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AUSTRALIA’S ECONOMIC POLICY MIX

By Dr. Anthony Stokes

Introduction

Australia’s economic policy mix is the combination of macroeconomic and microeconomic policies that the Australian government applies to achieve its basic economic objectives. The basic economic objectives (Stokes and Wright 2017), which are generally looked upon as being important in Australia, focus on achieving:

- Low inflation (price stability): Low inflation is important as stable prices (to keep prices stable to) create economic stability and low prices assist international competitiveness. The RBA has a target inflation rate of 2-3% over the medium term. This target is designed to create sufficient aggregate demand to create economic growth and employment without reducing our international competitiveness.

- Full employment: It is impossible to have zero unemployment. The full employment objective aims at achieving the Non-accelerating Inflation Rate of Unemployment (NAIRU). This suggests attaining an unemployment level as low as possible without increasing inflation beyond the target level of 2-3%. A level of unemployment below the NAIRU would tend to lead to excess aggregate demand and/or increased wage costs and could increase inflation to a level that the country would be uncompetitive in international markets. This could lead to higher unemployment rates in the future.

- Economic growth: Economic growth is about increasing the nation’s output of goods and services i.e. real gross domestic product. By increasing economic growth, it is possible to improve the quality of life for all Australians. An economic growth rate around 3% or higher, higher than the growth rate for the population, will generally increase living standards and employment in Australia.

- External stability: External stability is about having stability in the nation’s external accounts and transactions. This involves stabilising, or preferably reducing, the size of the Current Account Deficit (CAD) and the Foreign Debt, and as a result to stabilise the value of the Australian dollar. All three factors play an important part in creating external stability.

Two other important economic objectives that the government should consider are:

- An equitable distribution of income and wealth: The free market does not deliver the most equitable distribution of income or wealth and thus it is necessary for the government to intervene where there are market failures. The distribution of income and wealth reveals inequalities among and within countries and the ways in which income and wealth are redistributed. While there is a need for a certain amount of inequality to encourage rewards for effort and performance, too much inequality may harm a country’s economic performance. At a microeconomic level, inequality increases ill health and health spending and reduces the educational performance of the poor. These two factors lead to a reduction in the productive potential of the workforce. At a macroeconomic level, inequality can restrict economic growth and the quality of life and can lead to economic and political instability.

- Environmental sustainability: Environmental sustainability is the development and maintenance of practices that contribute to the quality of the environment on a long-term basis. As economies try to increase their economic growth rates, there will be increased use of limited resources. At times, nations will damage the environment by using the cheapest methods of production rather than the most environmentally friendly processes. Some steps that can be taken to achieve environmental sustainability include: dramatically reducing CO2 emissions; stopping rainforest destruction; and developing and expanding the use of renewable energy sources.

Macroeconomic Policies

There are two macroeconomic policies that are used in Australia to achieve these basic economic objectives. They are Fiscal Policy (the Budget) and Monetary Policy (the Reserve Bank and interest rates). Macroeconomic policies are policies designed to help the government achieve its main objectives through changing the level of Aggregate Demand (C + I + G + X – M).
Fiscal Policy

Fiscal policy is the use of changes in the level and direction of government spending (G) and revenue (T) to influence:

- income distribution
- resource allocation, and
- the level of economic activity.

The main instrument of fiscal policy is the Commonwealth Government Budget. It is an announcement of the planned levels of G and T for the financial year. The Budget Papers set out the government expenditure (G) as expenses and government receipts (T) as revenue.

There are three possible budget outcomes:

- a deficit budget, G > T
- a surplus budget, T > G
- a balanced budget, G = T.

Because the Federal Budget is a plan of what the Australian Government expects to achieve, it does not mean that it will be achieved. In the 2014-15 Budget Papers, the Federal Liberal Government stated that they were aiming to achieve a budget surplus, with a fiscal balance of $1 billion dollars in 2017-18 as shown in Table 1.

