TOPIC 4: ECONOMIC POLICIES AND MANAGEMENT
CHAPTER 13 SUMMARY: ECONOMIC OBJECTIVES

ECONOMIC GROWTH AND QUALITY OF LIFE

- **Economic growth**: increase in productive capacity of an economy over time, measured by the annual change in real GDP
  - Benefits of EG:
    - Increased standard of living
    - Improved job prospects for labour force
    - Opportunity for increased investment in infrastructure and public services → higher Gov tax revenue

FULL EMPLOYMENT

- **NAIRU**: level of UE at which there is no cyclical UE → economy is at full employment → *natural rate of unemployment*
  - Always going to be a certain level of frictional, seasonal, structural and hard-core UE
  - NRU: 5-6%

- Benefits of full employment:
  - Maximises economy's capacity to produce, therefore maximising living standards
  - Minimises economic and social problems associated with UE

PRICE STABILITY

- **Price stability**: keeping inflation at an acceptable level – 2-3% p.a. → minimal distortion to economy
  - Inflation is a problem because of economic consequences:
    - Reduces real value of income and wealth
    - Reduces international competitiveness b/c rising costs of production
    - Causes a depreciation in EXR → loss of confidence
    - Creates uncertainty about future costs and distort economic decision making
    - Distorts pattern of resource allocation → encourages speculation in relatively unproductive activities, e.g., buying and selling existing real estate

EXTERNAL STABILITY

- **CAD**: achieving a sustainable position e.g., balancing payments for M and X, as well as income and transfer payments
  - Keeping any deficit at a level low enough not to have adverse economic effects
- **AUD**: maintaining international confidence in value of AUD on global financial markets – esp. investors
- **NFD as % GDP**: acceptable level where an economy can service the debt
  - Capacity to service NFD measured by debt-servicing ratio → % of X revenue spent on interest payments

DISTRIBUTION OF INCOME AND WEALTH

- Gov makes provisions for needs of people who cannot provide for themselves e.g., aged persons, disabled, UE, ill
- **Redistribution policies**: progressive tax + social security payments

ENVIRONMENTAL SUSTAINABILITY

- Specific objectives: reduced greenhouse gas emissions, improved energy efficiency, reduced use of old forests, limit development in some areas
- Conflict of environmental objectives with benefits of increased economic activity
  - Gov’s may trade off some longer term environmental objectives in favour of benefits of increased economic activity

POTENTIAL CONFLICTS AMONG OBJECTIVES

- In an effort to achieve one goal, the Gov may have to forego its chances of achieving another
- Achieving simultaneous reduction in UE and inflation:
  - Trade-off b/w lower UE and inflation in short-medium term
  - Stronger growth in demand decreases UE but puts upward pressure on prices → Phillips Curve
  - Aus Gov gives low inflation priority
- Achieving economic growth and external balance
  - Strong growth = ↑ consumption and investment → can cause volume of M to rise
  - BOP constraint: limitations on rate of growth b/c impact of high growth on CAD
- Other:
  - Economic growth → environmental damage, greater inequality in income distribution
  - Environmental preservation + equitable distribution are long term challenges for Gov policy
  - Conflict between short + long term objectives

GOALS OF GOVERNMENT POLICY 2015-16:

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| Maintain sustainable economic growth 3-4% | **Higher rate could cause a blowout in the CAD = inflationary pressures, and a low rate can cause UE**  
  - **1990s**: sustainable rate of 3-4% |
| Low inflation 2-3% | **Federal Gov + RBA committed to keeping inflation within a target of 2-3% (1996)**  
  - Believed to improve international competitiveness, reduce nominal IR, foster investment + encourage higher levels of savings in long term |
| Increasing the rate of growth in longer term | **Focus**: implement structural changes that will allow Aus to afford a higher rate of EG in long run e.g., measures designed to increase efficiency and productivity  
  - NB: ageing population will reduce labour force participation rates + levels of sustainable EG |
### ECONOMICS

| Achieving sustained reduction in UE | • UE + underemployment is one of our major structural issues  
| | • Encourage job creation + efforts to increase flexibility of the labour market  
| Increasing level of national savings | • Efforts through national compulsory superannuation to increase domestic savings  
| | o Will impact favourably on NFD \(\rightarrow\) won’t have to go overseas for investment funds  
| Sustaining Australia’s recent strong productivity growth | • Important for long term, even growth  
| | • Slowed after good progress in 90s  
| | • Labour market + structural policies aimed at increasing flexibility = improve productivity growth  
| Improving Aus’s internati. competitiveness | • Through measures to reduce costs, improve quality of our exports and improve access to overseas markets  
| Maintaining international confidence in economy | • Importance of external funds \(\rightarrow\) thus need to maintain international confidence  
| | • NO direct policies \(\rightarrow\) policies relating to AUD and pressure on RBA to raise IR to defend currency  

