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HSC Economics

Sample Essay Marking

Labour Market Essay



HSC Economics Sample Essay Marking

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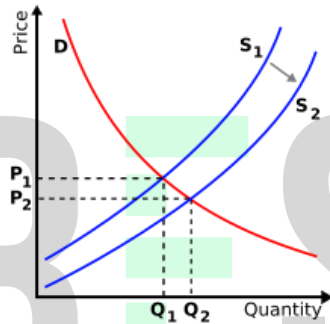
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Essay Question:

Explain how labour market policies can be used to achieve Australia's economic objectives.

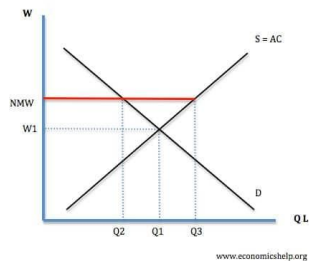
Currently, Australia has a hybrid system of wage determination that utilises market forces while still maintaining a place for non-market forces. The Australian government can implement a mixture of labour market policies that influence employment, wages and education in order to move towards achieving Australia's economic objectives of sustainable economic growth, full employment, price stability and a more equitable distribution of income. In particular, the continual decentralisation of the Australian wage determination system and education, training and employment programmes all contribute to the fulfillment of economic objectives.



Commented [CE1]: Great introduction outlining your arguments and clear thesis.

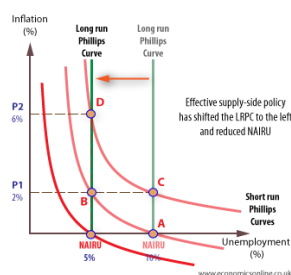
Since the implementation of the 'Industrial Relations Reform Act' in 1993, Australia has transitioned towards a decentralised wage fixing system which determines wage outcomes based on the market forces of supply and demand. This movement for greater decentralisation was continued throughout the 1990s and through to the 'Work Choices Act' in 2005. Greater decentralisation leads to improved allocative efficiency in the economy as firms that are more efficient attract higher skilled employees, enacting structural change and the shift of resources from inefficient to efficient firms. Movement towards a decentralised wage system also encourages increased labour productivity with employees

Commented [CE2]: The transition away from centralised to decentralised could be explained in more detail. Explore the reasons behind such a change to make your arguments flow on stronger.



being incentivised to work more productively by adopting more efficient work practices and producing higher quality or a greater level of output in order to gain greater rewards. This contributes to the level of productivity within an economy and hence, contributes to the level of aggregate supply, increasing long term economic growth while reducing inflationary pressures as seen in Figure 1. The immediate improvement in productivity since the implementation of this labour market policy is evident in the increased average productivity growth from 2% in 1980 to 3% in the 1990s. This increase in productivity contributed to an increase in the level of economic growth in Australia. Decentralisation results in greater flexibility of the labour market, allowing it to absorb external shocks more effectively and hence, maintain lower levels of unemployment. This was evident during the GFC where due to decentralisation, firms were able to avoid retrenchment and job losses by opting for other options such as reducing hours, resulting in the unemployment rate only increasing from 4-6% instead of the forecasted 10%. Similarly, in 2020, despite the COVID 19 pandemic, a decentralised wage system in conjunction with fiscal stimulus packages such as 'Job keeper' has allowed firms to retain workers. This is evident in the relatively lower peak of unemployment in 2020 at 7.5% especially when compared to other OECD countries; US unemployment peaked at 14.7% and 13% in Canada.

However, it has led to a more casualised workforce and hence, higher levels of underemployment as seen in 2020 with the underemployment rate remaining unchanged at 11.4%. Greater decentralisation can also contradict the economic objective of a more equitable distribution of income as it promotes greater income inequality due to wage dispersion. It increases income inequality between low and high income earners as high income earners who possess greater bargaining power and are usually represented by stronger unions are able to bargain for higher wages while low skilled workers lack this form of union representation and bargaining power.



Commented [CE3]: Good explanation of greater efficiency and link to diagram.

Commented [CE4]: Good use of statistics in this paragraph.

Commented [CE5]: Are you referring to the trend of casualisation due to labour market decentralisation? You may also mention the disadvantaged groups including females and young people who have become unemployed or underemployed or received a lower level of income during the pandemic.

