

AUSTRALIA

Australia has weathered well the global financial crisis, with its per capita GDP rising to the average of the upper half of OECD countries. However, productivity has lagged. Efforts have been made recently to improve educational outcomes, with reforms in the upper secondary and vocational sectors. Still, weaknesses remain and further actions are needed in the following areas.

Priorities supported by the indicators

Enhance capacity and regulation in infrastructure

There is a shortfall of infrastructure, harming investment, and a lack of policies to ensure its efficient use.

Actions taken: Measures have been adopted to better co-ordinate infrastructure development at the national level. The federal government has raised funding for public investment and further harmonised regulations across states.

Recommendations: Select public infrastructure projects through rigorous and published cost-benefit analyses. Introduce congestion charges to promote better use of roads in agglomerations. Efficient pricing for the use of water and transport infrastructure services is needed to enhance market signals for investment decisions.

Relax barriers to foreign direct investment

Although they might not be binding *a posteriori*, screening procedures still create uncertainties that may limit foreign direct investment.

Actions taken: In 2010, the government raised to AUD 231 million the threshold above which FDI needs to be screened before implementation.

Recommendations: The higher threshold used for US investors (about 1 billion AUD) should also apply to other investors, and the benefit of investment liberalisation provided for by Australia in recent FTAs should be extended to other countries. Transparency would be enhanced by more information on the criteria applied in government decisions and by involving specialist agencies (*e.g.* national securities) in the review process of FDI approval.

Improve the efficiency of the tax system

Corporate and personal income taxes are high by international standards and the tax system is complex, which hampers productivity.

Actions taken: The government has announced a reform to increase and improve taxation on non-renewable resources, lower taxes on all companies (especially the SMEs) and boost the retirement savings of low-paid workers.

Recommendations: Lowering further corporate and personal income taxes and raise the goods and services tax. Simplify and rationalise the states' tax system, especially on housing.

Other key priorities

Increase incentives for workforce participation

Further enhance labour utilisation to deal with supply bottlenecks and the resource boom.

Actions taken: A new employment service system was introduced in 2009. The government also announced measures to improve the work capacity assessment of people on disability benefits.

Recommendations: To boost labour market participation, the authorities should further reduce effective marginal tax rates for low-income families, for instance by increasing the tax-free threshold of the personal income tax.

Improve the performance of early childhood education

Enhance access to early childhood education and care (ECEC), especially for disadvantaged groups, to improve their educational outcomes.

Actions taken: The authorities committed to provide universal access to ECEC for 15 hours per week for four year-olds, improve delivery through the National Quality Agenda and provide additional funding for indigenous children.

