

Pathways to Growth – Fostering the Conditions for a Competitive Economy¹

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¹ This paper was prepared jointly ahead of a discussion between senior Canadian and Australian officials and does not reflect the views of either the Canadian or Australian Governments.

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INTRODUCTION

Productivity-enhancing structural reforms are required in both Canada and Australia to facilitate the transition from commodity-driven to broader-based growth as well as to respond to the challenge of population ageing. Without concerted reform efforts, growth in living standards of both countries will likely be slower than we have experienced historically.

The reform task is made challenging by several factors:

- No clear widespread community acceptance of the need for reform on a large scale.
- Negative impacts of reform are sometimes concentrated on a few, while benefits are spread thinly across the economy. Changes seen to disproportionately affect a segment of the population will raise questions of fairness.
- The heightened intensity and diversity of media reporting can make for a less structured public debate and provide a challenge to governments seeking to progress reform options.
- Growing distrust in political parties, institutions and advice on public policy may erode public confidence.
- Both Australia and Canada face the challenge of pursuing reforms that cross federal and state or provincial boundaries.

These challenges are on top of many of the existing challenges to structural reform, including implementation. This paper explores a number of priority areas for reform for both countries, and discusses the current reform environment.

THE CASE FOR REFORM

In some fundamental ways, the economies of Australia and Canada are similar: both rely significantly on resource extraction for national income, have high household indebtedness, and are small open economies engaging in significant bilateral trade with one important trading partner (China for Australia and the U.S. for Canada). Consequently, both economies suffered from the general decline in global growth and commodity prices observed in the past five years, with the ensuing decline in commodity investment.

Over the medium-term, economic growth is expected to increase moderately, as the drag from the decline in commodity investment dissipates and the economies transition to broader-based growth, supported by historically low interest rates and lower domestic currencies. The rebound in Australia will be stronger, with real GDP growth expected to be a full percentage point higher in Australia than in Canada between 2016 and 2019, largely due to higher potential output and stronger growth in their main trading partners.

Both countries face important risks to the outlook. Externally, rising protectionism, policy uncertainty and the risk of financial market volatility are paramount. Domestically the key risk in both countries is the elevated level of household debt.

Given differences in the medium-term outlook, the two countries have adopted different approaches to fiscal policy:

- The Australian government considers that the best approach to fiscal policy in the short run is to build the resilience of the economy by keeping debt under control — returning the budget to balance through disciplined expenditure restraint while building a growth friendly tax system.
- The Canadian government has put in place a comprehensive plan to boost medium-term growth, taking advantage of historically low borrowing costs to invest in skills, innovation, and public infrastructure, boosting Canada’s competitiveness and economic growth, while maintaining Canada’s low debt advantage.

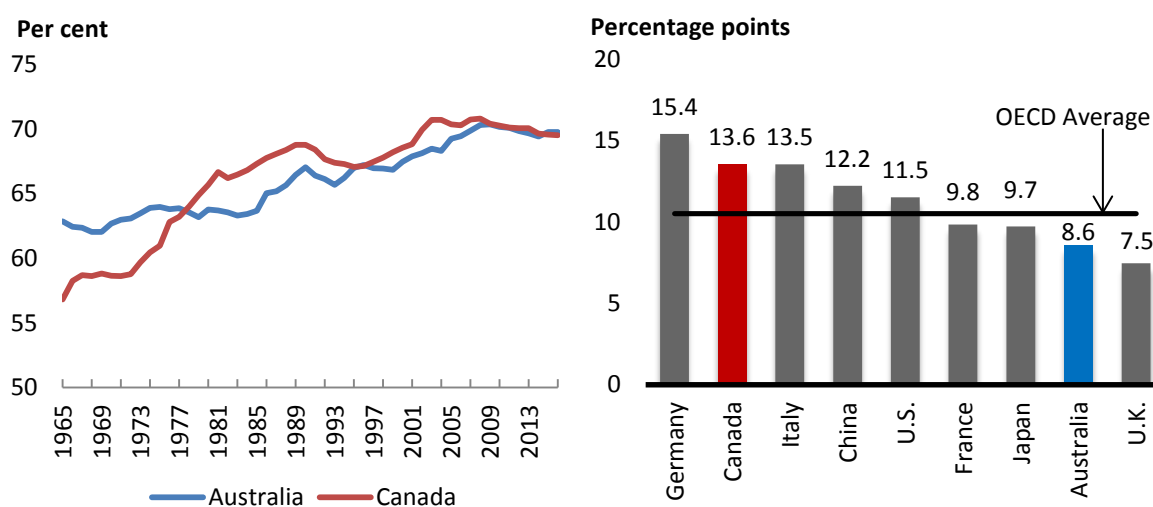
Over the long-term, economic and income growth in both countries will be primarily determined by labour force growth, developments in the terms of trade and productivity growth. Population ageing and low commodity prices will limit the contribution of the first two factors in both countries. Thus, structural reforms to boost productivity will be of fundamental importance to ensure standards of living continue to improve and to make sure that both economies are flexible and responsive to the uncertain external environment. Innovation, new and better ways to design and produce goods and services, is one of the key determinants of productivity growth. Technological advances can also help mitigate climate change without compromising economic growth.

The following sections review the broad trends in each of the main determinants of living standards growth.

WORKFORCE PARTICIPATION

Workforce participation is one of the key drivers of economic and income growth. In both countries, trend participation rate over the last four decades increased steadily until the early 2010s (Chart 1). The increase in the aggregate participation rate was primarily driven by prime working age females as well as mature age workers.

