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Fiscal Policy

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Fiscal Policy

Fiscal policy refers to a scenario where the government conforms its levels of spending and tax rates to influence and monitor the economy. It is regarded as a sister tactic to the monetary policy via which a central bank shapes the money supply of a country. The two policies are applied in several combinations to spark the economic goals of a nation. The paper discusses how fiscal policy can be implemented by answering the questions that compare ¹Trump Tax cut vs. Reagan Tax Cut.

¹1. Did Reagan tax cut boost the economy? Will Trump tax cut do the same thing?

Yes. Reagan's 1981 plan cut down income rates for top individuals by approximately 20 points. Consequentially, the economy was boosted robustly in subsequent years after the tax cut. This economic growth was attributed to broad monetary policy, which triggered the slashing of interest rates enormously and enabled the economy to bounce back to momentum from an adverse recession of 1982 (Kruzel, 2017). In contrary to ¹Reagan's tax cut policy, President Trump's tax cut policy will be likely not to achieve the same economic boost. According to the economists who have investigated the effects of 2017 tax cuts as well as job cuts, it is not assisting much as per the intentions of its advocates for overall growth, worker pay, or business investment. So far, Trump's tax cut has not geared the anticipated growth of 3%, and above- regardless of the additional stimulus of huge federal spending rises that the congress implemented separately. At the end of an uptick following the second quarter of 2018, growth dropped in the subsequent two quarters to stop at 2.9% for the year (Fox, 2017).

Ronald Reagan's tax cuts of the early 1980s significantly raised the budget deficit as well as the national debt. Wessel (2017) argues that the rate of unemployment between the end of 1979 and the end of 1982 increased by 5%. The tax revenues were hit by downturns because only fewer people were working, and that meant less income tax. Other than the tax hit, there enormous spending on jobless benefits and other initiatives directed at leveraging the needy. Unsurprisingly, the budget deficit for the federal government broadened from around 25% for GDP in 1979 to about 7% by mid-1983. Therefore, Reagan's tax cuts did not pay for the deficit as well as the debt (Worstell, 2017).

2. ¹ **Did the recovered economy pay off the budget deficit created by Reagan? New jobs creation could help pay more tax to our government. ¹ Will the new tax revenue be enough to fix our current national debt?**

Yes, ¹ the new revenue from tax can fix the existing national debt. Thus, the only approach to reduce the current debt is perhaps to cut spending or raise taxes. Either of these strategies can impact economic growth. Zarroli (2017) asserts that ensuring sustained job creation and economic growth are fundamental aspects of ascertaining that the federal revenues are growing and cutting down spending on things such as unemployment in order to ensure that the U.S. deficit drops. Additionally, instilling confidence and trust in the spirit of the United States of financial commitment will provide confidence in the private sector and give them the desire to make long term investments in the American people. Cutting spending comes with significant challenges. Government spending forms an integral part of the GDP. If the federal government extremely cuts spending; the immediate effect will be slowed economic expansion. The consequences will be massive deficit due to lower revenues. Therefore, the best solution should be cutting spending on particular areas that create limited jobs.

So, going by that argument, it is possible that the new U.S tax revenues can fix the current deficit. This strategy can be achieved by creating more jobs. Creating jobs for citizens is one of the most challenging problems that many government experiences. However, jobs can be created by delaying changes for about a year after the happening of a recession. Such a strategy lets the economy to recover adequately to grow by 3%-4% required to create jobs for people (Zarrolì, 2017). Consequentially, that will boost GDP to any increase in tax or spending cuts. The advantage is that the debt will be reduced to GDP ratio considerable enough to cease the debt crisis.

In conclusion, having discussed how fiscal policy can be implemented by answering the questions that compare ¹ Trump Tax cut vs. Reagan Tax Cut, it is clear that the only possible strategy to minimize annual deficits and fix the current debt is for the federal government to gather more than it can spend at any given time. However, with the current political environment, that is an unlikely occurrence, if not impossible. The figures show that the federal government only spends six times between 1960 and 2015 an amount much less than the revenue collected. It was later known that in 2015 the Federal government got \$3.25 trillion from taxes, about 60% in income taxes, but it was around \$3.69 trillion from what was reported (Fox 2017). Therefore, the federal government needs to watch its spending patterns in order to control the debt.

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