EFFECTIVENESS OF FISCAL AND MONETARY POLICIES AS STABILIZING TOOLS IN RECESSIONARY ECONOMIES

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Abstract
In classical economics, the role of government was conceived simply in terms of maintaining law and order, collecting taxes and providing social services. Today, all actions of the government are crucial in shaping the economy. All governments, no matter their political complexion, claim to work for economic good of the nation. They try to achieve the objectives of economic growth, full employment, stable prices, balance of payment equilibrium in addition to ensuring equitable distribution of income and wealth, among others. In attempting to achieve these objectives, government would use a variety of tools which can be classified as either focusing upon the demand side or the supply side of the economy. The main demand side policies that government can use are fiscal and monetary policies. Global experience indicates that monetary and fiscal policies can be used to stabilize the economy during recession. This paper examines fiscal and monetary policies and how they can be used to smooth-out recession and stabilize the economy. Recommendations were also proffered.

Introduction
Most developing counties are struggling to meet up with the millennium development goals (MDGs) of reducing poverty by half by 2015. Nigeria for instance, apart from trying to meet up with the MDGs, has inter-alia in her financial system strategy, FSS 2020 agenda, the quest to become an international financial centre and Africa’s financial hub. How can this be achieved when some developing countries operate or over-relied on one macroeconomic policy. For instance, the major conclusion of monetary policy discussion group was that Nigeria over-relied on monetary systems and controls to restrain inflation (Economic Action Agenda (EFA) (1993).

A fruitful way to examine the economic impact of public policies in Nigeria and other developing countries is to pick specific development problems and then analyze how economic policies have affected them in the past and in what ways such policies might be improved in the future. Major development problems such as poverty, inequality, population growth, unemployment, migration, education, rural development and foreign trade and finance etc, are all affected by and affect government policies. Todaro (1977), opined that the starting point for economic policy formulation is to candidly assess the current situation evolved historically. For any form of government policy to work or be fully effective, there must be an adequate understanding of how the economy works.
Government cannot simultaneously achieve favourable outcomes in all its policy objectives. As such, government will be compelled to prioritize deciding which of its goals it will pursue. In attempting to achieve its principal economic objectives, government will use various policy tools. A wide variety of policy tools exist which can be classified as either focusing upon the demand side or the supply side of the economy. The main demand side policies that government can use are fiscal and monetary policies. They are classified as demand side measures because they focus upon the control of consumer demand and income. The supply side, although not within the scope of this paper, focuses upon the control of aggregate supply. Supply side policy can be classified as either free market oriented or interventionist, the aim of which has been to remove market rigidities and encourage free market forces.

Fiscal policy is the deliberate and thought-out change in government spending, government borrowing or taxes to stimulate or slow down the economy. Fiscal policy measures, such as tax policies and government expenditure, etc. are control weapons in the hands of the government which mostly come to play at the annual budgets. Monetary policy, on the other hand, is the process by which the government, central bank or monetary authority, manages the money supply to achieve specific goals. Such goals include constraining inflation or deflation, maintaining an exchange rate, achieving full employment or economic growth. Usually the goal of monetary policy is to accommodate economic growth in an environment of stable price.

Monetary and fiscal policies can be used to stabilize the economy during recession. Recessions are usually caused by insufficient aggregate demand. During recession, the government would encounter falling tax revenue and would therefore cut its expenditure in order to balance its budget.

In developed nations, monetary and fiscal policies play major direct and indirect roles in governmental efforts designed to expand economic activities in times of unemployment and surplus capacity and control activity in times of excess demand and inflation. Successful developing economies characteristically pursue similar policies in consistent and adaptive ways. This paper, therefore, examines how fiscal and monetary policies can be used to smooth-out recession and stabilize the economy. It also tries to identify the tools of monetary and fiscal policies and how they can be used to combat recession. It also identifies the effects of over-reliance on one policy in some selected economics. Other vital areas were also discussed.

