Overview

As of recent times, Canada has seen improvements towards all four of the macroeconomic objectives. This newspaper issue has provided its audience with the primary goals and policies behind them. Improvements in the nation’s economic growth, reaching full employment, stability of prices, and the equity within its income distribution will all be further explained, along with the government policies behind them. Economic Growth: The government of Canada has done an extraordinary job in terms of maintaining a economic growth for its nation. Reaching Full Employment: Unemployment was a very significant issue over the past decade, but the actions took and the actions that are being currently taken, have provided the nation with a sense that this issue is on its way of being resolved. Price Stability: The nation’s primary objective out of the four, Canada has done a perfect job when looking at the established goal and the decisions the government took in order to reach it, and to maintain it so well. Income Distribution: Income Distribution in Canada is a topic that has been considered of high priority, and that can be seen clearly through Canada’s current stance on the issue and how they plan on tackling it.

Full Employment:

When comparing data from 1976, Canada has made immense growth in lowering their unemployment rate. Currently, the government of Canada has been undergoing a fiscal policy, in which they increase government spending on different areas. Through the “Investing in Canada” plan, the government in Canada is making extreme strides with regards to investing in infrastructure. They doubled the spending compared to the existing budget. The plan’s objectives are to create inclusive communities, and create long-term economic growth. The Canadian Government had initiated a plan to invest over 180 billion Canadian dollars in infrastructure priorities. In 2016, Canada committed CAD 14.4 billion to infrastructure investments. In 2017, Canada made an additional CAD 81.2 billion funding towards infrastructure and has a similar projected budget for 2018 (“Investing in Canada”). This government policy has lead to an increase in 38,000 new job opportunities in fields such as: “Investment and Financial Services and Food Services (“Trading Economics”). As Canada has a projected unemployment rate of 6.3% in 2020 ("2016 Growth"), there clearly is room for improvement with regards to their efforts in achieving the goal of being within the 3-5% range. To do so, there should be efforts made to make higher levels of education available to more of the middle to low income population. It should be noted that Canada’s secondary education and post-secondary education is increasing in price. As a result, a large proportion of the population can not, or will not be able to afford it (“2016 Growth”). Without affording these types of education, the young and upcoming workforce will lose essential elements. These elements being: The workforce will not be as highly educated, and the ability to adapt to new fields and opportunities. Without a well educated and highly skilled workforce, we can expect Canada’s unemployment levels to increase due to the fact that many people are not qualified for the positions and will not be employed.

Evaluated Proposal to Decrease Unemployment:

The Canadian government should implement a Fiscal Policy increasing government spending in programs that will benefit those who can’t afford the higher levels of education. One method could be to undertake reforms with how the government deals with student loans and debt (“2016 Growth”). Making loans and debt more manageable, a larger proportion of the population would have more disposable income as they do not pay as much as they did before. This leads to more people with the ability to afford higher education. Many individuals suffer from lack of experience and skills. Governments investing in youth development will only benefit the economy in the long run. If there is an increase in the number of people with higher levels of education, then the workforce will benefit as an increased proportion is highly educated and will have the skills and adaptability when dealing with infrastructure changes. Increasing the amount of the workforce with vital skills abilities will allow them to be fully integrated into the workforce. This leads to lower unemployment, which will bring them closer to their objective of 3-5%. Improving the workforce will increase the potential output for the nation.

