



# Inclusive Growth

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Canada-Australia Public Policy Initiative

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## *Executive Summary*

Over recent decades, both Australia and Canada have experienced strong improvements in household incomes across the income distribution. However, much of this growth has been driven by factors that cannot be relied upon going forward, such as rising female labour force participation rates, increasing educational attainment, and high commodity prices. Productivity growth therefore will be vital to generating further improvements in well-being and living standards in the years ahead.

Technological advances and innovations like increased automation have the potential to raise productivity, create new jobs and business models, raise incomes, and deliver a better standard of living. To harness this potential, however, businesses need the appropriate framework settings and incentives to adopt these new innovations, and individuals need the right skills mix and adaptive capacity.

Moreover, history shows new technologies increase prosperity by increasing productivity in the long run, but tend to have some disruptive impacts on parts of the labour market in the short and medium term. For example, new technologies have tended to complement higher-skilled occupations and automate routine manual work at low to middle skill levels. Similarly, globalization has lowered demand for low-skilled routine jobs in developed countries due to offshoring.

The economic picture in both Australia and Canada is broadly positive, and there is limited evidence of negative labour market changes to date resulting from automation. Nevertheless, there are public concerns in both countries with low wage growth, underemployment, inequality, and declining trust and social cohesion, and a fear of job displacement or insecure “gig economy” employment.

Against this backdrop, citizens are increasingly demanding not only that governments support growth in gross domestic product (GDP), but also that the economic opportunities and outcomes of technological change and global trade are shared fairly among all.

This has reduced confidence in traditional economic growth strategies and led to increasing interest in “inclusive growth” policies. For this paper, inclusive growth refers to broad-based growth that enables the widest range of people to contribute to and benefit from economic success. The objective of inclusive growth strategies is to achieve overall prosperity alongside greater equity in opportunities and outcomes. Citizens also want a greater voice shaping policy—i.e. inclusive policy processes as well as outcomes.

Australia and Canada have histories of economic and social welfare policies that have advanced inclusive growth, including support for workforce and business adaptation to the changing economic environment, provision of universal social safety nets and targeted support for vulnerable groups, and efforts to engage citizens in program design. Thus, while both countries have not traditionally talked in terms of “inclusive growth” in public policy narratives, they have a strong foundation of policy experience to build on.

The Australian and Canadian governments also recognize the importance of **innovation and competitive businesses (Section II)** to long-term prosperity, and seek to maintain supportive framework settings. Yet long-standing difficulties boosting firm productivity and research commercialization still remain. Governments also face new challenges delivering effective regulation for a global, digital economy in an environment of constant change and complex international interdependencies.

Both governments have initiatives to help **equip and support their workforces to deal with disruption (Section III)** through long-term skills and employment policies and shorter-term support in response to structural adjustment. Governments must, however, grapple with how to improve the flexibility of skills systems, help people find paths to new opportunities, encourage employers to invest in the skills development of their workforces, and address regional disparities.

**Opportunities to strengthen tax and social support systems (Section IV)** are being considered by both countries. These strategies aim to address persistent economic gaps for disadvantaged cohorts such as Indigenous citizens and people with disability, and maintain an adequate social safety net for all citizens. Current reforms are incremental, building on existing tax and transfer systems. This has worked well for the

majority of citizens in both countries to date, thanks to the effectiveness of the fundamental redistributive mechanisms in place and lack of mass labour market disruptions. However, the tax and transfer systems of both countries are less redistributive than the OECD average. This implies that there may be some scope for additional redistributive measures to manage major disruptions in future, should these eventuate, while ensuring that such policies do not unduly hamper work incentives or growth.

Work to **adopt citizen-centred approaches to program design and implementation (Section V)** has progressed in both countries. There is growing appreciation that governments must rebuild declining trust in public institutions, and ensure citizens feel included in policy design. Both governments face challenges in meeting citizens' preferences for seamless digital services (e.g. "tell me once") while safeguarding privacy. Legal and procedural challenges can also impede efforts to engage citizens directly in deliberative decision-making that has traditionally been kept confidential.

In this challenging policy space, Australia and Canada can continue to learn from each other and share best practices. The following questions are provided to inform the discussion:

- Are there trade-offs between "traditional" and "inclusive" growth strategies?
- What types of strategies and programs are needed to support individuals and regions to successfully adapt to structural adjustment over short to medium-term periods?
- How can we foster stronger partnerships with and between educational institutions and employers, to encourage employers to invest in the ongoing skill development of their workforce, and to help ensure workers have the right skills to succeed in the evolving labour market over the long run?
- How can governments ensure that there is a level playing field that allows for competition, and provides adequate regulatory protections?
- How can governments ensure that the policies and programs they develop take into account the realities faced by under-represented and vulnerable populations, and make the most of citizen views and expertise?

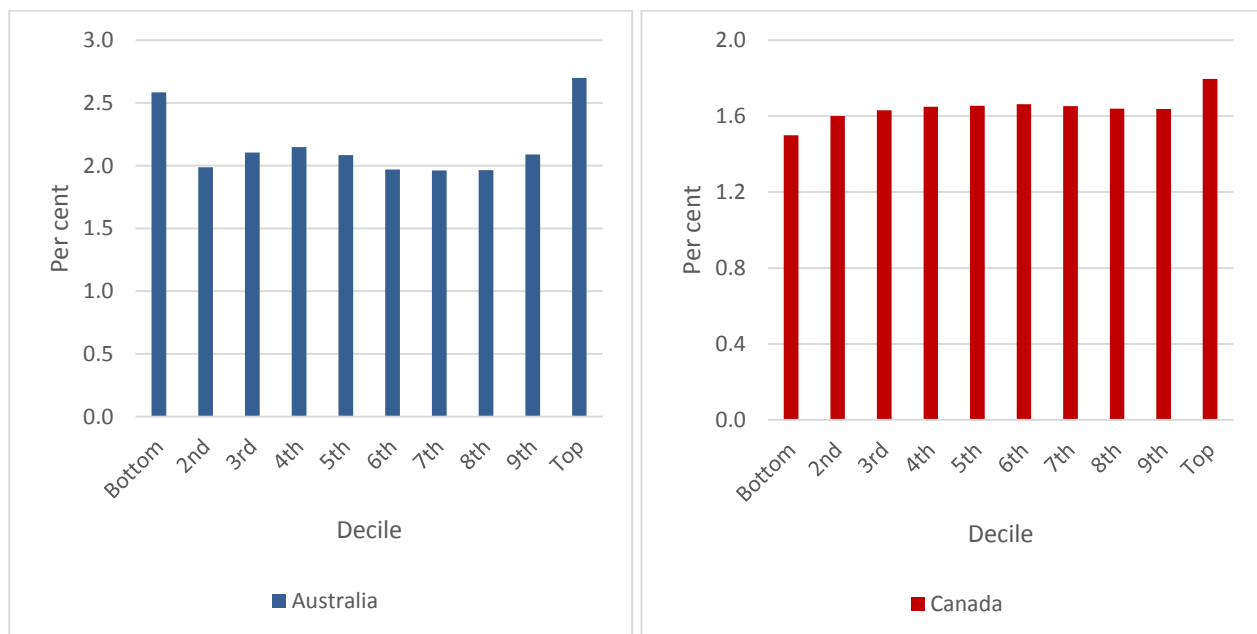
## I. Introduction

Across the world, governments are embracing the concept of inclusive growth. In contrast to traditional growth strategies, which focus on increases in national income, inclusive growth frameworks also tend to emphasize rising well-being and social progress, sustainability, and increased economic participation by all members of society, particularly the most marginalized. For this paper, inclusive growth refers to broad-based growth that enables the widest range of people to contribute to and benefit from economic success. The objectives of inclusive growth strategies are to achieve overall prosperity alongside greater equity in opportunities and outcomes.

Over the past quarter-century, Australia and Canada have benefitted from the major forces shaping other developed economies, such as technological advances and increased trade. Both countries have had the additional advantages of relatively high population growth driven by immigration and of high demand for their abundant primary resource commodities. These factors contributed to Australia experiencing 27 years of economic growth without a recession and Canada achieving the highest growth rate of real GDP among the G7 countries between 2000 and 2017.

Strong economic performance has also raised incomes across the entire distribution (**Fig. 1**). While the richest in society have gained the most, the overall level of income inequality in both countries has remained broadly stable over time, near the Organisation for Economic Co-operation and Development (OECD) average.<sup>i</sup>

**Fig. 1 Compound annual growth in equivalized disposable household income by income decile, 1996-2016**



**Source:** Australian data are Productivity Commission estimates using the Australian Bureau of Statistics Survey of Income and Housing basic confidentialized unit record files for years 1995-96 through 2015-16 as available at 25/10/17. Canadian data are from the Statistics Canada Survey of Consumer Finance, the Survey of Labour and Income Dynamics, and the Canadian Income Survey.

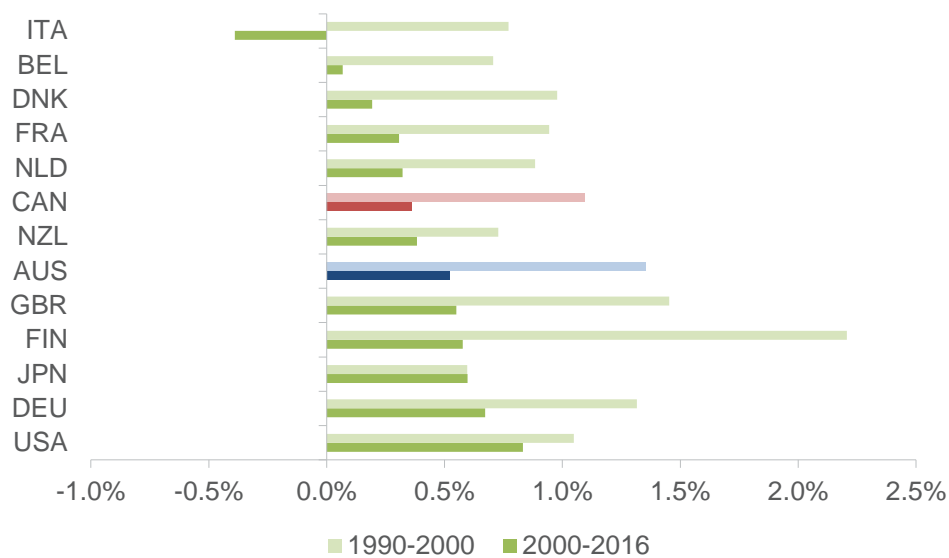
**Note:** Income is adjusted for household size. Income is calculated in constant local currency units.

