OECD Economic Surveys Australia

December 2014

OVERVIEW

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BASIC STATISTICS OF AUSTRALIA

(Data refer to 2013 unless otherwise stated; numbers in parentheses refer to the OECD average)*

LAND, PEOPLE AND ELECTORAL CYCLE

Population (million)	23.1		Population density per km^2	3.0	(34.7)
Under 15 (%)	18.9	(18.3)	Life expectancy (years, 2012)	82.1	(80.2)
Over 65 (%)	14.4	(15.7)	Men	79.9	(77.5)
Foreign-born (%, 2011)	27.0		Women	84.3	(82.9)
Latest 5-year average growth (%)	1.7	(0.6)	Latest general election	September 2013	

ECONOMY

Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	1 505		Primary sector	2.4	(2.6)
In current prices (billion AUD)	1 556		Industry including construction	27.1	(27.8)
Latest 5-year average real growth (%)	2.5	(0.8)	Services	70.5	(69.4)
Per capita (000 USD PPP)	44.6	(37.8)			

GENERAL GOVERNMENT
Per cent of GDP

Expenditure	35.1	(42.5)	Gross financial debt	33.0	(107.4)
Revenue	33.7	(36.7)	Net financial debt	-0.3	(67.3)

EXTERNAL ACCOUNTS

Exchange rate (AUD per USD)	1.034		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	1.510		Crude materials, inedible, except fuels	38.3	
In per cent of GDP			Mineral fuels, lubricants and related materials	25.9	
Exports of goods and services	20.5	(53.1)	Food and live animals	10.4	
Imports of goods and services	21.1	(49.1)	Main imports (% of total merchandise imports)		
Current account balance	-3.3	(-0.1)	Machinery and transport equipment	38.1	
Net international investment position	-49.4		Mineral fuels, lubricants and related materials	17.5	
			Miscellaneous manufactured articles	12.9	

LABOUR MARKET, SKILLS AND INNOVATION

Employment rate for 15-64 year-olds (%)	72.0	(65.2)	Unemployment rate, Labour Force Survey (age 15 and over) (%)	5.7	(7.9)
Men	77.6	(73.1)	Youth (age 15-24, %)	12.2	(16.1)
Women	66.4	(57.4)	Long-term unemployed (1 year and over, %)	1.1	(2.7)
Participation rate for 15-64 year-olds (%)	76.4	(71.1)	Tertiary educational attainment 25-64 year-olds (%, 2011)	38.3	(31.5)
Average hours worked per year	1 676	(1 771)	Gross domestic expenditure on R&D (% of GDP, 2010)	2.2	(2.4)

ENVIRONMENT

Total primary energy supply per capita (toe, 2012)	5.9	(4.2)	CO_2 emissions from fuel combustion per capita (tonnes, 2011)	17.8	(9.9)
Renewables (%, 2012)	4.6	(8.5)	Water abstractions per capita (1 000 m^3, 2010)	0.6	
Fine particulate matter concentration (urban, PM_{10}, µg/m^3, 2011)	13.6	(28.0)	Municipal waste per capita (tonnes, 2009)	0.6	(0.5)

SOCIETY

Income inequality (Gini coefficient, 2012)	0.324	(0.308)	Education outcomes (PISA score, 2012)		
Relative poverty rate (%, 2012)	13.8	(11.1)	Reading	512	(497)
Median equivalised household income (000 USD PPP, 2010)	27.0	(20.4)	Mathematics	504	(494)
Public and private spending (% of GDP)			Science	521	(501)
Health care (2011)	9.1	(9.2)	Share of women in parliament (%, August 2014)	30.1	(26.7)
Pensions (2009)	2.5	(8.7)	Net official development assistance (% of GNI)	0.34	(0.37)
Education (primary, secondary, post sec. non tertiary, 2011)	4.1	(3.9)			

Better life index: *www.oecdbetterlifeindex.org*

* Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 29 member countries.

Source: Calculations based on data extracted from the databases of the following organisations: OECD, International Energy Agency, World Bank, International Monetary Fund and Inter-Parliamentary Union.

Summary

- *Main findings*
- *Key recommendations*

Main findings

Australia's material living standards and well-being compare well internationally, reflecting a well-managed and successful economy. The economy is slowing as the prolonged mining boom recedes. Output growth of about 3% is expected for 2014 and 2.5% in 2015. Macroeconomic policies are appropriate for the current conjuncture while long-term prosperity depends on ensuring that structural settings help all forms of economic activity and promote broad-based productivity growth.

Ensuring price and financial stability. Inflationary pressure is contained. Low interest rates are supporting activity and the rebalancing of growth. House prices have grown by about 10% over the past year, prompting construction activity but also attracting some speculative demand. Strong prudential regulation and a concentrated financial sector have supported financial stability, but the latter has also created concerns about competition and credit supply in some segments.

Pursuing fiscal consolidation and ensuring efficient tax and public spending. Gross public debt has risen from below 20% of GDP to over 30% since the global financial crisis. The budget faces significant volatility from movements in global prices for natural resources, and past spending commitments have created a medium-term structural fiscal challenge. Australia's heavy reliance on inbound investment and exposure to resource-market fluctuations provide strong arguments for fiscal discipline and low public indebtedness. The country has a comparatively light tax burden overall, but the heavy reliance on direct taxation is not ideal. Public-spending efficiency in some services is adversely affected by overlapping responsibilities and complex funding arrangements between federal and state governments.

Improving framework conditions for business. Improvements in productivity growth will require reforms across a wide range of structural policy areas including taxation, competition and deregulation. Government plans to ramp up infrastructure investment make sense, but only if funds are spent efficiently. Targeted business support needs to be judicious as it can be a short step from value-for-money subsidy to outlays on corporate welfare.

Encouraging employment, deepening skill, and addressing inequality. The importance of raising participation, combined with budgetary concerns, means effective welfare-to-work policies remain a priority. The government plans to incentivise unemployed youth, including lengthening the benefit waiting period. A proposed liberalisation of higher-education tuition fees and reforms to student support aim to improve competition, access and choice. It will be important to monitor the impact of these reforms, particularly for students from disadvantaged backgrounds.

Tackling environmental challenges. The government is fundamentally changing Australia's environmental policy, replacing a carbon tax with a suite of planned new measures, including a mechanism to provide incentives to businesses for reducing emissions. Ramping up road building provides opportunities to extend road pricing. Ensuring efficient supply chains for water is important.

Key recommendations

Ensuring price and financial stability

- **Continue intensive monitoring of the housing market**; maintain deep micro-prudential oversight and consider using macro-prudential tools to bolster credit safeguards and signal concern.
- **Examine credit and competition issues in the financial sector**; consider reducing banks' implicit guarantees, tackling risk-weighting advantages in mortgage lending, improving credit databases.

Pursuing fiscal consolidation and ensuring efficient tax and public spending

- **Prioritise medium-term fiscal consolidation** to rebuild fiscal buffers in light of Australia's exposure to external risk and consider establishing a stabilisation fund.
- **Rebalance the tax mix**; shift away from income and transaction taxes, make greater use of efficient tax bases such as the Goods and Services Tax and land tax.
- **Reform federal-state financial relations**; reduce grant conditionality further, instigate state-level tax reforms to enhance funding autonomy, and increase state-level responsibilities and accountabilities.
- **Address federal-state shared responsibilities to improve efficiency**; improve co-ordination and co-operation and in some cases, health care in particular, consider a reallocation of responsibilities.
- **Strengthen capacity for assessing and comparing state-level public services**; further develop performance indicators; and continue enhancing the availability and quality of data.

Improving framework conditions for business

- **Ensure infrastructure delivers value for money** through robust and transparent cost-benefit analysis both to ensure economic use of the existing stock and appropriate selection of new infrastructure projects.
- **Concentrate on broad support for business**; prioritise corporate-tax rate cuts, reduce regulatory burdens and continue to be tough on corporate welfare and tax avoidance.
- **Strengthen competition;** continue adjusting network-industry regulation and improve the competitive environment more generally in light of the review currently underway.

Encouraging employment, deepening skills and addressing inequality

- **Monitor the proposed welfare reforms** to ensure they raise work-force participation cost effectively without adverse social outcomes. Better target superannuation (pension) tax concessions.
- **Monitor the proposed higher education reforms** to ensure that choice and quality is enhanced and access is not compromised.

Tackling environmental challenges

- **Achieve greenhouse-gas emission targets**; ensure the proposed Emission Reduction Fund is efficient through: i) robust measurement and verification methods; and ii) implementation of a safeguard mechanism that prevents offsetting emissions elsewhere in the economy.
- **Make transport policy greener**; enact the proposal to index excise duty on retail fuel, expand other use-based vehicle charges and extend public transport.
- **Continue strong commitment to water reform** including the Murray-Darling Plan.

Assessment and recommendations

- *Post-boom adjustment is underway*
- *Long-term economic, social and environmental challenges*
- *Ensuring price and financial stability*
- *Pursuing fiscal consolidation and ensuring efficient tax and public spending*
- *Improving framework conditions for business*
- *Encouraging employment, deepening skills and addressing inequality*
- *Tackling environmental challenges*

Australia's material living standards and well-being compare well internationally. However, continued progress will require adjusting towards broad-based growth in the wake of the peak in the mining boom, coping with population aging and dealing with socio-economic and environmental challenges. The current government, elected in September 2013, is focussing on addressing the structural budget deficit through reducing the pace of spending increases and aims to improve productivity performance through deregulation, infrastructure investment and structural reform (see Box 1). Prominent initial items on the government's agenda have been the scrapping of a supernormal profit tax on mining companies and the repeal of a carbon tax with proposals to replace this with subsidies to firms for reducing greenhouse gas emissions.

Box 1. **Economic policies of the current government**

The current government, elected in September 2013, aims to raise living standards through its *Economic Action Strategy*, the key goals of which are as follows:

- Fiscal consolidation. Budget proposals aim to bring the budget back to surplus without damaging growth prospects. Reducing government's share of the economy is a core element of the approach.
- Financial-sector reform. A broad review of the sector is underway via the Financial System Inquiry which is due for completion by November 2014.
- Promotion of competition. The Competition Policy Review's investigation of competition policies is due for completion by the end of March 2015.
- Tax reform. Options for reform are being considered via a white paper, which will be completed by the end of 2015.
- Federation reform. Exploration of reform options is underway in collaboration with state governments via a white paper, which is due for completion by the end of 2015.
- Reduced regulatory burdens. A target of reducing red and green tape worth AUD 1 billion each year has been set.
- Promotion of competitiveness and productivity. The Industry Innovation and Competitiveness Agenda was released in October 2014. It includes mechanisms to promote innovation (for instance, adjustments to encourage employee share schemes and support for research and development) and economy-wide incentive mechanisms to boost investment.
- An alternative approach to climate change. Notably, abolition of the carbon tax and replacement with incentives to reduce emissions under the Emissions Reduction Fund.
- Removal of the Mineral Resource Rent Tax. This tax on supernormal profits of the iron ore and coal sectors, was regarded by the government as imposing a significant regulatory and compliance burden on these industries, and as damaging business confidence.
- Commitment to maintain the Fair Work framework and work to improve it, including by initiating a review of the Fair Work laws.

This assessment examines macroeconomic and structural policy in light of these developments and is augmented by the conclusions from in-depth reviews of taxes and transfers (Chapter 1) and federal-state relations (Chapter 2).

Post-boom adjustment is underway

Australia's economy passed through the global financial crisis comparatively well. Few serious dysfunctionalities in domestic credit systems emerged in 2008/09 and exposure to foreign toxic debt was insignificant. Also, the global financial crisis caused only a short-lived dip in the commodities boom (Figure 1); the latter being characterised by rising export volumes, high prices (Figure 2) and massive investment in capacity.

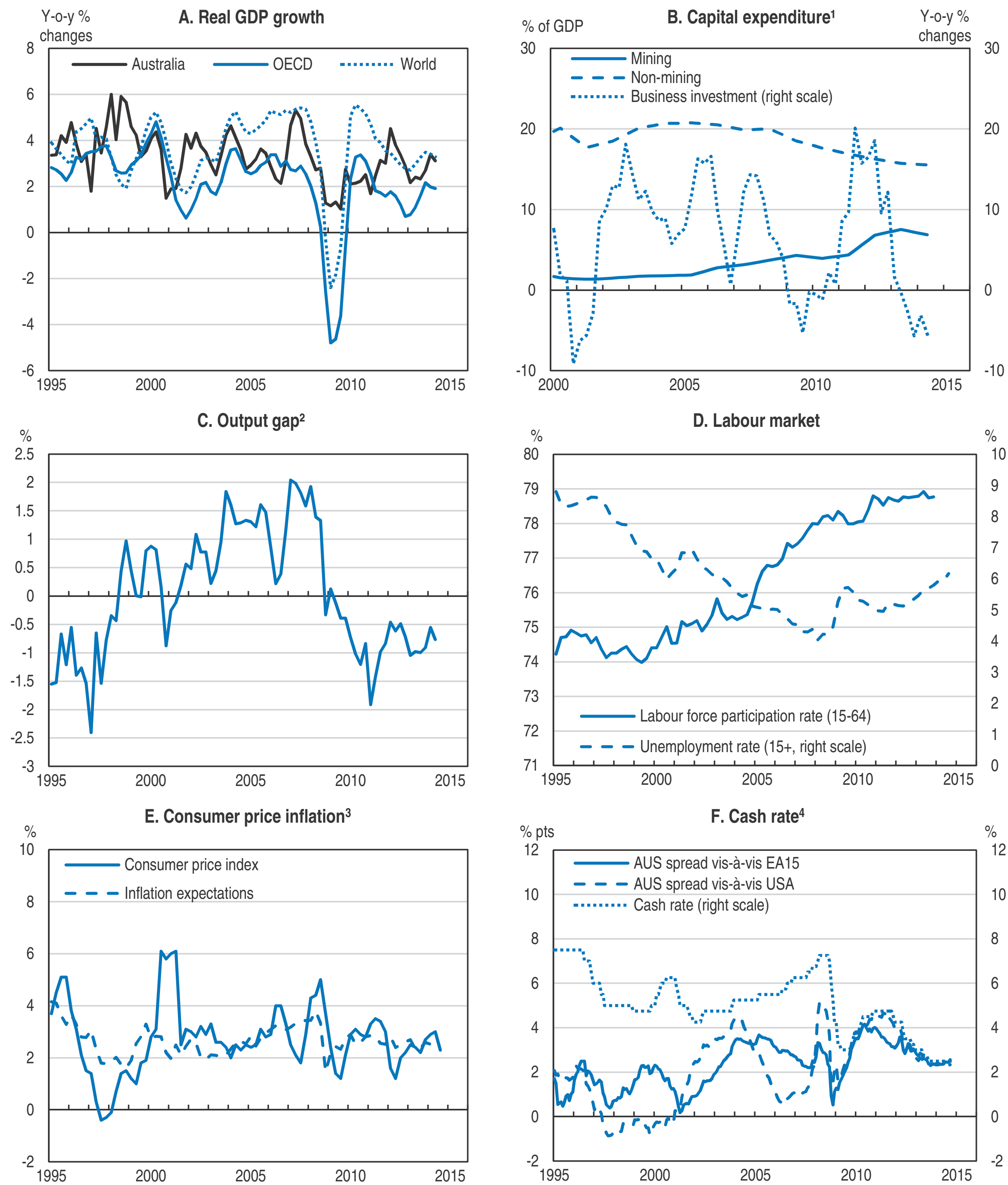
However, the economy now faces a potentially difficult rebalancing process. Commodity prices and the terms of trade have softened, and may have further to go. Australian commodity exports are dominated by coal and iron ore, which in 2013 accounted for nearly 45% of total goods and services exports in nominal terms (and nearly 10% of GDP); therefore market developments in these sectors are particularly significant. In addition, net of import content (about one-third to one-half of gross mining investment is reckoned to comprise imports), total mining investment is already falling and is expected to decline by several percentage points of GDP in the coming years. Partly reflecting these forces, annual (calendar year) output growth dropped from 3.6% in 2012 to 2.4% in 2013, and the unemployment rate rose from 5.2% to 5.7% over the same period. The "textbook" rebalancing scenario envisages market signals from further softening in the terms of trade and exchange rate depreciation inducing a sufficiently timely and substantial growth in non-resource exports and investment so as to prevent a large dip in the growth of demand, employment and activity. Without such offsetting adjustment the impact of falling terms of trade on national income, living standards and overall macroeconomic stability may be substantial.