Fiscal Policy- An Overview

Fiscal policy is concerned with deliberate actions which the government of a country takes in the area of spending money and/or levying taxes with the objective of influencing macroeconomic variables such as the level of national income or output, the employment level, aggregate demand level, the general level of price in a desired direction. Walstad and Bingham (1996) defined fiscal
policy as manipulation by the federal government of its expenditures and tax receipts in order to expand or contact the economy and by so doing, either increase its real output (and employment) or decrease its rate of inflation. Lipsey and Chrystal (1995), stated that fiscal policy involves the use of government spending and tax policies to influence total desired expenditure in order to influence the level of national income. Fiscal policy also relate federal taxation and spending policies designed to level out the business cycle and achieve full employment, price stability and sustained growth in the economy (http://www.worldbank.org). Fiscal policy is therefore the policy of the government in controlling its own expenditure and taxation which together make up the budget.

The treasury of Ancient Rome was called “Fisc’ from it we get the word ‘fiscal’ which means something concerning public revenue (Teriba, 1985). Prior to the development of Keynesia theory, fiscal policy was seen primarily in accounting terms; the object of the government being to balance expenditure and revenue or perhaps even achieve a budget surplus (Donnely, 1991). Modern fiscal policy basically follows the economic theory of the 20th century English economist John Maynard Keynes, that insufficient demand causes unemployment and excess demand leads to inflation. Keynesian economists suggest that adjusting government spending and tax rates are the best way to stimulate aggregate demand. Fiscal policy, therefore, aims to stimulate demand and output in periods of business decline by increasing government purchases and cutting taxes thereby releasing more disposable income into the spending stream and correct over-expansion by reversing the process. This can be used in times of Recession or low economic activity as an essential tool in providing the framework for strong economic growth and working toward full employment. In practical terms, this means trying to avoid unsustainable booms and recession. Any policy that attempts to stabilize national income at or near any desired level (usually potential national income) is called a stabilization policy, stabilization policies seek to ensure a stable growth in the level of aggregate demand so as to achieve certain macroeconomic objectives including a high level of employment and price stability (Grant, 1994).

The government budget can be balanced that is revenue equals expenditure. It can be surplus when revenue is greater than expenditure or deficit when revenue is less than expenditure. At times the government plans a budget deficit or surplus as a means of controlling the level of economic activity. Grant (1994), state that the budget position may give a misleading impression of government policy unless care is taken to interpret it.

In a recession, tax collections tends to fall and unemployment will be high, economic activity will be low giving rise to deficit. Baumol and Blinder (1991), observed that recession and unemployment are often caused by insufficient aggregate demand, when this is so, government policies that
successfully argument demand such as increase in spending can be an effective way to increase output and reduce unemployment.

Since the government fiscal policies affect the rate of inflation, the level of unemployment, the tax we pay and the environment in which we live, it is important we examine and understand them since they affect almost all the facets of the economy.

Types of Fiscal Policy

The government has control over both taxes and government spending. When the government uses fiscal policy to increase the amount of money available to the populace, this is called expansionary fiscal policy. Expansionary fiscal policy is generally used to contract the negative economic effects of a recession or cyclical downturn in the economy (a decline in Real Gross Domestic Product (RGDP) and rising unemployment. The purpose of the policy is to stimulate the economy by increasing aggregate demand. Three policy options are used. An increase in government spending, tax reduction (which increases consumer spending); or a combination of an increase in government spending and tax reduction. Walstad and Bingham (1996) opined that these policy actions will create a budget deficit if the budget was in balance before the policy actions were taken.

When the government uses fiscal policy to decrease the amount of money available to the populace, this is called contractionary fiscal policy. Contractionary policy is a restrictive form of fiscal policy that is generally used to control demand-pull inflation. The purpose of this policy is to reduce aggregate demand pressures that increase the price level. Three policy options are used: a decrease in government spending increase taxes which reduces consumer spending, or a combination of a reduction in government spending and a tax increase. Walstad and Bingham (1996) observed that if the government budget is balanced before the policy actions are taken, it will create a budget surplus.

There is another way to interpret the terms expansionary and concretionary when discussing fiscal policy. If we look at the effects of fiscal policy on the economy as a whole rather than on the individual, we see that expansionary fiscal policy increases the output or National income while contractionary fiscal policy decreases output or national income.

