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

Category: Australia,Climate,Gender
written by oecdecoscope | October 26, 2023

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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.

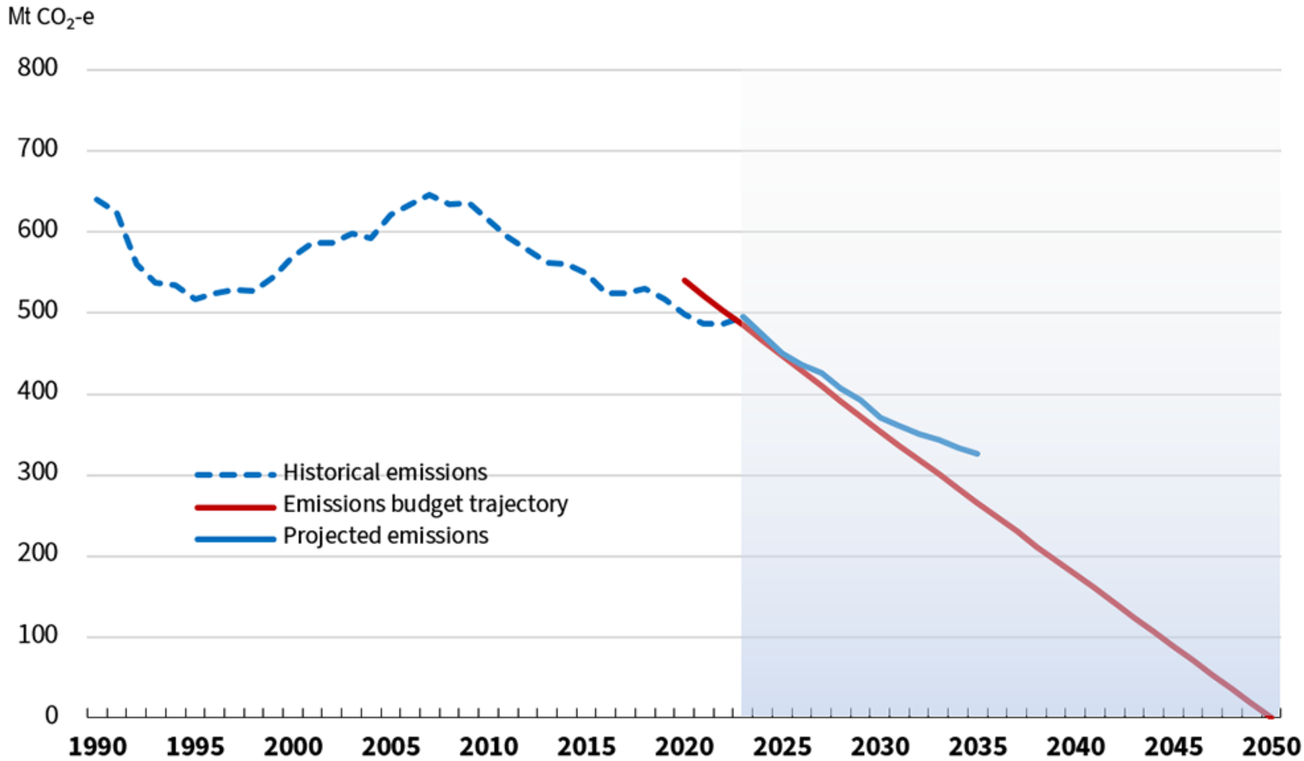
A key factor is high marginal effective tax rates when increasing work hours for low earners, due to the loss of benefits as earned income rises. This is especially the case for single parents, who are disproportionately women, and should be remedied by reducing the speed of benefit withdrawal as earnings 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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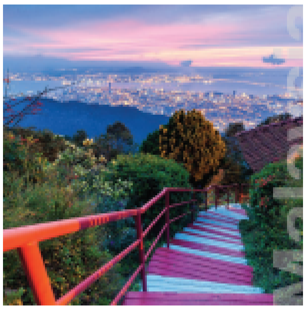
Malaysia: Five takeaways from the new OECD Economic Survey