Despite the slowdown in output growth and increased unemployment, house prices in some cities have resumed their strong upward path (Figure 3) and indicators are showing a pick-up in house building. Contributory factors include a comparatively high rate of population growth, low borrowing costs, a search for return by investors and a market untarnished by a credit crisis. The housing-market's buoyancy has to a degree been a blessing with wealth effects from rising prices helping support consumption demand, and the pick-up in house building countering decline in resource-sector investment. However, there are increasing concerns that prices, at least in some segments of the market, have become too high.

Price increases elsewhere in the economy have been contained. During the mining boom years, exchange-rate appreciation helped counter inflationary pressures. At present, comparatively weak demand, as manifest in the output gap and other indicators, is keeping growth in the prices of most goods and services low, notwithstanding some exchange-rate depreciation.

Output growth is projected to be around 2.5% in 2015, but then to pick up somewhat in 2016, in particular through strengthening domestic demand (Table 1) and despite weakening mining investment. The pick-up in housing construction will play a role too, and there will be additional exports from the expansion in mining capacity from the investment boom, in fact some export boost is contractually assured, such as that from liquid-natural-gas production. The unemployment rate is projected to peak a little above 6% and the recovery's modest pace will mean a continued absence of strong inflationary pressure. Further devaluation of the Australian dollar seems likely. As of end-2013, the IMF

Figure 1. **Output, employment and prices**



1. Capital expenditure refers to private gross fixed capital formation. Mining and Non-mining sector investment refers to financial years. Business investment covers private non-residential gross fixed capital formation, in volume terms.
2. Output gap refers to the deviation from potential GDP. The OECD calculation of output gap is based on a production-function approach. For more details, see Johansson (2013), "Long-term growth scenarios", *OECD Economics Department Working Papers*, No. 1000.
3. Inflation expectations are based on the "Break-even 10-year inflation rate", which is measured by the Reserve Bank using Commonwealth government securities; end-quarter observations are shown.
4. The cash rates denote the interest rate paid or received on unsecured overnight funds in the interbank market.

Source: Reserve Bank of Australia (2014); Australian Bureau of Statistics (2014), Cat. No. 5204.0 and 5206.0; OECD (2014), *OECD Economic Outlook 96 Database*.

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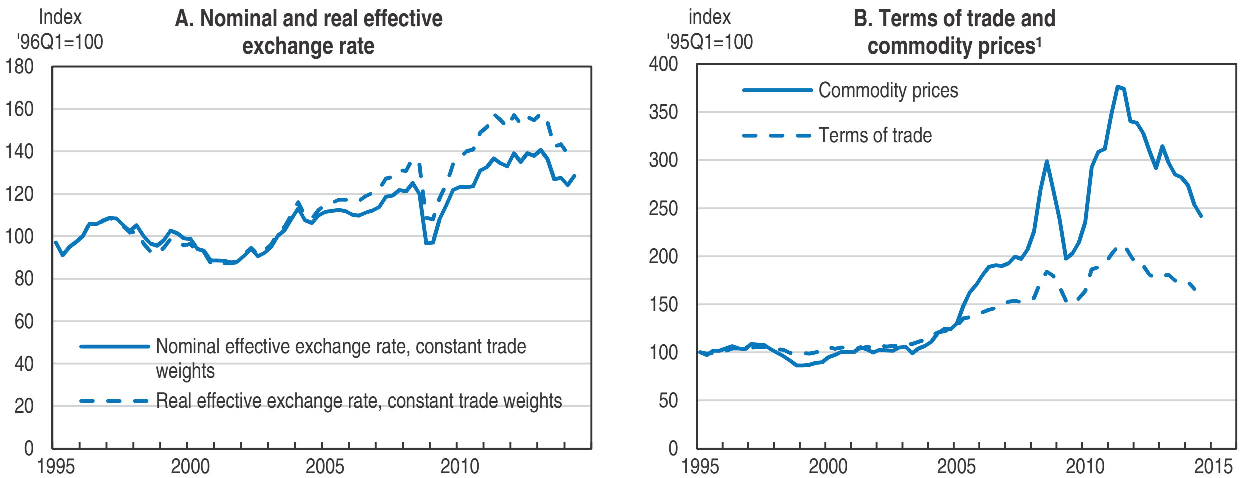
Figure 2. **External developments**



1. Terms of trade is the ratio of export and import prices.
Source: Reserve Bank of Australia (2014); Australian Bureau of Statistics (2014), Cat. No. 5204.0 and 5206.0; OECD (2014), *OECD Economic Outlook 96 Database*.

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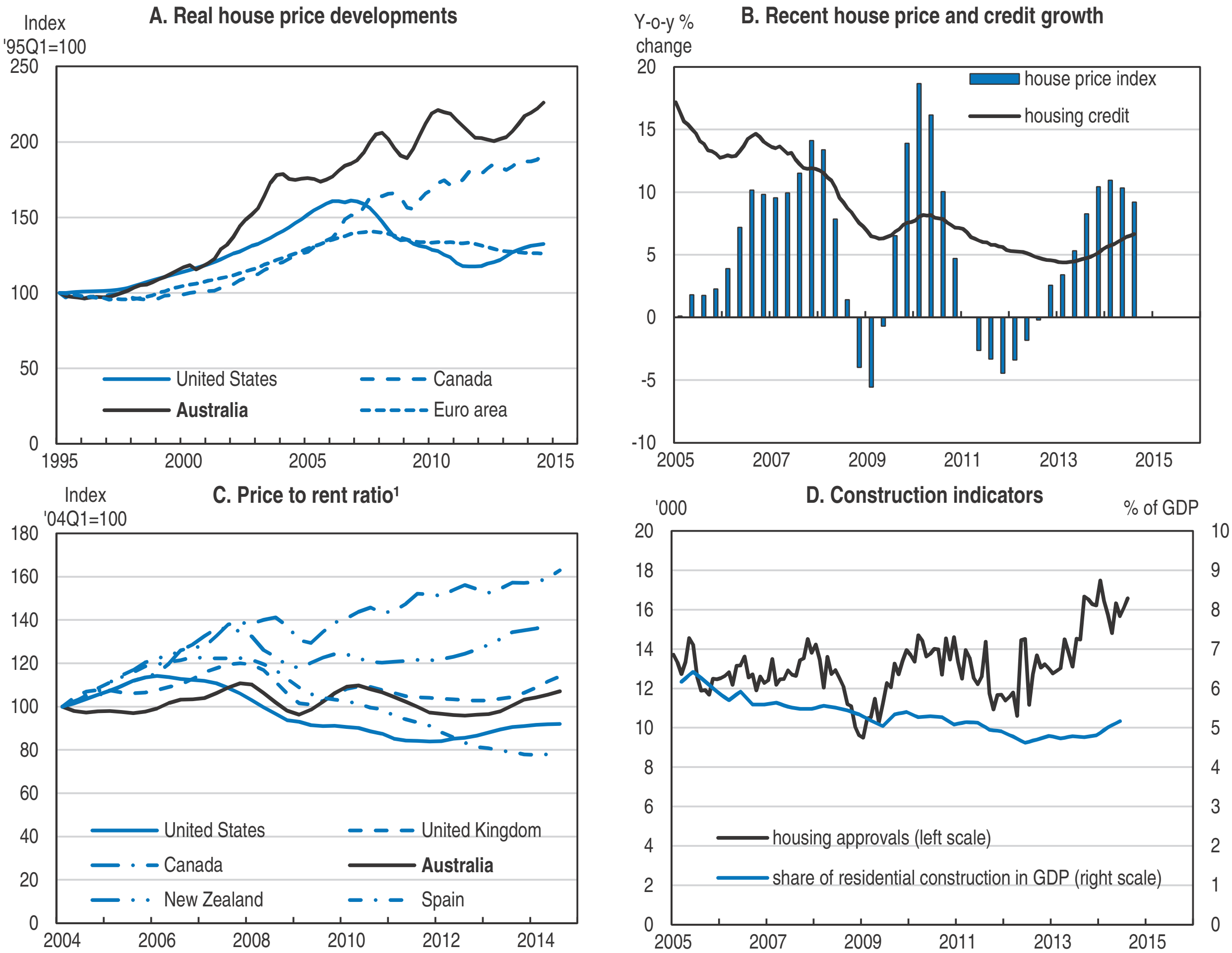
estimated that the real exchange rate was overvalued by 5-10 per cent, and it is widely believed it remains higher than market fundamentals would suggest. For instance, for some time the RBA has noted that it believes the currency is overvalued, particularly in light of falling commodity prices.

Broadly speaking, the balance of risks facing the Australian economy contains more substantial downside than upside uncertainties. External risks, chiefly from commodity markets, combined with speculative activity in the housing sector and uncertainties in the responsiveness of non-resource sectors, could conspire to generate a period of weak macroeconomic activity. Within the range of possible outcomes the most difficult scenarios are likely to be triggered by an external development. For instance, a slower-than-expected growth in China could weaken demand for Australia's mineral exports, which could lead to a further fall in the terms of trade. This could be accompanied by a depreciation of the exchange rate, which would ease conditions in the export-oriented and import-competing parts of the economy, but also weaken real consumer income in the short term and dampen household consumption growth. This difficult situation might then be prolonged by a slow reaction of non-resource sectors to the favourable conditions created by the lower exchange rate – either because of low price responsiveness of demand for non-resource exports or because of sluggish supply response. On the flipside, with the conditions in place for a pick-up in investment outside the resources sector, the rebalancing of growth could be sooner and stronger than currently anticipated.

Long-term economic, social and environmental challenges

Australia has a well-managed and successful economy supported by strong macroeconomic frameworks and institutions. In the early 1990s, material living standards already ranked well in international comparison, with GDP per capita around 10% below the average of the top half of the OECD economies, and that gap has since been closed (Figure 4). However, maintaining growth in incomes and even "standing still" in terms of international competitiveness requires effort.

Figure 3. **Housing market developments**



1. Nominal house prices to rent prices, index based in 2004 Q1.

Source: Australian Bureau of Statistics (2014), Cat. No. 5302.0; Reserve Bank of Australia (2014); OECD (2014), *OECD Economic Outlook 96 Database*.

StatLink http://dx.doi.org/10.1787/888933176411

Ensuring a smooth economic transition in the wake of the mining boom and raising average living standards over the long run primarily requires broad-based shifts up the productivity ladder with policy helping through strong macroeconomic and structural framework conditions for business, improvements in workforce skills, and attention to public-service efficiency. The resources sector presents important policy challenges of its own in terms of guiding the exploitation of mineral and energy wealth to allow for a healthy rate of return and to ensure a fair distribution of the benefits. In addition, coping with the macroeconomic consequences of the ebb and flow of commodity demand and prices will remain a challenge for the foreseeable future.

However, raising average living standards is not sufficient to ensure inclusive growth. Inequality and relative poverty levels in Australia are middle ranking (Figure 4) and gaps between employment rates and earnings of men and women remain large. Furthermore, despite several decades of policy attention, Australia's widest socio-economic gaps remain those between its indigenous peoples and the rest of the population. Indigenous Australians represent about 3% of the population (Australian Bureau of Statistics, 2014) and have average life expectancy about a decade below that of the country as a whole and an employment rate more than 25 percentage points lower (Figure 4).

Table 1. **Macroeconomic indicators and projections**

Annual percentage change, volume (2005 prices)

	2011 Current prices (AUD billion)	2012	2013	2014	2015	2016
GDP	**1 452.8**	**3.6**	**2.4**	**3.1**	**2.5**	**3.0**
Private consumption	779.7	2.5	2.1	2.5	2.9	3.6
Government consumption	256.6	2.9	1.2	1.7	2.0	1.9
Gross fixed capital formation	395.9	8.6	-1.5	-0.5	-0.5	0.6
Housing	73.0	-3.4	2.1	9.1	4.7	5.6
Business	271.3	14.0	-1.8	-4.2	-2.5	-1.1
Government	51.5	-3.2	-5.2	9.2	3.2	2.4
Final domestic demand	1 432.1	4.3	0.9	1.5	1.8	2.5
Stockbuilding[1]	9.0	-0.1	-0.5	0.2	0.2	0.0
Total domestic demand	1 441.2	4.1	0.4	1.7	2.1	2.5
Exports of goods and services	313.1	6.3	6.7	6.5	4.6	6.9
Imports of goods and services	301.4	6.5	-2.1	0.4	2.5	4.4
Net exports[1]	11.7	0.0	1.8	1.2	0.4	0.4
Other indicators (growth rates, unless specified)						
Potential GDP	. .	2.9	2.8	2.9	2.9	3.0
Output gap[2]	. .	-0.6	-1.0	-0.8	-1.2	-1.2
Employment	. .	1.2	1.0	1.0	1.1	1.7
Unemployment rate	. .	5.2	5.7	6.1	6.2	5.9
GDP deflator	. .	-0.2	1.2	0.0	1.0	2.5
Consumer price index	. .	1.7	2.4	2.6	2.3	2.6
Core consumer prices	. .	2.2	2.5	2.7	2.4	2.6
Household saving ratio, net[3]	. .	11.0	9.9	9.6	9.3	8.2
Trade balance[4]	. .	-0.8	-0.3	. .	. .	. .
Current account balance[4]	. .	-4.4	-3.3	-3.6	-4.1	-3.6
General government fiscal balance[4]	. .	-3.0	-1.3	-3.3	-2.0	-1.5
Underlying general government fiscal balance[2]	. .	-2.8	-1.3	-1.5	-1.5	-1.1
Underlying government primary fiscal balance[2]	. .	-2.3	-0.8	-0.9	-0.8	-0.4
General government gross debt financial liabilities[4]	. .	31.8	33.0	36.2	38.1	39.3
General government net debt[4]	. .	-0.4	-0.3	3.0	4.9	6.1
Three-month money market rate, average	. .	3.7	2.8	2.7	2.9	3.4
Ten-year government bond yield, average	. .	3.4	3.7	3.7	3.5	3.7

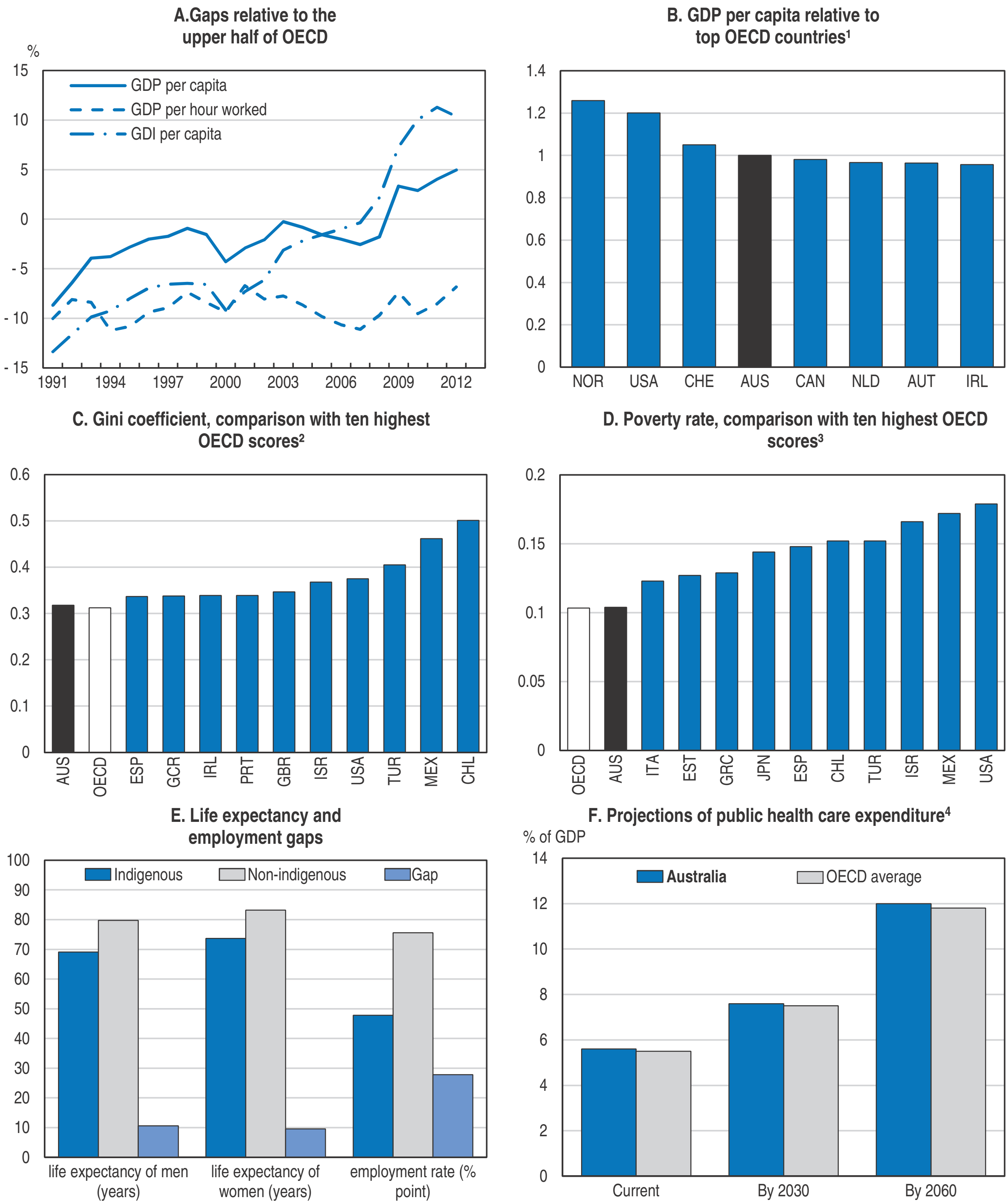
1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.

