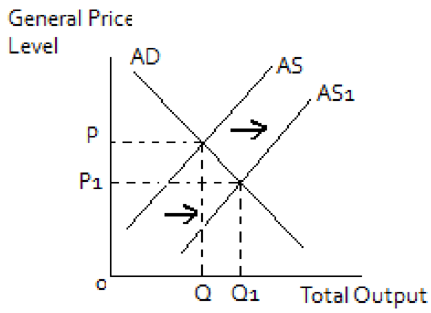
ECONOMICS

Microeconomic Policies

Microeconomic policies (Mcp) are those implemented by the government (govt) to improve the allocation of resources for higher aggregate supply in an economy. By promoting efficiency through structural change, microeconomic reforms seek to maximise output and productive capacity for positive economic (eco) growth in the long run. Reduced constraints of inflationary and current account problems are long term benefits of reforms that include deregulation, reduced protection, tax policy and labour market policies, whereby the introduction of competition and policy initiatives have contributed to a stronger economy. However, time lags and the emergence of 'sunset' companies are costs associated with structural change, limiting its effectiveness in the policy mix. Nonetheless, microeconomic policies are essentials to an economy's growth and increased real Gross Domestic Product (GDP).



The basis of microeconomics focuses on supply side economics, where patterns of production are influenced to bring about economic efficiency. This means that mcp are designed to raise aggregate supply, as illustrated on graph, resulting in lower equilibrium prices (0P-0P1) and higher output (0Q-0Q1) that target inflationary and unemployment issues. However, improved productivity involves structural adjustments caused by changes in consumption patterns, technology and international factors that lead to higher allocative, technical and dynamic efficiency. That is, resources are allocated to sectors where they are most valued, are used for maximum output and can be shifted between industries for a faster response to changes in consumer demands. Therefore, structural change arising from mc reforms removes the distortions of efficient product and factor markets to allow the price mechanism to operate freely in a competitive environment.

Resources are shifted from slower growing areas of the economy to faster growing areas via the deregulation of product and factor markets. Firstly deregulated in the 1980s, the financial sector was opened up with the floating of the dollar and removal of barriers to foreign banks entering Australia. As a result of increased competition, deregulation saw multiplied financial inflow (------------) enabling the expansion of businesses (to remain competitive with importing firms) with easier access to funds. However, rise in reliance on overseas financial markets has left the economy vulnerable to economic shocks, as witnessed in the 2008-09 Global Financial Crisis in which many financial markets collapses or were acquired by others.

Deregulation of individual industries have also occurred overtime, such as of the agricultural, transport and telecommunications industries, whereby monopoly companies have gradually disappeared as govt grants and subsides have declined and competition with foreign businesses have been encouraged (----------). Yet, reforms to public trading enterprises (PTE), conducted through corporatisation (PTE operating like private TE) and privatisation (selling off PTE in whole or part), have lowered prices and lifted productive capacity since more rational management and pricing behaviour has forced businesses to become more efficient. Moreover, the National Competition policy and Trade Practices act are unified reform processes that aim to promote competition in areas where monopolies (electricity, gas, water) exists by cutting special provisions, establishing commissions like the ACCC to ensure no anti-competitive behaviour like price collusion or discrimination. Thus, mcp allows for a deregulated economy to better its productive performance and efficiency and in the process, creating more job opportunities and reduced inflationary pressures.

Greater international competition, achieved through trade policy, has additionally driven structural change. The trade policy's main measure to promote competitiveness of Australian exporters is the removal of artificial trade barriers, like subsides and tariffs. Historically, protectionist policies were used to assist the development of new industries and protect domestic jobs. But with sheltered export industries, inefficiency, higher prices and misallocated resources were fostered, damaging trade performance and economic conditions attributed to lower export volumes, deteriorating CAD. In effect, the dismantling of protectionist policies begun in the 1970s with the reduction of tariffs and participation in bilateral and multilateral trade agreements (US, China, ASEAN, CERTA), in which a rise of export volumes by 12% of GDP in 1990 to 20% in 2009 accounts for drastic eco expansion. Yet, export assistance programs like the Export Market Development Grants (EMDG), administered by Austrade, have provided financial assistance facilitating export growth in which $14-$27 of exports were generated from every $1 spent (2008). Furthermore, the introduction of industrial policy has supported the development of domestic industries in competitive world markets by encouraging innovation to develop new goods and services and new efficient business practices. As such, more competitive prices on an international scale has been achieved with trade policy as export industries adopt 'world's best practices,' leading to higher export receipts with improved terms of trade, and consequently, a lighter external imbalance or CAD.

