



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

111 Sparks Street, Suite 500
Ottawa, Ontario K1P 5B5
613-233-8891 Fax 613-233-8250
csls@csls.ca

**Annual Report of the
Centre for the Study of Living Standards
July 1, 2003 to June 30, 2004**

November 2004

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Annual Report of the Centre for the Study of Living Standards, July 1, 2003 to June 30, 2004

Introduction

The Centre for the Study of Living Standards (CSLS) is a national, non-profit, independent research organization incorporated under the Canada Corporations Act on February 27, 1995. CSLS activities began in May 1995 and the CSLS office was opened in August of that year. This ninth annual report covers the activities of the CSLS between July 1, 2003 and June 30, 2004.

The objectives of the CSLS are twofold: first, to contribute to a better understanding of trends in and determinants of living standards through research; and second, to contribute to public debate on living standards issues by developing and advocating specific policies to improve the standard of living of Canadians..

The program year 2003-04 was again a successful one for the CSLS. A total of 29 papers and reports were released in English in various publications, with 17 of the articles and reports also being released in French.¹ This report provides a summary of all CSLS activities. The key accomplishments undertaken in 2003-04 are highlighted below:

- publication of two issues of the *International Productivity Monitor*, both receiving national media attention;
- continued progress on the development of the Index of Economic Well-being, with a growing profile for the Index both nationally and internationally;
- publication of 11 CSLS Research Reports on a range of topics;
- research for 16 productivity studies on a wide range of industries;
- scanning of all issues from 1966 to 2000 inclusive of the leading economics journal *Review of Income and Wealth* published by the International Association for Research in Income and Wealth, construction of a website, and posting of the articles on that website for free download;

¹ The following is a breakdown of the number of articles released by publication: two issues of the *International Productivity Monitor* in both English and French (16); CSLS Research Reports (11) including one in French; and articles produced by the CSLS published in other journals and edited volumes (2).

- organization of a session at the annual meeting of the American Economic Association in San Diego, California in January 2004 and three sessions at the annual meeting of the Canadian Economics Association in Toronto in June 2004; and
- production and distribution of the CSLS newsletter, *CSLS News*.

Major Projects

Productivity Studies

The Centre for the Study of Living Standards devoted much time in 2003-04 to productivity research funded by three federal government departments (Industry Canada, Natural Resources Canada and the Atlantic Canada Opportunities Agency) and by the Conference Board of Canada. In the fall of 2003 Industry Canada commissioned the Centre for the Study of Living Standards to prepare a report assessing the strengths and weaknesses of different measures of aggregate labour productivity in Canada and the United States. This issue had been raised in Finance Canada's November 2003 *Economic and Fiscal Update* which showed that at the level of the aggregate economy labour productivity growth in Canada in recent years outperformed that of the United States. This finding was inconsistent with the official estimates released by Statistics Canada for the business sector that showed the United States outperforming Canada. The CSLS paper was presented at an interdepartmental seminar organized by Industry Canada held on December 4, 2003. It was published in abridged form in the Spring 2004 issue of the *International Productivity Monitor* and later released in unabridged form as a CSLS Research Report.

In early 2004 Natural Resources Canada (NRCan) contracted the Centre for the Study of Living Standards to prepare detailed industry studies of productivity developments for nine Canadian natural resource industries (wood products, paper products, forestry and logging, oil and gas, electric power, gold, coal, diamonds, and earth sciences and geomatics). A synthesis report was also produced. This report was presented by the CSLS to the Executive Committee of NRCan in June 2004 and then circulated widely within the federal government. This report is being released (in English and French) as a CSLS Research Report, as are the industry studies on gold, coal, and diamonds.

Also in early 2004, the Centre for the Study of Living Standards entered into a partnership with the Conference Board of Canada to undertake a research project on industry perspectives on the Canada-U.S. income and productivity gaps in order to shed light on the causes of the Canada-U.S. income gap. The CSLS was responsible for conducting studies comparing Canadian and U.S. productivity levels and growth rates for seven industries (wood products, chemicals, retail trade, oil and gas, electrical products, computers and electronic products, and machinery). A synthesis of these studies was published in October 2004 in the Conference Board of Canada's annual *Performance and Potential* publication. The full studies

will be released as a joint CSLS-Conference Board publication and as CSLS research reports.

During the first half of 2004, the Centre for the Study of Living Standards initiated a major study of the productivity performance of the Atlantic Canadian economy. This research is being funded through a contribution agreement with the Atlantic Canada Opportunities Agency. A monograph will be completed in 2004-05.

International Productivity Monitor

In September 2000, the Centre for the Study of Living Standards (CSLS), with the financial support of Industry Canada, launched the *International Productivity Monitor*. The objective of this publication is to focus attention on the importance of productivity for improving living standards and quality of life. The *Monitor* publishes high-quality articles on productivity issues, trends and developments in Canada and other countries and serves as a vehicle for an international exchange of ideas and information on productivity topics. Print and on-line versions are published twice a year in English and French and distributed on a complimentary basis. The articles are largely non-technical in nature and of interest to a wide audience of productivity researchers and analysts as well as the general public.

The seventh issue of the *Monitor* (Fall 2003), published in November 2003, contained eight articles. Topics covered were: Canada's long-run economic performance and prospects; capital accumulation and productivity growth in Canada; net versus gross measures of output; a symposium on future productivity growth in Canada; and a review article on *The Sources of Economic Growth in OECD Countries*. The table of contents is provided in Appendix 6.

The eighth issue (Spring 2004), released in May 2004, contained eight articles. Topics addressed were: endogenous growth, productivity and economic policy; recent productivity developments in Canada and the United States; monetary policy and the new economy; ICT and productivity growth in the United Kingdom; aggregate labour productivity trends in Canada and the United States; the OECD productivity database; productivity growth in service industries; and a review article of *Why Economies Grow*. The table of contents is provided in Appendix 7.

