

# **50 Years On: Strengths and Opportunities for Australia and the OECD**

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## **50 Years On: Strengths and Opportunities for Australia and the OECD**

The Organisation for Economic Cooperation and Development (OECD) has a rich history of leading economic and social change to benefit billions of people around the world. Since joining fifty years ago, Australia's membership of the OECD has improved its economic strength and prosperity, but it is not a partnership without challenges. This paper will analyse and evaluate the impact of membership on Australia's economic strength and prosperity, investigate challenges faced over the fifty-year tenure, and provide recommendations to maximise benefits of Australia's membership in the OECD.

### **Analysis of Australia's Improved Economic Strength and Prosperity**

Despite recently plunging into a recession brought on by the COVID-19 pandemic, the preceding thirty years saw a period of positive economic growth for Australia (RBA 2021). This has produced levels of income and wellbeing above the average OECD level; driven by a robust and competitive market economy and supported by relevant and efficient government policies (OECD 2016). Since joining in 1971, Australia has, in aggregate, benefitted from its membership in the OECD. Whilst it is extremely difficult to isolate the economic impact of the OECD on Australia's improved economic strength and prosperity, it is clear that significant improvements have occurred over time, which has been driven by a cross-country collaborative approach to policy development by Australian officials (Carroll & Kellow 2012).

The OECD has substantially impacted Australia and its policy landscape. Carroll and Kellow (2012, p.517) argue that these benefits can be generalised to, "its impact as a source of credible, useful information for policy learning purposes," and, "a forum in which Australian representatives can contribute to the development of international regulations." This provides officials with the opportunity to develop more robust government policies to support an efficient economy. Most notably, this is done through OECD Country Surveys which provides officials with credible, quantitative evidence to support and promote policy opportunities to achieve stronger economic growth (OECD 2018). The OECD largely acts as a trusted advisor to member countries and evidence of policy transfer through case studies clearly demonstrates its important role of improving economic strength and prosperity (Pal

2012). One notable example is a 2001 review of Australia's labour market in a report titled *Innovations in Labour Market Policies: The Australian Way* (OECD 2001). This review examined the strengths and weaknesses of the labour market and proposed recommendations for labour market programs and improving wage determination processes (OECD 2001). The Australian Government implemented many recommendations and used the report to develop future policies. Other examples of implementation include the use of OECD principles to develop the Regulatory Impact System (RIS) and international tax policy changes, which also demonstrates the important role the OECD plays in ensuring Australia's economic prosperity (Banks 2003).

Momani and Menzies (2012, p.600) argue, "the OECD influences its members by relying upon its prowess and reputation in research, support, coordination and peer-review systems." It is through the mechanism of robust research and quantitative analysis that the OECD is able to influence the policy decisions of members and improve the economic prosperity of citizens (Peters 1997). In many cases, the OECD provides significant positive externalities, which are not factored into the funding costs for its member country's citizens as the OECD's advice regularly produces more efficient policies than that which would be originally produced by the government (Peters 1997).

Conversely, since becoming a member, Australia has also had an impact on the OECD and the international policy landscape. The OECD has allowed Australia to positively contribute to the discussion and formulation of policy around the world (Momani & Menzies 2012). Australia has regularly led global discussions on regulatory reform, and in recent times, Australian officials such as OECD ambassador Ian Forsyth led working parties to consider and successfully produce reforms in budgetary processes (Carroll & Kellow 2012). Examples like this clearly highlight that Australia's membership of the OECD has improved its economic strength through the ability to influence the global policy agenda of the OECD. Despite this, it is difficult to precisely identify the impact of Australia on this international organisation (Carroll & Kellow 2012). This is because consensus among members must be reached.

### **Evaluation of Australia's Improved Economic Strength and Prosperity**

Australia's membership in the OECD has clearly improved economic strength and prosperity, however, these benefits have waned over time. Australia's significant economic

improvements can be partially attributed to the construction of robust public policy which aims to promote international trade and free markets (Pal 2012). These core tenets of the OECD have allowed Australia to reap the many economic benefits of competitive markets, which produce efficient outcomes in markets when certain assumptions hold (OECD 1960). Fundamental economic principles such as comparative advantage, where countries specialise and trade according to their opportunity cost, has meant that countries can trade at lower costs and produce higher profits and benefits for society (Krugman, et al. 2018). Economic theory also shows that free trade inspires competition which allows countries to innovate and become more productive, which ultimately leads to improvements in economic strength and prosperity (Krugman, et al. 2018). Australia originally joined the OECD to join international discussions happening at the time on trade and tariffs, particularly in relation to the GATT (Banks 2003). This provided Australia with the opportunity to voice its concerns on trade policies such as restrictions on agricultural trade. Throughout its membership, Australia has relaxed many of its protectionist trade policies and embraced trade liberalisation, a policy position strongly endorsed by the OECD (The Centre for International Economics 2017). Many studies, such as one completed by the Centre for International Economics show that, “trade liberalisation over the 1986 to 2016 period has benefitted the Australian economy, with real GDP being 5.4 per cent higher in 2016 than it would otherwise have been (with no trade liberalisation)” (The Centre for International Economics 2017, p.2). Therefore, Australia’s membership in the OECD has clearly contributed towards the many trade benefits experienced in present times.