Reforms to the taxation system have also been important to raising incentives to work, save and invest. In attempt to achieve a more efficient, equitable taxation system, the New Tax system was introduced in 2000 where distorting indirect taxes (like sales tax) have been replaced by 10% Goods and Services Tax, company taxes have been cut from 36% to 30% (2000-02), fringe benefits were introduced etc. These taxation initiatives have both reduced production costs and have created stronger incentives for private saving, raising levels of national savings that restrain eco growth from high CAD. As such, broadening the tax base and reducing tax burdens have encouraged eco activity with improved allocation of resources and investment opportunities.

A decentralised labour market has contributed greatly to delivering economic efficiency and economic growth. Since the 1960s, labour market reforms have aimed to reduce industrial disputation and higher productivity via changes to wage outcomes, helping to achieve eco objectives of low inflation and unemployment. However by the 1990s, the centralised wage fixing system of the Prices and Incomes Accord was abandoned for an enterprise based bargaining system (accelerated by the Workplace Relations Act), in which wages reflected circumstances of individual businesses and employees. This system encouraged labour resources to move to more efficient firms that have the capacity to pay more and addressed inflationary wage problems as salaries are performance based. Yet, wages rising in line with productivity have contributed to international competitiveness as inflationary pressures reduce, as well as enabled flexible wage adjustments to economic conditions.

The industrial relations framework consists of three tiers: Awards, Collective enterprise agreements (CEA), and individual contracts. Awards outline minimum pay and conditions (10 allowable matters) specific to an industry sector or firm. CEA are collectively negotiated between employer and employees (with unions) to meet differences in opinions. Individual contracts (common law and Australian Workplace Agreements) are formal individual contracts operated similarly to CEA. These three streams of wage determination are designed to cater for individual firms and industries, promoting increased productivity as there is greater incentive to work for higher pay, and increase responsiveness to structural and cyclical shifts in product markets. On the other hand, more workplace flexibility has led to increasing casualisation and underemployment, resulting in less job security for employed as employers have the upper hand in enterprise bargaining. In conjunction, greater wage dispersion has arisen with lower comparative wage justice, creating more disparity in material living standards. Nonetheless, labour market reforms ensure overall economic benefit with annual wages growth sustained (indirectly by monetary policy) below 4.5% to keep inflation within the 2-3% range for accelerated economic activity.

Whilst, mcp have achieved desirable inflation, employment and external outcomes, it has short term costs including increased structural unemployment as inefficient industries and firms close down. For example, those structurally unemployed from the declining manufacturing sector accounts for 9% of total labour force. As a resul, increase unemployment benefits and retraining benefits and retraining programs represent an opportunity cost to stimulate growth so lowers eco activity in the short term. Furthermore, mcp are generally politically unpopular as they operate with long time lags (a few years) and expensive structural assistance. Nonetheless, mcp is very effective in overcoming structural problems that constrain the effectiveness of macroeconomic policies, as well as raising economic growth in the long run.

Overall, structural change shifting patterns of production within an economy has facilitated Australia's strong growth performance. Through deregulation of finance sector and public enterprise, taxation reforms, trade policy and decentralised labour market, increased competitive pressures have forced firms and industries to become efficient and in turn, helped maintain low inflation, a sustainable CAD, and lower unemployment rate. Despite being associated with political constraints and long time lags, consumers and businesses benefit from mc reforms directed at product and factor markets, which aim for higher output, lower prices and greater variety of goods. Therefore, mcp is extremely important to an economy's health as seen in estimate 0.5% p.a. growth between 1983 and 2004.