# Would i recommend an interventionist or a non-interventionist approach to supply ...

Economics, Macroeconomics

Would I recommend an interventionist or a non-interventionist approach to supply side policy in order to achieve the four key Macroeconomic objectives? Four key Macroeconomics objective: - Low and steady inflation - Low unemployment - High economic growth - The balance of payments on the current account Interventionism is where the governments are involved in the regulation of markets through government policy rather than leaving the markets to regulate themselves. Supply side economists believe that free markets promote economic efficiency and government intervention impairs economic efficiency. There are many ways in which they do this. One way is labour market policies such as welfare benefits. Workers would be less likely to accept low paying jobs if the minimum is equal to the pay that they would receive. This means that there would be a lower level of aggregate supply as most people in low paying jobs would prefer to be unemployed as they would receive the same amount of money but for no work. Instead of having these benefits, the government should reduce the amount of tax that people who take on lower paying jobs should have to pay. Welfare benefits can also lead low earning workers into the poverty trap. This is when a low earning individual receives a small promotion but not enough to keep their family going without benefits. As soon as they receive their rise, welfare benefits are withdrawn which means that people would be earning little to nothing or they would be in debt because they also depended on their welfare benefits. Because of this people would have less of an incentive to work because they would fear a pay rise. Another policy that is a problem is the minimum wage. If the minimum wage is set above a

company's market-clearing price then there will be unemployment. This means that people who are prepared to work for lower pay are unable to do so and this means that aggregate supply would decrease. By abolishing the minimum wage workers who are prepared to work for lower pay are able to do so. Another labour market policy that is a problem is marginal tax rates. High marginal tax rates discourage economic growth. Taxes such as income tax give people more of an incentive to be unemployed this means that aggregate supply would be lower. Taxes like corporation taxes discourage companies from marking profits; this also means that aggregate supply would be lower. By lower certain taxes the there would be a significant