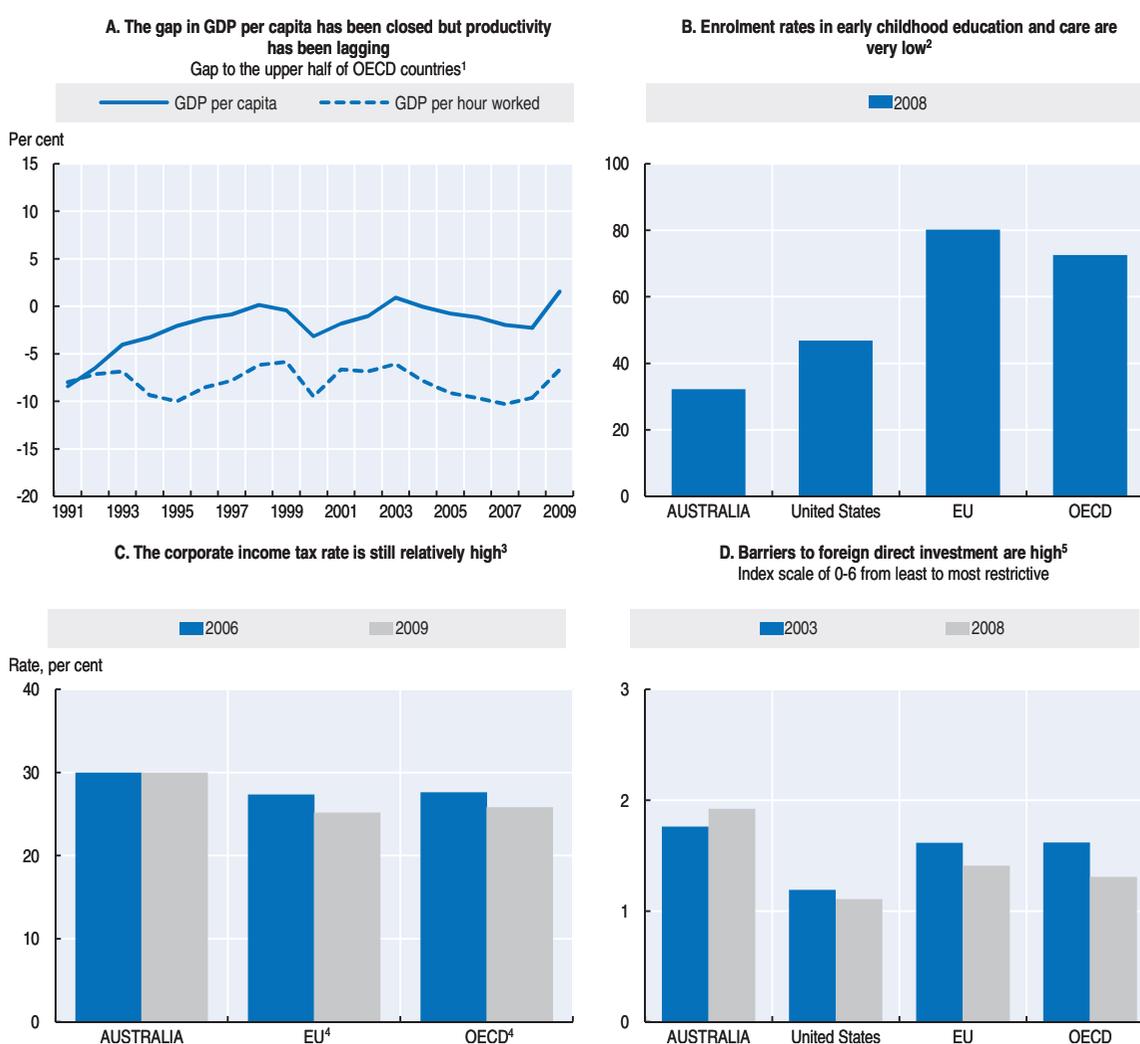
Recommendations: Differentiate childcare benefits for children under school age to reflect higher cost structures for very young children and make these benefits more conditional on employment and job search of parents. In the longer term and as fiscal circumstances allow, consider further enhancing the quality of, and access to ECEC to three year-olds, focusing initially on disadvantaged groups.

AUSTRALIA

Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	1.9	2.1	1.7
Labour utilisation	0.4	0.4	0.5
of which: Employment rate	0.7	0.8	0.6
Average hours	-0.2	-0.3	-0.1
Labour productivity	1.4	1.7	1.2
of which: Capital intensity	1.1	0.9	1.4
Multifactor productivity	0.3	0.8	-0.2

Source: Estimates based on OECD (2010), *OECD Economic Outlook No. 88: Statistics and Projections Database*.

1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Enrolment rates of children aged 4 and under as a percentage of the population aged 3 to 4.
3. Combined central and sub-central (statutory) corporate income tax rate.
4. Average of European countries in the OECD. EU and OECD averages exclude Estonia in 2006 and 2009, Israel and Slovenia in 2006.
5. The FDI regulation index looks only at statutory restrictions and does not assess the manner in which they are implemented.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook No. 88 Databases*; Chart B: OECD (2010), *Education at a Glance*; Chart C: OECD, *Tax Database*; Chart D: OECD, *Product Market Regulation Database*.StatLink <http://dx.doi.org/10.1787/888932373609>