Microeconomic policies

Economics, Microeconomics

In response to unbalanced growth in the economy, structural change is inevitable. The unbalanced growth produces winners and losers and consequently wide gaps in income and wealth distribution. Structural change is the process of adjusting an economy in response to growth (Archbold 2001).

Microeconomic policy is the application of the principles of microeconomic theory by the government in order to accelerate growth through structural change (Archbold 2001).

Microeconomic policies involve measures to improve efficiency in operation of organizations and markets in order to influence aggregate supply levels. Although microeconomic policies are mainly aimed at increasing efficient use of resources, the policies also focuses on income and wealth distribution (Bell 1993).

Discussion

The government has a role to play in ensuring that its policies achieve what is economically and socially good for everyone in the country. The government has in the recent years shifted its focus towards microeconomic reforms. This is as a result of the realization that most economic problems are caused by structural factors uncontrollable by macro-economic policies. The government identified lack of competitiveness by local producers and high levels of structural unemployment caused by supply side factors as major problems to be tackled. To address this issues the government has shifted its policies on lifting productivity, improving flexibility and promoting efficient production from available resources (Archbold 2001). One of the microeconomic policy tools that the government should investigate is deregulation or regulation especially in the financial sector, labor markets and the foreign trade sector.

Deregulation will make markets more contestable by removing obstacles to mobility of factors of production thus enhancing the capacity of the economy to respond to market forces in the global economy (Bell 1993).

This will allow the operation of market forces to bring about efficiency in allocation of resources. Efficient allocations of resources promote structural change by allowing resources to flow to areas where they are used more efficiently (Tisdell & Hartley 2008).

An example is in the foreign sector where Australia has been a highly protected country but the change in policy to gradually phase out tariff protection has allowed resources to move from inefficient industries to efficient ones improving the competitiveness of local firms in the international market (Willett 2000). The government should also reform the labour market to make wages flexible because this is the core to increased productivity in the economy even during economic downturn.

Although the government has decentralized wage determination, reduced role of unions and the Industrial Relations Commission, it should look for ways of addressing inequalities in income caused by these policies so as to motivate weaker workers who may not be able to negotiate reasonable wages. Additionally, the government should put in place measures to guard against wage-push inflation (Archbold 2001). Lastly the government should investigate privatization as a microeconomic policy tool capable of increasing competitiveness and effectiveness.

Privatization is the transfer of government assets to the public. Privatization ensures that organizations are run profitably with minimum political interference. Profit rates will therefore guide resource allocation to ensure that resources are used efficiently. This will encourage investors to further invest in the enterprise. Wages and job security will also directly depend on performance as opposed to government owned organizations were influence of unions to workplace reforms is significant (Tisdell & Hartley 2008).

Conclusion

Microeconomic reform and structural change have some short term costs like structural unemployment. Despite the costs, microeconomic reform measures ensure greater efficiency, productivity and higher per capita incomes. The government should therefore use microeconomic policy tools such as privatization, labour market reforms and deregulation to improve the competitiveness of local organization on the global market.

Reference List

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