TOPIC 1

CASE STUDY✓

Evaluate the effectiveness of strategies used by an economy OTHER THAN AUSTRALIA for economic growth and economic development

Section I - open door

- "Open door policy" - 1978 → establishment of Economic Zones (SEZs)
- Rationale: Attract enterprises through a range of incentives
- Low tax rates from 24% to 15%
- Exemption from import duties
- Cheap labour and less strict government regulations
- SEZs established on the Southern and Eastern coastal areas, in close proximity to Taiwan and Hong Kong (financial centers, large investors into China) → zones brought increased foreign investment and increase in TNCs operating in China
- However SEZs worsened inequality and the environment.
- Gini rose from 0.16 in 1978 to 0.49 in 2008 (severe)
- Lax environmental regulations also resulted in 11 of the 20 most polluted cities being located in China (2004)

Section II - Fixed exchange rate + FTAs

- Focus on RCEP (Biggest FTA in history)
- The Regional Comprehensive Economic Partnership will create a free trade zone covering about 30% of the world's gross domestic product, trade and population.
- RCEP – which has been over a decade in the making – will eliminate tariffs on 91% of goods as well as introduce rules on investment and intellectual property to promote free trade.
- A currency peg is a monetary policy that keeps the value of a currency low compared to other countries.
- To keep the yuan artificially low and support robust export activity, the People's Bank of China engages in currency purchases. In the 10 years from December 2004 to December 2014, the foreign exchange reserves (minus gold) owned by China's central bank surged from roughly $600 billion to $3.8 trillion
- Currency manipulation has helped China thrive as its economy has repeatedly experienced robust growth rates of more than 10% over the last 20 years.
- The Chinese yuan has had a currency peg since 1994.
- The effect of the peg and the low currency is that Chinese exports are cheaper and, therefore, more attractive compared to those of other nations.
- By exporting more goods, China's economy thrives.

Section III - covid recovery (infrastructure perhaps)

- COVID-19 is a major cyclical downturn in the IBC → China responds with a stimulus package
- 1.2 trillion yuan liquidity injection by PBOC (People's bank of China) via OMOs at beginning of pandemic → increase money supply → lower cost of borrowing → increase consumption and investment → AD led growth
- Infrastructure stimulus: (May) China announced 500 billion USD stimulus on public infrastructure investment - 2 nuclear power plants and 46 new cross border E-Commerce zones, spending on social welfare and rural development
- Improving technical and dynamic efficiency in response to the rise of e-commerce in the global economy
- Supporting import and export industries, entrepreneurs and start-ups seeking to connect to the global economy
- Proving more loans to small and medium enterprises, agriculture industry + farmers - 500 billion Yuan initially allocated fro small business loans shortly after Wuhan lockdown was lifted
- helping with cash flow implications COVID-19 has had on firms → supporting lower income levels, domestic consumption and growth
- Very effective: considering China was epicentre of the pandemic, helped them recover from major downturn in IBC
- China didn't enter a technical recession → -7% growth in April 2020 to 3% in July
- 18.3% in March quarter 2021 - record-breaking

Discuss the effect of globalisation on economic growth and economic development for an economy OTHER THAN AUSTRALIA

INTERNATIONAL ORGANISATIONS

Kommentiert [1]: NEED FTAs

Discuss the contributions of international organisations and trade agreements to global economic growth and development

Intro

- Increasing role and presence of international organisations, trading blocs and forums as a result of globalisation
- G20 and G7 seek to promote macroeconomic policy coordination
- TWO and Trading Blocs (EU and USMCA) have substantially influenced trade flows
- IMF and World Bank have seemed to promote financial stability and economic development respectively, to continue the process of globalisation

Economic forums: G20/G7

- Economic forums for governments of advanced economies with the aims of coordinating policies and strengthening the international business cycle
- G7: representative of 47% of GWP, particularly focuses on financial management
- Cancelled an estimated $100 billion in multilateral debt, indirectly promoting efficient operation of financial systems and financial flows → increased integration
- G20: coordinate policy responses (similar to G7) during economic downturns like the GFC
- G20: Accounts for 80% of GWP
- At the Brisbane 2014 Summit, they planned to increase global growth by 2% but growth in 2015-16 was approximately 1%
- Therefore, there is a lack of effectiveness in coordinating a single global policy objective (don't consider regional conditions)
- Conflicting domestic policies are considered to weaken the international business cycle, high levels of foreign debt threaten external stability - and thus stability in an entire region - as indicated by the threatened collapse of the Eurozone due to the debt of economies such as Greece, Spain, Ireland and Italy (PIIGS → Portugal)
- Overall: Aims should facilitate globalisation but regional downturns have diminished effectiveness at strengthening the IBC

IMF

- Help facilitate free flow of capital through maintenance and supervision of the global financial system
- Established in 1945, able to assist with nations experiencing a balance of payments, or currency crisis - the IMF seeks to minimise the risk of financial contagion
- 2008: 70% of advanced economic volatility spread to emerging and developing economies within 3-4 months → integrated global economy
- IMF injected $250 billion as a means of increasing liquidity and assisting expansionary policy coordination → increased eco growth
- Helped increase recovery speed of many nations
- Continue globalisation through facilitating financial flows. Foreign exchange daily turnover is approximately $6.6 trillion in 2021 up from $4 trillion in 2020 and $1.4 trillion in 2004
- However, more recently they have been criticised due to the poor judgement regarding the European Sovereign Debt Crisis
- Nations must adhere to the conditionality principle (adopt IMF approved policies). Often these are deregulation, privatisation and limited government intervention (could tie in Stigler)
- In recent years they have also included austerity measures such as budget deficits, increasing taxes etc.
- Whilst the aim is to promote growth and facilitate globalisation, in countries poor economic performance (eg. Greece) they dampen economic activity instead as they have to adopt contractionary stance to pay off debt
- Overall: Facilitated an expansion of the financial system and increased capital flows however, in some examples have worsened the performance of individual economies.

WTO

- The World Trade Organisation was established in 1995 - in response to the previous General Agreement on Tariffs and Trade. (GATT)
- Aims: enforce multilateral trade agreements and resolve trade disputes i.e foster globalisation through free trade
- In line with William Baumol 'contestability theory' - markets are able to operate and will operate more efficiently under the mere threat of competition (decrease prices and increase integration → increase output and AS → increase international competitiveness)
- Whilst the Uruguay Round of 1986 was successful as it increased global trade by an estimated 3% per year but more recently the WTO has been less successful in promoting globalisation through trade
- Doha Round of 2001 which seeks to improve the trade prospects of developing economies remains incomplete, illustrating ineffectiveness of WTO
- The costs of remaining protectionist barriers in advanced economies is estimated to $90 and $200 billion
- More recently, the WTO has had a greater role in resolving trade disputes between countries such as between Australia and China over anti-dumping measures on Barley and Wine
- Overall: Mixed effectiveness (pos and neg) → whilst they have help resolve trade disputes more could be done in facilitating greater integration particularly of developing economies