**Table 1: Australian Government Budget Aggregate 2012-13 to 2017-18**

<table>
<thead>
<tr>
<th>Year</th>
<th>Aggregate Revenues</th>
<th>Aggregate Expenditure</th>
<th>Budget Deficit/Surplus</th>
<th>Budget Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>$349.5</td>
<td>$344.5</td>
<td>$5.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>2013-14</td>
<td>$361.5</td>
<td>$366.5</td>
<td>$5.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>2014-15</td>
<td>$412.0</td>
<td>$435.0</td>
<td>$23.0</td>
<td>$1.0</td>
</tr>
<tr>
<td>2015-16</td>
<td>$435.0</td>
<td>$458.0</td>
<td>$23.0</td>
<td>$1.0</td>
</tr>
<tr>
<td>2016-17</td>
<td>$458.0</td>
<td>$485.0</td>
<td>$27.0</td>
<td>$1.0</td>
</tr>
<tr>
<td>2017-18</td>
<td>$485.0</td>
<td>$508.0</td>
<td>$23.0</td>
<td>$1.0</td>
</tr>
</tbody>
</table>

In the periods following economic slowdowns, the tightening of fiscal policy and increased economic growth rates have led generally to the budget returning to a surplus. As can be seen from Figure 1, the current plan is also to reduce the budget deficit(s) and to return to a surplus in the next few years.

The impact of budget deficits since 2007-08 has led to an increase in the Australian Government’s Net Debt (Figure 2). By 2006-07 the Australian Government had no debt. The subsequent budget deficits have increased the Australian Government’s Net Debt to 18.6% of GDP in 2016-17, rising to 19.5% in 2017-18. However, this is still much lower than most other industrial nations.

In recent years, as a result of the Global Financial Crisis and sovereign debt issues in Europe, the Government has run budget deficits due to the need to stimulate the economy. The subsequent loss of government revenue due to low demand, lower commodity prices and higher payments for welfare have added to the deficit spending, reduced taxation revenue and increased the levels of government borrowing.

**Figure 1:** Australian Government Budget Balance as a Percentage of GDP

**Figure 2:** Public Sector Net Debt as a Percentage of GDP
**Fiscal Strategy**

This section will consider the fiscal strategy associated with the current budget. It relates to what the Government is trying to achieve in the 2017-18 Budget and subsequent budgets.

The Government is aiming to reduce the budget deficits over the next 4 years by increasing the level of government revenue and reducing the level of government expenditure (Table 2). If we compare the budget figures in Table 1 with the new projections for 2017-18 we see that the budget deficit is much bigger than projected in Table 1. Table 1 had a projection of an underlying cash deficit of only $2.8 billion in 2017-18 while Table 2 projects an underlying cash deficit of $29.4 billion. In terms of the fiscal balance, it has increased from a surplus of $1 billion in Table 1 to a deficit of $20.3 billion in Table 2. These figures show the difficulty of accurately predicting budget outcomes. Some economists believe that the forward projections in this budget for economic growth and employment are very optimistic. A failure to achieve these outcomes would worsen the budget result in the coming years.

In addition, the ability of the government to achieve its budget objectives has been restricted in recent years by the Senate. The Liberal Government did not have the majority of seats in the Senate and could not get its policies passed. As a result, it called a ‘double dissolution’ of Parliament, and a subsequent election in July 2016. The election result did not achieve the desired result and the government policies were still reliant on the Senate for support.

As can be seen in Table 2, the Government is aiming to reduce the underlying cash budget deficit from an estimated $37.6 billion (2.1% of GDP) in 2016-17, to $29.4 billion (1.6% of GDP) in 2017-18. It is proposed that this will be achieved by a slight increase in government payments to 25.2% of GDP in 2017-18. This is to provide some stimulus to the economy in the area of small business. At the same time, government receipts are expected to rise as a result of increased tax revenue from 23.2% of GDP to 23.8% of GDP.

**Table 2: Australian Government Budget Aggregate 2015-16 to 2020-21**

Total is equal to the sum of amounts from 2017-18 to 2020-21.

Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

Under the Future Fund Act 2006, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Excludes expected net Future Fund earnings before 2020-21.

