

# Pros and cons of using fiscal policy in correcting an unemployment gap in the eco...

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What Are The Pros And Cons Of Using Fiscal Policy Or Monetary Policy In Correcting An Unemployment Gap In The Economy? What Long Term Policies Would You Recommend In Making The U. S. More Competitive In The Future?

### Pros

A decrease in income tax can lead to a considerable decrease in unemployment. Moreover the financial environment for the existing workforce is also improved and at the same time the productivity of a relevant business is increased. Hence, the employers are benefitted as well. On the other hand an increase in income taxes may lead to increase in government funds and this way the government can allocate more and more funds towards the betterment of unemployment gap.

### Cons

The use of fiscal policy can lead the economy to enter and exit recession rapidly which form cyclical chains of unemployment. For instance, if taxes are increased it may lead to higher rates of unemployment for a longer period of time, it also results in less productivity. Whereas if taxes are reduced immensely, it will result in less government fund and it will get difficult for the government to allocate more employment towards the public sector.

## **Pros and Cons of Using Monetary Policy In Correcting An Unemployment Gap In The Economy**

### Pros

When interest rates are decreased more and more business opportunities become available which results in a margin of creating increased number of employments in the economy. The demand for credit and lending increases as more buyers find borrowing money from the government, a very reliable trait when the interest rate is lowered down.

### Cons

In an economy where interest rates are increased, it is most likely that the economy would end up in recession that means the unemployment gap widens even more than before. The demand for borrowing money decreases and the excess amount of supply causes the employment market to deteriorate.

## **Long-Term Policies To Make U. S. More Competitive In The Future**

In my opinion, U. S. needs to follow an aggressive monetary policy paired with a governing fiscal policy because that would take economy out of recession and at the same time increase the chances of future economic growth. One recommendation is to follow the Keynesian theory which would help its economy to get out of this recession. According to this theory, the government needs to take actions and formulate policies to boost stabilised economic growth within the economy. Hence, U. S. government needs to spend money where it is necessary to enhance growth for future generations as well. Government spendings should be allocated in such a way that it creates room for future employment opportunities. Sound long-term tax policy and stagnant interest rates can bring a competitive edge to the U. S.

economy because it attracts more people to borrow money as they are not worried about future increase in rate of interest or tax. A stabilised tax policy and stabilised interest rates would encourage investors and entrepreneurs to enter into the business venture which would ultimately lead to increase in the rate of employment and GDP. Moreover investments by the U. S. government in sectors like technology would stimulate the economic growth in the long run.

## **Works Cited**

R. Glenn Hubbard. " Economic Policies for the United States and Emerging Markets." Remarks At JP Morgan Conference. Sept 28, 2002. Web. 8 Feb. 2009.