The Monetary and Fiscal Policies, although controlled by two different organizations, are the ways that our economy is kept under control. Both policies have their strengths and weaknesses, some situations favoring use of both policies, but most of the tim e, only one is necessary.

The monetary policy is the act of regulating the money supply by the Federal Reserve Board of Governors, currently headed by Alan Greenspan. One of the main responsibilities of the Federal Reserve System is to regulate the money s upply so as to keep production, prices, and employment stable. The "Fed" has three tools to manipulate the money supply. They are the reserve requirement, open market operations, and the discount rate.

The most powerful tool available is the reserve requir ement. The reserve requirement is the percentage of money that the bank is not allowed to loan out. If it is lowered, banks are required to keep less money, and so more money is put out into circulation (theoretically). If it is raised, then banks may have to collect on some loans to meet the new reserve requirement.

The tool known as open market operations influences money and credit operations by buying and selling of government securities on the open market. This is used to control overall money supply. If the Fed believes there is not enough money in circulation, then they will buy the securities from member banks. If the Fed believes there is too much money in the economy, they will sell the securities back to the banks. Because it is easier to make gra dual changes in the supply of money, open market operations are use more regularly than monetary policy.

When member banks want to raise money, they can borrow from Federal Reserve Banks. Just like other loans, there is an interest rate, or a discount rate, the third tool of the monetary policy. If the discount rate is high, then fewer banks will be inclined to borrow, and if it is low, more banks will (theoretically) borrow from the reserve banks. The discount rate is not used as frequently as it was in th e past, but it does serve as an indicator to private bankers of the intentions of the Fed to constrict or enlarge the money supply.

The monetary policy is a good way to influence the money supply, but it does have its weaknesses. One weakness is that tight money policy works better that loose money policy. Tight money works on bringing money in to stop circulation, but for loose policy to really work, people have to want loans and want to spend money.

Another problem is monetary velocity. The numbers of ti mes per year a dollar changes hands for goods and services is completely independent of the money supply, and can sometimes contradict the efforts of the Fed. The benefits of the monetary system are that it can be enacted immediately with quick results. Th ere are no delays from congress. Second, the Fed uses partisan politics, and so has no ties to any political party, but acts in the best interests of the U.S. Economy. The second way to influence the money supply lies in the hands of the government with th e Fiscal Policy. The fiscal policy consists of two main tools. The changing of tax rates, and changing government spending.

The main point of fiscal policy is to keep the surplus/deficit swings in the economy to a minimum by reducing inflation and recessi on.A change in tax rates is usually implemented when inflation is unusually high, and there is a recession with high unemployment. With high inflation, taxes are increased so people have less to spend,thus reducing demand and inflation. During a recession with high unemployment, taxes are lowered to give more people money to spend and thus increasing demand for goods and services, and the economy begins to revive.

A change in government spending has a stronger effect on the economy than a change in tax rate s. When the government decides to fight a recession it can spend a large amount of money on goods and services, all of which is released into the economy.

Despite the effectiveness of the Fiscal policy, it does have drawbacks. The major problems are timing and politics. It is hard to predict inflation and recession, and it can be a long period of time before the situation is even recognized. Because a tax cut can take a year to really take effect, the economy could revive from the recession and the new unne cessary tax cut could cause inflation.

Politics are another problem. Unlike the monetary policy run by the partisan Fed, the fiscal policy is initiated by the government, and so politics play a key role in the policy. When the concerns of the government are viewed, it becomes obvious that a balanced budget is not the primary objective, anyway. The fiscal policy can also be used as a campaign tactic. If tax cuts are initiated and government spending is increased, then the president is more likely to be re-elected, but has first to deal with the inflation his tactic caused.

Monetary and fiscal policies are what helps keep the nation’s economy stable. With them it is possible to control demand for services and goods and the ability to pay for them. It is possib le to manipulate the money in private hands without directly affecting them. The policies are simply

a myriad of tools used to prevent long period where there is high unemployment, inflation, and prices, along with low wages and investment.