

# **Charting a course for Australia's future: navigating the seas of ageing, climate transition and gender equality**

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The Australian economy rebounded robustly in the wake of the pandemic. However, supply constraints coupled with rising global energy prices sent inflation to its highest level since the early 1990's, prompting a significant tightening of monetary policy. Subdued economic growth is projected over the coming years, as higher interest rates and cost of living pressures dampen spending.

In the medium term, external forces loom large over the economic outlook. As an economy that benefits significantly from foreign commodity demand, rising geopolitical tensions and global fragmentation are a risk to national income. The global climate transition will impact the economy, both through the influence on demand for Australian fossil fuel exports and the reshaping of domestic industry in line with net zero commitments. At the same time, the ageing demographics will lower the share of the working age population and lead to structural changes throughout the economy.

## **Addressing fiscal challenges**

In anticipation of the challenges ahead, fiscal buffers need to be rebuilt. Australia's public debt ratio remains in the lower half among OECD countries, but it has risen

substantially for both the federal and several state governments over the past decade. The demographic and climate transitions will create further spending pressures and require improved mechanisms for fiscal dialogue across levels of government.

Spending and tax reforms can help address rising fiscal costs. Encouraging more patient care in primary care settings and greater emphasis on preventive health policies would reduce public spending growth as the population ages. Revenues could be raised through reducing exemptions in the goods and services tax base and further limiting tax concessions on private pensions.

## **Facilitating labour force and business sector adaptation**

Amid ongoing structural change, policies need to promote an adaptable labour force and business sector. A concerning trend has been the slowdown in GDP per capita growth in Australia: whereas Australia used to outperform OECD counterparts, GDP per capita growth has been comparatively weak through the past decade (Figure below).

### **Trend GDP per capita growth has slowed**

GDP per capita growth, average rate

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Source: OECD Growth in GDP per capita, productivity and ULC Dataset.

Immigration will be key for supporting labour supply, but the composition of the skilled migrant intake needs to be more responsive to changes in the skill needs of industry. In parallel, school reforms could improve the foundational skill

base. Straightforward measures such as providing all teachers with access to high-quality curriculum resources would allow them to focus on activities where they add most value, helping address declining standardised test scores of Australian students.

As the economy adjusts, greater flexibility in land zoning systems would improve the ability of new businesses to enter new markets and grow in desirable locations. Competition policies can also support healthy competitive dynamics in the business sector, despite Australia's geographic distance from foreign markets. The authorities have commenced a broad competition policy review, which should consider more closely aligning the merger regime with other OECD countries.

## **Improving gender equality**

Achieving further improvements in gender equality is also a key priority. In addition to being a fundamental human right, improving gender equality would support fuller participation of women in the labour force as the population ages. A significant gender gap in labour income remains, despite recent progress (Figure below). This results from differences in employment rates between men and women (employment gap), the intensity of work (hours gap) and the amount workers are paid per hour (hourly wage gap).

### **The gender gaps in income persist**

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Note: The gender gap is defined as the labour income of men-women.

Source: The Household, Income and Labour Dynamics in Australia Survey, OECD calculations.

A key factor is high marginal effective tax rates when increasing work hours for low earners, due to the loss of

