

Fiscal Policy Drawbacks/Limitations

- ① SIGNIFICANT TIME LAGS
 - recognition lag (time taken to recognise a problem)
 - decision lag (time to develop a policy response)
 - implementation lag (time to develop implementation & implement policy response - taxation & spending)
 - impact lag (full effects of policy felt after natural correction / multiplier effect needs time to take hold)

→ AUTOMATIC STABILIZERS work to minimize these lags
 - ② DIFFICULTY IN GOV'T SHIFTING SPENDING/TAXATION POLICY
 - ↳ politics of timing and citizen perceptions
 - ③ FISCAL POLICY CONFLICT BETW LEVELS OF GOV'T (AT ODDS)
 - ↳ fed. / pov. polycs may offset each other
 - ④ REGIONAL DIFFERENCES IN BUSINESS CYCLE LOCATION / PHASE
 - ⑤ DEBT SIZE LIMITS^{DISCRETIONARY} FISCAL POLICY EFFECTIVENESS
 - ↳ ability to ↑ spending and cut taxes limited if carrying a high debt as revenue sources shrinking and servicing payments ↑
 - ↳ FISCAL POLICY FOCUS - ↓ DEFICITS
 - ⑥ INTEREST RATES ↑ AS GOV'T COMPETES W PRIVATE INVESTMENT TO BORROW FUNDS TO PAY DOWN DEBT (↑ SPENDING ↓ TAXES)
 - ⑦ GOV'T PAYS INTEREST ON DEBT W TAX DOLLARS THUS REDISTRIBUTING INCOME TO WEALTHY
 - ⑧ DEBT/DEFICITS BURDEN FUTURE GENERATIONS AS CAPITAL GOES FOREIGN
- ↳ repeated rounds re-spending of income in an economy

↳ the factor by which GDP increases due to a increase in income

↳ magnitude of multiplier depends on size of leakages from income (greater the L the less income the smaller the multiplier effect)

↳ leakage role of tax thus

↳ taxes could have significant impacts on GDP as ↑ income and ↑ multiplier effect