



Australian Government

The Treasury

Why is Structural Adjustment Important?

Steve French

Australian Treasury



Australian Government

The Treasury

Introduction

- Benefits of structural reform:
 - Higher sustainable growth and increases in living standards
 - Higher employment
 - Efficient allocation of resources
 - More flexible economy
 - Lower prices
 - More choice for consumers
 - Enhanced international trade and investment opportunities



Australian Government

The Treasury

Structural reform is not a choice

- Reform is either embraced or forced upon an economy
- Closed, rigid economy is not sustainable
 - Opportunity costs eventually force change
- Attempts to avoid reform fail
 - More difficult adjustment period



Australian Government

The Treasury

Reform experience

- Australian currency and trade reform
 - Floating of the currency
 - Reduction of trade barriers
- Subsequent waves of reform
 - Privatisation
 - Deregulation
- Reform is not without costs
 - Dislocation of labour
 - Regional impacts



Australian Government

The Treasury

The Reform Process

- Role for government: Managing the process
- Importance of macroeconomic stability
- Microeconomic reforms should, where appropriate, be broad-based
 - Australian reforms initially undertaken on a case-by-case basis
 - Broader reforms were then pursued



Australian Government

The Treasury

Non-traded sector reforms

- Non-traded sector reforms impact on the traded sector
 - Labour market reform
 - Product market reform
 - Financial market reform
- Different approaches necessary
 - Deregulation
 - Privatisation
 - Access regimes



Australian Government

The Treasury

Competition reforms

- Australian competition underpinned by:
 - National competition policy
 - Strong competition laws
 - Structural separation of utilities
 - Creation of independent regulatory authorities
 - Corporate law reforms



Australian Government

The Treasury

Maximising the benefits of reform

- Broad, cross market reform
 - Flexibility
- Productivity gains from reform
 - Stronger economic growth
- Dynamic effects of growth
- Empirical link between reform and productivity, employment and economic growth



Australian Government

The Treasury

Minimising costs of reform

- Some adjustment costs inevitable
 - Role for government
- Adjustment assistance
- Reform sequencing reduces costs
 - Macroeconomic stability
 - Robust institutions
- Identification of costs including distributional impacts of reform



Australian Government

The Treasury

Results of reform

- More than a decade of continuous economic growth
 - Unemployment fallen from 10.7% to 5.7%
- Record productivity growth
 - Labour productivity growth average 3.1%
 - Multifactor productivity growth average 1.7%
- Economic output 2.5% higher than without some reforms



Australian Government

The Treasury

Telecommunications

- Real price decreases between 1997 and 2002-03 of 20.1%
- Fixed to mobile costs down 23%
- Mobile call costs down 23%

