Also, the U. S. Bureau of Labor and Statistics also reports a projection of total employment to increase by 15. 3 million, or 10. 1 percent during the 2008-18 period and a slower population growth and a decreasing over-all labor force participation rate are expected to a slowdown in labor force growth. If this projection is assumed to be true, then another fiscal stimulus which includes the creation of jobs would not be needed anymore since the labor market has a diminishing trend. The information beforehand such as the increase in productivity also supports the claim that the prior fiscal stimulus might already be taking effect in stimulation the economy. Lastly, though slow in recuperation, most probably due to time lags in job turnovers and labor mobility, the unemployment has also started to decrease- a decrease that the employment projection of the Bureau of Labor and Statistics also support.

Lastly, to further argue for a no-vote for a second fiscal stimulus bill, consider an analysis in aggregate demand and supply with the initial shock as an increase in aggregate demand due to the increase in government purchases. Because of this shock to aggregate demand, if money supply is held constant, in the short run government purchases will result to an economic boom and at the old prices, firms will hire more workers and make greater use of factories and equipment. Over time however, wages and prices will adjust and as price level rises, the quantity of output demanded decreases as the economy approaches the natural level of production. In conclusion, another fiscal stimulus alone- precisely aimed to stimulate aggregate demand and whose purpose is to increase economic output- will raise output only in the short run but in the long run only affect the price level and thus cause inflation and nothing better.