The *Monitor* continues to attract top economists from around the world. Well-known contributors in 2003-04 included Martin Baily, Gilbert Clette, Peter Howitt, Peter Nicholson, and Thomas Wilson.

Both issues of the *Monitor* published in 2003-04 have received national media coverage. For example, the article by Peter Nicholson on Canada's long-run economic performance and prospects in the Fall 2003 issue was of particular interest to the media because of the author's role as a key advisor to the new Prime Minister, Paul Martin. A list of selected media coverage is found in Appendix 3. Selected examples of media coverage of the *Monitor* are given in Appendix 8.

Approximately 1,000 copies of the English version and 250 copies of the French version

of each issue of the *Monitor* were printed and distributed in 2003-04. In addition, email notification of the free on-line availability of the publication was sent to thousands of persons in Canada and throughout the world, including all members of university economics departments in Canada, the Canadian Association for Business Economics, the Progressive Economics Forum, and the NBER Productivity Program; and all employees of Finance Canada and Industry Canada.

The publication is edited by CSLS Executive Director Andrew Sharpe. A small Editorial Board has been established with the roles of reviewing the material for publication, providing ideas for articles, and setting general editorial guidelines. This Board met twice in 2003-04.

Members of this Board in 2003-04 were:

- Pierre Fortin, Professor of Economics at the Université du Québec à Montréal and a member of the CSLS Board of Directors;
- Someshwar Rao, Director, Strategic Investment Analysis, Micro-Economic Policy Analysis Branch at Industry Canada;
- Benoît Robidoux, Director of the Economic Studies and Policy Analysis Division at Finance Canada; and
- Lawrence Schembri, Research Advisor in the International Department at the Bank of Canada.

In addition to the Editorial Board, an International Advisory Committee (IAC) composed of leading international productivity experts has been established. This committee meets once a year in conjunction with the annual meeting of the American Economic Association. The fifth meeting took place on January 3, 2004 in San Diego, California. Members of this committee review articles submitted to the *Monitor* and keep the editor abreast of world productivity developments.

The members of the International Advisory Committee on July 1, 2003 were:

- Martin N. Baily, Senior Fellow at the Institute for International Economics and former Chair of the U.S. Council of Economic Advisors;
- Ernie Berndt, Professor of Economics at the Sloan School at MIT;
- Jeff Bernstein, Professor of Economics at Carleton University and Research Associate at the NBER;
- Erwin Diewert, Professor of Economics at the University of British Columbia;

- Barbara Fraumeni, Chief Economist at the U.S. Bureau of Economic Analysis;
- Robert J. Gordon, Professor of Economics at Northwestern University;
- Richard G. Harris, Telus Professor of Economics at Simon Fraser University;
- Charles Hulten, Professor of Economics at the University of Maryland;
- Lawrence Jeffrey Johnson, Director of the Key Indicators of the Labour Market (KILM) project at the International Labour Organization;
- Dale Jorgenson, Professor of Economics at Harvard University;
- Jeffrey Madrick, Editor of *Challenge* and economics columnist for the *New York Times*;
- Marilyn Manser, Associate Commissioner, Bureau of Labor Statistics;
- Larry Mishel, President of the Economic Policy Institute;
- Dean Parham, Associate Commissioner at the Australian Productivity Commission;
- Pascal Petit, CEPREMAP, Université de Paris;
- Peter Rehnstrom, President, Finnish Work Environment Fund and Chair, European Association of National Productivity Centres;
- Paul Schreyer, Principal Administrator at the OECD;
- Jack Triplett, Visiting Scholar at the Brookings Institution;
- Bart van Ark, Professor of Economics at the University of Groningen; and
- Edward Wolff, Professor of Economics at New York University and Editor of the *Review of Income and Wealth*.

Three persons joined the IAC in 2003-04:

- Daniel Sichel, Economist at the Federal Reserve Board in Washington, D.C.;
- Roland Spant, Chief Economist at the Swedish Confederation of Professional Employees in Stockholm, Sweden; and

- Lee Kia Yoke, Program Officer at the Asian Productivity Organization in Toyko, Japan.

Index of Economic Well-being

In 2003-04, the CSLS continued to work on the development of the Index of Economic Well-being (IEWB). The project continues to be coordinated by Andrew Sharpe, CSLS Executive Director, and Lars Osberg, Professor of Economics at Dalhousie University and a member of the CSLS Board of Directors. Major developments are highlighted below.

- The Index of Labour Market Well-being, which is modeled on the four domains of well-being (consumption/income, stocks of wealth, equality, and security) highlighted in the Index of Economic Well-being, was released in August 2003. It received extensive media attention, particularly the finding that Canada has one of the highest workplace fatality rates among OECD countries.
- The CSLS was invited by the French Senate to prepare an article on the use of the Index of Economic Well-being as a tool for public policy. The article was posted on the website of the French Senate.
- The CSLS was invited by the French Association for National Accounting to present a paper on the Index of Economic Well-being in OECD countries at their tenth conference held in Paris in January 2004.
- The CSLS has been asked to participate in an initiative spearheaded by the Atkinson Charitable Foundation to develop a Canadian Index of Well-being. The CSLS contribution to the project will build on work done for the economic security component of the Index of Economic Well-being.
- The section of the CSLS website on the Index of Economic Well-being has been greatly expanded and now provides a full explanation of the methodology behind the Index. It also allows users to vary the weights given the four components of the Index to test the sensitivity of trends in the Index to the different subjective valuations of the importance of the four dimensions of economic well-being.

