State of the Economy - United States Of America

The Four Macroeconomic Goals

Unemployment

The unemployment rate is 3.9% as of April 2018. The previous six months had seen unemployment at a steady 4.1%. Alaska has the highest unemployment rate at 7.3%, whereas Hawaii has the lowest unemployment rate at 2%. The unemployment rate for adult women decreased to 3.5% in April. The jobless rates for adult men 3.7%, teenagers 12.9%, Whites 3.6%, Blacks 6.6%, Asians 2.8%, and Hispanics 4.8% showed little or no change over the month. When compared to other countries, America’s unemployment rate is very good. For instance, Canada has an unemployment rate of 5.9%. However, the labor participation rate is at a low 62.9%, as of April 2018, following the continual decline from past years. With the passing of this tax reform bill by the Trump Administration, President Trump believes the tax reform bill he passed in December will help unemployment, because firms will be able to hire more workers for the same price. Business confidence has massively increased in the country due to the administration’s legislation passing the tax reform, which eases taxes on companies, allowing them to hire more workers for the same price.

Economic Growth

Currently, the economy is growing at a steady clip. The real GDP rose by 2.38% in 2017. The nominal GDP of the United States in 2017 was $19.97 trillion as compared to $18.57 trillion of 2016. However, President Trump says that the tax reform bill will cause the economy to grow at a rate of 3% as compared to the 2% of previous years. When compared to other countries, America’s GDP growth rate is very promising. For example, Canada, another economically developed country, has a growth rate of 0.4%. The GDP of America grew by 2.3% the first quarter of 2018, which was lower than the pace of the last quarter of 2017, which was 2.9%. Contradicting President Trump, The Bureau of Labor Statistics believes that the GDP will rise by a consistent 2% through 2026. The projected value of the Real GDP in 2026 is $20.3 trillion 2009 dollars. The decline in the rate of economic growth is caused by a decrease in consumer spending, which is the biggest determinant of Aggregate Demand. The rate of consumer spending reduced to 1.1% in the first quarter of 2018, which is the lowest its been in five years. Government is trying to promote economic growth through various reforms. For example, the Trump administration is imposing/increasing tariffs on imported goods. This would lead to economic growth because net exports is a determinant of aggregate demand, and since imports will decrease in comparison to the exports of America, Aggregate Demand will increase, theoretically leading to Economic Growth. In addition to this, the tax reforms passed by the Trump Administration will also lead to economic growth, since people now have more money to spend.

Inflation

Inflation is projected to rise by 2.38% in 2018. This would be an example of disinflation from the previous year, as the inflation rate was 2.65% in 2017. America’s inflation rate is on par with other economically developed countries, like Canada, which has an inflation rate of 2.33%. President Trump is likely very satisfied with disinflation since he is a Republican and subscribes to the New Classical ideal of economic thinking, however John Maynard Keynes and his supporters would view this negatively since they believe some inflation is necessary for a healthy economy. America is experiencing demand pull inflation, since the inflation is being caused by rising aggregate demand due in large part to President Trump’s tax cut policy and his affinity for boosting aggregate demand. It is unlikely that America would experience cost-push inflation since President Trump is a big believer in cutting corporate taxes and reducing costs of production for businesses.
Equity

Equity is the fourth economic goal for a macro economy. Equity is defined as a fair distribution of income. Equity is displayed on a Lorenz curve, that has the x axis as the cumulative percentage of people from lowest income to highest income and the y axis as the cumulative percentage of income. A perfectly equal society has a Lorenz curve that is perfectly linear. The Lorenz curve is used to calculate the Gini coefficient, which is \( \frac{a}{a+b} \). The closer the Gini is to 0 the more equitable it is. The Gini coefficient of America is 0.42, when compared to the Gini of Burkina Faso which is 0.353. The graphs on the right show what the theoretical Lorenz curves would look like for both the US and Burkina Faso based on their Gini Coefficients. The chart on the right titled "Lorenz Curve" shows the Lorenz Curve of America in the years 2004 and 2014. The orange curve represents the year 2014 and the blue represents 2004. As clearly visible, the orange curve for 2014 protrudes more outwards than the curve for 2004, indicating that equity and the distribution of income in America has gotten worst.

One proposal that would help fix the problem of inequity in the United States is an extension of President Trump’s tax reform. The current tax structure for the bottom 80% should remain the same, but the income tax on the top 20% needs to increase progressively as people move into higher wage brackets, as well as increased corporate taxes. The additional revenue that the government collects should be split between transfer payments and direct provision of goods and services. Transfer payments, such as social security and unemployment benefits will help the bottom 20% of the population that earns very little money and lives in relative poverty. Money for the direct provision of goods will be used to fund quality education programs, quality healthcare, and quality public housing as well as infrastructure, which means that they will save money on essential goods and services they need to survive. This proposal helps solve the problem of inequity because it collects money from the rich and redistributes it to the poor. Thus, the range between the wealthiest 20% and the poorest 20% will be less vast. Also, there will be more upward mobility for the poorest 20% and many of the comically wealthy people in the top 20% will see their wealth reduced to a more reasonable amount. As displayed on the theoretical Lorenz Curve below, the Gini coefficient of America would decrease massively in this proposal works. The Lorenz Curve of America would shift in, causing the overall area of "a" to be smaller.

Not only would this proposal effect the equity component of a Macro economy, but it will also have a significant impact on the Economic Growth component of the economy. This is because when AD1 shifts rightwards to AD2, which happens because there is increased consumption since the poorer will have more disposable income, on the Keynesian diagram below rGDP also shifts from Y1 to Y2, indicating an increase in GDP.

Solutions to Inequity

Proposal 1

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However, as the diagram also shows, price levels increase as well, which leads to inflation. Higher taxes on businesses are also viewed negatively by many conservatives, who believe in a “trickle-down” effect, where wealthy business owners are viewed as being the engines of job creation, and raising taxes on businesses will lead to less hiring by increasing their costs of production.

Proposal 2

Another proposal that the government could adopt would be to increase the minimum wage from $7.25 to something more respectable like $10.00. This would affect equity in the sense that it will reduce relative poverty, since the additional money will give the poor people something to live off of. A downside of this proposal would be that minimum wage would increase unemployment, since firms have to pay $2.75 more per person than they would have before this proposal.

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