

AUSTRALIA

Notwithstanding continued strong economic performance in recent years, a sizeable GDP-per-capita gap persists vis-à-vis the leading countries, mainly reflecting low productivity levels and weak labour force participation among particular groups. Wide-ranging reforms have taken place recently to improve labour market outcomes and human capital, as well as enhancing infrastructure, but particular weaknesses still remain in the following areas.

Priorities supported by indicators

Reform disability benefit schemes

The relatively large number of people, especially older workers, receiving the Disability Support Pension (DSP) contributes to the low labour force participation rate for low-skilled persons aged 55 and over.

Actions taken: No action since 2006, when the eligibility requirements for new entrants were tightened so that those able to work at least 15 hours have to look for a job and receive unemployment instead of disability benefits.

Recommendations: Extend the job-capacity assessment and associated support services to those who started receiving DSP before July 2006. The incentives for DSP recipients to find a job should be strengthened by maintaining their entitlement to a pension if, after finding work temporarily, they lose it again.

Strengthen competition in network industries

While Australia has a competition-friendly regulatory framework, geographical segmentation in the electricity, transport and water management sectors limits productivity advances in network industries and the economy more generally.

Actions taken: To improve the energy transmission framework, a new single operator will co-ordinate and assist investment decisions to develop a national network as from 2009. The Council of Australian Governments agreed to speed up the harmonisation of rail safety regulation. A plan has been adopted to improve the governance of the main hydraulic basin (the Murray Darling Basin) and to develop an integrated water management system.

Recommendations: Reforms to complete a national energy market should continue, public companies should be privatised and the ceilings on retail electricity prices should be removed quickly. In the freight sector, state standards for heavy-goods vehicles and access regimes to railway infrastructure should be harmonised. Extending the national investment Auslink programme to ports would help co-ordinate investment in transport. To enhance the efficiency of water use, barriers to water entitlement transactions between certain areas, including urban and rural zones, should be lifted.

Improve the performance of early education

The organisation of the Early Childhood Education and Care (ECEC) sector is fragmented and the sector is under-funded. Provision of services is insufficient, of unequal quality and relatively expensive. This affects disproportionately the children from disadvantaged backgrounds and contributes to the relatively high share of early school-leavers, with adverse effects on productivity.

Actions taken: The government aims at developing universal access to 15 hours-per-week ECEC for all four-year-olds. Tax rebates for “out-of-pocket” childcare expenses were raised in the 2007/08 and 2008/09 budgets.

Recommendations: The government should move towards an integrated ECEC system with greater consistency of services across the child-care and early-education sectors and proceed with the provision of universal access to ECEC for four-year-olds. Extending access to three-year-olds from disadvantaged groups and increasing the duration of services should be considered.

Other key priorities

- **Work incentives.** To improve incentives for workforce participation, align the tax and welfare system better and reduce marginal effective tax rates further, especially for second wage earners and families with children, notably lone parents.
- **Wage bargaining.** Even if the WorkChoices law has been abrogated, a decentralised wage bargaining system should be preserved, with collective negotiations taking place at the firm level to maintain a close link between productivity and wage growth.

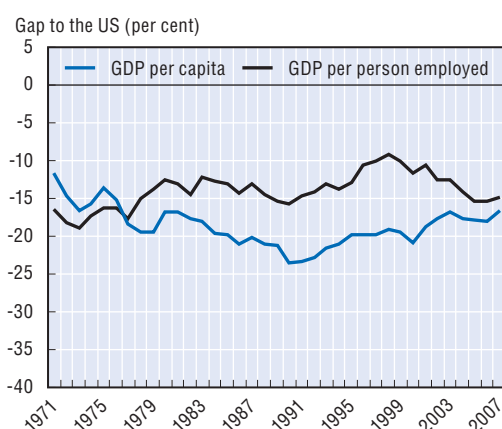
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Structural indicators

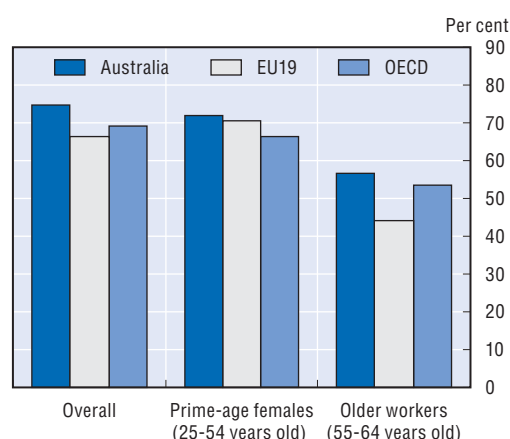
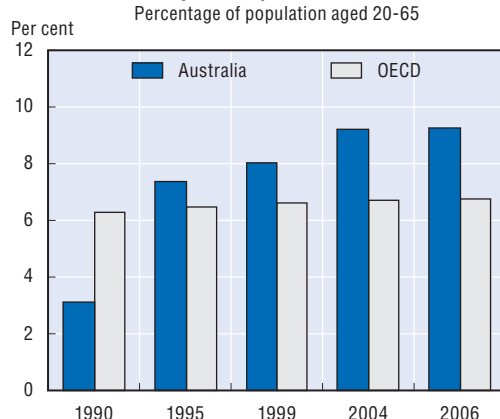
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	2.1	2.5	1.6
Labour utilisation	0.4	0.3	0.5
of which: Employment rate	0.7	0.6	0.7
Average hours	-0.3	-0.3	-0.2
Labour productivity	1.7	2.2	1.1
of which: Capital intensity	0.8	0.9	0.8
Multifactor productivity	0.9	1.4	0.4

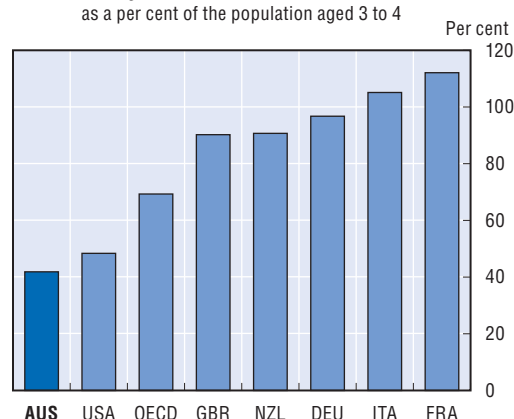
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Gaps in GDP per capita and productivity remain substantial¹

B. Employment rates are high, 2007

C. The rise in the share of the working-age population receiving disability benefits has ceased²

D. Low enrolment rates in early childhood education, 2006



- Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).
- Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.

Source: Chart A: OECD, *National Accounts Database*; Chart B: OECD, *Labour Force Statistics Database*; Chart C: OECD (2003), *Transforming Disability into Ability* and OECD estimates; Chart D: OECD (2008), *Education at a Glance*.StatLink  <http://dx.doi.org/10.1787/533853331362>