Ford Foundation Project on a New Architecture for Labour Market Statistics

In 2003-04, the CSLS continued the coordination of an international project on the construction of a new cross-national architecture for labour market statistics. The project is funded by the Ford Foundation and involves researchers from 11 countries (Canada, the United States, the United Kingdom, France, Germany, Italy, Japan, Spain, Denmark, Sweden, and the Netherlands). The University of Chicago Press has tentatively agreed to publish the findings in a two-volume set. The lead authors for the volumes will be CSLS Executive Director Andrew Sharpe, and Barry Bluestone, Director of the Centre for Urban and Regional Studies at

Northeastern University in Boston, with contributions from many of the project members.

The CSLS organized a session on the project's findings at the annual meeting of the American Economic Association in San Diego, California, January 3-5, 2004. Papers in the session, entitled "The Development of a New Architecture for Labour Market Statistics", were presented by Andrew Sharpe from the CSLS, Lars Osberg from Dalhousie University, and David Howell from the New School University. The discussants were Richard Freeman from Harvard University, Gary Burtless from the Brookings Institution, and Robert J. Gordon from Northwestern University. The session was chaired by Barry Bluestone from Northeastern University. Details on the session are found in Appendix 4.

ILO World Employment Report

Work continued in 2003-04 on the background studies that the CSLS was asked by the International Labour Organization (ILO) in Geneva to prepare on the relationship between productivity and poverty in developing countries for the ILO's 2004 *World Employment Report* (WER). The results of the research were presented at a conference organized by the ILO and the Hungarian Ministry of Labour held in Budapest in May 2004.

Contract Research

In addition to its own research projects and work on productivity funded by the Industry Canada, Natural Resources Canada, Conference Board of Canada, and the Atlantic Canada Opportunities Agency already discussed, the CSLS in 2003-04 undertook a number of contracts for other organizations on topics in which the CSLS has an interest and expertise, as outlined below.

- The Forest Products Association of Canada (FPAC) contracted the CSLS to update the productivity database on the logging and forestry, wood products, and paper products industries originally developed for FPAC in 2002.
- Industry Canada contracted the CSLS to undertake a comprehensive analysis of the state of apprenticeship training in Canada.
- The International Association for Research in Income and Wealth (IARIW) contracted the CSLS to scan issues from 1966 to 2000 inclusive of the leading economics journal *Review of Income and Wealth* published by IARIW, to construct a website, and to post the articles on that website (www.roiw.org) for free download. This website makes available to the world on a complimentary basis many of the classic articles in the fields of national accounting and productivity analysis.

Other Activities

In addition to major projects outlined above, in 2003-04 the CSLS undertook a number of other activities, summarized below.

International Activities

In 2003-04, the CSLS was engaged in a considerable number of international activities. In addition to coordination of an international project on labour market statistics, the building of a website for the posting of past issues of the *Review of Income and Wealth* for the IARIW, and the work with the ILO on the *World Employment Report*, the CSLS was involved in the following international activities.

- Consultant to the Social Policy and Development Centre (SPDC) in Karachi, Pakistan on their 2002-03 *Annual Review of Social Development in Pakistan: The State of Education*. This CIDA-funded project involved the provision by the CSLS of detailed comments to the SPDC on the draft chapters of the annual review.
- Canadian representative (with the Caledon Institute) on an international working group organized by the German Bertelsmann Foundation that produces the publication *International Reform Monitor* and participation in the group's annual conference held in Copenhagen in May 2004.
- Speaker at an international conference on the social dimensions of productivity organized by the Asian Productivity Organization held in New Delhi, India in December 2003.
- Co-organization and co-sponsorship of the Sixth International Conference of the International Society for Quality of Life Studies Advancing Quality of Life in a Turbulent World" scheduled for November 10-14, 2004, in Philadelphia, Pennsylvania.
- Member of the Board of Directors of the International Society for Quality of Life Studies (ISQOLS) and chair of the ISQOLS working group on electronic publishing; and
- Member of the editorial boards of three international economics journals: *Review of Income and Wealth*, *Social Indicators Research* and *Journal of Socio-Economics*.

Sessions at Conferences

As a way of fostering debate on key economic issues and raising the profile of the CSLS in Canada and abroad, the CSLS organizes sessions at various conferences, particularly those of economics associations. In 2003-04, three sessions were organized at the annual meeting of the Canadian Economics Association held at Ryerson University in Toronto on June 4-6, 2004 on the following topics: explanations of international differences in productivity levels, causes of

the rebound in the labour force participation rate in Canada, and the relevance of indicators of well-being for public policy. The sessions in all cases were well attended. The detailed program is found in Appendix 5.

As noted earlier, the CSLS organized a session at the annual meeting of the American Economic Association in San Diego, California in January 2004 on the development of a new architecture for labour market statistics. Appendix 4 gives details on the session.

Productivity Data Base

In 2003-04, the CSLS released revised and updated productivity estimates for the 1987-2003 period based on the North American Industry Classification System (NAICS). The Alberta Department of Economic Development and Tourism provided financial support for this activity. Estimates are provided in level and index form for output per hour, output per worker, output per unit of capital, and total factor productivity based on hours and employment for Canada and the ten provinces. Estimates for 233 industries are provided for Canada for the 1987-2003 period, with data for some series only available from 1997 to 2003.² These estimates supersede earlier estimates based on the 1980 Standard Industrial Classification (SIC), although the SIC-based series (which in some cases provide greater industry detail) are still available upon request.

In addition to the industry productivity data base, the CSLS maintains a set of tables on aggregate income and productivity trends in Canada and the United States. The CSLS has also posted a comprehensive set of tables on economic indicators for Atlantic Canada.

Tables can be downloaded and viewed at no charge. The productivity estimates from the data base continue to be widely used by government and private sector economists.

