

**50 Years of Australian OECD Membership:
Progress, Prosperity and Potential**

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Essay submitted to the Treasury OECD Essay Competition

11 August 2021

Word Count: 1999

In 2021, Australia celebrated the fiftieth anniversary of its membership of the Organisation for Economic Cooperation and Development (OECD), the culmination of a watershed half century in its economic history. With its economic performance rapidly falling behind that of its international peers in the years leading up to its accession to OECD membership, Australia embarked on a wide-ranging program of economic reforms over the ensuing decades, revitalising an ailing economy and paving the way to a remarkable period of sustained growth and prosperity. While OECD membership was not solely responsible for these profound changes in Australia's economic trajectory, participation in the OECD has given Australia a "seat at the table" among the world's leading economic powers, allowing it to effectively benchmark its economic performance against other nations and influence the development of international economic and financial policy. This in turn has promoted knowledge sharing and multilateral engagement on key policy issues, leading to the liberalisation of both domestic economic activity and international trade. While in many policy areas, Australia has led from the front, serving as an exemplar nation within the OECD, the general pace of economic reform has slowed more recently, suggesting that there is no room for complacency or inertia. Going forward, by engaging constructively with our OECD counterparts to promote continued economic cooperation and actively adopting novel policy recommendations, Australia will be well placed to sustain its strong track record of robust economic strength and prosperity over the decades to come.

Australia's decision to join the OECD was driven by a desire to exert a greater influence on the policy decisions of the major world economic powers. In the post-war era, Australia had little influence within many of the key institutions that controlled international economic policy, such as the United Nations, the International Monetary Fund and the European Economic Community, and had a strongly protectionist approach to economic policymaking (Carroll, 2014). This relative insularity of the Australian economy had raised concerns in the senior levels of government about whether membership of the OECD would threaten the policy dictum of "protection all round" that characterised the 'Australian settlement' approach to policy making (Kellow and Carroll, 2017; Berger-Thomson et al., 2018). Moreover, as Banks (2005) suggests, these policies had led to a relative decline in the international standing of the Australian economy. Indeed, while Australia had the highest per-capita income in

the world at the beginning of the 20th century, its ranking had slipped to 9th by the early 1970s due to falls in commodity prices and the concomitant deterioration in the terms of trade. This decline in our economic performance is unsurprising, as favourable terms of trade had previously masked Australia's trajectory as a productivity laggard. Even during the relatively prosperous post-war years, the growth rate of labour productivity in Australia had averaged 2.5 per cent, versus an average of 3.5 per cent across other OECD nations. To this end, Australia's membership of the OECD represented an important step away from a relatively isolationist approach to policymaking and a recognition of the need for both a rethinking of its "fabric of international ties and relationships" (NAA, 1961) and a novel, more reformist approach to economic policymaking.

Over the past 50 years, OECD membership has benefited Australia in two primary ways. First, the OECD has facilitated policy learning through the provision of economic data, research, and analysis for Australia, thereby identifying key economic priorities and guiding the formulation, design, and implementation of domestic policy. Second, the OECD has allowed Australia to contribute to the development of international economic policy, specifically in the areas of trade and taxation, amplifying its influence on the world stage.

As Kellow and Carroll (2012) highlight, opportunities for policy learning have been abundant for Australia throughout its membership of the OECD. In particular, the Economic Surveys commissioned by the OECD have had a notable influence on the course of domestic policymaking. Indeed, the first Economic Survey of Australia, conducted in 1972, is thought to have played a salient role in Prime Minister Gough Whitlam's 25 per cent tariff cut, a key policy decision that commenced Australia's transition away from protectionism (Coleman et al., 2007). Arguably, the impact of these surveys on domestic policy decisions was greatest in the early decades following Australia's induction into the OECD. Several of Australia's most significant economic policy initiatives, including fiscal tightening, financial deregulation, labour market decentralisation and the introduction of a broad-based goods and services tax (GST), were proposed in OECD economic surveys (Grattan Institute, 2020).

To contextualise the transformative impact of these policy measures, Australia's international ranking in terms of GDP per capita jumped from 15th in the

late 1980s to 8th by 2002, reversing years of substantial declines, with this growth driven by a near doubling of the rate of growth of multifactor productivity over the 1990s (to 2 per cent from 1 per cent) relative to the previous three decades (Banks, 2005). Moreover, the resilience of the Australian economy has been impressive, with Australia experiencing an almost unparalleled 30-year period without a recession prior to the onset of the COVID-19 pandemic. As such, there is little doubt that Australia's wide-ranging reform agenda has vastly improved its economic strength and prosperity, and the important role played by the OECD in stimulating these novel policy ideas and guiding domestic policymakers with their design and implementation must be acknowledged.

