

The current macroeconomic situation



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The United States Current Macroeconomic Situation Andrew Tilton, the Senior US and Canada Economist believes that America's economy is getting stronger after the global financial crisis. He contends that core inflation would continue to be low for the following months and that increased interest rates will not hinder the full recovery. Stated otherwise, at this moment, US economy as a whole is strong. Tilton (2011) cited two main factors as the basis of this prediction. The first reason is the stronger private sector balance sheets in America. To note, before the financial crisis, America's private sector was spending beyond what it can only spend (Tilton, 2011). This means that the people in America were borrowing in order to fund spending (Tilton, 2011). A deficit then is created. This situation is expected to result into inflation. Nevertheless, as of 2010 until the present, the private sector's spending has been in moderate level (Tilton, 2011). There is a rise in saving and a drop of spending (Tilton, 2011). The country's GDP (Gross Domestic Product) is used to determine this fact. Second, credit conditions have improved for both smaller businesses and individuals; more and more banks have stabilized their lending standards (Tilton, 2011). This means that banks are not anymore imposing strict policies in terms of lending. If this is the case, then, it would be easier for smaller businesses and consumers "to spend a bit more" (Tilton, 2011). Despite these good economic findings, there are three key factors which could hinder full economic growth in the United States. These are the following: (1) large federal budget deficit; (2) large increases in commodity prices; and (3) weakening of housing prices (Tilton, 2011). To prevent these factors from becoming a big economic problem, the federal government should adopt fiscal tightening instead of fiscal expansion. At this time, to use an expansionary fiscal policy would

worsen the situation. What the policy-makers should do is to increase taxes to have more money to cover the budget deficit. There should be an increase in consumption taxes. A value-added tax (VAT) could also be applied. The lawmakers could increase the VAT of certain goods and properties. Notably, increasing the taxing rate would mean that prices of food would also increase. In this case, the government should also neutralize the commodity prices. Stated in another sense, there should be a momentary price control. This means that the sellers would only be allowed to increase the price of their products to an extent which will not discourage the consumers. The fiscal policy should only be for a short period so as not to be unfair to both producers and sellers. This fact should be emphasized by the Federal Open Market Committee (FOMC). Furthermore, the Federal Reserve (Fed) should adopt an easy monetary policy by lowering the interest rates for money borrowing. In this way, despite the increase in taxing rate, the consumers will not be afraid to spend. There is an assurance on their part that borrowing money from banks and lending institutions would not be a heavy burden. In this case, the economic situation of the producers and the consumers would be balanced. Reference Tilton, A. (2011). The outlook for the US economy [PDF document]. Retrieved from http://www2.goldmansachs.com/gsam/docs/fundsgeneral/general_education/economic_and_market_perspectives/wp_economic_outlook.pdf