Website

The CSLS website (www.csls.ca) continues to be the main tool for the dissemination of CSLS research. All CSLS documents continue to be posted for free download. The website has been particularly useful for the diffusion of the *International Productivity Monitor*, which receives the largest number of hits of all documents posted.

CSLS News

In 2003-04, the CSLS reinstated *CSLS News*, its newsletter whose publication had been suspended in 1998. An eight-page issue was released in hard copy and electronic versions in April 2004 and mailed to the 2,200 persons on the CSLS mail list. Reaction to the reappearance

² The number of industries for which estimates are provided is less at the provincial level. Estimates for 219 industries are provided for Ontario, followed by Quebec (211), British Columbia (170), Manitoba (167), Alberta (165), Saskatchewan (154), Nova Scotia (151), New Brunswick (145), Prince Edward Island (102), and Newfoundland (101).

off the newsletter has been very positive.

Media Coverage and Commentary

National media coverage of CSLS activities and CSLS media commentary continued to be strong in 2003-04. A listing of selected media coverage is provided in Appendix 3 and examples of media coverage are found in Appendix 8.

Speeches and Presentations

In 2003-04, CSLS Executive Director Andrew Sharpe gave a total of 27 presentations and speeches, including presentation and discussion of papers, to a wide variety of audiences. Eight of the presentations were made outside Canada. Fifteen of the presentations were related to the Centre's work on productivity, eight were related to economic well-being, with the remaining four related to living standards and labour market issues. A list of the presentations is provided in Appendix 1.

Advisory Committees and Working Groups.

The CSLS is active in a volunteer capacity in a large number of organizations and groups. In 2003-04, CSLS Executive Director Andrew Sharpe served on four advisory committees, four working groups, three editorial boards, and one Board of Directors (see Appendix 1).

Activities Planned for 2004-05

The CSLS began a full agenda of work for the program year beginning July 1, 2004, with much of the work focusing on the continuation of core CSLS projects such as the *International Productivity Monitor*, the Index of Economic Well-being, and the Ford Foundation project on a new architecture for labour market statistics. Additional projects being undertaken in 2004-05 include the following.

- CSLS Research Reports on: the state of apprenticeship training in Canada; negative productivity growth service industries in Canada and the United States; alternative measures of labour market capacity in Canada and the United States; retail productivity trends in Canada and the United States; a new architecture for labour market statistics; and the relationship between economic well-being and happiness.
- The publication by the CSLS of a book entitled *Are We Better Off? An Index of Economic Well-being in Canada* synthesizing the work the CSLS has done on economic well-being.
- The release of a monograph on productivity performance in Atlantic Canada.

- The release of a joint report with the Conference Board of Canada featuring a number of industry productivity studies.
- The assumption by the CSLS of the role of the secretariat for the International Association for Research on Income and Wealth (IARIW) effective January 1, 2005. Andrew Sharpe will assume the position of IARIW Executive Director.
- The development of a set of indicators for the economic domain component of the new Canadian Index of Well-being being developed by the Atkinson Charitable Foundation and the Romanow Institute.

CSLS Staff

In 2003-04, Lynne Browne served as office manager on a part-time contract basis until March 2004. Dmitry Kabrelyan continued to develop the CSLS website and provide research support on a part-time contract basis. Jeremy Smith, who had worked at the CSLS as a student in 2001-02, rejoined the CSLS in September 2003 as a full-time economist, having completed an MA in economics at Queen's University. Lesley Taylor, a recent MA graduate in economics from Queen's University, worked as an economist at the CSLS from February to May 2004 before joining the federal government's Accelerated Economist Training Program. Matt Kellison, a recent graduate of the honours economics program at the University of Ottawa, was employed at the CSLS during the summer of 2004 before beginning graduate studies in economics at Queen's University in the fall of 2004. Jamie Gibson, a recent graduate of the economics and political science joint honours program at McGill University, was also employed during the summer of 2004 before beginning graduate studies at the Institut d'études politiques in Paris, France.

Financial Information

In the fiscal year ending March 31, 2004, CSLS reported net revenues or an operating surplus of \$15,156 based on gross revenues of \$267,337 and expenditure of \$252,181. Gross revenues were up 11.5 per cent in 2003-04 over 2002-03 while expenditures were down 11.0 per cent. The operating surplus left the CSLS with a balance or accumulated surplus of \$45,351 as of March 31, 2004, up from \$30,195 as of March 31, 2003.

A detailed breakdown of revenue and expenditure is given in the financial statement and can be obtained by contacting the CSLS office.

Acknowledgements

In 2003-04, the CSLS completed its ninth successful year of operation. This success is due to the contributions and support of a large number of individuals and organizations. I would like to thank CSLS Executive members, David Slater and Ian Stewart, for their continued commitment to the work of the CSLS; the CSLS Board of Directors for their strong support; Lars Osberg for his continued invaluable assistance on the Index of Economic Well-being; Someshwar Rao for his close collaboration on the *International Productivity Monitor*; Lynne Browne for office management; CSLS economist Jeremy Smith for his excellent research reports; summer students Matt Kellison and Jamie Gibson for research assistance; Dmitry Kabrelyan for website development; Ellen Adelberg for the development of *CSLS News*; and Brian Watson for accounting and auditing services.

The CSLS would also like to acknowledge financial support received in 2003-04 from the following organizations: Industry Canada, the Atlantic Canada Opportunities Agency, Natural Resources Canada, the Conference Board of Canada, the International Labour Organization, the Forest Products Association of Canada, the International Association for Research in Income and Wealth, and the Alberta Department of Economic Development and Tourism. Their support is greatly appreciated.