This increase shifts the LRAS curve to the right (LRAS1 to LRAS2), due to increased productivity. Aggregate Demand shifts to the right (AD1 to AD2), as Government Spending, has increased. The SRAS will also increase as the quantity and quality of their labor is improving. With the improved quantity and quality, the supply will be able to meet the increased demand for the goods and services. The SRAS will decrease in price level because of the fact that the improved workforce has seen an increase in their productivity. In the long-run, the population that goes through the better education, will end up with better careers. For example, there may be an increase in the number of engineers and doctors. In turn, there will be an increase in innovation, leading to more advancements, contributing to economic growth. Due to supply-side policies, the producers are improving the quantity and quality of the workforce. The increase in workforce means productivity increases the output of their goods and services, while lowering costs of production. Productivity will also increase as the more innovative and highly skilled workers can make technological advancements to further increase the economies projected growth as it will improve the quantity and quality of its goods and services. The lower costs of production results in producers lowering the prices of their goods and services because the profits will stay the same. With producers lowering the price, the employed workers have more disposable income to spend. Consumers will increase spending as the prices for the goods and services are low and they have more income to spend towards the cheaper goods and services. The increased consumption leads to an increased Aggregate Demand for the nation. As a result households feel wealthier and continue spending the economy. The limitation to this may be that the Canadian government will increase their budget deficit. The government would have to implement the policy in the short-run, the effect will be long-term. The government will be spending more money than they make during the time of the policy being implemented and when its full effect take place. With an increase in budget deficit, the government won’t have as much money to spend on other aspects of the economy without worsening their debt.

Inflation

Canada has seen their past and current policy implementations for inflation to be very successful. Controlling their projected rates of inflation is one of most important macroeconomic objective the Canadian government has. It is explicitly stated that Canada focuses on maintaining a low, stable, and predictable inflation rate of 2% (“Monetary Policy”). As of March 2018, their inflation rate was 2.3%. In the following 2 years (2019, 2020) Canada is projected to maintain a similar rate (“Trading Economics”). Canada has been heavily dependent on their Monetary Policies to achieve their inflation goals. The monetary policy revolves around influencing interest rates. Canada’s current monetary policy framework consists of two main
components which go hand in hand: Inflation-Control Target, and Flexible Exchange Rates. The Inflation-Control Target guides the Bank of Canada and the decisions made. A Key Policy Interest Rate (also known as Target for the Overnight Rate) is the interest rate at which major financial institutions borrow and lend one-day funds. The Bank of Canada is responsible for that rate because it is a benchmark for other banks and financial institutions when setting interest rates for their consumers. The Bank raises/lowers this rate depending the inflation target. If inflation is exceeding, the Bank will raise their policy rate. Financial institutions then raise their interest rates ("Monetary Policy"), discouraging consumer borrowing and spending as repaying any loans or funds borrowed will be more expensive. Consumers are then determined to only spend money on the necessities they need for their standards of living. This new emphasis decreases the upward pressure on prices for the goods and services within the markets; decreasing inflation. The opposite also exists. The Bank will lower their policy, in order for financial institutions to lower their interest rates("Monetary Policy"), giving consumers incentive to spend more. They are more likely to borrow money as the low interest rates indicate that when paying back the funds borrowed, it will not take up as large of a proportion for borrower’s income. The other component for Canada’s monetary policy framework, the flexible exchange rate, is equally significant. With Canada having a flexible exchange rate, they have and use to their full advantage, the ability to pursue monetary policies focused on them independently ("Monetary Policy"). Based off of Canada’s economic circumstances, and how they need to achieve the inflation target, they can choose a monetary policy best suited for them. By allowing the exchange rate to be flexible, the economy is able to adjust to any fluctuations. The exchange rate flexibility provides the Canadian economy with a “buffer”; granting them the ability to absorb any internal or external shocks with ease ("Monetary Policy"). The limitation of this policy is the time period in which it occurs. For full effect, it takes 6-8 quarters. Furthermore, Canada desires a low inflation rate due to the effects it has large effects on both producers and consumers. With low inflation rates, the consumers will assume that the economy has achieved price stability, increasing their confidence in the economy. Not only consumers, but the businesses and firms also have an increase in confidence for the same reason. Both groups can increase the amount they invest within the economy without having to worry about their value of wealth decreasing. The inflation rate and unemployment rate are inversely related to each other. Canada’s inflation of 2% accurately measures at an unemployment of 5% which is the target for unemployment Canada wishes to achieve ("Trading Economics"). The Phillips Curve on the right represents the relationship Canada’s inflation and unemployment targets have. It is clear to see that as unemployment rate increases, the inflation rate decreases. As mentioned before, the inflation target Canada aspired to, and met was 2%. Their unemployment target was to be below 5% or at it. These two targets accurately intersect at a point on the Phillips Curve. This shows that Canada’s policies are integrated within one another, and their current government policies are successful.

