

Supply-side policies

Supply-side policies are policies that increase the **productive potential** of the economy. They raise the economy's **trend growth** by increasing the **quantity and/or quality of factors of production**, so **LRAS shifts right**.

Two types of supply-side policies

Market-based (free-market) policies

These reduce the government's intervention within the market . Common examples include **privatisation, deregulation, and income/corporation tax cuts**.

Interventionist policies

These involve/increase the government intervention within the market .Common examples include spending on **education/training** and **infrastructure**.

Main aims of supply-side policies

- Increase incentives (to work, train, start firms, invest)
- Promote competition (reduce monopoly power, improve efficiency)
- Reform the labour market (reduce structural unemployment, increase flexibility)
- Improve skills and labour quality (human capital, productivity)
- Improve infrastructure (lower costs, raise productivity, better matching)

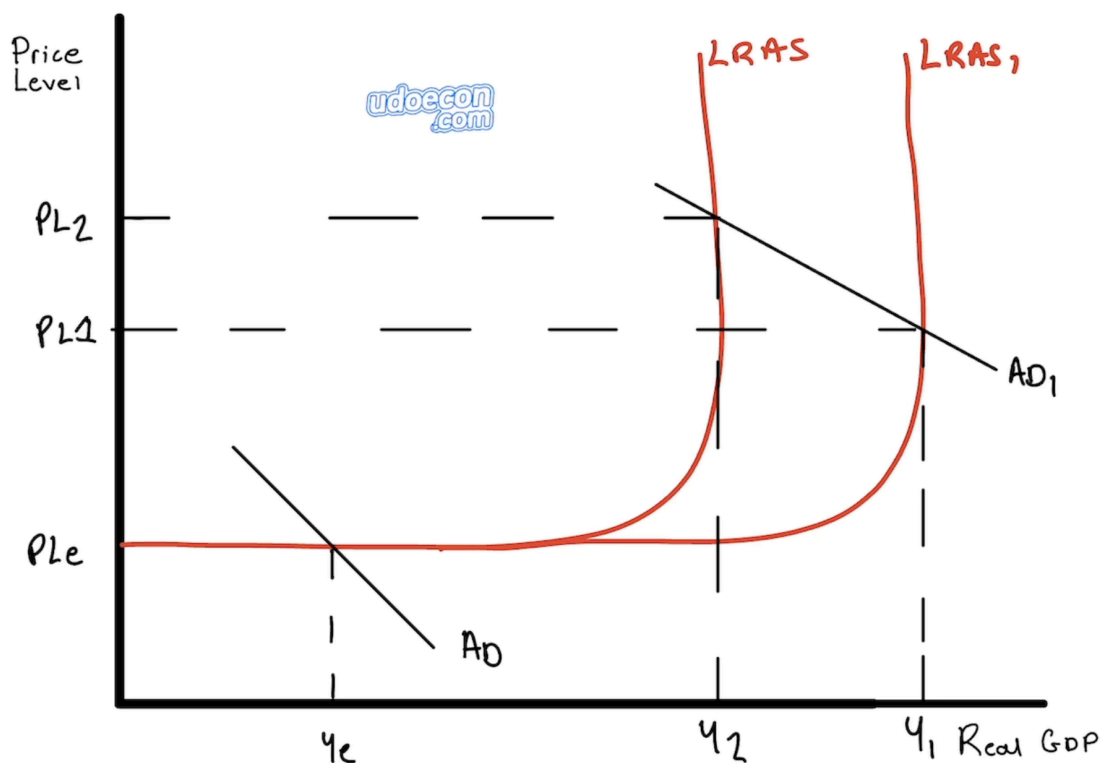
Market-based supply-side policy example

Market-based supply-side policy → reducing regulation in planning permissions (e.g., allowing development on “grey belt” land)→ land supply for housing increases→ faster/cheaper housing delivery→ housing stock rises + affordability improves over time→ labour mobility increases (workers can move to high-demand areas more easily)→ labour market flexibility improves→ structural unemployment falls (people can take jobs/training without being priced out)→ firms face lower wage cost pressure (less need for “London weighting”-type pay due to housing costs)→ business costs fall + profitability/expected returns rise→ higher private investment (I) in factories, offices, logistics, local services (more confidence + space to expand)→ capital stock increases + agglomeration economies

strengthen (bigger labour pools, better matching, stronger supply chains)→ productivity rises (output per worker ↑)→ the economy's productive capacity increases→ LRAS shifts right (higher potential output / trend growth).

Interventionist supply-side policies chain of analysis example

Interventionist supply-side policy → Subsidising apprenticeship schemes, e.g. the Apprenticeship Levy (2017), where large employers contribute 0.5% of their wage bill to fund training. In 2022/23 there were 337,000 apprenticeship starts in England. The subsidy lowers the private cost of training, encouraging more firms to take on apprentices, expanding the quantity of training. This improves the skills of the UK workforce, particularly young people (youth unemployment was ~11% in 2023 vs ~4% national average) and helps replace skills lost due to an ageing population. The increase in human capital raises labour productivity, meaning more output per worker per unit of time. Firms can therefore produce more goods and services, increasing real GDP. In the long run this shifts LRAS outward (LRAS → LRAS₁). In addition, higher productivity and wages can raise investment (I) and consumption (C), producing a secondary outward shift of AD (AD → AD₁).



Strengths and weaknesses

Strengths

- Increase the rate of economic growth
- Reduce the average price level
- Reduce unemployment
- Improve net exports and competitiveness (lower costs → lower prices)

Weaknesses

- Can worsen income distribution (e.g. wage restraint, labour market reforms)
- Often expensive for the government (especially interventionist policies)
- Significant time lags, so benefits may not appear quickly
- Political risk: budgets and priorities can change between governments
- Implementation problems and vested interests can lead to poor value for money (e.g. how privatisation is designed)