Instruments of Fiscal Policy

The major tools of fiscal policy are government expenditure and tax rates. Tax revenue is the result of the interaction of tax rates which the government sets and the level of national income. The government’s deficit or surplus is the relation between its expenditure and its revenue (Lipsey, 1983).
Taxation as an Instrument of Fiscal Policy

Taxation from Latin, taxare, “to estimate”, “to evaluate”, is a system of compulsory contribution, usually monetary, level by a government upon persons, corporations and property, primarily for fiscal purposes, that is, as a source of revenue to be used for governmental expenses and other public purposes. By levying taxes, the government receives revenue from the populace. Taxes come in many varieties and serve different specific purpose, but the key concept is that taxation is a transfer of assets from the people to the government. Grant (1994), maintained that the main aim of taxation is not to rise revenue but to reduce private sector demand thereby releasing resources for use by the public sector in non-inflationary way. In this regard, taxes are used to influence the allocation of resources and income distribution and stabilization of the economy. More specifically, taxes may be used to:

a. Discourage the consumption of demerit goods,
b. Reduce income and wealth inequalities,
c. Discourage importation,
d. Influence the level of aggregate demand;
e. Influence the level of aggregate supply

Taxation may serve as a method of developing an improved and well-balanced economy by fostering or curtailing certain forms of industrial and commercial activity or it may be used to bring about social reforms through a redistribution of wealth.

Government Expenditure as an Instrument for Fiscal Policy

During the course of a year, the government undertakes expenditure of various kinds. Such expenditures have impact on the level of economic activities. The government is large enough that it can spend during periods of economic contraction thereby helping to pop up the economy. Anyanwa, Onikhenan, Oyefusi and Dimowo (1997), observe that government expenditure in Nigeria constitute an instrument for direct resource allocation while generating employment opportunities and influencing the general price level as well as determining the extent of fiscal deficit or surplus each fiscal year.

Fiscal policy is manifested in the government’s policies on taxation and expenditures. To obtain funds for their operation, government units generally collect some form of taxes. When the government spends, it transfers assets to the public (except in the case of weaponry). The expenditure of these funds not only provides goods and services for constituents but has a direct impact on the economy. For example, if expenditures are larger than the funds received by government, the resulting deficit tends to stimulate the economy as goods and services are produced for government purchase. In contrast, if a government runs a surplus by not spending all the funds it collects, economic growth will generally be curtailed as the surplus funds are removed from circulation. Since
taxation and government spending represent reversed asset flows, we can think of them as opposite policies.

**Monetary Policy**

Monetary policy means government policy to influence or control the size of the money supply and/or interest rates for the purpose of influencing macroeconomic conditions. Rowan (1987) defined monetary policy as discretionary action taken by authorities (typically of the central bank), aimed at influencing (i) Nominal money supply, and/or (ii) nominal interest rates, and/or (iii) the case with which at any given set of interest rate money can be borrowed. Monetary policy therefore focuses on availability of cost of credit-money.

But why do governments attempt to control the money supply? Because most governments believe that their rates of growth has an effect on the rate of inflation. So monetary policy comprises those government actions which are designed to influence the behavior of the monetary sector. Monetary policy is one of the tools the federal government uses to influence the economy. Using its monetary authority to control supply and availability of money, the government attempts to influence the overall level of economic activity in line with its political objectives. Usually, this goal is macroeconomic stability-low unemployment, low inflation, economic growth and balance of external payments [http://www.finpipe.com/monopol.htm](http://www.finpipe.com/monopol.htm).

Monetary policy can involve changing certain interest rates either directly or indirectly through open market operations, setting reserve requirements, acting as a last resort lender i.e. discount window lending, or trading in foreign exchange markets. It rests on the relationship between the rate of interest in an economy, that is, the price at which money be borrowed and the total supply of money. Donnelly 1991 argued the monetary policy must aim for one of two outcomes:

i. Either it aims to expand aggregate by encouraging consumption and creating an environment conducive to increase investment

ii. Or it aims to reduce aggregate demand by discouraging consumption and expansion of credit

In the former case the result will e an expansion of aggregate expenditure and such a policy would be appropriate when there is a deflationary gap. The latter policy will lead to a contraction in aggregate expenditure and so would be appropriate when there is an inflationary gap.

