State of the Economy-USA

The Macroeconomic Goals

Unemployment

The unemployment rate as of April is 3.9% the lowest its been since December 2000. The African-American unemployment rate as of April is 6.6%, the lowest it's been since 1972. Despite complaining about the difficulty of finding qualified workers, most industries have yet to significantly boost pay for their employees, since average wages are up a modest 2.6% from the previous year. Businesses are wary of increasing employees' wages since it increases their costs of production. The economy is experiencing a decline in mass layoffs since business confidence is much higher in today's economy than the years immediately following the Great Recession, especially now since companies anticipate a stimulus in consumer spending due to the Trump tax cuts. However, fears of a trade war due to President Trump's trade tariffs might dent future hiring. The labor force participation rate is a lowly 62.9% as of April 2018, which is in keeping with its continual decline over the past 18 years. President Trump is adamant that tax cuts will lead to greater hiring by lowering the costs of production for businesses and thus, creating incentives for them to hire more employees.

Economic Growth

The US is experiencing modest economic growth currently. The nominal GDP of America in 2017 was $19.36 Trillion, and it is projected to continue rising, reaching 23.51 trillion in the year 2022. The real GDP of the United States grew by 2.3% in the first quarter of 2018 which is slower than the 2.9% pace of the final quarter of 2017. The fall in the rate of economic growth can be attributed to less consumer spending, one of the determinants of aggregate demand. The economy of the US is very much dependent on consumer spending, since this determinant alone accounts for almost 70% of the US's GDP. The United States experienced high consumer spending in the final quarter of 2017 since consumers were anticipating the effects of the massive $1.5 trillion tax cut, but the low consumer spending in the first quarter of 2018 suggests that consumers haven't fully experienced the effects of the tax cut yet. However, many economists still believe that the combination of tax cuts and a tight labor market will lead to increased consumer spending in the coming months. President Trump and his economic analysts also maintain that his new tax reform plan will spur the economy to consistent 3% growth, as opposed to the 2% average of recent years.

Inequity
Despite the economic gains America has experienced in recent years, an Economic Policy Institute report states that wage growth has been slower for black Americans than white Americans at every wage bracket, over the past 17 years.

Equity is displayed on a Lorenz Curve. This Lorenz Curve indicates the problem of income distribution stayed relatively similar in scope between the years 2004 and 2014. 2004 is the blue curve and 2014 is the orange curve and you can see that income distribution is roughly the same since the orange curve is the same distance from the equilibrium line as the blue curve.
The GINI coefficient of the United States, a measurement of inequality, is a modest 0.41 as of 2013, which is 99th in the world—slightly ahead of the Ivory Coast. President Trump believes that his policy of deregulation and tax cuts will help reduce inequity, as well as solving other economic issues. However, virtually all objective economic analysis of President Trump’s tax plan says it will greatly worsen the inequity in income between the rich and the poor, since the reduction in tax rates will save the rich much more than it will save the poor.

**Inflation**

America’s inflation rate in 2017 was 2.38%. Reducing inflation to a low and stable rate is considered one of the biggest macroeconomic goals by all leading macro economists, all leading economists that is except the one currently residing on 1600 Pennsylvania Avenue. President Trump signed his new tax reform plan with much fanfare in December. His tax cut plan will boost aggregate demand by incentivizing consumers to spend more on goods by increasing their disposable income. This is shown in the Keynesian diagram below.

Aggregate demand increased due to the increased consumer spending and business investment spurred by the corporate and income tax cuts, shifting to the right from AD1 to AD2. Real GDP (rGDP) also increases since it shifts rightwards from Y1 to Y2. However, the problem of demand-pull inflation will be made worse in this proposal since average price level rises from PL1 to PL2.

This is made even clearer in the New Classical diagram which illustrates that the tax cuts will increase real GDP through a temporary inflationary gap—where rGDP shifts from Yfe to Y2 due to aggregate demand shifting from AD1 to AD2. However, this diagram also proves that inflation will be even worse since average price level shifts from PL1 to PL2 and then even higher to PL3. It also shows that any gain in real GDP is temporary since GDP will shift back to Yfe in the long-run and all we will have is the same output at a higher price level. This is ironic since Trump and conservatives prescribe to believe in the New Classical school of economic thought, but a simple New Classical diagram shows that Trump’s proposal would be counterproductive and harmful for the economy.

**Solutions to the Problem of Inflation**

In order to reduce demand-pull inflation, The United States must reduce aggregate demand, through policies such as increased taxes. Increasing taxes on consumers would lead to less disposable income and thus, less consumer spending and aggregate demand. However, President Trump and the conservatives in Congress would never be open to increased taxes and this proposal would be very unpopular with voters—so aggregate demand could be reduced instead by cutting government spending. This would make perfect sense since President Trump, like all Republican officials elected in America, promised to significantly reduce government spending during his campaign but swiftly forgot about this promise the moment he took office. Reducing aggregate demand would have the effect of shifting AD2 back to AD1, and thus, lowering the average price levels from PL3 to PL1 on the New Classical diagram above.

A Keynesian would argue that this would lead to a reversal in economic growth by shifting aggregate demand from AD2 back to AD1 and thus rGDP from Y2 back to Y1 as shown in the Keynesian diagram. This is a valid economic point. However, Keynesians can be appeased since raising taxes or cutting government spending will lead to higher government revenue, and this revenue could potentially be used by the government on Keynesian pet projects like transfer payments or direct provision of goods and services that reduce income inequity (a top priority of Keynesian macro-economists).

**Bibliography**


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