Source: OECD (2014), *OECD Economic Outlook 95: Statistics and Projections* (database), September.

Although population ageing is not as rapid in Australia as in some other OECD countries ensuring retirement-income adequacy and appropriate retirement-age incentives is nevertheless challenging. Also, population aging and ever-expanding treatment possibilities are putting pressure on the health-care system (Figure 4). In addition, ageing requires shifts in the composition of services, and the increase in demand is sharpening the challenges of funding and co-ordinating federal and state health care.

Australia faces several environmental issues (Figure 5) and policy challenges; in particular a replacement mechanism for the repealed carbon tax is not yet in place. Much of the population lives in urban areas planned around car-based transport, resulting in traffic congestion and local air pollution. In addition, there are economic challenges in the supply chain for water and risks of drought. Cataloguing and preserving the ecosystems in

Figure 4. **Long-term challenges**



1. GDP is measured as per head, USD, constant prices, constant PPPs, OECD base year 2005. "1" indicates the same GDP per capita as the average of the top half of the OECD distribution. Ranking is based on the 2012 performance.
2. This Gini coefficient is calculated using disposable income after taxation and transfers. The coefficient ranges between zero and 1; a zero would indicate that everyone has the same income and a 1 implies one person has all the income.
3. This measure of relative poverty that indicates the share of individuals receiving less than 50% of the median income.
4. The projection is based on a scenario accounting for cost pressure.

Source: OECD (2014), *Going for Growth Database*; OECD (2014), *National Accounts Database*; Australia, Closing the Gap, Prime Minister's Report 2014; *Economics Department Working Paper*, No. 1048.

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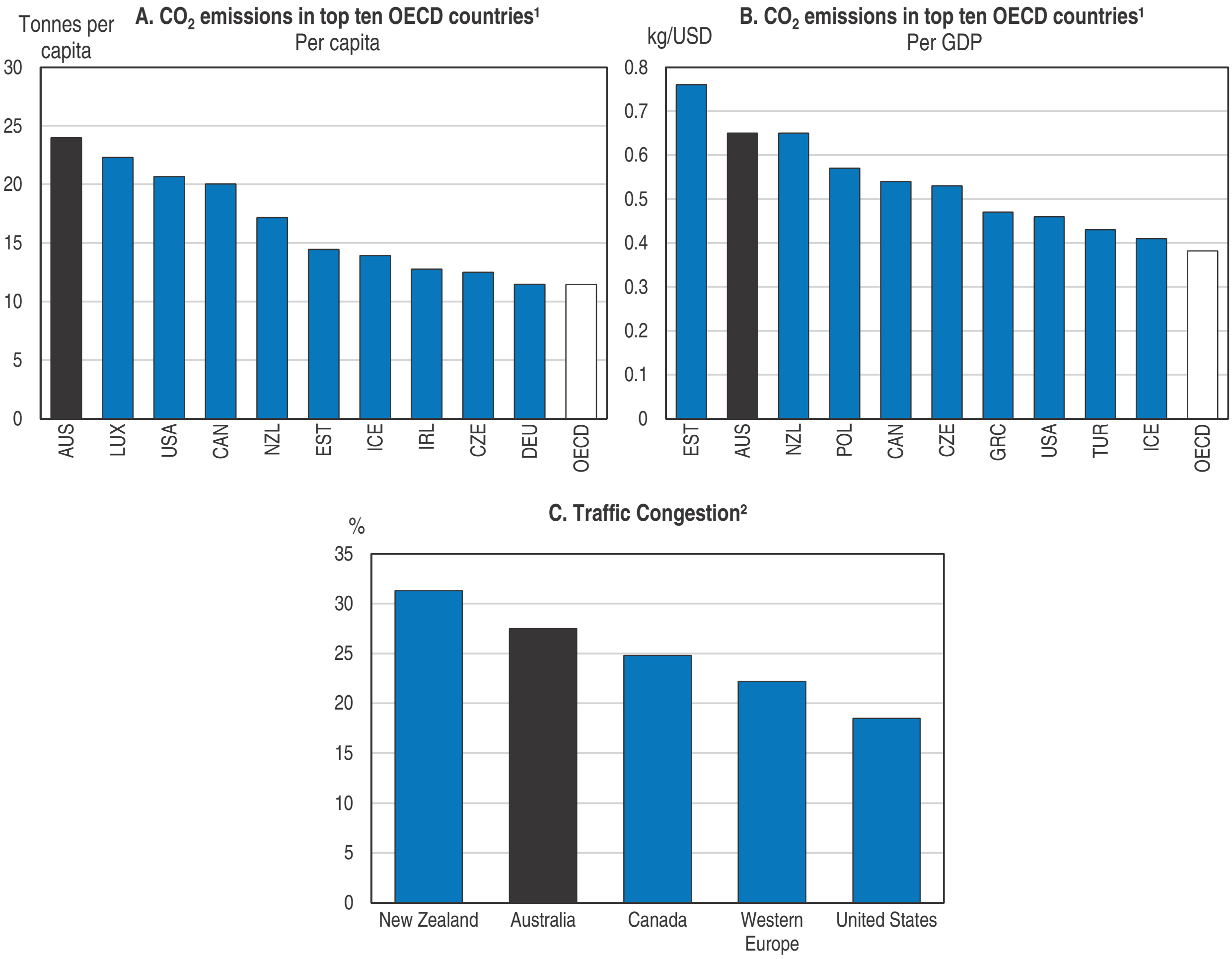
Figure 5. **Environmental challenges**



1. CO_2 emissions refer to greenhouse gases emissions equivalent to tonnes of CO_2 and to the year 2012. OECD refers to a simple average of 30 OECD member countries.
2. Traffic congestion is measured as excess travel time due to congestion, i.e. the average trip takes 27.5 per cent longer in Australia because of traffic congestion, compared to the average trip without congestion as calculated by GPS devices.

Source: OECD (2014), *Environment Statistics Database*; *Tom Tom Traffic Index*, 2013 Q2.

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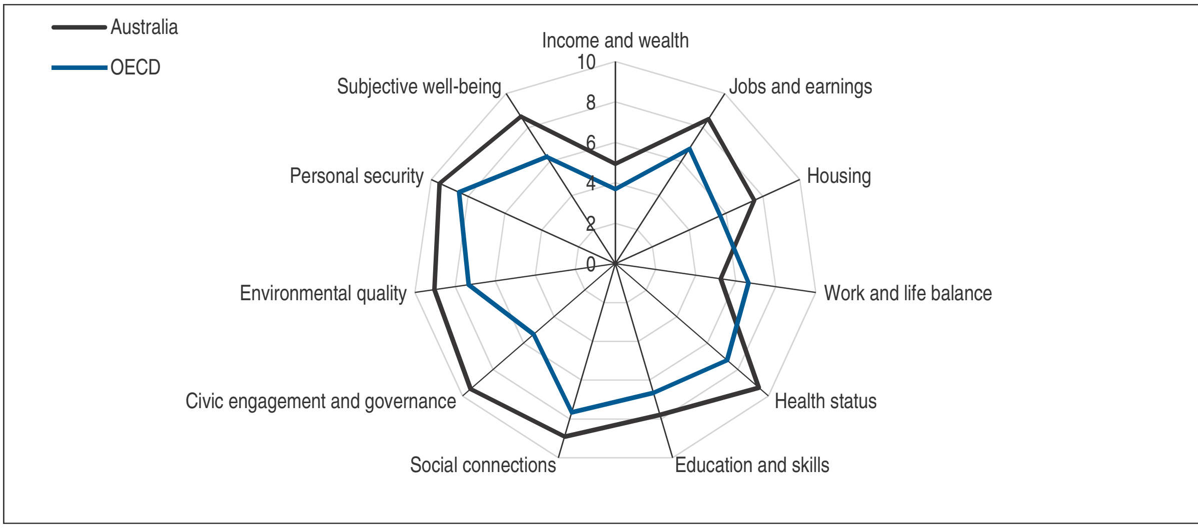
Australia's vast tracts of land and offshore marine habitats is challenging too. Difficult issues sometimes arise in accommodating mining and environmental concerns, as exemplified by the recent debate over the expansion of coal export facilities at Abbot Point in Queensland. Climate change impacts are of particular significance, because of threats to Australian plant and animal life and risks to agricultural production. On a per capita basis Australia's economy generates more greenhouse gases than most other OECD countries. Abundant supplies of low-cost fossil fuels favour GHG-intensive electricity production and have created opportunities for energy-intensive export-based processing (notably aluminium smelting).

Many of Australia's strengths are echoed in the OECD's Better Life Index (Figure 6). The country's score in indicators of factors driving material well-being (such as the Income and Wealth, Jobs and Earnings and Education and Skills data) are above the OECD average and the country also ranks highly in health status (the data largely reflects high life-expectancy), subjective well-being, personal security and the environment (water and air quality). Australia's below-average score in the Work and Life Balance indicator is mainly

Figure 6. **Australia's score in the Better Life Index**



How to read this figure: Each well-being dimension is measured using one to three indications from the OECD Better Life Indicator set with equal weights. Indicators are normalised by re-scaling to be from 0 (worst) to 10 (best).

Source: OECD (2014), *Better Life Index 2014 Database*.

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driven by a labour-force-survey statistic showing that a comparatively high proportion of employees work more than 50 hours per week.

Ensuring price and financial stability

Inflation targeting continues to work well

Australia's flexible monetary policy approach has effectively contained inflation and inflation expectations within the 2-3% target range. As in a number of other OECD economies, recovery from the global financial crisis has reached a point where the normalisation of monetary conditions is on the horizon. However, the appropriate moment for this process to begin, and its pace thereafter, remain uncertain and subject to debate. The RBA's policy rate has remained at 2.5% since August 2013. Reserve Bank statements indicate a period of stability in interest rates is likely to continue; for instance the projection shown in Table 1 assumes the start of interest-rate increases in the first half of 2015.

The composition of Australia's large and mostly private external debt has improved

In aggregate, Australia remains a fairly substantial "external debtor nation". A long history of current-account deficits has generated net foreign debt of about 55% of GDP (Table 2). This has principally been generated by inbound private-sector investment; although in recent times private savings have increased significantly (buttressing Australia's already high national saving rate) and foreign investment has largely flowed to the resources sector in the form of equity rather than debt. Some aspects of the debt mitigate the potential risk. Most foreign liabilities are denominated in Australian dollars while the foreign assets are mainly in foreign currency (ABS, 2013). Hence, exchange-rate depreciation reduces net external debt, rather than propelling it into territory that may risk financial stability. In addition, since the global financial crisis the banks have reduced short-term offshore funding, which has lengthened the maturity of external debt (Debelle, 2014; IMF, 2013). However, these considerations do not entirely remove the risk.

Table 2. **Selected balance-sheet indicators**

	2010	2011	2012	2013	2014
Balance-of-payments account					
Gross foreign liabilities	147	145	152	162	163
Gross foreign assets	94	90	96	109	109
Net foreign liabilities	53	55	55	53	54
Household account					
Gross household assets	545	505	532	556	569
Of which: Non-financial (mainly dwellings)	329	301	304	317	326
Of which: Financial	215	204	228	239	243
Gross household liabilities	111	112	114	115	119
Net household worth	433	393	418	441	450
Business account					
Total liabilities	166	151	156	163	163
Of which: Loans	40	40	41	43	44
Of which: Equity	96	81	85	89	89

Note: The data shown are for the final quarter of each year, except 2014 where the data are for the second quarter.
Source: Reserve Bank of Australia.

Prudential oversight is focusing on the housing market

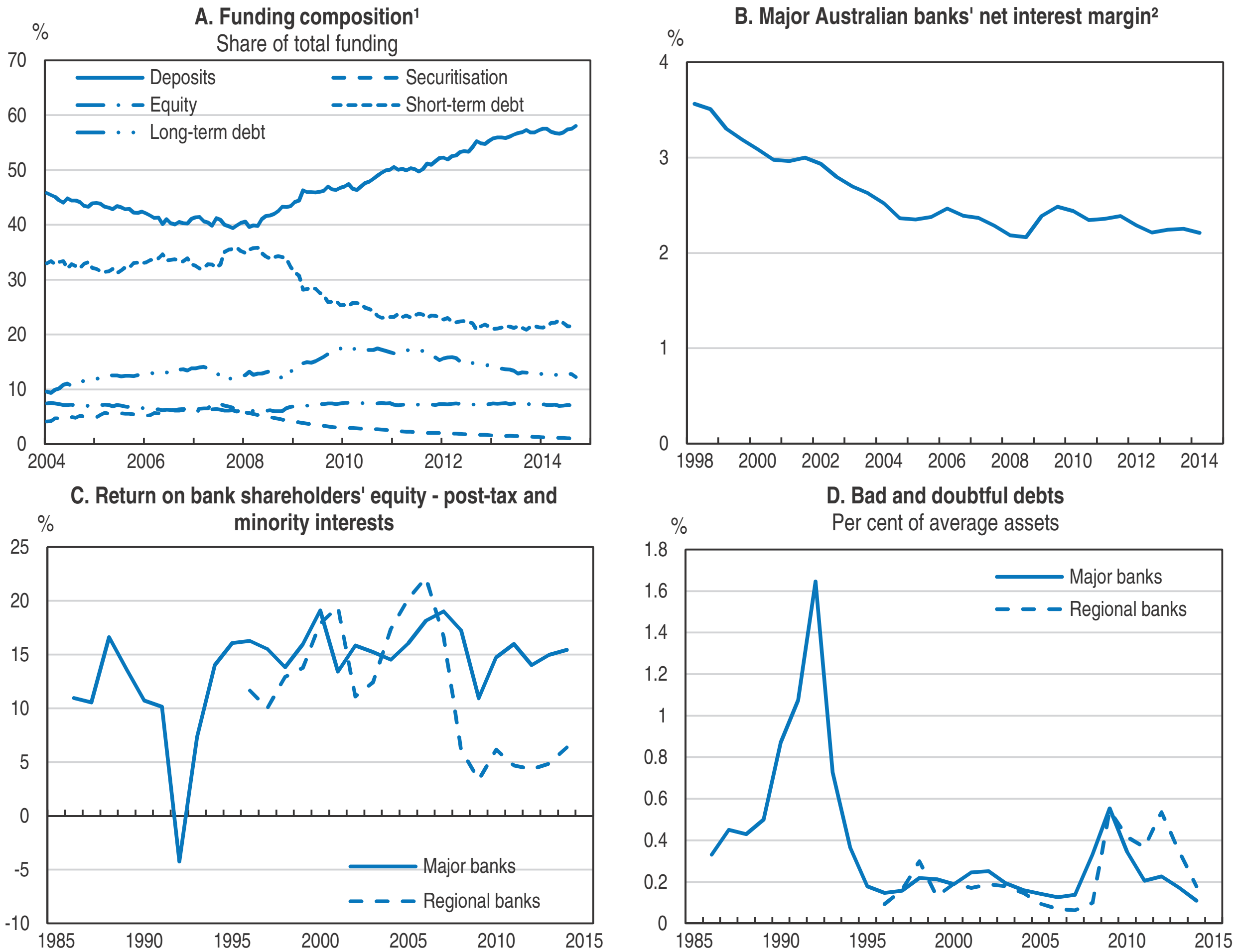
Strong prudential regulation and oversight undoubtedly helped Australia weather the global financial crisis. Various rules dissuading high-risk lending played a key role. In particular, conservative capital adequacy rules and reduced leverage protected the system and encouraged banks to focus portfolios on domestic and low-risk credit. Indicators show that the banking sector is currently in a strong prudential position; return on equity remains high as do capital adequacy ratios and there remains relatively little problematic debt (Figure 7).

