

## Policy conflicts in achieving Macroeconomic Aims

Microeconomic Aims	Macroeconomic Aims
Efficiency <ul style="list-style-type: none"> <li>Productive</li> <li>Allocative</li> </ul> Equity	EG <ul style="list-style-type: none"> <li>Low UnE</li> <li>Low inflation</li> </ul> Favourable BOP

Factors affecting policy choices:

### (1) Priorities

- Want high spd EG → accept envn degradation, depletion of resource, -ve ext
- Want low infln → accept lower EG and higher UnE
- Want significantly lower UnE → accept higher infln and current account deficit

### (2) Government's economic philosophy

Advocate free mkt or govt intervention

Together, causes differences in policies adopted and extent of government intervention.

## Importance of 4 Macroeconomic Aims

Price Stability	Sustainable and Inclusive EG
<p><b>Pre-requisite</b> for other economic goals</p> <ul style="list-style-type: none"> <li>- <b>Increase investment</b> as stable prices means assets prices won't be eroded by unanticipated infln → more certainty on ROI → more confident to invest → EG and improve productive capacity (<b>potential growth</b>)</li> <li>- <b>Minimises resource wastage</b> as price of g/s which is important signal for efficient resource allocation not distorted by infln</li> <li>- <b>Improves BOP relative to ctries with higher inflation rate and employment in X related industries</b> through reduction in M expd and increase in X revenue</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Improves material SOL</b> as growing economy means more g/s (of better qly) for consumpn, if popn growth less than EG</li> <li>- <b>Lower UnE</b></li> <li>- <b>Improve government finances</b> as higher Em and incomes increase tax revenue, allowing government to fund efforts to reduce income inequality through education subsidies (<b>inclusive growth</b>) and environmental protection (<b>sustainable growth</b>)</li> <li>- <b>Potential growth curbs DD pull infln</b></li> <li>- <b>Sustained growth ensures scarcity is not worsened for future generation</b> when resources are not depleted too quickly for EG</li> </ul>
Low UnE	Favourable BOP
<ul style="list-style-type: none"> <li>- <b>Reduce financial strain on govt</b> to support UnE and <b>allows funds to be put to productive use</b></li> <li>- <b>Reduce poverty and social tension</b></li> </ul>	<ul style="list-style-type: none"> <li>- <b>Prevent FR from being drained</b></li> <li>- <b>Prevent incurring foreign debt and future reduction in living standards</b></li> <li>- <b>Prevent fall in exchange rate which will be undesirable for import reliant ctries</b></li> </ul>

## Types of Policy Conflicts

DD mgmt policies tend to result in **greater trade-offs in SR**

SS policies are preferable for **medium to long term approach**

### EG vs Price Stability

Aiming for EG and low UnE may lead to **inflationary pressures** → firms must bid higher prices for scarce resource like labour and rent, especially if economy is near Yf

Aiming for low inflation may lead to **lower EG and higher UnE**

### EG vs External Stability

Aiming for EG may lead to **balance of trade deficit and its -ve consequences** (e.g. depreciation of DC) → rising incomes translate to higher DD for M → current account deficit if exports don't rise sufficiently

Effects are uncertain: strong growth → attract FDI → improve financial account → off set deficit in current account

### EG vs Employment

Aiming for EG usually allows for low UnE

Aiming for EG through **greater use of technology** may lead to **higher structural UnE**

→ unable to acquire relevant skills fast enough to move to new jobs

→ not enough newly created jobs

→ policies that increase labour cost → force labour intensive industries to relocate to whr labour cost lower → UnE

Aiming for EG through **expansion of certain (high growth) industries** may cause gains in employment to be **unevenly distributed amongst industries**

→ efforts to offer some industries tax incentives → promote growth and employment

→ sectors losing comparative advantage → job losses

Aiming for EG by **making economy more open** may lead to **higher UnE**

→ more competition → if firms unable to keep up to global competition → downsize/ cease operation → higher UnE

### EG vs Reducing Income Gap

Aiming for EG may lead to **widening income gap**

→ tax incentive given to firms to increase investment → increase AD (SR) and LRAS (LR) → fruits of growth concentrated in hands of a few rich capital owners who have means to undertake investment, not divided evenly among popn

→ more able and enterprising segment of popn → more likely to possess skills to take on growing industries → enjoy higher income VS those lacking skills and qualification → forced to take lower paying jobs or become structurally UnE

### EG vs SOL

Aiming for EG may lead to **lower non-material SOL**

→ growth from longer working hours

→ growth → higher lvl of production → higher level of externalities esp if no measures to internalise cost to producers → more pollution

→ rising Y → encourage consumption of gds like cars, electrical appliances → higher level of negative externalities → exacerbate congestion, pollution, global warming