Macroeconomic Goals of the United States

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Economic Growth

Economic Growth is the increase in output of goods and services in nation or the increase in nations GDP (Gross Domestic Product) overtime. In the past five years the U.S. economic growth has been fluctuating that is shown in the business cycle below by the short term trend’s constant change. In 2013 the growth rate was increasing, then in the first quarter of 2014 the growth rate became negative where it hit its trough of -0.9% which is represented by Y1 on the business cycle because real GDP was the lowest it had been in years. Then the economy rose back again and hit its peak in the second quarter of 2015 where the GDP growth rate was 3.3%. Then the economy recessed, leading the economy to have the lowest growth rate in 2016 since where the growth rate was 0.5%. The U.S economy recovered for two quarters then it recessed again then it recovered. Currently the United States’ economic growth is the lowest it has been in 4 quarters with a growth rate of 2.3%.

Figure 1: Real GDP keeps changing causing different percentages of economic growth. Y1 represents the real GDP in 2014 which was a trough due to the recession. Y2 shows the economy after recovering and reaching the highest I trough due to the economic recession. The long term growth trend line represents what the economy’s growth goal is in the upcoming years.
The U.S. government is currently making many changes to the economy which could have caused the latest recession. The first major change is the implementation of tax cuts. The tax cut will cause a decrease in government earning therefore causing less money to pay for its depth. As of 2017, the ratio of federal borrowing to GDP has increased by 77%, and only 8.1% of federal revenues go towards depth. The government is borrowing so much money that is not being paid back, so government spending will decrease, and government spending is a component of GDP. If government spending decreases then GDP will decrease, cetris paribus. Another change the government is making to the economy is decreasing interest rates. In theory decreasing interest rates should increase investment. However, the U.S. has not seen a significant percent of more investment. That could be caused by other detrims of investment besides interest rates. For example due to the many economic changes, people’s expectations and business confidence could have decreased causing consumers and firms to stay away from investing.

Employment

The United States is currently at a natural Rate of unemployment, which is when an economy is at full employment level except people who are unemployed for structural, frictional, seasonal purposes. An economy is usually considered at its natural rate of unemployment when the unemployment rate is below 5%. As of April 2018 the United States unemployment rate was 3.9%. Before that, the U.S. had a steady unemployment rate of approximately 4.1%. The Unemployment Rate of the United States has been decreasing overtime. The Labor force of the U.S. is 161.28 million, labor force includes the total number of people who are eligible for work and either employed or unemployed seeking for employment in a nation. In the past year there was 164,000 new jobs added to the labor market. The United States labor market is continuously growing.
The United States government created an Economic Stimulus Program which improved unemployment. The program uses Fiscal’s Policy to cut taxes and increase government spending. When taxes are cut people have more disposable income so they spend more. The increased spending as well as the money the government is injecting into the economy causes economic growth creating more jobs.

**Price Level Stability**

As of April 2018 the United States inflation rate was 2.5%. The U.S. inflation rate is increasing by 0.1-0.2% each month on average. The U.S. is currently considered part of the low inflation degree which ranges between 0-5%. Low inflation is good because it allows business and households to spend and save their money comfortably without the fear of drastic price changes. However, if the United States’ inflation rate continues to rise at the same rate it is now, in a few years the U.S. will be in high inflation and consequences of inflation will began to arise. For example people’s real income and wealth will decrease because prices are higher and real interest rates are lower so people will consume less causing aggregate demand to decrease. The U.S. is experiencing a demand-pull inflation, because aggregate demand is increasing faster than aggregate supply so prices rise in order to increase supply.
The tax cuts will increase inflation, because as taxes decrease disposable income is increasing, and when disposable income is increasing people will consume more causing aggregate demand to increase which will not help a demand-pull inflation.

Currently there is not much being done in terms of inflation, however the government needs to use monetary policies to keep inflation on controlled. The government needs to slow economic growth by keeping GDP controlled, because inflation is a consequence of economic growth. Also to prevent an increase in demand the government must not cut taxes so people don’t consume more.

**Equity**

The U.S. ranks 41.5 on the Gini Index. The poorest 20% of the population have 5% of the nation’s income, the second 20% have 10.2% of the nation’s income, the third has 15.3%, the forth have 22.5% and the richest 20% have 4.9% of the nation’s wealth. The United States income distribution is extremely unfair. The Lorenz Curve below represent the equality of income distribution in the United States, the curve is not close to the line of equality which the country should aim to achieve showing that the distribution of income is uneven.

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*Figure 3: PLe and Ye represent the market at equilibrium. Aggregate demand increased shifting AD to AD1. When Price Levels increase Real GDP will increase because consumption is a component of GDP.*
The table above shows the income tax rate paid in the United States. The income tax is not proportional, progressive, or recessive, because as the tax increases the tax brackets change and so does the percent.

The tax cuts the government is planning on implementing will furthermore make the problem worse, because the richer will become richer because they will have more disposable income. The U.S. government does provide unemployment benefits like social security, and subsides for education, health care, and food, yet the income distribution is not getting any better.

A solution to the economic problem is to use Fascal’s policy. The government should change the income tax to a progressive income tax, meaning that as income increases the total percentage of income tax increase. The richest 20% in the United States need to be taxed a really high percent because they have 46.9% of the nation’s income. With the money earned from the tax the government can increase spending on those who are poor by increasing their benefits and subsidies. The government can also increase spending causing GDP to increase and an increase in wages and GDP per Capita. GDP per Capita assumes that income is distributed evenly which in this case is not true, however an increased GDP per capita may help many people in the nation.

References [edit]

Works Cited Pages