Andrew Sharpe
CSLS Executive Director
November 25, 2004

Appendix 1

CSLS Activities, July 1, 2003-June 30, 2004

Conferences, Workshops, Meetings, and Conference Sessions Organized

- January 3, 2004 Session at the annual meeting of the American Economic Association on the Development of a New Architecture for Labour Market Statistics, San Diego, California.
- January 3 Fifth dinner-meeting of the International Advisory Committee of the *International Productivity Monitor*, San Diego, California.
- June 4 Annual Meeting of the Board of Directors of the Centre for the Study of Living Standards, Carmen's Restaurant, Toronto, Ontario.
- June 4-6 Sessions at the annual meeting of the Canadian Economics Association, Ryerson University, Toronto, Ontario.

Papers Presented by Andrew Sharpe (text available)

- July 20, 2003 “Methodological Issues Encountered in the Construction of Indices of Economic and Social Well-being,” (with Julia Salzman) paper presented at the Fifth International Conference of the International Society for Quality of Life Studies “Challenges for Quality of Life in the Contemporary World” Frankfurt, Germany.
- September 5 “Living Standards in Retirement and the Political Processes of Pension-System Reform,” rapporteur report, Symposium on New Perspectives on Retirement, Statistics Canada, Ottawa, Ontario.
- October 17 “Productivity Growth and Poverty Reduction in Developing Countries,” (with Olivier Guilbaud) paper presented at a seminar at the Department of Economics, University of Manitoba, Winnipeg, Manitoba.
- October 18 “Productivity Growth in Service Industries: A Canadian Success Story,” (with Someshwar Rao and Jianmin Tang) paper presented at the Industry Canada conference “Service Industries and the Knowledge-based Economy,” Fort Garry Hotel, Winnipeg, Manitoba.
- October 21 “Living Standards and the Canadian Dollar,” testimony to the Senate Foreign Affairs Committee, Parliament Hill, Ottawa, Ontario.

- December 4 “Aggregate Labour Productivity Growth in Canada and the United States: Definitions, Trends and Measurement Issues,” (with Jeremy Smith), paper presented at an interdepartmental seminar on productivity measurement issues, Industry Canada, Ottawa, Ontario.
- December 15 “Human Well-being and Economic Well-being: What Values are Implicit in Current Indices?” (with Lars Osberg) paper presented at the National Institute of Public Finance and Policy, New Delhi, India.
- December 16 “Exploring the Linkages between Productivity and Social Development in Market Economies,” paper presented at the Symposium on Social Dimensions of Productivity organized by the Asian Productivity Organization, New Delhi, India.
- January 3, 2004 “Construction of a New Architecture for Labour Market Statistics: A Synthesis of the Bellagio Rockefeller-Ford International Project,” (with Barry Bluestone) paper presented at the CSLS session “The Development of a New Architecture for Labour Market Statistics” at the annual meeting of the American Economic Association, San Diego, California.
- January 3 “An Index of Labour Market Well-being for OECD Countries” (with Lars Osberg) paper presented at the CSLS session “The Development of a New Architecture for Labour Market Statistics” at the annual meeting of the American Economic Association, San Diego, California.
- January 21 “New Estimates of the Index of Economic Well-being for OECD Countries,” paper presented at the 10th conference of the Association de la comptabilité nationale, CNRS, Paris, France.
- May 28 “An Index of Labour Market Well-being for OECD Countries” (with Lars Osberg) paper presented at two departmental seminars (senior management and officers) at Human Resources Development Canada, Place du Portage, Phase IV, Gatineau, Quebec.
- June 4 “Industry Perspectives on the Canada-U.S. Productivity Gap” (with Brenda Lafleur) paper presented at CSLS session “What Explains International Differences in Productivity Levels?” at the annual meeting of the Canadian Economics Association, Ryerson University, Toronto, Ontario.
- June 30 “Ten Productivity Puzzles Facing Researchers,” dinner speech at the SSHRC International Conference on Index Number Theory and the Measurement of Prices and Productivity, Fairmont Waterfront Hotel,

Vancouver, British Columbia.

Presentations by Andrew Sharpe

- July 21, 2003 “Happiness and the Index of Economic Well-being,” presentation to the the Fifth International Conference of the International Society for Quality of Life Studies “Challenges for Quality of Life in the Contemporary World” Frankfurt, Germany.
- September 8 “Productivity in Service Sector Industries,” presentation to the annual meeting of the IRAP Program, Westin Hotel, National Research Council, Ottawa, Ontario.
- October 3 “Atlantic Canada Economic Performance in National and International Perspective,” presentation at the conference “The Knowledge-Based Economy and Regional Economic Development: An International Perspective,” Delta Hotel, St. John’s, Newfoundland.
- October 15 “The Index of Economic Well-being,” lecture in the Peacemakers in the Congregation series, First Unitarian Congregation of Ottawa, Ottawa, Ontario.
- October 18 “Atlantic Canada Economic Performance in National and International Perspective” presentation to the annual conference of the Atlantic Canada Economics Association, University of Prince Edward Island, Charlottetown, Prince Edward Island.
- November 28 “Why Productivity Needs to be in the Alternative Budget,” presentation to NGO meeting convened by the Canadian Centre for Policy Alternatives on the Alternative Budget Strategy, National Press Club, Ottawa, Ontario.
- December 1 “Policies to Improve Productivity in Canada,” presentation to PCO officials, Privy Council Office, Langevin Block, Ottawa, Ontario.
- March 25, 2004 “Recent Productivity Developments in Canada and the United States,” presentation to the annual CABE-OTTECA Policy Conference, Chateau Laurier, Ottawa, Ontario.
- April 29 “Ten Things We Need to Know to Advance Productivity Policy in Canada,” presentation to Information Technology Association of Canada-Industry Canada Workshop, Industry Canada, Ottawa, Ontario.
- May 17 “The Link Between Productivity and Poverty in Developing Countries,” presentation at Joint ILO-Hungarian Ministry of Labour World

Employment Report Roundtable on Productivity, Employment and Poverty Reduction, Budapest, Hungary.