### ECONOMIC POLICY MIX:

#### MACROECONOMIC POLICIES:
- affects level of aggregate demand and effects the entire economy
  - To manage the business cycle and minimise fluctuations = low rates of inflation + UE + stable EG
  - Use of Federal Budget (fiscal) and cash rate (monetary)
  - Aka: counter cyclical policies b/c Gov can use policies to work against the cycle
    - E.g. during periods of fast EG:
      - Reduce economic activity to avoid excessive inflation or blowout in CAD
      - Gov can increase taxation, raise IR (less C+I) or a combination, to reduce economic activity
  - Not effective enough to achieve complex policy goals \(\rightarrow\) good for stimulating or contracting economy in short term
    - Less effective with longer term problems (structural issues) e.g. international competitiveness, low national savings

#### MICROECONOMIC POLICIES:
- influences aggregate supply (AS), specific policies to improve operation of firms, industries, markets
  - To improve resource allocation b/w firms and industries to maximise output from scarce resources
  - Aka: supply side economics \(\rightarrow\) focus on policies that attempt to increase AS by improving competitiveness, productivity and efficiency of Aus industries
    - Most micro policies introduced in 90s \(\rightarrow\) deregulation

### CHAPTER 14 SUMMARY: FISCAL POLICY

#### FEDERAL GOVERNMENT BUDGETS AND BUDGET OUTCOMES:
- **Budget**: annual statement of the Gov’s income and expenditure plans for the next financial year \(\rightarrow\) released in May
  - Revenue (income + company tax, indirect tax (GST, customs + excise), PTE revenue) + expenditure
  - Used for stabilisation of economy, reallocation of resources and redistribution of income
- **Budget outcomes**:
  - **Surplus**: when total revenue exceeds total total expenditure \(\rightarrow\) T > G \(\rightarrow\) contractionary
  - **Deficit**: when total Gov expenditure exceeds total revenue \(\rightarrow\) G > T \(\rightarrow\) expansionary
  - **Balanced**: when total Gov expenditure equals total revenue \(\rightarrow\) G = T
- **Fiscal Outcome**: total revenue – total expenditure
  - Net capital investment \(\rightarrow\) i.e. excludes sales of fixed assets such as buildings
  - Excludes one off items such as privatisation of Gov businesses e.g. Telstra, GIO, Australia Post
  - Recorded in Statement of Other Economic Flows
- **Underlying Cash Outcome**: calculated using the cash accounting method
  - Underlying cash surplus or deficit gives best indication of impact of FP on economic activity
  - Preferred, removes one off events
- **Headline Cash Outcome**: includes one-off transactions that may distort true Budget outcome e.g. sale of Gov assets
  - Not regarded as useful indicator of fiscal stance

### EFFECTS OF BUDGETARY CHANGES ON RESOURCES USE, INCOME DISTRIBUTION AND ECONOMIC ACTIVITY

#### STABILISATION AND MANAGEMENT OF ECONOMY:

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| **EXPANSIONARY STANCE** | - Reduced tax  
| | - Increased Gov expenditure  
| | - Increased economic activity (more C+I = AD)  
| | - Smaller surplus or larger deficit than previous year  
| **CONTRACTIONARY STANCE** | - Increased tax  
| | - Reduced Gov expenditure  
| | - Decreased economic activity (less C+I = less AD)  
| | - Larger surplus or smaller deficit than previous year  

- **NB**: changes in expenditure have a greater multiplier effect on economic activity than taxation changes b/c more direct redistribution of income:
  - Progressive income tax + transfer payments help redistribute income
    - Any reductions in the marginal tax rates at the upper end = more inequality
  - **GST** = regressive
    - People on fixed incomes, e.g. retirees, pensioners, are further disadvantaged
    - Budget cuts to areas, e.g. community services, have a direct impact on lower income groups = more inequality
ECONOMICS

REALLOCATION OF RESOURCES:
- Direct impact: when Gov focuses spending in particular areas of economy → resources redirected into new projects
- Indirect impact: when Gov imposes a tax on certain activities = less profitable + attractive to producers
  - Tax on G+S = discourages people e.g. cigarettes → diverts resources b/c fall in demand b/c increase in price
- Gov can act directly to provide G+S (public) that private sector fails to produce b/c lack of profitability

COMPONENTS OF FISCAL OUTCOME:
- Discretionary changes: deliberate changes to Gov spending plans e.g. health, education, taxation rates
  - Influences structural component of budget outcome
- Non-discretionary changes: final outcome is not the same as planned b/c changes in economic activity → influence T + G
  - Influences cyclical component of budget outcome
  - Automatic stabilisers: progressive tax + UE benefits → counter-cyclical, ‘built in’ → reduce severity of peaks + troughs
    - Progressive tax: based on level of income earned
      - Upturn: economic activity increases, incomes rise ∴ more people paying more tax, less people on UE benefits → contractionary b/c money leaving economy
      - Downturn: economic activity falls, incomes fall ∴ less people paying less tax, more people on UE benefits → expansionary b/c moreGov. expenditure
    - Unemployment benefits: during an upswing employment opportunities rise so some people no longer require UE benefits ∴ reducing Gov. expenditure and vice versa

METHODS OF FINANCING DEFICITS
BORROWING FROM PRIVATE SECTOR: preferred
- Involves selling of new treasury bonds under tender system → Gov sets value of bonds by size of deficit, prospective purchasers tender to buy a certain quantity at a particular rate of interest
  - Advantages:
    - Gov can be certain that it will fully finance its deficit
    - Market will set IR on these newly issues bonds
  - Crowding out effect: soak up funds in Aus’s domestic savings pool → upward pressure on IR = reduction in private sector spending + consumption
  - Private sector crowded out of domestic market b/c lenders prefer to lend to Gov = borrow from overseas

