

ECONOMICS

Microeconomic Policy

Introduction

- It is action that is taken by the federal government to improve the resource allocation within the Australian economy. It ensures that the output of an economy is increased with the limited resources. It aims at the supply side of the markets and is mainly focused on improving the objectives in which macroeconomic policy has limited control over eg, international competitiveness, productivity levels, national savings, structural unemployment and also is influential in areas such as economic growth, income and wealth distribution and inflation.
- Microeconomic Policy improves economic activity by a more efficient allocation of resources the ways in which micro increases these is through

Technical Efficiency which is the minimisation of production costs by investing in the latest technologies/ resources

Dynamic Efficiency which refers to the responsiveness of the economy to changes in demand and the efficiency in the way resources are diverted.

Allocative Efficiency which refers to the way that resources are divided as to satisfy societies demands.

Rational of Microeconomic Policy

Microeconomic Policies are designed to improve productivity within an economy by inducing structural change. This is done by influencing specific industries in an attempt to increase resource allocation or reduce resource allocation. Once the resources have been allocated the microeconomic policy aims at increasing the productivity of the individual sectors to ensure maximum output. This is otherwise known as improving the efficiency of resources and occurs in three main ways dynamic, technical and Allocative efficiency.

By increasing the various forms of efficiency microeconomic policy is successful in impacting on sustained economic growth with low inflation by increasing the productivity of resources. This is done by increasing the supply of goods and services meaning more wants are satisfied with fewer resources.

Structural Change

Is the shifting in the patterns of production within and economy. The Effects of Structural Change on various sectors within the Economy.

Sector of Society	Impact on Sector
Individual	As the productivity of labour increases more labour will be demanded this will improve the ability of people to gain jobs. Increase in the quality of life as more wants are satisfied as the price of G+S decreases due to increases in aggregate supply
Firms	Increase profits as labour costs less per unit of output, this means that they are able to produce more with same resources. Productive Industry (Resources allocated to them) is able to pay their employees higher wage rates. This attracts high quality labour and overall increases productivity.
Governments	Are happy as their popularity increases, this is because the NAIRU will drop, unemployment will fall and people will be satisfied as they are meeting more of their wants. Able to adopt expansionary macroeconomic policy. Increases income as income taxation and company taxation will rise due to the strong economic growth.
Environmentalists	More efficient production means that carbon/waste output per unit of useful output is decreased. Reduces the impacts of production on the environment.

Structural Change means shifts in the way that production occurs; it is major area of reform in Australia as production was historically done highly inefficiently. Structural change occurs due to a variety of reasons but can be influenced by trade policy, government policy, consumer demand and new technologies. The structural change in Australia has occurred due to changes in the way in which production occurs; this has been achieved through the implementation of competition into market places and through the deregulation of certain sectors.

Regulation is where government intervention impacts significantly on the price of goods and services, governments will regulate because of the inability of society to devise resources; this is known as market failure. The heavy regulation in the 1980's meant that many monopolies existed meaning that goods were not subject to levels of competition.

Deregulation is when the government removes its influence from the economy and doesn't impact on the way that production occurs. It leaves the allocation of resources up to market forces (supply and demand). The lack of deregulated sectors in the 1980's is blamed for the relatively slow growth rates and declines in living standards as opposed to other developed economies.

During the 1980's Australia had: and fixed the problem by:

Problem	Microeconomic Response
<p>High levels of tariff protection, this had a dual disadvantage, people protected against us restricting our trade and we suffered a poor allocation of resources as inefficient industry was heavily supported (eg car industry and textiles)</p>	<p>The response of the Australian government was to seek and overall reduction in tariff levels this was achieved throughout the 1980's to the present. To ensure that the protectionist levels were reduced by both countries Australia negotiated Multilateral and Bilateral trade agreements. This is seen in examples such as the World Trade Organisation (WTO) and ASEAN (multilateral) and the AUSFTA, TAFTA (bilateral). The reduction in protectionist levels exposed Australian Domestic industry to more competitive forces this meant that industries that were inefficient were forced out of demand; reallocating the resources to more efficient, internationally competitive industry. The car and textiles industry is still protected as it is supported by the infant industry argument, it however will never become as competitive as the costs of labour are significantly higher in Australia, this means that resources are poorly allocated.</p>
<p>The fixed exchange rate meant that it wasn't subject to market forces and was unresponsive to changes in demand and supply was also subject to levels of speculation and corruption. It distorted the real trade position of firms.</p>	<p>The AUD was floated in 1983 and was perhaps the most significant item of microeconomic reform in contemporary attitudes. It was primarily enacted as an automatic stabiliser for our balance of payments. This meant that a CAD would lead to a depreciation which would in turn lead to increased demand for exports reducing our CAD. This meant that the demand for our exports was influenced by exchange rates as well as market demand.</p>
<p>The high levels of regulation in domestic production meant that productivity was low and monopolies were present. This meant that Public Trading Enterprises had a significant market share and were able to control prices. Due to the inefficiencies the current employment rate couldn't have been sustained as NAIRU increased.</p>	<p>The deregulation of many sectors increased the competition that sectors were exposed to, the NAIRU was decreased by increasing the competition in markets and by increasing productivity.</p> <ul style="list-style-type: none"> • The financial sector deregulation included the decrease in barriers faced by overseas banks as they attempted to access the Australian market, this increased the competition between Australian banks and overseas banks reduced running costs, increased customer service and costs. This combined with the decreased controls of the RBA over domestic banks increased the competition and the efficiency of the financial sector. • The deregulation of the Aviation sector in Australia was an important aspect of microeconomic reform due to the large area of Australia and the money that could be wasted. This ended the 2 Airline Policy in Australia and exposed the airlines to competition. This reduced operating costs and the efficiency of the aviation sector as new operators entered the market. • The corporatisation and privatisation of various sectors (Commonwealth Bank, Qantas, Australia Post) increased the efficiency of sectors by specifically increasing the technical efficiency. The modes of production were exposed to increasing levels of competition reducing the resources that were used in production. • The introduction of the Australian Consumer and Competition Commission (ACCC) was an important

	<p>aspect in controlling the levels of competition that existed within the Australian Economy. The ACCC made recommendations concerning PTE's and the level of competition that they should be exposed to.</p>
<p>We had an extremely narrow production export base, this meant that fluctuations in prices had a large influence on the economy due to our poor dynamic efficiency. This saw a deterioration of our terms of trade as commodity prices fell. This problem was compiled when The UK (major trading partner) joined the EU meaning agricultural export demand was reduced.</p>	<p>The combination of these problems caused the Australian government to reform the way that production occurs and aimed to increase our dynamic efficiency. We were very much reliant on the exportation of iron ore and other commodities which are subject to severe market fluctuations. This meant that Australia had to widen its export base and increase its dynamic efficiency. This meant that the protection offered to the manufacturing sector was reduced in order to increase the allocation of resources to more internationally competitive efficient industries. The forces of globalisation also impacted heavily upon the trade levels of the Australian economy and the demand that existed. All of these have increased our market exposure and have increased our production export base by increasing our exposure to overseas markets.</p>
<p>The Centralised Wage fixing process was becoming highly inefficient during the early 1980's and the NAIRU was increasing due to the inefficiencies in production. The centralised process was highly inflexible and was impacting on the ability of the economy to achieve Allocative efficiency.</p>	<p>The centralised wage fixing process (the Accords) was responsible for the efficiencies of Australian production, it pegged wages to inflation which often meant wage growth was greater than productivity increases (real wage overhang). The centralised approach was replaced by the Workplace Relations Act 1996, this introduced a more decentralised approach where wages and working conditions were based primarily on individual negotiations. Wages became more exposed to market forces and encouraged employees to become more productive in order to maintain their jobs. This act was further amended in 2005 with the implementation of Work Choices; this was a further decentralised approach to labour market policies and encouraged further the direct negotiation of wages between employees and employers. The work choices amendment introduced Australian Workplace Agreements which are direct negotiations that occur between employee and employer, these further removed the union influence on wages and increased the efficiencies. A main item in the legislation was AWA's could make workers "worse off" meaning improvements in working conditions were not essentially prerequisite. This has forced the NAIRU down as employees must work for their money to ensure high productivity of labour, otherwise they will be liable to pay cuts. This has meant that growth has occurred due to increased productivity but also inflation has been contained due to the increase in supply.</p>

Prices and Incomes Policy.

Reasons For.

- ✓ It has a significant influence on short term supply which has substantial effects on controlling inflation whilst also contributing to economic growth. It has positive impacts on two areas of the economy which usually can't occur.
- ✓ Wage increases are an important aspect of maintaining quality of life of the people within an economy.
- ✓ Inflationary spiral is to be avoided due to the negative impacts on the economy.
- ✓ Increases international competitiveness by fluctuating wage rates in relation to market conditions.

Advantages/Disadvantages of Decentralised/Centralised.

Decentralised-Disadvantages

- ✗ Unequitable division of income as demanded industry will receive large growth compared to those areas with little demand.
- ✗ Decreased working conditions as employers are willing to sacrifice conditions for pay if they are given the choice.
- ✗ Increases disputes between employees and employers.

