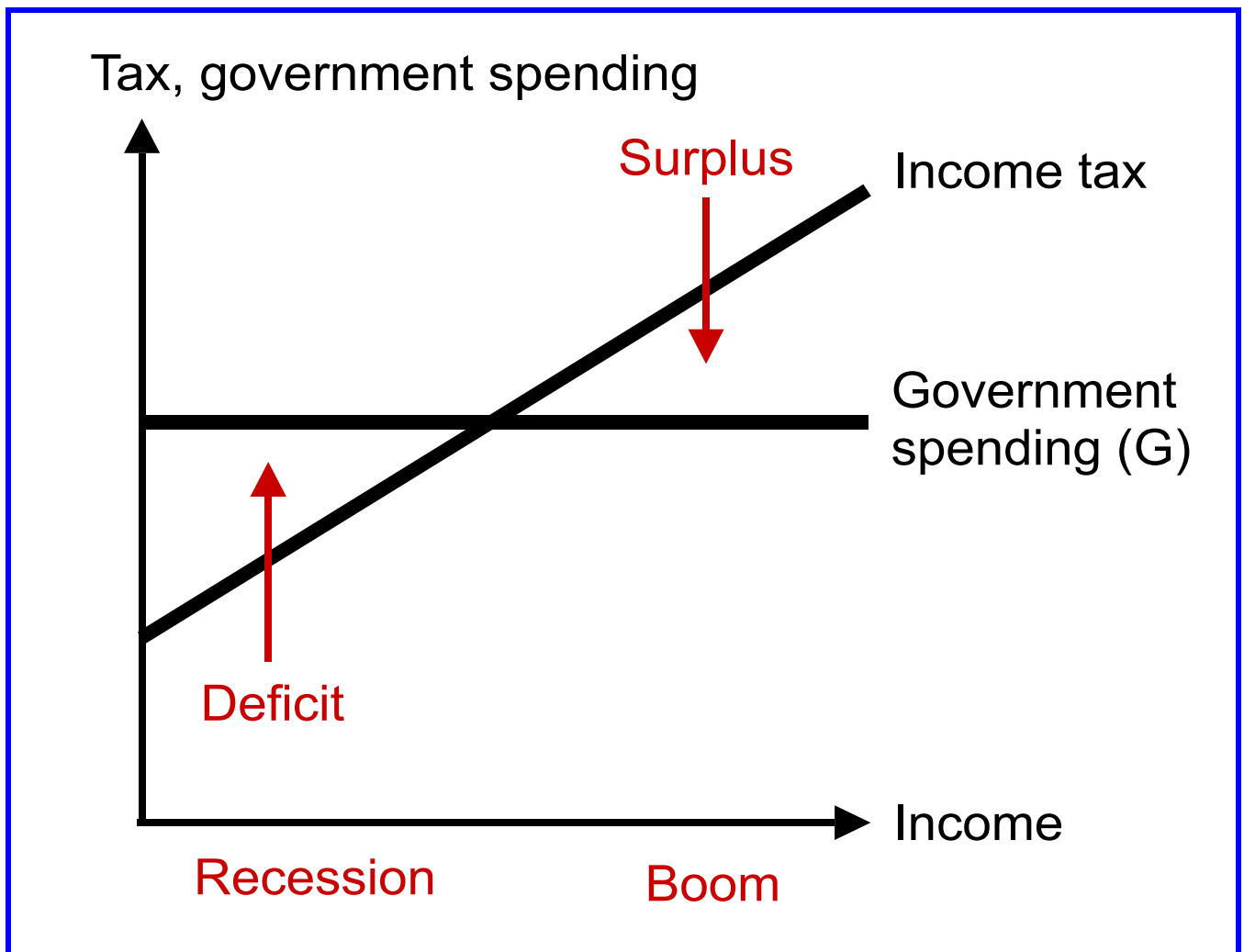


## Automatic stabilizer (example of income tax)

| Business cycle | Taxation revenue (progressive tax) | Government budget (G constant) |
|----------------|------------------------------------|--------------------------------|
| Recession      | lower                              | Deficit                        |
| Boom           | higher                             | Surplus                        |



In a recession, lower taxes stimulate private consumption; in a boom, higher taxes slow down private consumption. This is why progressive income tax stabilizes the economy automatically, i.e. without a change in the law (→ stimulation during a recession, slowdown during a boom).