Trading Blocs - EU and USMCA

- Greater economic integration between countries leads to greater technological and mobility of labour. However, this strengthen regional business cycles rather than the IBC
- USMCA has been criticised for not facilitating trade creation. USMCA has reduced the ability of nations to achieve comparative advantage globally as they preferentially trade with member nations
- USMCA (replacement of NAFTA in July 2020). The agreements tightens country of origin rules (75% of components must be constructed in one of the three nations to be tariff free
- The EU and USMCA due to their exclusivity have also led to reduced integration of developing economies, dampening the effects of globalisation
- Common agriculture policy: 36% of EU budget in 2019 and 20% of farmers income
- Impact of EU protectionist policies - Panel A Panel B diagram
- Preventing economies from free trade restricts the process of globalisation and reduced the effectiveness of trading blocs as well as leads to misallocation of resources → lower trade revenue for developing economies → lower their ability to partake in global economy facilitate greater integration between members however, don't necessarily achieve global integrate and thus don't increased globalisation

TOPIC 2

Balance of Payments

Assess the importance of factors that determine the size and composition of Australia's Balance of Payments

Section I - Historic Narrow export base and low productivity (structural)

Paragraph 1

- Lack of international competitiveness in manufacturing → import capital goods to fund capital intensive industries
- Low productivity and thus higher real unit labour costs
    - 0.83% in 2015-20 which is almost below average, 0.5% to 3.5%
    - Highest minimum wage in the OECD countries and 2nd highest in the world at $20.33
- Leads to worsen BOGS - historic average of -1% since 1990

Paragraph 2

- Narrow export base → high reliance on low-value added goods and services → low export revenue
- K - intensive industries require a lot of manufactured machinery to be imported
    - Mining was 40% of trade flows composition in 1989-90 and increased to 60% in 2018-19
    - Manufacturing decreased from 14% in 1989-90 to 9% in 2018-19
- Worsen BOGS

Section II - Low savings ratio (structural)

Paragraph 3

- Historically, Australia's household savings ratio have been low, 3.5-3.9% in 2017-18 compared to 11.6-12% in 2020-21
- Along with a small population leads to a smaller domestic savings pool and thus a savings-investment gap, causing firms to borrow from overseas,
- Increasing the FDI inflows and thus induced servicing costs and NPY debits and CAD, seen in stimulus 2 from 1990 to 2018, average NPY account was at -3% of GDP

Paragraph 4

- Conversely, 2019 saw savings ratios rise to 6.1% and a further to 7.9% in January of 2020. The onset of COVID would then see household ratios increase to 22% in July, contributing to the decrease in overseas borrowing and thus induced NPY debits, causing the current account to enter a greater surplus.

Section III - Depreciation of dollar on BOGS (cyclical)

Paragraph 5

- Short run J-curve
- 2013-16 → depreciation (1.04 → 0.7)
- As volume stays the same → from 2013-14 to 2014-15 → lost of $12 billion (331 → 319 bn) decrease again in 2015-16 by $5 billion in export revenue

- Terms of trade
    - 2013-14: 104.6 (deterioration)
    - 2014-15: 92.8 (deterioration)
    - 2015-16: 87.9 (deterioration
- Leads to BOGS worsen to -30bn in 2016

Paragraph 6

- Long run J-curve
- 2016-18 → appreciation (0.7 → 0.8)
- As volume increases → from 2015-16 to 2016-17 → increase of 59.8 billion (314 → 373.8 bn) increase again in 2017-18 and 2018-19 to 470.2 bn.
- Leads to BOGS improvement to 10.9 in 2017 and 48.8 in 2019

<u>Section IV - Depreciation of dollar on NPY (cyclical)</u>

Paragraph 7

- Increased Investments into Australia
    - Investments increased to $3.27 trillion in 2017
    - Increased to $3.51 trillion in 2018
- Depreciated from 0.78 to 0.71
- Less expensive to invest in Australia → increase foreign investment → increase financial inflow → worsen CAD
- CAD was 2.6% of GDP in 2017 up from 1.7% in 2016 and NFD was 57.1% up from 56.9% in 2016

Paragraph 8

- Increase in interest servicing costs on foreign debt → Australians buy less foreign currency with domestic currency with which to pay interest → increase in income outflow → increases CAD
- Valuation effect
    - Value of Australian-owned foreign assets → liabilities decrease in value
    - Negated by hedging [Chinese investors choosing to be paid back in AUD and not Chinese currency]
    - 95% of Australian debt is hedged against AUD

<u>Section V - Global growth rates on BOGS (cyclical)</u>

Paragraph 9

- Low growth → low disposable income → low import spending → low export rev
- COVID contracted most economies
- To stimulate their economy, China increased their demand for iron ore, increasing Australia's export revenue by $1.8bn or 6%
- Caused BOGS to further increase its surplus to 2.5% GDP
- Terms of trade improved from 95.2 in January 2020 to 114 in January 2021

<u>Section VI - Global growth rates on NPY (cyclical)</u>

Paragraph 10

- Low global growth rates led to decrease financial flows as profits decrease
- Also investor uncertainty
- Contributed to fall in FDIs, and thus less NPY debits, causing further CAS

- Low global and domestic interest rates
    - Cash rate cut twice in 2020, from 0.75% to 0.25% in March and then 0.1% in November
- Less direct investments, more portfolio investments
- Foreign investment decreased by 1.6% according to department of foreign affairs and trade in 2020
- Contributed to CAS of 2.5% in 2021

Exchange Rate

Describe the factors that cause an appreciation of the Australian dollar, and analyse the impacts of a sustained appreciation on internal stability

Intro

1. AUD floated in 1983 → value determined by supply and demand
2. Outline factors
3. Outline impacts on internal stability (growth, price stability and FE)

Section I - Factors on Demand of AUD

1. Increase in export demand, tends to be a response to shocks in IBC (ie. upswings in IBC → increase export revenue for Australia)
    a. In 2021, with sudden rise in demand for iron ore (due to China's COVID-19 recovery and its infrastructural focus → need commodities)
    b. As of June 2021, ToT has increased by 14% since mid-2020
2. Increase in demand for Australian assets (higher return on investment)
    a. MB2 in 2011, AUD apprec. to 1.10USD

Section II - Other factors

1. AUD is a commodity currency. Value is directly related to the changes in demand for export commodities or investments into commodities industries.
2. Changes in monetary policy: if we have +ve i/r diff.
    a. D_{AUD} increases and S_{AUD} decreases → appr.
    b. Seen during MB1: strong Aus growth → demand-pull inflationary pressures, 5% in 2008 → contractionary MP
    c. Cash rate from 5% in 2003 to 7.25% in 2008
    d. AUD appreciates from 0.6 in 2001 to 0.98USD
3. Future exchange rate expectations
    a. 95% of trading for AUd is speculative in nature

Section III - appreciation on growth

1. In the ST, an appreciation can benefit growth
    a. Appreciation → value of X increases → increase AD
2. However when it is sustained (as it is an automatic stabiliser)
    a. Volume change in long term → decrease international competitiveness
    b. Appreciation also bolsters the purchasing power of Austrealains when it comes to foreign goods → M increases and exports decreases → reduces AD

i. During last sustained appreciation (MB1 in 200s), Australia had strong imports (indicated by negative BOGS) but still saw strong growth
ii. Because theoretical impact only happens under ceteris paribus
iii. Our commodity exports are price inelastic (Marshall-lerner condition) → offsets any negative impacts X and M could have on St growth
iv. For price elastic industries such as services, revenue decreased by 12% in 2007-12

c. Cost of purchasing assets could increase → lowering investment → decrease AD
i. However since appreciation could be indicative of strong growth → investment could potentially continue → seen during MB1 when KAFA peaked at 6.7% of of GDP in 2008