Given the recent rapid increase in house prices, the Australian Prudential Regulation Authority's (APRA's) circulation of new draft guidelines on residential mortgage lending in May 2014 (APRA, 2014a) has been a sound move. For instance, the guidance outlines prudent practices in addressing housing credit risk for deposit taking institution's (ADI's), such as guidance on loan origination criteria, security valuation methods, the management of hardship loans and stress-testing. These guidelines are in addition to a review in 2013 on the loan serviceability standards. Also micro-prudential scrutiny (i.e. scrutiny on an institution-by-institution basis) has intensified, its effectiveness helped by the fact that the four major banks represent the bulk of the banking sector. This said, macro-prudential measures may become appropriate if a general slowing in lending is needed, and as a means of signalling concern and willingness to act to stabilise the financial system as a whole (i.e. announcement effects). Accordingly, the Council of Financial Regulators is continuing to monitor developments in the housing market (particularly in relation to investment housing) and is actively considering additional steps in order to reinforce appropriate lending practices.

Banks are strong, but the degree of concentration raises issues

Australia's financial sector is in good health from a prudential perspective but there are concerns, particularly relating to the degree of concentration in banking. The global financial crisis strengthened the already dominant position of the four main banks, as two of them took over smaller banks over this period (Figure 7). Nevertheless, according to

Figure 7. **Banking sector indicators**



1. Short-term debt and long-term debt are adjusted for movements in foreign exchange rates. Short-term debt includes deposits and intragroup funding from non-residents.
2. The data refer to the major banks' public reports on net interest margins, excluding St. George Bank and Bankwest prior to the first half of 2009.

Source: Reserve Bank of Australia (2014), *Banks' Financial Reports*; Australian Prudential Regulation Authority (2014).

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available indicators it would appear that competition is robust. Indeed, net interest margins are near thirty-year lows and measures of consumer satisfaction are near record highs. However, the concentrated structure of the banking sector leaves no room for complacency for the Australian authorities in ensuring prudence is maintained and that there is strong competition in financial markets. A recent interim report from an inquiry of the financial system contains welcome discussion of these issues alongside suggestions for reform (Murray Report, 2014). It elaborates on avenues to reduce the problem that the four major banks are perceived as too-big-to-fail and, linked to this, that they benefit from a substantial implicit guarantee. For instance, the interim report suggests increasing powers to impose losses on creditors in the event of bank failure. As regards retail markets, the interim report identifies banks as benefitting from differences in risk-weighing systems in mortgage lending and is critical of the degree of competition in superannuation (i.e. pension fund) administrative fees. As regards business financing, the report notably suggests the creation of a credit registry to facilitate lending to small and medium-sized enterprises, and proposes facilitating bond financing by making it easier for companies to raise money using vanilla (i.e. simple) bonds. Follow-up on these suggestions for reform will await the final recommendations of the inquiry (which are due in November 2014).

Recommendations on ensuring price and financial stability

- **Continue intensive monitoring of the housing market**; Maintain deep micro-prudential oversight and consider using macro-prudential tools to bolster credit safeguards and signal concern.
- **Examine credit and competition issues in the financial sector**; Consider reducing banks' implicit guarantees, tackling risk-weighting advantages in mortgage lending, improving credit databases.

Pursuing fiscal consolidation and ensuring efficient tax and public spending

A structural budget problem has emerged

Compared with many OECD economies, particularly those in Europe, the scale of government spending and revenues in Australia have long been low and public debt light (Figure 8). Many policy approaches have involved a comparatively small fiscal commitment. These include, for example, the important role of mandatory saving into private pension funds ("superannuation") to ensure adequate incomes in retirement; the use of public-private partnerships for infrastructure development; and, extensive use of means testing in welfare assistance.

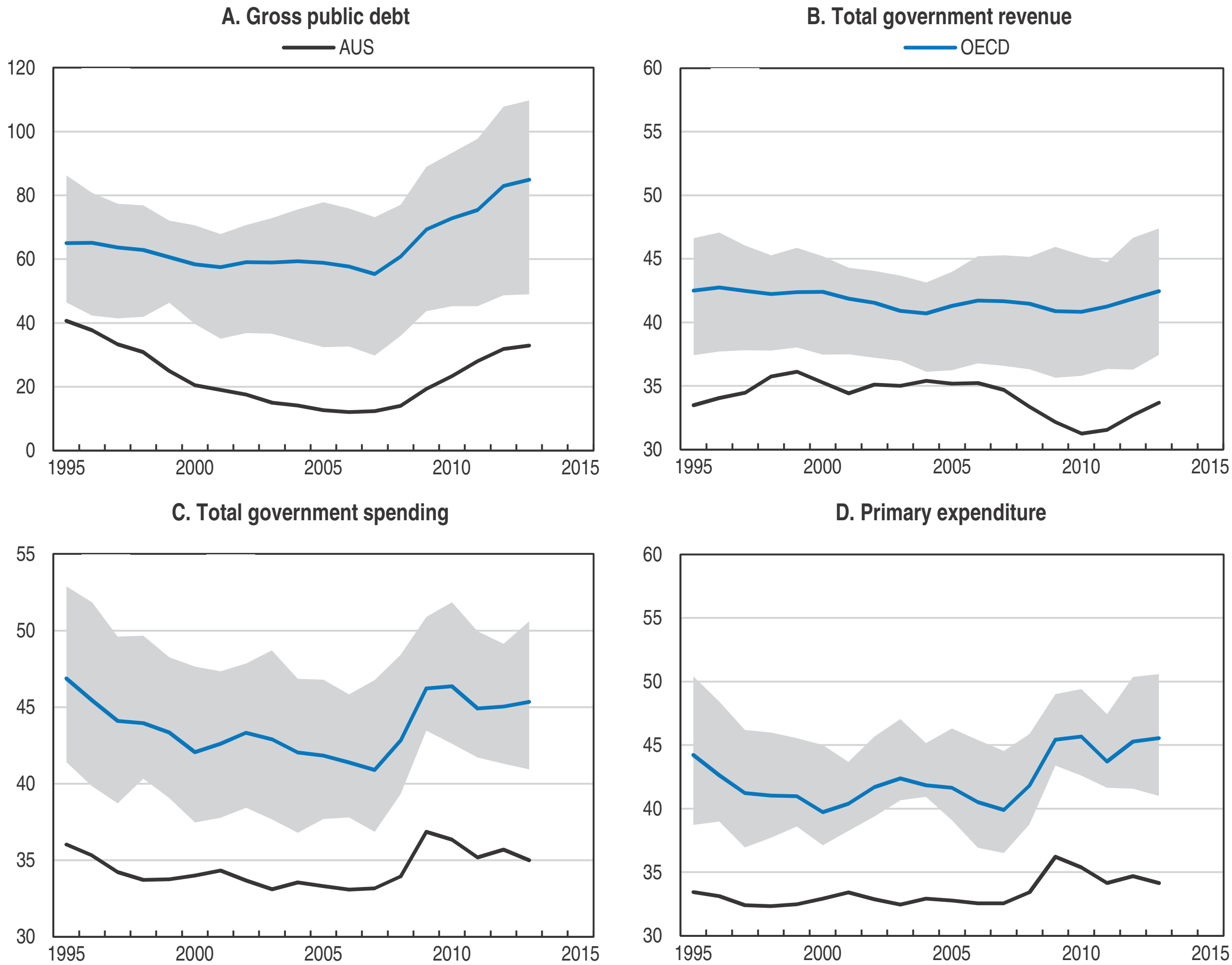
However, unusually for Australia, the general-government balance has been in deficit for the past six years and gross public debt has increased from 20 to 30% of GDP (Figure 9). Furthermore, in the absence of active fiscal consolidation measures, such as those presented in the government's budget, progress in deficit reduction is projected to be slow and somewhat bumpy (Figure 10, top left panel, "with budget measures"), even with the help of fiscal drag (notably, personal income tax thresholds are not indexed). The global economic crisis and associated fiscal stimulus, and more recently, the tailing off of resource-sector investment provide a partial explanation for the deficit situation. However, there has also been an over-commitment to costly spending initiatives and tax cuts (OECD, 2012a). Linkage between the boom and a ramping up of active spending measures (in the form of outgoings or tax expenditures) is illustrated in calculations of the cumulative value of such measures based on budget documents (Figure 11).

A conservative approach to public debt is important for Australia. Exposure to external risk, particularly from resource markets, implies possible shocks that would require substantial fiscal fire-power to offset. In addition, the substantial private sector debt, despite mitigating factors, also highlights the importance of a strong public sector balance sheet.

Australian fiscal policy is guided by a general principle of achieving a balanced budget (or surpluses) "over the cycle". Following this framework, the government aims for a budget surplus of over 1% of GDP by 2023-24 (Figure 12) through its "budget repair strategy". This strategy includes a commitment to more than offset new spending measures with reductions in spending elsewhere and a commitment to bank positive variations in receipts and payments from favourable economic conditions to the budget bottom-line. In the near term, the accounting impact of a one-off government grant to the RBA in 2013-14

Figure 8. **General government revenues, expenditures and debt**[1]

As a percentage of GDP



1. Data represent general-government accounts (i.e. including sub-national government accounts). The shaded area denotes the 25th to 75th percentile range of available data for OECD countries. OECD is a simple average of data for available countries.

Source: OECD (2014), *OECD Economic Outlook 96 Database* and OECD (2014), *Annual National Accounts Database*.

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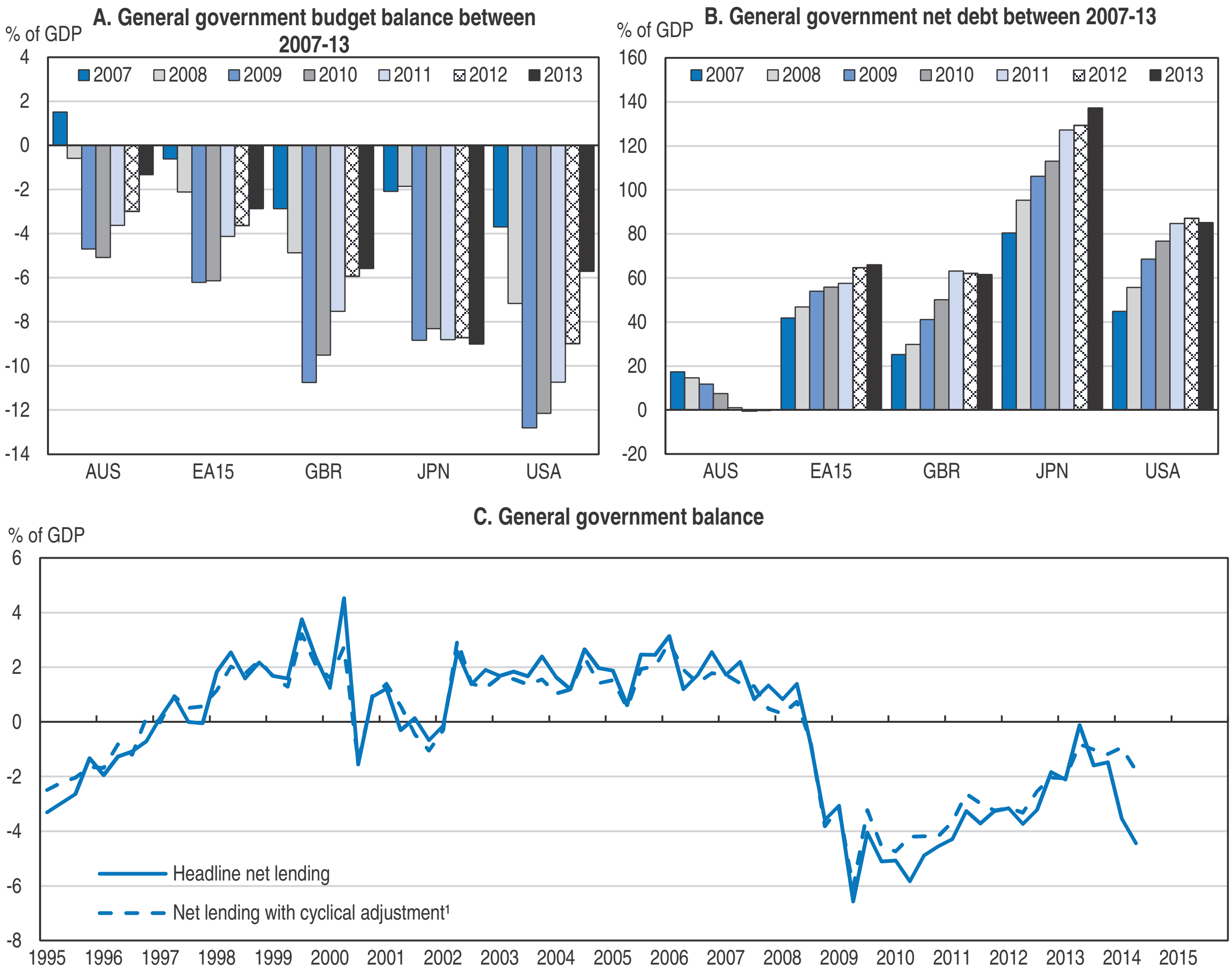
will technically generate consolidation of 0.6% of GDP in 2014-15 (Figure 12) and other factors will reduce the deficit too. Given this, new measures in the government's budget commendably do not add much to the consolidation between 2013-14 and 2014-15; the "new" measures on net only add about 0.1 percentage points to previously mandated consolidation. However, consolidation measures have a larger impact in the remaining years of the 4-year budget horizon, especially in 2017-18.