One of the key planks of Australia's approach to economic reform has been the removal of barriers to both international trade and domestic economic activity, thereby stimulating greater efficiency in resource allocation and unlocking the latent productivity of the economy. Reforms in tax and trade policy have thus been a crucial contributor to Australia's improved economic performance in recent decades, and OECD membership has been a key catalyst of this transition. Indeed, Australia's OECD membership has coincided with substantial growth in its reliance on international trade, with Australian exports and imports doubling from approximately 20 per cent of GDP in 1970 to 40 per cent in 2000 (Banks, 2005). This expansion of international trade was underpinned by the sharp decline in the level of effective protection across a wide range of industries (Berger-Thomson et al., 2018) resulting from the removal of protective tariffs and subsidies, a policy measure consistently advocated by the OECD. Beyond these crucial domestic policy initiatives, Australia has achieved significant international influence on trade issues through the OECD. Many of Australia's initial concerns about joining the OECD were related to the high level of agricultural subsidies implemented in the European Common Agricultural Policy, which led to price distortions and impeded Australia's competitiveness in the global agricultural market (Keeler, 1996). The work of Australian economist Max Corden with the OECD in developing the measures of producer and consumer subsidy equivalents, which provided a standardised measure of the economic distortions associated with such subsidies, contributed significantly to the global commitment to reduce agricultural protection during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) (Anderson, 2003; Kellow and Carroll, 2017). Thus,

Australia's membership of the OECD has not only supported its own transition from relative isolationism to greater openness but has also contributed to the creation of an international environment conducive to free trade.

Australia's engagement with the OECD has also made a vital contribution to both its domestic tax policies and its international influence on taxation issues, something that has been highly complementary to its policy work in trade. In addition to the introduction of a consumption tax, which drew heavily on research and policy insights from other OECD nations such as Canada and New Zealand (Bentley, 2003), Australia was an early adopter of the OECD Model for double taxation treaties and the OECD guidelines for transfer pricing (OECD, 1995), improving the efficiency of trade with its major trading partners while not compromising the integrity of domestic revenue collection. Moreover, through its active engagement leadership within OECD tax subcommittees, including the Global Forum on Transparency and Exchange of Information for Tax Purposes, Australia has made significant contributions to OECD policy work aimed at preventing tax avoidance and harmful tax competition between member nations (Kellow and Carroll, 2017). Building on these achievements, Australia has many opportunities in the area of taxation for its future engagement with the OECD. First, as the 2018 OECD Economic Survey of Australia suggests, Australia will benefit from a further shift towards less distortionary taxes, including the replacement of stamp duty with property taxes and the expansion of the GST, and OECD consultation will be valuable in providing guidance with these reforms. Second, by working collaboratively with other member countries to ensure international uniformity and integrity in tax codes, Australia can continue to demonstrate leadership in international tax policy through the conduit of the OECD.

Going forward, Australia must continue to demonstrate leadership across a wide range of policy areas and engage in constructive dialogue with other member nations of the OECD. Australia must also continue to leverage the benefits of OECD-facilitated peer review through programs such as the Economic Surveys. Somewhat concerningly, a recent Grattan Institute report (Grattan Institute, 2020) highlighted that the rate of uptake of policy recommendations proposed in OECD surveys have sharply slowed since 2001. To some extent, this reflects the fact that many of the opportunities for large-scale macroeconomic and microeconomic reforms were tapped into during the 1980s and 1990s with bipartisan support, while the relative lack of government

stability following the Howard years has been detrimental to policy consistency and continuity. Moreover, many of the policy proposals in recent OECD surveys have moved beyond purely economic issues to encompass other areas of public policy, such as healthcare, education, and the environment, and the level of Australian engagement with these policy areas has been somewhat mixed.

While in healthcare, Australia has been a leader among OECD countries, in education and environmental policy, there is ample room for further improvement. Indeed, the 2018 OECD Economic Survey of Australia highlights that Australia's performance in the OECD's PISA tests has progressively weakened over the past two decades both in absolute and relative terms, with the level of educational inequality also remaining high (OECD, 2018). The same survey also raised concerns about the possible oversupply of tertiary education and the associated structural skill mismatches. Given the central importance of educational achievement and skill building to improving Australia's productivity performance, which has softened after the substantial strides during the 1990s, (Eslake, 2011), Australia will be well placed to learn from other OECD nations on how best to strengthen its performance in these areas. In environmental policy, Australia has also lagged its OECD counterparts, something evidenced by the fact that its carbon emissions per capita are over 50 per cent higher than the OECD average (OECD, 2018). Many key OECD environmental policy recommendations have fallen by the wayside or, in the case of carbon pricing, implemented and then subsequently unwound. While environmental policy is often at odds with Australia's position as a resource-exporting nation, Australia's engagement with the OECD will allow it to transition to a more environmentally sustainable economic model while still advocating for its national interests.

There is little doubt that the previous fifty years have been a profoundly transformative period for the Australian economy. Through the bold microeconomic and macroeconomic reforms implemented by successive governments, Australia's economic strength, prosperity and resilience have been enriched. Membership of the OECD has had a significant impact in facilitating this transition through access to evidence-based policy research and analysis, as well as the opportunity to collaborate with, learn from and influence the views of other member nations on policy issues of both domestic and international significance. However, with new economic, social and environmental challenges on the horizon, Australia cannot rest on its laurels. The post-

pandemic era will prove to be an opportune time for innovative policymaking through international collaboration. By continuing to strengthen its engagement with the OECD across a wide range of policy areas, Australia will be well placed to sustain its remarkable record of economic achievement in the decades to come.

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