Commented [CE6]: Wage dispersion should be explained further. Imagine if the question asks you specifically about the relationship between labour market policies and income distribution, would you be able to explain that in detail? The decentralisation of wage determination contributes to a more inequitable distribution of income as now household incomes are linked to their amount and quality of factors of production. Therefore, some groups in the Australian economy are disadvantaged in nature such as migrants, young people, women, etc. Moreover, household levels of income depend on their bargaining power which rely on their amount and quality of factors of production, salary negotiation skills and union power

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More recently, the 'Fair Work Act' in 2009 has aimed to provide a safety net and national employment standards while still allowing for collective bargaining, promoting a more equitable distribution of income. The 'Fair Work Act' which modernised the awards system by replacing the 4,300 state and federal awards with 122 national awards effectively reduced the compliance costs for firms, making it more attractive for employers to hire labour and hence, leading to a decrease in the unemployment rate. However, the policy also established and gave government bodies the power to set a minimum wage which is currently \$19.84 per hour, potentially increasing production costs for firms and reducing the demand for workers as seen in Figure 2.

Another major labour market policy that can aid in the Australian governments' goals of achieving full employment, a more equitable distribution of income and a sustainable rate of economic growth are training, education and employment programs. According to the OECD, approximately ¼ of workers have a mismatch between existing skills and those currently required for jobs, highlighting the importance of labour market programs in reducing structural unemployment. For example, in order to aid those who were affected by the closure of the automotive industry, the government provided a \$155 million growth fund in 2014 with aims to reskill the structurally unemployed with new skills and assist them in the process of gaining employment. More recently, the NSW state government has introduced a labour market policy that further aims to reduce structural unemployment. As a part of this \$285 million policy, TAFE fees have been abolished for 100,000 apprentices, allowing students to save approx \$2000 per course. This increases the supply of apprentices that will be equipped with adequate skills to meet the demands of current employers, effectively improving structural unemployment rates. By providing retraining programs for and preparing those who are structurally unemployed for employment, the government can effectively improve the NAIRU and achieve full employment by shifting the long run phillips curve to the left as seen in Figure 3.

Another major labour market reform that will contribute to the movement towards achieving full employment and a more equitable distribution of income is the 'Gonski reforms' worth \$10 billion. These reforms implemented in 2012 aimed to assist and aid disadvantaged students by reducing excessive payments to schools that didn't need them and instead, redirect funds to those that did. The effectiveness of these labour market policies in improving employment and achieving a more equitable distribution of income particularly for those who are disadvantaged is demonstrated in the increase in school retention rates from 79.3% in 2012 to 90% in 2020. Increased access to education allows students to achieve a higher level of productivity and hence, reduce their risk of being

Commented [CE7]: This is especially evident during the COVID-19 pandemic. The national minimum wage has actually increased during mid-2020. The government has pushed back the increase in minimum wage for some industries which have been relatively affected more by the pandemic.

Commented [CE8]: A greater focus on the impacts of JobTrainer in the latest budget is needed. Explain how subsidising the cost of education increases the quality of labour which is a component of aggregate supply. This may then lead to long term higher rates of economic growth.

Commented [CE9]: Flawed to assume this change is entirely due to the Gonski Reforms. More comprehensive to explore other potential factors that have led to this increase.

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unemployed, improving the distribution of income. Increased productivity rates will also contribute to improved efficiency of resource allocation, leading to increased aggregate supply and hence, long term economic growth in Australia.

Numerous employment programs have also been implemented with the aim of improving Australia's economic performance and achieving objectives. In 2016, the establishment of the 'Prepare-Trial-Hire (PaTH)' scheme aimed to provide pre-employment skills training for unemployed youth, effectively improving the quality of human capital and hence, future productivity and growth rates. As a part of this scheme, 120,000 internships will be available and job seekers will receive \$200 per fortnight on top of their normal income and incentivises firms to take on interns by providing financial rewards up to \$10,000. While this scheme does address the problem of youth unemployment which has experienced a decrease from 12.67% in 2016 to 11.87% in 2018, it does not address other economic objectives including a more equitable distribution of income. The supply of cheaper labour as a result of this scheme will cause wages for individuals who are not part of this program to decrease, distorting the distribution of income.

In conclusion, the Australian government can implement a range of labour market policies including policies that promote decentralisation and education, training and employment programs to improve the flexibility and efficiency of the Australian labour market. By improving the efficiency and productivity of workers, this can contribute to greater long term economic growth, full employment and price stability. However, it can also lead to greater underemployment and a less equitable distribution of income.

Commented [CE10]: Consider including the more contemporary labour market policies in this paragraph with a greater focus on the 2019-20 budget to round out your response.

Commented [CE11]: I still think your conclusion can be more powerful. Consider mention some significant contemporary examples to remind your markers of what comprehensive your knowledge is.