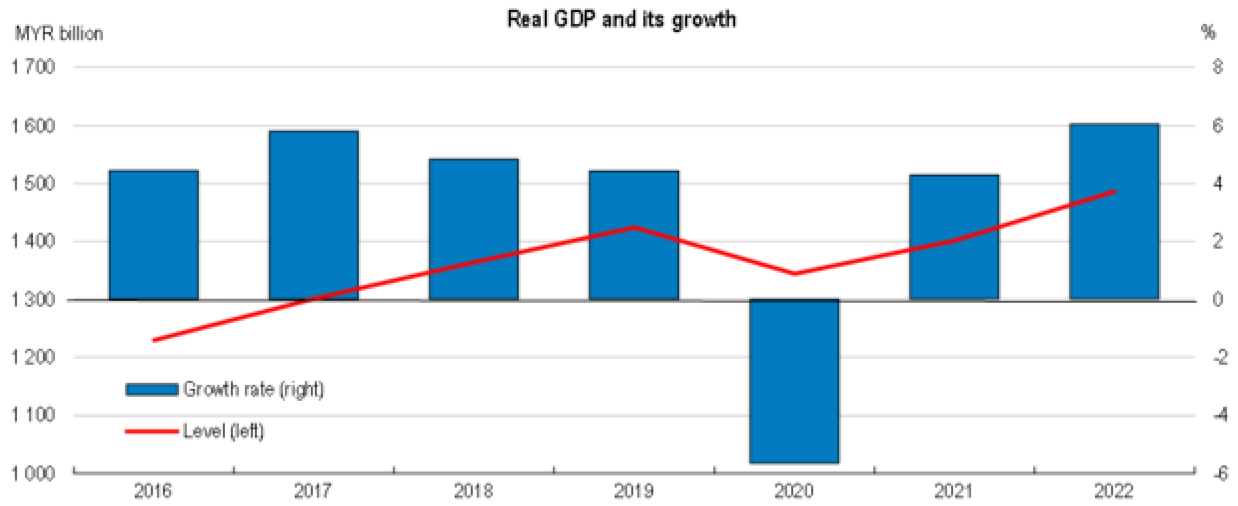
Category: Malaysia
written by oecdecoscope | October 26, 2023



By Patrick Lenain and Kosuke Suzuki, OECD Economics Department

Like many countries around the world, Malaysia has been hit hard by COVID-19. Stringent restrictions have constrained consumer spending, while the global recession have reduced exports. The Malaysian government reacted swiftly to support growth. Since February 2020, it has rolled out nine fiscal stimulus packages, amounting to more than 35% of GDP. Monetary policy has also been eased, and measures introduced to restore credit flows. Moreover, the government has made great progress with its vaccination campaign, and this should remain the priority. Thanks to these policies, the economy is projected to resume fast economic growth (Figure 1). The *OECD Economic Survey of Malaysia 2021* says that Malaysia should continue its reforms to remain a business-friendly country and achieve strong, inclusive and clean growth.

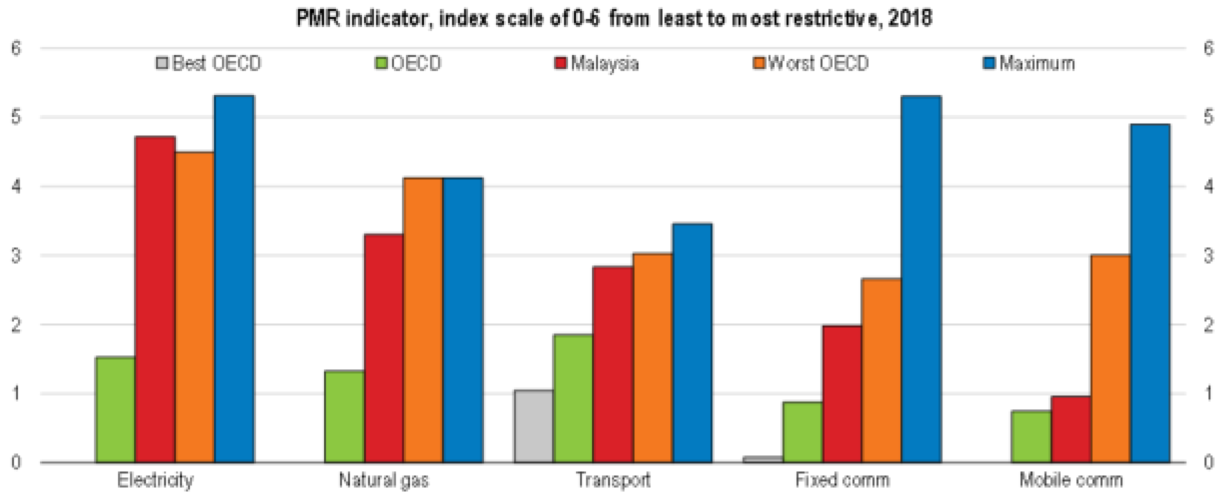
Figure 1. Activity is projected to return to its pre-pandemic level in 2022



Source: Department of Statistics Malaysia, and OECD (2021), *OECD Economic Surveys: Malaysia 2021*.