However, despite rising incomes and moderate overall levels of inequality, relative poverty rates remain elevated and persistent among certain disadvantaged groups in both countries. In Australia, strong income growth occurred through the 1990s and during the mining boom that began in the mid-2000s. But post-Global Financial Crisis, wage growth has reached record lows despite strong rises in job numbers and low unemployment. About one in 12 Australian workers are underemployed.<sup>ii</sup> Similarly, in Canada the unemployment rate is at a historically low level, but the median hourly wage growth of full-time workers

aged 25–54 years since 2000 has been modest, especially for men, and nearly 5% of all Canadian workers are involuntarily working part time.

The slowdown in wage growth is partly due to low productivity growth, which has been observed across advanced economies since the early 2000s (**Fig. 2**). This slump is observed broadly across industries. Restoring productivity growth will be a major goal of policy to generate improvements in well-being and living standards going forward. In an environment where Canada and Australia can no longer rely on rising female labour force participation, increased educational attainment, and high commodity prices to drive growth, higher productivity growth will be especially important. Moreover, aging populations are expected to dampen economic growth in the coming decades, as older workers exit the labour force; and shifting public sentiment regarding the benefits of free trade, particularly in the United States, has created uncertainty about the potential for protectionist trade policies to disrupt Canada’s and Australia’s global trade networks.<sup>iii</sup>

**Fig. 2 Annual multifactor productivity growth, selected OECD countries, 1990-2016**



Source: OECD data. Growth rates have been calculated as compound annual averages.

Recent technological advances related to digital technology and automation have the potential to grow productivity, create new jobs and business models, raise incomes, and deliver a better standard of living. History shows new technologies increase prosperity in the long run, although individuals do need the right skills mix and adaptive capacity to benefit from short- to medium-term changes in the labour market.

For example, new technologies and globalization have contributed to the relative increase in demand for higher skills, by automating routine manual jobs or shifting them to developing countries with lower labour costs. These trends have typically had the greatest impact on opportunities for men with no post-secondary education in physical industries. However, with artificial intelligence (AI) now enabling the automation of routine cognitive tasks, workers with higher education levels may be at greater risk than during previous labour market adjustments.<sup>iv</sup> There are also concerns that inequality will rise if technological changes lead to greater market concentration, “winner-take-all” dynamics, and a greater share of income accruing to capital owners.

Collectively, these trends have fuelled fears of large-scale job losses, prolonged unemployment, and precarious work arrangements for low-skilled workers who struggle to adjust—despite there being limited evidence of this occurring in Australia or Canada so far.

Against this backdrop, the Australian and Canadian publics are expressing growing resentment or fear around the fairness of economic outcomes. The *Pulse of the Nation* survey by the Committee for Economic Development of Australia found that just 5% of Australians believed they had “personally gained a lot” from

Australia's period of uninterrupted economic growth, and 79% of Australians believed the gap between the richest and poorest Australians was unacceptable. There is also considerable scepticism that technological advances will generate widespread benefits. A Pew Research survey conducted in 2017 found that about 80% of Canadians thought it likely that automation would make it harder to find a job and would increase inequality, while less than half thought that it would make the economy more efficient or increase the number of high-paying jobs.<sup>v</sup>

These perceptions that economic policy is not delivering fair outcomes or future security likely contribute to a parallel trend observed in both countries of declining trust in political institutions. There is a large body of international research correlating low political trust with economic insecurity.<sup>vi</sup> Consistent with this, surveys commissioned by the Museum of Australian Democracy have identified that 20% of the electorate are completely disengaged from and disillusioned with Australian democracy, and that this group largely consists of Australians who have been left behind economically or are feeling very economically insecure. By contrast, Australians with incomes of \$200,000 a year or more are the most satisfied with Australian democracy. More broadly, satisfaction with democracy in Australia overall is at its lowest level since the introduction of time series data in 1996, and just 31% of Australians trust the federal government.<sup>vii</sup>

Similarly, a study from Ekos entitled *Rethinking Citizen Engagement* suggests that close to half of Canadians feel that their government does not care very much about the views of average citizens.<sup>viii</sup> These views were more prevalent among older and more economically vulnerable Canadians. The same study also found that Canadians with lower levels of education and income were less likely to be reached by government engagement and less likely to vote.

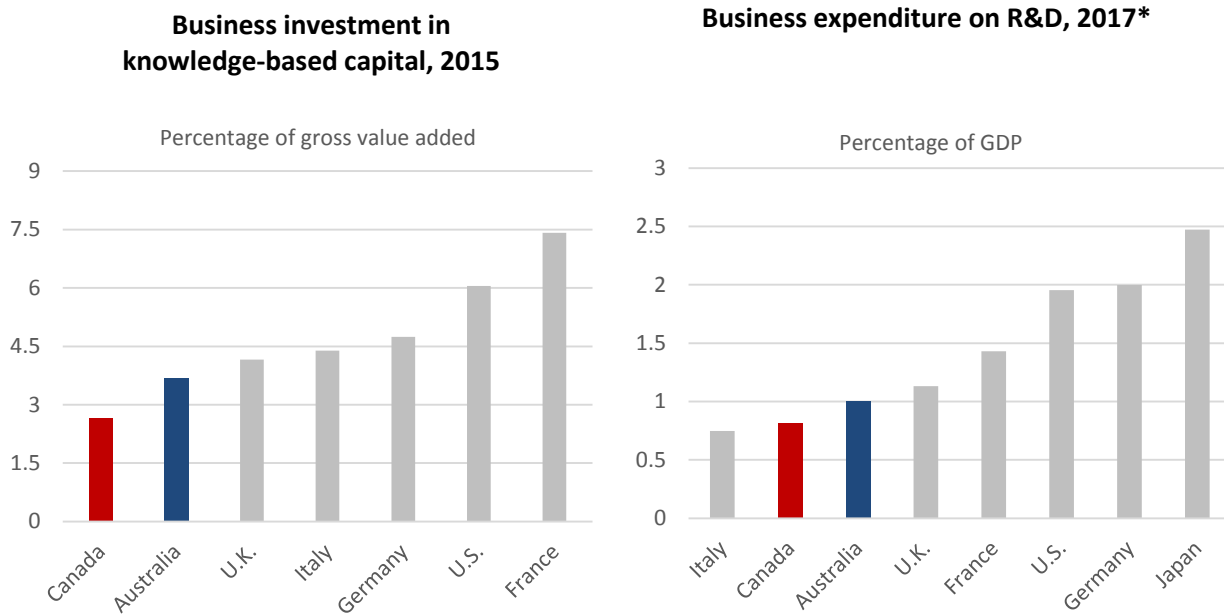
There remains considerable uncertainty about the future of work and its effects on individuals and regions. Despite public perceptions, so far aggregate economic indicators do not provide evidence of widespread labour market disruptions. Unemployment rates are low, more firms are reporting labour shortages, job retention is strong, and the number of workers with non-standard work arrangements is stable.

Nevertheless, policy-makers must try to understand how economic changes and new technologies may reshape production, and help position businesses and workers to adapt and compete internationally. At the same time, skills programs and social safety nets may need to be adjusted to ensure that they are robust to disruptions. To achieve these goals, it is essential that governments seek input from all relevant stakeholders and adopt a citizen-centric approach to policy development.

## ***II. Supporting businesses to adopt innovation and remain globally competitive***

Canada and Australia share an understanding that thriving businesses and innovative entrepreneurship are keys to broad-based economic growth for open economies. The Canadian Government's Innovation and Skills Plan and the Australian Government's National Science and Innovation Agenda both identify entrepreneurship and innovation as central to Canadians' and Australians' future prosperity.

Both countries have advanced economies with highly educated workforces, world-class research institutions, well-functioning capital markets, and national innovation strategies. Their business sectors would therefore appear to be well positioned to benefit from technological opportunities. However, despite these strong fundamentals, both countries have weak records on business sector research and development, the commercialization of academic research, and technology adoption by businesses (**Fig. 4**). Both governments are exploring ways to address these weaknesses, and to support their business sectors to remain globally competitive and exploit new opportunities.

**Fig. 3 Innovation-related expenditure by businesses**

**Source:** Left chart: OECD Science, Technology and Industry Scoreboard 2017. Right chart: OECD, Annual National Accounts Database, <http://www.oecd.org/std/na>, Eurostat and national sources, July 2017. \*BERD for Australia is for 2016.

**Note:** Note: Knowledge based capital investment here refers to investment in research and innovation, software and databases and excludes investments in organizational capital and training.

Both governments must also support businesses and workers to adjust to new realities and navigate tensions where businesses fail. Both the Australian and Canadian Governments are pursuing policies to enable businesses across their diverse industries and wide territories to adjust to the changing conditions. These policies include support for the transformation of traditional industries like resources, agriculture, and manufacturing. In 2017 the Canadian Government established industry-led Economic Strategy Tables to support innovation in six key emerging sectors. This initiative is similar to the Australian Industry Growth Centres Initiative launched in 2014 to address barriers in sectors of competitive strength and strategic priority. The Growth Centres' Sector Competitiveness Plans outline 10-year strategies to support the future of their sectors, including identifying knowledge and skills gaps that must be addressed to stay competitive.

As business models adapt to globalization and the possibilities afforded by digital technology, concerns are emerging that corporate tax, competition, and regulatory settings are not keeping pace. Both the Australian and Canadian Governments are grappling with how to regulate and tax business in a way that supports both incumbent and new firms' global competitiveness and ability to innovate, while protecting consumers, safeguarding the environment, and guarding against tax avoidance.<sup>ix</sup>

### ***Australian challenges and policy responses***

Australian industry and innovation policy contributes, directly and indirectly, to the well-being of Australians by helping to raise real incomes, fostering the creation of high-value jobs, and improving Australians' standard of living. It seeks to boost Australia's competitiveness and facilitate economic transformation by backing business, science, innovation, and investment. In the 2018-19 Budget, the Australian Government invested \$2.4 billion into research, science, and technology, including in research infrastructure, AI, skills development, and export competitiveness. The Australian Government is also promoting a strong, safe, and inclusive digital economy through a national digital economy strategy.

