

## Syllabus Reference 3.7 **6** Supply Side Policies

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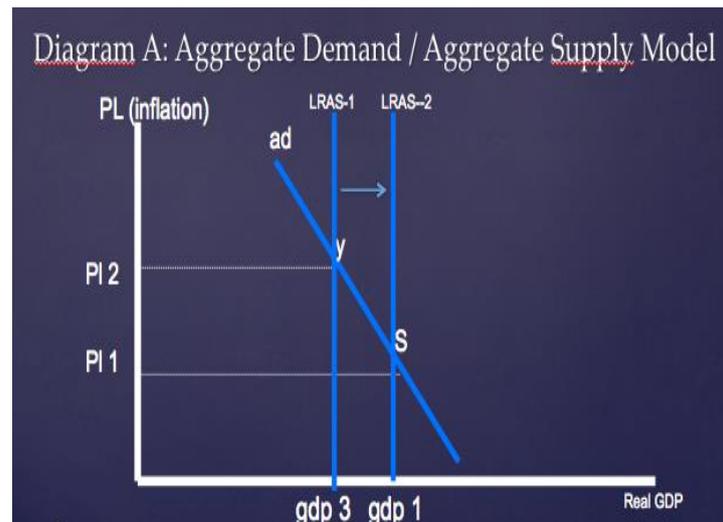
Supply-side measures, then, are a powerful way of influencing both output and the level of employment whilst demand measures, according to classical economists, are positively harmful.

In general, aggregate supply will increase if

1. there is an increase in the number of workers' willing to work at the going wage rate (many of whom may be counted officially as unemployed, but in theoretical terms form part of the voluntary unemployed);
2. an increase in the stock of land or capital for production;
3. more entrepreneurship; or an improvement in the efficiency of production in the economy.

Classical economists argue that there are a number of ways in which the Government can increase long run aggregate supply in the economy:

Here are **6** examples:



### 1 Reduce marginal tax rates

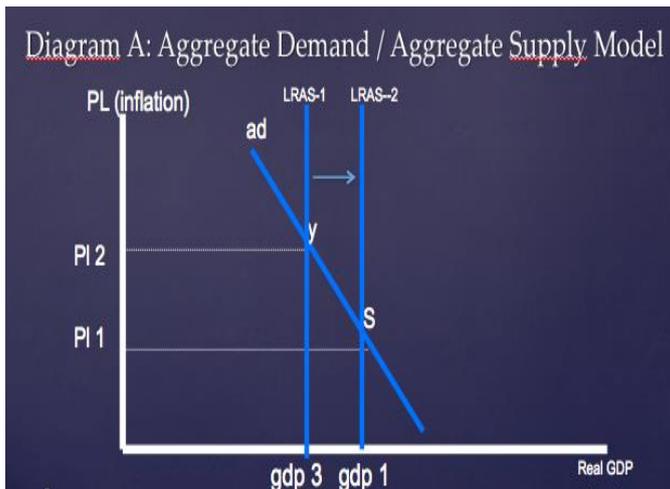
- Classical economists argue that the higher the marginal rate of tax, particularly taxes on income and wealth, the less incentive there is to work.
- Reducing margin tax rates will increase workers willingness to work and earn more income.

### 2 Reduce welfare payments for the unemployed

- Workers are less likely to be willing to take jobs if unemployment benefits are high in relation to average earnings than if they are low.
- Cutting unemployment benefits will encourage the unemployed to take jobs. They will spend less time looking for jobs and will be more prepared to take low paid jobs.
- On this argument, the workings of the welfare state create unemployment.

### 3 Encourage entrepreneurship

- Entrepreneurs are vital to any free market system. By taking risks they create new jobs, and today's small entrepreneur is tomorrow's large successful company.
- Cutting marginal tax rates, cutting government red tape (like health and safety regulations for employees, and planning permission for premises), and providing a reliable source of cheap labour will all help entrepreneurs to make the profits necessary for survival in a competitive environment.



### 5 Privatisation

- There is no incentive for public sector enterprises and bodies to be efficient.
- The private sector, on the other hand, is subject to competition.
- If firms are inefficient they will be driven out of business.
- Privatising the public sector provision of goods and services will automatically increase efficiency in the economy as a whole.

### 4 Reform labour legislation

- Over the years, workers have gained rights in law. For instance, workers are protected against unfair dismissal. They can strike or take other industrial action.
- In some industries there are maximum hours of work per day or per week. Health and safety regulations protect workers. These all impose costs upon employers.
- Reducing the rights of workers will encourage firms to employ more people.

### 6 Competition policy

- The forces of competition keep industries efficient. Therefore, competition should be increased wherever possible.
- In the 1980s, for instance, the UK Government increased competition in the provision of financial services by giving building societies wider powers to compete with banks, and through 'Big Bang'-the deregulation of the Stock Exchange and other money markets.
- The Government also has a responsibility to encourage free trade. Competition from foreign firms is essential if British industry is to remain efficient.