Source: Australian Government 2017-18 Budget Papers, Budget Overview

An alternative budget measurement is known as the fiscal balance. This is the accrual accounting measurement of the cash balance. The fiscal strategy is to reduce the overall fiscal balance from a deficit of $40.7 billion in 2016-17 to $20.3 billion in 2017-18. This will be further reduced in coming budgets. The Government Budget projections forecast a fiscal surplus in 2019-20 and an underlying cash surplus in the following year. Going on previous years’ experiences, this outcome is very questionable.

**Budget Measures**

As discussed in the first section of this article, the Budget is a plan for the coming fiscal year. The introduction of the Budget does not mean that its outcomes will be achieved. There is still considerable opposition to sections of the Budget which may lead to some of the plans set out in the 2017-18 Budget to be amended or rejected totally. This article will discuss what was proposed in the 2017-18 Budget Papers and the effect that those proposals would most likely have on resource
allocation and income inequality. It should be noted that a number of the policy changes will not take effect until 2019 or later.

Normally, the government would aim to reduce the size of the budget deficit by reducing the level of government spending or increasing the level of taxation. The 2017-18 Budget is unusual in that some measures are designed to achieve this goal by reducing the level of government spending and increasing the level of taxation: but some measures go against this. One of the reasons this budget is considered controversial is that some policies are taking money from the most disadvantaged in the community and giving it to those who are better off.

Plans for Government Revenue 2017-18 Budget

Figure 4 shows the main sources of government revenue in the 2017-18 Budget. The 201718 Budget (2017) reports that the forecasts for tax receipts have been revised up by $6.4 billion over the four years to 201920, due to policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of goods and services tax (GST) on property transactions and introducing a Skilling Australians Fund levy. Policy decisions are expected to increase forecast tax receipts by $11.9 billion over the four years to 201920. Excluding policy decisions, tax receipts have been affected by downwards revisions to the outlook for total wages and upgrades to the outlook for profits, including mining profits.

Figure 4: Sources of Revenue 2017-18 Budget

![Figure 4: Sources of Revenue 2017-18 Budget](image)

Source: Australian Government 2017-18 Budget Papers, Budget Overview

The following sections will discuss the main changes that have occurred in regards to taxation revenue in the Budget.

Changes to Taxation and other Revenue Policies

- **Major bank levy**

  The Budget will introduce a major bank levy on banks with liabilities greater than $100 billion. This is expected to raise $6.2 billion over the next four years. The Big 5 Banks include Commonwealth Bank, Westpac, National Australia Bank, ANZ and Macquarie.

- **Increase in the Medicare levy**

  The Medicare Levy will increase by 0.5 percentage points (2 to 2.5% of taxable income) from 1 July 2019 to help fund the National Disability Insurance Scheme (NDIS). This is effectively a tax increase for all but the poorest Australians. See the section on the impact on income inequality for more detail on the effect of the Medicare Levy increase.

- **Income tax**

  As there are no changes in income tax brackets much of the increase in tax revenue in the 2017-18 Budget will come from ‘fiscal drag’. As people’s incomes rise they pay a greater proportion of any income gains in tax and their tax payments increase over time. This is known as ‘bracket creep’ or ‘fiscal drag’. This is why economists argue that income tax rates should be regularly adjusted to reflect rises in money wages to prevent an increased tax burden especially on lower and middle-income earners.

- **Deficit levy**

  The Federal Government also abolished the 2% deficit levy on those earning more than $180,000 a year. Despite the fact that we still have a budget deficit, this policy would save some high-income earners thousands of dollars a year in tax payments. By 2019 the top income earners will have an effective tax cut of 1.5 percentage points, compared to all taxpayers earning less than $180,000 who will be paying an extra 0.5 percentage points on their income. The overall effect of the changes to income tax was to increase the personal income tax burden for taxpayers by $8.2 billion between 2016-17 and 2020-21.

- **Tax on Foreign Property Investors, Workers and Employers of Foreign Workers**

  A range of measures have been introduced to increase the financial obligations of foreign property investors and workers. A tax of $5,000 per annum will be applied to foreign investors who leave properties vacant for more than six months. Foreign property owners will also have to pay the capital gains tax on their property when they sell and foreign ownership of new developments will be capped at 50%. And, under the new Temporary Skills Shortage Visa employers will have to pay a levy of up to $5,000 for each foreign worker they employ.