Chart 1: Labour Force Participation Rates, Aged 15 – 74, and Projected Change in 65+ to the 15 to 64 Population Ratio from 2015 to 2030



Source: OECD Outlook 2016

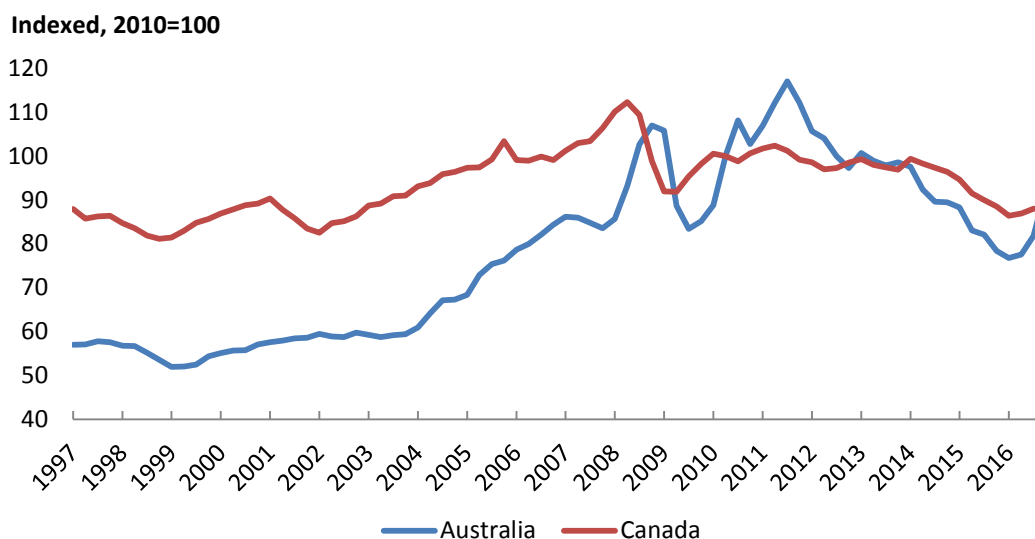
Source: World Population Prospects: The 2015 Revision by United Nations (July 2015 Update), Statistics Canada and Department of Finance calculations.

Starting in the early 2010s, population ageing has had a strong negative effect and is expected to continue reducing the aggregate trend participation rate going forward as retirees make up a larger and growing share of the population. For example, the Australian 2015 Intergenerational Report (IGR) projects that over the next 40 years, population ageing will continue to weigh on workforce participation. Canada’s recent long-term economic and fiscal projections show that the number of working-age Canadians (aged 15 to 64) for every senior (aged 65 and over) is expected to fall from close to 5 over the past decade to 2.5 in less than 20 years, one of the largest projected declines among OECD countries.

TERMS OF TRADE

Australia and Canada have enjoyed strong income growth over the last two decades, in part due to unprecedented terms-of-trade gains. However, with the decline in commodity prices and the currency depreciation, terms of trade have fallen noticeably in recent years (Chart 2). And despite a pick-up in recent months because of higher commodity prices, terms-of-trade remain well below their 2008 and 2011 peak. Moreover, the recent uptick is not expected to be sustained, with just a modest recovery in commodity prices expected in the future. As a result, Canada and Australia cannot rely on high and rising commodity prices to drive income gains.

Chart 2: Terms of trade Canada and Australia – 1997 to 2016



Source: Australian Bureau of Statistics, Statistics Canada and Haver Analytics

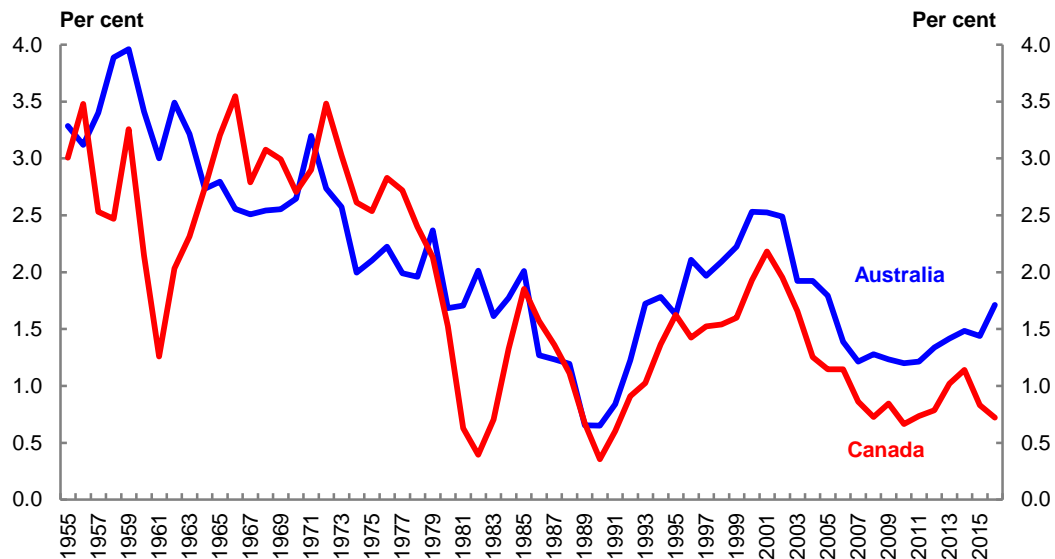
PRODUCTIVITY

With the contribution of labour force growth and the terms of trade limited, productivity growth will be the main driver for growth in Australian and Canadian living standards in the decades ahead. Productivity growth has slowed steadily globally, highlighting the need for governments to implement effective productivity-enhancing reforms.

