Summary of Canada’s economic goals

One of Canada’s goals is to create more jobs and increase the quality of goods and services.

Another goal is to increase spending by increasing government spending on infrastructure, therefore increasing GDP.

Economic Freedom

Canada ranks 9th in the world for economic freedom, with a score of 77.7 as of 2018 according to Heritage Foundation.

Canada is average or above average on all categories measured for the economic freedom score, except government spending, where it is far below average.

Unemployment

According to Stefanie Moya on trading economics after October 2017 the unemployment rate has dropped to 5.8% and fluctuated between this value and 5.9%. Prior to October 2017 the rate was 6.2% but earlier in 2017 reached as high as 6.5%.

Although the previous statistics seem to be a positive reflection of decreased unemployment, they do not tell the entire story. Although unemployment has declined from early 2017, not all groups of people have benefited from this. People from the ages 24 to 54, in fact, have experienced 29,000 new jobs in April states Stefanie Moya. People who are 55 and over experienced little change in unemployment, but it was the youth aged workforce between 15 to 24 that drew the short straw. Youth aged workers lost 23,000 jobs in April Moya also stated. Overall more jobs were created than lost, so the unemployment statistics reflect that.

Canada is making good progress in reducing unemployment, however they would not like to reduce their unemployment to zero, as it will cause other problems with inflation. As stated in an televised interview, called what is a good unemployment number, Really?, the ideal amount of inflation around 5% according to inskeep in an interview. It is impossible to reach zero unemployment, because there will always be frictional unemployment, where people are between jobs.

The government of Canada gives unemployment benefits to anyone who lost their job and losing it wasn’t their fault. They also must have had a job in the last 1-52 weeks, and are willing and able to work and are currently looking for work.
Progressive Income Tax

In order to redistribute income, Canada has created a progressive tax system. Based on information the canadian government published, the table below outline the tax system currently used in Canada.

<table>
<thead>
<tr>
<th>Income earned (CAD)</th>
<th>Marginal Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-46,605</td>
<td>15%</td>
</tr>
<tr>
<td>46,606-93,208</td>
<td>20.5%</td>
</tr>
<tr>
<td>93,209-144,489</td>
<td>26%</td>
</tr>
<tr>
<td>144,490-205,842</td>
<td>29%</td>
</tr>
<tr>
<td>205,842+</td>
<td>33%</td>
</tr>
</tbody>
</table>

The diagram above, creating using data collected by Canada statistics, we can see the distribution of income

The diagram shows that most of the population is making a middle class income, however there are still quite a few people that have low incomes. There are very few people that are in the upper class.

Since 2011 there has been progress made as the percent of the population making low income has decreased, while the percent of the population making a middle class income and upper class income has also increased

The Gini coefficient is 0.34 as of 2013 according to the federal reserve bank of st louis.

In this section we will look into the current distribution of income, and the possible ways it can be redistributed.
Inflation

The current inflation rate for Canada is 1.93% according to a forecast summary by OECD.

Canada’s target rate of inflation for this year was between 1 and 3 percent, however banks prefer inflation rates to be a little lower, around 1.5 to 1.8 percent. Volatile goods inflation rates have fallen below 1%. Because these goods are volatile, their inflation rates can change drastically all of a sudden, which will cause overall inflation rates to change a lot. By 2019 the inflation rate is predicted to reach 2 percent.

It may be assumed that an increase in inflation would cause an decrease in unemployment. This would be getting closer to achieving one of Canada’s economic goals. The graph below shows how an increase of inflation from P1 to P2 would decrease unemployment from U1 to U2.

Economic Growth

The Business Development Bank of Canada says that as of 2017 the GDP growth rate in Canada is 3.1%.

It is predicted that in 2018 the GDP growth rate will reach 2.2%, which is a decline since 2017, but is still in their target range of 2-3 percent.

As Canada’s goal to increase GDP through consumption and government spending is achieved, this will also create inflation. As shown in the diagram below, an increase in government spending will increase the AD1 curve to AD4. In this situation the government will achieve their goal of increasing real GDP from Y1 to Y2, however inflation will also increase as price levels increase from P1 to P2.
Economic Goals

The first goal Canada set for 2018 was to create more jobs and increase the quality of goods and services. If this goal was completed the aggregate supply curve would shift outwards, as shown on the graph at right. Not only will the GDP increase, but the price levels will decrease. One way Canada could increase the number of jobs available and the quality of goods and services is for the government to invest money into training systems, or universities. This way people will be more qualified for their jobs, and because of this the goods and services produced will be of higher quality. This may not be the best choice, however, because the money required to be invested into education needs to come from somewhere. This money will likely be from tax money, which means that there will be an opportunity cost. The money spent investing in education will be taken away from government spending on infrastructure, unemployment benefits, and other governmentally funded projects. This project is only beneficial in the long run, as it will take years to create these more qualified workers who, as a result, will produce better quality goods and services. In short run there will be no benefit.

Another goal is to increase Canada’s GDP. Their plan to increase GDP was to increase consumer spending by increasing government spending on infrastructure. This is a viable plan because as shown in the graph below, a shift of Aggregate demand from a recessionary gap will cause a large increase in GDP, but only a slight increase in price levels, as shown from AD1 to AD2.

However, if Canada was already at AD2, then increased spending shifting aggregate demand to AD3, Canada’s GDP will not increase very much, yet price levels will increase drastically. If price levels are to increase a lot there will be high levels of inflation, which will cause the unemployed and people on fixed incomes to be placed in a worse off situation.