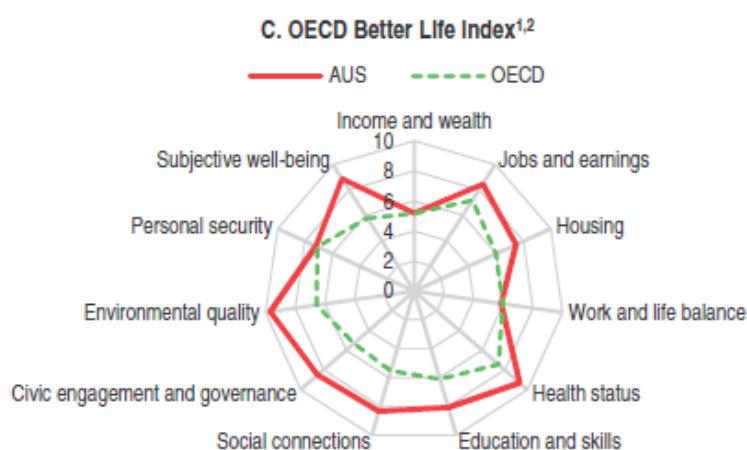


Australia's economy, good track record but challenges ahead

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Australia's economy has enjoyed considerable success in recent decades, gross domestic product per capita is high and the country generally ranks favourably in well-being. Despite the end of the global commodity super-cycle, the economy continues to perform well. The rebalancing of economic activity from commodity investment to other activities is well advanced, facilitated by monetary and fiscal policies, currency depreciation, and flexible labour and product markets.



1. Each well-being dimension is measured using one to three indications from the OECD Better Life Indicator set with equal weights.

2. Indicators are normalised by re-scaling to be from 0 (worst) to 10 (best).

Source: OECD (2016), OECD National Accounts Statistics (database); OECD (2016), "Better Life Index 2016", OECD Social and Welfare Statistics (database).

However, Australia risks falling into a "low-growth trap". Along with many OECD countries, productivity growth has slowed since its peak in the 1990s. The country's future growth prospects depend on strong productivity growth which, in turn, requires greater capacity for absorbing and generating new innovations. This is the subject of this *Survey's* in-depth examination of innovation and related policies and the focus of a recent government initiative, the *National*

Innovation and Science Agenda.

Furthermore, inclusiveness has been eroded. Households in upper income brackets have benefited more than others from Australia's long period of economic growth. Real incomes for the top quintile of households grew by more than 40% between 2004 and 2014 while those for the lowest quintile only grew by about 25%. Strong growth has pulled the incomes of households with wage earners further ahead of households reliant on transfers or pensions. Also, scale effects have amplified returns to some already high-paid segments of the labour market – widening the income distribution. In addition, large socioeconomic gaps between Australia's indigenous population and the rest of the population remain and there is room to reduce gender imbalance.

The main messages of this *Survey* are:

- Strong macroeconomic and financial-sector institutions and policies have supported strong economic growth and high living standards.
- Merely maintaining long-run average productivity growth jeopardises this success; a renewed emphasis on structural reforms in particular those that help boost Australia's capacity to absorb and generate innovation is required.
- Widening income inequalities and longstanding issues of inclusion (notably Australia's indigenous population) call for an ongoing emphasis on policies to ensure equitable opportunities for engaging in the labour market through skills acquisition and active labour market policies, especially policies that address these concerns while also enhancing productivity.

References

OECD (2017), OECD Economic Surveys: Australia 2017, OECD Publishing, Paris.