Monetary policy is generally referred to as being either expansionary policy or a contractionary policy. While an expansionary policy increases the total money supply or decreases interest rate. Expansionary policy is traditionally used to combat unemployment in a recession by lowering interest rates while contractionary policy has the goal of raising interest rate to combat inflation or cool in otherwise overheated economy [http://wikipedia.org/wiki/monetetarypolicy](http://wikipedia.org/wiki/monetetarypolicy). Further monetary policies are
described as accommodative if the interest rate set by the central monetary authority is intended to spur economic growth, neutral if it is intended to neither spur growth nor combat inflation or tight if intended to reduce inflation.

Monetary policy may be dictated by external situation—the relation between a country’s imports and its exports are considered to be excessive, it may be necessary to damp down demand at home by a contraction of credit in order to reduce the demand for imported goals. The main objectives of monetary policy at the present time in Nigeria for instance can be said to be:

1. To maintain full employment
2. To maintain a reasonable stable internal price level, that is to keep inflation in check.
3. To stimulate economic growth and thereby increase the national income in order to raise the standard of living of the people
4. To maintain stability in the external value of the currency
5. To keep the balance of payment in balance

Instruments of the Monetary Policy

In the discharge of its obligations, the central bank has, at its disposal, a number of control mechanisms usually referred to as “tools of monetary policy” some of these tools are quantitative while others are selective. Traditionally, there are three tools under quantitative category—the open-market operations, the legal reserve ratio and the bank rate (discount window). The recent additions are special deposits and stabilization security. Afolabi (1998), stated that they are quantitative controls because their main aim is to regulate the quantity of money in circulation and the volume of credit that could be created by the commercial banking systems since these credits constitute part of the money supply. The central bank has three instruments available to it in order to implement monetary policy.

1) Open market operations
2) Reserve requirements
3) The discount window;

Open Market Operations

Monetary policy can be implemented by charging the size of the monetary base. This directly changes the total amount of money circulating in the economy. By using Open Market Operations (OMO), the central bank tries to manage the quantity of money in circulation through the buying and selling of various credit instruments, foreign currencies or commodities. All these purchases or sales would result in more or less base currency entering or leaving market circulation.
Reserve Requirements
Reserve requirements are a percentage of commercial banks’ and other depositary institutions demand deposit (that is, chequing accounts) that must be kept on deposit at the central bank as requirement of banking regulations. Though seldom used, this percentage may be changed by the central bank at any time thereby affecting the money supply and credit conditions.

Discount Window (Last Resort Lending)
Discount window is where the commercial banks and other depository institutions are able to borrow reserves from the central bank at a discount rate. This rate is usually set below short-term markets rates. This enables the institutions to vary credit conditions (that is, the amount of money they have to loan out), thereby affecting the money supply. It is of note that the discount window is the only instrument which the central bank do not have total control over (http://www.finpipe.com/monopol.htm). By affecting the money supply, it is theorized that monetary policy can establish ranges for inflation, unemployment, interest rates and economic growth. A stable financial environment is created in which savings and investment can occur allowing for the growth of the economy as a whole.

Types of Monetary Policy
1) Inflation Targeting:
Under this policy approach the target is to keep inflation under a particular definition such as consumer price index, at a particular level. The inflation target is achieved through periodic adjustments to the central bank interest rate target. The interest rate used is generally the inter bank rate at which banks lend to each overnight for cash flow purposes. Depending on the country, this particular interest rate might be called the cash rate or something similar.

The interest rate target is maintained for a specific duration using open market operations. Typically the duration that the interest rate target is kept constant will vary between months and years. This interest target is usually received on a monthly or quarterly basis by a policy committee. Changes to the interest rate target are done in response to various indicators in an attempt to forecast economic trends and in so doing keep the market on tract towards achieving the defined inflation target.

This monetary policy approach was pioneered in New Zealand. It is currently used in the EURO ZONE, Australia, Canada, New Zealand, Norway, Poland, Sweden, South Africa, Turkey and the United Kingdom.