BORROWING FROM OVERSEAS FINANCIAL MARKETS:
- Gov would do this if it wanted to minimise crowding out effect
- When Gov borrows from overseas it adds directly to Aus’s foreign debt (public)
- NB: today, distinction b/w domestic and overseas borrowing has become less relevant b/c overseas financial institutions operate in our domestic financial markets

BORROWING FROM THE RBA:
- “Monetising the deficit”
- Acts in the same way as Gov printing money to pay for expenditures
- Not done in Aus as it would increase money supply + cause inflation
- Since 1982-83 financial deregulation, Gov has not engaged in this type of deficit budgeting

SELLING ASSETS:
- E.g. commonwealth land, shares in Australia Post, Commonwealth Bank, Telstra, GIO
- One off transactions, do not reduce the underlying cash balance

USE OF A SURPLUS
- If the Gov is planning to receive more revenue than it spends in the current year
  1. Deposit with RBA
  2. Pay off public sector debt → ‘retire’
  3. Place money in specially established Gov owned investment funds
     - Future Fund 2006: to meet superannuation liabilities of public servants

PUBLIC SECTOR BORROWING AND DEBT
- Public sector cash outcome: deficit + surplus → shows borrowing needs/surpluses from all levels of Gov, including PTE’s
  - Most comprehensive indication of fiscal impact of public sector on Aus economy
  - Surplus from late 1990s-2008
  - As a % of GDP it can show the relative size of the debt compared to its proportion of GDP
- Public sector debt: accumulated debt of Gov sector owed domestically and overseas
  - Aus’s net public sector debt peaked during 90s recession → then declined during long growth cycle
    - Reflected lower budget deficits + privatisation of GBE’s by federal + state Gov’s

CURRENT STANCE OF FP:
- 2016-17 Budget: Deficit of $37 billion → 48% revenue from income tax, 35% expenditure to welfare
  - Transitioning from mining dependence to a broader-based economy
    - Focus on services → increasing flexibility, employment intensive → esp. education + tourism b/c low EXR
  - Ten Year Enterprise Tax Plan: lowering tax rate for companies over 10 years from 30% to 25%
ECONOMICS

LONG TERM FISCAL POLICIES:

- Economic growth:
  - 2008-10: successful GFC fiscal stimulus package - $77 billion
- Unemployment + WF participation:
  - 2009-10: fiscal stimulus → UE peaked at 5.9% (above NAIRU) – expected 10%, much higher overseas
  - 2011-12: Building Australia’s Future Package → find and address skills shortages
  - 2015-16: new child care measures
  - 2016-17: $840m Youth Employment Package → subsidised internships for young people
    - Restart Program: subsidies of $10 000 to hire workers over 65 years

- Resource use:
  - Gov expenditure influences resource allocation less actively than in the past → e.g. subsidies to declining industries
  - Decline in Gov provision of services e.g. road, rail, aviation → PTE’s privatised
  - Late 2000s: FP can influence through ongoing policies e.g. Renewable Energy Target

- National savings + CAD:
  - Gov influences national savings → increase through surplus budget or decrease by deficit budget
  - Twin deficits theory: no obvious link b/w Aus budget outcome + CAD
    - Private investment has larger effect on Aus savings + investment, and thus the CAD

- Distribution of income:
  - 2012-13: tax free threshold from $6000 - $18 200
  - 2014-15 Budget:
    - Tighter eligibility for disability support
    - Delaying UE benefits for 6 months
  - 2015-16 Budget:
    - Family package for child care assistance
    - Changes to assets test for age pensions
  - 2016-17 Budget: Increasing middle tax bracket from $80 000 to $87 000

CHAPTER 15 SUMMARY: MONETARY POLICY

PURPOSE OF MONETARY POLICY:

- Main objectives:
  - Stability of the currency
  - Maintenance of full employment
  - Economic prosperity and welfare of the people
- Inflation targeting:
  - Target for consumer price inflation of 2-3% p.a. over medium term
  - Began in 1996 in Aus → set by RBA who implements MP to keep inflation in the range
  - Inflationary expectations are an important in determination of target
- In past, IR movements were distorted by political pressures (esp. elections) → role to RBA minimises political influence
- RBA follows economic indicators in its decision making:
  - Inflation, inflationary expectations, wages growth, UE, EG, IR, EXR, commodity prices, TOT, global EG

IMPLEMENTATION OF MONETARY POLICY BY THE RBA:

- Time lag of 6-18 months, blunt instrument (impacts entire economy)
- Two instruments:
  1. Controlling growth in money supply (‘monetary targeting’)
    - To control money base (currency in hands of public) + deposits of banks and NBFI’s with RBA
    - Abandoned in 80s b/c unsuccessful
  2. Influencing interest rates (rate-setting MP)
    - RBA influences general level of IR in the economy by setting cash rate
- Cash rate: rate of interest charged on transactions between banks in the short term money market (STMM)
  - Cash rate influences all IR → influences behaviour of borrowers and lenders
  - Influences cost (IR) and availability of money (money supply)
  - Interaction of S + D of funds in STMM → S funds ↑ = CR ↓, S funds ↓ = CR ↑
- Domestic Market Operations (DMO): main instrument → sale of second hand Gov securities by RBA to influence IR
  - Conducted directly w/ financial institutions thru exchange settlement accounts (ESA’s) – settle payments w/ other banks
- Loosening of MP - expansionary: RBA buys CGS from banks → surplus of borrowable funds in STMM → cash rate falls
  - To remain competitive banks drop market IR → consumers + firms pay less on existing debts + new borrowers find it easy to borrow fund → C + I increases → economic activity increases = inflation increases
  - E.g. GFC → aggressive: 1% cuts to CR rather than usual 0.25% cuts → effective b/c no recession
- Tightening of MP - contractionary: RBA sells CGS to banks → shortage of borrowable funds in STMM → cash rate rises
  - To remain competitive banks increase market IR → consumers + firms pay more on existing debts + new borrowers find it harder to borrow funds → C + I falls → economic activity falls → inflation falls
  - E.g. Global Resources Boom → IR peaked at 7.5%
IMPACT OF CHANGES IN INTEREST RATES ON ECONOMIC ACTIVITY AND THE EXCHANGE RATE:

- **Transmission mechanism:** process through which MP impacts economy
- Lower IR have following effects:
  - Borrowing is cheaper for firms + consumers → encourages borrowing = C + I ↑
  - Cost of servicing existing loans with variable IR becomes cheaper → increased spending
  - Discourages financial inflow to Aus b/c reduced returns
    - Depreciation of AUD = X$/S ↓ + more competitive → stimulates AD
  - Increase in AD increases demand for AUD → accommodated by RBA raising money supply
- Changes in CR flow onto all other market IR

CURRENT STANCE OF MONETARY POLICY:

- Late 1980s: tightening of MP to address Aus’s high inflation + CAD problems → CR to 18% to reduce AD, CAD + inflation
- Early 1990s: recession = decline in economic activity → UE = 11% → highest since Depression (1930s)
- Mid 1990s: period of recovery
  - CR to 7.5% to prevent inflation re-emerging → effective in moderating EG + UE
- Early 2000: concerns for AUD b/c Asian Crisis 1997 + GST → fears that M would increase – imported inflation
- Mid 2000s: expansionary MP in response to domestic contraction + global recession
  - 2008-09: Aug 08 = 7.5% → Apr 09 = 3%
  - May 2016: reduced to 1.75% → historical low
- External factors:
  - Aus needs to sometimes have an IR differential (higher than other countries) to attract capital inflow
  - Means RBA sacrifices domestic policy objectives + tightens MP if UE is high

CHAPTER 16 SUMMARY: MICROECONOMIC POLICIES

RATIONALE FOR MICRO POLICIES INCLUDING SHIFTS IN AGGREGATE SUPPLY + EFFICIENCY

- **Structural change:** changes that occur to the pattern of production, the products and processes over time – long term
  - Focus on increasing AS by improving competitiveness, productivity and efficiency of industries
  - Causes:
    - **Changes in pattern of demand:** consumer tastes change → new G+S, others become obsolete
      - Increased Y → GDP impacts consumer demand → people afford more = change in production patterns
    - **Technological change:** major impact on pattern of production → affects consumer tastes + preferences
      - b/c introduces new products
  - Consequences
    - Workers need to acquire new skills; capital equipment needs to be adjusted or replaced
    - NB: speed which FOP moves from one area to another is an important constraint on speed of structural change
- By reducing business costs, the AS curve shifts right b/c more at lower prices
- By increasing efficiency, the PPC curve shifts right
- **Allocative efficiency:** promotes structural change by allocating resources to flow to areas where they are used most efficiently
  - E.g. tariff removal = reallocation away from inefficient producers to those who are competitive in production
- **Technical efficiency:** adopting latest production tech that needs the least Gov contribution of resources to produce
  - Minimising quantity of resources needed frees up resources to be used in newly emerging areas of production
  - Long run average cost curve – technical optimum
- **Dynamic efficiency:** producers able to respond quickly to changing patterns of demand in domestic + global eco
  - Allows adoption of new tech and innovation

EFFECTS OF MICRO POLICIES ON INDIVIDUAL PRODUCT + FACTOR MARKETS, INDIVIDUAL INDUSTRIES AND THE ECONOMY

- **Product markets:** market for G+S
- **Factor markets:** market for factors of production
  - Work most efficiently if there is greater competition between firms and S+D can work without government interference
    - → much of micro policy depends on removal of distortions caused by Gov policies
- Economy has changed significantly b/c technology, changes in consumer demand + implementation of micro policies
  - Increasing importance of services sector to GDP and employment
  - Impact of technological change in reducing production costs and prices
  - Increasing integration of Aus into global economy
  - Growth of East Asian (China) markets in influencing Aus’s trade patterns
  - Changing composition and distribution of Aus workforce
  - Impact of resources boom on mining, investment, trade and employment
- **1996 Productivity Commission:** coordinate MER policies
  - Shown that MER have been crucial to lifting productivity growth
DEREGULATION IMPACTS ON INDIVIDUAL INDUSTRIES:

- Financial sector: encouraged innovation and efficiency by increasing competition
  - Wallis Report
  - E.g. 1982: float of AUD, 80s: removal of RBA’s direct monetary controls over banks
  - Aim: reduce distortion in allocation of resources in economy as market forces (S+D) determine who gets borrowed funds

- Agricultural industries:
  - Embargo (bans) on imports of sugar, dried fruits, tobacco and citrus lifted
  - Domestic wheat market, NSW egg industry deregulated
  - Dairy industry: number of farms decreased because some have become larger – more efficient

- Transport industries: crucial to Aus economy b/c large internal + external distances
  - Airlines: Gov privatised many airports, new market entrant Virgin, Qantas dominates 65% of market share
  - Rail: establishment of National Rail Corporation → to undertake all interstate and freight businesses
    - Gov owned rail freight business privatised 2001 → aim to reduce costs

- Telecommunications:
  - Optus + Vodafone enter early 90s
  - Telstra operates as a virtual monopoly to provide residential phone connections + local calls
    - ACCC states more regulation is needed b/c it overcharges

- GBEs:
  - ‘Public sector mentality’ = job for life → now have annual reviews + short term contracts
  - Corporatisation: encourages GBEs to operate as if private firms → e.g. Aus Post
  - Privatisation: selling PTEs so they become private enterprises → e.g. Qantas, Telstra, GIO

- Small business: 1997 Time for Business Policy → special provisions to ease impact of complying with capital gains + fringe benefits taxes, industrial relations laws and licensing rules

NEED FOR REGULATION REVIEW + CONTINUING REGULATION:

- 1996-2000: Gov went through a review of the impact on competition of a wide range of laws and regulations
  - Described as the most comprehensive review of legislation ever conducted
  - Resulted in detailed changes to regulations in individual industries

  - Noted that deregulation of financial sector had produced a more innovative and diverse financial services industry, giving customers a wide range of choice and better service

OVERALL IMPACTS: short term UE, subsidies withdrawn

DEREGULATION IMPACTS ON INDIVIDUAL INDUSTRIES:

REGULATION AND DEREGULATION — COMPETITION POLICY

- Deregulation: simplification / removal of rules that constrain the operation of market forces, aims to improve efficiency
  - Began in 1980s

- MER increases competition because:
  - Prices reflect costs → allocative efficiency = consumers aren’t overcharged
  - Competition → ensure firms employ most efficient production technology and operate at minimum cost
  - Monopoly = high barriers prevent new competitors + charge higher prices
    - No incentives to improve production design + most costs, or develop new products
  - To make markets more competitive it may be necessary for Gov to remove barriers to entry

- Competition and Consumer Act: sets a code of behaviour for firms that prohibits procedures that obstruct competition and hinder structural change
  - Enforced by Australian Competition and Consumer Commission (ACCC) → outlaws following:
    - Monopolisation: firm uses dominant market share to eliminate competition, e.g. through temporary price cutting
    - Price discrimination: firm sells same G+S in different locations at different prices (not cost related)
    - Exclusive dealing: firm sets conditions for supply that exclude retailers from dealing with competitors
    - Collusion + market sharing: when firms fix prices and agree on a market sharing arrangement that reduces effective competition between them

NATIONAL COMPETITION POLICY:

- 1993 Hilmer Report made the following recommendations:
  - ACCC establishment: ‘competition watchdog’ → prevent anti-competitive conduct
  - State Gov instrumentalities: reforms in electricity, gas, water, road transport industries
  - Uniform competition rules
  - Access rights for essential infrastructure: right of access to essential infrastructure at a fair price
  - GBE reform
  - Reform of professions: reforms to professions e.g. lawyers, doctors, requiring them to abandon restrictive work practices

- 2015 Harper Review:
  - Micro reform has stalled in the last decade
  - Professor Hilmer: there has recently been a shift from incentives to enablers
ECONOMICS

TAXATION REFORM:
- Aimed at reducing the extent to which the tax system distorts the allocation of resources and imposes costs on Aus firms
  - 1998-2001: Tax Reform Package
    - 2000 introduction of GST with exceptions covering basics → revenue to states
    - Abolition of wholesale tax
    - Streamlining family allowance payments + improved interaction between tax + welfare payments
    - Benefits: reducing avg. firm costs by 3%, boosting EG by 2% over medium to long term
- Further reforms:
  - Company tax to fall to 25% by 2025
  - New marginal tax rates 07/08
  - One-off contribution of $1500 to super for low income earners
  - 2008/09: Henry Review → to make tax system fairer and more efficient → over 100 recommendations, 4 introduced

INDUSTRY ASSISTANCE:
- Trade promotion + export assistance programs through grants
  - Other countries argue it is not appropriate for Govs to take active measures to assist specific industries → distorts allocation of resources towards inefficient industries
- Mortimer Report 1997: major review of all Gov programs to assist industry
  - Argues that Gov should adopt a more active approach in attracting investment to Aus
  - Investing for Growth Statement:
    - 5-year ($1.3b) set of programs to foster investment including R+D
    - Declaring Aus a ‘free trade zone’ for e-commerce
    - Strategic Investment Coordination to attract foreign investment through tax relief and other incentives
    - Retaining a 125% tax concession for R+D
- Special Assistance to Industry Groups:
  - $2b package for Motor Vehicle Industry → tax breaks to manufacturers who invest in local production, including an allowance to import components free of duty
  - $772m Special Assistance Package for textile, clothing and footwear (TCF) industries → tax incentives, export assistance, development fund + regional assistance scheme

