3.7 Supply Side Policies

Key Words

Supply side policies	Policies that increase the productive potential of the economy
Privatisation	Is the transfer of assets from the public sector to the private sector.
Infrastructure	Is the basic physical and organisational structures and facilities eg buildings, roads, power supplies needed for the operation of an economy
Trade union	These are bodies that represent the interests of workers in the workplace
Productivity	Productivity is a measure of the efficiency with which a country combines capital and labour to produce more with the same level of factor inputs.

Why productivity matters

Productivity is important in economics because it has an enormous impact on the standard of living

Higher productivity increases wages. Supply rises with productivity which decreases prices and increases real wages

Technology play an important part in raising productivity

Supply Side Policies

Supply-side policies are **government policies** that are aimed at increasing the **productive capacity** of an economy. This means that the economy can **supply** more goods and services in the **long run.**

Supply side policies aim to:

- Improve **incentives** to look for work and invest in people's skills
- Increased labour and capital **productivity**
- Increase occupational and geographical **mobility of labour** to help reduce the rate of unemployment
- Increase investment and **research and development spending**
- Promoting **more competition** and stimulate a faster pace of invention and innovation to improve competitiveness
- Encourage the start-up and expansion of new **businesses / enterprises**

Examples of Supply Side Policies

Reducing unemployment benefit	This would cut state benefits such as job seeker's allowance	This makes being out of work less attractive and increases incentives to work.	BUT	Can cause inequality.
Reducing corporation taxes	This means businesses get to keep more of their profit	This increases the incentive to invest and therefore lead to more innovation	BUT	Less government revenue
Spending on infrastructure	May involve govt spending on new roads, high speed broadband, airports	This helps communication and transporting goods. May help workers to be more geographically mobile	BUT	Can be very expensive. Can cause negative externalities.
Education and Training	This could help funding for apprenticeships	This should make workers more employable & productive	BUT	Can be costly and has time lags
Allow more immigration	Restrictions may be reduced. Those with certain skills encouraged to come.	Larger workforce and therefore more output	BUT	May put strain on housing & education

Extended Reading

Quizizz

Video
(ignore diagrams at the end)

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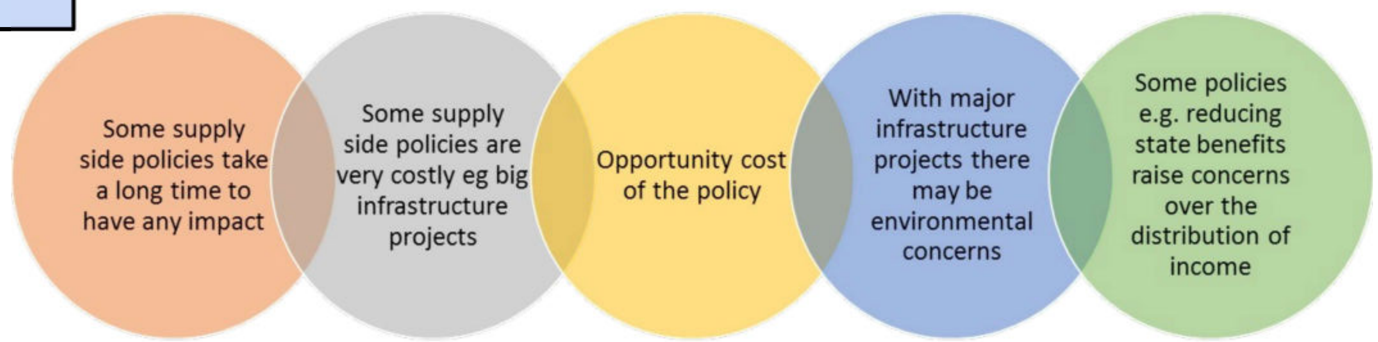
Supply Side Policies and Macroeconomic Objectives

Economic Objective	How supply side policies help
Maintaining full employment	Supply-side policies aimed at improving skills should ensure that individuals become more employable. Increased efficiencies and profits for businesses should encourage greater employment. Some concerns remain that an increased drive towards robotization may lead to some unemployment.
Having a balanced current account on the balance of payments	If the UK's economic efficiency improves then UK products and services should become more price competitive (i.e. prices will fall), generating an increased demand for UK exports.
Achieving greater equality	Improved economic efficiency and economic growth can allow the government to ensure policies aimed at improving equality (such as an improved educational provision) are implemented. An improvement in employment opportunities should also lead to greater equality.
Price Stability	Supply side policies aim to increase long-term competitiveness and productivity. For example, it was hoped that privatisation and deregulation would make firms more productive and competitive. As firms push to be more competitive this will lead to a fall in costs of production and therefore reduce inflationary pressure.
Economic Growth	Supply side policies include education and training. It would mean that workers would have more skills. Productivity (output per worker) is likely to rise thus increasing output / achieving growth. Another policy is cutting state benefits. This means more people are likely to look for jobs. With greater incentive to work, more output is likely, thus achieving growth. Other supply side policies to enable growth are: encouraging new technology and innovation, improving infrastructure, reducing monopoly power/encouraging competition

Evaluation Issues



Exam Questions

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Video
(ignore diagrams)

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