- June 3 “Key Consumer Issues Facing Canadians,” presentation to the symposium on consumer trends and research organized by the Office of Consumer Affairs, Industry Canada, Government Conference Centre, Ottawa, Ontario.
- June 9 “Productivity Trends in Natural Resource Industries in Canada,” presentation to the Executive Committee of Natural Resources Canada, Natural Resources Canada, Ottawa, Ontario.

Discussion of Papers

- October 23, 2003 Discussant of paper by John Baldwin and Wulong Gu at conference “The Many Guises of Innovation: What have we learnt and where are we heading,” Statistics Canada, Ottawa, Ontario.

Chairing Sessions

- June 4, 2004 Chair of CSLS Session “What Accounts for the Recent Rebound in Participation Rates in Canada?” at the annual meeting of the Canadian Economics Association, Ryerson University, Toronto, Ontario.

Selected Briefings on CSLS Activities and Research

- March 30, 2004 Briefing of OECD team preparing the 2004 OECD Canada report, Ottawa, Ontario.
- June 10 Briefing Lunch with senior Bank of Canada officials to discuss productivity research

Advisory Meetings, Committees, Working Groups, Editorial Boards, and Boards of Directors, July 1, 2003-June 30, 2004

Ad Hoc Advisory Meetings

- July 31, 2003 Advisory Meeting of Labour Market Experts with HRDC senior officials, Human Resources Development Canada, Gatineau, Quebec.
- January 12, 2004 Meeting of the Advisory Council on Science and Technology, Industry Canada, Ottawa, Ontario.
- March 8, 2004 Dinner advisory meeting with the Honourable Lisa Frulla, Minister of

Social Development, Parliamentary Restaurant, Parliament Hill, Ottawa, Ontario.

May 11-12 Advisory Meeting of Canadian indicators experts convened by the Atkinson Charitable Foundation to discuss the development of a Canadian Index of Well-Being, Toronto Star Building, Toronto, Ontario.

Advisory Committees

Member, Statistics Canada Advisory Committee on Services.

Member, Statistics Canada Advisory Committee on the Voluntary Sector.

Member, Expert Advisor Group to the Consumer Trends Project, Office of Consumer Affairs, Industry Canada.

Member, Conference Board of Canada Advisory Panel on the Innovation Benchmarking Report.

Working Groups

Coordinator, Ford Foundation Project on Developing a New Architecture for Labour Market Statistics.

Canadian Representative (with Caledon Institute), Bertelsmann Foundation for the *International Reform Monitor*.

Member, Working Group on a New Architecture for Social Policy, Canadian Council on Social Development.

Chair, Committee to Develop an Electronic Publications Strategy, International Society for Quality of Life Studies.

Editorial Boards

Member, Editorial Committee, *Review of Income and Wealth*.

Member, Editorial Board, *Journal of Socio-Economics*.

Member, Editorial Board, *Social Indicators Research*.

Boards of Directors

Member, Board of Directors, International Society for Quality of Life Studies (ISQOLS).

Appendix 2

Publications, 2003-04

Research Reports Released by the CSLS

“The Canada-Atlantic Canada Manufacturing Productivity Gap: A Detailed Analysis,” CSLS Research Report No. 2003-08, December 2003.

“Exploring the Linkages between Productivity and Social Development in Market Economies,” CSLS Research Report No. 2004-01, February 2004.

“Productivity Growth in Service Industries: A Canadian Success Story,” CSLS Research Report No. 2004-02, February 2004.

“Literature Review of Frameworks for Macro-indicators,” CSLS Research Report No. 2004-03, February 2004.

“Aggregate Labour Productivity Growth in Canada and the United States: Definitions, Trends and Measurement Issues,” by Jeremy Smith, CSLS Research Report No. 2004-04, October 2004.

“Methodological Choices Encountered in the Construction of Composite Indices of Economic and Social Well-being,” by Julia Salzman and Andrew Sharpe, CSLS Research Report Number No. 2004-05, October 2004.

“Productivity Trends in Selected Natural Resource Industries,” CSLS Research Report No. 2004-06, October 2004.

”Les tendances de la productivité dans certaines industries de ressources naturelles au Canada,” rapport de recherché CENV numéro 2004-06F, October 2004.

“Productivity Trends in the Coal Mining Industry in Canada,” by Jeremy Smith, CSLS Research Report No. 2004-07, October 2004.

“Productivity Trends in the Gold Mining Industry in Canada,” by Jeremy Smith, CSLS Research Report No. 2004-08, October 2004.

“The Growth of Diamond Mining in Canada and Implications for Mining Productivity,” by Jeremy Smith, CSLS Research Report No. 2004-09, October 2004.

“The McKinsey Global Institute Productivity Studies: Lessons for Canada” by Matt Kellison, CSLS Research Report No. 2004-10, October, 2004.

Contract Research Produced by the CSLS

“Aggregate Labour Productivity Growth in Canada and the United States: Definitions, Trends and Measurement Issues,” paper prepared for the Micro-Economic Policy Analysis Branch, Industry Canada, November 2003.

“Update on Productivity Trends in the Forest Product Sector,” prepared for the Forest Products Association of Canada (FPAC), December 2003.

“Productivity Trends in the Oil and Gas Sector in Canada,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in the Electric Power Industry in Canada,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in the Wood Products Industry in Canada,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in the Logging and Forestry Industry in Canada,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in the Paper Products Sector in Canada,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in the Gold Mining Industry in Canada,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in the Coal Mining Industry in Canada,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in the Canadian Diamond Mining Industry,” industry study prepared for Natural Resources Canada, March 2004.