Consistent with this global trend, productivity growth has slowed in Australia and Canada (Chart 3). Australia’s productivity growth has picked up and is currently faster than Canada’s and the (admittedly very weak) advanced economy average. Canada’s productivity has been growing by less than 1 per cent over the last decade. Some work has been conducted to explain the difference between Canadian and Australian productivity over the last several years but no clear explanation stands out. Further work to examine this issue is warranted.

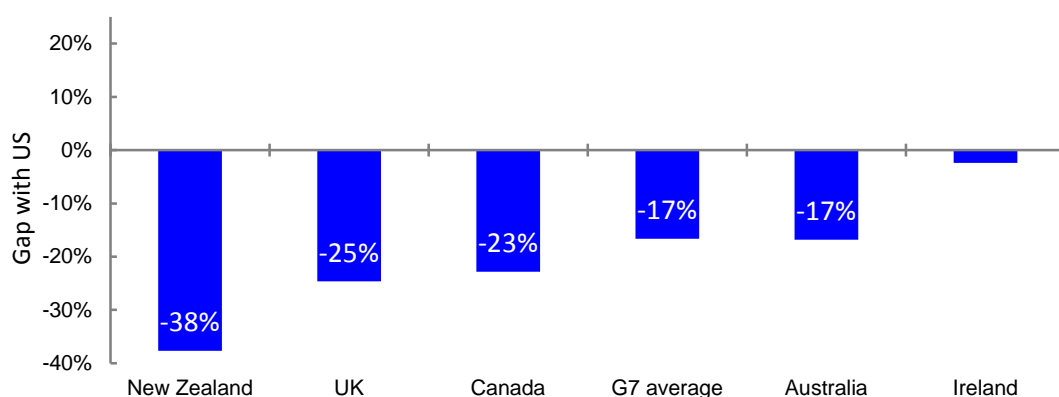
The level of labour productivity continues to be lower in Canada and Australia than in the U.S. (Chart 4). This reflects the fact that both countries' productivity performance has tended to lag that of the U.S. and the G-7 average in the past.

Chart 3: Labour productivity growth in Australia and Canada (5 year average)



Source: Total Economy Database.

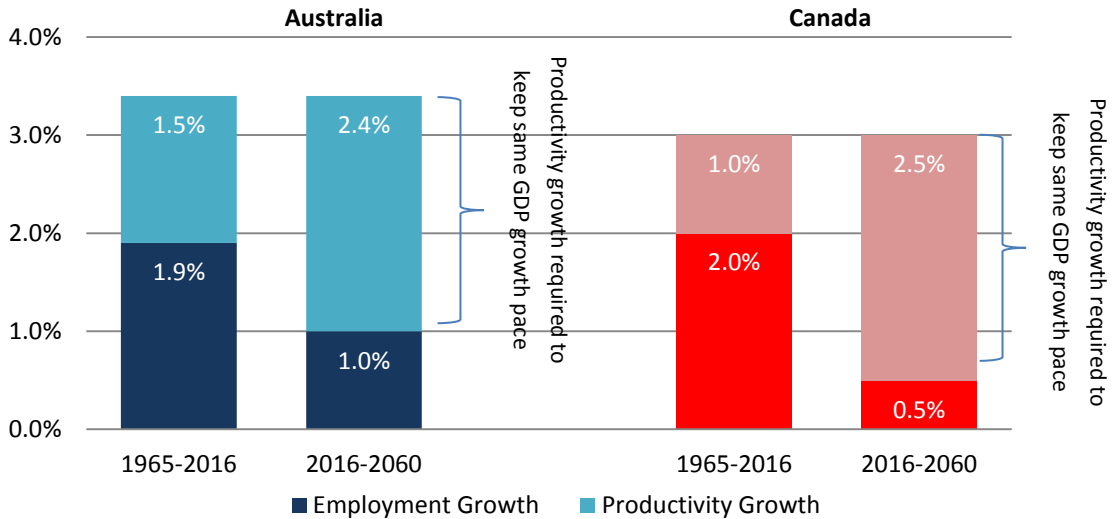
Chart 4: GDP per hour worked – Difference to United States (2014)



Source: OECD, Treasury calculations.

Going forward, the current labour productivity growth rate for both economies will not be enough to sustain the growth in average living standards experienced over the last 30 years. There would need to be a sustained lift in annual productivity growth to around 2½ per cent a year to sustain national income growth at its long-run average (Chart 5). This would represent a 50 per cent improvement in annual productivity growth relative to the status quo.

Chart 5: Real GDP and Employment Growth Rates, Historical and Projected Averages



Source: OECD Outlook and long-term projections, Department of Finance calculations.

Such an increase would bring productivity growth to a level last experienced in the latter half of the 1990s. Key drivers of productivity gains for both countries in that period were technological advances and a sustained program of growth-enhancing reforms. This suggests that a comprehensive economic growth agenda across a broad front could be effective in lifting both Australia and Canada’s economic fortunes.

At the same time, even a broad and aggressive reform agenda may not be sufficient to bring productivity growth back to the mid-1990 levels. For example, there is evidence that technology diffusion is slowing, negatively affecting productivity growth globally. This is particularly important for small economies like Canada and Australia whose technological advances tend largely to come from the absorption of technological advances developed abroad.

Priority opportunities for structural reforms

There are many opportunities for reform across Canada and Australia. This section discusses a few priority areas for each.

