

ECONOMICS

Discuss the effectiveness of recent fiscal policy responses designed to encourage full employment and promote sustained economic growth in the Australian economy.

Unemployment refers to the people who are willing or able to work and actively seeking work but is unable to find suitable employment due to cyclical, structural, frictional and seasonal, underemployment or long term unemployment. As the unemployment rate is proportionally correlated with the state of the economy, a sustainable increase in a country's productive capacity achieved through the implementation of both macroeconomic and microeconomic policies would result in the encouragement of full employment – where the number of jobs is equal to or greater than the number of job seekers. From the 2008/09 GFC which recorded 5.8% unemployment rate due to its low economic growth of 1.3%, the Australian government has experienced a reduction in unemployment rate of 5.1% in 2009/10 to 4.9% in 2010/11 due to the prosperity of the mining investment boom, and is currently experiencing a gradual increase in the unemployment rate due to the structural changes of the Australian economy. With these dramatic structural changes, the slower economic growth of Australia has been correlated with its persistently high unemployment rate of approximately 6.2% in February 2015 to 5.8% in February 2017.

Cyclical unemployment is caused by a contraction in economic activity or aggregate demand [$AD = C + G + I + (X - M)$] as a fall in aggregate demand results in a decrease of national income/output leading to a reduction in the demand for labour. Structural unemployment is caused by the mismatch between the labour skills or poor educational levels of employees and job vacancies offered. Due to advancements in technology, changes to production processes, increasing foreign competition or changing government priorities, industries may become redundant and result in the contraction, which make jobs obsolete in these diminishing industries. These causes of unemployment is generally exacerbated by the frictional nature of unemployment where time for acquisition of new skills, relocation, search times and the procedure of interviews for firms to seek appropriate sources of labour prolongs the period of unemployment for unemployed individuals. During the slowing economic growth from the declining reliance on the mining investment boom, structural changes to the Australian economy led to retrenchments in the mining industries which contributed to the 5.7% unemployment rate. With the trend of falling commodity prices and declining terms of trade between 2013 to 2015, the Australian economy has experienced a persistent below trend economic growth of 2.5% and a drastic rise in unemployment rate of 6.1% in July 2015.

Whilst the underemployed – individuals working part-time or casual who want to work more hours or switch to full-time employment – are not represented in the unemployment rate, the detrimental contribution is evident in the 2014/15 8.2% underemployment rate which significantly determined the labour underutilisation rate of 14.3% in February 2017. Since unemployment and underemployment can result in the opportunity cost of lost output because labour productivity is not maximised, it will not only reduce the real GDP of the slowing economy but also deteriorate the standard of living as the unemployed suffer economic and social hardships. Furthermore, as long term unemployment may be encouraged through the experience of lost self-esteem and welfare dependency, the depreciation of human capital within an economy can be the root of self-perpetuating poverty in which the unemployed have no motivation for searching for jobs and undertaking re-training and education to increase their skills.

The Non-Accelerating Inflation Rate of Unemployment (NAIRU) indicates the unemployment of a country with the influence of inflation from aggregate demand. When a country's economy is operating at the NAIRU (full employment), the country is experiencing a phenomenon in which higher inflation results in lower unemployment. However, due to the

unsustainable nature of high rates of inflation, an economy would aim to be below the NAIURU through the use of macroeconomic and microeconomic policies. However, these stimulatory macroeconomic policies including expansionary fiscal policy to increase government spending or reduce taxation and the easing monetary policy – in May 2017, the RBA reduced the cash rate by 0.25% to 1.75% as inflationary pressures were lower than expected – aimed to stimulate aggregate demand and increase the output of commodities which in turn increases the level of employment as firms seek to improve their labour productivity due to the demand for higher outputs, hence lowering the unemployment rate.

However, these macroeconomic policies have a limitation in reducing unemployment as they tend to address cyclical unemployment and inefficient as it may cause an unsustainable rate of inflation and economic growth, hence microeconomic policies such as the labour market reform, training and education of the labour force in the 2017/18 Budget aims to achieve efficiency in the labour market through addressing structural unemployment. As labour market reform policies are designed to make labour markets flexible and encourage competitive work practices to achieve higher levels of productivity, its greater emphasis on assisting individuals adjust to structural changes of the economy and youth with securing employment, assists with the reduction of unemployment and a sustainable route towards full employment.

With its greater emphasis on creating sustainable growth and jobs, the 2017/18 Budget implementation of the Ten Year Enterprise Tax Plan and the Youth Jobs PaTH program, focuses on developing small businesses and young people (15 to 24 years old) in the Australian economy. Since small businesses employ over 3 million workers in Australia, the Ten Year Enterprise Tax Plan reduction of the company tax rate to 27.5% for small businesses enables these firms to invest in capital, grow and employ more labour sources in order to improve their productivity. Additionally, the Youth Jobs PaTH program encapsulates a greater emphasis on ensuring young people with the opportunity to secure employment in a constantly changing economy. Through the government's investment of \$840 million in the package, the labour market policy aims to assist up to 120,000 young people by providing an intensive pre-employment skills training, work experience and monetary incentives for both active young job seekers and employers to encourage the decrease of the labour force underutilisation rate of 14.9% in February 2015 to 14.2% in February 2017.