Decentralised- Advantages

- ✓ More flexible means of determining wages meaning allowances can be made for individual situations.
- ✓ Increased responsiveness to changes in the business cycle.
- ✓ Workers are encouraged to become productive, this will in turn increase their wages as the employer will notice how useful they are.

Centralised-Disadvantages

- ✗ Less flexible and doesn't allow for individual circumstances.
- ✗ Unions influence has significant effects on industry that the unions wish to support.
- ✗ Increased reliance upon tribunals and bodies which are responsible for prices and incomes.

Centralised- Advantages

- ✓ Increases the equality of income as growth in sectors can be controlled.
- ✓ Prevents exploitation of workers in industry as minimum levels have increased control.
- ✓ More efficient as there are less individual disputes.

Labour Market Policies.

Current Industrial Relations Framework.

Defined by legislation through the Workplace Relations (WorkChoices) Amendment Act 2005

This item introduced a revolutionary system to Australia which has changed the way that labour markets are approached. Previous to this act there was the Accords which were a very much centralised method of the determination of wages. Wages were set by a central body and were pegged to the CPI, this was a highly inefficient method of determination as productivity incentives weren't present. There could have been an increase in wages without the increase in productivity, this is known as the real wage overhang. The new system has introduced six main ways in which wages are negotiated, they all have varying degrees of centrality but have moved away from the centralised method, it encourages the determination of wages via negotiation.

The current systems methods of negotiation are

1. Australian Workplace Agreements (AWA's)- Highly controversial as they don't necessarily mean that the employee is better off, they are individual negotiations.
2. Employee Collective Agreements.
3. Union Collective Agreements.
4. Employer Greenfield Agreements.
5. Union Greenfield Agreements.
6. Multiple Business Agreements.

If there is a problem in the negotiation of wages then there are a variety of methods in which disputes are resolved. The first method is the negotiation between employees and employers this is often unsuccessful as they are two opposing views on one issue. From here the Conciliation process is undertaken where by negotiations continue with an independent body to assist with compromises. From here the Australian Industrial Relations Commission will make a decision which is legally binding on both the employee and employer.

Role of Courts, Tribunals and Advocates.

There are also other bodies that are influential in the Labour Market Reforms, they are:

- **Australian Industrial Relations Commission (AIRC)**- Is the body which deals with disputed relating to the determination of wage rates and working conditions, it has legal ramifications and is binding on both parties.
- **Office of Employment Advocate (OEA)**- Is responsible for overseeing all AWA's that are negotiated, the OEA will make a judgement whether the AWA meets minimum guidelines of not. Cannot be implemented without OEA approval.
- **Unions**- Is the corporation/group that is responsible for ensuring that minimum standards are upheld and ensuring constant improvements in wages and employment conditions
- **The Australian Fair Pay Commission (AFPC)**- Makes the standard, which is the minimum levels of pay that can be awarded and other aspects including maximum hours, conditions and award classification.

Arguments For/Against Current Centralised/Decentralised Labour Market policy.

Arguments For	Arguments Against
>Increased flexibility in the determination of wages and working conditions due to the minimal variables that act upon the determination process.	<Increased inequality of income as there is strong growth in demanded sectors as opposed to undemanded sectors.
>Increased Jobs Created.	>Tendency for large wage boom in economic growth climate fuelling inflationary rates.
>Encourages individual employment effort as the incentives are present, this leads to an increase in the productivity of labour.	>Decreased governmental control as they aren't directly influential in the wage rate determination process.
>Decreased costs in the negotiation process.	>Great costs associated in moving between the centralised and decentralised system.

Limitations Of Policy Implementation.

Time Lags-Due to the complexity of the economy and the variety of variables that exist there are time lags that exist. These are because certain sectors are influenced by factors other than government intervention. This means that there are substantial disadvantages as past changes are yet to have had effects on the economy, this is seen in the implementation of monetary policy where by increases in interest rates can have an 18 month time lag associated with them.

Global Influences- Due to the process of globalisation the Australian economy is very much exposed to changes in the global economy; this means that growth rates in other countries will have a significant effect on the type of demand that occurs. This means that we must become dynamically efficient so that we are able to divert resources between different sectors without losses to ensure that we maximise the overseas demand that is met. Through the use of Multilateral and bilateral agreements we are able to reduce the impacts of external forces.

Political Restraints- There is no point in implementing legislation or changing micro/macroeconomic stance if the population doesn't approve. This will mean that popularity rates will plummet and the person responsible for the changes is likely to lose their jobs. This means that research must be done to ensure that the changes are popular with the public. This was seen in the implementations of taxation reforms which were not undertaken as they were highly unpopular and would have resulted in consumer dissatisfaction.