“Output and Productivity Trends in the Canadian Geomatics and Earth Sciences Industry,” industry study prepared for Natural Resources Canada, March 2004.

“Productivity Trends in Selected Natural Resource Industries,” summary report prepared for Natural Resources Canada, April 2004.

“Lessons for Canada from the McKinsey Global Institute’s Productivity Studies,” report prepared for the Conference Board of Canada, May 2004.

“A Comparison of Productivity Performance in the Chemical Manufacturing Industry in Canada

and the United States,” industry study prepared for the Conference Board of Canada, June 2004.

“A Comparison of Productivity Performance in the Wood Products Manufacturing Industry in Canada and the United States,” industry study prepared for the Conference Board of Canada, June 2004.

“A Comparison of Productivity Performance in the Oil and Gas Industry in Canada and the United States,” industry study prepared for the Conference Board of Canada, July 2004.

“A Comparison of Productivity Performance in the Electrical Products Industry in Canada and the United States,” industry study prepared for the Conference Board of Canada, July 2004.

“A Comparison of Productivity Performance in the Machinery Industry in Canada and the United States,” industry study prepared for the Conference Board of Canada, July 2004.

“A Comparison of Productivity Performance in the Computer and Electronic Products Industry in Canada and the United States,” industry study prepared for the Conference Board of Canada, July 2004.

“A Comparison of Productivity Performance in the Retail Trade Industry in Canada and the United States,” industry study prepared for the Conference Board of Canada, July 2004.

“A Synthesis of CSLS Industry Productivity Studies,” report prepared for the Conference Board of Canada, July 2004.

Articles in Journals

“Symposium on Future Productivity Growth in Canada: An Introduction,” *International Productivity Monitor*, Number Seven , Fall 2002, pp. 44-45.

“Recent Productivity Developments in Canada and the United States: Productivity Growth Deceleration versus Acceleration,” *International Productivity Monitor*, Number Eight, Spring 2004, pp. 3-15.

“Understanding Economic Growth: Review Article of *Why Economies Grow*,” *International Productivity Monitor*, Number Eight, Spring 2004, pp. 81-84.

“Assessing Aggregate Labour Productivity Trends in Canada and the United States: Total Economy versus Business Sector Perspectives,” *International Productivity Monitor*, Number Eight, Spring 2004, pp. 47-58 (by Jeremy Smith).

“Family Care Leave Benefit Introduced,” and “Learning Institute to Coordinate Knowledge on Adult Education,” *International Reform Monitor*, Issue 8, 2003, Bertelsmann Foundation.

“Banning Mandatory Retirement in Ontario,” and “Legalization of Same-sex Marriage,” in *International Reform Monitor*, Issue 9, 2004, Bertelsmann Foundation.

Chapters in Books

“Lessons Learned and Future Directions for Innovation Research and Policy,” in Fred Gault (ed.) *Understanding Innovation in Canadian Industry*, published for the School of Policy Studies, Queen’s University by McGill-Queen’s University Press, pp. 387-401, 2003.

“Trends in Economic Well-being in Canada and the United States,” in *What Has Happened To The Quality Of Life In The Advanced Industrialized Nations?* Ed Wolff, ed. (Edgar Elgar in association with the Levy Economics Institute), 2004.

Articles in Newsletters and Newspapers

“De la bonne analyse des politiques publiques: le role de l’indice du bien-être économique,” Groupe de prospective du Senate, Paris, France.

Edited Publications

International Productivity Monitor, Number Seven, Fall 2003, 70 pp.

Observateur international de la productivité, Numéro 7, Automne 2003, 82 pp.

International Productivity Monitor, Number Eight, Spring 2004, 86pp.

Observateur international de la productivité, Numéro 8, Printemps 2004, 86pp.

Other

CSLS News: the Newsletter of the Centre for the Study of Living Standards, Spring 2004.

Annual Report of the Centre for the Study of Living Standards, 2003-04, November 2004.

Appendix 3

Selected Examples of CSLS Media Coverage, July 1, 2003-June 30, 2004

Selected Print Media Coverage on CSLS Publications and Activities

July 19, 2003	“Productivity gains flow from policies,” Editorial by Neville Nankivell, <i>Financial Post</i> .
August 18	“Workplace safety record dismal: study,” by Eric Beauchesne <i>Ottawa Citizen</i> (and other Canwest papers).
August 19	Editorial on workplace safety based on CSLS study, <i>Ottawa Citizen</i> .
October 8	“Better productivity is answer to high dollar export woes,” Dismal Science column by Bruce Little, <i>Globe and Mail</i>
November 13	“Advisor urges fresh policy,” <i>Globe and Mail</i> .
November 13	“Productivity Nears Crisis,” Canadian Press story carried in most Canadian dailies.
November 13	“Martin advisor pushes education, training,” by Eric Beauchesne, <i>Ottawa Citizen</i> (and other Canwest papers).
November 15	“A message for Paul Martin: Think innovation,” column by David Star, <i>Toronto Star</i> .
November 16	“Stronger dollar has silver lining: federal economists,” by Eric Beauchense, <i>Ottawa Citizen</i> .
November 29	“The Three Wise Men,” by Mark Kennedy, <i>Ottawa Citizen</i> .
November	“Canada’s appalling work safety record among the world’s worst,” <i>CCPA Monitor</i> .
February 18, 2004	“Canada’s services sector growing more productive: But the gap between Canada and the United States continues to widen in manufacturing,” by Eric Beauchesne <i>Montreal Gazette</i> (and other Canwest papers).
February 23	“Canada lags on manufacturing but narrows services gap,” Amazing Facts column by Bruce Little, <i>Globe and Mail</i> .