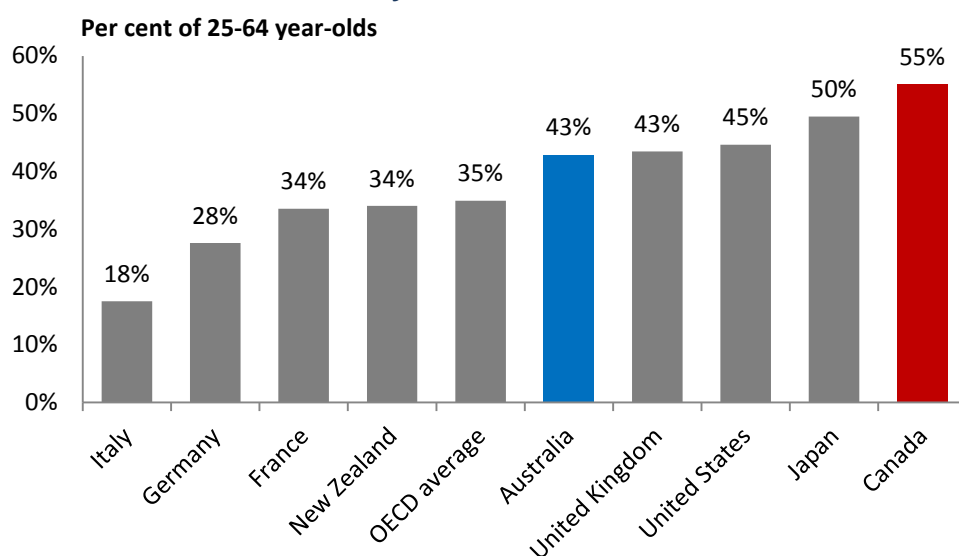
CANADA

The Canadian government believes that, to be strong, stable and sustainable, the benefits of growth must be broadly shared. Ensuring gains are economically inclusive strengthens the social acceptance of structural reforms, bolsters confidence and increases the effectiveness of reforms. Growth that is not inclusive may reduce social cohesion, affect political stability, and lead to unintended negative economic consequences. For this reason, the Canadian government emphasizes that social and economic growth objectives should be considered in concert for any area of reform. This includes, for example, determining how policy makers can ensure that gains from higher investment in innovation translate into greater opportunities and prosperity for all Canadians.

A SKILLED AND FLEXIBLE LABOUR FORCE

Canada ranks highly in terms of post-secondary educational attainment (Chart 6) and, by global standards, elementary and secondary students graduates with strong levels of literacy and numeracy.

Chart 6: Post-Secondary Attainment in OECD Countries, 2015*



Source: OECD Adult education levels, as percent of 25 to 64 year-olds.
* 2015 data or latest available

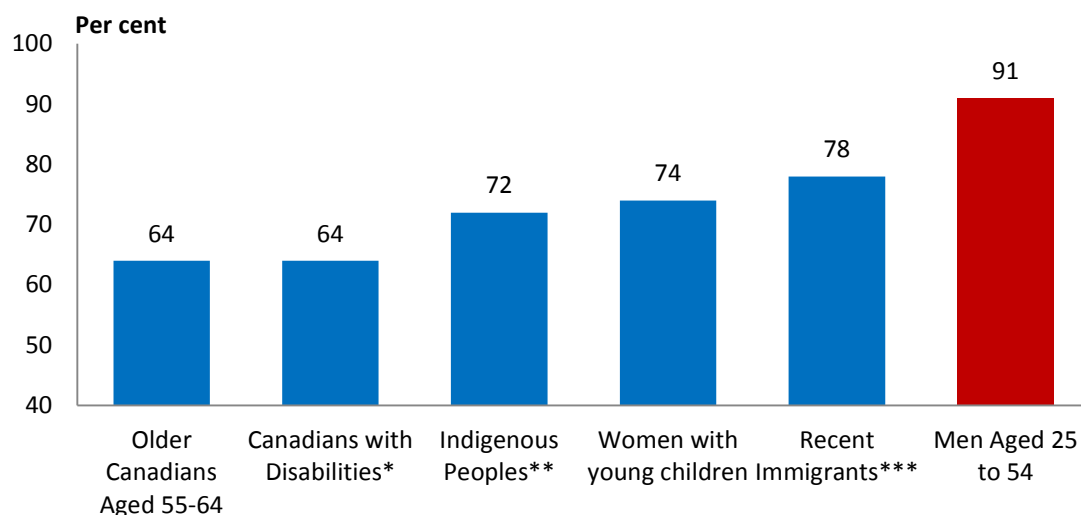
However, these numbers have declined somewhat in recent years, signalling that there is room for improvement. There are also opportunities to further improve Canada's performance by ensuring that as many Canadians as possible participate in the workplace and have access to education and training opportunities to meet employer demand and adapt to a changing labour market. For example, Canadian businesses have reported difficulties in finding graduates with the combination of technical and "soft" skills required to adopt best business practices and innovate. Technological developments and automation require skills and behaviours that many Canadian employers believe graduates do not have. Greater skill training would increase productivity and support living standards as Canada's population ages and would facilitate the transition of the workforce to high-demand fields and areas of higher growth potential in the long run.

Canada would particularly benefit from improvements to labour market outcomes for underrepresented groups such as; individuals with disabilities, the relatively fast-growing and young Aboriginal population, and recent immigrants (Chart 7). Increasing the workforce participation rate of these groups has the potential to boost Canada’s labour force growth and help minimize shortages in the supply of skilled workers.

