In this activity, use your economic knowledge to make decisions, based on the role that you have been given – in this case, you are the President of the USA!

BACKGROUND

Congratulations! On 20 January 2017, you were inaugurated as the 45th President of the United States of America. You beat both Donald Trump and Hilary Clinton in a tight Presidential election. You managed to avoid the name-calling and mud-slinging shenanigans of the two other candidates and instead you ran a campaign firmly aimed at improving the US economy. Your slogan was GABOT: Get America Back On Track. The American people took you (and your GABOT policies) in their hearts and voted for you in their millions. Today, it is 100 days after your inauguration.

Your task:
To mark your first 100 days in charge, you have called a Press Conference to address the nation and reaffirm your economic plans for the next 4 years.

As President, you must deliver a speech in which you set out the following:
• What you think the main problems hampering the US economy are at the start of 2017?
• An outline of five economic policies that you believe will GET AMERICA BACK ON TRACK. And, importantly, explain how they will improve the issues identified in the data. How will they ‘Get America Back On Track’?

To help you in your task, your trusty advisors have put together an information sheet below which should provide you with all the data you need to make expert recommendations.
Macro Objectives

Figure 1: growth rate

US GDP Growth Rate

Figure 2: inflation rate

US Inflation Rate
Figure 3: Unemployment rate

US unemployment rate (%)

Figure 4: Balance of Trade

Trade Balance US$m
Economic briefing notes: 2017 (First Quarter)

Growth
First Quarter: +0.7% growth

Unemployment
Labour market has continued to strengthen even as growth in economic activity has slowed slightly. There is evidence of solid job growth and the pace of wage growth has picked up relative to a few years ago - a further indication that the job market is tightening.

Consumption
Household spending rose only modestly, but the fundamentals underpinning the continued growth of consumption remained solid. Decline in sales of durable goods (sales of motor vehicles reduced total growth by 0.5% alone).

Investment
Business fixed investment grew at steady pace. Over a third of the investment recovery reflects a rebound in the oil and gas industry, which, following a recovery of the oil price during 2016, is opening and re-opening rigs.

Inflation
Inflation measured on a 12-month basis recently has been running close to the Committee’s 2 percent longer-run objective. However, excluding energy and food, consumer prices declined in March and inflation continued to run somewhat below 2 percent.

Monetary policy
March 2017 - the Federal Reserve (the US central bank) voted 9 to 1 to raise Fed funds rate target (i.e. the Base Rate of interest) from 0.75% to 1%.
Economic briefing notes: 2016

Growth
Annual GDP growth was measured at 2.1% for Q4 2016. Growth in real disposable income fuelled consumption and consumer confidence.
Half of the increase in output was accounted for by an increase in business investment and a surge in soybean exports.

But...
Falling oil prices decreased investment in oil rigs. And weak external demand and dollar appreciation hurt manufacturing exports.

Unemployment
In 2016, the rate of job growth was slower than 2015, but still strong. The average level of unemployment for the year was relatively low (4.9%).

Inflation
1.25% CPI inflation. This has been caused by earlier declines in energy prices, low oil prices and declining prices of non-energy imports.

Monetary policy
The Fed raised target Feds Fund Rate from 0.5% to 0.75% in the latter part of the year. However, they did not increase it further because since inflation still running below target, they estimated there’s still room in the labour market.
Figure 5: 2016 US GDP broken down by components of AD (compared with 2010)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Domestic Investment</td>
<td>71%</td>
<td>69%</td>
</tr>
<tr>
<td>Personal Consumption</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Government Spending</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td>Net Exports</td>
<td>-3%</td>
<td>-3%</td>
</tr>
<tr>
<td>Private Domestic GDP</td>
<td>$14.6 trn</td>
<td>$185 trn</td>
</tr>
</tbody>
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Figure 6: US Public Sector Debt

Government (public sector) debt US$m

2014 Q1 | 2014 Q3 | 2015 Q1 | 2015 Q3 | 2016 Q1 | 2016 Q3 | 2017 Q1

Figure 7: US Fiscal Balance as % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>-1.1</td>
</tr>
<tr>
<td>2008</td>
<td>-3.1</td>
</tr>
<tr>
<td>2009</td>
<td>-9.8</td>
</tr>
<tr>
<td>2010</td>
<td>-8.7</td>
</tr>
<tr>
<td>2011</td>
<td>-8.5</td>
</tr>
<tr>
<td>2012</td>
<td>-6.8</td>
</tr>
<tr>
<td>2013</td>
<td>-4.1</td>
</tr>
<tr>
<td>2014</td>
<td>-2.8</td>
</tr>
<tr>
<td>2015</td>
<td>-2.5</td>
</tr>
<tr>
<td>2016</td>
<td>-3.2</td>
</tr>
</tbody>
</table>
There is no single answer to this task. But here are some ideas:

What you think the main problems hampering the US economy are at the start of 2017?

- Table 1 shows that the GDP growth rate is positive but low. The forecast is that it will continue to grow in 2017 but there are signs that it may be slowing from the Economic Briefings.
- Table 2 shows that inflation is at target rate of 2%. The USA has seen some deflation in its recent past. This was caused by a fall in energy and oil prices.
- Table 3 shows that the unemployment rate in 2017 is very low at under 4.5%. This is close to full employment. Unemployment has been decreasing over the last 10 years.
- Table 4 shows that the USA has large trade deficit which has been widening over the last 10 years.
- Table 7 shows that the USA has a budget deficit over 3% of GDP. This has narrowed since 2009 (9.8% of GDP) but it is still large. It contributes to the accumulation of the national debt – which is shown in Table 6. At nearly $20trn, the USA has an enormous national debt (more than 100% of GDP according to these figures).
- National debt is undesirable because it causes high repayments for the Government and low credit ratings.

In short: the US economy is looking rather good at the start of 2017. The keys areas of weakness, however, are its dual deficits: the trade deficit and the budget deficit (which is causing national debt to rise). GDP is forecast to rise but there are a few signs that it is slowing.

Possible policies

- Policies to reduce the budget deficit: reduce Government spending, increase tax rates. The difficulty here will be implementing these ‘austerity’ measures whilst making sure that it does not cause a large contraction in AD.
- Policies to reduce the trade deficit: protectionist policies, supply-side policies to improve competitiveness, expenditure-reducing policies such as increasing income tax.
- Policies to increase GDP: expansionary fiscal policy such as reducing income taxes and corporation taxes, whilst increasing Government expenditure policies.