PROTECTION:
- 1973: Whitlam Gov implemented a 25% across the board tariff cut
- 1991: Industry Statement → average level of tariffs reduced to 5% by 1996
- 1999: abolition of 4000 nuisance tariffs (<5%) covering imports with no local competition
- 2005: tariffs on TCF from 25% to 17.5%, PMV from 15% to 10%

CHAPTER 17 SUMMARY: LABOUR MARKET POLICIES
- Industrial relations: the relationship between employees and employers to determine wages and working conditions

ROLE OF NATIONAL AND STATE SYSTEMS
- Federal Gov hasn’t had the constitutional power to control prices and incomes since centralised system
  - Controls national Modern Awards
- State system: commissions + tribunals administer Awards for those not covered by national ones (public servants)

THE NATIONAL SYSTEM FOR DETERMINING
- Fair Work Act 2009 + Amendment (2012)
  1. Set of 10 NES
  2. National Minimum Wage
  3. Modern Awards
  4. Enterprise Agreements
  5. Common Law Contracts
  6. Protection from unfair dismissal

NATIONAL EMPLOYMENT STANDARDS
- National Employment Standards (NES): sets out the minimum entitlements of all Aus employees → 10 conditions
  - Maximum weekly hours of work: 38 hours + reasonable overtime
  - Right to request flexible working arrangements: parents or carers
  - Leave: annual, parental, community service, long service, carers and compassionate leave, public holidays
  - Notice of termination and redundancy pay: 1-4 weeks + redundancy pay (determined by length of work)

MINIMUM WAGES
- National minimum wage: provides a safety net for any employee not covered by an award → determined by FWC
  - Annual review based on inflation (CPI) and the ability of the employer to pay → don’t want to increase UE + to maintain real value of wages
- June 2015: increase of 2.5% → $17.29 per hour
**ECONOMICS**

**AWARDS → 19% of employees**
- **Modern Awards**: a set of minimum wages and conditions for employees, specific to their industry or occupation → FWC
  - Apply nationally to those not under enterprise agreements
  - FWA: modernised awards system → 4300 awards replaced to 122 → to reduce complexity
- **Flexibility clause**: enables individuals to vary awards to meet individual needs without negotiating separate agreements

**ENTERPRISE AGREEMENTS → 41% of employees**
- **Enterprise bargaining**: the negotiation of wages and working conditions between an employer and employees, often represented by unions
  - Greater dependence on enterprise agreements than Awards
- **Must comply with NES and cannot offer wages below those set by the equivalent award → “Better Off Overall Test”**
- **3 types of agreements:**
  - Single enterprise agreement
  - Multi enterprise agreements
  - Greenfields agreements

**EMPLOYMENT CONTRACTS FOR HIGH-INCOME EARNERS (Common Law Contracts) → 39% of employees**
- For those earning in excess of a threshold → $136 000 annually in 2015
- Flexibility for employers + employees to vary wages + working conditions to suit their needs
- **FWA = abolition of Australian Workplace Agreements (AWAs) → gave employers too much bargaining power**

**DISPUTE RESOLUTION**
- **Conciliation**: industrial tribunal helps the parties to reach a mutual agreement → cannot impose it
- **Arbitration**: industrial tribunal makes a ruling that resolves a dispute and is legally binding
- **Different forms of action:**
  - Strikes: where employees refuse to work
  - Work bans: when employees refuse to do a certain aspect of their work
  - Lockouts: where employers refuse to give workers access to their workplace
    - :. Aim to resolve disputes quickly + fairly otherwise can result in reduced productivity, lower output, lower profits
  - **FWC only intervenes in certain circumstances:**
    - Bargaining in good faith: aims to reform conduct of negotiations → if not, FWC can make legally binding orders
    - Compulsory dispute settlement terms: FWA requires all agreements to include a term about any possible disputes → if cannot resolve, the must refer to a 3rd party
    - Resolving industrial action: permitted during enterprise bargaining

