A government's financial status is primarily determined by its people's affluence. Its people's affluence is determined by the overall economic success of the nation. Thus in order for the government to maintain a healthy financial status, it must ensure the continuity of economic success, and the prevention of economic collapse. Various strategies have been used by governments to prevent collapse and incite success. Throughout American economic history, the most prominent strategies have been fiscal, and monetary policy.

"Fiscal policy is the use of government expenditure and revenue collection to influence the economy."[1] The subsets of fiscal policy are expansionary, contractionary, and neutral fiscal policy. Expansionary fiscal policy would be an increase in government spending with the intent to alter the economy (e.g. stimulating specific markets causing a cascading beneficial effect). Expansionary policy could also take the form of a maintaining of government spending, but a decrease in tax revenue in certain markets with the intent stated above. Regardless, expansionary fiscal policy inevitably results in federal debt, given that in expansionary fiscal policy, government spending is greater than tax revenue. Expansionary policy is used primarily to combat recession or depression (i.e. a stagnant economy).

Contractionary fiscal policy would be a decrease in government spending, an increase in tax revenue, or a combination of the two. Contractionary fiscal policy results in a budget surplus, for the government spending is less than taxation revenue. Contractionary policy is usually intended to stagnate the economy when on the verge of collapse. Contractionary policy is used to ease or decrease the starkness in the booms

[1] Steven M. Sheffrin (2003). Economics: Principles in action. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall. pp. 387. ISBN 0-13-063085-3.

and busts of economic fluctuations. Finally, neutral fiscal policy is relatively equal spending and revenue. A policy used when no intervention seems to be needed.

"Monetary policy is the alteration of money supply, availability and cost."[2] Included in all economic regulation, monetary policy's intent is to influence the economy beneficially. Much like fiscal policy, monetary policy has subsets; expansionary and contractionary monetary policy. Identical to fiscal policy in its ends (i.e. increasing or decreasing money supply), monetary policy differs in its means. Expansionary monetary policy lowers interest rates to achieve the same outcome of expansionary fiscal policy. While contractionary monetary policy raises interest rates to achieve the same ends as contractionary fiscal policy (i.e. slow inflation).

Numerous cases of economic policy have been implemented by presidents. During what is known as the "roaring twenties," Republican President Warren G. Harding, demanded an end to high wartime taxes. Consequentially Andrew Mellon, the 49th Secretary of the Treasury overall raised import/export taxes while cutting other taxes and used the surplus to reduct the federal debt by 30% from 1920 to 1930.[3] This is a historic example of contractionary fiscal policy. This policy may have in fact pushed off the imminent Wall Street Crash of 1929.

Although some president's economic policies may be considered a success, there have been policies that further exacerbated some of the worst situations America's economy has been in. Worried by lagging federal revenues, Herbert Hoover passed a massive tax increase (contractionary fiscal policy) in 1933. Leading to what

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[2] http://www.ferderalreserve.gov/policy.html Federal Reserve Board. March 1, 2010.

[3] Mellon, Andrew. Taxation: The People's Business. New York: Macmillan, 1924.

was likely the height of the depression, during which unemployment was up to 25.2% from 16.1% in 1931.[4]

After the eventual recovery of the depression, and the end of World War II, Preseident John F. Kennedy passed the largest tax cut in history upon entering office in 1961. Further supporting this expansionary fiscal policy, $200 billion in war bonds matured. This growth continued until the early 1970s, at which point oil dependence became realized, and oil supply shocks flustered economic stability.

In the incipient stages of government economic regulation, fiscal policy seemed to be more prominent. Although, as economic relations become more complex, the precursors to economic collapse may become more subtle or unique to that collapse. This makes preemptive regulation very difficult. Moreover, it seems as though regardless of how capitalism is constrained by the government, it always manages to squeeze its way through.

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[4] Source GNP: U.S. Dept of Commerce, National Income and Product Accounts; Mitchell 446, 449, 451; Money supply M2