

## ECONOMIC GOALS

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The broad social goals that relate to economics and which are given considerable importance in American society today are **1) economic freedom, 2) economic efficiency 3) economic equity, 4) economic security, 5) economic stability (full employment and the absence of inflation), and 6) economic growth.** These goals and the importance attached to each of them, guide individuals and society in the making of decisions. These goals provide targets and a sense of direction in formulating the means for reaching these targets.

These goals can also be thought of as criteria for evaluating the performance of the economic system (or parts of the system) and for examining the usefulness of new as well as existing programs. Some of the goals, such as freedom or equity, are difficult to present in quantitative form. Others, such as full employment or price stability, can be articulated as numerical targets. Indeed, in 1978 Congress for the first time established specific numerical goals for unemployment and inflation. The 1978 legislation, popularly known as the Humphrey-Hawkins Act, set the target for unemployment rate at 4%, to be achieved by 1983. The rate of inflation, as measured by the Consumer Price Index, was to be reduced to 3% by 1983 and to zero by 1988.

### A. Economic Freedom

Freedom as an economic goal concerns the freedom of the marketplace- the freedom of consumers to decide how they wish to allocate their spending among various goods and services, the freedom of workers to choose to change jobs, join unions, and go on strike, the freedom of individuals to establish new businesses and to decide what to produce and when to change the pattern of production, the freedom of savers to decide how much to save and where to invest their savings. Of particular interest is the effect of actions by individuals, groups or governments to enhance or restrict freedoms in the marketplace and, thereby, affecting the possible attainment of the other goal of efficiency, equity, security, stability, and growth. A number of people argue that government regulations limit the freedom of some people to make their own choices. Others argue that government policies may free some people to take greater advantage of the opportunities provided in a market economy. Given the differences in viewpoint, it is essential to define the kinds of freedom under discussion and whose behavior is most likely to be affected.

### B. Economic efficiency

Efficiency can have two meanings. The term can refer to technical efficiency, which focuses on using the least input of resources to obtain some stated level of output, or maintaining the highest level of output using fixed or specified resources. Since technical efficiency does not take into account the different costs of various inputs or the different benefits of various outputs, considerations of technical efficiency alone cannot indicate the most appropriate decision to make. An economy might be technically efficient in producing good A, but if consumers do not want good A and prefer good B instead, then it would not be economically efficient to produce good A.

Economic efficiency is the broader concept than technical efficiency. Economic efficiency goes beyond technical efficiency and takes into account the costs and benefits associated with various market preferences and decisions. By this standard, economic actions should not be undertaken if the marginal costs exceed the marginal benefits. This would result in an over allocation of resources (inefficiency). Alternately, when economic actions result in marginal costs that are less than marginal, one should continue until marginal benefits and marginal costs are approximately equal, stopping short of that point at which marginal costs exceeded marginal benefits. Due to the existences of scarcity, the concept of economic efficiency is central in economics, and it should receive heavy emphasis in both individual and public decision-making.

### C. Economic equity

Equity, which deals with what is "fair" or "unfair" or what is "right" and what is "wrong," is difficult to define precisely. Economic equity can be described as the application of our concepts of what is fair and what is unfair - or what "ought to be" and "ought not to be" - to economic policy. To be sure, people differ in their conception of what represents equity or fairness. However, in evaluating economic performance, the concept

serves as a reminder to investigate which or what kinds of people are made better or worse off as a result of, for example, a change in prices or a the introduction of new government programs. Though two programs may appear to be equally efficient from an economic standpoint, one could benefit the old and another the young, one might benefit the consumers and the other producers, and so on. Many people would not be indifferent about who benefits from a policy, because they harbor some general idea of that is equitable. From the viewpoint of economics, equity ultimately deals with the distribution of income and wealth. One way of dealing with this question is simply to talk about the effects of economic actions on the distribution o income and wealth: who gains and who loses? The distinction between equality of opportunity and the equity of results is also important when economic equity is addressed.