2) Price Level Targeting
Price level targeting is similar to inflation targeting except that CPI growth in one year is offset in subsequent years such that overtime the price level
on aggregate does not move. Something like prices level targeting was tried in the 1930s by Sweden, and seems to have contributed to the relative good performance of the Swedish economy during the great Depression. As of 2004, no country operates monetary policy based on a price level target.

3) **Monetary Aggregate**
This policy is based on maintaining a fixed exchange rate with a foreign currency. Currency is bought and sold by the central bank on a daily basis to achieve the target exchange rate. This policy somewhat abdicates responsibility for monetary policy to a foreign government. This type of policy was used in China. The Chinese Yuan was managed such that its exchange rate with the United States dollar was fixed.

4) **Monetary Standard**
The gold standard is a system in which the price of national currency as measured in Units of gold is kept constant by the daily buying and selling of the base currency (i.e. Open Market Operations). The gold standard might be regarded as a special case of the “fixed exchange rate” policy. And the gold price might be regarded as a special type of commodity price index”. Today, this type of monetary policy is not used anywhere in the world although a form of gold standard was used widely across the world prior to 1971. Its major advantages were simplicity and transparency.

5) **Mixed Monetary Policy**
Mixed policy approach encompasses inflation targeting and other macroeconomic objectives of monetary policy-economic growth, employment, stable prices and balance of payments etc.

**Relationship between Fiscal Policy and Monetary Policy**
The objectives of monetary policies are very much the same as the objectives of fiscal policies and in fact any policy of the government. Afolabi (1998) maintained that fiscal and monetary policies, direct controls, etc are therefore alternative or complementary ways of achieving the same set of objectives. They are in no way competitive and are not meant to counter each other. Fiscal and monetary policies have some links between them. Donnelly (1991) gave the following links:

a. Monetary measures aimed at altering the money supply will affect income and this will have implications for the government’s budget
b. They way a government finances a deficit, disposes of a surplus may have an effect on bank creation of credit.
   c. An increase in government expenditure will lead to a rise in income which in turn will enable a growth in bank deposits and a multiplied creation of credit.
d. Typically, monetary policy would be used in support of fiscal policy or vice versa. However, the government may choose to stimulate investment by relaxing monetary policy, yet maintain a tight fiscal policy to prevent the emergence of inflationary pressures.

e. Fiscal policy can be more precisely targeted than monetary policy since the government can decide which sectors of the economy to stimulate economic activity.

f. Fiscal and Monetary policies can be used to regulate the level of economic activity, the price level and the balance of payment.

g. As with any policy—fiscal or monetary—the timing of action, the degree of action taken and the ultimate impact of the action taken are all important factors in regulating fluctuations in the economy. (Scott and Nigro, 1982).

Effects of Over-Reliance on One Policy

Below are some of the problems inherent in the use of one economic policy:

1. The problem of lag. The chief argument against using discretionary fiscal policy to combat recession is the long lag in changing fiscal policy. In the United State of America, for instance, evidence appeared in late 2000 that the economy was slowing. Congress did pass a tax cut in 2001. But it took the congress up to March 2002 to pass the Economic Recovering Act to provide further stimulus to the economy. In contrast, when signs emerged in December 2000 that the economy had slowed, the monetary policy committee of the Federal Reseved was able to convene a quick telephone meeting and they decided to start cutting interest rates in January 2001 (http://www.lao.gov).

2. The use of fiscal policy. There are situations in which monetary policy might be unable to stimulate the economy and discretionary fiscal policy would be needed to combat a recession. In the case of a recession, central banks reduce interest rates but no central bank can lower interest rate to zero. This occurred in the United State during the great depression of the 1930s and in Japan in the 1990s where monetary policy could not stimulate the economy (http://www.lao.gov and http://Usinfo.State.gov/products/pubs/Oecon/Chap7.htm).

3. Money Supply: when there is excess money in circulation, revamping the economy requires the use of the monetary and fiscal policies. In countries such as Russian republic, Poland or Brazil, there was excess money in circulation. The currency became worthless and this resulted to hyper-inflation. With 30-40% monthly inflation rates, saving was low and investments adversely affected (http://www.com/monopol.htm).