The increasingly digital economy presents new challenges and opportunities for Australian businesses. While Australian citizens are voracious users of digital technologies and services, there isn't the same level of usage or adoption among businesses—particularly small businesses. The March 2018 report to government by the Prime Minister's Small Business Digital Taskforce identified barriers stopping Australian



SMEs from adopting digital tools, such as feeling they lack the necessary skills or trusted information.<sup>x</sup> The Australian Government's response to the taskforce recommendations seeks to address these challenges.

The Australian Government recognises that an increasingly digital economy also requires government to adapt and to ensure that regulatory and institutional frameworks enable business innovation and competitiveness. For example, Australia's independent Productivity Commission has identified the potential for major productivity gains from innovative uses of data.<sup>xi</sup> However, the ability of businesses to innovate using data—including by deploying AI approaches—depends on having a social license to do so, and clarity around the legally and ethically acceptable parameters.<sup>xii</sup> Regulatory uncertainty can undermine businesses' ability to plan effectively and thus delay productivity-enhancing innovations.

To protect customers and provide clarity for businesses, the Australian Government has recently established the Consumer Data Right and a National Data Commissioner; introduced a Notifiable Data Breaches Scheme to ensure consumers are told if their personal data is leaked or hacked; and commissioned a national ethics framework for AI use, which is now under development.

In a world where many digital business operations are global, domestic regulation must be sensitive to a complex and ever-shifting international regulatory environment. This challenge has a social license or corporate social responsibility dimension. For example, the rapid growth of the digitalized economy has provoked questions about whether there is a need to change the way that taxing rights over business profits are allocated between countries. In October 2018, the Australian Government released a discussion paper on the digital economy and Australia's corporate tax system, and its position on these issues will be informed by stakeholder feedback and international developments.<sup>xiii</sup>

The task of Australian regulators and policy-makers may be complicated by further challenges on the horizon. The percentage of Australians who trust businesses has been progressively declining, and was just 45% in the 2018 Edelman Trust Barometer. The past year also saw intense media focus on the Royal Commission into Misconduct in the Financial Services Industry,<sup>xiv</sup> which has revealed unethical and criminal behaviour by Australian financial firms and generated sustained public discussion. Regulatory policy-makers must now navigate their task of balancing business and consumer needs, enabling innovation, and managing international interdependencies under the added pressure of intense media scrutiny of business regulation issues.

The challenges in regulating appropriately for today's rapidly changing business environment are likely to continue to be a feature of the Australian policy landscape for years to come.

### ***Canadian challenges and policy responses***

There is evidence in Canada of a widening productivity gulf between the most productive firms and all other firms.<sup>xv</sup> This type of greater productivity disparity is linked to greater concentration of technological adoption among the most productive firms<sup>xvi</sup> as well as lower overall productivity.<sup>xvii</sup> Combined, these relationships suggest that while a few firms are able to exploit new technologies, many Canadian firms are unable to do the same, placing a weight on overall productivity growth. Given the increasing importance for businesses to adapt to technological change, this polarization of productivity growth between leading technologically advanced firms and the rest provides a worrying indication that a sizable portion of Canada's business sector may be ill-equipped to effectively deal with technological disruption.

Given these concerns, Canada's policy challenge is to find ways to leverage its strong fundamentals to broaden the share of Canada's business sector that is actively investing in the adoption of new technologies and R&D. This includes finding ways to help business translate Canada's world-class fundamental research in emerging fields, such as AI and quantum computing, into commercial applications and helping Canada's highly educated workforce to acquire the skills needed to facilitate the adoption of new technologies.

In recognition of the need to maintain a modern and efficient innovation support system, in 2017 the Canadian Government launched a government-wide review of all of its business innovation and clean technology programs, with the goal of streamlining and simplifying program delivery in order to better support innovators.

To reduce the cost and complexity of accessing the Canada's intellectual property (IP) system, the Canadian Government has launched a new Intellectual Property Strategy. The IP Strategy will amend key IP laws to remove barriers to innovation and create an independent body to oversee patent and trademark agents.

Although it is clear that that digital innovation is essential for growing the economy, the potential of a data-driven economy must be balanced against citizens' right to have their data and privacy protected. As the next step in the Innovation and Skills Plan, in June of 2018 the Canadian Government launched nation-wide consultations on digital and data transformation with the goal of better understanding how Canada should position itself to take advantage of the new data economy.

To support competitiveness and investment in new technologies, in November of 2018 the Canadian Government announced three important changes to Canada's business income tax system:

- Allowing businesses to immediately write off the cost of machinery and equipment used for the manufacturing or processing of goods;
- Allowing businesses to immediately write off the full cost of specified clean energy equipment; and,
- Introducing the Accelerated Investment Incentive, an accelerated capital cost allowance (i.e., larger deduction for depreciation) for businesses of all sizes and across all sectors of the economy, and applying to both tangible and intangible capital assets (such as patents and other IP).

In November of 2018, the Canadian Government announced a plan to address the competitiveness challenges created by outdated and inefficient regulation. As its key elements, this plan includes the creation of an External Advisory Committee on Regulatory Competitiveness and the launch of the Centre for Regulatory Innovation, with a mandate to speed up the integration, adoption, and commercialization of new approaches and emerging technologies.

In addition, to support businesses, the Global Talent Stream of the Temporary Foreign Worker Program – which is part of the Canadian Government's Global Skills Strategy – aims to help innovative companies quickly access the highly skilled talent they need to scale up and grow.



#### Measures to Support Fundamental R&D and Translate R&D into Innovation

- \$1.7 billion to the **federal granting councils**, the primary vehicles through which federal support flows to fundamental and applied research at post-secondary institutions.
- \$700 million in additional funding to the National Research Council's **Industrial Research Assistance Program** to provide financial assistance to Canadian entrepreneurs and small business owners to develop innovative technologies and commercialize them.
- Up to \$950 million for the **Innovation Superclusters Initiative** to support large-scale business-led [innovation consortiums](#) in a number of key sectors: digital technology, protein industries, advanced manufacturing, AI-powered supply chains, and ocean technologies.
- \$1.26 billion to the **Strategic Innovation Fund**, which is focused on attracting and supporting new high-quality business investments, including activities related to the research, development, and commercialization of innovative products, processes, and/or services.

**Looking Forward**

Technological advancement and increasing globalization will continue to incentivize businesses to change how they produce, what they produce, and who they produce for.

While it is the responsibility of the private sector to seek out new opportunities and adjust to changing markets, governments will continue to have a strong facilitating role to play in building supportive business environments. Regulatory regimes, competition frameworks, and tax policies need to be carefully examined and adjusted to accommodate changes to market and business structures and to keep pace with the speed of innovation, while also continuing to support competitiveness with international peers.

While governments should generally seek to avoid intervening in private markets, given that experience over recent decades shows that most will successfully adjust, there is likely to continue to be a case for well-targeted interventions to correct market failures.

### ***III. Equipping the workforce to deal with economic and technological disruption***

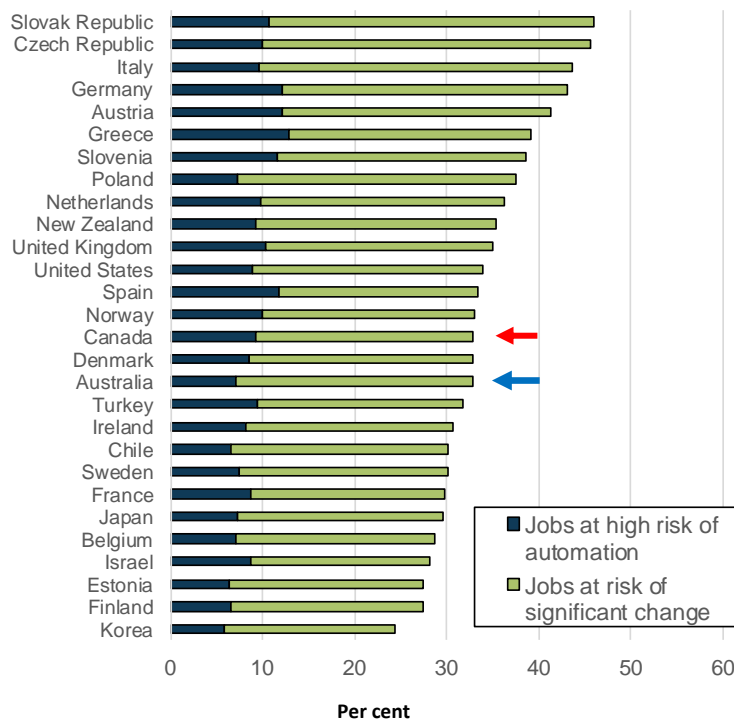
Labour markets in Australia and Canada are influenced by ‘megatrends’ including technological progress, globalization, climate change, and demographic changes. Cyclical factors and the Global Financial Crisis have also had important and lasting impacts on employment and well-being.

While such megatrends have contributed to higher rates of economic participation and improved standards of living to date, their benefits have not been evenly felt. In both countries, cohorts such as low-skilled workers, Indigenous people, youth, seniors, visible minorities, and people with disabilities continue to be at particular risk of disadvantage in the labour market. Such barriers can compound the effects of other challenges such as economic and technological disruption. Major cities have also generally experienced stronger employment outcomes than rural areas, with some regions having persistently weak labour markets. There is a risk of these factors becoming entrenched and weakening social cohesion.

Looking ahead, the changing nature of technological progress presents both opportunities and challenges for employment and equality in Australia and Canada. Advances in technology have the potential to engender positive changes in the labour market as well as to improve individuals’ well-being. However, while there is a lack of consensus regarding the impacts of new technologies such as AI, much of the literature agrees that there will be disruptions to the labour market, which could include reduced job security, skills gaps, and rising inequality.

Estimates of the potential impact of automation on employment vary widely and different ways of estimating the probability of automation (for example, by using an occupation-based approach versus a task-based approach) lead to contrasting estimates of future job losses. Several studies estimate modest impacts. For instance, the OECD has found that 9% of jobs in advanced G20 countries are at high risk of automation (**Fig. 3**).<sup>xviii</sup> However, studies that reach more dramatic conclusions attract greater media attention. For example, a widely reported study by Frey and Osborne estimated that 47% of persons employed in the United States are currently working in jobs that could be performed by computers and algorithms within the next 10 to 20 years.<sup>xix</sup>

**Fig. 4 Proportion of workers at risk of being affected by automation across OECD countries**



**Source:** OECD (2017) "Employment Outlook 2017: Chapter 3".

**Note:** Jobs are at "high risk of automation" if their likelihood of being automated is at least 70%. Jobs at "risk of significant change" are those with a likelihood of being automated of between 50 and 70%.

