

Describe the policy methods by which microeconomic reforms can occur.

PLAN ONLY
STYLE:
POLICIES

CHARACTERISTICS OF THIS SPECIFIC QUESTION:

Style of the question?	Policies	(policies)
Tense of the question?	Current	(available policies)
Direction of the question?	Methods	(how)
Is the question general ?	General	(not stated)

TACTICS

SCAFFOLDING THE ESSAY:

The main scaffold of this essay:

You must address the major forms of micro reforms: deregulation, privatisation, and legislation designed to liberalise the economy.

Secondary scaffolds:

You should be prepared to discuss examples of the different reforms.

INPUTS
TO MAKE
YOUR
ANSWER
MORE
DETAILED

OPTIONAL INPUTS TO MAKE YOUR ANSWER MORE DETAILED:

Buzz words:

Efficiency (technical, allocative), productive capacity, state-owned enterprises (SOEs), economic liberalisation

Economic analysis:

Microeconomic reforms target increased productivity and efficiency

Names / quotes:

Productivity Commission, WorkChoices, Fair Work Australia

Diagrams:

N/A.

Complex issues:

- Microeconomic reforms have been the major drivers of Australia's strong economic growth.
- Much of these reforms occurred in the 1980s and 1990s, and the results of these policies are only just being seen.
- Deregulation, privatisation and legislation are all major policy initiatives available to governments, both state and federal.
- The government must focus on continuing such reforms in order to prolong sustainable, strong growth for Australia.

MINI PLAN

MINI PLAN:

Introduction		1 paragraph	2 minutes
Part 1	Deregulation	2 paragraphs	4 minutes
Part 2	Privatisation	3 paragraphs	6 minutes
Part 3	Legislation	3 paragraphs	6 minutes
Conclusion		1 paragraph	2 minutes

DETAILED PLAN:**Introduction**

Paragraph 1 Overview of microeconomic reforms.

Part 1: Deregulation

Paragraph 2 Explanation of how it works.

Paragraph 3 Eg. banking and airlines.

Part 2: Privatisation

Paragraph 4 Explanation.

Paragraph 5 Eg. Telstra.

Paragraph 6 Limitations.

Part 3: Legislation

Paragraph 7 Explanation of what this involves.

Paragraph 8 Eg. WorkChoices.

Paragraph 9 Flow-on.

Conclusion

Paragraph 10 Summary of answer.

INTERNET RESOURCE:

* Productivity Commission - Annual Report 2007-08 - http://www.pc.gov.au/__data/assets/pdf_file/0006/83868/chapter01.pdf. Statistics on productivity and GDP growth.

Describe the policy methods by which microeconomic reforms can occur.

Simple answer

Techniques for constructing the paragraphs

FOCUS:
Examiner's 'key word' - 'Describe'

FOCUS:
Information:
Overview of the essay

FOCUS:
Information:
Definition

Internet time! Visit:
RBA – Australia's experience with financial deregulation <http://www.rba.gov.au/publications/bulletin/2007/aug/pdf/bu-0807-3.pdf>

FOCUS:
Information:
Examples to support your argument

FOCUS:
Information:
Definition

FOCUS:
Information:
Buzz words

FOCUS:
Information:
Examples to support your argument

Introduction:

When describing the policy methods by which microeconomic reforms can occur, it is necessary to provide the general characteristics and features of these initiatives. Microeconomic reforms are policies aimed at specific sectors of the economy, designed to boost technical, allocative, and dynamic efficiency. Such reforms can be applied to both factor and product markets, and consist of deregulation, privatisation, and liberalising legislation. They increase the economy's productive capacity, allowing long-term growth while reducing inflation. The Productivity Commission estimated that Australia's GDP in 2006 was 2.5% higher due to micro reforms from the 1990s.

Part 1: Deregulation

Deregulation is the removal or reduction of government controls within a sector. This allows the market to function more freely, promoting fairer competition. This forces firms to become more productive and efficient, leading to lower prices and greater productive capacity. Governments, though, must be prudent when deregulating. Some government restrictions do certainly hamper market efficiency, but some regulations protect things such as workers' rights, consumers' rights, and the environment.

For instance, in 1990 the airlines sector was deregulated. Regulations that limited Australia to two major airlines and exerted significant control over fares and schedules were lifted. As a result, more airlines could enter the industry and competition increased, which led to lower fares and better service. Similarly, the banking industry was deregulated in 1983, allowing foreign banks to operate in Australia and removing restrictions on the kinds of services different types of banks could provide. This forced banks to become more competitive.

Part 2: Privatisation

Privatisation is the sale of state-owned enterprises (SOEs). This makes the industry more competitive, because it means that all firms operate under the same conditions. SOEs are usually backed by government funding. This means they do not have to make a profit, so do not have to be competitive. When they are sold, they must improve their services and prices in order to compete and survive. Privatisation also raises revenue for the government, but this is only a one-off payment.

Recently, Telstra was privatised. The government sold its majority share in 2006, so that it is now a private company. Like all other telecommunications companies, it now seeks to make a profit. It is hoped that this will force Telstra to improve its services and reduce its prices, benefiting consumers directly, and lowering production costs for firms. In all, the sale of Telstra earned the government tens of billions of dollars.

Privatisation has its limitations, though. In the past, some SOEs provided

FOCUS:
Information:
Examples to support
your argument

vital services that the market could not provide at an appropriate price, and continue to do so. For example, Australia Post, which is still owned by the government, provides a vital infrastructure for communication which is the same all around the country and is reasonably priced. One of the main criticisms of the privatisation of Telstra was that it might leave rural areas without vital telecommunications coverage, if it were not deemed profitable. Also, most SOEs have a monopoly in their market, so privatisation must be handled carefully. Otherwise, the newly privatised company will simply retain the monopoly, and efficiency will not improve.

FOCUS:
Information:
Definition

Part 3: Legislation

Legislation refers to the government seeking to reform a sector by creating specific laws to increase economic liberalisation. This means, essentially, reducing the government's involvement in the market. Like privatisation and deregulation, this is designed to remove distortions in the market and therefore boost efficiency.

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Information:
Buzz words

The Howard government's 2005 WorkChoices legislation is perhaps the most notorious example of this practice. It was an attempt to reform the labour market by creating new laws. In short, these laws sought to increase the flexibility of wage negotiations by removing the number of conditions which employers had to meet, and reduce cost inflation caused by wage increases by reducing the influence of workers' unions (therefore limiting wage increases).

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Information:
Examples to support
your argument

In theory, WorkChoices was not without its merits. It tried to ensure that wages did not rise faster than productivity, and tried to boost efficiency by allowing employers and employees to negotiate a contract that was most appropriate for the individual workplace, rather than relying on blanket conditions for the entire industry or even the economy. However, it was controversial for the power it gave to employers and the potential for abuse. Workers' rights were seemingly diminished and the subsequent government abolished the legislation. It demonstrates the potential hazards in microeconomic reform. There are many stakeholders with different interests, and government objectives often conflict. The new Labor administration introduced its own labour market reform, called Fair Work Australia. It has a greater focus on workers' rights, but also aims to improve the operation of the market, such as by streamlining the award system under a scheme called Modern Awards. It is too early to tell whether this reform has been successful.

FOCUS:
Information:
Recent/historical
trends to flesh out
your argument

FOCUS:
Recapping your
essay

Conclusion

Microeconomic reforms are vital if an economy is to thrive for the long-term. The government can improve efficiency and productivity within product and factor markets through deregulation, privatisation, and legislation. However, these must be applied with great care; reform may be inappropriate in certain areas.