A weak fiscal lever

Finance, Financial Analysis

Economic management is The basic aim of any government in the world and its main policy objectives includes management of low and stable inflation, reduction in unemployment, maintain economic growth and to secure a favorable balance of payments.

Fiscal lever is one of the main policy tools available to government to tackle economic downturn. According to Dornbusch, Fischer, and Startz, fiscal policy is the policy of the government with regard to the level of government purchases, the level of transfers, and the tax structures (Dornbusch, Fischer, and Startz 199).

With all its significance, Fiscal lever should be very strong for stabilization of economy.

High sensitivity of investment to interest rates and misunderstanding of policy makers to anticipate the need of particular crisis makes a fiscal policy weak and ineffective.

A weak fiscal lever is the recipe to create inflation and retard private investment by higher interest rates that leads to arrest growth and development because lower investment means, the capital stock is also lower that leads to lower future incomes. That is the condition of total breakdown of the structure of any economic system.

A weak fiscal lever also creates social unrest by manipulation of resource allocation in the hands of government to fulfill their political priorities. It is well evident fact that if civil society will be dissatisfied by the policies the process of growth can not be carried out rather the crisis management can not be achieved. In other words weak fiscal lever can not help economy to get out of recession with all its traditional tools.

Work Cited

Dornbush, Fisher, and Startz. Macroeconomics: McGraw-Hill, Singapore. 1999. Print