Section IV - appreciation on full employment

1. Sustained appreciation can bear implications for unemployment within the economy, since it can affect employment within X-facing, price elastic industries
   a. Appreciation → decrease international competitiveness → decreased demand for exports → decrease demand for labour in export industries (derived demand)
   b. Strong AUD performance (0.98 before GFC) and 4% u/e in 2008 → .5.2% u/e in 2011-12

Section V - appreciation on price stability

1. Sustained appreciation can create deflationary pressures, maintaining price stability
2. Appreciation → lower imported inflation, also means costs of imported inputs can decrease (80% of Australian firms import inputs)
3. Appreciation → lower growth → lower inflation
4. Appreciation → increase u/e → lower inflation

Protection

Kommentiert [2]: NEED TO ADD MORE IMPACTS

Evaluate the impact of domestic and global protectionist policies on the Australian economy

Intro

- Define - Free trade is the situation when there are no government imposed artificial barriers that restrict the free exchange of goods and services between countries.
- There has been a global movement towards free trade in recent decades such as cutting of tariffs, removal of subsidies and signings of bilateral free trade agreements.
- Define - Whereas protection refers to any government policy that gives local producers an artificial advantage over foreign producers.
- Despite the global movement towards free trade, notable protectionist policies still exist in the global economy such as EU's CAP, the recent imposition of tariffs in the US-China and Aus-China trade wars as well as smaller protectionist policies domestically, such as local content rules and export incentives still exist.

Overview Rationale

- Hawke Government's decision to exempt the PMV and TCF industry from reduction in nationwide tariffs to 5% in the 1988 and 1991 Industry Statements arose from the belief that these infant industries could eventually compete on a global basis
- Tariff diagram
- Benefits: protect infant industries and government revenue
- Costs: loss of technical efficiency, decreased international competitiveness, inflation
- Violation of Comparative Advantage (Ricardo 1817)
- Decrease in growth an increased unemployment
- "Deadweight loss" on tariff diagram
- Productivity Commission's estimate that an increase in global tariffs by 15% would decrease Australia's GDP by 1%, resulting in 100,000 lost jobs and reduced median household incomes by $1500 per annum.
- Conversely, it estimated that abolishing tariffs on manufactured goods would decrease input costs for services by $4.7b and mining by $217m.
- Link to export revenue and economic growth

Protectionist policies

- EU's Common Agricultural Policy, a subsidy that takes up 38% of its 158b euro budget and represents 21% of total farm income.
- Panel A B Diagram (rationale of subsidy and effect on global economy including Aus producers)
- Australia has the 2nd lowest level of agricultural subsidies amongst OECD countries, at just 2% of total farm income.

Trade War

- "largest trade war in economic history", with the US imposing a 10% tariff worth $200b on 6000 Chinese exports.
- China has retaliated with a $60b tariff, which has triggered another phase of US tariffs worth $267b that will cover all Chinese exports.
- Given the fact that China and the US are Australia's largest and 3rd largest two way trading partners respectively à generate flow on effects for Aus that will dampen demand for domestic exports.
- KPMG study estimated that this trade war would reduce Australia's economic growth by 0.3% over five years, or 0.5% if the US tariffs are escalated to 25% as planned.
- 2020 - China accused Australia of dumping → imposed tariffs on wine and barley 200% and 80%
- US imposed a $125 bn tariff on China's exports → decrease in export revenue for China → lower aggregate demand and growth.
- China's growth decreased from 6.8% to 6.4% from 2016-2018
- When China experiences lower growth, their derived demand for Australian exports will drop → decrease Australian outflows → worsening BOGS
- Australian economy experienced $36 billion decrease in mining and education exports

Aus Current Protectionist Policies (if question needs a Aus protectionist policy)

- local content rules and export incentives are the current main forms.

- 55% of television broadcast between 6am and midnight must be locally based. Promote: self- sufficiency whilst simultaneously maintaining a sense of cultural identity.
- One example of an export incentive is the $140m Export Market Development Grants scheme, which reimburses 4000 Australian businesses so as to facilitate the promotion of their exports on global markets.
- 2015 Review suggested that this small scale policy was effective and had resulted in a net economic benefit of between $1.55 and $7.03 for each dollar spent by boosting export revenue.

Free Trade ✓

Evaluate the impact of domestic movements towards free trade on the Australian economy

Intro

- Define - Free trade is the situation when there are no government imposed artificial barriers that restrict the free exchange of goods and services between countries.
- There has been a global movement towards free trade in recent decades such as cutting of tariffs, removal of subsidies and signings of bilateral free trade agreements.

Overview Rationale

- Hawke Government's decision to exempt the PMV and TCF industry from reduction in nationwide tariffs to 5% in the 1988 and 1991 Industry Statements arose from the belief that these infant industries could eventually compete on a global basis
- Tariff diagram
- Benefits: protect infant industries and government revenue
- Costs: loss of technical efficiency, decreased international competitiveness, inflation
- Violation of Comparative Advantage (Ricardo 1817)
- Decrease in growth an increased unemployment
- "Deadweight loss" on tariff diagram
- Productivity Commission's estimate that an increase in global tariffs by 15% would decrease Australia's GDP by 1%, resulting in 100,000 lost jobs and reduced median household incomes by $1500 per annum.
- Conversely, it estimated that abolishing tariffs on manufactured goods would decrease input costs for services by $4.7b and mining by $217m.
- Link to export revenue and economic growth

Trade Policies (benefits)

- Free trade is the movement of goods and services between economies with no artificial barriers.
- Whitlam Government's 25% 'across the board' tariff cut in 1973. Since then, Australia has transformed from a highly protectionist country with an average tariff level of 36% (1968-9) to one of the least protectionist - boasting an average tariff level of just 1.3% (2017) with a mere 5% tariff on TCF

- Joining of WTO, signing of bilateral and multilateral trade agreements emerging services industry, which has grown to represent 70% of GDP and 75% of total employment.
- Overall, the benefits of removing protectionist policies cannot be understated, with a DFAT report estimating that between 1988-2008, trade liberalisation has boosted economic growth by 3.4% and average household incomes by $3900 per annum.
- Free trade → lower prices and comparative advantage
- Comparative advantage → specialisation

Trade policies - Closure of PMV (cost)

- trade liberalisation has exposed Australian manufacturing to low-cost Asian competitors like China, Japan and South Korea
- despite $30b worth of tariff assistance between 1997 and 2012, Ford, Holden and Toyota have permanently closed due to high manufacturing costs, resulting in 50,000 jobs lost as structural unemployment.
- 'hollowing out' of Australian manufacturing, manufacturing currently represents just 7% of GDP, down from 15% in 1980.
- The higher budget deficit has placed strain on tax payers
- 'Dutch Disease'

ChAFTA

- Global shift towards greater free trade → increased employment opportunities in areas with comparative advantage (from specialisation)
- Trade agreements have led to trade totalling over $150 billion annually for the Australian economy
- 98% of exports and 95% of Chinese imports tariff free under this agreement
- Worth $180billion to the Australian economy and boost GDP by 0.25-5% per annum over 2015-2025
- Lower imported inflation
- ChAFTA will lead to a $47 billion increase in GDP and an increase in household consumption by $4,500.
- 80% of Australian firms receive input from overseas.
- Removed $13 billion worth of tariffs for agriculture and $85 billion worth of tariffs for mining

Assess the extent to which the move towards free trade restricts the Australian Government's ability to achieve its economic objectives of full employment, distribution of income and external stability.