Economic Growth

All factors are pointing to Canada achieving and maintaining a stable economy. Canada is still slowly recovering from the global financial crisis in 2008. The Real GDP growth is projected to be around 2% in 2018 and 2019 ("2016 Growth"), which meets their target. It is acceptable to assume that Canada’s economy is operating near full capacity. Potential Economic Output has been increased due to investments within machinery and equipment, and firms expanding employment. The labor market has also been consistently improving in all sectors. With unemployment being at a 40-year low, job vacancies being at 470,000 at the fourth-quarter in 2017, the overall improvement of the labor market has significantly contributed to rising wages. In the BOS Report, the firms surveyed showed signs of upward pressure on wages, due to the competition within the labor market ("Monetary Report"). This increase in wage growth allows a larger proportion of the population to purchase more goods and services with the current prices, increasing the Aggregate Demand within the nation, through consumption. With an increase in Aggregate Demand, producers are encouraged to increase the output of their goods, shifting Aggregate Supply to the right. The government of Canada, as a result, has taken steps in bolstering the housing finance system (through a Fiscal Policy), which took a significant toll after the global financial crisis. The government has strengthened the criteria for insured mortgages and is continuously monitoring the impact ("2017 Growth"). The government is helping the economy by building more inclusive communities. They have taken certain measures to help indigenous people acquire the education and skills to fully participate in the economy, gain better access to healthcare services, and generate economic opportunities in tourism and fishing sectors ("2017 Growth"). This leads to a general increase in the quality of life due to key investments in the Inuit and Métis communities. The government also introduced the Inclusive National Housing Strategy. This strategy includes investments designed to build, renew, and repair Canada’s affordable housing stock in order to support the people dealing with the challenges of finding housing ("2017 Growth"). Finally, they have made significant infrastructure investments to deliver better public transit, green infrastructure that supports cleaner and sustained economic growth, and create the Canada Infrastructure Bank to invest in future infrastructure projects in the public interest, creating more job opportunities. Canada has a commitment to fund 1.3 CAD billion over 2 years to invest in public infrastructure, leading to economic growth and the creation of jobs across the country ("2017 Growth"); which will further reduce unemployment.

Proposed Evaluation to Improve GDP:

The government should implement a fiscal policy focused on public transportation ("2017 Growth"). The effects of this policy are similar to the fiscal policy proposed for reaching full employment. Public transportation is going through drastic advancements. The fiscal policy would take measures in order to increase the availability of public transport, and make changes in areas that provide negative consequences towards the population. In order to make public transportation increasingly available, the fiscal policy could focus on making investments that will decrease the price for their use. By decreasing the prices, consumers will increase spending, as cheaper public transportation allows them to spend more of their total disposable income. The aggregate demand of the nation will increase as the population is not worried about public transportation taking a large proportion of their income anymore. In the long-run, the improvements in public transportation will bring increased health benefits. The improvements in public transportation would decrease the extent to which they pollute the air, improving the population’s health. Less pollution in the air, results in a decrease in the amount of diseases that are being spread. This will increase the life expectancy of a country. If consumers in Canada live with improved health, then they may gain the incentive to make long-term investments like, human capital. If the consumers can live longer, then an ageing population can continue their contribution to economic growth. Producers will benefit as they have an increased quantity in workforce. This increased quantity will, in the short-run, increase the quantity of goods being supplied within markets. Furthermore, another benefit of having more employees work for longer, is the fact that consumption can increase or at least stay at the rate at which it currently is. When an ageing workforce retires, the consumption takes a significant negative impact as a vast amount of individuals don’t have the disposable income they did before, meaning they can’t consume as much. With employees working longer, they will continue consuming. The aspect of consumption will increase Aggregate Demand because more people are spending their income. This increased demand for goods and services will cause producers to increase prices for the goods as well.