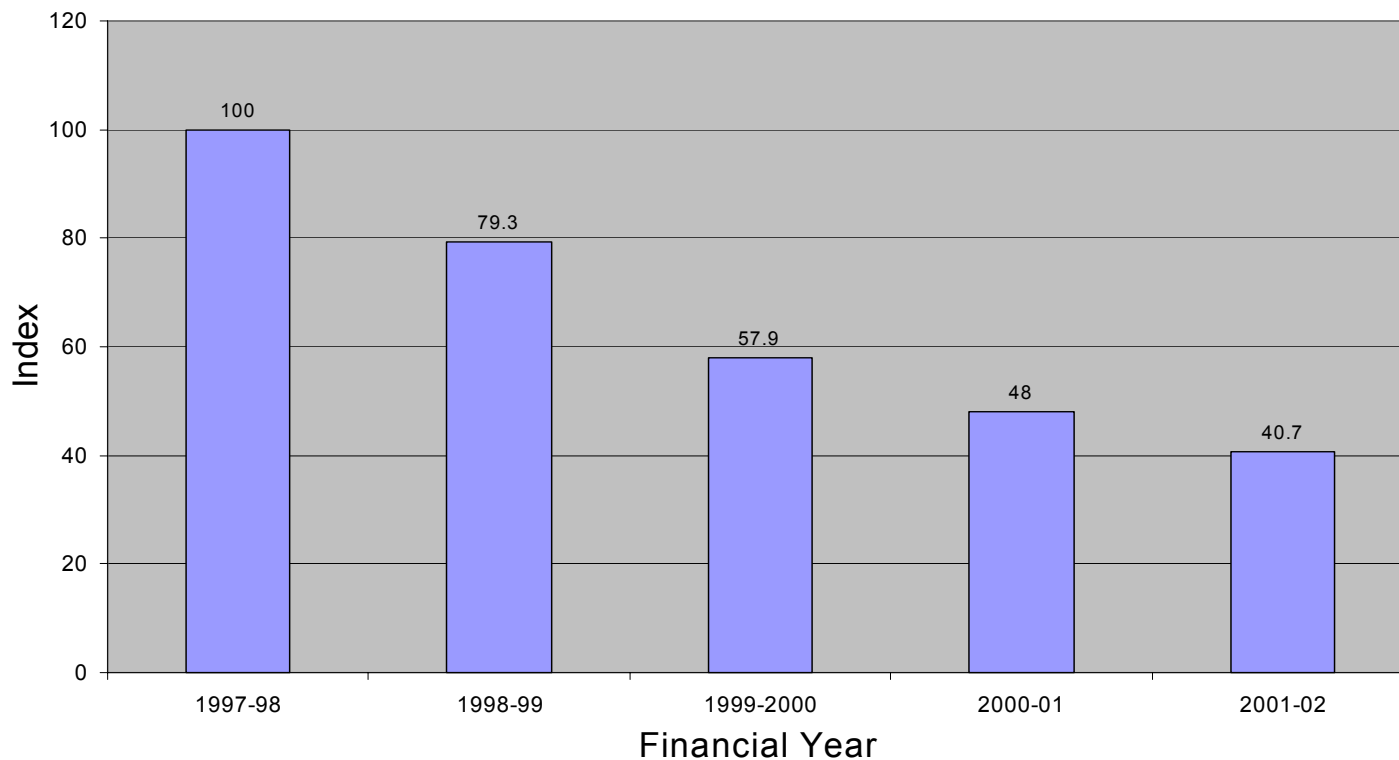


Australian Government

The Treasury

International call costs

Chart 1: Index for International Calls for all Consumers Between
1997-98 to 2001-02