<u>Introduction</u>

1. Define free trade
2. Signposting
    a. List out all key arguments
    b. Listing out impacts (+ve and -ve) on eco issues
    c. Don't explain any eco links
3. Link to stimulus

    a. Take quote + put in intro

Section I - Context for free trade

1. Why do we engage in free trade?
    a. Explain economic argument of comparative advantage
2. General trends
    a. 1972 Whitlam tariff cuts by 25% across the board (unilateral cut) - historical
    b. ChAFTA - enables 95% of Aust. Xs to enter the Chinese eco duty free - RECENT
    c. Removal of PMV subsidies - RECENT

Section II - Full Employment ST (-ve)

1. Define full employment
    a. 0 cyclical u/e but structural + frictional still exists
2. Theory of FT impact on full employment
    a. In the situation of FT, foreign competition is allowed to access domestic markets. As UE increase for inefficient industries, domestic industries begin to close down (manufacturing)
    b. Increase in manufacturing sector structural unemployment → downturn in ST growth → increase unemployment → decrease disposable income → decrease consumption → decrease aggregate demand → decrease demand for labour and increase unemployment
3. Judgement
    a. Since cyclical unemployment increase (along with structural unemployment), the goal of full employment is more difficult and thus hindered in the ST by movements to free trade

Section III - Full employment LT (+ve)

1. Theory
    a. In ST labour is displaced and growth decrease, worsens FE
    b. To account for increase structural unemployment, the government can implement 'labour retraining programs'
        i. 2019-20 budget, VET $525 million to the increase in upskill of the workforce → 200.2 million to fund 80,000 apprenticeships
    c. To account for increase cyclical unemployment, the government could enact countercyclical fiscal policy to increase aggregate demand
        i. Increase govt. Exp. or decrease taxation → increase net G → increase aggregate demand (state eqn) → increase demand for labour
    d. Overall NAIRU has decreased from a 7% estimate in 1996 to its current 4.5% estimate
2. Judgement
    a. Therefore the effect of FT on full employment in the LT depends on the "govt's ability to compensate the losers"

Section IV - DOI (-ve)

1. Define DOI
    a. Refers to the extent to which income is distributed equally in an economy
2. Theory (FT → DOI)

    a. More import spending in ST, which leads to decrease revenue for inefficient industries (eg. manufacturing) → “losses concentrated at this sector”
        i. If firms close down → structural u/e → decrease disposable income (tends to be lower skilled workers)
        ii. If firms manage to compete they will aim to cut costs → decrease wages (increase underemployment) → worsen DOI
    b. Gini coefficient rise from 0.311 in 1990 to 0.34 in 2008
3. Judgement
    a. In the ST, the DOI is worsened by free trade to a large extent

Section V - DOI (+ve)

1. Theory
    a. An increase in free trade will lead to a reallocation of resources which increase allocative efficiency → increase productivity and aggregate supply → decrease cost-push inflation → lower imported inflation due to lower tariffs
    b. As inflation decreases → the purchasing power of lower income earners improve proportionally → real waves aren’t falling as fast → improves DOI
    c. Governments can attempt to compensate losers through automatic stabilisers
        i. U/E benefits - increase disposable income with welfare → mitigates worsening DOI
        ii. Progressive income tax system - As wages decrease in inefficient industries, the MRT will also decrease
    d. Gini decreased from 0.34 to 0.32 from 2008 to 2016
    e. Inflation was averaging 8.1% in 1980s
    f. Inflation averaged 2% in 1990s.
2. Judgement
    a. The extent of improvement in DOI depends on the ability of govt’s to redistribute Y.

Section VI - External Stability

1. Definition
    a. External stability refers to the ability of the government to promote sustainability on our external accounts
2. Theory
    a. ST: importing spending increases → worsening BOGS (Xs haven't increased because of lack of resources)
    b. LT: increase in allocative efficiency
        i. Increase in X industry output
        ii. Increase in export revenue → improvement in BOGS
3. Judgement
    a. Overall improvement in CA as % of GDP

Section VII

1. Theory
    a. Free trade leads to specialisation → creates a narrow export base
    b. This creates potential for a ToT collapse
        i. During GFC, the ToT crashed by 21% (because of a decline in mining)

c. Specialisation in K-intensive industries leads to increase in import debits → worsens BOGS + CA
    i. Creates an increase in FDI inflows → NPY averaged 2-3% in last 2 decades

Trade and Financial Flows (N.D)

Discuss the factors that influence the value, direction and composition of Australia's trade and financial flows

TOPIC 3

Economic Growth

Analyse the changing sources of economic growth and their effects on the Australian economy. Evaluate the policies available to the government to control economic growth.

Section I - Short term economic upswing

- Changes in aggregate demand are caused by the business cycle. (use diagram)
    - In an upswing → increased consumer confidence as there is a strong economic outlook → increased consumer spending → increased demand for goods and services → demand-pull inflation as AS stays constant → investments increase due to higher economic activity → increased aggregate demand → high economic growth
    - Contractionary and tightening of fiscal and monetary policy will follow as to lower inflation.
- Mining boom 2 statistics
    - GDP growth: 1.9% in 2010-11 to 4.3% in 2011-12
    - Australian dollar peaked at US$1.11 in July 2011
    - Unemployment at 5.2% as only the mining industry received benefits of the increase in exports which had a negative impact on other industries such as PMV as there was a decrease in international competitiveness.
    - Inflation was at 3.6% in 2010-11 but dropped to 1.2% in 2011-12, lower imported inflation for headline.
        - Underlying inflation was at 2.7%
    - Gini Coefficient at 0.32, improvement as previous years were 0.329 and 0.336
    - Introduction of the carbon tax the following year → $23/tonne on businesses emitting larger than 25,000t carbon emissions. → raised $27.4bn revenue over 3 years → increased CPI by 0.7%

Section II - Short term economic downswing

- Changes in aggregate demand are caused by the business cycle.
    - In a downswing → decreased consumer confidence as there is a weak economic outlook → decreased consumer spending → higher saving ratios → decreased demand for goods and services → lower demand-pull inflation → investments decrease due to low economic activity and high uncertainty → decreased aggregate demand → lower economic growth
    - Expansionary and loosening of fiscal and monetary policy will follow as to increase inflation
- COVID-19 statistics
    - Economy shrunk by 7% (-7% GDP in first half of 2020), however less severe compared to other OECD countries, far exceeded contractions in the economy during previous recessions (-3.7% in 1980s and -1.4% in early 1990s)
    - AUD dropped to 0.58 in March of 2020
    - Unemployment peaked at 7.4%
    - Australia had experienced deflation by in June (-0.3%), inflation was at 1.3% falling by 1.9% after childcare was made free.
    - Effects on distribution and environmental sustainability are not yet determined.
    - Largest macroeconomic policy intervention in Australian economic history, costing the budget $289 billion in measures by mid 2020 leading to the largest ever deficit.
    - JobKeeper was initially a $70 billion program that subsidised wages ($1500 per fortnight per employee whose turnover had fallen by 30% or more due to COVID) however the program was extended for another 6 months
    - The government also increased unemployment benefits in the form of doubling fortnightly payments and handing out tax-free cash payments between $20,000 to $100,000 to eligible small and medium businesses.
    - Economists believe that without the intervention of government spending, economic activity would have decreased to the point of bankruptcies and unemployment and a significant fall in investments and consumption.

