

Microeconomic Policy involves Govt action to change the pattern of production to suit the most efficient allocation of resources, enhances ~~pro~~ competition and lifts productivity. Structural change refers to this change in pattern and is essential to the Australian economy in the 21st century as we are increasingly open to global market forces and need to remain internationally competitiveness to improve the structural problems ~~at~~ associated with ~~the~~ External imbalances. It has played a major role, more so than macroeconomic policies, as our main problems are inefficiencies in the Australian market.

~~Several~~ Microreform has been used

to promote structural change in the economy as it affects the supply curve in markets. Microeconomic policies aim to reduce the costs of production by creating an environment of flexibility, efficiency and productivity. Three types of efficiency exist and all are essential to ~~maintain~~^{creating} structural change in the economy. Allocative efficiency occurs when resources are allocated efficiently in the economy; Technical efficiency involves the optimal rate of production with the lowest costs and Dynamic efficiency refers to the promptness of suppliers and producers to react to global and domestic changes.

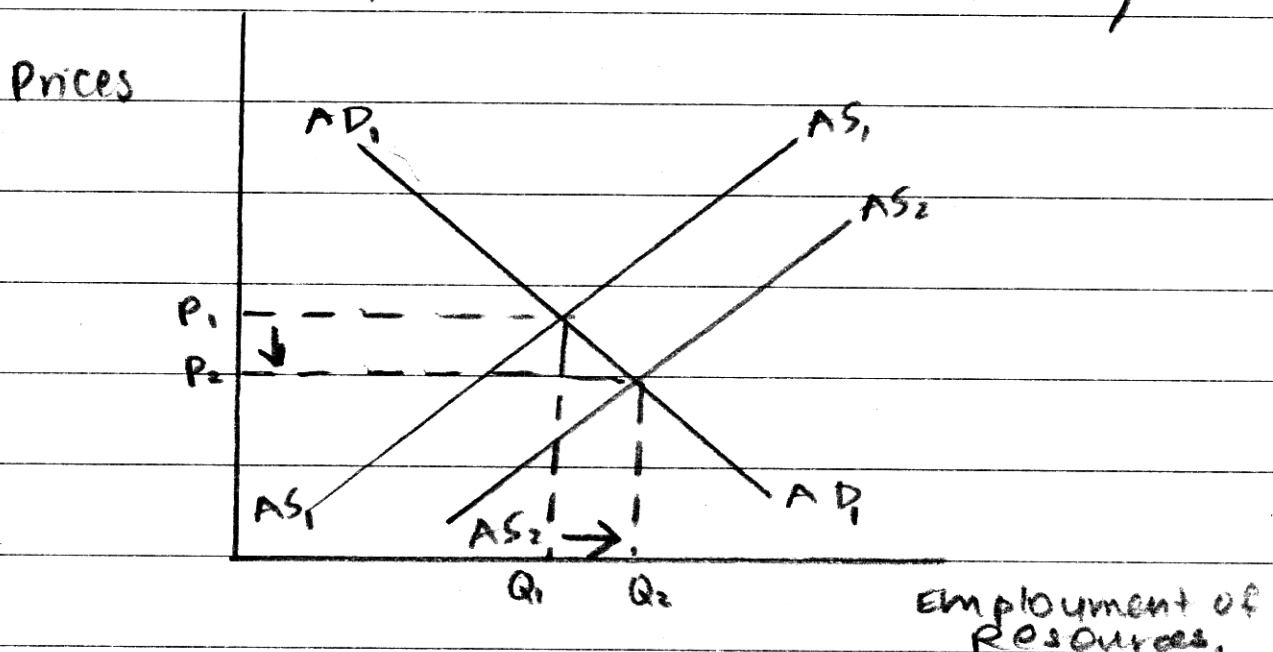
Microeconomic reform is a supply side policy. ~~As~~ The diagram

below illustrates the ~~impact~~ forces of demand and supply and how the price mechanism works.

The ~~movement~~ rightward movement of the supply curve from AS_1 to AS_2 indicates the increased ~~efficiency~~ efficiency and productivity of the economy, which enables it to sell at a lower price (P_2) and in a larger quantity (Q_2)

Diagram one:

The Australian Economy



Structural change is beneficial to

to the economy for many reasons, reflecting the Govts shift towards supply side economics and managing costs of production. The structural change ensures that the ^{scarce} resources of the economy are used optimally to their most productive use. This will increase the rate of sustained economic growth, reduce unemployment (in the long term), reduce inflation, and improve our external stability. With the growing influence of globalisation our trade performance has also become increasingly influential in policy, as well as speculation and investor confidence.

There are 5 main types of reforms undertaken by the government to induce structural

change.

Tariff Reform is increasingly important, as previously mentioned, the importance of globalisation on our domestic Economy. The major achievement in Tariff reform was the 1991 Industry statement which aimed at reducing barriers of trade into Australia. The main features of this reform are:-

- a reduction in ^{average} general tariffs to 5% by 2000.

- a reduction in tariffs to 25% and abolishment of quotas in the Textiles, Footwear and Clothing (TCF) industry.