In terms of spending and tax measures, the 2014-15 Budget reflects a "small government", pro-business philosophy. It creates fiscal room for additional public spending on infrastructure, on the basis that this will boost jobs and productivity (as well as bring benefits for households). Other spending initiatives include a large increase in the generosity of paid parental leave and the establishment of a sizeable fund for medical research (Table 3). The fiscal savings for reaching the deficit targets and funding the new spending initiatives concentrate on economies in spending (in particular, welfare transfers) rather than on revenue-raising measures (Table 3). Some of the latter are temporary, in particular a new top-

Figure 9. **General government balance and net debt**



1. Adjusted for one offs.

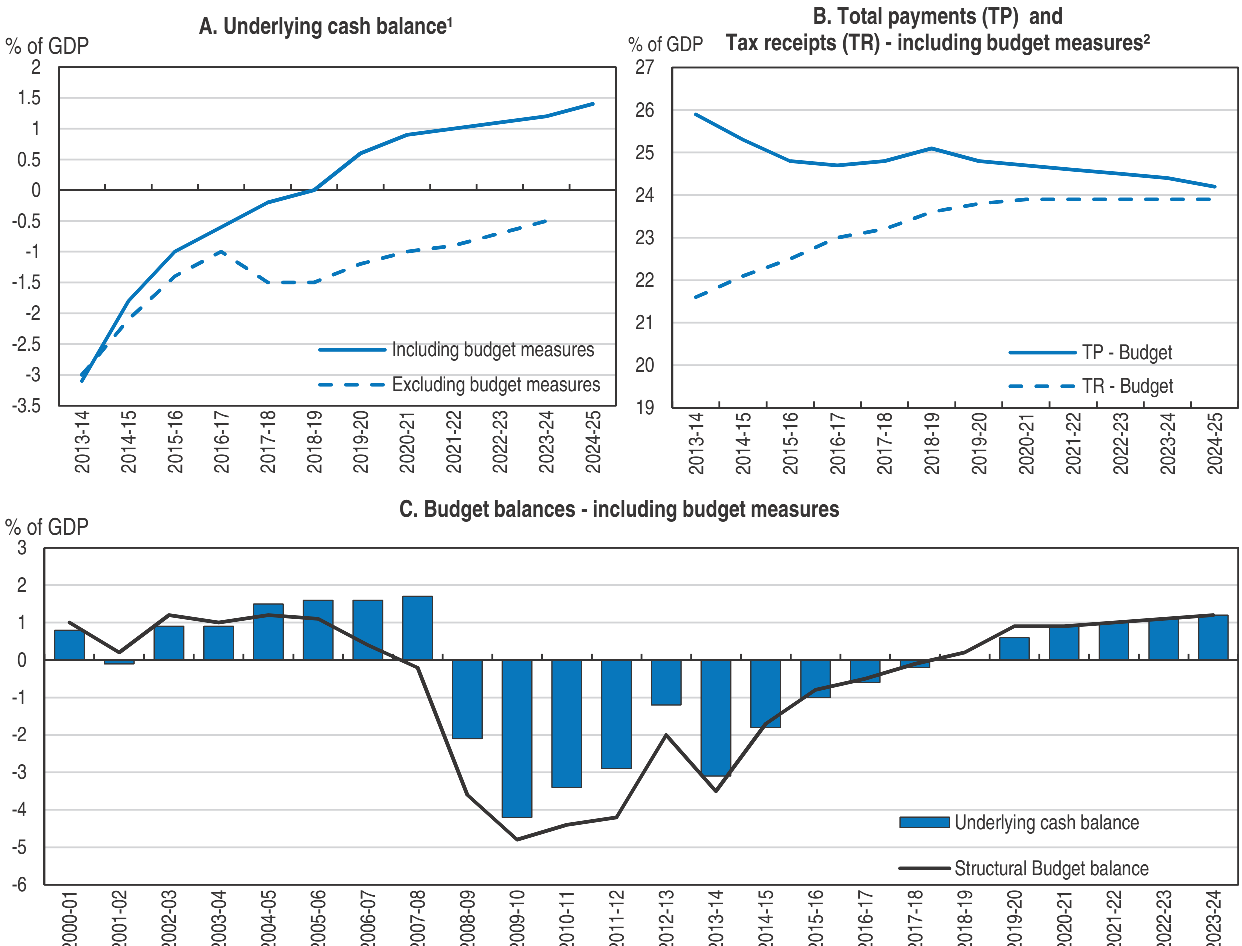
Source: OECD (2014), *OECD Economic Outlook 96 Database*.

StatLink http://dx.doi.org/10.1787/888933176471

end personal-income tax (the Temporary Budget Repair Levy) will be applied for only three years. Among the measures intended as permanent, the proposal to re-introduce indexing of excise on retail gasoline is a particularly commendable move.

Pursuit of budget surpluses should remain faithful to the cyclical tolerance embodied in the guiding principle of Australia's fiscal policy. In particular, policy should allow automatic stabilisers to cushion unanticipated shocks. For the longer term, policymakers should be mindful that in the Australian context there is no obvious virtue in accumulating a large war chest of net public assets, which could happen in the absence of downturns or if budget surpluses are pursued at all costs. True, there are future liabilities in pension and health spending, but Australia's challenges are not extraordinary on these fronts. In addition, considerable mineral wealth remains in the ground, the public component of which (for instance, that accumulated from royalties) is not included in estimates of general government assets.

Figure 10. **The Commonwealth government's medium-term fiscal outlook**



1. The underlying cash balance excludes Future Fund earnings and cash flows for investments for policy purposes. The "Business as usual series" notably assumes fiscal drag is allowed to operate throughout the time period. The series "Including budget measures" includes the fiscal impact of measures detailed in the 2014-15 Budget and imposes a revenue cap from 2021-22 onwards, which can be interpreted as a scenario in which the authorities decide to stop fiscal drag by, for instance, increasing thresholds in personal income tax.
2. Including the imposition of a tax cap.

Source: Australian Government (2014), *Budget Paper No. 1: Budget Strategy and Outlook 2014-15.*

StatLink http://dx.doi.org/10.1787/888933176482

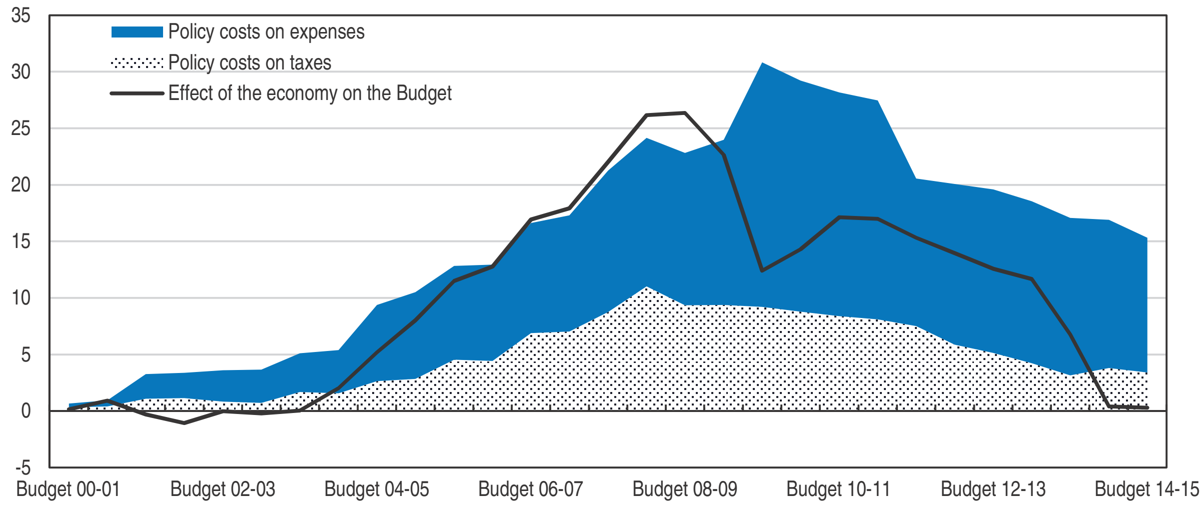
Options for embedding more disciplining mechanisms into federal-budget processes

Avoiding inappropriate commitment of windfall natural-resource revenues could be helped by ring-fencing them through the establishment of a stabilisation fund, as recommended by previous *Economic Surveys*; or through greater use of existing funds, such as the Future Fund (OECD, 2010, 2012a). Such measures could insulate the budget from fluctuations in the resource-based revenues and, thereby de-link government spending decisions from revenue changes caused by shifting terms of trade.

On other fronts, the recent experience with reforms involving additional spending commitments over a prolonged period (such as the disability support reform), suggests strengthening the reporting requirements for spending commitments beyond the four-year budgeting horizon may be worthwhile. Also, some suggest stricter rules for when expenditures in a specific portfolio of the budget exceeds their target during the budget year (IMF, 2014). At

Figure 11. **The impact of policy decisions and the economy on the Commonwealth Budget**[1]

Cumulative totals from the 2000-01 budget onwards, as a percentage of GDP



1. These calculations are based on Commonwealth government budget documentation that identifies the amount of federal budget spending (and revenue) that is linked to policy measures, the remainder being driven by other factors that can be broadly be interpreted as influence of the economy on the budget. The data do not reflect the impact of the 2014-15 Budget.

Source: Deloitte Access Economics (2014), *Budget Monitor*, Issue No. 85, May 2014.

StatLink http://dx.doi.org/10.1787/888933176497

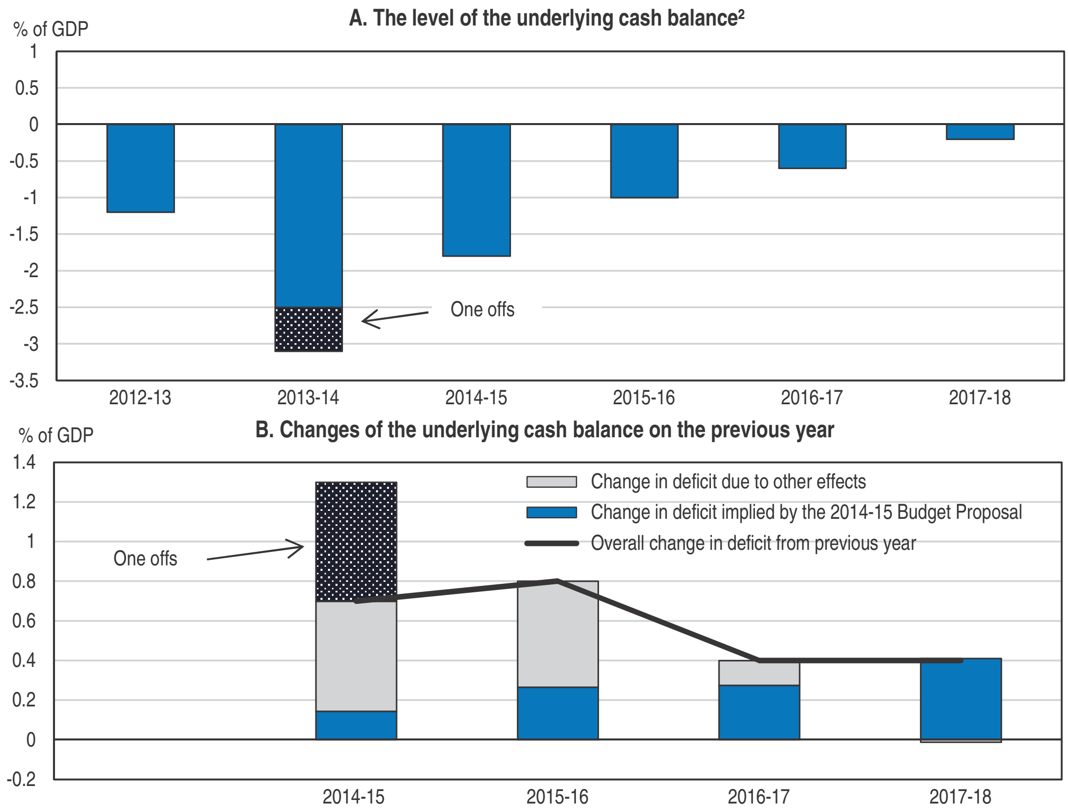
present the rules require submission of a supplementary budget but do not specify, for instance, whether this must be expenditure neutral. In addition, the Parliamentary Budget Office could play a stronger role, in particular: by reporting progress against the medium-term fiscal strategy in the Commonwealth budget (NCA, 2014); by extending the Treasury's Intergenerational Report to all governments; and, by examining shared federal and state responsibilities in areas such as health and education (see below and OECD, 2012a).

There is room for a more growth-friendly tax mix

The government has initiated a review of taxation, which provides an opportunity to improve the efficiency of the existing system, including the tax mix where Australia has a lower component of indirect taxation (Chapter 1 and Figure 13) and a larger contribution from income tax on households and businesses compared with many other OECD countries. In principle, maintaining a low share of taxes that directly affect business costs and margins (with correspondingly greater weight for indirect taxation) is better for economic growth (Johansson et al., 2008). As recommended in previous OECD surveys, shifting the tax mix could include broadening the base and raising the rate of the Goods and Services Tax (GST) and increasing the use of land taxes, combined with (fiscal conditions permitting), a reduction in the rate of corporate tax, and rate cuts and threshold increases in personal-income tax.

With a rate of only 10% and fairly widespread exemptions, GST raises only half the revenues (as a share of GDP) compared with the OECD average and significantly less than the countries making the most use of such tax (Figure 13). Consequently, the tax burden falls more on other taxes, including those on labour and business. Raising GST revenues by raising the rate or removing exemptions can prompt concerns, as the exemptions in particular typically originate from distributional considerations. However, the efficiency of exemptions in VAT-type taxation as a redistributive mechanism is low (as all households

Figure 12. **Deficit reduction according to the 2014-15 budget**[1]



1. The Commonwealth deficit in 2013-14 has been increased by a government grant to the RBA for restocking a buffer fund which is equivalent to 0.6 per cent of GDP.
2. The deficit refers to the underlying cash balance which excludes Future Funds earnings and payments.

Source: Australian Government (2014), *Budget Paper No. 1: Budget Strategy and Outlook 2014-15*; and OECD calculations based on Statement 3, Table 5 of this publication.

StatLink http://dx.doi.org/10.1787/888933176506

benefit from them) and such concerns can anyway be addressed through welfare policies. Any changes to the current GST rate or base would require the agreement of both state and federal levels of government under existing legislative settings.

Reforming state-level financing – raising autonomy and responsibility

Australia's federal system is currently under the spotlight not only in this review but also by the government that has committed to a white paper on the federation. Over time the Australian federal system has gradually become more centralised (see Chapter 2). States have wide-ranging spending responsibilities, including public schools and hospitals, public housing, and transport, but federal influence over resource allocation and policy has tended to increase. Compared to other federal OECD countries, sub-national spending (as a share of total government spending) is similar to that in the United States and Spain, but less than in Switzerland or Canada (Figure 14). Australian states' "own revenues" account for only about half of their total revenue, the remainder being covered by federal transfers, i.e. there is a large vertical fiscal imbalance (Figure 15). These transfers include various types of "tied" grant plus the transfer of all GST revenues. GST is governed by national legislation and administered centrally. It is distributed across the states according to a system of full horizontal equalisation, which some argue is overly sophisticated (Kirchner, 2013).