- **Ten Year Enterprise Tax Plan**

  The Government plans to cut the company tax rate for all companies to 25 per cent by (202627) 2026-27. The expected cost of this in terms of reduced company tax revenue is estimated at over $50 billion. Small businesses are also able to access a one-year
extension of the instant asset write-off scheme for capital equipment expenses up to $20,000.

**Plans for Government Expenditure 2017-18 Budget**

Figure 5 shows the main areas of government spending in the 2017-18 Budget. The planned level of government spending (payments) in the 2017-18 Budget has increased from 25.1% of GDP in 2016-17 to 25.2% in 2017-18. So, there is no evidence of a concerted effort to reduce government spending to curtail the budget deficit.

The following sections will discuss the main changes that have occurred in regard to government expenditure in the Budget. Similar to the changes in tax, some areas have had reductions in the levels of spending and some areas have had increases. Again, many of these decisions seem more politically driven than driven by economic theory.

**Figure 5: Areas of Government Expenditure 2017-18 Budget**

*Source: Australian Government 2017-18 Budget Papers, Budget Overview*

**Cuts to Government Expenditure**

- **Increased University Fees**

  From 2018, the Government is planning to increase university fees for students with increases to student contributions of 7.5% to be phased in over four years. A new set of Higher Education Loan Program (HELP) repayment thresholds will also be introduced from 1 July 2018. This will mean students will have to repay their student loans earlier.

  Universities may also receive an efficiency dividend of 2.5% in 2018 and 2019, provided they meet the requirements set by the Government. Overall, the Budget (2017) reports that Government spending on Higher Education will decrease by 4.0% in real terms between 2017-18 and 2020-21. This is the biggest reduction in expenditure for the Government with a saving of over $3.7 billion.

- **Cuts to Foreign Aid**

  The Foreign Aid Budget has been frozen for two years from 2018 and the saving will be diverted to the Australian Federal Police to fund specialist officers targeting terrorism, organised crime, and child exploitation. The effect will be to save the Government $300 million over the period 2017-2021.

- **Cuts to Family Tax Benefits**

  For families with children, there is a proposed measure to increase the rate at which the FTB-A phases out for families with an annual earning over $94,000, and a two-year freeze on FTB starting from 2017-18. Freezing the Family Tax Benefit payments at current rates for two years will save the Government $2.6 billion over four years. This will disadvantage families as the cost of living will increase without any compensation from the Government.

- **Jobs for Families Child Care Package**

  The Jobs for Families Child Care Package which comes into force in July 2018, replaces the Child Care Benefit (CCB) and Child Care Rebate (CCR) with a single, means-tested subsidy. The effect of this policy will be to save the Government around $2 billion in the period 2017-18 to 2020-2021.

**Increases in Government Expenditure**

At a time where the economic theory would suggest that there should not be increases in government spending, especially when the government debt created by the previous government is portrayed as being such a concern, there are, however, some areas of increased spending.

- **Increased spending on infrastructure - National Infrastructure Plan**

  The Government is committing over $70 billion from 2013-14 to 2020-21 to transport infrastructure across Australia, using a combination of grant funding, loans and equity investments. The Government is establishing a 10-year allocation for funding road and rail investments. This will deliver $75 billion in infrastructure funding and financing from 2017-18 to 2026-27.

- **Increased Spending on Defence**

  Through the 2016 Defence White Paper, the Government is providing an additional $29.9 billion for Defence over the period to 2025-26. This funding will provide investment in Australia’s defence capability of approximately $195 billion over the next decade. This includes 12 new regionally-superior submarines, 9 future frigates and 12 offshore patrol vessels. The Government has increased spending to rise to 2% of GDP, three years before the original plan.

- **Increased Spending on Schools**

  The Government has announced that they will spend an additional $18.6 billion in extra funding for schools over the next ten years. The Government has said that they will allocate this on a needs basis based on Gonski
Committee recommendations. While the Government claims that this is a major expenditure initiative, it is up to $22 billion less, over the decade, than was agreed by the previous Federal Government and State Governments. Catholic Schools have suggested that they will have to increase their fees due to this shortfall.

