

08/03/19

Here are the five economic stories which have caught our eye this week:

Much Ado About Nothing?



The row between the tripartite trading nations of the US, UK and EU continued this week over food and hygiene standards in a post-Brexit trading environment.

When we talk about trade frictions we are often looking at two different types – regulatory frictions or customs frictions. As a member of the European Union, the UK follows the same product standards as every other member state to form the foundations of the single market (same standards, less frictions to trade). However, these standards diverge when countries operate outside of a larger trading bloc - countries pursue the trade policy that suits them most favourably.

The US and the EU have contrasting regulatory standards on a range of different goods. For instance, in the agricultural sector there are stricter regulations in place in the EU with regards to food and animal welfare standards compared to the US. The US wash chicken carcasses in chlorine to reduce the chances of salmonella being contracted after handling and consumption. The EU ban this process as it claims that it encourages reduced hygiene standards during the process and does little to tackle the problem.

Why is this an issue? Well if the UK are to carry through with the form of Brexit deal that has been negotiated by the Government then the UK will be looking to negotiate a trade deal with both the EU and the US. The difficulties the UK may face in these negotiations will relate to how the country can bind together trade deals with different countries with diverging product standards for the same goods.

This highlights why sometimes it is just as important to consider regulatory standards just as much as tariff barriers when discussing trade frictions and the role of free trade agreements.

Define and explain the terms 'trade creation and 'trade diversion' in the context of changing regulatory standards.

To what extent do you agree with the view that the UK should converge their product standards with the rest of the world after their departure from the European Union?

5

Embracing the Chinese Middle Class



In China this week the annual session of parliament got underway. In this traditional parliamentary curtain raiser, officials announced new plans to help stimulate and revive the world's second largest economy.

Markets around the world have been given the jitters after a series of tame economic figures were released by China last year. These figures pointed to a distinct slowdown in the growth rate of the economy from 6.5% a year to 6%. The fears from the slowdown in the economy has been amplified by the sharp trade rhetoric simmering between the US and China.

The measures announced by China include a boost to government expenditure, a commitment to open China's economy up to foreign companies and sharp cuts in personal and business taxation rates including a cut in the VAT rate in the construction and manufacturing sectors.

The authorities in China seem to be willing to facilitate the economy's transition from a developing to a developed economy. The Chinese economy is at the turning point which all economies seem to reach when growing and developing from a relatively low base.

The country has experienced years of rapid growth fuelled by corporate borrowing and investment, as well as being supported by the country's comparative advantage in exporting many manufacturing and industrial products. The economy is now entering a phase where the growing middle class begin to switch away from the traditional Chinese option of saving towards a more westernised option of spending. This means the rest of the global economy are going to have to start to adjust to seeing more modest growth numbers being released by China each year.

To what extent do you agree with the view that expansionary fiscal policies are the most effective approach to increase the productive capacity of an economy?

Women in Economics #BalanceforBetter



Today is International Women’s Day (IWD). March the 8th represents the day each year when the role of women in industry, communities and society is celebrated collectively. It is also used as a day for reflection on how much progression has been made in advancing women’s rights around the world since the suffragette movement. However, it also provides us with a timely reminder of just how much progress still needs to be made to ensure equal opportunities.

Whilst within many developed economies the female participation rate within the labour market has increased rapidly over the past few decades, women are still vastly underrepresented within senior positions. There is a growing body of evidence to suggest that increasing diversity within senior management teams improves performance.

Within developing economies, improving female access to education and training will increase the productivity of 50% of the labour force. International aid is often devoted to improving educational provision within developing economies, but just as important is changing societal attitudes.

Therefore, as much as we should be celebrating the role that women play in business and across wider society currently, we should also reflect on the opportunities that lie ahead by breaking down barriers that exist in both developed and developing economies.

Discuss how female empowerment can help reduce the level of inequality and poverty within a developing economy.

Discuss the impact that female empowerment is likely to have on the HDI score of a developing country.

Dundee Living Wage



Dundee is a coastal city in Scotland famous for its cultural heritage, manufacturing prowess and historical landmarks. However, this proud Scottish city could soon be the home of another UK first. Dundee could be about to become the first UK living wage city.

The living wage is a recommended hourly pay rate put forward to employers by the Living Wage Foundation (an independent campaign organisation). The pay scale recommended is calculated based on the basic life sustaining needs of workers in different regions across the UK.

It is important to make the distinction between the voluntary and national living wage. The national living wage is enforced by the government for any workers over the age of 25. The voluntary living wage is the level recommended to firms. This is more than £1 higher than the hourly rate enforced by the government at £9.

Fifty employers in the city have already taken on this voluntary rate, with further employers expected to adapt their wage bill to reflect this higher level. The foundation hope that further increases in the living wage will provide a competitive boost to the region’s productivity levels, as well as tackle wider inequality issues across UK cities and towns.

Describe the difference between the national living wage and the national minimum wage introduced in 1999.

Using a diagram, discuss the impact on regional unemployment levels if a higher living wage is adopted by all employers.

UK Productivity Improvements



This week UK productivity growth was put under the spotlight by the Bank of England in relation to an uptick in the most recent data release. The Bank point towards mild increases in the amount of output produced per hour from 0.4% to 0.6%.

The importance of these latest figures is that this somewhat changes the the need for further interest rates rises. If productivity is growing (albeit slowly), the economy will start to develop some excess capacity and this may potentially calm down the tones from the Bank in regards to future interest rate rises.

Many economists point to the UK’s recent sluggish productivity performance as the last missing piece of the UK’s recovery from the 2008 financial crisis.

With the aid of a diagram, explain how productivity improvements reduce the need for interest rates to rise.