Canada is also working to attract highly-qualified individuals, through a better immigration system and with better work incentives, in order to support innovation and growth in Canada. As future labour force growth will depend, at least in part, on immigration, making the economy more open for global talent and adopting measures to support the labour market integration of newcomers to Canada can help boost Canadian growth.

By implementing policies to further encourage access to employment for under-represented groups and increasing support for training, skill development and other active labour market policies, Canada can also help reduce income inequality and provide greater opportunities for all Canadians.

Chart 7: Labour Force Participation Rates for Selected Groups of Canadians, 2014



Sources: Statistics Canada and Department of Finance Calculations.

Note: Participation rates for 2014, except for Canadians with Disabilities (2012) ***Population aged 25-54 with disability. **Aboriginal population aged 25-54. ***Population aged 25-54 who came to Canada in the last ten years.

STRENGTHENING INNOVATION PERFORMANCE

Innovation is crucial to addressing the core challenge of maintaining living standards and growing our economic output as the population ages and labour-force growth slows. However, Canadian firms invest relatively little in innovation, and this represents a key challenge for raising productivity in Canada.

Despite a world class public research landscape and public support for R&D that is among the most generous in the world, Canadian firms innovate less than firms in peer countries, including Australia. There is no clear single cause behind this weak innovation investment. A small and fragmented domestic market, a low degree of competition, a lack of entrepreneurship skills, and inefficiently targeted support are all potential causes that limit firms’ incentive to innovate and scale up.

Innovation networks

The creation of innovation networks could help mitigate geographically fragmented markets. The quantity of existing innovation and knowledge that researchers use to make further innovations is crucial. However, various frictions mitigate how much prior innovation researchers can use. This is most clearly seen in how geography limits knowledge spillovers. For example, evidence suggests patented innovations tend to build relatively more on local innovations in part because distance reduces access to foundational innovations that are produced further away. Innovation networks can also raise the productivity of innovation production by improving the coordination of research efforts to limit duplication and by better exploiting the economies of scale arising from costly equipment and other large fixed costs necessary in research.

Increasing competition

The government can increase competition in Canadian markets by reducing barriers to entry, notably for foreign direct investment. Sectors that are most exposed to competition, through international trade for example, tend to invest more in R&D than those that are not. The creation of the new “Invest in Canada Hub” is a first step in this direction. Elimination of inter-provincial barriers, harmonization of regulation with other countries, and better trade infrastructure are other potential actions to increase competition in Canada.

Encouraging entrepreneurship

Encouraging entrepreneurship and providing the tools and skills to aspiring entrepreneurs would help improve Canada’s capacity to innovate. There is some evidence to suggest that Canadians have fewer business skills compared to peer countries and tend to not include innovation as part of their business plans. Programs like Furturpreneur are helping, but it may be important to engage with provinces and territories to ensure business literacy and the acquisition of business and financial skills are fully integrated in the school curriculum. Attracting global business talent is also important.

Enhancing program efficiency

The federal government currently provides critical funding support for accelerating innovation, enabling commercialization, scaling firms, and strengthening exports. Canada should work to ensure that these programs are optimized and are relevant in a changing context. There is an opportunity to use evidence-based evaluation and a rigorous metrics-driven approach to better allocate resources. This will help to ensure that Canada’s programs are reaching their objectives.

A Greener economy

Over the coming decades, the significant increase in global production will continue to put a strain on the environment. As such, the long-run negative impacts of climate change (such as forest fires, floods or rising sea levels) on the environment, health and the economy will continue to intensify over time if no further actions are undertaken.

Following the United Nations Climate Conference (COP21) in Paris, Canada, alongside 129 other countries, has ratified the Paris Agreements which commits the countries to take steps to support the transition to a global low-carbon economy by limiting the global temperature increase to less than 2 degrees Celsius above pre-industrial levels. This global agreement will imply significant adjustments to the economy as the level of ambition set by the Paris Agreements requires global emissions to approach zero by the second half of the century.

The Canadian Government, with its provincial, territorial, municipal and Indigenous partners, is committed to reduce greenhouse gas emissions by 30 per cent below 2005 levels by 2030. The Government has made carbon pricing a central component of its Pan-Canadian framework to help Canada reach this target. It announced in the fall of 2016 the introduction of a broad based price on carbon pollution which starts at a minimum of \$10 per tonne in 2018, rising by \$10 each year to \$50 per tonne in 2022. Along with strategic funding to support and accelerate the development of clean technologies and increased funding for green infrastructure introduced in Budget 2016, the Government of Canada is focused on addressing climate change and air pollution, protecting and restoring Canada's ecosystems and natural heritage, and strengthening Canada's environmental processes. The Government of Canada also announced its participation in Mission Innovation, a public-private initiative to dramatically increase global investments in clean energy.

Countries around the world are looking for new ways to expand and green their economies and create opportunities for their citizens. The global clean technology market is growing rapidly, presenting Canadian businesses with an immense opportunity to showcase their ingenuity and support sustainable prosperity for all Canadians.

Clean technologies are a key component of the Government's approach to promoting sustainable economic growth and will play a critical role in Canada's transformation into a low-carbon economy. Increased investment in clean technologies such as the expansion of tax support for clean energy, the development of cleaner oil and gas technologies, and investments in electric vehicle and alternative transportation fuels infrastructure, will help position Canada to take advantage of opportunities in the new global economy by diversifying the economy and opening up access to new markets, while reducing emissions.

Greening the Canadian economy will require the cooperation of all levels of government and Indigenous partners to ensure a unified front against climate change that will protect the health of our environment, and with it, the health of all Canadians for generations to come.