After the pandemic, well-functioning markets will be crucial to boost the economy. Malaysia is open to investment and entrepreneurship, but new data collected for the *Economic Survey* points to regulation that impede several activities. The new OECD Product Market Regulation Indicators for Malaysia show that barriers to competition hinder market entry in the sectors of energy and transport (Figure 2), professional services and retail trade. Moreover, starting a new business remains challenging due to the multiple licenses and permits required by various levels of government. Easing these regulations would spur productivity growth, business dynamism and innovation in Malaysia.

Figure 2. Competition needs to be enhanced in some sectors

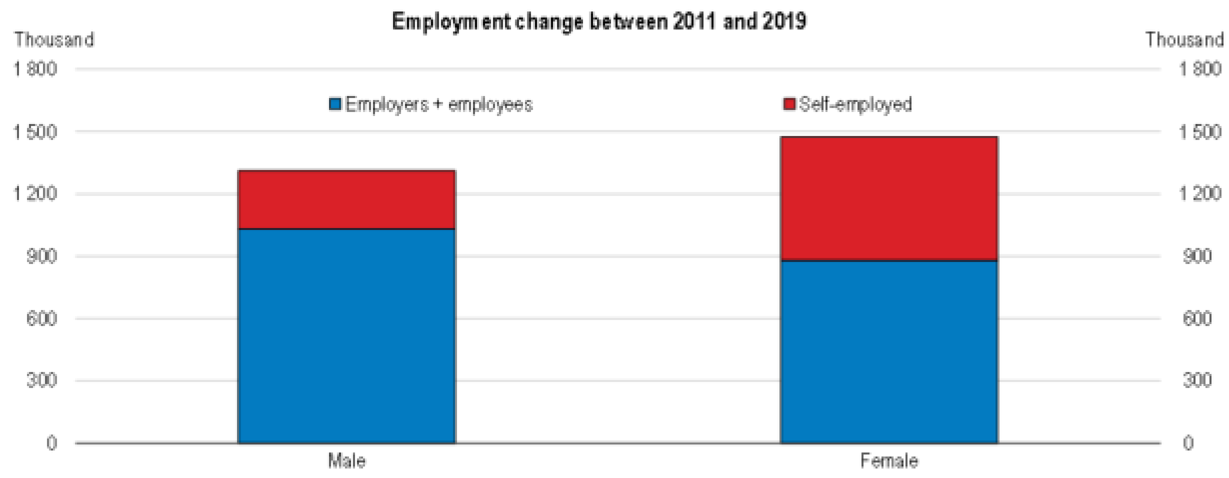


Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year (1 January 2020 for Malaysia). Best OECD/worst OECD represents the OECD best/worst performing country, while maximum corresponds to the most restrictive country among those in the PMR database. For electricity, natural gas and mobile communications, the OECD best scores are zero.

Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

To make growth more inclusive after the pandemic, social policies will also be crucial. Many workers have been affected by the crisis and unemployment remains high. Government support to affected households should thus remain in place until the recovery is well established. Government policies should focus especially on women, young people, and lower-skilled workers. Women often have no other choice than to join the labour market as self-employed (Figure 3), and they have been hit by the tight restrictions in the sectors of tourism and retail trade, putting them at risk of poverty. Platform workers, whose number is increasing fast with the spread of digitalisation, are generally self-employed and also in a precarious position. Therefore, strengthening social protection is of utmost importance.

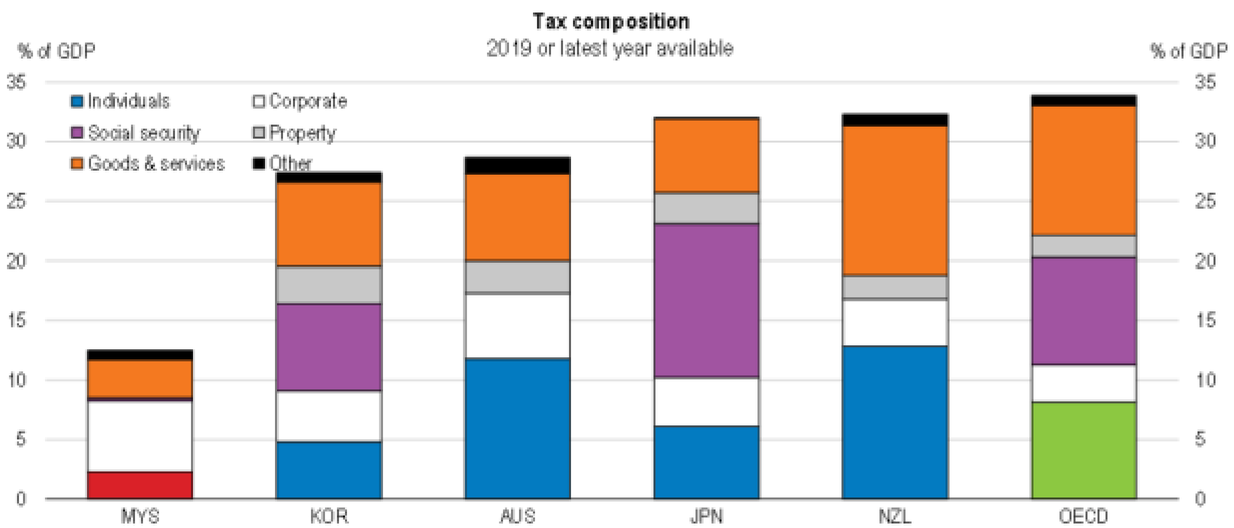
Figure 3. More women are working, but many of them are self-employed



