

# Possible Macroeconomic Objectives

Macroeconomic objectives are the targets governments aim for when managing the economy.

Most students understand the individual macroeconomic objectives but overlook the **deeper** reason behind them. The government sets these targets to serve its **overarching** role of **improving living standards**. As a result, these objectives are **not** ends in themselves, but **tools** used to achieve that wider aim.

Crucially, the specific targets chosen reflect government **value judgements** about what will best improve living standards. For example, an inflation target of 2% ( $\pm 1$ ) is not economically inevitable, but a policy choice based on the belief that low and stable inflation best supports growth, employment, and consumer welfare.

## Economic growth

### Definition

Economic growth is an increase in the economy's output over time (an increase in real gdp)

For example the UK Economy suffered negative economic growth of -10% in 2020 due to the pandemic .

### Benefits

- Higher living standards and real incomes
- Higher employment as firms expand
- Improved confidence (animal spirits), investment, and government finances (higher tax revenue, lower welfare spending)

### Costs and risks

- Inflation risk if growth is too rapid and demand outpaces capacity (demand pull)
- Environmental damage if growth relies on polluting production or resource depletion
- Unequal gains if growth benefits some regions or groups more than others

## Low unemployment

## Definition

Low unemployment means a high proportion of the labour force is employed. The UK often treats around 4% as close to “full employment” (a great link to the Keynesian LRAS curve) .

For example in 2019, unemployment fell to a 45-year low of **3.6%**.

## Benefits

- Higher household incomes and consumption
- Lower poverty and social costs, improving social stability
- Higher productive potential due to less spare capacity in labour markets

## Costs and risks

- Inflationary pressure if wage demands rise when unemployment is very low (Price wage spiral )
- Skills mismatch, where jobs available do not match workers' skills (structural unemployment )

# Low and stable inflation

## Definition

Inflation is a sustained increase in the general price level. In the UK, the target is  $2\% \pm 1\%$  . So inflation can be between 1%-3% and still in target range .

For example During 2022-23 the UK economy suffered 8 months of consecutive double digit inflation

In 1975 the UK hit a spike of 24.2% inflation rate .

In 2015 the UK hit a Low of -0.1% inflation rate .

## Benefits

- Price stability helps households plan and protects purchasing power (Keeps consumer confidence high as economic climate is stable )
- Firms can plan investment more confidently when prices are predictable

## Costs and risks

- If inflation is too low, the economy may face **deflation** risk, which can discourage spending (deflationary spiral risk)
- The cause matters: demand-pull and cost-push inflation require different policy responses (as in one the economy is expanding whilst in other economy is contracting)

## Balance of payments equilibrium on the current account

### Definition

The balance of payments records financial transactions between a country and the rest of the world. The current account mainly covers trade in goods and services, and governments often aim for exports and imports to be broadly balanced over time.

For context the UK has run a persistent current account deficit every year since **1984**.

### Benefits

- Greater economic stability through less reliance on external borrowing
- Can support exchange rate stability by reducing persistent currency pressures

### Costs and risks

- Over reliance on exports can make the economy vulnerable to global downturns (great link to deglobalisation)
- Reducing a deficit may require lower domestic consumption or policies that cut import demand

## Balanced government budget

### Definition

A balanced budget occurs when government revenue equals government spending. If spending exceeds revenue, there is a budget deficit, financed by borrowing which adds to public sector debt (national debt)

For example, since 1970, the UK has averaged an annual budget deficit of **3.7% of GDP** .

A recent high was in in 2020/21 where the deficit increased to **14.7% of GDP** .

## Why it matters

A balanced budget can help control debt interest costs and support long run fiscal sustainability. It may also improve confidence among investors and lenders, reducing the perceived risk of lending to the government.

## Benefits

- Helps control debt interest costs and improves fiscal sustainability
- Can improve investor and lender confidence, lowering borrowing costs

## Costs and risks

- Balancing the budget may require spending cuts or higher taxes, reducing AD and weakening growth short run
- It reduces flexibility in crises, when temporary deficits may be necessary

## Protection of the environment

### Definition

This objective focuses on reducing pollution, conserving resources, and supporting sustainability.

For example the UK has a target for net zero greenhouse gas emissions by 2050 .

### Benefits

- Supports sustainable development and future living standards
- Improves health outcomes by reducing pollution
- Encourages innovation in greener technologies

### Costs and risks

- Regulations can raise business costs and reduce competitiveness in the short run
- There may be transition costs for carbon-intensive industries and workers

# Greater income equality

## Definition

Greater income equality means a more even distribution of income across society. Inequality is often measured using the Gini coefficient, and many developed economies commonly aim around 0.3–0.4.

For example the UK Gini coefficient value is 0.32 whereas Norway has a gini value of 0.26 (representing that Norway has a lower level of income inequality than the UK )

Other notable examples are the USA = 0.41 and South Africa = 0.61 .

## Benefits

- Reduces social tension and supports social cohesion
- Can improve long run stability by reducing poverty .

## Costs and risks

- Too much redistribution may weaken incentives to work .
- Policies often need higher taxes or spending, linking back to the budget balance objective