Investing in Infrastructure

The rapid growth of Canadian cities, with more than 80% of the Canadian population living in urban area, climate change and threats to water and land have made the need for investment in infrastructure more acute. As a trading economy, Canada also depends increasingly on infrastructure to connect to the world. In that context, the Canadian government, in collaboration with its provincial, territorial and Indigenous partners, made historic investments in public transit, green infrastructure, trade infrastructure and social infrastructure. Going forward, the government plans to build on these investments to ensure Canadian cities are more connected and liveable, and the air and water are cleaner. These investments in infrastructure aim to transform Canadian communities, improve productivity, and generate clean and sustainable growth.

To help achieve these objectives, the government has created the Canada Infrastructure Bank that will work with provinces, territories and municipalities to attract private investment in infrastructure and further the reach of government funding. The Canada Infrastructure Bank, governments and investors will work together to identify investment opportunities that provide the biggest economic, social and environmental returns. By leveraging the expertise and capital of the private sector, the Canada Infrastructure Bank will provide better results for Canadians.

AUSTRALIA

The following are three reform priorities for Australian economic and income growth.

CAPITAL DEEPENING TAX REFORM

Australia is a small open economy and net capital importer. Attracting more foreign investment would improve Australia's productivity performance through capital deepening. This would increase average output per Australian worker, thereby improving real wages.

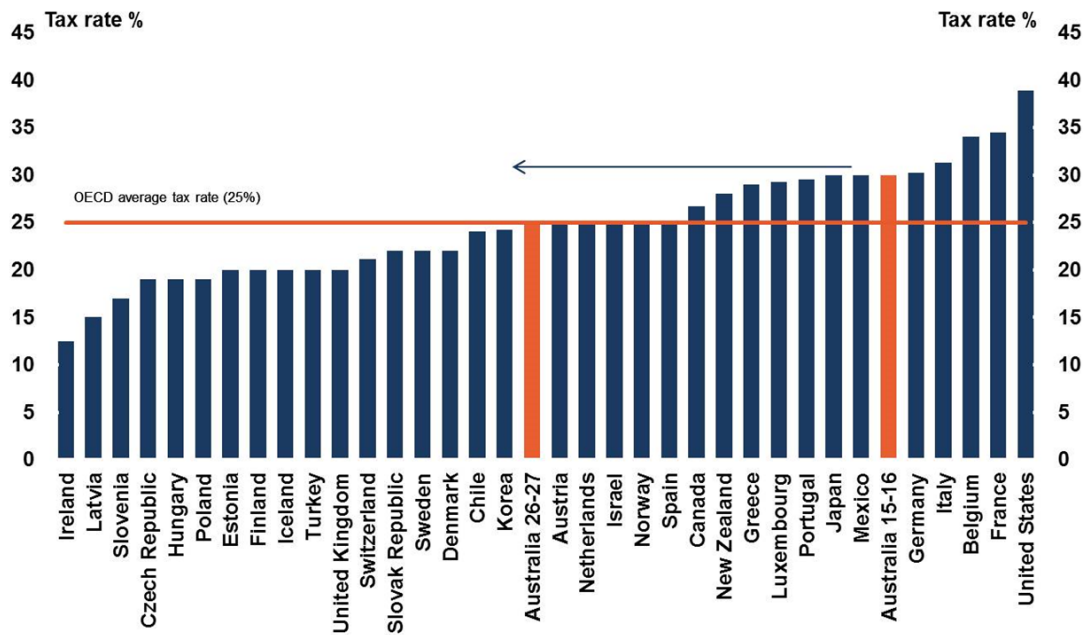
Australia has a range of factors that are attractive to foreign investors, including strong legal institutions, a skilled workforce and flexible labour markets. Nonetheless, an internationally competitive corporate tax rate is important to ensure that Australia continues to attract foreign investment. Australia's relatively high corporate tax rate makes some investment opportunities commercially unviable. The International Monetary Fund recently estimated that foreign direct investment increases by 4.4 per cent in advanced economies for every one percentage point corporate tax reduction.

Australia's corporate tax rate has remained at 30 per cent for more than 15 years. In 2001, when Australia's corporate tax rate was reduced from 34 per cent to 30 per cent, Australia had the ninth-lowest corporate tax rate among advanced economies. The OECD average at that time was 32 per cent. Over that period, many other countries have moved to reduce their rates:

- Canada cut its federal corporate tax rate from 28 per cent to 15 per cent between 2000 and 2012, although its combined (federal and provincial) corporate tax rate is still relatively high at around 27 per cent.
- Singapore cut its rate from 20 per cent to 17 per cent between 2007 and 2010.
- Tax rates have dropped in the United Kingdom from 30 per cent in 2007 to 20 per cent today and are scheduled to fall to 17 per cent by 2020.

Today the OECD average corporate tax rate is 25 per cent. The Australian Government's proposed reduction in the corporate tax rate to 25 per cent by 2026-27 would put Australia at the current OECD average.

Chart 8 – OECD corporate income tax rates 2016



Source: Australian 2015 Tax White Paper.

While the U.S. tax rate has remained at 35 per cent, President Trump has announced he would like to see it come down to somewhere closer to 15 per cent and the House Republicans have proposed a 20 per cent destination-based cash flow tax (DBCFT). If the U.S. significantly cuts its corporate tax rate, or moves to a DBCFT, it is likely to experience significant capital inflows at the expense of other countries. This would put pressure on other countries to respond by lowering their own rates or by also moving to a DBCFT.