Table 3. **Notable measures proposed in the 2014-15 budget, impact on the fiscal balance, AUD billions**

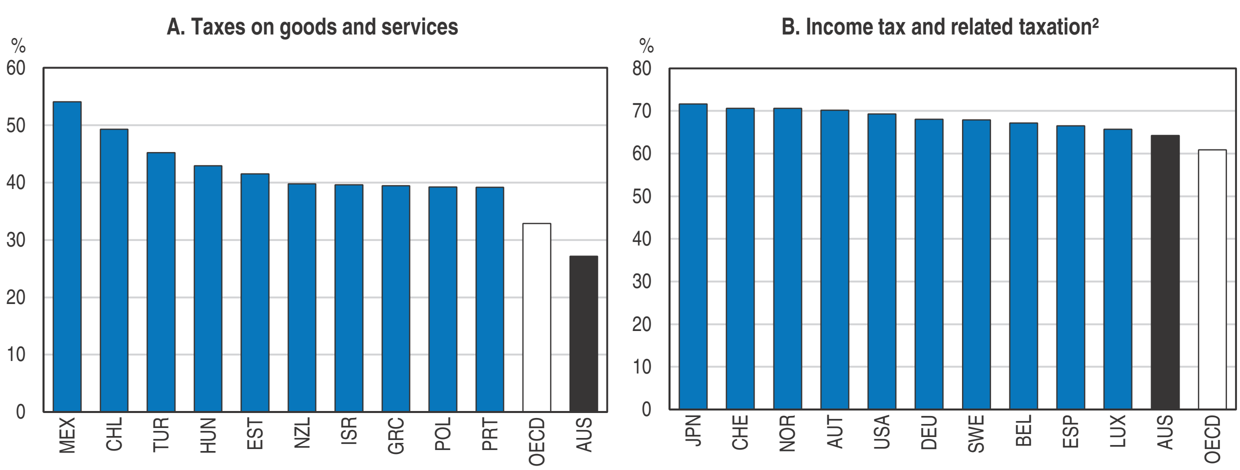
Measure	Budgeted value of major items 2014-15[1]	… over the budget horizon 2014-15 to 2017-18
New spending initiatives[2]	**-140**	**-15.0**
Increased infrastructure spending (“Infrastructure Growth Package”)	-0.6	-8.5
Subsidies for taking on older workers (“Restart”)	-0.2	-0.5
Establishment of a medical research fund	0	-0.3
Revenue-increasing measures	**0.8**	**6.6**
Re-introduction of indexing on gasoline excise	0.2	2.2
A temporary additional top-end personal income tax (the “Temporary Budget Repair Levy”)	0.6	3.1
Savings in public spending: welfare, education, healthcare	**2.6**	**27.1**
Welfare pay-outs for working-age households: threshold freezes, reduced indexing, reduced scope of Family Tax Benefit B, tougher benefit eligibility for under 30s	1.0	10.7
Support for the elderly including less generous indexing on pension pay-outs	0.6	3.0
Health care, including new co-payments and reduced rebates for some Medicare services and a freeze to the indexation of income thresholds for theprivate health insurance rebates	0.5	8.1
Education, including reduced generosity of commonwealth supported student loans	0.5	5.2
Economies in transfers to the States for hospital care and education[3]		
Savings in public spending: Other	**0.7**	**8.0**
Reduced foreign aid commitments	0.6	7.0

1. Totals underestimate the total budgeted amounts because numerous smaller items are not included.
2. Expansion of parental leave is also a major initiative but detailed estimates were not included in the 2014-15 budget documentation.
3. Scheduled to start only in the final year of the budget horizon or beyond it.

Source: Based on Australian Government, 2014, Budget 2014-15, Overview, Annex C, Major Initiatives; and Annex D, Major Savings.

Figure 13. **Tax revenue by sector relative to top OECD countries[1]**

As a share of total taxation, 2011



1. Panels A and B show national accounts general government data (i.e. including sub-national government) on a calendar year basis and using a standardised international classification. OECD refers to a simple average based on 32 OECD countries.
2. Income tax and related taxation comprise taxes on income, profits and capital gains, social security constributions and taxes on payroll and workforce.

Source: OECD (2014), *Revenue Statistics Database*.

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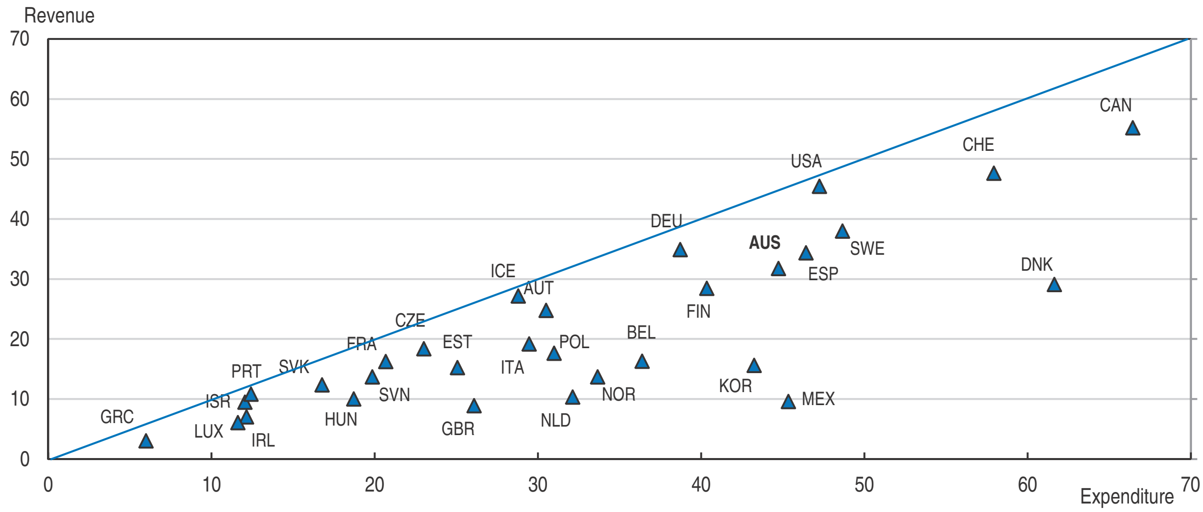
Figure 14. **Fiscal decentralisation**

Sub-national shares of revenue and expenditure in per cent of total general government, 2012 or latest year[1]

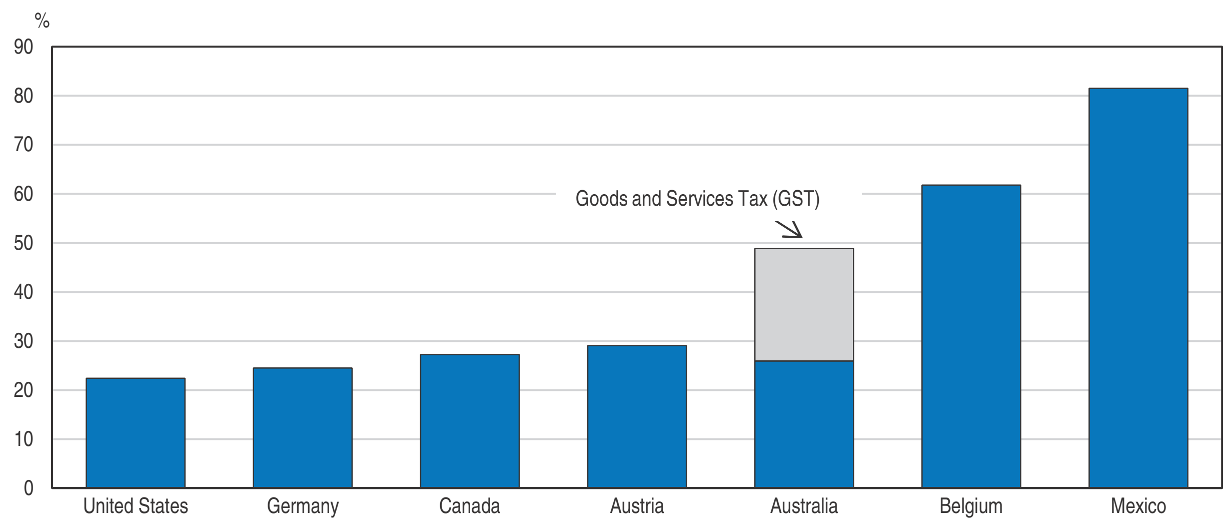


1. Data refer to 2011 for Korea and Mexico and to 2010 for Canada. Revenue does not include intergovernmental transfers. For Australia, data refer to the financial year 2011-12.

Source: OECD (2014), *Fiscal Decentralisation Database*; ABS, *Government Finance Statistics 2011-12* (Cat. No. 5512.0).

StatLink http://dx.doi.org/10.1787/888933176526

Figure 15. **Vertical fiscal imbalance: A comparison with other federations**



1. The vertical fiscal imbalance (VFI) is defined as the total of federal payments to total sub-national revenue. For Australia, VFI is the share of Commonwealth payments in total state revenue. Data refer to 2011 and in the case of Canada to 2010.

Source: International Monetary Fund (2013), *Government Finance Statistics Yearbook*; Australian National Authorities.

StatLink http://dx.doi.org/10.1787/888933176539

Broadly speaking, federal fiscal relations would be improved by less central government steerage, giving states more financing autonomy but also more responsibility. The government has recognised this including through statements that state governments should be sovereign within their own sphere. One route is to reduce the strings attached to Commonwealth grants ("conditionality"). There have been attempts to do so in reforms that also sought to reduce complexity and administration costs (Warren, 2006; Ward, 2009; Ramamurty, 2012). In particular, a major reform in 2008, the Intergovernmental Agreement on Federal Financial Relations, replaced the numerous tied grants with a small number of much less prescriptive transfers (National Specific Purpose Payments).

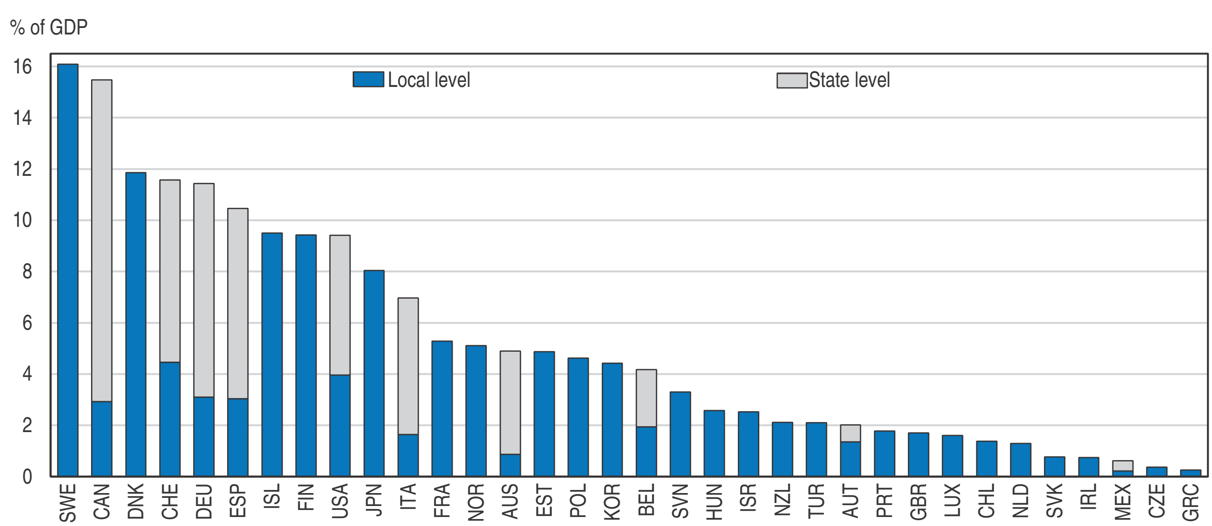
However the 2008 reform was weakened by rapid growth in a new form of grant via National Partnership Agreements. Designed to deliver national reforms, these agreements are funded by grants containing conditionality clauses. As of mid-2013, there were over 140 such agreements with the corresponding payments (National Partnership Payments) accounting for about a third of all tied grants. In addition, the growing number of partnerships has increased administrative and reporting costs, according to a recent monitoring report (CRC, 2013a). Encouragingly, the current government intends to reduce the role of these agreements. However, reform could go further by converting some types of National Partnership Payments into National Specific Purpose Payments (OECD, 2012b).

Reducing the vertical fiscal imbalance by increasing states' own revenues and reducing the role of grants in state funding potentially increases accountability and reduces "blame-shifting" between levels of government, consequently improving the efficiency of public-service delivery (see Chapter 2 and BCA, 2013; NCA, 2014). Indeed, recent OECD work concludes, using Canada as a benchmark, that tax decentralisation could have a positive impact on Australian growth (OECD, 2013a). However, such gains would most likely only arise if incentives on each level of government for efficient revenue raising and service provision were improved.

There is considerable room to improve the efficiency of sub-national taxation. Total sub-national tax revenue is equivalent to about 5% of GDP (Figure 16). A significant share of state taxation is from distortionary transaction taxes (for instance stamp duties on real-estate transactions). Furthermore, tax bases that have some merit economically have significant exemptions and concessions. For instance, only about 5% of businesses are liable for state payroll tax. In addition, the state land-tax base should be broadened to include owner-occupied housing and other exempted assets. There is also scope to

Figure 16. **Sub-central tax revenue**[1]

2008



1. Taxes where sub-central governments have power to set the tax base and/or the tax rates, as a percentage of GDP. Local governments in the United States have a wide variety of taxing powers but it is not possible to identify the share of each.

Source: OECD (2014), *Fiscal Decentralisation Database*.

StatLink http://dx.doi.org/10.1787/888933176544

increase the utilisation of the rates base by sub-national governments (Figure 16). Municipal rates are applied broadly across all residential land, with few exemptions, and are based usually on the unimproved capital value of land. They are considered to be an efficient tax base (see, for example, Australian Government, 2009; and Lambert, 2011). One sub-national government (the Australian Capital Territory) had announced a plan for a 20 year transition from transaction taxes to general municipal rates. The abolition of distortionary state taxes could also be facilitated by a broadening of the efficient tax bases and/or an increase in the GST (following an adjustment in its base and/or rates, see Chapter 1). This could also contribute to a shift towards lower vertical imbalance, in addition to increasing efficiency.

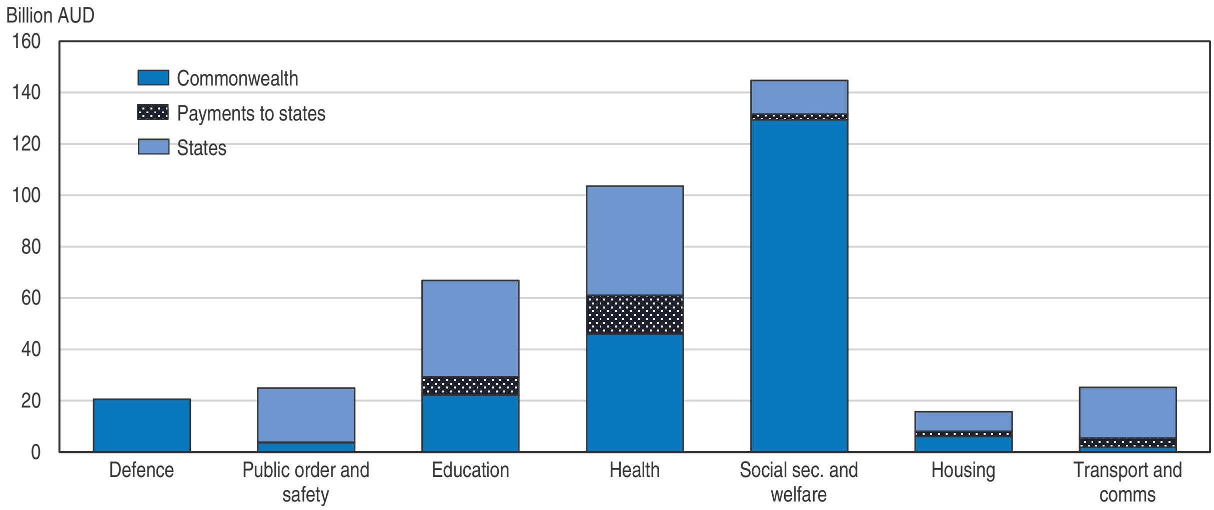
Better utilisation of relatively efficient existing sub-national tax bases should be a priority, but if additional "own-revenue" is warranted to reduce vertical fiscal imbalance as part of a broad reform of the federation, a state-level personal income tax (PIT) could be considered. The reform should also dovetail with the recommendations made elsewhere in this *Survey* for a shift towards less reliance on direct taxation at the national level. This could imply that the federal government "makes room" by lowering its personal income tax to accommodate both state-level PIT and national tax reform (OECD, 2006; Australian Government, 2009; NCA, 2014). Various approaches to state-level PIT can be taken, such as a system where states are allowed to set their rate while keeping a unified base throughout the country (a so-called "piggyback" system). This is likely to involve some economic costs, such as the erosion of the base assigned to states due to horizontal competition and efficiency loss, particularly if multiple rates are applied across jurisdictions. Moreover, state-level PIT might make future reform of the income tax base more difficult, given the involvement of more government levels in its determination. However, vertical tax competition (i.e. competition of different levels of government for the same tax base) could partly offset the impact of horizontal competition, according to recent OECD analysis (OECD, 2013a). To reduce complexity and potential inefficiencies from different PIT tax rates across states, individual rates could be set within a nationally agreed band. Moreover, piggybacking state-level PIT on national taxation would limit significantly administration costs, since such tax would be centrally administrated and collected (Fedelino and Ter-Minassian, 2010), although there could be increased red-tape and compliance costs around determining the state in which income is earned. Sub-central income taxes features in many advanced economies, but international experience varies. In Canada, for example, most provinces impose their tax rates on the federal income tax base (modified slightly by provincial and credits rebates), which is collected and administrated centrally (except for Québec). Meanwhile, the Nordic countries apply flat, locally set tax rates, imposed on a common tax base and collected centrally (Bird and Smart, 2010). Furthermore, in the United States and Switzerland, the federal and state levels set PIT rates and bases separately. Any increased revenue powers must go hand in hand with increased responsibility and accountability such that states have strong incentives for maintaining wide tax bases.