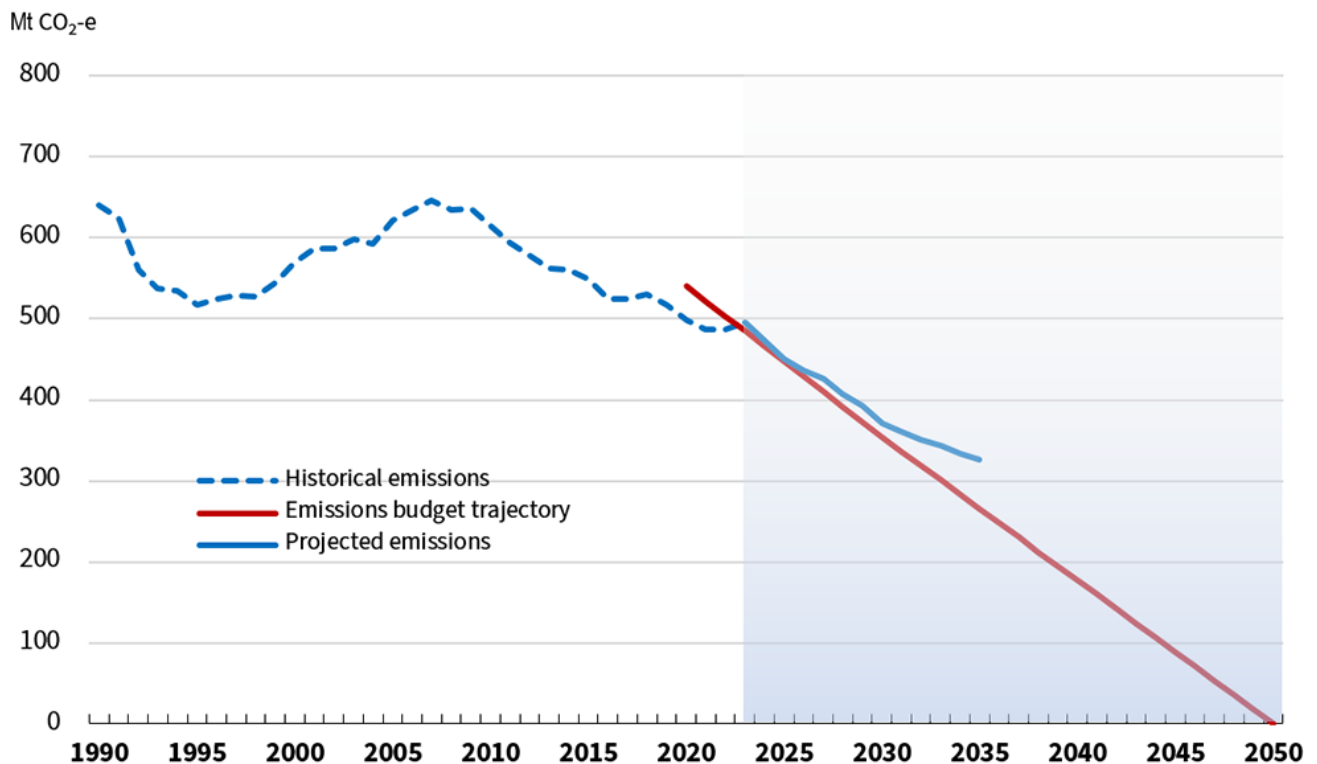
benefits as earned income rises. This is especially the case for single parents, who are disproportionately women, and should be remedied by reducing the speed of benefit withdrawal as earnings increase.

Additional improvements to parental leave and childcare arrangements would support mothers staying in work and labour market re-entry after childbirth. Parental leave duration and the rate at which it is paid is low by OECD standards, while out-of-pocket childcare costs are relatively high, especially for low-income households.

## **Achieving the climate transition**

The authorities are committed to achieving net zero emissions by 2050, a significant challenge given a historical reliance on coal generation and the presence of large mining and agriculture sectors (Figure 3). This will require a rapid transformation of the electricity grid and significant emission reductions in highly-polluting sectors such as industry and transport.

**Large emissions reductions are needed**



Source: Department of Climate Change, Energy, the Environment and Water.

Given the energy sector's central role in the climate transition, the government should stand ready to provide further policy support and accelerate the planning and implementation of renewable energy projects to ensure that the renewable energy target of 82% by 2030 is met.

In the industrial sector, welcome reforms to the Safeguard Mechanism, which sets limits on the emissions of industrial facilities, have the potential to deliver significant emission reductions. Regular reviews of the mechanism are planned and should consider design changes if emission reduction targets are not met, such as switching from baselines based on emissions intensity to limits on total emissions.

Based on current policies, transport is projected to become the largest source of emissions in Australia by 2035. Introducing stringent fuel economy standards would help curb emissions in the sector, and these should be progressively tightened to zero emissions by 2035. Existing fuel tax exemptions for heavy and off-road vehicles should also be

reconsidered.

Climate adaptation also needs to be a focus given Australia's high exposure to climate-related hazards such as wildfires, extreme heat, and heavy rainfall. Adapting to climate change will require substantial investment and careful planning. Mandatory disclosure of climate-related risks in certain cases such as the sale of property can help raise awareness and encourage more effective adaptation. In addition, incorporating climate hazard considerations in land-use planning will help reduce risks by limiting development in more hazard-prone areas and mandating specific risk-prevention measures for new and existing constructions.

## References



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