The Australian Government also needs to ensure that businesses – particularly multinationals – pay the right amount of tax. It is difficult to convince the public of the importance of an internationally competitive corporate tax rate when there is a perception that multinationals do not pay tax anyway. Tax avoidance is not just a revenue issue – it goes to the core of public trust and confidence in Australia’s institutions.

Enhancing competition in product, service and labour markets

Firms that face competitive pressures have strong market-based incentives to maximise the productive use of resources. Competition is also a powerful catalyst of innovation and improvements in service delivery. It is critical that Australia's competition framework is fit for purpose for the digital age. It should seek to avoid obstructing the benefits of digital transformation while preserving consumer safeguards.

Competition in human services

The Human services sector is a large, growing and diverse sector directly affecting the budget outlooks for Commonwealth, State and Territory Governments. Human service systems are facing challenges, including rising public expectations of service quality, increasing demand for services due to the ageing population and higher costs associated with new and more complex provision demands.

Improving efficiency and reducing waste will help ensure that high quality service provision remains affordable and help manage the fiscal risk it represents. The Australian Productivity Commission has found that a 10 per cent improvement in health care efficiency alone would add around one per cent to GDP, rising to two per cent by 2050.

Reforms that introduce consumer choice in human service delivery (such as Australia's National Disability Insurance Scheme) could lead to a market where providers focus their service delivery according to consumer demand. Equity of access, transparency and access to data on quality of services could empower consumers to make better informed choices and facilitate market provision of services better tailored to individual needs. Such models of service delivery could lead to better outcomes for consumers in the longer term.

Competition in labour markets

Businesses and workers benefit from dynamic and productive workplace arrangements. Bargaining between employers and employees promotes agreements tailored to specific circumstances, which support productivity, profitability, employment and wages. The ability to attract workers to new jobs through a competitive job market also allows businesses to seize new opportunities and workers to get the best rewards for their skills.

Australia undertook many fundamental reforms to workplace regulation in the 1980s and 1990s to support these features of an effective labour market. Particularly notable reforms included the shift from centralised wage fixing to enterprise bargaining. These reforms delivered substantial economic benefits.

It is important that Australia's workplace relations regime does not unnecessarily constrain workplace flexibility or raise system compliance costs. Doing so could hinder competition in job markets and the achievement of mutually-beneficial employment agreements.

The Government also needs to ensure that Australia's many professional occupational licensing regimes do not unnecessarily restrict competition and labour market flexibility. Such regimes can promote important public policy aims such as quality, health, safety and consumer protection. Nonetheless they should only be allowed to restrict competition and labour market flexibility when they are in the public interest and are the only way of achieving such outcomes.

Unnecessarily restricting professional services can prevent new and innovative businesses from entering the market. It can also limit the scope of existing businesses to evolve and innovate. As a result, service providers can become less responsive to consumer demand. This imposes a cost on consumers without necessarily improving consumer protection.

For example, medical specialist colleges should not be able to unduly restrict entry to their professions. Similarly, nurse practitioners should be permitted to perform a range of functions formerly restricted to medical practitioners in order to deliver health services at lower cost without increased risk to patients.

Helping cities work better

Australia is one of the world's more urbanised nations, with just over three-quarters of the population living in 17 major cities of 100,000 people or more and the majority of urban dwellers living in five cities – Sydney, Melbourne, Brisbane, Perth and Adelaide.

Within the largest capitals, urban areas are growing rapidly, with net overseas migration seen as the main contributor to population growth. The population in some areas of our major cities is projected to grow by 80 to 100 per cent to 2050. Australian cities are confronted by significant challenges including population growth and demographic change, transport congestion, housing affordability and infrastructure development.

Housing

Many Australian cities have experienced historically high growth in house prices. Much of this was driven by financial and economic factors such as growing per capita incomes and high levels of aggregate employment across the economy. Increased access to cheap credit and macroeconomic stability have also increased the ability of Australian households to maintain high levels of household debt, used in part to fund housing consumption and investment.

Increasing house prices have made it harder for first home buyers to break into the market, particularly in Sydney and Melbourne. Lower income households are having trouble finding affordable private rental dwellings and there is unmet demand for social housing. Homelessness is increasing.

Structural reforms that remove impediments to housing supply could remove unwarranted pressure on house prices and ensure that the quantity, location and type of housing stock meets the community's needs over time. Improving the responsiveness of the housing supply chain could also enhance other factors that contribute to community wellbeing, such as by increasing labour mobility. In Australia, many of these reforms are the responsibility of State and Territory Governments. In contrast the Commonwealth Government largely holds demand side levers which have broader implications than housing. Previous demand side assistance has had limited impact on affordability.

Infrastructure selection

Efficiently provided and operated infrastructure is a key driver of productivity, economic growth and jobs in the long term. Both Canada and Australia face the challenge of most public infrastructure being provided at the state/provincial/municipal levels but the federal governments being requested to fund some of the costs within constrained budgets.

Objective priority setting and project selection are critical to ensuring that the right projects are delivered at the right time. Infrastructure Australia (IA) plays a critical role in prioritising nationally significant projects and assessing infrastructure projects' benefit-cost analysis. However, it is reliant on the states for information, which can be untimely and inadequate. Infrastructure Canada (a government department) and the Canadian Infrastructure Bank broadly perform the Australian Federal Infrastructure Department and IA's roles.

Finding ways to ensure early engagement by the states/provinces with the federal government on infrastructure priorities and business case development can help improve infrastructure outcomes. Early engagement in business cases would also ensure the federal government's policy priorities, such as suitability of innovative financing and improved timeliness and quality of projects' business cases, are addressed.