Australian and Canadian evidence is showing that that new forms of work such as freelance employment, have so far had some positive effects, including by creating new opportunities for individuals and contributing to improved labour market efficiency. However, a future increase in this work—which some have argued will accompany a further shift towards "gig economy" business models—could put pressure on governments to consider new strategies to support workforce well-being.

These issues around automation and new forms of work have received media coverage and have contributed to public anxiety, while the expected benefits of technological change (such as improved living standards, productivity gains, and the creation of new and high-quality jobs) are often unappreciated or unknown.

In light of the challenges both countries face in ensuring that the benefits of labour market developments are broadly felt, and not concentrated among particular cohorts or sectors, there will be a need for the Australian and Canadian Governments to take a leadership role in helping workers to prepare for and adjust to change which could include measures to improve outcomes over both the short and longer terms.

For the Australian and Canadian economies to take advantage of technological advancements and other trends, workers will need to have the right mix of adaptability skills ("soft skills") and technical skills. Employment policy settings also need to support workers and firms to adjust. Both countries have invested in improving participation in lifelong learning for people of all ages, with a focus on disadvantaged cohorts. There has also been a focus on improving the relevance of education to current and expected future employment opportunities. Both countries also use skilled migration to meet their workforce needs.

A range of strategies are contributing to improving short- to medium-term adjustments to change. Both countries are modernising their social safety nets (discussed later in this paper) and are improving the public information about employment trends, which individuals and firms can draw on to prepare for change. There is also a common focus on improving transitions at the regional level, including by directing extra assistance to areas that may not be able to adapt due to factors such as a lack of economic diversity or less educated workforces. While institutional arrangements differ between Australia and Canada, industrial relations settings that promote mobility and flexibility and active labour market policies that help job seekers to rapidly find new work (including through reskilling) are key elements of strategies to help workplaces and individuals successfully adjust to disruption in both countries.

### ***Australian challenges and policy responses***

The Australian Government's approach to responding to disruptions in the labour market is to protect individuals rather than specific jobs. To minimize deadweight costs and avoid unnecessary labour market interventions, government support to help job seekers, employers, and regions adjust is targeted to where it is most needed.

Over recent decades, growth in demand for skilled labour has outstripped growth in demand for unskilled labour in Australia. This trend is expected to continue, raising the challenge of ensuring that all Australians have opportunities to develop skills relevant to future opportunities, and can reskill over their working lives. Recent measures to support capacity building include:

- A \$1.5 billion Skilling Australians Fund to support up to 300,000 apprentices, trainees, pre-apprentices, and higher-skilled Australians
- Investment under the National Innovation and Science Agenda to encourage people of all ages to engage with STEM, including digital technology
- Measures to address the decline in business expenditure on staff training (especially for workers who are most likely be disadvantaged in the labour market), such as the Skills and Training Incentive through which the Australian Government will match training expenditure on older workers (up to a value of \$A2,200)
- Supporting workers to navigate changing labour market opportunities through an online Job Outlook Portal, and a Skills Transferability Tool to be launched in July 2019.

The Australian Government's active labour market programs (ALMPs) are an important part of responses to disruptions. ALMPs have generally been found to be more effective in helping workers and unemployed people to adjust to change than passive approaches. Investment in these programs is particularly important for disadvantaged people, who face the greatest risk of adverse consequences from disruption. Australia has a national generalist employment services system (jobactive) as well as targeted assistance for the disadvantaged cohorts at most risk. Current priorities include addressing the increased incidence in long-term unemployment since the Global Financial Crisis, and improving opportunities for youth who are not engaged in work or study. Recent innovative measures to assist youth include:

- The Transition to Work program, which provides intensive pre-employment assistance to young people who have disengaged from work and study and are at risk of long-term welfare dependency
- Youth Jobs PaTH, which provides practical assistance to support young job seekers to gain the employability skills and work experience they need to get and keep a job.

The Australian Government is currently considering options for major reforms to employment services, which may include developing comprehensive digital employment services that meet the needs of the most employment-ready job seekers, as well as intensifying assistance for the most disadvantaged job seekers.

Australia has the additional challenge of labour market conditions varying from region to region. Change can be particularly difficult in regions where a high proportion of employment is connected to a single

employer or a particular industry. The Australian Government is strengthening the support available to support transitions in vulnerable regions, such as through the Stronger Transitions package, which delivers additional support for retrenched workers in regions especially impacted by structural change. A lesson learnt from Australian structural adjustment initiatives is that early intervention, in partnership with employers (including through socially responsible restructuring) and other stakeholders, delivers better results than waiting for redundancies and job changes to occur.

Australia's workplace relations system also supports economic transitions by balancing flexibility with protections for workers. It is underpinned by enterprise bargaining (conducted at the firm level) and a safety net of minimum wages and conditions of employment. The process through which the national minimum wage is annually adjusted takes into account a range of socio-economic parameters, including relative living standards and the needs of the low-paid. The Australian Government also reviews its labour laws to ensure appropriate protections and sufficient flexibility for business in the context of a changing economic environment.

### ***Canadian challenges and policy responses***

In the Canadian context, the federal government does not act alone. Provincial/territorial governments, educational institutions, employers, and individuals themselves all have a role to play in helping to ensure the workforce can successfully adapt to the evolving labour market. In addition, since training and labour market programming is an area of shared jurisdiction, the specific programs and services available to Canadians, while responsive to local and regional needs, differ across the country. The focus to date has been on meeting both the immediate skills needs of the evolving labour market and the longer-term objective of having a resilient and adaptable workforce, through a range of diverse initiatives.

Rapid changes in the labour market are placing strong emphasis on the ability to align the supply and demand of skills to improve labour market efficiency. The Canadian Government has taken action to improve labour market efficiency through: improving access to accurate and up-to-date information on the labour market; addressing skills mismatches, skills shortages, and regional labour market imbalances; and helping Canadians make informed decisions related to skills acquisition and employment.

For the Canadian economy to take full advantage of anticipated technological advancements, individuals will need the right skills and abilities as well as the capacity to adapt to the needs of an evolving labour market. For this reason, the Canadian Government has introduced measures to support individuals across their work lifecycle, from ensuring youth are equipped with the right skills through initiatives such as the Youth Employment Strategy, to promoting upskilling among working adults through initiatives such as the Skills Boost Initiative. In partnership with employers and post-secondary institutions, the Canadian Government has also been supporting the creation of new work placements for post-secondary students.

The Canadian Government is also helping workers find and maintain good jobs through bilateral initiatives with provinces and territories such as the Labour Market Development Agreements and the Workforce Development Agreements with provinces and territories. These labour market funding transfer agreements were expanded and modernized to better support the efforts of provinces and territories to provide skills



#### **Informed Decision-Making**

To help individuals make career and training decisions, the Canadian Government continues to improve labour market information for Canadians.

The **Labour Market Information Council**, established in collaboration with provinces and territories, aims to identify national priorities related to the collection, analysis, and sharing of labour market information, while **Job Bank** is an online listing of available jobs designed to help both individuals search for jobs, and employers recruit and hire employees.

The Canadian Government is also working with provinces and territories, the private sector, educational institutions, and not-for-profit organizations to implement **Future Skills** to support skills development and measurement in Canada.



training and employment supports for those who are unemployed, underemployed, or employed and seeking to upskill for the new world of work. In addition to providing provinces and territories with the flexibility to respond to the needs of their specific labour markets, these agreements support provinces and territories in providing more targeted services to underrepresented groups, such as persons with disabilities and Indigenous peoples. They also support employers seeking to expand and train their workforce, including encouraging employers to invest in training.

Several Canadian Government employment, skills, and training initiatives are also designed to help targeted groups succeed in the employment landscape. For example, a new Indigenous Skills and Employment Training Program has been co-developed with Indigenous partners, to help reduce the employment and earnings gaps of Indigenous peoples. Expanded social supports provided by this program also help ensure the equal treatment and full participation of Indigenous women, men, youth, and people with disabilities in skills development and training opportunities, to allow them to contribute more fully to their communities' economic prosperity. In addition, funding to help persons with disabilities prepare for, obtain, and maintain employment is available through the Opportunities Fund for Persons with Disabilities, while investments are being made in apprenticeships and the skilled trades to support the participation and success of women, and other groups that face barriers. As well, through the Foreign Credential Recognition Program, the Canadian Government is supporting internationally-trained individuals to participate in the Canadian labour market.

#### *Looking Forward*

Australia's and Canada's generally strong labour market performance over recent decades indicates that current policy approaches have, on the whole, been successful. However, changes to the nature of these trends, such as the potential impact of AI, present substantial challenges to ensuring that future economic growth is broadly felt and contributes to addressing current areas of inequality. There may be a need to introduce changes to existing strategies now, to ensure that the workforces in both countries have the adaptive capacity, including relevant skills, needed over the coming decades and to address other structural barriers to labour market adjustment. There may also be a need for new short- and medium-term policies to improve labour market adjustment to prevent disadvantages from becoming entrenched among particular cohorts or regions, including by fostering lifelong learning and encouraging employers to further invest in skills development and training.

