Chapter 31 McConnell, Brue and Flynn 20th

Fiscal Policy, Deficits, and Debt

In the previous chapter we saw that an excessive increase in aggregate demand can cause demand-pull inflation, and that a significant decline in aggregate demand can
cause recession and cyclical unemployment. For these reasons, the federal government sometimes uses budgetary actions to try to "stimulate the economy" or "rein in inflation." Such countercyclical **fiscal policy** consists of deliberate changes in government spending and tax collections designed to achieve full employment, control inflation, and encourage economic growth. (The adjective "fiscal" simply means "financial.") The topic of fiscal policy is a key theory that drives the problem- solving strategy to stabilize the macroeconomy. It is an integral part of the AP Macroeconomics Course Outline.

We begin this chapter by examining the logic behind fiscal policy, its current status, and its limitations. Then we examine a closely related topic: the U.S. public debt.

In 2009, Congress and the Obama administration began a $787 billion stimulus program designed to help lift the U.S. economy out of deep recession. This fiscal policy contributed o a $1.4 trillion federal budget deficit in 2009, which increased the size of the U.S. public debt to $11.9 trillion. Large deficits continued in subsequent years, so that the U.S. public debt passed $17.0 trillion in 2013.