Some shared federal-state service provision does not work as well as it could

Responsibilities for most public services are divided between state and federal governments (Figure 17) and in some cases this creates wasteful duplication and cost- and blame-shifting. The 2008 Intergovernmental Agreement clarified roles and responsibilities to a point, but the recent National Commission of Audit indicates continuing difficulties (NCA, 2014). Health care suffers from the greatest challenges in this regard. The Commonwealth

Figure 17. **Decomposition of government expenditure by function**

2012-13



Source: Australian Bureau of Statistics (2014), *Government Finance Statistics* 5512.0; Commonwealth Final Budget Outcome 2012-13; Australian National Authorities.

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government is responsible for funding most primary care (notably general practitioners) while the states manage public hospitals. This is a more complex mix of funding arrangements than in, for instance, Belgium or Switzerland (see Chapter 2 and Warren, 2006). Cost-sharing risks feature prominently; for instance, public hospitals can refer discharged patients to general practitioners, rather than providing post-operative services themselves (OECD, 2006; Anderson, 2012). In education, shared responsibilities in schools give rise to complex and opaque funding arrangements, with concerns about the efficiency of service provision. Considerable state-Commonwealth overlap is also found in the regulation and funding of vocational education and training, leading possibly to weak outcomes relative to the public money spent, as assessed by the National Commission of Audit (NCA, 2014).

Further efforts to clarify roles and encourage co-ordination should continue, not only in health care and education but in other sectors such as housing and infrastructure. For example, on the basis of existing reports, success has been limited, so far, in addressing homelessness, and especially improving housing affordability outcomes (CRC, 2012, 2013b; NCA, 2014). However, for some public services clarifying roles and better co-ordination may not prove enough and re-allocating responsibilities between the federal and state governments may be best. For example, the National Commission of Audit report makes a case for states managing the allocation of funding for all schools, so as to remove the current fragmentation across the different segments of the school system on this front (NCA, 2014). The scale of federal-state co-ordination problems in health care also suggests that a reallocation of responsibilities may be the best route. The government's commitment to produce by the end of 2015 a White Paper on reforming federation with consultation with the states in this process is welcome.

There is room to further improve state-level performance indicators

Enabling quantifiable comparison across states in outcomes in public services is an important channel for detecting inefficiency and poor service quality, helping states learn from each other, and increasing public accountability. Since 1993, an annual Report on Government Services has monitored the effectiveness and efficiency in public service provision, publishing performance information on key areas such as health and education (SCRGSP, 2014). The 2008 Intergovernmental Agreement sought to make additional progress through its focus on "outcomes and outputs" monitoring and increasing requirements for performance reporting (Chapter 2). However, data-quality still varies widely with outdated or unavailable data in a number of areas; a greater focus on outcomes is required (CRC, 2013a); simple and easy-to-quantify audit targets are essential if operational efficiency is to be enhanced (OECD, 2006).

Recommendations on pursuing fiscal consolidation and ensuring efficient tax and public spending

- **Prioritise medium-term fiscal consolidation** to rebuild fiscal buffers in light of Australia's exposure to external risk. Consider establishing a stabilisation fund.
- **Rebalance the tax mix**; Shift away from income and transaction taxes, make greater use of efficient tax bases such as the Goods and Services Tax and land tax.
- **Reform federal-state financial relations**; Reduce grant conditionality further, instigate state-level tax reforms to enhance funding autonomy, and increase state-level responsibilities and accountabilities.
- **Address federal-state shared responsibilities to improve efficiency**; Improve co-ordination and co-operation and in some cases, health care in particular, consider a reallocation of responsibilities.
- **Strengthen capacity for assessing and comparing state-level public services**; Further develop performance indicators; and continue enhancing the availability and quality of data.

Improving framework conditions for business

Recent decades have seen large improvements in the structure and tone of policies that shape the business sector and its capacity for productivity growth and its capacity to adjustment, which is particularly relevant in the wake of the mining boom. The relatively light overall tax burden, a low inflation environment, flexibility in labour regulation and a welfare-to-work approach in social policy have all helped. Nevertheless, there remains work to be done. The following sections assess the immediate operational challenges. However, establishing good "higher level" processes for identifying and analysing structural weak spots matter too. While Australia's institutional framework on this front is good, there may be ways of ensuring it is used to maximum effect. For instance, the Productivity Commission could be tasked with producing a regular review of structural policy that focuses on identifying new areas for reform.

Infrastructure is receiving much attention

There are several avenues for significant improvement in Australia's infrastructure, progress on which can potentially make business operations easier, improve firms' capacities for productivity growth, and raise households' material living standards. Shortfalls in transport infrastructure are prominent and the 2014-15 budget proposed to address these with the AUD 11.6 billion Infrastructure Growth Package, taking total Commonwealth expenditure to AUD 50 billion by 2020. Some of this additional funding will go to states that sell assets to help fund new infrastructure (the Asset Recycling Initiative). As regards telecommunications, the government is committed to continuing rolling out a major upgrade of physical infrastructure (the National Broadband Network). Meanwhile in the energy sector, some aspects of regulation are believed to generate uneconomic infrastructure commitments, and a white paper is due to report on this (and other issues for the sector) at the end of 2014. Similarly, the authorities are pressing on with implementation of the Murray-Darling Basin Plan (see section on environmental policy below). The government advisory body, Infrastructure Australia, is undertaking two audits, a Northern Australia Audit and a National Audit; the latter will be used to develop a 15-year infrastructure plan.

As underscored in a previous *Survey* (OECD, 2010), ensuring efficient use of existing infrastructure and sound choices about new investment requires clear objectives, good co-ordination between federal and state governments, and extensive application of economic analysis. Infrastructure Australia's stocktake of infrastructure and the development of a 15-year plan mentioned above will help in this regard. In addition, new governance arrangements have been introduced for the advisory body Infrastructure Australia that aim to increase independence and transparency. Also, the Productivity Commission has recently completed a review into public infrastructure project costs and funding arrangements. Good practice has to extend in particular to public-private partnerships. Past experience on this front has been mixed. A recent report (Productivity Commission, 2014a) concludes that successful examples include Melbourne's Citylink and Sydney's Eastern Distributor road networks. By contrast, the Victoria government's contract with Latrobe Regional hospital and the Sydney Airport link are cited as cases where the contract worked out badly for government finances and the Clem7 motorway in Queensland a case where the private-sector partner experienced difficulties.

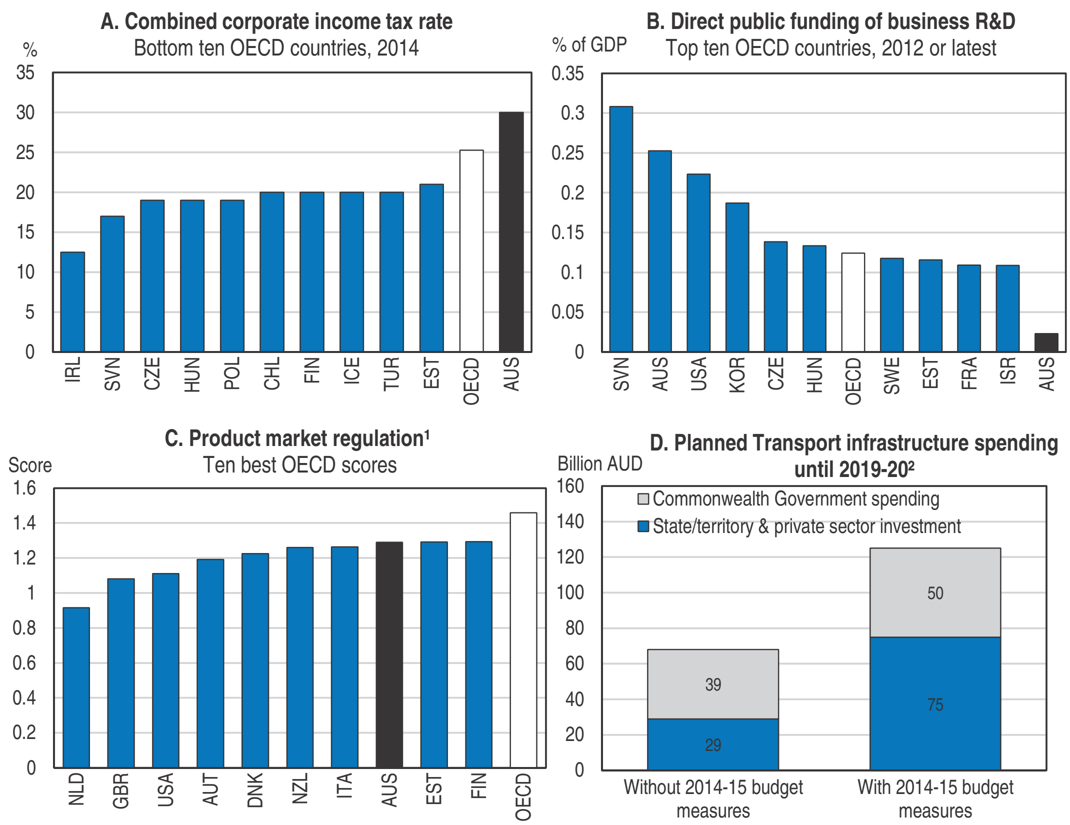
A new campaign to cut red tape is underway

Australia's international ranking in red-tape indicators has long been favourable. For instance in the World Bank's Ease of Doing Business composite measure, Australia ranks 11th out of nearly 190 countries and scores well in the OECD's product-market-regulation index too (Figure 18). Seeking further improvement, the government's plans to remove redundant regulation and legislation can only be applauded in principle, and in practice as long as sufficient care is taken to ensure axed items are genuinely superfluous. In addition, the government has set a AUD 1 billion per annum compliance cost reduction target, toward which the Australian Tax Office has announced measures expected to provide savings exceeding AUD 250 million each year (Chapter 1). In addition, a large number of legislative acts and instruments have been submitted for abolition and two "repeal days" per year in the parliamentary calendar are planned. Furthermore, the government is following through on a programme of simplification in tax and superannuation regulation that was initiated by the previous administration.

There is room to rebalance business taxation and support schemes

As discussed above, Australia's economy would benefit from a shift away from direct to indirect taxation (Chapter 1). Under such reform, and as previous *Surveys* have suggested, reducing the headline corporate-income tax rate should have a high priority (Figure 18). The government intends to cut the corporate-tax rate by 1.5 percentage points to 28.5% from July 2015. However an offsetting levy of 1.5% will be imposed on taxable

Figure 18. **Indicators on business policy**



1. A higher score indicates higher barriers. OECD is a simple average of the OECD member countries.
2. Commonwealth Government Budget 2014-15, *Budget Overview*, p. 15. The data do not include other potential sources of investment in transport, for instance the private-sector funding stimulated by the Asset Recycling Initiative.

Source: OECD (2014), *Tax Database 2014*; OECD, *Main Science and Technology Indicators* (MSTI) *Database*; OECD (2014), *Product Market Regulation Database 2013*; and Australia, Budget 2014-15.

StatLink http://dx.doi.org/10.1787/888933176567

corporate income above a threshold of AUD 5 million, which implies that broadly speaking the effective rate of corporate tax will be lower for small and medium-sized enterprises (the levy is nominally linked to funding paid parental leave, see below). The implicit support this provides for smaller enterprises may not be appropriate. Support for small-and-medium enterprise is perhaps better delivered through existing programs that address shortfalls in expertise and specialisation for handling regulation and administrative processes and in conducting marketing campaigns for exports.

However, tax policy should not be a one-way street favouring immediate business interests. There have been difficulties in bringing in an effective operational tax on supernormal profits in the mineral sector, even though such a tax operates in the petroleum sector (Chapter 1). Indeed, the current government has abolished the recently introduced Mineral Resource Rent Tax. A tax on supernormal profit (as previously recommended) would be less dissuasive to investment and exploration compared with royalties as it is only imposed if profits surpass a level compatible with that of a competitive market. However, royalties can fulfil a useful role as they deliver a more regular and predictable revenue stream. On other fronts, campaigns against tax evasion and aggressive avoidance should continue. Furthermore, policies need to shape business incentives and behaviour in the environmental sphere (see environment section below) as well.

Between late 2013 and early 2014 closures of Australia's remaining three automobile assembly plants were announced by the respective companies, marking the end of an era and reflecting healthy resistance to appeals for further support for the industry. Also, the present government has proposed cutbacks or resisted further claims for support in other sectors. This firm line should continue with other inefficient business support (Chapter 1). In particular, the states should consider reintroducing a pact to avoid uneconomic inter-state bidding wars for mobile capital. Furthermore, the bodies involved in setting up state-level agreements with mining companies should ensure a co-ordinated and common front in negotiation on tax and other issues.

Ensuring strong competition will require continual attention

In telecommunications and energy sectors, market-oriented systems have been operating for some time and the scores in these sectors in the OECD's product-market-regulation data are reasonable. However, as mentioned above, challenges remain as regards infrastructure. In addition, the inherently complex nature of network industry regulation and oversight requires ongoing attention with a view to further improvement. As regards the electricity sector and echoing previous *Surveys* (for instance, OECD, 2010), a recent report (Productivity Commission, 2013) recommends, inter alia, expediting the installation of smart meters, re-examining provision requirements and greater benchmarking between providers. The white paper on the energy sector mentioned above will also cover these issues.

As regards ensuring healthy competition in the economy more generally, the government has commendably initiated a review of competition laws and policy. It is the first major review since 1993 and therefore an opportunity to realign institutional frameworks and legislation to reflect the changes in the Australian economy since that time. The final report is due for completion by the end of March 2015.

Recommendations on improving framework conditions for business

- **Ensure infrastructure delivers value for money** through robust and transparent cost-benefit analysis both to ensure economic use of the existing stock and appropriate selection of new infrastructure projects.
- **Concentrate on broad support for business**; Prioritise corporate-tax rate cuts, reduce regulatory burdens and continue to be tough on corporate welfare and tax avoidance.
- **Strengthen competition**; Continue adjusting network-industry regulation and improve the competitive environment more generally in light of the review currently underway.

Encouraging employment, deepening skills and addressing inequality

Mixed progress in improving households' tax-benefit situation

Australia's tax-benefit system features light fiscal revenue demands compared to many other countries and correspondingly low tax wedges on labour, which are a plus for employment and competitiveness (Chapter 1). Also, there has long been an emphasis on "welfare-to-work" incentives and activation schemes. Fixed-rate, means-tested unemployment benefits are modest (indeed, past *Surveys* have recommended increasing payments in the initial months of unemployment). Unemployment benefits are accompanied by activity testing and activation programmes through privately run jobs centres operating under contract with the federal government. Means testing, which exists throughout the benefit system, results in more tightly targeted welfare spending compared with many countries.