- a reduction in tariffs to 15% in the motor vehicle industry.

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Also, Australian membership in the Asia Pacific Economic Cooperation ensures a complete abandonment of tariffs by 2010 for industrialised economies.

Tariff reform is important as globalisation is an inevitable feature of the 21st century. Increased competition induced by the lower barriers will force domestic industries to be more competitive, and inefficient industries will be phased out - leading to the structural change that is needed for economic prosperity.

Another ~~form~~ arm of microeconomic policy is the National Competition Policy. (as a suggestion from the Hilmer Report) National competition

policy includes the formation of Australian Competition and Consumer Commission which acts as a consumer "watch dog" in regulating any anti-competitive actions. Furthermore, the reform of government instrumentalities such as water, gas and electricity have improved the efficiency of infrastructure and reduced costs.

This policy leads to structural change in that it reduces the costs of production, hence increasing our international competitiveness, enabling domestic industry to allocate resources to the firms ~~and~~ that take the most advantage of these price decreases.

Labour market reforms have

been the major part of structural reform in the domestic sector. It includes actions outlined in the Trade Practices Act and an important factor is the introduction of Enterprise Bargaining. Enterprise bargaining ~~allows~~ is a decentralised wage determination system which allows for employers and employees to negotiate for flexible workplaces. Further more, Australian Workplace Agreements have further enhanced the quality of employer-employee relations.

Labour market reform is essential in structural reform, as labour cost constitute 60% of the costs firms encounter in the production of a good.

Deregulation of the labour market

increased the productivity and efficiency of human capital, integral in promoting structural change.

Productivity has risen to 3% in Australian workplaces as a result of Enterprise Bargaining, second only to Norway. Reductions in the cost of labour, and their productivity and efficiency creates a good environment for international competitors, as domestic producers become more competitive, and lead to structural change in the economy.

Deregulation of Public Trading Enterprises and important sectors of the ^{industry have} ~~public~~ have also been important in reducing costs and improving efficiency. The

Government believes that deregulation of PTEs can increase their competitiveness.

~~and~~ The recent sale of Telstra has been an movement of this policy.

The deregulation of the Telecommunications Industry has resulted in 50 extra carriers been attracted to our domestic market (creating structural change) and call cost have reduced by some 15 cents in many cases.

Deregulation of the Financial Services and the Aviation industry are prime examples of industry deregulation. They have increased the competition with these industries and more resources have been allocated in new firms establishing themselves to gain the profits of this structural change.

Tax reform has also been an important part of microeconomic reform in recent years. The introduction of the Goods and Services Tax, for example, has increased structural change in the past few years. This is because the old Wholesale Tax only taxed goods creating an unfair advantage to services industry. The Goods & Services Tax however taxes all products at the same rate, exempting the essential needs such as fresh food, education and medical insurance.

The govt still uses tax reform to inhibit structural change in some areas. There are huge taxes placed on items in the economy that are deemed undesirable. Such as cigarettes,

and petrol (which is taxed at 40c/litre).

These reforms are crucial in creating structural change in the economy. Whilst macroeconomic reforms ~~control~~ controls cyclical factors of the international & domestic business cycle which balance the goals of economic growth and lower unemployment with low inflation in the short to medium term, there has been a shift away from the Keynesian viewpoint of demand management in the past two decades of Australian economic history. The government aims at 'increasing the rate of sustainable, non-inflationary growth in the long term by achieving international competitiveness and structural change.

The diagram below illustrates some of the structural change that has been occurring as a result of microeconomic reform:

Diagram Two: Industry % of Exports.

Year	Rural	Mining	Manufacturing
1981-82	38.7	43.5	12.0
2001-02	23.7	43.1	22.7

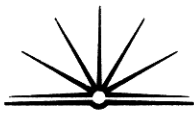
This table shows the increasing efficiency and resources allocated to the manufacturing industry.

Although old ineffective manufacturing such as the television and microwave industries are extinct in Australia, new components are emerging.

Companies such as BHP, and also changing structurally - in an internal

manner. They have realised the increased benefits that come from specialisation and its associated economies of scale and have re-administered their operations to suit the economy. With funds from the government through their Export Industry Encouragement Scheme, and Strategic Industry Policy, BHP has factored its huge plant into small specialised units and is experiencing greater production and outcome as a result, an example of the way Government use micro-economic policy to induce structural change.

It is obvious that the government must adopt policies of micro-



economic reform to encourage structural change in the 21st century. Australia has been a unilateral leader in reducing protection, ~~and~~ deregulating major sectors of the economy and implementing reform to spur economic growth by increasing international competitiveness, competition within domestic industry, creating specialisation and economies of scale, whilst still maintaining inflation and reducing the structural ~~comp~~ and cyclical component of the Balance of Payments.

Although short term costs of structural unemployment do exist, the advantages of micro reform and structural change far outweigh the disadvantages, as is illustrated to by Dr D. Archibald in his

Statement about microeconomic reform & structural change in May 2001, stating that "to abandon the ~~risk~~ process would not only deny us the benefits promised by the increased efficiency but put our economy at serious risk of falling continually behind other economies".