Source: DOSM, Labour Force Surveys.

Additional government revenue will be needed to enhance social protection without further increasing public debt. Malaysia's tax revenue is low (Figure 4) and has declined for years, making tax reform essential. Tax revenue will also be required to protect Malaysia's fast-ageing population. According to a UN projection, the old-age dependency rate (+65/15-64) of Malaysia will reach 25% by 2050, more than twice the current 10%. Encouraging more elderly people to stay longer in the labour force would also be useful to help reduce old-age income poverty and raise government revenue.

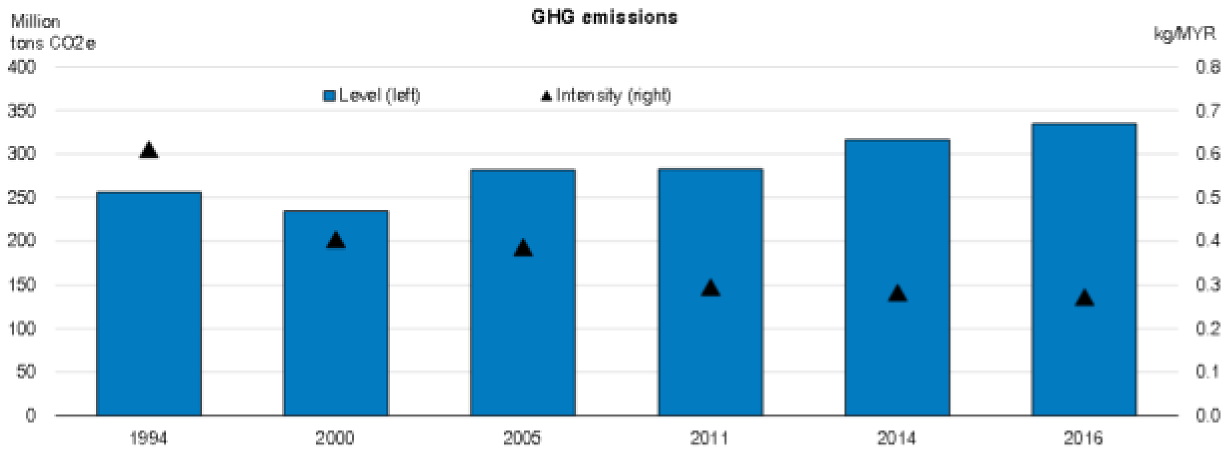
Figure 4. Malaysia's tax revenue is low



Source: OECD, Tax Revenue Statistics database.

The post-pandemic recovery also needs to focus on cleaner energy. As the latest IPCC report depicts, immediate, rapid and large-scale reductions in greenhouse gas emissions are now strongly called for at the global level. Malaysia has made steady progress in reducing its carbon emissions intensity during the past two decades. However, fast economic growth has translated into higher volumes of greenhouse gas emissions (Figure 5). The return to strong economic growth after the pandemic should not once again result in fast-rising carbon emissions. The *Economic Survey* encourages Malaysia to reduce the use of coal in electricity production, increase renewable energy production, increase domestic carbon prices, improve forest management, and support biodiversity. These objectives are all essential for Malaysia’s greener post-pandemic recovery.

Figure 5. Green House Gas emissions intensity is improving, but its volume is increasing



Note: GHG emissions include emissions from land use, land use change and forestry, but exclude removals.
Source: Ministry of Environment and Water (2020), *Malaysia - Third Biennial Update Report to the UNFCCC.*

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