Section III - Long term economic growth

- Microeconomic changes in the labour market in the form of regulations
    - As aggregate supply increases → output and economic growth increases
    - Aggregate supply is determined by the quantity and quality of the factors of production and is constrained by shortage of skilled labour and the limitations of transport infrastructure
- The Workplace Relations Act 1996
    - Shift towards enterprise bargaining and common law contracts
    - Pay increases tied to productivity □ rewarded for efficiency □ strive to work harder and longer □ boost productivity □ increase AS
- Increase in AS diagram and explain
- Consequences:
    - Incentivises workers to acquire new skills □ more highly skilled workers are more productive and efficient □ increase output □ increase economic growth

        - More quality labour force
        - Also lowers unemployment if workers have up-to-date skills
- Microeconomic changes in the market in the form of protection and deregulation in financial markets
    - Trade liberalisation and deregulation resulted in a more competitive marketplace, improving the overall efficiency of the economy.
    - Increases investment (overseas and domestic)
- Microeconomic changes in the market in the form of increasing skilled migration intake
    - Howard Government → increased migration from migration program
- Microeconomic changes in the market in the form of increasing retirement age
    - 2017-2023 they increased retirement from 65 to 67
- Microeconomic changes in the market in the form of investing heavily into education and training
- Can talk about influx of FDIs and Fair work Act 2009

Unemployment (N.D)

Analyse the causes of unemployment and discuss the social and economic effects created by unemployment. Evaluate the policies available to control the level of unemployment in the Australian economy.

Inflation (R.D)

Analyse the causes of inflation and discuss the effects of inflation on the Australian economy. Evaluate the policies available to control the level of inflation in the Australian economy.

<u>Section I - Causes</u>
Para 1: Demand-pull
- MB2
- Economic growth - 3.4% from 2.7% in 2010-11
- Underlying inflation at 4.7% up from 2.7%

Para 2: Cost-push
- Cyclone Yasi
- $300m hit to agricultural production (banana and sugarcane crops)
- Queensland provides 90% of bananas
- Banana prices were $12/kg
- 75% of banana crops destroyed
- Inflation rose to 3.3% in 2011

Para 3: Imported Inflation
- 2016-17
- AUD fell from 0.76 → 0.72
- Inflation rose from 1.28% → 1.95%

<u>Section II - Effects</u>

Para 1: Worsen CAD
- Inflation was at 2.51% in 2014-15, average inflation 2014-2020 is 1.61%
- CAD was -5.4% of GDP in 2015, up from -3.1%

Para 2: Unemployment
- Inflation at 2.51% high contributed to 6.4% unemployment that year

Para 3: Worsens income inequality
- Inflation (2008-2015): 4.4% → 1.51%
- Gini coefficient: 0.34 in 2008 to 0.32 in 2015

Para 4: Benefits of inflation
- Price stability
- Wage adjustments
- Not deflation

Section III - Policies

Para 1: Monetary Policy (mention how fiscal isn't useful in controlling inflation)
- 2016 - inflation hit 1% which is below 2-3%
- Cash rate fell to 1.5% and continued to fall
- Inflation rose to 2% in 2017
- 1991 started inflation targeting
- 1990: 7.33% inflation to 1994: 1.9% inflation, remains within 2-3% for the next decade

Para 2: Microeconomic (Reduction in protectionist barriers or linking wages to productivity)
- 1983-1984: Inflation dropped from 10.4% to 3.96% (reduction in protectionist barriers)
- 2009 - 2019: inflation 4.44% → 1.91% (enterprise agreements, fair work act)

Income and wealth distribution ✓

Explain the causes and effects of unequal distribution of income and wealth in Australia. Evaluate the policies available to control the distribution of income and wealth in the Australian economy.

Intro
1. Thesis/Answer to question: Though government policy is largely concerned with the economic aims of internal and external balance; in recent years, as inequality in both wealth and income has risen, there has been a shift towards prioritising a more equitable DOI
2. Outline main points
3. Stimulus inclusion

Section I - Theory
1. Income is a flow concept; rewards flowing from factors of production; primarily wages and are incurred over a period of time; wealth refers to the collective stock and value of assets an individual owns at any given point in time.
2. Higher incomes allow an individual to invest in income-producing assets - thus allowing for a greater future accumulation of wealth

3. Similarly, higher wealth allows for individuals to reap greater rewards, thus allowing them to build income - which can be used to produce future wealth
4. This cycle of income-wealth accumulation may become a problem as nations experiencing high periods of growth will find that rewards are not distributed evenly
5. As Thomas Piketty claimed; the rewards on capital are greater than those on wealth, meaning that even in a recessionary period, or periods of low growth - those individuals with accumulated wealth are better off, more advantaged

Section II - Incentive Effect (+ve)

1. Incentive for low income earners to take actions to earn a higher income and consequently generate wealth
2. In a more decentralised wage system, wages are tied to productivity so workers may upskill to improve the productivity and earn a higher wage
3. Leads to increased productivity, hours worked, risk taking, education, labour mobility etc.
4. Increases AS and hence long term growth

Section III - Higher savings (+ve)

1. Higher income earners have a higher MPS
2. With inequality in line with Piketty's thinking), higher income earners hold more of the total savings (particularly due to the return on capital) leading to a higher national savings
3. For Australia, this reduces Australia's reliance on foreign capital for our capital intensive industries (mining)
4. Reducing international borrowing will improve NFD and external stability whilst the increase in national savings will lead to greater improvements in growth and standards of living.

Section IV - increased spending on welfare and increase tax burden (-ve)

1. If inequality increases there is greater need for government to provide social welfare payments
2. This increases the relative taxation burden on high income earners as well as pressure on government expenditure. In an attempt to minimise inequality, it may be at the expense of prioritising other economic objectives.
3. Eg. COVID-19 stimulus packages → detriment external stability

Section V - Reduction in consumption (-ve)

1. Low income earners have a higher MPC than high income earners. Increased income inequality means a lower capacity of low income earners to consume as much as they have lower relative incomes
2. Consumption makes up approx. 60% of AD in Australia.
3. Further, high income earners are more likely to save, which is a leakage
4. This causes a fall in net consumption and will decrease aggregate demand and hence reduce ST growth
5. Link to Keynesian theory here
    a. Strong Y necessary to increase consumption and hence drive growth through demand.

Section VI - Policies for income inequality

1. Functioning as a counter-cyclical, non-discretionary component of the government budget - the interaction of the progressive taxation system, and system of welfare payments redistributes income from higher income earns to low
2. The implementation of these automatic stabilisers is highly effective in shifting the Lorentz curve closer to equality, with an estimated decrease in the GINI coefficient of income from 0.66 to 0.33 (like 2019 maybe??? Idfk, make it up)
3. The United Nations' warning level for when an economy's income inequality poses a greater risk is 0.4, and thus, the system is used, and constantly in force by the government is significantly effective in reducing and minimising the severity of income inequality. Though still somewhat higher than most OECD nations, above the 2017 average of 0.32, Australia's income inequality (0.325) is still below UN warning level
4. To help reduce inequality, the government increased the tax free threshold from $6000 to $18200 in the 2011-12 budget, immediately allowing a greater proportion of low-income earners to retain disposable income, gini 0.336 in 2007-08
5. 2018/19 budget introduced LMITO payments ,which then increased in 2019/20 budget from $530 to $1080 (retained in 2021/22 budget). This should boost consumption and have one-off multiplied effect on economy
6. However in the long run, as the tax changes to a flatter-less progressive tax system, the Gini coefficient will rise .
    a. All individuals earning between $45,001 and $200,000 will pay 30% tax rate
    b. 90% of population paying the same rate
7. Minimum wage

<u>Section VII - Policies for wealth inequality</u>

1. However, the DOW within the Aus. Eco. is less easily addressed by govt. Policy.
2. In 2014, the wealthiest households in Aus. accounted for 61% of total household net worth, the poorest 20% had 1%
3. Compulsory superannuation of 9.5%, gradual/progressive increasing to 12% in 2025
4. Under 2017-18 budget, first home-buyers are able to withdraw funds in order to purchase property. As these reforms make it easier to accumulate wealth, they are implemented in an attempt to improve both DOI and DOW. However, it may be detrimental to them in the LT.
5. In 2020 stimulus packages, government announced individuals could access up to $10,000 in super this year and next. Will provide ST relief but bad in LT, decreased savings.