One of the government's flagship reforms proposes a substantial increase in publically funded paid parental leave. Currently, 18 weeks' pay out at the minimum wage is provided; the proposal is for a benefit providing up to 26 weeks' pay at previous earnings or the minimum wage (whichever is greater) and superannuation contributions will also be paid. Under current proposals the pay-out will be capped at AUD 50 000 in total for the six months, which is equivalent to a little over the average full-time wage. Linking paid parental leave to previous earnings will bring Australian policy closer to practice elsewhere and such financial support during the early days of parenting broadly encourages labour supply and facilitates greater parental involvement in the first months after children are born. Also, the provision of superannuation contributions will help improve the retirement savings of women. However, as for any substantial increase in funding on a specific mechanism, there should be careful impact assessment to check that the move stacks up favourably against a more diversified strategy given there may be diminishing marginal returns. In this vein, a recent draft report of child-care issues (Productivity Commission, 2014b) does question whether the scale of parental leave expansion is appropriate; suggesting the diversion of some funding for the proposed scheme to other aspects of family policy.

Plans to continue implementation of the National Disability Insurance Scheme will ensure much-needed roll-out of improved disability services and will increase capacity for coping with population ageing. Dealing with the latter will also be helped if, as intended by the current administration, further increases in the Age Pension age are scheduled (see Table 2). Elsewhere in the pension system, overly generous tax treatment of the second-pillar pension in particular needs tackling, as this especially benefits middle- and upper-income households where concerns about savings incentives and pension adequacy are not paramount (Chapter 1). In terms of encouraging employment among older cohorts, the government's proposal to give employers up to AUD 10 000 over a two-year period for taking on long-term unemployed aged over 50 years can potentially be a useful addition to activation policy. However, careful attention to the scheme's design is needed to avoid deadweight loss and to prevent employers from gaming the programme, with this in mind the authorities intend to implement a monitoring and compliance strategy to mitigate and treat these risks.

The merits of the welfare reforms proposed by the government must be evaluated on a case by case basis. Information so far available on proposals for unemployment-benefit reform indicates significant tightening of eligibility for those unemployed aged under 30. These include substantially longer benefit waiting periods (although with a number of exemptions), during which jobseekers will receive job search support from employment-service providers. The proposals will certainly motivate some to seek and take up work (or go into further education). However, the precise impact of such reform is difficult to predict; close monitoring, and adjustment as appropriate, is important.

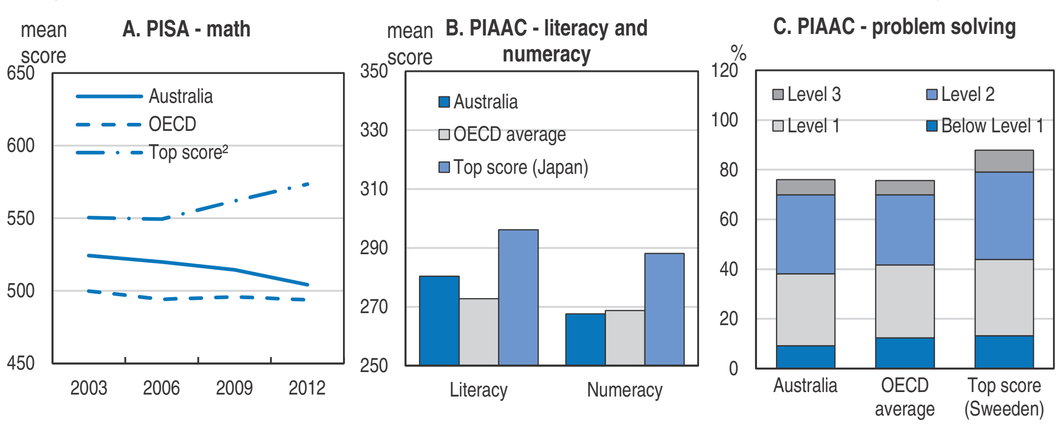
In addition, some of the savings proposed via reduced generosity in indexing will likely become unsustainable over the long term. This particularly applies to the Age Pension which is a means-tested benefit intended as a safety net for older households. The net replacement rate from this benefit is a little under 60% (the OECD average is 67% for similar benefits; OECD, 2013b) at half average earnings and less than half this at average earnings. The Age Pension is not the only form of support for the elderly (which include, notably, access to universal health care, concessions on pharmaceutical and other government services, tax concessions and aged care services), and high levels of home ownership and increasingly private savings through superannuation contribute to retirees' material well-being. Nevertheless, the Age Pension plays an important safety net role, providing significant share of income for many pensioner households. The government's Intergenerational Reports, that are published every five years and examine demographic challenges, provide a mechanism for parametric adjustment of the Age Pension, including indexation. However, constant change to pension indexing is not optimal, given the importance of stability in pension-system parameter settings to help households plan for the future. Narrowing the focus of the Age Pension for instance through increased benefit tapering rates or revision of asset tests or increased superannuation contributions (which implies lower pay outs on the Age Pension) may provide alternative avenues for managing the fiscal pressure from the Age Pension.

Simplification of the tax and benefit system should be pursued further. For instance, past reviews by the Australian authorities suggested merging family benefits and child-care allowances. Simplification should also aim to reduce the difficulties arising from high marginal net tax rates generated by benefit withdrawal; for instance reduction in the number of benefits will reduce instances of multiple and cascading benefit withdrawal schedules (Chapter 1). The welfare review is also likely to consider a number of these issues.

In education, the government is headlining tertiary-sector liberalisation

Improving education and skills needs to remain a key ingredient in ensuring Australia remains internationally competitive, and is vital for productivity gains over the longer term. Furthermore, low academic achievement and weak workplace skills are central drivers of poverty and socio-economic vulnerability. Therefore, education reform can bring gains on multiple fronts. Certainly, indicators such as the OECD's PISA and PIACC tests, suggest room for improving core skills (Figure 19).

Figure 19. **Student and adult performance in international competency tests**[1]



1. PISA refers to the Programme for International Student Assessment of the OECD and PIAAC refers to the Survey of Adult Skills of the OECD.
2. Top scores for the PISA math section were recorded in Hong Kong, China, for 2003; in Chinese Taipei for 2006; and in Singapore for 2009 and 2012.

Source: OECD (2014), *PISA 2012 Database* and *PIAAC 2012 Database*.

StatLink http://dx.doi.org/10.1787/888933176579

The involvement of both the federal and state governments in education adds further complexities and challenges to implementing reform (Chapter 2). As regards primary and secondary education the present administration will continue the reform agreement with the states (the "Gonski" reform, Australian Government, 2011) that, amongst other things, changes the funding formula for federal transfers by giving greater weight to socio-economic variables. The government has signalled intention to reform the system when the agreement terminates.

In tertiary education, the government plans a major liberalisation by removing tuition-fee caps currently imposed on providers. In addition it intends to reduce the generosity of support by lowering the subsidies given directly to the providers that partially cover tuition-fees costs, and by charging a higher rate of interest for the government-backed income-contingent loans available to students for paying their contribution to the fees. Reform proposals however also aim to widen the scope of support. With a view to increasing access for students from a wider range of socio-economic backgrounds, tuition-fee subsidies, which are currently only available for institutions providing bachelor degree-level courses, will also be provided to those offering accredited sub-bachelor degree courses (including private universities and Technical and Further Education (TAFE) colleges). In addition loan fees that are charged for some types of course will be scrapped with a view to further encouraging competition between providers (by promoting funding neutrality).

These reforms will allow market signals to operate more strongly and more fully recognise the large private gains from education, but there are risks. Success depends crucially on whether strong tuition-fee competition develops and how effectively the fees reflect genuine differences in the quality of education between providers and between courses. In this regard, it is worth noting that the fees for international and post graduate students are already liberalised and exhibit high levels of price differentiation and competition between providers. As a check against the reforms compromising access to education for those from poorer backgrounds, it is proposed tertiary providers channel a portion of tuition-fee revenue towards scholarships. Further, students will continue to be able to defer the costs of their studies via the income-contingent student loans. However this may well not be sufficient. Monitoring of the reforms will be important to ensure access to higher education is not compromised, particularly for students from disadvantaged backgrounds.

Efforts are underway to better integrate support for Indigenous Australians

According to government plans, the 150 programmes and activities supporting Indigenous Australians that currently operate under the Department of Prime Minister and Cabinet will be streamlined into a new strategy (the Indigenous Advancement Strategy) with five core themes. Programmes in the Health portfolio have been similarly rationalised (into the Indigenous Australians' Health programme). Certainly, judging by the sheer number of programmes currently in operation, consolidation makes sense. However, sorting out which elements of the system are worth preserving and which should be scrapped in the interests of improving efficiency will be challenging.

Recommendations on encouraging employment, deepening skills and addressing inequality

- **Monitor the proposed welfare reforms** to ensure they raise work-force participation cost effectively without adverse social outcomes. Better target superannuation (pension) tax concessions.
- **Monitor the proposed higher education reforms** to ensure that choice and quality is enhanced and access is not compromised.

Tackling environmental challenges

As in some other areas of policy, the current government is altering environmental-policy frameworks and settings with a view to reducing the burden for business. This does not necessarily mean diminishing environmental objectives, as there can be opportunity for increased policy efficiency. The government's one-stop shop policy for environmental approvals, for instance aims to reduce the regulatory burden on business while maintaining environmental standards. Recent OECD cross-country comparisons examining the impact of (economy wide) environmental policy tightening on productivity find no empirical support for permanent effects either positive or negative. This suggests that any direct negative effects are either trivial or washed out by offsetting second-round effects (Albrzio et al., 2014). Nevertheless there are likely to be specific instances in which pro-business measures can mean reduced ambitions and increased risks in environmental terms.

Alternative approaches to reducing greenhouse gas emissions are planned

The government has retained an unconditional commitment to reduce GHG emissions by 5 per cent below 2000 levels by 2020. In 2015, it intends to review its international targets in light of upcoming negotiations on a new global climate change agreement that will apply to all countries from 2020. The review will focus on the extent to which other nations are taking actions to reduce emissions.

The present government has dramatically changed the policy approach to mechanisms for reducing emissions (Chapter 1). In July 2014, it delivered on its election commitment to repeal a carbon credit and purchasing system (dubbed the "carbon tax", as its initial phase involved companies buying carbon credits from government as a first step towards a cap and trade system). By way of replacement, the government has proposed a suite of new measures called the Direct Action Plan.

The Direct Action Plan centres on the Emissions Reduction Fund which is a mechanism for crediting emissions reductions. Emission-reduction projects will be selected via a sealed bid auction and the government will then enter into contracts with successful bidders which specify that it will purchase a specific quantity of emission reductions on delivery. To sell emissions reductions to the government or into the secondary market, participants must first have the reductions verified and be issued with tradable carbon credits. In principle, such a scheme can have the appropriate incentive effects – indeed it can have the same effects as a carbon tax at the margin, providing difficulties in establishing baseline emissions and checking the achievement of emissions reductions are overcome. Unlike a carbon tax or cap and trade system, the Direct Action Plan will involve a net fiscal cost to the government.

However, there are avenues for enhancing the Emission Reduction Fund. Encouraging the development of a secondary market for the credits would help deepen efficient allocation through market forces. Also, in a sound move to address the risk of offsetting increases the government intends to implement a safeguard mechanism in which large industrial facilities will be encouraged not to exceed an established historical baseline. As of October 2014, legislation establishing the fund was in the final stages of parliamentary process while the safeguard mechanism was still at the consultation stage.

There are opportunities to make transport policy greener

Incorporating environmental considerations in regulation and taxation relating to private and commercial vehicle use is particularly important in the Australian context given road-based transport's dominance. As mentioned above, the government's proposal to bring back indexing on retail-fuel excise is welcome. In addition, the planned ramp-up in spending on road infrastructure provides an opportunity to expand road charging. Indeed, developing charges for car use rather than car ownership should be a central pillar of policy, and would usefully provide further reason to scrap the various state-level taxes relating to car ownership (see Chapter 1).

At the same time, the government should ensure that public transport plays a central role. Federal funding is focused on road transport. There was no new funding specifically announced for rail in the 2014-15 budget, although the government's Asset Recycling Initiative is likely to result in federal incentives being provided for state public transport projects (Australian Government, 2014b). If state governments indeed engage in substantial public-transport infrastructure projects, this near-term focus on road development by federal government may indeed be providing the right mix of transport investment overall. However, consideration should nevertheless be given to increasing federal-level backing for public transport.

Economic incentives in water supply are being improved

Major reform of water management in the Murray-Darling Basin, one of the country's main sources of fresh water, took place through the commencement of the Basin Plan in 2012. The Plan provides a long-term framework for the management of water resources and includes Sustainable Diversion Limits, which are a mechanism for ensuring the use of fresh water supply for agricultural, domestic and industrial use is environmentally sustainable. Successful implementation of the Basin Plan requires collaboration between the federal and the relevant state and territory governments (South Australia, Victoria, New South Wales, Queensland and Australian Capital Territory) and needs to be implemented consistently with the Intergovernmental Agreement on Implementing Water Reform in the Murray-Darling Basin.

Implementation of wide ranging infrastructure improvements are funded through the infrastructure component of the Sustainable Rural Water Use and Infrastructure Program, which invests in rural water use, management and efficiency, including improved water knowledge and market reform, and water purchase for the environment. It is the key mechanism to bridge the gap to the sustainable diversion limits under the Murray Darling Basin Plan. Infrastructure works are well advanced and scheduled for completion by 2019, when the sustainable diversion limits set out in the Murray-Darling Basin Plan ("Basin Plan") will come into effect.

Recommendations on tackling environmental challenges

- **Achieve greenhouse-gas emission targets**; Ensure the proposed Emission Reduction Fund is efficient through: i) robust measurement and verification methods; and ii) implementation of a safeguard mechanism that prevents offsetting emissions elsewhere in the economy.
- **Make transport policy greener**; Enact the proposal to index excise duty on retail fuel, expand other use-based vehicle charges and extend public transport.
- **Continue strong commitment to water reform** including the Murray-Darling Basin Plan.

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Chapter 1

Improving taxes and transfers

Getting tax and transfer systems to efficiently deliver sufficient revenues to achieve macroeconomic targets, address goals in re-distribution and social welfare, encourage employment, accommodate business-competitiveness concerns and incorporate environmental issues is difficult. In Australia, slowing economic growth in the wake of the mining boom has sharpened the trade-offs and brought into focus the importance of encouraging broad-based advances in employment and productive capacity while also dealing with other long-term challenges, in particular population ageing and greenhouse-gas emission reduction. This review particularly recommends shifting away from income taxation to indirect taxation, for instance by raising more revenue from the Goods and Services Tax. The report also advises caution in some recent welfare-reform proposals, and advocates broad support for business rather than targeted subsidies and other forms of corporate welfare. As regards environmental policies, the report comments on the proposed Emission Reduction Fund for reducing greenhouse gases and supports reform to vehicle-related taxation.

Chapter 2

Federal-state relations

Australia's inter-governmental fiscal relations have gradually moved towards greater centralisation. State governments receive sizeable transfers from the federal government and own revenues only partially cover their expenses. Finding the right balance between federal control and state autonomy in public service provision and its financing has not been easy. Over time various compromises have somewhat blurred responsibilities in various functional areas or reduced incentives to raise sub-national revenues potentially affecting public sector efficiency and service quality. A better balance, one in which central government has less steerage over state activities and states have more financing autonomy but also bear increased responsibility is likely to improve outcomes. Federal-state shared responsibilities continue to affect the efficiency of healthcare service delivery in particular. A clearer delineation of roles in shared functions and possibly a reallocation of responsibilities in some cases, are important. There is also scope to reduce federal grant conditionality further to contain red tape and enhance transparency and give the states a more flexible allocation of funds. Strengthening states' revenue-raising by broadening existing tax bases would promote efficiency. Consideration could be given to the introduction of a state-level income tax. The government's current review of the federal system, focusing on both spending and tax responsibilities, is welcome, as is the "whole-of-government" approach to the process.

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Australia were reviewed by the Committee on the 13th October, 2014. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on the 2nd December, 2014.

The 2014 Economic Survey of Australia was prepared in the Economics Department by Philip Hemmings and Vassiliki Koutsogeorgopoulou, under the supervision of Piritta Sorsa. Statistical research assistance was provided by Annamaria Tuske with general administrative assistance provided by Anthony Bolton and Mikel Inarritu.

The previous Survey of Australia was issued in December 2012.

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