- Increased Spending on Health

The Government will guarantee funding for the National Disability Insurance Scheme, which is expected to cost $21 billion a year once it is fully implemented in 2020. The Government will also start phasing out the freeze on Medicare rebates for some health services. This will cost the Government an extra $2.2 billion over 4 years. The Government will also allocate another $2.8 billion to state and territory hospitals.

It should be noted that a number of the expenditure items will not actually be implemented during the life of the 2017-18 Budget.

Impact on Income Distribution

A study of the 2017-18 Budget by NATSEM at University of Canberra suggests that single parents and families with children are affected more than families without children (Table 3). NATSEM (2017) considers that the main factors impacting on family incomes in the 2017-18 Budget are:

- The Medicare Levy increasing by 0.5% starting from July 2019, which will affect all taxpayers in Australia.

- For families with children, there is a proposed measure to increase the rate at which the FAMILY TAX BENEFIT A (FTB-A) phases out for families with an annual earning over $94,000, and a two-year freeze on THE FTB starting from 2017-18.

- An energy assistance payment to pensioners.

Table 3: Average Change to the Annual Disposable Income by Family Type and Quintile

<table>
<thead>
<tr>
<th>Family Type</th>
<th>Quintile 1</th>
<th>Quintile 2</th>
<th>Quintile 3</th>
<th>Quintile 4</th>
<th>Quintile 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single with children</td>
<td>258.7</td>
<td>181.5</td>
<td>-15.8</td>
<td>-87.7</td>
<td>0.0</td>
</tr>
<tr>
<td>FTB Induction Freeze</td>
<td>-0.6</td>
<td>-0.8</td>
<td>-0.4</td>
<td>199.2</td>
<td>0.0</td>
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<tr>
<td>Medicare Levy Increase</td>
<td>-0.0</td>
<td>0.0</td>
<td>-154.0</td>
<td>-431.7</td>
<td>-1123.3</td>
</tr>
<tr>
<td>Energy Assistance Payment to Pensioners</td>
<td>53.6</td>
<td>32.3</td>
<td>16.7</td>
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<td>0.0</td>
</tr>
<tr>
<td>Single without children</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>FTB Induction Freeze</td>
<td>-0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>FTB A Phase Change</td>
<td>0.0</td>
<td>0.0</td>
<td>5.6</td>
<td>-109.3</td>
<td>-174.6</td>
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<tr>
<td>Medicare Levy Increase</td>
<td>0.0</td>
<td>0.0</td>
<td>-156.6</td>
<td>-452.4</td>
<td>-1097.5</td>
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<td>Energy Assistance Payment to Pensioners</td>
<td>44.9</td>
<td>30.9</td>
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<tr>
<td>Family with children</td>
<td>118.7</td>
<td>75.0</td>
<td>50.2</td>
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<td>FTB Induction Freeze</td>
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<tr>
<td>FTB A Phase Change</td>
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<td>Medicare Levy Increase</td>
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<td>15.3</td>
<td>452.4</td>
<td>1097.5</td>
</tr>
<tr>
<td>Energy Assistance Payment to Pensioners</td>
<td>94.6</td>
<td>57.0</td>
<td>10.2</td>
<td>0.8</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: NATSEM (2017)

NATSEM (2017) results in Table 3 show that for the lowest quintile group, a single parent with children is $149 worse off and a couple with children is $120.9 worse off. The single person without children in the bottom 20% of income earners is $44.9 better off, while the couple with no children is $84.6 better off. This pattern continues at each quintile measured. For the richest 20% single parent is worse off by $1123.4 compared to the single without children who is worse off by only $674.3. For top quintile the couple with no children, they are $1086.8 worse off and the couple with children $1420.5 worse off.

There is a considerable burden on a middle-income couple with children. They are worse off by $733.2 compared to a middle-income couple without children who only lose $133.3. This is only slightly more than the poorest income couples with children and less than the poorest single income family with children.