Infrastructure user charging

Effective markets help to drive efficient investment in infrastructure and the better use of existing infrastructure. Infrastructure pricing is a valuable complement to good public infrastructure project selection arrangements.

A key infrastructure reform should be to increase market signals, including through user charging, to drive improved infrastructure selection and efficiency and to reduce calls on public balance sheets. Well-calibrated regimes for user charging and investment frameworks can create good incentives for using infrastructure in particular ways and making particular types of new investment.

Public infrastructure (both economic and social) is provided in sectors with differing levels of market signals and user charging. In some sectors, such as energy (electricity and gas) and telecommunications, user charging and frameworks for investment, governance and accountability are well established and support investment decisions. These market frameworks have been used to drive productivity and efficiency and remove reliance on public balance sheets for funding.

Other infrastructure services such as water supply and transport are characterised by less well established user charging arrangements. In the water sector, the investment decision-making and funding role of prices and user charges is muted and governments continue to provide funding supplements for capital investment needs.

In the road sector, users are currently charged indirectly through payment of fuel excise taxes and registration fees to provide a source of public funding revenues. In the public transport sector, user charging contributes a relatively small share of funding to meet operating and capital costs.

Road reforms could help identify higher-priority road investment that better matches demand and balances the need for new investment and maintenance. It could also increase the productivity of users who value highly the use of the road, e.g. a business that uses a road to transport goods. It could have other impacts as well, such as encouraging some road users to consider alternative forms of transport or times of travel.

Barriers to structural reform

Reform has never been easy. Reforms always have distributional impacts that need to be recognised and managed. As well, the fundamental structures of government mean that reforms require collaboration among many different actors, including across levels of government.

But proponents of reform face a set of new barriers that may be more challenging than ever. There are opportunities for each nation to learn from each other's experiences and strategies to address the following (and potentially other) barriers to reform.

THE DISTRIBUTION OF REFORM IMPACTS MATTERS

Social acceptance of significant structural reforms is only possible if the costs and benefits of these reforms are shared more or less equally across the population. Productivity-enhancing structural reforms generally seek to make the broader community better off through increased efficiency. Nonetheless, there will frequently be specific cohorts (based on income, age or geography) that may be worse off as a result of such change.

Some groups may find it harder than others to adjust to structural change, owing to factors such as location or skills mix. Ongoing structural changes in the economy might have a disproportionate impact on such groups, causing them to become increasingly dispirited with a country's economic management. Public policy has an important role to play in recognising and mitigating these issues.

There are various things that governments can do to manage challenges created by structural change. These range from providing basic financial compensation, to other forms of structural adjustment assistance such as training and mobility, or smoothing the transition path for a particular industry.

There is growing recognition that articulating distributional issues appropriately needs to be part of the fundamental reform design process, particularly given that Canada and Australia's after-tax and after-transfer income inequality is higher than the OECD average.

Federal structure

As federations, both Canada and Australia face technical and political challenges in pursuing reforms that often cross federal and state or provincial responsibilities. Sometimes the challenges are technical, for example where constitutions restrict the power of levels of government to pursue a reform agenda. But even more challenging are instances of disagreement about the direction and detail of reform between levels of government.

These factors mean that reforms are often easier to achieve if they are contained within one level of government. However, going forward, driving productivity growth will require finding solutions that work across levels of government. For instance, many of the reform priority areas identified in this paper involve responsibilities that are split between levels of government.

There are of course many examples of where reform has been achieved across levels of government. In Australia, the GST (2000) and National Competition Policy (1995) were examples where reforms were progressed that had significant implications for both the federal and state governments. In Canada, cooperative efforts led the federal and provincial governments to reach an agreement to enhance the Canada Pension Plan and increase pension benefits of future retirees. The pan-Canadian framework on clean growth and climate change, developed with the provinces and territories and in consultation with Indigenous peoples, is another example of collaboration across levels of government.

Impetus for change

Many attribute economic reforms of the 1980s and 1990s to a growing recognition at that time that Canada and Australia would fall behind global peers if significant reforms were not pursued. This perception helped galvanise support for difficult reforms.

There is a risk that a disconnect is emerging between the 'burning platform' issues that many policy makers focus on (for example those highlighted in the first section of this paper that focus on the need for productivity enhancing reform) and the nature and hierarchy of the problems as perceived by the public, such as security and affordability.

Growing public distrust in politicians, experts and institutions

More sources and more voices mean that many constituents can consume media sources that better match, and reinforce, their views and values. This can make it harder for governments to communicate cohesive and coherent messages that will be accessible to much of the population. An ever accelerating 24 hour media cycle can also make it harder for Governments to motivate long term and complex reform issues.

At the same time as many voters seem to be losing confidence in the major parties' reform agendas; they also appear to be losing confidence in key institutions that are critical to reform efforts. This can include a growing distrust of advice provided by bureaucrats and public institutions, but also of expert commentators and academics. Policy makers need to look at finding new ways to develop and communicate reforms.

POTENTIAL QUESTIONS FOR DISCUSSION

1. What have been the most effective structural policies put in place in Canada and Australia?
2. How can we go from thinking about competitiveness as a concept to providing a useful guide to policy?
3. How should we consider trade-offs between growth and inclusion?
4. What is the appropriate role of fiscal policy at this economic juncture?
5. As small economies dependant on global trade, how can we promote openness?
6. How can we help increase trust in institutions and break barriers to reform?