This data diagram represents Canada’s inflation rates since 2012. Canada’s projected inflation target, 2%, has clearly been met with the exceptions of a months. Furthermore, it should be noted that Canada was on positive trend until they reached their inflation target, at which they turned to maintaining it at that rate. ("Trading Economics")

This data diagram is a representative of Canada’s GDP from 2012. It is clear to see that a positive trend was becoming increasingly noticeable, however the substantial decrease in GDP had broken the assumed pattern. As of recent times, the GDP is growing at a fast rate and is projected to continue as it is. ("Statista")
as their output. In turn, with the increased quantity of their workforce, the aggregate supply will increase in the short-run; further emphasized with improvements in technology, which will make their productivity more efficient. With the improved workforce, the productivity of firms and businesses will increase. This increase will result in an increase in the potential output that the nation will have in the long-run. The limitation to this policy, will be the fact that the Canadian government's budget deficit will increase. If the proposal were to go through, the public transportation investment would occur as soon as possible in order to make the long-run effect take place earlier. By spending an increased amount in this aspect of the nation, they are decreasing the amount they will make in revenue.

Income Inequality

Over the past 20 years, Canada's income inequality has increased. Since the 1990's the richest group of Canadians have increased their share of the total income, whereas the middle and poor income classes have lost their shares. With a Gini Coefficient of 0.32, it is assumed that Canada is at a moderate position when it comes to the distribution of their income ("Income Inequality"). However, when viewing the actual income distribution of Canada’s wealth, perspectives on their success within this Macroeconomic objective changes. The richest 20% of Canadians control approximately 67% of the wealth, whereas the poorest 20% have no control at all; they are in fact in debt at -0.1% ("The Wealth"). The Canadian government has put this issue in to its spotlight and has taken important actions to improve this objective. Even though Canadians are richer than ever, the gap between the median household wealth and average household wealth has also grown drastically (Mahboubi). The Canadian government has realized the significance of the middle class for their economy, and as a result, has decreased the taxes they have to pay. The middle class have been key in Canada’s economic success, and the government is completing what’s required of them to strengthen the middle class population. An important initiative that the government took was the reduction of second federal personal income tax from 22 to 20.5%. To add onto this tax reduction, the government has also implemented a top federal income tax rate of 33% for the individuals with more than CAD 200,000 of taxable income per year ("2016 Growth"). In terms of producers, the Canadian government has also looked towards reducing the tax on small businesses . This implementation was effective after January 1st, 2016, and the federal small business income tax rate was reduced from 11 to 10.5% ("2017 Growth").

Looking at this data table, it is clear to see why the Canadian government has taken action to implement a government policy to achieve the best sense of equity they can. With the top 20% controlling an immensely high amount of the wealth within the nation, and the poorest not controlling any whatsoever, the inequality gap can be assumed to be very high. However, with the tax cuts for the middle-class comes with both pros and cons. Reducing the income tax rate will clearly lead to increased spending. The middle-class workers will see an increase in their disposable income as a result of their tax reduction. The increase in disposable income will increase spending simply because they have more money to spend. As a result, the consumption determinant for Aggregate Demand increase; increasing Aggregate Demand as a whole for the nation. The reduction in taxes will also lead to higher economic growth. Adding onto the previous benefit, consumers increase spending because they are better off. As consumption is a very important factor in increasing/decreasing Aggregate Demand, an increase in consumer spending will lead to an increase in Aggregate Demand, resulting in economic growth. A negative consequence however, is the increase in government borrowing as a result of the decrease in tax revenue.

Overall, Canada’s economy and its progress has been positive. Out of the four macroeconomic objectives, three of them have been dealt with in an exceptional manner, whereas the last one is being improved upon on a day to day basis.

References


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