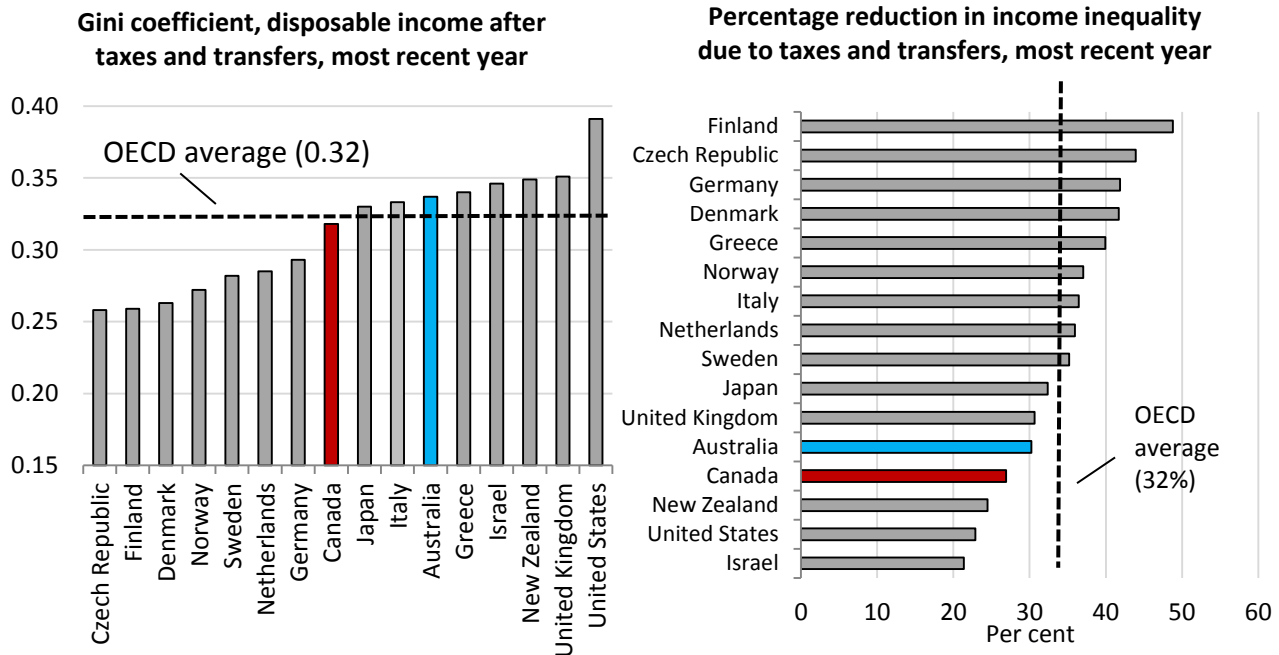
That said, it may be challenging to know exactly how programs need to be adjusted, as the effectiveness of our initiatives may not be clear until programs mature. Given the existing uncertainties as well as what the literature is predicting, it will be important, moving forward, to monitor program performance and a range of labour market indicators to help signal how the changing nature of work is impacting labour markets and inform further policy adjustments. There is a solid base on which to build given the increasing focus on results and delivery by both the Australian and Canadian Governments, which is helping to inform program design, implementation and monitoring.

#### ***IV. Strengthening tax and social support systems to promote economic and social participation by all, including targeted support to vulnerable groups***

While a significant emphasis of policy should be to help those affected by technological disruption to reskill and re-enter the labour market as discussed above, taxes and social supports may need to be adjusted in response to structural changes to labour market conditions to ensure an adequate safety net for society's most vulnerable.

Compared to other OECD countries, Canada and Australia have average levels of inequality in after-tax disposable income based on the most recent data available (Fig. 5). These average levels of after-tax inequality are driven by relatively low levels of inequality in (pre-tax) market income rather than above-average rates of redistribution, suggesting that both countries are relatively successful at creating opportunities for people across the income distribution.

**Fig. 5 Equality promotion via taxes and transfers**



**Source:** OECD data; calculations by Department of Finance Canada.

**Notes:** For countries where data was not available for 2016, data from the most recent year was used (2015 for Canada and 2014 for Australia). A higher Gini coefficient indicates greater inequality. The reduction in inequality due to taxes and transfers is calculated by comparing the Gini coefficient of disposable income after taxes and transfers to the Gini coefficient of market income before taxes and transfers.

Both countries have several disadvantaged groups at greater risk of living in poverty such as single parents, people with disabilities, recent immigrants, seniors (specifically single seniors in Canada), people living with mental illness, Canada's Indigenous peoples, and Australia's Aboriginal and Torres Strait Islander peoples. For people in these groups, low income is often a symptom of multiple disadvantages that they face in everyday life such as low education, lower essential skills, disincentives to work caused by high clawback rates on benefits, health-related limitations, discrimination, responsibilities for the care of others, and poor access to job opportunities.

These vulnerable groups are expected to be disproportionately affected by the changing nature of work because they are concentrated in more easily automated low-skilled jobs and face greater barriers to finding new employment in the event of job loss.

### ***Australian challenges and policy responses***

As well as providing a safety net, Australia's tax and transfer system seeks to support and incentivize disadvantaged people to participate in the economy and improve their circumstances. Australia has one of the most targeted systems of taxes and transfers in the OECD. This means that individuals will pay more tax, and may receive less transfer payments as their incomes rise. Unlike the case in Canada, the federal level of government in Australia has sole responsibility for the tax and transfer system, including social security benefits. However, the federal, state, and territory governments also invest in supporting disadvantaged cohorts through the education and employment services systems. An area of current focus



for this investment is addressing the growth in long-term unemployment since the Global Financial Crisis, as discussed in Section III.

Strategies to ensure the tax and transfer system remains relevant to current conditions include a comprehensive reform of Australia's working-age welfare payments, which will provide:

- A simpler system for people receiving working-age payments
- More encouragement in the system for people transitioning to work and greater support for people along the path to employment
- More targeted compliance to ensure people are following the rules.

Seven payments will be progressively ceased, and a new JobSeeker Payment created on 20 March 2020. The Australian Government is also committed to creating a clearer, more coherent and stronger participation framework for working-age payment recipients to ensure that all Australians with capacity to work can do so.

Another current area of priority for the Australian Government is improving support for people with disabilities. The National Disability Strategy 2010-2020 seeks to drive a more inclusive approach to the design of policies, programs, and infrastructure so that people with disabilities can participate in all areas of society and ensure that people with disabilities, their families, and carers have economic security. The Strategy includes the Australia-wide roll-out of the National Disability Insurance Scheme (NDIS), which will provide all people aged under 65 with a permanent and significant disability with the supports they need to live an ordinary life. As an insurance scheme, the NDIS takes a lifetime approach, investing in people with disabilities early to improve their outcomes later in life. Employment services also assist people with disabilities who have capacity to work to prepare for and secure employment.

### ***Canadian challenges and policy responses***

The ability of Canada's federal government to support vulnerable Canadians through the tax and transfer system is complicated by the division of powers between levels of government. The core federal income transfers are targeted to seniors, families with children, Indigenous persons living on-reserve, and displaced workers, through the Employment Insurance (EI) program. Income support to the working-age population is primarily the responsibility of provincial and territorial governments, as are most income-tested services. Federal support in areas under provincial/territorial jurisdiction tends to take the form of intergovernmental transfers, with new initiatives typically requiring negotiation with provincial and territorial governments that have different pre-existing services and programs, particularly in the domains of health, education, and housing.

Since the 1990s, Canada has experienced broad-based growth in both market and after-tax incomes across the distribution. However, the incomes of the top 1% of Canadians have risen at a significantly faster pace than those of the rest of the population, prompting public debate on whether the benefits of economic growth are being fairly distributed. In response to these concerns, Canada has recently made several significant adjustments to its system of social supports to reduce poverty and promote broad economic participation. Highlights include increasing child benefits paid to low- and moderate-income families, a \$7.5 billion agreement with the provinces and territories to make complementary investments in child care targeting low-income parents, enhancing the EI program to provide increased flexibility to working parents and foster the labour market attachment of new parents, enhancing income assistance provided to low-income workers, and expanding the mandatory Canada and Quebec workplace Pension Plans.

The Canadian Government is also taking steps to provide targeted support to vulnerable groups. Several recent initiatives aim to close the large and persistent socio-economic gaps between Canada's Indigenous peoples and the rest of the population, assist recent immigrants in adjusting to life in Canada, increase accessibility for people with disabilities, and lift single seniors out of poverty.



### Examples of Recent Changes to Canadian Taxes and Social Supports

In 2016, the Canadian Government replaced a complex system of three different child benefits with a single non-taxable income-tested **Canada Child Benefit (CCB)**. This measure has helped lift 521,000 individuals, including nearly 300,000 children, out of poverty and promotes intergenerational mobility by providing greater opportunities to children of low income-families. In the 2017-18 benefit year, nearly \$24 billion in CCB payments were made to almost 3.7 million recipients. Close to 65 percent of families receiving the maximum CCB amounts are single-parent families, more than 90 percent of which are led by single mothers. The single mothers who will receive the CCB during the 2018-2019 benefit year will get close to \$9,000 annually in benefit payments on average. Families benefitting from the CCB are getting \$6,800 on average this year. The Canadian Government has also strengthened the CCB by making annual cost of living increases starting in July 2018. Indexing the CCB provides an additional \$5.6 billion in support to Canadian families over the 2018-2019 to 2022-2023 period.

The new **Canada Workers Benefit** (which will replace the Working Income Tax Benefit as of 2019) provides a top-up to the wages of low-income workers, plus a supplement to further support low-income workers with disabilities. Modelled after the successful Earned Income Tax Credit in the United States, the Canada Workers Benefit provides income assistance to low-income workers while reducing barriers to labour force participation that can be created by the clawback of social assistance benefits.

Total federal government **spending on Indigenous programs** will increase from over \$11 billion in 2015-16 to over \$15 billion in 2021-22—an increase of 34% over six years. This funding covers a range of areas including child and family services, education, Indigenous languages and cultures, infrastructure (housing and water), skills and employment, and Indigenous health.

In 2016, the Canadian Government increased **direct income transfers for low-income single seniors** who rely almost exclusively on government assistance. This measure has increased the financial security of about 900,000 single seniors and lifted an estimated 57,000 out of poverty.

### Looking Forward

The effects of technological change on the labour market and the income distribution remain highly uncertain. Governments must continue to monitor economic trends for signs of widespread disruption while adjusting their tax and transfer systems to ensure that the benefits of growth are broadly distributed and to protect vulnerable segments of the population. A well-functioning tax and transfer system must be:

- Sustainable over time
- Part of a broader strategy to enable and encourage economic participation
- Able to address specific barriers to economic participation faced by certain groups.

Given that the redistributive impact of both countries' tax and transfer systems is somewhat lower than the OECD average, there may be scope for both the Canadian and Australian Governments to respond to any increases in inequality that may arise from technological disruption by adopting policies that are more redistributive, while ensuring that such policies do not unduly hamper work incentives and growth.

## V. *Approaches to working with citizens in program design to ensure a citizen-centred approach to program implementation*

Citizen-centred policy-making can help address the challenges of both the “growth” and “inclusivity” dimensions of inclusive growth. First, for policy domains characterized by high complexity, such as economic policy, engaging widely is likely to yield better decisions. Stakeholders bring diverse perspectives, views, and solutions to shaping policy and program design, enabling the sort of holistic, nuanced understanding vital to effective decision-making under complexity. Second, engagement with specific cohorts of citizens and businesses enables policy design that is responsive to diverse circumstances and meets diverse needs.