**ARGUMENTS FOR AND AGAINST THE USE OF CENTRALISED, DECENTRALISED AND INDIVIDUALISED METHODS OF DETERMINING EMPLOYMENT CONTRACTS**
- **Centralised labour market**: wages + working conditions are determined by a government
  - Advantages:
    - Comparative wage justice w/ regular adjustments → protects low income earners + low bargaining power
    - Wage justice: differences in wages between different sectors of the economy
    - Created certainty for wage earners
  - Disadvantages:
    - Institutionalisation of wage indexation = inflation + wage price spiral → ignored productivity improvements as a wage-fixing principle
    - Wages \( \uparrow \) = costs of production \( \uparrow \) = prices \( \uparrow \) to maintain profits = workers ask for increased wages
    - Increased wage expectations → unions make unrealistic claims → ‘leap frogging’
    - If one union gets a wage increase for workers, other unions increase their claims
- **Decentralised labour market**: wages + working conditions are negotiated at the level of individual industries or workplaces through enterprise bargaining
  - Ensures flexibility + productivity, and wage levels can change between different firms and industries
  - Advantages:
    - More efficient allocation of resources + structural change
    - Efficient firms attract higher skilled workers
    - Encourages labour to move to efficient firms + industries that have the capacity to pay
    - Increased productivity → reward = incentive
    - Lower unemployment
  - Disadvantages:
    - Greater inequality through increased ‘wage dispersion’
      - Workers doing the same job in different industries may receive different pay + working conditions
      - Industries where unions have little power are less likely to get wage increases
    - Vulnerable to wage-push inflation
      - When EG is strong and labour market is close to full employment
      - Employees can use bargaining power to demand substantial wage rises = inflationary spiral
MARKET REGULATIONS
NATIONAL AND GLOBAL CONTEXT FOR ENVIRONMENTAL MANAGEMENT:
CHAPTER 18 SUMMARY:
ECONOMICS
EDUCATION, TRAINING AND EMPLOYMENT PROGRAMS
- Education + training increase productivity
- 2015-16: $31.8 bn by Department of Education → schools, tertiary education, vocational training, student assistance
  - Higher Education Loan Programme (HELP): more student loans
  - Growing Jobs + Small Business package: $1.48 bn to vocational training
- 2014-15 Budget:
  - Decrease in funding for higher education – reduction in Gov subsidies
  - Expenditure on vocational and industry training to rise 1.1% between 2013-14 and 2014-15
- Survey of Adult Skills (2015): OECD → ¼ of workers report a mismatch b/w their skills and those required (structural UE)
  - Concluded that Gov policies have a significant influence on the size of the skills mismatch in the economy
LABOUR MARKET PROGRAMS
- To address supply-side UE e.g. frictional, structural + long term UE → attempt to reduce NAIRU by increasing skills and employment opportunities of the UE
- Intended to reduce incentive for people to stay on welfare rather than find work, increase WF PR
  - Aus is at the beginning of a long term decline in WF participation b/c ageing pop
- Jobactive: matching unemployed to job vacancies and giving them adequate training (est. 2015)
  - Paid based on their success of placing people in jobs and the length they stay for
- Recent measures to increase WF participation:
  - Increased restrictions on Gov benefits → incentive to move off welfare
  - Increased wage subsidies for those at risk of long term UE → young workers or 50+ → 2015-16 $1.2 billion
  - Allowing those on benefits to earn from 1+ part time job before phasing out benefits
  - Paid parental leave (2011) + increased childcare subsidies → targets women
RESULTS OF DECENTRALISATION:
- Wages growth and inflation:
  - Average weekly earnings grew by 4% between 1997-2015
  - Flexibility = wage rises in specific areas without becoming across the board increases → e.g. mining industry
- Work practices and productivity:
  - Enterprise bargaining = link b/w productivity + wage rises
  - 1990s: best productivity growth → 2.1% p.a. → 1.5% in 2013-14
- Unemployment:
  - UE 1% under OECD average = 15/33 in OECD – despite min. wage levels being higher than many other countries
  - Greater flexibility to adjust to variations in the business cycle e.g. GFC
    - Controlled through reducing hours or reducing wage increases, avoiding UE
- Income inequality:
  - Decentralisation = increase in degree of wage dispersion
    - Greater skills + powerful trade unions = larger wage increases
    - Lower skills + weak bargaining position = smaller wage adjustments
  - 2008-14: real minimum wages grew by 1.5%
PRODUCTIVITY COMMISSION REPORT 2015:
- Australia has been successful in modernising the labour market
- The current workplace relations framework has been effective in increasing efficiency and productivity
- Provided a more favourable climate for work practices and employment

CHAPTER 18 SUMMARY: EFFECTIVENESS AND LIMITATIONS OF ECONOMIC POLICY
NATIONAL AND GLOBAL CONTEXT FOR ENVIRONMENTAL MANAGEMENT:
REGULATIONS
- May prevent a person from doing something that causes environmental damage or can specify how a G/S is used
- Federal:
  - Environmental Protection and Biodiversity Act (1999) → framework for protection and management of matters of national environmental significance
    - Climate change, waterways, chemical and hazardous wastes, whaling, ozone protection, wetland, biodiversity, threatened species, national parks, ESD
  - Fuel Quality Standards Act 2000 → to reduce pollutants that may cause environmental damage + health problems
- State:
  - NSW Department of Environment, Climate Change and Water
MARKET-BASED POLICIES
- Financial incentives and disincentives (e.g. subsidies, tax) to influence behaviour of individuals and firms
  - Many environmental problems arise b/c market failure → externalities
  - Government prefers tax over subsidies b/c it raises revenue
    - Product Stewardship for Oil Program → 5 cent per litre levy on new oil to fund recycling of old oil
    - Solar Towns Programme → committed $2.1m from 2014-17 to subsidise installation of renewable energy systems e.g. solar on existing community buildings
ECONOMICS

Examples:
- Pollution charges
- Licenses
- Emissions permits system (trading/carbon marketable)
- Tradable fishing quotas
- Incentives as rebates for recycling
- Educational campaigns

