Stimulus Package

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In News

Stimulus package is a package of **tax rebates and incentives** used by the governments of various countries to stimulate the economy and save their country from a financial crisis.

The idea behind a stimulus package is to provide tax rebates and **boost spending, as spending increases demand, which leads to an increase in employment rate which in turn increases income and hence boosts spending.** This cycle continues until the economy recovers from collapse.

More About Stimulus Package

- The theory behind the usefulness of a stimulus package is rooted in **Keynesian economics, which argues that recessions are not self-correcting**, and therefore government intervention can lessen the impact of a recession.
- A recession, according to Keynesian economics, is a persistent deficiency of aggregate demand, where the economy will not self correct and instead can **reach a new equilibrium at a higher rate of unemployment, lower output, and/or slower growth rates.**
- The term economic stimulus is based on an **analogy to the biological process of stimulus and response**, with the intention of using government policy as a stimulus to **elicit a response from the private sector economy.**
- Fiscal stimulus differs from expansionary monetary and fiscal policy more generally, in that it is a **more specifically targeted and conservative approach to policy.**
- Instead of using monetary and fiscal policy to replace private sector spending, economic stimulus is supposed

to direct government deficit spending, tax cuts, lowered interest rates, or new credit creation **toward specific key sectors of the economy to take advantage of powerful multiplier effects that will indirectly increase private sector consumption and investment spending.**

- Economic stimulus is commonly employed during times of recession. Policy tools often used to implement economic stimulus include **lowering interest rates, increasing government spending, and quantitative easing**, to name a few.
- One such stimulus package was used by the United States in 2008 during the time of the **global recession**, which was aimed at increasing employment and recovery of the US economy.
- India too used its first stimulus package in 2008 to ensure the **safety of bank deposits and stability of the financial system.** The government took necessary steps to infuse liquidity into the banking system.
- In an effort to infuse liquidity into the banking system, RBI reduced the CRR as well as repo and reverse repo rates. Also, the problems faced by non-banking financing companies were addressed.