Economic effects and economic outlook

The government’s fiscal stance refers to whether it is trying to increase growth (expansionary policy) or slow the rate of growth in the economy (contractionary policy). Budgets have a number of effects on the economy. Initially changes in government spending will affect the level of aggregate expenditure and aggregate demand and thus income in the economy. This change in the level of income will be magnified by the multiplier effect. If there is an increase in income this will generate economic growth and lead to higher levels of employment, while reductions in income will do the opposite. A reduction in taxation will have a similar effect to increasing government spending. It will increase income in the economy. An increase in the tax rate will reduce income, leading to a reduction in economic activity and higher unemployment.

The overall economic impact of the 2017-18 Budget relates to a reduction in the deficit by $8.2 billion or 0.5% of GDP. Even though the Budget is still in deficit, there has been a reduction in the size of the deficit. As a result, the 2017-18 Budget could be viewed as a contractionary budget. So overall the 2017-18 Budget outcome is likely to reduce spending in the economy and restrict economic growth. The only real measure that may create an expansionary economic impact on the economy is the tax reductions and concessions for small businesses. This may increase investment spending and have a multiplier effect that will increase aggregate demand and increase GDP. The increased investment and the associated record low interest rates are likely to add some stimulus to the economy.

Still, as was seen with the last 3 Budgets, overseas factors may still have a big impact on the actual budget outcome in 2017-18. Falling commodity prices and a rising Australian dollar would both work to worsen

...
the size of the budget deficit. On the other hand, an improvement in commodity prices and the terms of trade along with a lower dollar would most likely improve the budget outcome.

**The Role of Monetary Policy in the Economy**

As mentioned in the previous section, Australia has had record low interest rates in recent years. This has provided a stimulus to the private sector of the economy. Monetary Policy has been used to fine tune the Australian economy to ensure long term economic growth and prosperity, while the Federal Budget deficit is being reduced to bring down Government Debt. Monetary policy is the Reserve Bank’s use of changes in interest rates to influence the level of the money supply and economic activity to achieve the basic economic objectives. The Reserve Bank of Australia (RBA) (2017) (state) STATES that Monetary Policy involves setting the interest rate on overnight loans in the money market (‘the cash rate’). The cash rate influences other interest rates in the economy, affecting the behaviour of borrowers and lenders, economic activity and ultimately the rate of inflation. In October 2011, the cash rate was 4.75%. Since then the RBA has lowered the cash rate over time to reach 1.5% in August 2016, where it has remained. This has been done to provide stimulus to the economy.

**Figure 6: The Australian Cash Rate 2010-2017**

Source: RBA (2017)

**Student activities**

8. What is the government’s stated fiscal strategy?

9. Discuss whether the government should refer to its fiscal stance when outlining its fiscal strategy.

10. In general terms, how is the government attempting to return the budget to surplus in a few years’ time?

11. Outline the main changes in taxation and other revenue policies in the 2017-18 budget.

12. Outline the main expenditure measures in the 2017-18 budget.

13. Discuss the arguments for and against an increase in university fees and a cut to the foreign aid budget.


**Microeconomic Policies**

There are a variety of different microeconomic policies that aim to improve the efficiency of goods and factor markets. These include trade policies, tax reforms, competition policies and labour market policies.

Microeconomic reforms are policy initiatives by the government to increase the level of competition and efficiency, in product and factor markets in the economy. This involves structural changes in the economy to increase productivity. This is designed to lower costs and increase the competitiveness of Australian industry. Microeconomic reform aims to shift the aggregate supply curve to the right. Microeconomic policies are long run policies and may take decades to achieve their outcomes. The main microeconomic policies that the government has adopted in recent times include:

- Trade Reforms: These have involved reductions in the level of protection in Australia and encouraging lower levels of protection overseas. It has also included Australia developing Free Trade Agreements with other countries.

- Tax Reforms: These are designed to make our tax system more efficient and to encourage more foreign firms to set up in Australia. The main reforms in recent years have involved
  - replacing narrowly based indirect taxes with the GST
  - reducing company tax rates from 30%, with a phased in reduction in company taxes to 25%, planned by the Australian Government by 2026-
27. In 2017, as a first step, a tax rate of 27.5% was to be phased in over the next three years for businesses with a turnover of up to $50 million.