External stability (N.D)

Analyse the causes and effects of fluctuations in external stability in Australia. Evaluate the policies available to control external stability in the Australian economy.

Environmental Sustainability ✓

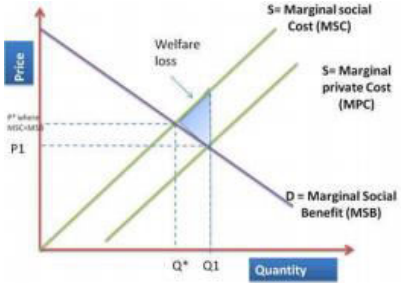
Discuss the economic concerns that the Australian government takes into account when formulating policies to manage the environment. Evaluate the effectiveness on the level of Australia's ecologically sustainable development.

Section I - Trade-off between the objectives

- Ecologically sustainable development is intrinsically tied to the principle of intergenerational equity – whereby resources are to be made available to multiple generations – and the pursuit of maximum short term economic growth does not make this possible.

Section II - Pollution and Negative Externalities

- Market failure occurs when the free market fails to allocate resources efficiently, leading to socially undesirable outcomes, since producers pay private production costs and neglect social costs
- Negative externalities: Excessive marginal social costs relative to marginal private costs result in an overproduction and overvaluation of goods generation of electricity via the burning of fossil fuels has a quantity of burned fossil fuels (Q1) greater than the socially optimal level (Q*), causing the private cost P1 to be lower than the social cost at P. The shaded area (welfare loss) illustrates the health problems associated with the burning of fossil fuels, such as climate change, which threaten long term economic growth and ecologically sustainable development



Section III - Climate Change

- Climate change, often as a result of burned fossil fuels and human activity, may damage long-term economic growth via higher emissions and greenhouse gases, depleting available resources for production.
- Failure to achieve intergenerational equity
- Such a concern was echoed by the 2006 Stern Report, arguing that climate change is "the greatest market failure ever seen", stating that a business-as-usual approach may lead to higher carbon emissions causing a temperature increase of 2-3 degrees within the next 50 years. As such, the business-as-usual approach is expected to reduce global GDP by 5% per year on conservative estimates as per the Stern Report, which may limit economic growth for Australia

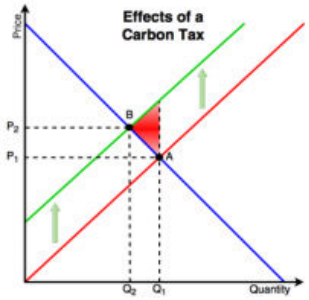
- Damage to GBR → key export and industry. GDP fall by 4.8% by 2100 due to climate change

Section IV - Resource depletion

- Link to ESD
- Maintaining a mining sector that accounts for 7% of national GDP and 50% of exports.
- Maintaining the environment and protecting renewable resources, in particular fish stocks, ensures that excess use does not lead to extinction and non-renewable resource use. TOC
- The Water Management Act of 2000 ensures that 10% of water runoff is within property to prevent the depletion of rivers, since water is an important input into the agricultural industry.

Section V - Pigou Tax

- 2012: $23/tonne for top 500 polluting firms
- Such a policy was expected to raise $27.4b in revenue over three years, using the revenue to fund transfer payments and benefit lower income earners.
- Internalise the negative externality and produce an optimal allocation of resources that improves society's welfare.
- As a result of this policy, emissions from firms affected by the tax were cut by 8.6% within the first 6 months of implementation, reducing pollution levels and improving environmental sustainability within Australia.
- Increased the increase in price to P2 as a result of the carbon tax so repealed in 2014.
- Government that caused a rising emission level, reaching 556.1m tonnes in 2018.
- Electricity as a factor of production raised in cost by 9.5%, which also deteriorated real incomes for households and thus deteriorated living standards for Australia



Section VI - Emissions trading scheme

- seeking to undermine the use of carbon in its entirety – eventually reducing the quantity, and charging such a high price that firms would have, essentially, no choice but to invest in alternative energy production.
- As Australia relies heavily on fossil fuels for production; the implementation of a scheme like this addresses the economic concern that lies within the native of production

methods. If the patterns of resource use and production could be changed, without directly imposing immediate costs on firms – ESD could be achieved.

Section VII - Subsidies

- Subsidies reduce the production costs for firms domestically, allowing them to adopt more efficient mechanisms of production that maintain ecologically sustainable development the government has opted for the 2014 Direct-Action policy that provides subsidies for firms and farmers to lower emissions, with an aim of achieving lower emissions of 5% on 2000 levels by 2020.
- However, the Direct-Action Plan has been critiqued due to its lack of enforceability and vagueness, with the government stating that “over pollution will induce some kind of penalty” that has not been enforced clearly. Further to this, emissions increased by 6 million metric tons from 2016 to 2018 and have been relatively flat,

Section VIII - Budget

- budget (2017-18) outlined plans to upgrade the Snowy Hydroelectric Scheme; investing up to $90m to improve infrastructure and efficiency.

Section IX - International Agreements

- Limit the effects of global warming to a 1.5-2 degree rise and reduce the risks of climate change
- Nationally determined contributions → Australia 26-28% emissions. Aus not on track: should implement a 50% cut in greenhouse gas emissions by 2030 and reach net zero before 2050

TOPIC 4

Monetary Policy (N.D)

Assess the impact of the Reserve Bank of Australia’s expansionary monetary policy

Intro

Theory

- Mechanisms of monetary policy, setting of the cash rate
- Target cash rate, ESA balances, interest rate corridor, interest rate in STMM
- Transmission mechanism
- While monetary policy has inherent limitations to its effectiveness (time lags, blunt tool), further complicated in recent years

Inflation

- Historical context: 1993 inflation targeting, hugely successful in arresting high inflation. 8.3% in 80s to 2.3% in 90s
- However, recent low inflation environment, focus on supporting healthy inflation/avoiding deflationary outcomes
- Cut from 1.5% to 0.75% in mid-2019 to stimulate inflation (pre-COVID) when inflation dropped to 1.3% in Q1 2019
- Continuously expansionary MP in Australia has had diminishing effect in recent years
- Liquidity trap, impaired monetary transmission in persistently low-rate environments/diminishing effects approaching the zero lower bound (2017 RBA)
- Prior to the COVID-19 pandemic, low inflation could be attributed to low wage growth, competitive pressures on pricing in retail etc. (2018 RBA)
- MP as a blunt tool is ill equipped to address specific issues
- Leaves MP reactive instead of proactive to many factors in the economy
- Judgement: Given above factors, ineffective recently