4. Use of restrictive monetary policy. The use of restrictive monetary policy has proved to be every effective in combating recession. After World
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War II, there was hyper-inflation in most countries as a result of over-reliance on one macroeconomic policy. Germany, for instance which experienced hyper-inflation during the Weimar Republic, has maintained a very stable monetary regime and how low level of inflation. When Paul Volcker of United State Federal Reserve applied monetary brakes during the high inflation of 1980s, the result was large drop of inflation and rapid economic growth. The Bank of Canada headed by John Crow targeted 0.3% inflation in the early 1990s and curtailed economic activity to such an extent that Canada actually experienced negative inflation rate and rapid economic growth for the first time since the 1920s. [http://www.finepipe.com/imonpi/htm](http://www.finepipe.com/imonpi/htm)

Excessive government spending and deficit may lead to stagflation, an economic situation which is characterized by soaring inflation, unstable exchange rates declining consumer demand. With 1993 estimates for inflation rates in the 50 to 100% range and foreign exchange expectations at year end of N40 or N50 to a dollar or more, Nigeria was on the verge of hyper-inflation (EEA, 1993). The rising level of fiscal deficits was identified as a major source of macroeconomic instability. In 2007, the international monetary fund (IMF) warned the Federal Government of Nigeria against unbridle fiscal spending. It urged the Central bank of Nigeria (CBN) to be more vigilant in the control of inflationary pressure. Thus, Government should not only reduce the size of their deficits and spending but should endeavour to synchronized fiscal and monetary policies [http://www.cenbank.org/monetarypolicy/conduct.asp](http://www.cenbank.org/monetarypolicy/conduct.asp).

Implication of Fiscal and Monetary Policies in some Selected Economics

In examining the implications of fiscal and monetary policies, only tow counties were considered-Nigeria and the United States of America.

The Nigerian economy, has had a truncated history. The economy never experienced double-digit inflation economy, has had a truncated history, however, the inflation rate stood at 23 percent. It decreased to 118 percent in 1979 and jumped to 41 percent and 72.8 percent in (1989 and 1995 respectively. By 1998, the inflation rate had, however, reduced to 9.5 percent from 29.0 percent in 1996. (Ekpo and Umoh 2007) EEA (1993), observed that Nigeria has consistently had double digit inflation for the past decade and conditions in 1993 pointed towards hyper-inflation of the Latin American (endemic) variety. The situation had largely undermined savings, discourage investment and created a consumer mentality where it was seen as smart to buy at whatever price today because tomorrow’s price will be higher.

The main culprit behind inflation in Nigeria is government deficit spending. Deficits have increased significantly since 1998 and are the major source of excessive money supply in relations to goods and services, since the
resulting inflation has favoured trading and financial transactions over primary industry and agriculture. However, in the 1980s the economy was in a recession. Kacou (2007), posited that the country experienced the most serious economic recession in the 1980s with reclining growth (and sometimes negative), hyper inflation, high unemployment rate, excessive fiscal indiscipline, serious balance of payment disequilibrium and serious external debt burden. The growth rate of the economy was below or sometimes as par with the growth of the population. The country was therefore faced with the threat of abject poverty with poverty rate of about 65 percent of the population.

Over the past seven years, Nigeria’s economic landscape has departed from its historical trend of growth inertia and macroeconomic instability. Unlike past result, average rate of the population (3.2%) (Kacou, 2007). Macroeconomic stability in terms of declining inflation rate (single digit inflation objective), exchange rate stability, favourable balance of payment conditions, some modicum of fiscal discipline, a consolidated financial system and an economy that is freed from external debt burden.