However, Australia’s membership within the OECD does not always produce positive benefits. In fact, the benefits for Australia have declined slowly over the past two decades. Since 2003, OECD recommended reforms for Australia have not been implemented at a much higher proportion (Daley & Anderson 2020). Policies such as reviewing negative gearing, implementing a mining resource rent tax, and raising JobSeeker payments have all been rejected or delayed by Australian governments (Daley & Anderson 2020). These reforms, proposed through periodical OECD Economic Surveys, demonstrate that despite providing Australia with detailed policy research, implementation is much rarer which affects the ability to improve the economic strength and prosperity of the nation. Hence, the OECD has had a remarkable impact on Australia, but declining government implementation has reduced benefits over time.

Despite waning benefits over time, fundamental policy positions of the OECD have allowed Australia to develop into the prosperous nation it has become today. Since receiving membership in the OECD fifty years ago, Australian officials have had access to a myriad of learning opportunities to improve public policy and been able to engage in the construction of important international policy initiatives (Carroll & Kellow 2011). These opportunities have allowed Australian officials to develop more effective policies which has improved the economic welfare of its citizens.

### **Opportunities to Improve Australia's Position in the OECD**

Given Australia's experience within the OECD, three main lessons exist for Australia's ongoing engagement within the OECD.

The OECD continues to conduct credible research and analysis of significant public policy challenges, however, since 2003 the Australian Government has not enacted as many OECD recommendations as it previously has done (Daley & Anderson 2020). Policies recommended by the OECD clearly would produce positive benefits for society and Australian officials must act on this valuable policy guidance. For example, in the recent *OECD Economic Survey: Australia 2018*, the OECD recommended that Australia should, "stabilise and strengthen climate-change policy," however, limited improvements have been made in this important policy area (OECD 2018, p.14). The OECD's work is extremely valuable and allows policymakers access to innovative solutions to improve economic strength and stability. Therefore, it is recommended that Australia acts on policy guidance provided by the OECD to ensure continued economic growth.

Australia's experience within the OECD also shows that it must also continue to promote and enact policies which encourage innovation and growth. A recent report by Innovation and Science Australia suggests that in order to close the growth gap, "Australia will also need to improve capital and multifactor productivity" (Innovation and Science Australia 2018, p.10) In fact, this report shows innovation through digital technology, "could increase Australia's annual GDP growth rate by 0.7 to 1.2 per cent" (Innovation and Science Australia 2018, p.10). Australia has a strong history of utilising microeconomic reform to improve productivity; policies such as competition policy reform, taxation reform and labour market policies have been historically vital to ensuring economic success (Banks 2003). Measures such as the Multifactor Productivity Index show that Australia experienced average growth of

2 percent per year in the 1990s (Australian Bureau of Statistics 2020). However, since 2003, Australian Multifactor Productivity has not risen above 1.8% and in the most recent update of June 2020 decreased to -0.7% growth (Australian Bureau of Statistics 2020). Therefore, Australian officials must act to improve productivity through enacting OECD recommended policies, such as improving competition in markets, which in turn will increase efficiency and productive capacity (OECD 2018). Modern economic theory suggests that by improving Multifactor Productivity, Australia will experience higher wages, lower prices, higher profits, and stronger economic growth (RBA 2020). As Australia emerges from the COVID-19 pandemic, the OECD provides an opportunity to engage in microeconomic reform to empower productivity change. Therefore, it is vitally important that Australian officials engage with the OECD on the international stage to produce policies to improve innovation and productivity both in Australia and internationally.

The OECD is principally a networking organisation, where officials can cooperate and collaborate to improve policymaking processes around the world (Peters 1997). A key lesson from Australia's experience within the OECD is for officials to fully utilise the ability to cooperate and collaborate with other OECD members to ensure that Australia is maximising the benefits received from its membership. Throughout Australia's membership, notable officials such as Jane Halton, Alan Fels and Tony Hinton have all made valuable contributions to the Australian and international policy landscape by meaningfully engaging with other member countries to produce effective policies in the areas of health policy, trade, and tax policy respectively (Carroll & Kellow 2012). As Australia's membership within the OECD ages, government officials must not forget the value of collaboration and cooperation in the creation of effective public policy. Many academics, such as Carroll & Kellow (2012), also argue that Australian officials should further strengthen ties with South-East Asian countries in the OECD and countries outside the EU with similar policy objectives. By working together as allies, Australia will be able to further influence decision making processes within the OECD, which is often dominated by countries within the European Union.

## **Conclusion**

Australia has substantially benefitted from its membership within the OECD over the past fifty years. Australian officials have used the OECD's credible research to fuel policy

creation and the important access to OECD committees has allowed Australian officials to design and implement more efficient policies to ultimately improve Australia's economic strength and prosperity. However, the challenges of government implementation and the difficulty of influencing an organisation often dominated by countries within the European Union means that these benefits have waned over time. Through implementing recommendations from the three main lessons discussed, Australia's membership in the OECD will continue to improve economic strength and prosperity for its citizens.

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