- Privatisation and Corporatisation of Government Trading Enterprises
  - focuses on making markets work in the long-term interests of consumers
  - fosters diversity, choice and responsiveness in government services
  - encourages innovation, entrepreneurship and the entry of new players
  - promotes efficient investment in and use of infrastructure and natural resources
  - includes competition laws and regulations that are clear, predictable and reliable
  - secures necessary standards of access and equity

**Labour Market Policies**

Australia’s labour market policies can generally be broken down to wages policies and education, training and employment programs.

- **Wages Policies**
  
  The current wages policy is the Fair Work Act. Originally the Fair Work Act was an improvement for workers compared to the previous policy of WorkChoices. As a result of a number of amendments introduced by the Federal Liberal Government the bargaining power of workers has been eroded to the point where wage rises in Australia are at a record low. As can be seen in Figure 7, since 1998 real wages growth has been less than productivity growth. Since 2011, the loss to workers from the positive productivity growth has been less than proportional with real wages growth and the gap is widening. Workers are not being fully rewarded for increased labour productivity. Indeed, in the year to March 2017 money wage growth was only 1.9%, less than the inflation rate of 2.1%. So real wage growth was negative.

![Figure 7: Australia’s Real Wage Index and Hourly Productivity Index](image)

Source: Mitchell 2017

The situation has worsened for many of the lowest paid workers with the Fair Work Commission abolishing some penalty rates. In February 2017, the Fair Work Commission agreed to cut Sunday and public holiday penalty rates for hospitality, restaurant, fast food, retail and pharmacy workers. While this will reduce the gross pay for many workers in these industries, it is aimed to increase employment in these industries.

- **Education, training and employment programs**
  
  In order to reduce unemployment and to increase the level of human capital in Australia the government subsidises schools, TAFE and universities. The government also subsidises the Australian Apprenticeships Incentives Programme and supports unemployed people through the Job Network by offering free or subsidised training. The government’s most recent initiatives have been the Youth’s Jobs PaTH (Prepare-Trial-Hire) programme and the Skilling Australians Fund. The Youth Jobs PaTH Programme comprises three stages:
  
  - Stage one of the pathway is intensive pre-employment skills training, which will help prepare young job seekers for work by providing them with the basic employability skills they need in a workplace.
  - Stage two is an internship placement that links young people with businesses, providing work experience and allowing them to trial the job seeker’s fit in the workplace. Up to 30,000 job seekers each year will gain a four to twelve-week placement in an industry of their choosing. Interns will receive an incentive payment of $200 a fortnight paid in addition to their income support, and businesses will receive an upfront payment of $1,000 to host them.
  - Stage three, employers who hire an eligible young job seeker in an ongoing job will receive an accelerated wage subsidy of up to $10,000, paid over six months through simpler and more flexible
arrangements. (Budget Papers Overview, 2016)
The 2017-18 Budget announced that through the Skilling Australians Fund, an estimated $1.5 billion will be provided over the first four years to underpin a new partnership with State and Territory Governments to train Australians, with spending prioritised towards apprenticeships and traineeships. The Fund, when matched with State and Territory funding, will support up to 300,000 apprentices, trainees, pre-apprentices and higher level skilled Australians.

Conclusion

Australia’s policy mix since 1991 has produced a record of 26 years free from an economic recession. Australia’s interest rates are at record lows and the Public Debt is lower than the OECD average. The microeconomic reform policies have changed the nature of Australia’s goods and factor markets, and increased efficiency but still more needs to be done. Australia’s current economic growth rate is below its long-term average and unless it can be increased unemployment will worsen in the years ahead.

Student activities

15. What is the aim of microeconomic reform and why is it important in the policy mix?
16. Outline some of Australia’s recent microeconomic policies.
17. Outline the arguments for and against policies that could lead to higher wages in Australia.
18. Assess the government’s education, training and employment programs.
19. Essay: Examine the current state of Australia’s economic indicators relative to our economic objectives and evaluate the mix of policies that we have chosen to address our current economic performance.

Reference List

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