<u>Economic growth</u>

- COVID-19 has brought the supporting of economic growth into the forefront of MP
- Refer back to the transmission mechanism, and AD (C+I+G+X-M)
- However, due to aforementioned limitations and the zero lower bound, conventional MP measures have been largely exhausted
- Movement of unconventional monetary policy measures to principal mechanism of MP
    - Term Funding Facility
        - Direct funding to banks and other AD
        - Reduce funding costs and support lending
    - Quantitative easing/asset purchases
        - Introduction of a 3Y Australia Government Bond target
        - Purchase of bonds to flatten yield curve
        - Why? Risk-free assets form an important component of interest rates broadly
- While it is perhaps early to judge the effectiveness of these measures as implemented in Australia due to time lags, direct lending, QE etc. have been used in other economies during GFC and have been regarded as effective in retrospect
- Also, difficult to separate from fiscal stimulus efforts for the time being
- Judgement: Conventional - ineffective, unconventional - likely to be effective

<u>Unemployment</u>

- Unemployment has taken a larger than usual place in the RBA's priorities (2020), but still largely linked to growth as can realistically only address cyclical unemployment, labour as derived demand etc.
- Therefore will face similar limitations and effectiveness as EG
- However, UE outcomes also traditionally restricted by the inflation trade-off in the ST
- Philips curve
- Discuss flattening of Philips Curve, weakening of relationship
- Divine Coincidence
- Given an inability for MP to directly address labour market outcomes (blunt instrument) and supply side dynamics vs FP/MRE, largely reactive outlook, limitations similar to

general EG/output, primacy of FP in UE, all despite lack of inflation limitations as discussed
- Judgement: ineffective

Fiscal Policy ✓

Discuss how the Australian government can use fiscal policy to achieve its macroeconomic objectives

Section I: Jobkeeper and Jobseeker
Para 1 - Effect on AD led growth (not AS → inflation)
- $291 bn injection → increase in Y → increase in C & I → increase AD → increase in Y → induces simple multiplier effect → increase in economic growth → effective → not effective for AS thus compromising sustainability and inflation
    - Economic growth at -1.1% 2020
- Downside is deficit which will have to be financed later → 'crowding out effect' → restrain private investment or increase in foreign debt
    - Budget deficit expected to be 11% of GDP

Para 2 - Effect on distribution of income
- Jobkeeper was a $1500 cash handout per fortnight for people earning below $1500 per fortnight before March
- Increase in C → decrease UE as labour is a derived demand → reducing cyclical unemployment → effective
    - UE at 6.9%
- Policy supported low-skilled workers as they tend to be ue due to COVID → thus reduce worsening of DOI

Section II: Automatic stabilisers
Para 1 - Effect on ST economic growth & DOI & employment
- Lower taxation & increased transfer payments → curb fluctuations in business cycle
- In 2010-11: Taxation increased by 29 billion whereas expenditure increased by 11 billion
- In 2020-21: Unemployment was projected to increase to 10% and economic growth projected to contract 6% overall however unemployment only peaked at 7.6% and economic growth was at -1.1%, supported by automatic stabilisers

Section III: JobTrainer Fund
Para 1 - Effect on AS led eco growth
- Spending on education and training → equipping young workers with in-demand skills → increased occupational mobility → increased efficiency and productivity → increased AS → LT economic growth however long impact time → slow
-

Para 2 - Effect on distribution of income

- Spending on low-income group → increased skills and thus income → better income equality

Section IV: Enviro policies (-ve, if they focus on AD led growth, compromise ESD)
Para 1 - Effect on AS led eco growth
- ST economic growth → lower ESD → increased pollution & depletion of resources → worsen environmental quality
- However in the long run, investing in ESD will improve AS in the LT

Para 2 - Effect on resource allocation
- Spending on ESD → improving environmental and intergenerational equity
- Increased subsidies on merit goods & goods with positive externalities → increase supply → betterment of society and improved resource allocation
- Taxation on demerit goods and goods with negative externalities → decrease demand & supply → better society and improve resource allocation

Microeconomic Reform (N.D)

Discuss the continuing role of microeconomic reform in achieving Australia's economic objectives

Intro
In the short term, structural change increases structural unemployment however, in the long run it directs resources in the economy to efficient industries, increasing the productive capacity of the economy. As a result, this improves long term economic growth and international competitiveness.

Section I - Financial Deregulation
- Structural changes in the financial industry throughout the 1980s have increased grow in financial services industry as well as improvements in productivity
- The impact of increased interest rates on consumption, investment and subsequently growth
- Impact of floating of AUD - reflects fundamentals
- Depreciation recently (pre-covid), increases the international competitiveness of exports, sustained economic growth overtime
- Exchange rate is a counter cyclical shock absorber so allows for stabilisation in growth
- Impact of 16 foreign banks: increased competition, greater FDI flows (important for capital intensive industries, S-I gap and comparative advantage in mining)
- However, structural change and greater ST unemployment, in the long term, has supported growth and international competitiveness.

Section II - Labour Market Reform
- Movement away from a decentralised wage determination system of Work choices in 2005 towards a more centralised but hybrid of wage determination with the Fair Work ACt (2009)

- Mixed impact on international competitiveness and growth
- Implementation of strong safety net has a direct impact, worsening the international competitiveness of the economy
- As real unit labour costs are a measure of international competitiveness, the increase in the minimum wage (20.33 currently) will reduce international competitiveness
- Also results in short term structural unemployment, reducing economic growth
- Furthermore, the BOOT has meant labour is 'less tied to productivity' and individuals have a reduced incentive to work harder to increase their wage, this is seen in the stimulus by the small drop in productivity between 2003 and 2010
- However, as seen in the stimulus, the long run trend has been that labour productivity has continued to rise. I.e In the long term, structural change is beneficial for growth and international competitiveness.

Section III - National Competition Policy

- 1995
- Implemented in order to life the productivity and increase competition between domestic firms - which by extension would improve Australia's international competitiveness and capacity for growth
- Most importantly, this policy introduced the concept of competitive neutrality - allowing both private and public sector reforms the same access to resources and the ability to compete on their own strengths and weaknesses rather than rely on artificial advantages
- As well as this, the ACCC Australian Competition and Consumer Commission was introduced to monitor the performance of these industries and ensure workable competition; the maximum competition in an industry compatible with the industry type and market structure. As illustrated on the stimulus graphs, both labour and multi factor productivity is estimated to have increased in the immediate period following 1995-96 from 2-3% for multi-factor and 3.5-5% for labour

Section IV - Fall of agriculture

- The stimulus quote from the Productivity Commission in annual report 2011-12 suggests there are multiple phases of an economy's structural change.

Section V -

Section VI -

Labour Market Policies (N.D)

Evaluate the effectiveness of labour market policies in achieving Australia's economic objectives

Intro

Labour market reform refers to structural change within the labour market. These changes can either gear the market towards centralisation or decentralisation which will attempt to achieve economic objectives of sustainable economic growth, employment and price stability. In the long term, economic growth is considered to be sustainable at 3 - 4%. Labour market reforms will achieve employment through increasing the labour force participation rate which will decrease structural and long-term unemployment. Price stability is achieved through decreasing production costs and thus cost-push inflation with a target of 2 - 3% inflation. Labour market

reform is one of the more effective government policies as it is only limited by time lag and political constraints. Examples of labour market policies include Fair Work Act 2009 and recent policies such as JobTrainer and JobMaker.