TARGETS

- For environmental sustainability \(\rightarrow\) guided by a combination of what is acceptable or sustainable for the environment and what is achievable from an economic perspective
- Renewable Energy Target \(\rightarrow\) 20% of Aus’s electricity from renewable energy sources by 2020
- Emissions Reduction Target \(\rightarrow\) 26-28% of 2005 levels by 2030

INTERNATIONAL AGREEMENTS

- Successful environmental management policies require global cooperation
- 1987 UN Montreal Protocol \(\rightarrow\) members to limit CFC emissions to protect the ozone layer
- UN World Heritage Convention \(\rightarrow\) to protect World Heritage areas
- UN Kyoto Protocol \(\rightarrow\) to limit carbon emissions (2007 ratified)
  - Reduce average emissions to 5% below 1990 levels in 2008-12
- UN Framework Convention on Climate Change (UNFCCC) \(\rightarrow\) extended Kyoto to a 2nd commitment period
  - 18% below 1990 levels between 2013-20
  - Members committed to confine an increase in global temperature to below 2 degrees C

LIMITATIONS OF ECONOMIC POLICIES

TIME LAGS
- Implementation lag: gathering the information, making decision, implementing the policy decisions
- Impact lag: initial change in autonomous expenditure
- Fiscal: medium implementation, quick impact
- Monetary: quick implementation, medium impact (6-18 months)
- Micro: long term implementation, long term impact (up to 20 years)

GLOBAL INFLUENCES

- State of the world economy has a major impact on the Australian economy
- World IR, world commodity prices, state of the US and Asian economies
- Greater integration = volatility
- Trade agreements: we give up some freedom in policy making to gain concessions from other nations
- Exchange rates can place high priority on maintaining confidence on international investors
- International organisations \(\rightarrow\) e.g. G8 has unofficially coordinated macro policy settings

POLITICAL CONSTRAINTS

- Political and legal system can limit long run economic policies
- Politicians will often have short run policies to make then popular rather than more controversial long run ones

POLICY RESPONSES AND THEIR EFFECTS IN DEALING WITH THE ECONOMIC OBJECTIVES

ECONOMIC GROWTH AND QUALITY OF LIFE

- 25 years of consecutive economic growth
- 1990-93: expansionary MP \(\rightarrow\) 15 cuts in IR \(\rightarrow\) recession
- 1992-93: productivity growth very strong \(\rightarrow\) 5% \(\rightarrow\) effects of MER
- 1995-2000: EG averaged 3.8% p.a. (OECD average 2.5%)
- 2004-05: approaching full employment \(\rightarrow\) growth to 2.7%
- 2008-09: 1.3% \(\rightarrow\) OECD GDP fell to -3% \(\rightarrow\) GFC
  - Fiscal stimulus
  - MP: loosening \(\rightarrow\) Aug 2008 7.25% to April 2009 3% \(\rightarrow\) aggressive 1% cuts
- 2011: mining boom = tightening of MP to 4.25%
- 2016: sluggish growth = loose MP \(\rightarrow\) 1.5% Aug 2016-08-26

FULL EMPLOYMENT

- 1991: recession = UE peaked at 11%
- Macro policies are inadequate to bring UE down \(\rightarrow\) more emphasis on direct labour market reforms
- Workplace Relations Act 1996: emphasis on enterprise bargaining + more education and training
- 2008-09: UE reached 5.8% = lower than OECD of 6.9%
  - Expansionary MP and FP
- Biggest trend is increase of males in part time jobs \(\rightarrow\) grown 11% in the last year
- 2016: 5.6% = below NAIRU

PRICE STABILITY

- 1998-2013: successful management of inflation \(\rightarrow\) average 2.7%
- Inflation targeting introduced in 1993
ECONOMICS

- MER e.g. enterprise bargaining, National Competition Policy, cuts in protection all helped to reduce inflationary pressures
- Technological change and globalisation led to reduced costs and prices
- 2002-06: drought, higher housing prices, strong wages growth, higher oil prices
- 2016: inflation currently 1.3% = sluggish economy

EXTERNAL STABILITY

- Late 1990: CAD 3.8% of GDP = poor by OECD standards
- Reliance on overseas savings (Japan, Germany, Canada – all had CAD surpluses)
  - Added to stock of external debt = larger servicing costs, increased NPY
- 2003-08: debt and equity increased due to GRB
- 2007-08: CAD 6.5% of GDP → larger trade deficit and NPI
- 2008-12: investment increased, exports increased = strong TOT
- 2015: CAD was 4.6% of GDP

DISTRIBUTION OF INCOME

- More unequal in 1990s than 80s → esp. middle class
- Means tested welfare assistance and progressive tax have offset rise in inequality in 2000s
- 2000: new tax system → reduced tax burden on all income groups but esp. low and middle class
- 2008-09: Working Families Support Package → increase in child care tax rebate, new educational allowance, personal income tax cuts
- 2008: Transition to Fairness = strengthened Safety Net

ENVIRONMENTAL SUSTAINABILITY

- Regulations: above
- Market based policies: above
- International agreements: above
ECONOMICS

**GRAPHS:**

EFFECT OF AUTOMATIC STABILISERS (SMOOTHING FLUCTUATIONS):

MONETARY POLICY:

FISCAL POLICY OUTCOMES: