Economists have attempted to create built-in fiscal policies. Automatic stabilizers – any government program or policy that counteracts the business cycle without any new government action.

Automatic stabilizers include welfare payments, unemployment insurance, and the income tax system.
How Automatic Stabilizers Work

• When the economy is in a recession, the unemployment rate rises.
• Unemployment insurance automatically is paid out to the unemployed, offsetting some of the fall in income.

How Automatic Stabilizers Work

• Government spending increase without an explicit act by the government.
• When incomes increase, government spending declines automatically.

How Automatic Stabilizers Work

• When the economy expands, tax revenues rise, slowing the economy.
• When the economy contracts, tax revenues decline, providing stimulus to the economy.
The Automatic Stabilizers

- The automatic stabilizers protect us from the extremes of the business cycle
  - Personal Income and Payroll Taxes
    - During recessions, tax receipts decline
    - During inflations, tax receipts rise
  - Personal Savings
    - During recessions, saving declines
    - During prosperity, saving rises

Credit Availability
- Credit availability helps get us through recessions

Unemployment Compensation
- During recessions more people collect unemployment benefits

The Corporate Profits Tax
- During recessions, corporations pay much less corporate income taxes

Other Transfer Payments
- Welfare (or public assistance) payments, Medicaid payments, and food stamps rise during recessions