Fiscal Policy

Economics

Government spending and taxation as demand management.

Fiscal policy	Monetary policy
Spending and taxation	Interest rates and money supply
Can target sectors and regions	Economy-wide, cannot target
Direct effect on demand	Works indirectly through incentives
Slow to legislate and implement	Fast to change, slow to take effect
Constrained by debt and politics	Constrained near the zero bound

THE DIFFERENCE THAT MATTERS

Automatic stabilisers — unemployment benefits and progressive tax — act immediately without any decision being taken.

Crowding out is the counter-argument: government borrowing may raise rates and displace private investment.