



*Centre for the Study of Living Standards
Centre d'étude des niveaux de vie*

Lessons for Canada from Australia's Superior Productivity Performance

Press Release – Ottawa, June 24, 2016

The Centre for the Study of Living Standards today released a report prepared for Industry Canada entitled “A Comparison of Canadian and Australian Productivity Performance: Lessons for Canada.” The report provides a comprehensive analysis of the productivity performance in Australia and Canada over the past two decades, a detailed discussion of the drivers of this performance, including public policies, and puts forward lessons for Canada.

Key findings from the report are highlighted below.

- Business sector output per hour advanced at a 2.3 per cent average annual rate between 1994 and 2013 in Australia, 1.0 percentage points above the 1.3 per cent labour productivity growth rate experienced in Canada. Both countries experienced slower productivity growth after 2000.
- From a growth accounting perspective, more rapid growth in the capital-labour ratio accounted for around 70 per cent of the faster labour productivity growth “down under.” Faster multifactor productivity growth contributed 30 per cent. Labour quality grew at the same pace in the two countries and therefore made no contribution.
- Australia enjoyed faster output growth than Canada in the 1994-2013 period (3.5 per cent per year versus 2.8 per cent), due to stronger investment and export growth. More robust demand growth leads to more rapid productivity growth through increasing returns and learning by doing.
- The most important divergence in terms of productivity drivers between Australia and Canada is for business expenditures on research and development (BERD). In Australia BERD intensity (BERD/GDP) increased 0.95 percentage points from 0.24 per cent of GDP in 1983 to 1.19 per cent in 2013. In contrast, BERD intensity in Canada increased only 0.23 points from 0.62 per cent to 0.85 per cent over the same period. BERD

intensity in Australia thus soared from 39 per cent of that of Canada in 1983 to 140 per cent in 2013.

The report identifies four lessons for Canada from the Australian productivity experience.

- Australia has greatly benefited from impressive export growth to the huge and fast growing Chinese market. Canada's main market, on the other hand, is the slow growing United States. Given the importance of demand growth for both output and productivity advance, Canada should focus greater attention on emerging markets where there is significant potential for growth in exports.
- Australia has been very successful in increasing its BERD intensity, while Canada has not. Given the great similarities between the two countries, Canada should closely examine the specific public policies that Australia has implemented to boost BERD intensity to determine if any could be adopted in this country.
- Australia has been aggressive in reducing product market regulation, Canada less so. Canada is in the middle of the pack among OECD countries in terms of product market regulation, and therefore has room to move to a less restrictive policy regime. The greatest potential for productivity gains from product market deregulation for Canada is the gradual phasing out of marketing boards, especially for dairy products. The Australian experience offers much insight in this regard.
- Canada lacks a governmental organization that focuses on productivity issues, the role played by the Productivity Commission in Australia. Given the positive implications for government revenues of even small increases in productivity, the costs of such an organization would be very small relative to the benefits. The federal government should establish an organization that would play a similar role to the Australian Productivity Commission in championing the productivity issue.

The report is posted at <http://www.csls.ca/reports/csls2016-07.pdf>

For further information, please contact:

Andrew Sharpe
Executive Director
Centre for the Study of Living Standards
613-233-8891
andrew.sharpe@csls.ca

The Centre for the Study of Living Standards (CSLS) is a national, independent, Ottawa-based not-for-profit research organization. Its primary objective is to contribute to a better understanding of trends and determinants of productivity, living standards, and economic well-being in Canada through research.