#### **D. Economic security**

The goal of economic security concerns the desire of people to be protected against economic risks over which they may have little or no control. Such risks include accidents on their jobs, unemployment, destitution in old age, business failure, bank failures, and precipitous price declines for one's product. Economic security is enhanced by individual efforts, such as saving and the purchase of insurance, as well as by the growth of the economy, through which the mass of people receive more material well being. Various government programs such as worker's compensation, unemployment compensation, Social Security, Aid to Families with Dependant Families, federal insurance of bank deposits, and farm price supports are also aimed at increasing economic security in the US. Nations also engage in the quest for economic security in seeking international agreements which assure them of access to key resources or of adequate prices for their exports. In the latest analysis, it is the possession of real goods and access to services or assured claim to goods and services that provide economic security.

#### **E. Full employment**

Full employment prevails when all of an economy's resources are utilized to capacity, but most discussion turns on employment or unemployment of labor. In practice, an unemployment rate that reflects normal frictional unemployment- *unemployment that occurs as worker change jobs or enter the labor force* and structural unemployment- *unemployment that occurs due to changes in the structure (i.e., technological progress) of the economy* have come to be viewed as full employment. Because frictional and structural unemployment are always present in a dynamic and free economy, a natural rate of unemployment occurs. When cyclical unemployment- *unemployment associated with down-turns in the business cycle* occurs, the unemployment rises above the natural rate of unemployment indicating that labor resources are no longer fully employed. Debate continues about what- at present, suggestions range from 3% to 7% of the labor force- constitutes full employment. But keeping the goal of full employment in view helps to remind us of the costs in lost output to the economy and in economic hardship that results from rates of unemployment that are too high.

#### **F. Price Stability**

...Overall price stability means the absence of inflation or deflation, not the absence of changes in relative prices in particular markets. Inflation occurs when there is an increase in the general level of prices in the economy. As the price level raises, the purchasing power of the consumer declines (the dollar depreciates in value). Deflation entails the opposite. In reality, overall price-level changes are not often likely to be zero. Not only do our price indexes fail to reflect some improvements in product quality that in effect lower some prices, but more important, price changes reflect the push and pull of market forces as changes occur in supply and demand. What constitutes "reasonable" price stability is the subject of much discussion. In the U.S., an inflation rate of 5% or less is generally acceptable; however, when the price level approaches the double digits, the public reaction is so unfavorable that incumbents are typically voted from office. In other nations, inflation rates or 30, 50, or even 200% may be the norm. Nonetheless, this goal recognizes that sharp price changes necessitate costly adjustments in the behavior of individuals and businesses in order to cope with effects such changes produce.

## **G. Economic Growth**

Economic growth means enlarging the economy's productive capacity to enable the production of increasing amounts of goods and services over the long term. If the people of a society want to raise their level of living, they must produce more goods and services. If the population is growing, the amount produced must still be greater to provide for the additional people. This is why changes in real GDP per capita (that is, per person) are usually more meaningful than changes in total GDP as a measure of growth.

Economic growth is an important goal in virtually all countries, and is closely related to several of the other goals discussed above. Both individual and nations try to increase their economic security and well being by expanding output. Individuals seek ways to enhance their earning ability while nations seek to stimulate the growth of per capita output and income. Economic growth helps provide jobs for a growing labor force, and economic growth also makes it easier for a society to devote some of its output to promoting greater economic equity and greater economic security by assisting the disadvantages, the disabled or other groups that need help. If output does not grow, one person or one group can obtain more goods and services only if another person or group receives less. But to revert to an often-used metaphor, when a larger economic pie is baked, everyone can have a larger slice.

On the supply side, the upper limit to economic growth is determined by the availability of productive resources, the efficiency with which these resources are used, and the economic, social, and political factors that either encourage or discourage an increase in productive capacity. These latter factors include the size of the market, the value system of the people, and the degree of political stability or instability. Once the productive capacity of an economy is established, the actual rate of growth of GDP in a market economy will be determined by factors such as the level of aggregate demand. If an economy is in a recession and aggregate demand is too low to fully employ existing resources, there will be little market incentive to increase productive capacity. Thus, there is a close relationship between the short-run goal of full employment and the long-run goal of economic growth. To achieve economic growth, not only must the economy produce more, it must have the capacity to produce more. Investment in capital, technological progress, and access to newly discovered resources are factors that influence productive capacity.