Many countries of the world have undertaken one form of economic reform or another in the course of their history. In the last two decades, Nigeria has witnessed various economic growth and development. The compelling reasons for reforms typically include structural weaknesses in the economy, high debt service burden, spatial and sectorial unevenness and poor growth performance. For instance, in 1981, government adopted various austerity measures such as price control and demand management policies. By December 1985, it became evident that austerity measures without a proper structural adjustment were inadequate response to the fundamental economic problems confronting the economy. Thus, in July 1986, Nigeria embarked on the SAP. It’s major objective were to stimulate domestic production, diversity the economic base, achieved fiscal and balance of payments viability, reduce the size of government expenditures as well as improve its efficiency and enhance growth potentials of the economy. Under SAP, the economy continued to tether on the brink of collapse with volatility in virtually all major macroeconomic aggregate (AFRICA, 2006). Learning from this experience, the Federal Government in 2004, adopted a home grown programmed styled the National Economic Empowerment and Development Strategy (NEEDS). The NEEDS could be seen as heralding a new down in the planning and budgetary approach of the government.

The role of government in the American economy extends far beyond its activities as a “regular’ of specific industries. The government also manages the overall pace of economic activity, seeking to maintain high level of employment and stable prices. It has two main tools for achieving these objectives-fiscal policy, through which it determines the appropriate level of taxes and spending, and monetary policy through which it manages the supply of money.
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Much of the history of the economic policy in the United State since the Great Depression of the 1930s, has involved a continuing effort by the government to find a mix of fiscal and monetary policies that will allow sustained growth and stable prices. From 1854 through 1919, the American economy has spent almost as much time contracting as it did growing. The average economic expansion (defined as an increase in output) lasted 22 months. From 1919 to 1945, the record improved, with the average expansion lasting 35 months and the average recession lasting 18 months. From 1945 to 1991 things got even better, with the average expansion lasting 50 months and the average recession lasting 11 months. Inflation, however, has proven intractable. Prices were remarkably stable prior to World War II, the consumer price levels in 1940 for instance, was not higher than the price level in 1778. But 40 years later, 1980 the price level was 400 percent above 1940 level. In part, the government’s relative poor record on inflation reflects the fact that it put more stress on fighting recessions (and resulting increases in unemployment) during much of the early post war period. Beginning in 1979, however, the government began paying attention to inflation and its records on the score have improved markedly. By the late 1990’s the nation was experienced a gratifying combination of strong growth, low unemployment and slow inflation (http://usinfor.state.gov/products/pubs/oecon/chap7.htm).

Conclusion

Global experience indicates that monetary and fiscal policies must work in tandem to create the right macro-economic framework. They must be aligned effectively through policy measures which work together and reinforce each other. They are in no way competitive and are not meant to counter each other. Fiscal and monetary policies are alternative or complementary ways of achieving the same set objectives-high level of employment, price stability and economic growth, among others.

Recommendations

1. **A policy mix**: No single measure is sufficient for the achievement of any economic goal. The major economic components-fiscal and monetary policies must be aligned effectively for a meaningful and long-lasting solution to macroeconomic problems in recessionary economies. This paper, therefore, recommends the use of fiscal policy and ‘mixed’ monetary policy. These policy measures are still in use in the United States and the other developed countries, the results have been marvelous.

2. **Sound macroeconomic reforms and policies.** Sound macroeconomic policies and reforms will create the necessary foundation for growth. Parallel measures to improve the investment climate and to create an
enabling environment can then motivate the private sector to take the lead role in economic development.

3. **Export promotion**: Industries should be allowed to concentrate on exports that are globally competitive (as to quality, specifications, delivery, prices, etc) with particular emphasis on utilizations of local resources. Incentives such as tax holidays, tax exemptions free tariffs, etc should be given to export oriented industries.

4. **Policy support**: Economic policy duration should be established and policy support obtained. Infrequent major policy changes would restore investors’ confidence in the economy.

5. **Transparency and accountability**: Transparency and accountability are required for all government revenue and spending management. They are essential to build investor, creditor and public confidence. Timely independent auditing of accounts would greatly assist to achieve this objective. Successful economics give priority attention to government spending because of the strong link to control inflation and exchange rate stability. Both strict monetary controls and fiscal spending controls must start at the top and must require discipline at all levels of government (including parastatals).

6. **Price stability**: Fiscal and monetary policies are used to combat inflation and ensure price stability. Normally, inflation should be kept low (under 5%) through spending controls, through keeping deficit to GDP under 3% (if not in surplus) and through tight monetary controls.

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