Question 2

What are the current targets of macroeconomic policy in the UK and how can they be achieved?

The United Kingdom is a highly developed country; it's the fifth largest economy in the world, and the third most populous country in Europe with a population of over 60 million people. The UK has a very sound macroeconomics system with four main objectives which helps sustain its status as a G8 member.

The macroeconomic policy in the UK is influenced by two set of forces, the market by looking at supply and demand and those induced by government intervention. As a whole macroeconomic objectives in the UK are concerned with the overall performance of the economy. It relates to high economic growth, relatively stable price level and low and stable level of unemployment in addition the last goal is related to the balance of payments and the exchange rate may be distinguished, but it has no immediate or lasting advantage to the country of its payment position. I will deal with each goal in turn.

Economic growth is a desirable objective, it's the major cause of rising living standards its has been a dominant forces for industrial nations over 200 years. Even small differences in growth rates can lead to large differences in income per head due to the power of compound interest. Since the end of the 2nd world war the rate if economic growth has averaged 2½ % per annum. The figure may be low when compared with some other countries. If Britain continued its 2% growth per year for a century this would lead to a seven fold increase in real national income. The UK has achieved 2½% in the third quarter of this century; a rate like this causes output to double within a generation.

As the economy grows and demand increases the government then has another issue to contend with, which is price stability, the target must be distinguished from the stability of each and every price, which is not possible. Changes in prices are important signals of changing costs and demand, the can activate changes in allocation of resources.

The price stability which is the aim of macroeconomic policy is stability in the general level of prices, with its prevention or moderation of inflation. From time to time there are always substantial year to year ups and downs. Over the last 100 years the period trend in the level of pricing has been sharply rising. The 1970's and 80's witnessed upsurge in prices and inflation after oil prices rise. During this time inflation rose to as high as 24%, during this time the average price rose to over 250%.

Inflation has many consequences; it rearranges the allocation of resources an example by making "investments" in collectables works of art, postage stamps, more attractive than investments in real productive activities such as "hedges" for there saving, which keep pace with the general level of prices. Inflation at an unpredictable and variable rate, makes it difficult for businesses and private individuals to make any plans of investments with confidence for the future.

Another real problem with inflation is that it brings real problems of the transfer of income, it favours people who are not on a fixed income. The way the government keeps inflation under control was by deflating domestic demand, the government in the early 1980's came up with a plan by gradually slowing down the monetary growth. Monetary Policy target for the annual inflation for consumer prices is 2% in the UK.
The UK current employment system is split into two sections made up of people who are of working age and available to work, which does not include people in full-time education. All those people actually employed or self-employed make up the labour force with dependants making up the rest of the population.

When calculating the level of unemployment the government only counts those people who are registered as unemployed and claiming benefits. Unemployment is a flow and not a stock. There are always inflows onto the unemployment register, and there are outflows off the register as people get jobs or join training schemes.

If all inflows rise and all outflows except training fall then overall unemployment will rise. Young people, women, the over-fifties and ethnic minorities tend to be the hardest hit. Inner cities and manufacturing areas also tend to have above-average unemployment. The average length of time workers remain unemployed is a critical measure of the seriousness of the unemployment figures. If the average length of unemployment is short then the economy will be healthier and people will not lose their skills from long periods without work. Growing unemployment means less people paying income tax, and their spending will fall considerably reducing government receipts from VAT and other indirect taxes. 5.2% roughly about 1,515,000 are unemployed in the UK, which is a lose in Tax revenue by £4,000 per person and an increase in benefits £5,000 upwards.

Current Unemployed (registered)	Estimate Loss in Taxes Per Person	Total Loss Of Income	Estimate Benefits Per Person	Total	Loss Of Income
1515000	£4,000	£6,060,000,000	£5,000	£7,575,000,000	£13,635,000,000
2000000	£4,000	£8,000,000,000	£5,000	£10,000,000,000	£18,000,000,000
2500000	£4,000	£10,000,000,000	£5,000	£12,500,000,000	£22,500,000,000
3000000	£4,000	£12,000,000,000	£5,000	£15,000,000,000	£27,000,000,000

The tools of Macroeconomic policy is the effectiveness of the government goals of growth, price stability and full employment depends upon a number of factors. The two main sets of tools can be distinguished, fiscal policy and monetary policy.

Fiscal policy refers to attempts by the government to influence the level of total spending by the public sector, so it can stabilise the fluctuations in economic activity. Fiscal policy can be used in many ways, taxes and subsidies can discourage spending on consumption or investments in times of excessive boom or to encourage spending when economic activity is low. The government can makes changes in the budget to vary tax rates in customs and excise duties in either direction by up to 10% without approval from parliament.

The other way of influence total spending relates to the private sector but not the government itself, there is any reason why the state has to balance its on budget, the government can control spending by trying to reduce total demand. At times it's easier for central government to issue instructions for reduction of public spending than actually to reduce it. Cash limits for local authorities where introduce in 1976, which puts limits on the amount that can be spend in a year. The overall impact by the government's Fiscal policy in Britain has often been assumed to be adequately measured by changes in the PSBR. The policy is also affected by the relationship between government expenditure and tax rates.

Bibliography

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Appendices

PSBR	**-**	Public Sector Burrowing Requirements