

ECONOMICS

Economic Growth, Unemployment and Income

The nature, causes and consequences of economics issues confronting many contemporary economies throughout the world has unfolded an interesting yet challenging scenario. The current economic issues in Australia are significant to the general economy in view of the real issues underlying the state of the economy and the need to ensure that relevant policies and strategies are implemented to achieve sustainable economic goals. Some major issues include economic growth, unemployment and income distribution.

Economic growth involves an increase in the volume of goods and services produced in an economy over a period of time. It is the best measure of economic performance. Economic growth can be measured through the changes in the annual rate of real Gross Domestic Product (GDP). Australia has sustained a relatively strong economic growth since the 1990-91 recession. Besides that, Australia was also hit badly and went through a recession in around 2000-01. Economic growth is linked to the changes in the level of economic activity – business cycle. During the 2000-01 recession, Australia's economic growth averaged to below 2% of real GDP. As a result, unemployment rates rises and there's more inequality in the income distribution. This is because during a recession, aggregate demand falls as people starts to save more than they spend. This reduces the demand for production and firms produce less. Thus, firms begin cutting costs and sacked labours as well as causing a higher unemployment rate. Also, less people become employed and more receiving social welfare. Therefore, the gap between the rich and the poor increases. However, it is good that the level of international competitiveness too as export prices becomes cheaper for other countries to buy from Australia. In order to reduce the negative effects and boost economic growth, the government will either decrease taxation levels and the interest rates or increase spending in their budget expenditure.

As for unemployment, it refers to a situation where an individual is available and actively seeking for a job but has been unable to find one. This can be measured through the number of people unemployed over the total labour force $\times 100$. Australia's unemployment rate is directly linked to the level of economic activity and the business cycle too. During boom conditions, such as during 2003-04, Australia's unemployment rate fell to below 7%. This resulted in more equality in income distribution and higher economic growth. This is because during boom conditions, more people tend to be able to get jobs as demand for labours increases due to the firm's level of production increasing. Thus, labours begin to have higher wages too and increases the standard of living as income per capita increases. The increase in standard of living therefore creates a more even income distribution as poverty levels and crime levels are reduced. Government can also have more revenue due to the low levels of social welfare that they need to pay to the unemployed.

To sustain the levels of unemployment and ensure that it does not get too high or too low, the government tends to occasionally encourage labours to increase their workforce skills. Also, for recession times, when unemployment rates rises due to aggregate demand causing low demand for labours, the government will decide to have labour market reform and decrease protection to allow investors to boost the economy. Because the unemployment is cyclical – cause by the level of economic activity, the government may also decrease level of taxation and interest rates as to increase government spending. An example of this is during the 2008-09 recession. Therefore, high economic growth causes low levels of unemployment.

As for income distribution, it measure how the benefits of economic growth is shared amongst the population. To measure the income distribution, we can either use the Lorenz curve or the Gini coefficient. Gini coefficient is a numerical value for comparing inequality across a population. During the 2000-01 recession, Australia's gini coefficient increases to about 0.311. The higher the value,

the more uneven the income distribution is. As compared to during a boom condition, the Gini coefficient is 0.297. During recession, the unemployment rate increases and more people becomes unemployed. These people only receive low income from the social welfare and thus, is unable to fully enjoy the benefits unlike the higher income earners. During the 2000-01, the lowest quintile receives only around 7.7% of income share where the highest quintile receives around 38.5% of income. This is a wide gap between the two.

To reduce this inequality, the government uses progressive tax system to tax the richer in order to redistribute the income to the poor and social welfare payments to support the poor. Also, compulsory superannuation is effective in helping to reduce inequality amongst the retired people who receives low pension only because it provides them with a source of income.

In conclusion, during periods of high economic growth, we will see a low levels of unemployment rate and more even levels of income distribution. This is a rather desirable economic goal for most economies as to achieve a 'sustainable' economic growth in the economy for the benefits of the nation.