

Some Productivity Surprises

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There are three ways for Canadians to raise their standard of living: getting higher prices for their natural resource exports in world markets; keeping their unemployment rate as low as possible; and delivering more goods and services per hour of work. As a small country, there is little we can do about natural resource prices. Basically, we are “price-takers” in international commodity markets. Our unemployment rate averaged over 10 percent from 1990 to 1996, but has since declined to around 7 percent. As a result, the focus of policy discussion has shifted to the third source of growth of our standard of living: Canada’s aggregate output per hour of work – otherwise known as productivity growth.

Until recently, Canada was diagnosed to suffer from a serious *productivity problem*. This problem was seen to have two dimensions. First, the country entered the 1990s with a productivity level that was around 80 percent of that of the United States. That is, Canadian workers were producing 20 percent less goods and services than American workers per hour of work. Second, to add insult to injury, the Canada-U.S. productivity gap, far from closing, seemed to widen markedly in the 1990s, reaching about 25 percent in 2000. U.S. statistical agencies reported a major acceleration in U.S. output and productivity after 1995, while Statistics Canada was detecting only a slight acceleration in Canada.

This came as a blow to our national self-esteem. It also generated a large amount of research on the reasons that, in Canada, information and communications technologies and capital formation were not keeping up with American trends. Policy analysts rushed to suggest a wide set of measures to redress the situation, under the name of “the productivity agenda” or “the innovation agenda”. These included increased government support for education, basic and applied research, modernization of industry, public infrastructures, etc.

Now, the news. Recent data revisions in the United States and Canada are showing that the acceleration in U.S. output and productivity after 1995 had been greatly exaggerated, and conversely that output and productivity growth in Canada had been underestimated. It looks like Statistics Canada has suffered from a modesty syndrome, while the US statistical authorities have been overly boastful. These data revisions are so large that it now appears that, contrary to previous indications, the Canada-U.S. productivity gap may not have worsened at all since the end of the 1980s.

At the broadest level, the revised numbers for average productivity growth over the 1989-2001 period are as follows. Business-sector output per hour would have grown by 1.6 percent per year in Canada according to Statistics Canada, and 1.8 percent per year in the United States according to the U.S. Bureau of Labor Statistics (BLS). That is, productivity increased 0.2 percent per year faster in the United States. For the total

economy, which includes government and the non-profit sector, the annual growth rates would have been 1.5 percent in Canada and 1.7 percent in the United States – Canadian productivity growth being short by 0.2 percent per year again. However, there is much uncertainty about the growth rate in U.S. productivity. Another U.S. statistical agency, the Bureau of Economic Analysis (BEA) of the Department of Commerce, has hours worked in the United States growing faster than reported by the BLS. As a result, the growth rate of productivity for the total U.S. economy estimated from BEA data is only 1.4 percent per year over 1989-2001. This is in fact 0.1 percent *slower* than Canada's 1.5 percent per year.

The bottom line from those various estimates of average productivity growth is that, contrary to previous indications and given the allowable margin of error, one can no longer assert that aggregate productivity growth in Canada has been inferior to that enjoyed in the United States since 1989. In both countries output per hour of work grew slowly in the first half of the 1990s, and then picked up some speed in the second half of the decade. There is no statistical ground for a Canadian “productivity scare” over developments in the past twelve years.

Does this mean that Canada's productivity problem can now be considered a figment of the mind? By no means. While the 20-percent productivity gap with the United States we had inherited from the 1980s and earlier has not widened since 1989, it has not disappeared! Catching up with the U.S. productivity race remains a big challenge for Canadian businesses, workers, and governments. The productivity and innovation agendas keep their full relevance. But we can now go forward with much greater confidence that we can succeed in this endeavour.

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