Moreover, well-developed engagement mechanisms can be leveraged to maintain government awareness of rapid changes in the interacting parts of this complex environment, and to deliver appropriately targeted responses in real time. Ongoing engagement can help make policy more responsive not just to today’s circumstances, but also to ongoing economic and technological disruption—which may otherwise outpace or overwhelm traditional policy research and design processes.

There is also a compelling political rationale for more and better engagement: the need to rebuild public trust in government.<sup>xx</sup> Australia and Canada have both seen declines in trust in government, consistent with trends across western democracies. According to the 2018 Edelman Trust Barometer, only 46% of Canadians and 35% of Australians trust their government institutions. In Australia, satisfaction with democracy itself has also declined.

One reason for declining trust is suggested by surveys showing citizens feel voiceless in the decisions affecting them.<sup>xxi</sup> A syndicated study from Ekos entitled *Rethinking Citizen Engagement* noted that 84% of Canadians agreed with the statement “I would personally feel better about government decision-making if I knew that governments sought informed input from average citizens on a regular basis.” Similarly, a recent Museum of Australian Democracy survey suggested Australians would support reforms by which “all federal institutions would have a legislative responsibility to connect-up Australian citizens with the Canberra-village in policy-making, regulation and operational delivery.”

Governments thus face pressure to move from traditional policy development approaches to one that puts citizens at the centre of policy and program design; that is, moving closer to policy *co-design* rather than one-off *consultation*. The latter is often seen as a formality rather than a real invitation to shape policy. Moreover, there are concerns traditional consultation mechanisms such as roundtables and formal submissions (and informal channels based on geographical and professional proximity to top decision-makers) disproportionately advantage large organizations with professional lobbying capabilities.<sup>xxii</sup>

The need to shift towards policy co-design approaches may be most acute with respect to the cohorts worst served by traditional consultation mechanisms, which largely map to the categories of vulnerable populations identified in Sections II and IV. At the same time, as we move to design effective policies with citizens, consideration should also be given to the implementation of consistent Gender Based Analysis plus, which can improve outcomes when focussed on those traditionally overlooked in policy design and performance measurement.

The link between engagement and trust points to another way engagement enables inclusive growth policy: by rebuilding trust, engagement can deepen governments’ stock of “reform currency,”<sup>xxiii</sup> making it easier to secure a broad-based mandate for the sort of ambitious reforms countries may need to achieve inclusive growth.

The Australian and Canadian Governments continue to explore ways to collaborate with the multitude of relevant actors to develop effective and comprehensive solutions when exploring policy and program approaches related to the transformation of the labour market and the economy. For example, the

Canadian Government has made strides through improved consultations and “innovation labs”—a means of bringing citizens to the front and centre of policy and program development—and social media. The Australian Government’s Public Service Modernization Program includes a stream focused on Citizen and Business Engagement, led at the highest level of the Australian Public Service (APS) through the Secretaries Board. The APS’s engagement capability is also a key consideration in a landmark Independent Review of the APS commenced in early 2018.

Both governments have also progressed against commitments to increase transparency and trust through Open Government initiatives. In 2018, Canada reached an important milestone on open data, tying with the UK for the top spot on the Open Data Barometer—a global measure of how governments are publishing and using open data for accountability, innovation and social impact. Canada is also the current chair of the multilateral Open Government Partnership (OGP), of which Australia is also a member. Canada will be hosting the OGP Global Summit in Ottawa from May 29-31, 2019. Canada’s priorities for the Global Summit 2019 will focus on three main principles: inclusion, participation, and impact. Australia’s recent commitments under the OGP include developing an engagement framework and online resources hub for use across the APS, to guide and support public servants to engage more effectively with citizens, the community, and businesses.<sup>xxiv</sup>

However, Australia and Canada also face common challenges related to the size and heterogeneity of their territories and federal models of government. As such, both countries must align policy across multiple levels of government to effectively deliver solutions tailored to regions, cities, communities, and the unique needs of very different citizens.

Moreover, engagement in-person can be a challenge for both countries given their size. While digital technology has helped to foster engagement to some degree, this remains a concern for certain segments of the population who remain uncomfortable with new technologies, or who live in rural and remote communities where broadband access can be an issue.<sup>xxv</sup> Further improvements to digital engagement platforms, including ease of use, are needed to help foster engagement and help address the particular needs of different segments of the population and communities.

Both governments see an opportunity—and a responsibility—to lead the way on digital innovation to support more widespread adoption of digital tools, and to better serve their citizens. As technology improves, and Australians and Canadians experience increasingly convenient, customized, accurate, and responsive services in the private sector, expectations of government engagement and tailored service delivery are also rising. Both governments face the challenge that when those expectations are not met, whether because of groups being left out, bureaucratic or legal complexity, or engagement or digital capability shortfalls, confidence and trust in government can be undermined.

### ***Australian challenges and policy responses***

The Australian Government has also been working over years to improve citizen experiences interacting with government online, through better engagement with end-users in the design and improvement of digital services. The Australian Government’s Digital Transformation Agency (DTA) is the steward of the Digital Service Standard, which puts user-centred design at the heart of the Government’s goal of delivering seamless online services. Individual agencies are increasingly applying the DTA’s user-centred design model not just for digital service design, but also to inform “upstream” strategic program and policy work (see the case studies).

However, agencies are struggling to reconcile service users’ consistent preference for single-portal and “tell me once” interactions with government, with an at least equally strong reluctance to allow the cross-referencing of their data across government agencies. If the Australian Government is to meet “tell me once” preferences, it must also address citizens’ privacy concerns and ensure that it has a broad social license as a custodian of service users’ data.

For example, recent initiatives such as My Health Record (to consolidate citizens' medical information in one secure government record) and a national digital identity system, myGovID, could save Australia billions annually and dramatically simplify interactions with government for service users. However, negative media and community reactions in late 2018 showed that policy-makers cannot assume citizens' willingness to trust government to collect and manage their data. A higher than estimated number of citizens opted out of the My Health Record program, attributed to privacy and cyber security concerns. Media coverage of the myGovID initiative has also focused on privacy concerns.<sup>xxvi</sup>

This is consistent with emerging issues for industry and innovation policy-makers discussed in Section IV. Here too, trust and social license issues must be addressed in order to advance other policy goals, whether productivity increases or better satisfaction with government service design by end-users.

### *Canadian challenges and policy responses*

Through many of its improved digital platforms, the Canadian Government routinely seeks input from the public, and Canada continues to seek ways to improve its digital platforms and services in order to facilitate more user-centric program design.

For example, in an effort to provide Canadians with reliable, accessible, and secure services that are seamless and digitally enabled, the Canadian Government has launched the Canadian Digital Service (CDS). CDS provides delivery capacity for the President of the Treasury Board's expanded mandate as Canada's first-ever Minister for Digital Government, serving as a digital delivery unit for Government, inside government.

Building on the Canadian Government's Service Strategy—which is focused on three results: client-driven design and delivery across all channels; easy online services; and seamless delivery—Service Canada's Service Transformation Plan (STP) was co-developed with Canadians to support its move from strategy to implementation for the transformation and modernization of its services. This plan was created through a design thinking co-creation process. Since April 2018, the Canadian Government has engaged over 16,000 people regarding its Service Transformation Plan solutions (including 1073 employees and 15,200 clients). To date, STP achievements include:

- Using generic email notifications to prompt clients to log in to their My Service Canada Account (MSCA) for information on their EI claim
- Allowing clients to update their direct deposit information with either Employment and Social Development Canada (ESDC) or the Canada Revenue Agency, and have it shared with the other in "near real-time"



### **Australian Engagement Examples**

In 2017, the **Department of Jobs and Small Business** released its **User-Centred Strategy**. Citizen-centric approaches are currently being employed to assist with the design of Australia's **new employment services model**, from high-level policy settings through to implementation and ongoing improvement. This work involves taking core components of the draft employment services model, translating these into concepts that resonate with core users, and then speaking with users directly about these topics. The intention is to learn about the lives and experiences of users and how they might be impacted by proposed options.

**Bizlab** is the policy and program innovation lab of the **Department of Industry, Innovation and Science**. For a recent project, it partnered with policy areas to **research drivers and barriers to collaboration between small to medium enterprises (SMEs) and research organizations, applying a user-centred design framework**.

The Australian Government is also pursuing **open government** initiatives, including development of an engagement framework and resources hub for the Australian Public Services, and a national challenge inviting start-ups to pitch solutions to government for better digital engagement tools. One of the winning start-ups was **Converlens**, who have since successfully tendered to be the engagement platform for the Independent Review of the APS.

- Automatically enrolling over 15,000 low-income seniors a month for the General Income Supplement (GIS) without them ever having to complete an initial application.

Moving forward, there is still work to be done. Clients still have increasing expectations that programs will be more responsive and truly reflective of their needs, and that citizens must be included in program design and delivery.

In an effort to engage clients in the policy generation process, the ESDC acceleration hub has begun exploring a client-centric (outside-in) approach to developing and refining policy for ESDC programs and services. Specifically, the department is in the initial stages of developing a Client Centric Policy (CCP) solution, which is exploring ways to better collect input from Canadians to inform policy development. This aligns to Canada's Plan on Open Government, which commits to fostering enhanced citizen participation in policy-making through greater collaboration and co-creation.

The Canadian Government is also developing a pilot to enable clients from the Province of Alberta to leverage their provincial digital identity to streamline the federal registration process for their My Service Canada Account (MSCA). This pilot will be the first time that the federal government will use a Trusted Digital Identity from a province.

As in Australia, legislative and regulatory barriers pose a significant and consistent challenge to the implementation of user-centred design in service delivery. For example, using unique identifiers across programs and services can help the policy development process and could generate service efficiencies, however progress in this area is hindered by legislation and the concerns of privacy-conscious citizens. To address this issue, the Government of Canada is working to identify options and recommendations on the potential use of a Single File Number to support internal program administration and coordination of service delivery across federal departments, as well as reviewing legislation with an eye to removing barriers.