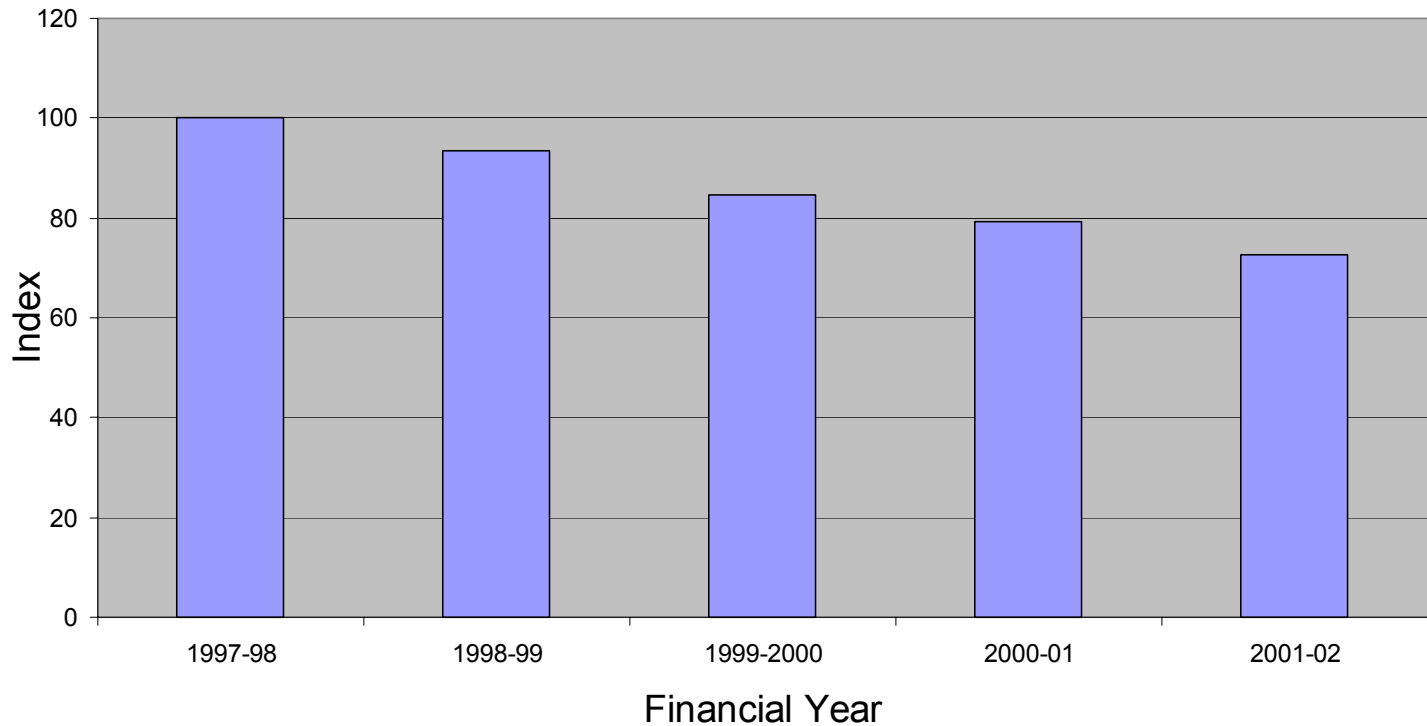


Australian Government

The Treasury

National long distance call costs

Chart 2: Index for national long distance calls for all consumers
1997-98 to 2001-02



