How to improve the economy as president essay sample

Finance, Financial Analysis

As President I would like to address some issues along with my council. In this essay I will address the problems at hand and give some solutions that I feel will help to jumpstart our economy. First I would like to mention that our population has grown substanually by 2, 000, 000 in the last year. The labor force has also increased with the population. As noted in the report 1, 360, 000 have entered the labor force in the past year. According to the report the increase of unemployment is greater than the addition to the labor force. The natural rate of unemployment is at 4%. The actual rate of employment has jumped from 4. 5 to 5. 5 which has me concerned.

What really has concerned me is that the economic output is on a 60% decline. Though we have taken a major hit the report shows that are trading partners have also been affected and there GDP growth has been reduced to 0. 6 compared to the U. S at 0. 8. We are steering toward a recession and we must do something to improve our growth. With a couple of adjustments and help from the Federal Reserve board we can pull the economy into recovery.

The first issue I would like to address is the growth rate of our economy. It has substantially decreased over the last year by 1. 4 percent. We must work to increase consumer spending. There are a couple of ways to do so. First we can do as Congressman Doom suggests and raise the minimum wage. Doing so has advantages as well as disadvantages; by raising the minimum wage it will assist the poor and trigger higher consumption expenditures. Raising the minimum wage will increase productivity in our workforce. Congressmen Doom addressed his concern of jobs going overseas. I am aware that raising the minimum wage may push workers out of the job market and businesses may replace workforce with technology.

Tax cutes will also help to trigger the economy to grow. There are numerous methods of stimulation. First we can cut taxes on businesses. We can create tax cuts on capital expenditures and accelerate depreciation. Lowering taxes on businesses should help our productivity to help keep some jobs from going overseas. Tax cuts by and large increase revenue and reduce deficits. Unfortunately Bush’s attempts were weighed out by our previous war in Iraq.

Government spending also stimulates the economy, particularly on infrastructure and other job stimulating expenditures. Because of the low inflation Government spending will trigger growth without the adverse affects of higher inflation. Highways, Parks, and other government jobs will help raise the GDP. This is what the federal chairman stated, and I agree.

I would also like to mention interest rates. Increasing interest rates will increase the price level and increase the demand for money. Lowering capital gains tax especially on dividends will ensure the population to keep investing. I would also like to advocate stimulating savings by lowering taxes on saving. This will generate more capital for business expansion. I propose a decrease in interest rates so people will spend more, increasing GDP. Inflation is low so we must not put our concern in that area as much as others. The trade deficit isn’t that immense an issue because most of our deficit remains at a stable and manageable percentage of our GDP. Most of our Deficit is to china that has a growing surplus overall and will face the same pressures of development as have Japan. As emerging countries grow it balances out.

I will attempt to stimulate job growth by producing incentives for the older part of the baby boomer generation to retire, leaving openings for younger workers. I. e. social security and retirement/pension benefits. Outsourcing really isn't that enormous of a problem, although it does cut jobs in the US, it also makes products available at a much cheaper price so it balances. People may make less, but they also pay less for goods produced overseas. The budget deficit does need to be fixed…certain government programs need to be cut as does such as war and other non beneficial events. We're relying more and more on foreign investment…especially from China, however, China is unlikely to pull out or stop investing because they rely on their US investments to keep the value of their currency and essentially it runs half of their economy. It's definitely something to address. I would like to mention that Clinton found a way to allow a surplus. Cutting certain programs or raising taxes to those levels would allow for more funding. But the main issue of the budget deficit is definitely our reliance on foreign investment from China and India mostly. I would like to point out that 5. 5% is a pretty low unemployment rate. When compared to Europe and other burgeoning economies.

One thing I would like to do is give incentive to state schools to promote engineers because that's where the US is lacking and companies go abroad because the Asians have much better education in those areas. Lower interest rates, promote borrowing and spending. However, since saving is already a problem both in personal bank accounts and the nation's overall deficit, it should be a slight change to not promote those problems further. The feds influence the market mainly by raising or lowering the interest rate called the " federal funds". Banks are required to keep a certain amount of money in reserves to pay for overnight checks, stock ATMs, and other payments. When a bank is running low on reserves it may borrow some from a bank with too many reserves.

The interest rates on these loans adjust to supply and demand. If the fed wants to raise or lower the rates, it buys or sells securities from banks, in which the bank receives or sells in reserves. They do this until the banks have too many reserves and must loan them out, so the interest rate lowers, or the banks don't have enough reserves and must borrow, causing interest rates to rise. The fed also pays attention to foreign markets. When the dollar is too low, the feds buy out dollars (with foreign currency) to cushion the pressure.

Real interest rates are the nominal interest rates minus the expected rate of inflation. Because if a borrower takes out a loan at a low interest rate and there is inflation soon afterward, the money that is paying back is really worth less than it was when he borrowed it. The fed can't set real interest rates because it can't set inflation. The long-term interest rates are determined by the fed indirectly though. Lenders look at what the fed might do in the future, if it looks like inflation might rise in the next few years, a risk premium is added to their loans. If these real interest rates are low, then borrowers are more inclined to buy new homes and cars. Also, lowering the interest rates make common stocks and other investments more attractive, which in turn make higher stock prices.

Foreign exchange increases, households and businesses are more inclined to spend, and income increases. The monetary policy affects inflation through people's expectations of what the fed will do. If the Fed eases the monetary policy and people suspect that this will increase inflation, they will ask for higher prices and larger wages, which add to inflation. The U. S. inflation rate does not only depend on the U. S. though. If the Fed drove more dollars into the U. S. it would ultimately drive the value of the dollar down in the foreign markets. People with the

extra money in the U. S. would buy foreign products which would make higher foreign prices, which would create higher U. S. prices. It takes a fairly long time for a policy action to take effect. The lag for major

effects on output can be anywhere from three months to two years. The effects on inflation usually take even longer, one to three years or more. The policy is a complex chain of events that can alter anywhere along the way.

Most people attribute the link between the amount of money in the economy and movements in stock markets to the amount of liquidity in the system. This is not entirely true. The factor connecting money and stocks is interest rates. People save to get returns on their savings. In true market conditions, this makes bank deposits or bonds and stocks, competitors for people's savings. A hike in interest rates would tend to bring money out of shares into bonds or deposits; a fall would have the opposite effect. This argument has survived econometric tests and practical experience.

I would like to conclude by saying that by issuing a few changes by the government the cause and effect nature of our economy shall trigger GDP growth and increase our overall output. The report failed to mention our GNP or the gross national product. We must be sure to keep it growing at an acceptable rate. The marginanal benefits of what I have proposed will greatly increase our economy and reverse any GDP gap that may have occurred.