#### Examples of User-Centered Design for Policy at the ESDC Innovation Lab

- In 2017, the Lab undertook a full-scale design project to find ways to increase uptake for the **Canada Learning Bond**, a supplemental education savings payment for low-income families, as well as better understand perceptions of education and financial decision making among low income families. The lab integrated tools and methods from human-centered design and systems thinking to engage with vulnerable populations to investigate aspirations for participation in post-secondary education. This included a facilitated co-development with citizens, community partners, financial institutions, who were involved in the design process from the beginning, including systems mapping, ideation and prototyping.
- In 2017, the Lab worked closely with ESDC program colleagues and an interdepartmental project team to understand more deeply the experience of young Canadians and the issues and phenomena that underlie youth engagement in their communities, including volunteerism and service. Field teams interviewed over 150 people, mostly youth between the ages of 16 and 30 years, and others from front-line organizations serving youth populations. Some interviews were in-depth discussions but most were done as street interviews with young people to gather their stories of how they engage in Canadian society, with some interviews held in parks and public places across the country.



***Looking forward***

As governments continue to explore new approaches to engaging citizens and move towards co-design, it will be important to ensure that under-represented and vulnerable populations feel that their interests and needs are taken into account. In particular, if governments increasingly deploy digital solutions to enable engagement at scale, inclusivity considerations will be especially important for cohorts with low digital literacy or infrastructure access.

Governments will also need to build and maintain trust in their capacity to act as custodians of citizen data, if they are to meet citizen expectations communicated during engagement processes of seamless digital service delivery on the one hand (including inter-agency data sharing), but robust privacy protections on the other.

Efforts to increase transparency through Open Government initiatives, and to make citizen engagement a more routine part of upstream policy-making processes (as distinct from program or service design), will encounter friction with legal rules, attitudes, and conventions around the confidentiality of deliberative decision-making processes in Westminster systems. Senior policy-makers will have to lead their services to navigate these sensitivities over the coming years.

***Questions for discussion***

- Are there trade-offs between “traditional” and “inclusive” growth strategies?
- What types of strategies and programs are needed to support individuals and regions to successfully adapt to structural adjustment over short to medium-term periods?
- How can we foster stronger partnerships with and between educational institutions and employers, to encourage employers to invest in the ongoing skill development of their workforce, and to help ensure workers have the right skills to succeed in the evolving labour market over the long run?
- How can governments ensure that there is a level playing field that allows for competition, and provides adequate regulatory protections?
- How can governments ensure that the policies and programs they develop take into account the realities faced by under-represented and vulnerable populations, and make the most of citizen views and expertise?

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## Appendix: Selected economic and labour market indicators for Australia and Canada

Sources: OECD.Stat and ILOStat.

**Notes:** Gini coefficient data for Australia is sourced from ABS 6523.0. All other data has been sourced from international organisations to aid comparability. The Gini coefficient ranges from 0 to 1, with a higher value indicating greater inequality. The poverty rate is calculated based on a relative measure of poverty that uses a poverty threshold of 50% of a country's median income.

Selected indicators	Latest data as at Q3 2018		
	Australia	Canada	OECD average
GDP per capita (\$US, 2010 terms)	46,266 (2017)	43,291 (2017)	36,102 (2017)
Real GDP growth through the year (%)	2.8 (Q3 2018)	2.1 (Q3 2018)	2.4 (Q3 2018)
GDP average annual growth, 2007-2017 (%)	2.6	1.7	1.4
Employment growth through the year (%)	2.4	1.2	1.7 (Q2 2018)
Employment –population ratio (15-64 years) (%)	73.8	73.8	68.3 (Q2 2018)
Unemployment rate (%)	5.2	5.9	5.3 (Q2 2018)
Incidence of long-term unemployment (%)	23.5 (2017)	12.1 (2017)	31.0 (2017)
Participation rate (15-64 years) (%)	77.9	78.5	72.3 (Q2 2018)
Participation rate (55-64 years) (%)	66.8	66.7	63.8 (Q2 2018)
Female participation rate (15-64 years) (%)	73.1	75.4	64.4 (Q2 2018)
Youth Unemployment rate (%)	11.4	11.0	11.0 (Q2 2018)
NEET rate (not in employment, education or training) (%)	10.9 (2017)	12.2 (2017)	13.2 (2017)
Sectoral composition of employment (as a % of total employment)			
Agriculture	2.6	1.9	n.a.
Construction	9.4	8.0	n.a.
Manufacturing	10.7	11.9	n.a.
Services	77.3	779.0	n.a.
Gini coefficient (income Gini)	0.323 (2015)	0.318 (2015)	n.a.
Average annual Gini growth rate, 2005-2015 (%)	0.3	0.1	n.a.
Poverty rate (% below national poverty line)	12.8 (2014)	14.2 (2015)	n.a.
Minimum relative to average wages of full-time workers (%)	446.0 (2017)	41.0 (2017)	n.a.
Household disposable income per capita (USD)	29,840 (2016)	25,287 (2016)	n.a.
Household disposable income per capita average annual growth, 2006-2016 (%)	2.9	2.5	n.a.
Average annual wages growth, 2007-2017 (%)	0.5	1.1	n.a.
Collective bargaining coverage of workers (%)	459.2 (2016)	30.3 (2016)	n.a.
<b>Labour income share (%)</b>	63.0 (2015)	60.6 (2015)	n.a.
Adult education level (% of 25-64 year olds with upper secondary or tertiary education)	81.0 (2017)	91.1 (2017)	79.7 (2017)

Chart 1: Employment–population ratio (15-64 years)

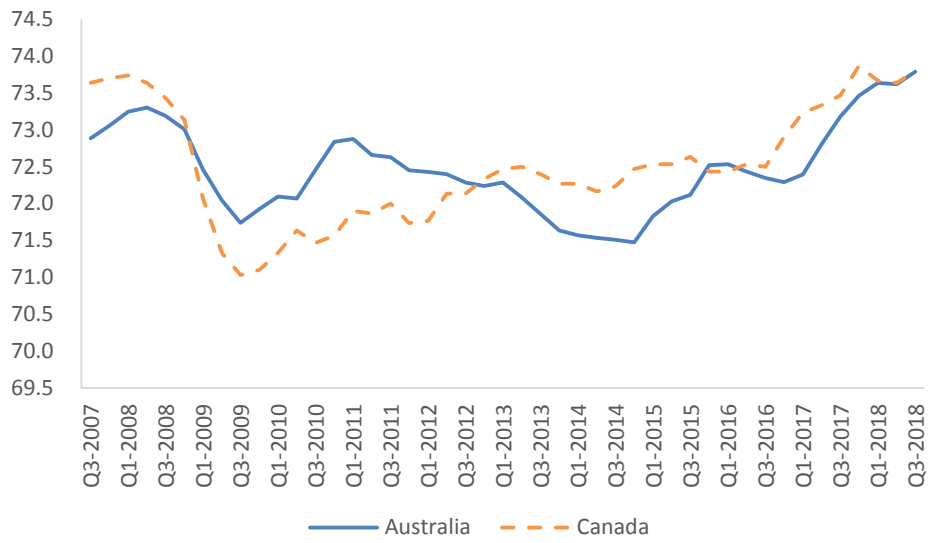
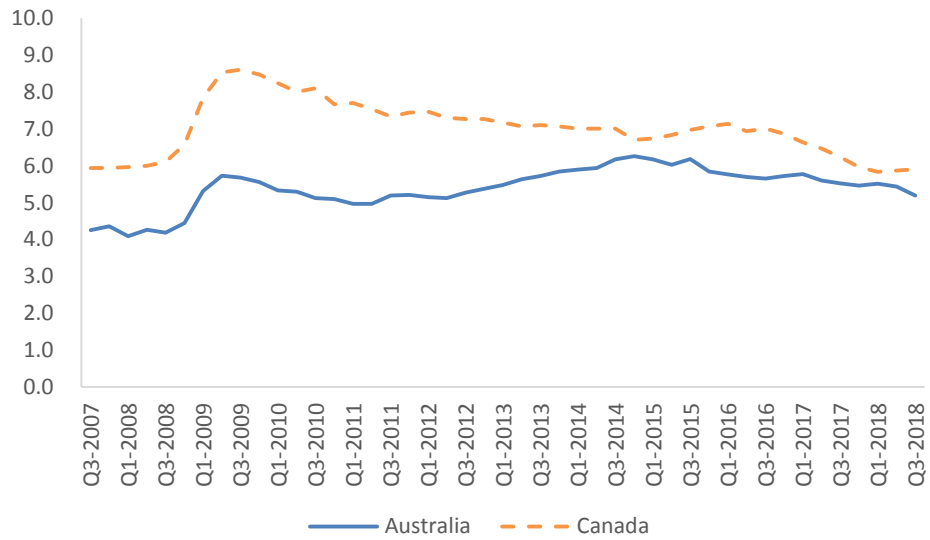
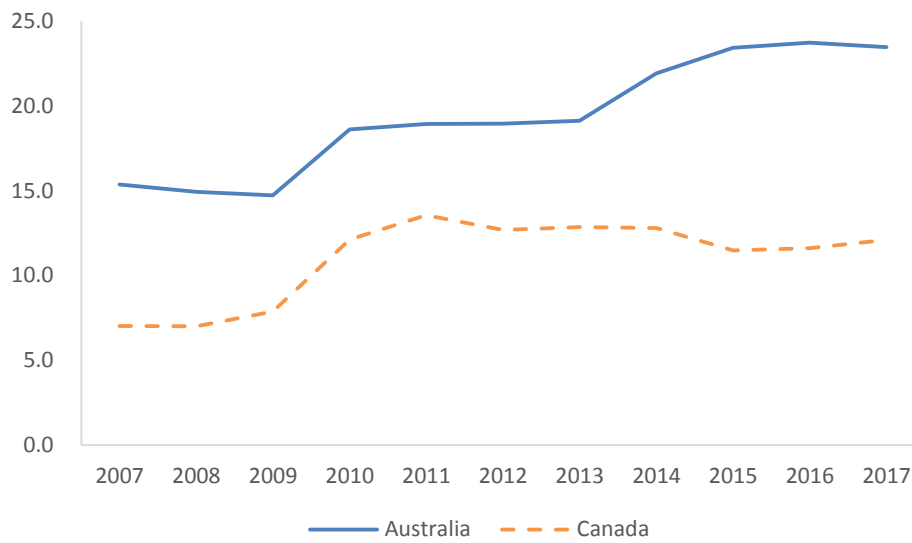


Chart 2: Unemployment rate (15 years and over)



**Chart 3: Incidence of long-term unemployment (15 years and over)**



Note: The incidence of long-term unemployment is the proportion of all unemployed people aged 15 years and over who have been unemployed for one year or over