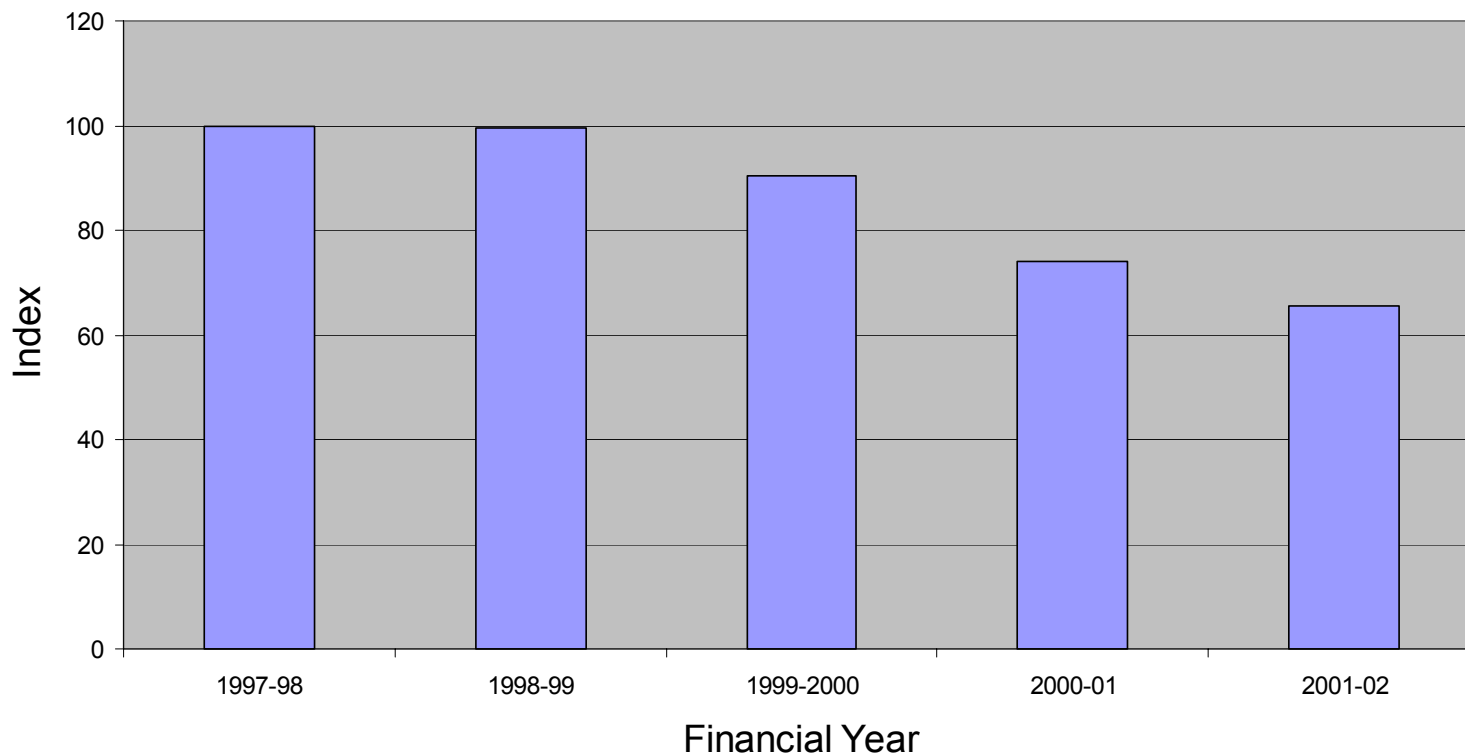


Australian Government

The Treasury

Local call costs

Chart 3: Index for local calls for all consumers
1997-98 to 2001-02





Australian Government

The Treasury

Other reforms

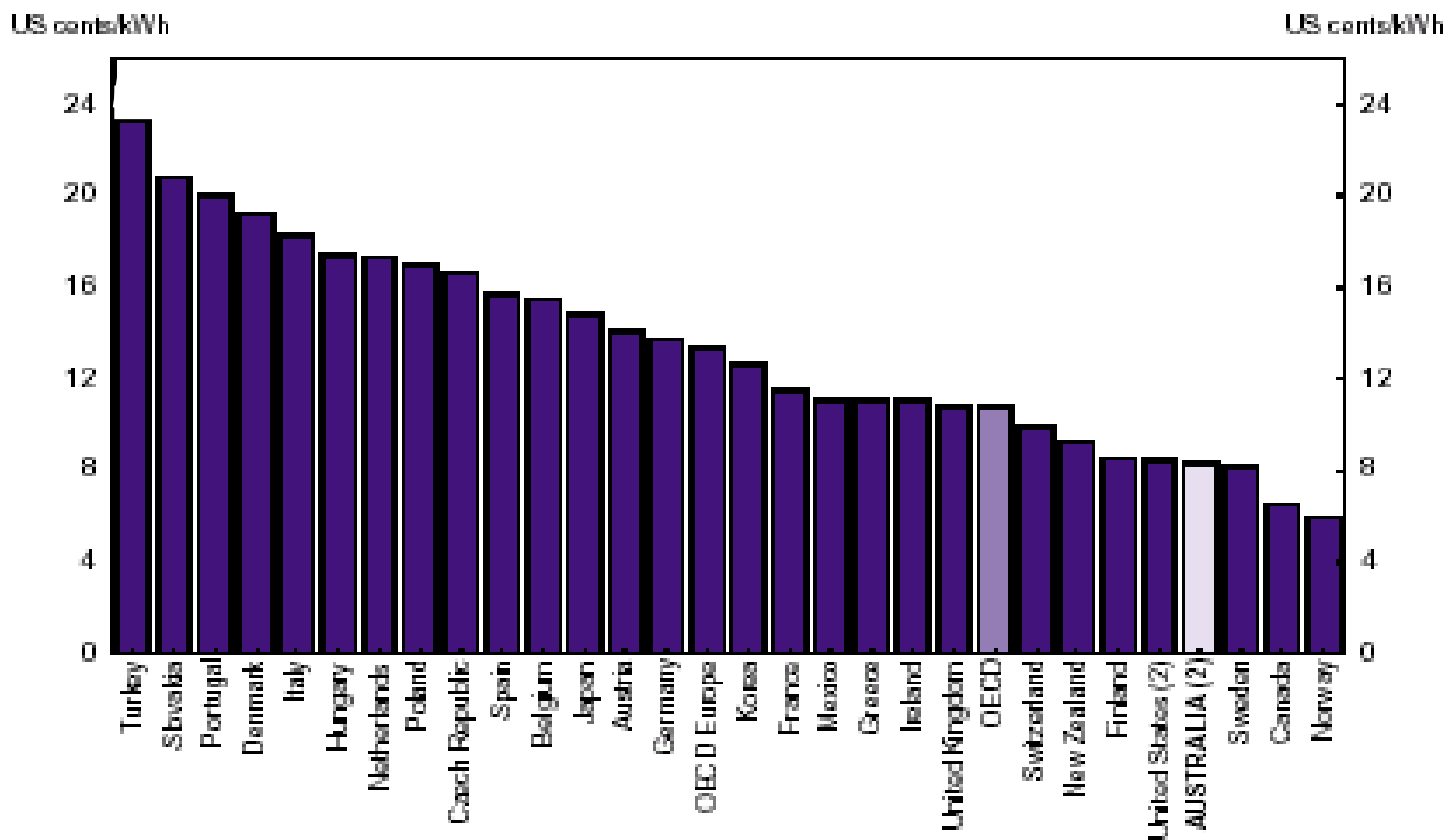
- Aviation: discount fares reduced by more than 30%
- Average national residential electricity prices fell almost 13% between 1993 and 2002
 - Prices to business fell around 11.5%



Australian Government

The Treasury

International electricity prices



1. In 2001 or latest year available.
2. Price excluding tax for Australia and the United States.

Source: IEA, Energy prices and taxes (2002).



Australian Government

The Treasury

Conclusion

- Broad, well-managed structural reform across product, labour and financial markets leads to:
 - Greater competition
 - Greater efficiency
 - More flexible labour market
 - Higher multifactor productivity growth
 - Lower unemployment
 - Higher economic growth.