Section I - Centralised vs Decentralised

- Adv vs Disadv of both
- Much deregulation has occurred in Australia driven by George Stigler's critique on regulation.
- Lost output, rent seeking behaviour, inefficient allocation of resources, large administrative costs. Inspired Work Choices but greater economic instability. Adopt a hybrid system similar to that of a Keynesian argument

Section II - Fair Work

- In 2009, Kevin Rudd implemented the Fair Work Act, which involved a three-tiered system of wage determination and a shift towards a more centralised labour market.
- Support consumption (60% AD)
- Strong safety net (equitable DOI)
- 122 modern awards, containing 10 national employment standards (NES) which were nonnegotiable and included annual leave entitlements and notice of termination, amongst others and 10 industry specific conditions and relevant minimum wage
- BOOT for enterprise agreements meaning employees had to be suitably compensated for trading away their conditions.
- Under Fair Work, high income earners are covered by common law contracts enforceable by the courts and unfair dismissal laws were reinstated.
- The introduction of the BOOT enhanced the bargaining power for low income earners. In turn this improved the distribution of income with the Gini coefficient falling from 0.336 in 2007/08 to 0.323 currently, shown by an inward shift of the Lorenz Curve
- DOI gini still above the long-run average and the distribution of wealth remains very unequal with a corresponding Gini coefficient of 0.576 currently
- The reduced importance of individual productivity would lead to falling levels of aggregate supply and consequently lower economic growth
- There is some empirical support for this, as long run growth trends have fallen from 5% in 2006/07 to 2% in 2016/17.
- Lower productivity would have also been expected to increase inflation. However, this has had minimal impact on the Australian economy with inflation at the lower bound of the
- RBAs target in recent years and currently at 1.1%.
- This is a by-product of historically low wages growth, 1.5% currently, which is also constraining consumption levels and thus demand pull inflation.

Section III - JobTrainer

- What it is
- Impacts and stats

Section IV - Dispute Resolutions

- What it is

- Impacts and stats

Section V - Minimum wage

- Minimum wage is considered annually based upon broad economic and social indicators as well as workforce competition.
- As per the productivity commission “Australia was one of the first economies to provide a minimum wage sufficient for a relative highly standard quality of living”.
- Currently $19.84
- The imposition of a minimum wage also has the immediate impact of creating short term structural unemployment
- As wages are estimated to compromise up to 60% of Australian business costs – firms are disincentive from hiring labour and thus unemployment is created from Q1 to Q2.
- Microeconomic policies introduced to the labour market in recent federal budgets have sought to minimise this excess of supply, and incentivise the use of labour as a factor of production, reducing structural unemployment.

Section VI - National infrastructure plans

- 2021/22 budget: $110 bn in total, additional $15.2 bn to infrastructure over the next 10 years Support over 30,000 jobs e.g. $2bn for Melbourne Intermodal Terminal

Policy Limitations (N.D)

Discuss how governments are restricted in their ability to simultaneously achieve economic objectives

Intro

Economic Growth and Unemployment

- Goal of sustainable 3-4% economic growth in the medium-ong term (Mortimer Report (1997))
    - MER in ST causes structural unemployment but in the LT aggregate supply increases and dri Aves economic growth
- Trade liberalisation with more ASEAN economies and promotion of comparative advantage led to the closure of PMV industry
- Unemployment rate rose from 5.2% in 2011 to 6.4% in 2014
    - 50,000 job losses
- Long run: retraining of these workers to simultaneously achieve the two objectives
    - The government implemented a $20 million Automobile Diversification Programme to retrain the structurally unemployed, however, this strains government budget revenue.

Economic growth, price stability and full employment

- Short term trade off between inflation: DP inflation as economic growth increases (especially as the economy approaches its prod. capacity)

- Demand pull inflation and inflationary expectations
- Increase growth → increase income → increase consumption → increase demand pull inflation
- If inflation increases, consumers bring forward consumption → increase demand pull inflation
- Mining boom example
    - Inflation in September 2009 was 1.2% (post GFC), however as demand for iron ore and mining exports increased, the economy expanded 3.4% in 2011-12 with real net national disposable income increasing by 4.3%. Subsequently, inflation also rose to a peak of 3.5% in June 2011
- Additionally, price stability and full employment conflict in the short run:
- However in the long run, the government should theoretically be able to simultaneously achieve both objectives (operate at the NAIRU)
- In recent years though several economists have argued that the SRPC is flattening. Showing a weaker relationship between unemployment and inflation eg. 4.9% unemployment in 2018, inflation at 1.1%

<u>Economic growth and external stability</u>

- In the short term, economic growth will lead to higher income levels leading to greater import expenditure, worsening BOGS and worsening CAD % of GDP
- Additionally, economic growth may attract greater levels of foreign investment which will yield equity repayments in the NPY, worsening CAD % GDP
- Pitchford Thesis:
    - Australian private sector investor will be rational, I into assets that drive LT growth and then CAD is sustainable
- Australia sustained 29 years of positive economic growth whilst having a CAD
- The government also conducted fiscal consolidation throughout 2015-2020 approximately to help improve external stability
- Total NFL decreased from 60% GDP in 2016 to 44% in 2019
- Alternatively, economic growth may lead to greater savings particularly in a downturn where individuals may increase savings for precautionary measures (Keynesian motive to save) leading to an increase in national savings, reducing the S-I gap and level of international capital/borrowing required for example in 2020 where the households savings ratio rose to 19.8%
- However, in response to the downturn in economic growth the government was not able to simultaneously achieve both objectives:
    - COVID-19 prevented surplus as fiscal policy had to act in counter-cyclical manner: $161bn deficit in 2020-21 and $106.6bn in 2021-22
    - Twin deficit theorem: causal link between budget deficit and net foreign debt - finance deficit through international borrowing

<u>Economic growth and equitable DOI</u>

- Piketty's Theory: rate of return on capital > economic growth → increase inequality
- Government Tax offsets:

- Short term: LMITO offsets of up to $1080 in 2021-22 for 10.22 million individuals. Expected to save low income earners 15.6% across next four years → increase income → increase consumption → increase growth and equitable DOi → help both objectives
- Long term: (Aim to increase growth from decreasing taxes increasing consumption and AD): However, phase 3 of tax bracket changes will see 95% of tax payers ($45,000 to $200,000) paying 30% rate (so will be more regressive in effect - worsen DOI/outward shift of the Lorenz curve)

<u>Economic Growth and Environmental sustainability</u>

- Goal of sustainable economic growth often does not account for environmental costs
- Short term relationship:
  - The impacts of climate change are expected to lower Australia's GDP by 4.8% by 2100, consumption by 5.4% and real wages by 7.8%
  - In an aim to simultaneously achieve economic growth and ESD the government implemented a carbon tax in 2012
    - $23/tonne for top 500 polluting firms
    - Cut emissions by 8.6% within 6 months of implementation
    - However, electricity costs rose almost 10% and due to the inflationary pressures the policy was later repealed
    - Illustrates the inability to simultaneously achieve the economic objectives
- Long term relationship
  - Government seeks to achieve ESD.
  - Encompasses the idea of intergenerational equity
    - Resource use sustainable for future generations
- Particularly important to Australia to achieve ESD in the long run to sustain tourism growth
  - Tourism is on average growing at 7.7% and degradation of key attraction such as the Great Barrier Reef could subsequently harm economic growth
  - Government allocated $500 million to preservation of GBR in 2018 (limited funding)