**Chart 4: Youth unemployment rate (15-24 years)**

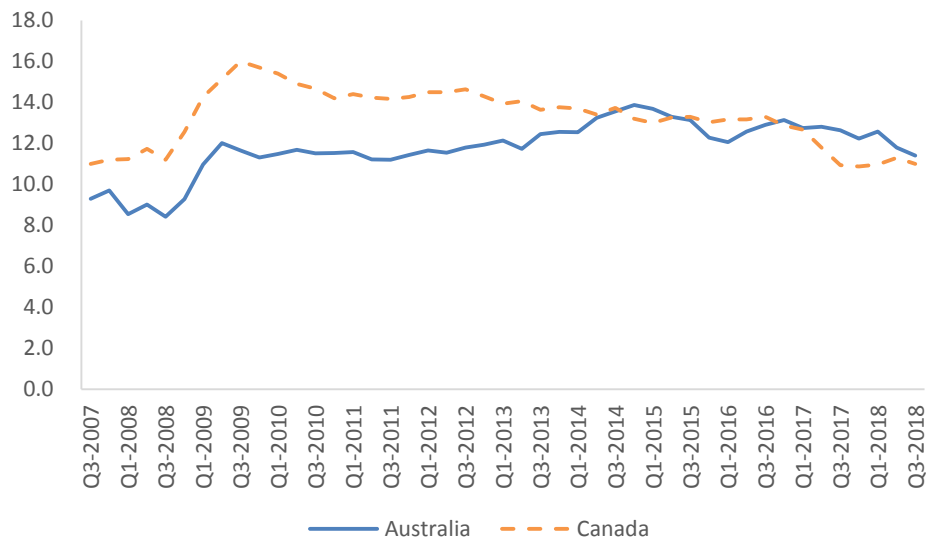
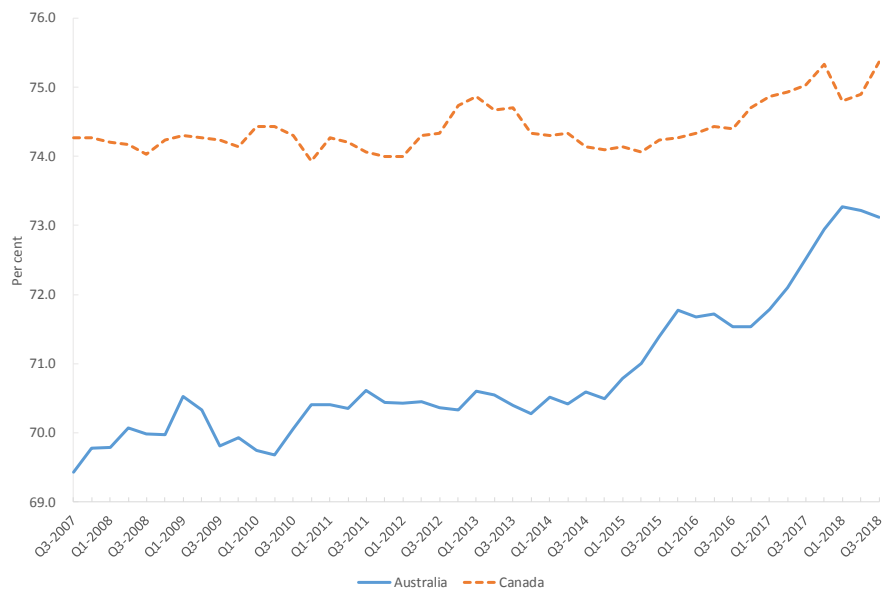


Chart 5: Female participation rate (15-64 years)



<sup>i</sup> As measured using the Gini coefficient. Productivity Commission, [Rising inequality? A stocktake of the evidence](#), August 2018.

<sup>ii</sup> Australian Bureau of Statistics 2018, Labour Force, Cat. No. 6202.0

<sup>iii</sup> See e.g. Australian Productivity Commission, [Rising Protectionism: Challenges, threats and opportunities for Australia](#), September 2017.

<sup>iv</sup> Evidence on how artificial intelligence (AI) will play out is still emerging. An October 2018 analysis by consultancy AlphaBeta commissioned by the Business Council of Australia titled *Adapt to Survive* found Australian jobs have experienced a 9.3% change in tasks over the past five years, with workers spending approximately 2 fewer hours a week on automatable tasks (such as physical work and information analysis) and approximately 2 more hours a week on non-automatable tasks (such as interpersonal, creative, decision-making, and information synthesis tasks). Moreover, parts of the Australian labour market which have experienced faster change in tasks had experienced lower rates of job losses, suggesting that adapting jobs to new technologies and processes may be able to increase job security. Over the period analysed, regionally based workers, low-skilled workers, males, and younger workers experienced higher rates of involuntary job change than other Australian cohorts. See AlphaBeta, [Adapt to survive: Mapping task change and job loss in the Australian workforce](#), October 2018.

<sup>v</sup> Pew Research Centre, [In Advanced and Emerging Economies Alike, Worries About Job Automation](#), Sept 2018.

<sup>vi</sup> International research points to robust correlations between socio-economic status, inequality, and trust in public institutions, e.g. Algan Y et al. [The European Trust Crisis and the Rise of Populism](#), Brookings Papers on Economic Activity (BPEA) Conference Drafts, September 7–8, 2017; OECD Centre for Opportunity and Equality, [Understanding the Socio-economic Divide in Europe](#), Jan 2017; OECD, "Figure 10.6: [Income inequality and generalised trust across countries and US states](#)," in Stiglitz et al. (eds), [For Good Measure: Advancing Research on Well-being Metrics Beyond GDP](#), OECD Publishing, Paris, 2018; Sharan Burrow, [A recipe for trust](#), OECD Forum 2013; and [Edelman Trust Barometer](#) results for the mass population vs "informed public" (in the top 25% of household income per age group and with college educations).

<sup>vii</sup> Museum of Australian Democracy, [Who do you trust to run the country?](#) August 2018; and custom analysis by the Institute for Governance and Policy Analysis (IGPA) for the Museum of Australian Democracy, "Trust and Democracy in Australia," October 2018 (available on request). See too Grattan Institute, [A Crisis of Trust: The Rise of Protest Politics in Australia](#), March 2018.

<sup>viii</sup> Ekos Politics, [Rethinking Citizen Engagement](#), 2017

<sup>ix</sup> See e.g. Australian Productivity Commission, [Digital Disruption: What do governments need to do?](#) June 2016; Grattan Institute, [Competition in Australia: Too little of a good thing?](#) December 2017.

<sup>x</sup> Small Business Digital Taskforce, [Report to Government](#), March 2018

<sup>xi</sup> Australian Productivity Commission, [Data Availability and Use](#), Productivity Commission Inquiry Report No. 82, March 2017.

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- <sup>xii</sup> For example, Australian FinTech start-ups welcome robust regulation, as this promotes consumer confidence. Data from the Office of the Australian Information Commissioner (OAIC) indicates 58% of Australians avoid dealing with businesses they have privacy concerns about. OAIC, [Australian Community Attitudes to Privacy Survey](#), 2017.
- <sup>xiii</sup> More immediately, as of July 1, 2018, the Australian Government has charged goods and services tax on low-value imported goods purchased from overseas companies with an annual Australian turnover of at least \$75,000, helping to level the playing field between Australian retailers and e-commerce companies overseas.
- <sup>xiv</sup> Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries, [Interim Report](#), September 2018.
- <sup>xv</sup> OECD, [The Productivity-Inclusiveness Nexus](#), OECD Publishing, Paris, 2018.
- <sup>xvi</sup> Gu W, Ratté S, Beiling Y, “Long Run Productivity Dispersion in Canadian Manufacturing”, *Statistics Canada Economic Insights*, 11-626-X2018084, 2018.
- <sup>xvii</sup> Andrews D, Criscuolo C, Gal P, “The Global Productivity Slowdown, Technology Divergence and Public Policy: A Firm Level Perspective”, *Hutchins Center Working Paper*, #24, 2016.
- <sup>xviii</sup> OECD, [“Future of Work and Skills”](#), Paper Presented at the 2nd Meeting of the G20 Employment Working Group, 15–17 February 2017.
- <sup>xix</sup> Frey CB, Osborne M, “The future of employment: How susceptible are jobs to computerisation?”, Oxford Martin Programme on Technology and Innovation Working Paper, 2013.
- <sup>xx</sup> See e.g. OECD, [Trust and Public Policy: How Better Governance Can Help Rebuild Public Trust](#), March 2017.
- <sup>xxi</sup> “9 out of 10 regard themselves as without influence over the federal level of government and 7 of 10 come to the same conclusion about other levels of government”—Evans M, Halupka M, Stoker G, [How Australians Imagine Their Democracy: The “Power of Us”](#), Institute for Governance and Policy Analysis, Canberra, 2017; see too Evans M, Halupka M, and Stoker G, [The Power of One Voice – Power, Powerlessness and Australian Democracy](#), Institute for Governance and Policy Analysis, Canberra, 2015.
- <sup>xxii</sup> The lack of transparency around the influence of lobbyists in national policy-making in Australia was the target of a recent critical report by the think tank the Grattan Institute, and was cited as one reason for citizens’ distrust of policy-making processes. See Grattan Institute, [Who’s In the Room: Access and Influence in Australian Politics](#), Sept 2018.
- <sup>xxiii</sup> [“Dr Martin Parkinson: Brexit, multilateralism and how the media impacts policy work”](#), *The Mandarin*, 19 Oct 2018.
- <sup>xxiv</sup> Australia’s Engagement Framework is an example of policy cross-pollination between Canada, adopting the Ontario Provincial Government’s conceptualization of engagement and participation.
- <sup>xxv</sup> Australia is seeking to address this by deploying a [National Broadband Network](#).
- <sup>xxvi</sup> For media debate on MyHealth Record, see e.g. [“Experts say My Health Record is 10 years out of date and other countries have abandoned similar systems”](#), *ABC News*, 7 Dec 2018 vs [“Australia leads the world in personal control of electronic health records”](#), *Healthcare IT News*, 12 Dec 2018. For media debate on myGovID, see e.g. [“Big Brother given new access to Australians’ personal data”](#), *The Australian*, 22 Oct 2018 vs [“Digital identity: minister hits back at naysayers and privacy ‘alarmists’”](#), *The Mandarin*, 12 Nov 2018.