

Structural Reform & Productivity

Friday, 25 October 2019 2:13 PM

Definition

- Structural change refers to the long term changes in the output, income and expenditure of an economy
- Productivity refers to the efficiency with which goods or services can be produced with a given level of inputs

Causes of Structural Change

- Endogenous changes are changes that occur within the economy
 - The changing of population demographics
 - Changes in the domestic economy
- Exogenous changes reflect changes that occur outside the economy
 - The digital age
 - Global economic growth
 - Globalisation
 - Growing global environmental concerns

Effects of Structural Change

- Structural change is necessary in order for economies to grow
 1. Agricultural
 2. Manufacturing
 3. Services
- This is due to the fact that economies must adapt in the global marketplace in order to remain competitive and to maintain the standard of living of its population

Labour Productivity

- Labour productivity is the output per number of input hours
- Labour productivity is the combination of changes in multi-factor productivity and capital deepening
 - Multi-factor productivity refers to the quality of labour and capital inputs (Qualitative)
 - E.g. Education and skills training
 - Capital deepening refers to increases in the capital to labour ratio (Quantitative)
 - Robots replacing machines on factory assembly lines

Productivity and Economic Growth

- Increases in productivity represent an increase in both short run and long run aggregate supply
- Short run aggregate supply increases due to the fact that efficiency increases
- Long run aggregate supply increases due to the fact that the long term capacity of the economy has shifted
- It can thus be said that productivity improvements are necessary to create economic growth due to the fact that it is the only way for the capacity of the economy and thus LRAS to increase

Government policies that increase Productivity

- Trade liberalisation
- Tax reform
- Education and Training
- Infrastructure spending
- Research and Development Grants
- Deregulation of the market