- June 2 “Canadian productivity suffers another drop,” by Eric Beauchesne, *Ottawa Citizen*.
- June 2 “Living standards likely to fall further behind U.S.” *National Post*
- June 2 “Nasty surprises may stunt growth,” Dismal Science column by Bruce Little, *Globe and Mail*.
- June 19 “Innovation should be part of the election debate,” Column by David Crane, *Toronto Star*.

Selected CSLS Quotations and Commentary in the Print Media

- December 4, 2003 “Factories must upgrade, Statcan says,” by Eric Beauchesne, *Ottawa Citizen* (and other Canwest papers).
- January 12, 2004 “To Understand U.S. Jobs Picture, Connect the Dots, and Find the Dots,” by Louis Uchitelle, *New York Times*, first page, business section.
- February 7 “Sommes-Nous Paresseux?” by Francis Vailles, *La Presse*.
- May 30 “The penny-pinchers’ poster girl,” written by Michael Kane, *Vancouver Sun* and appeared in *Ottawa Citizen* (and other Canwest papers).

CSLS Commentary in the Electronic Media

- September 3, 2003 Interview on the Dave Rutherford Show, CHQR Calgary, on productivity.
- September 3 Interview with Radio Canada International on the OECD Canada survey.
- September 23 Interview on CPI Release, *CBC Newsworld*.
- October 21 CPAC Coverage on Testimony to the Senate Foreign Affairs Committee, Parliament Hill, Ottawa, Ontario.
- November 28 Panel on Options for the Federal Budget, *Prime Time Politics*, CPAC.
- February 12, 2004 Interview on CKNW Talk Radio, Vancouver on pension reform.
- May 26 Panel on the NDP Economic Platform for the 2004 General Election, *Prime Time Politics*, CPAC.
- May 31 Interview on CBC TV on GDP release.

June 3

Interview with Sherry Watkins on Tax Policy Issues for the Federal Election, *Ontario Today*, CBC Radio.

Appendix 4

CSLS Session at the Annual Meeting of the American Economic Association, San Diego, California, January 3-5, 2004

The Development of a New Architecture for Labor Market Statistics

Chair: Barry Bluestone (Northeastern University)

Papers: Barry Bluestone (Northeastern University) and Andrew Sharpe (Centre for the Study of Living Standards) “A New Architecture for Labor Market Statistics”

David Howell (New School University) “A New Measure of Employment Adequacy”

Lars Osberg (Dalhousie University) and Andrew Sharpe (Centre for the Study of Living Standards) “An Index of Labor Market Well-being”

Discussants: Robert Gordon (Northwestern University)
Gary Burtless (Brookings Institution)
Richard Freeman (Harvard University)

Appendix 5

CSLS Sessions at the Annual Meeting of the Canadian Economics Association, Ryerson University, Toronto, Ontario, June 4-6, 2004

Friday, June 4, 10:30-12:00

Session 1: What Explains International Differences in Productivity Levels?

Chair: David Slater (Centre for the Study of Living Standards)

Papers: Brenda Lafleur (Conference Board of Canada) and Andrew Sharpe (Centre for the Study of Living Standards) “Industry Perspectives on the Canada-U.S. Productivity Gap”

James Milway (Institute for Competitiveness and Prosperity) “Assessing the Drivers of the Canada-U.S. Prosperity Gap”

Gilbert Cette (Banque de France) “Why is Labour Productivity Higher in Certain European Countries than in the United States”

Discussants: Tom Wilson (University of Toronto)
Andrew Jackson (Canadian Labour Congress)
Pierre Fortin (Université du Québec à Montréal)

Friday, June 4, 13:45-15:15

Session 2: What Accounts for the Recent Rebound in Participation Rates in Canada?

Chair: Andrew Sharpe (Centre for the Study of Living Standards)

Papers: Russell Barnett, Steven James and Tim Sargent (Finance Canada) and Claude Lavoie (Bank of Canada) “The Canadian Labour Force Participation Rate Revisited: Cohort and Wealth Effects Take Hold”

Pierre Fortin (UQAM) and Mario Fortin (Université de Sherbrooke) “The Changing Labour Force of Canadians: New Evidence from a Panel of Demographic Groups”

Discussants: Craig Riddell (University of British Columbia)
Louis Grignon (Human Resources and Skills Development Canada)

Saturday, June 5, 2004, 13:45-15:15

Session 3: Are Indicators of Well-being Relevant for Public Policy?

Chair: Ian Stewart (Centre for the Study of Living Standards)

Papers: John Helliwell (University of British Columbia and Bank of Canada)
“Does Subjective Well-Being Research Have Policy Implications?”

Lars Osberg (Dalhousie University) “The Relevance of Objective Indicators of Well-being for Public Policy”

Discussant: Jean-Pierre Voyer (Policy Research Initiative)

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Appendix 8

Selected Examples of CSLS Print Media Coverage

- 1) August 18, 2003 “Workplace safety record dismal: study,” by Eric Beauchense *Ottawa Citizen* (and other Canwest papers).
- 2) November 13 “Martin advisor pushes education, training,” by Eric Beauchesne, *Ottawa Citizen* (and other Canwest papers).
- 3) November 15 “A message for Paul Martin: Think innovation,” column by David Star, *Toronto Star*.
- 4) February 23, 2004 “Canada lags on manufacturing but narrows services gap,” Amazing Facts column by Bruce Little, *Globe and Mail*.

BY ERIC BEAUCHESNE

MONDAY, AUGUST 18, 2003 A3

Workplace safety record dismal: study

Canada has top rate of worker fatalities in industrialized world

Canada has one of the worst workplace safety records in the industrialized world, a finding that has pulled down the relative well-being of Canadian workers, according to a soon-to-be published study by a Canadian economic think tank.

The odds of being killed on the job in Canada are greater than in any of the 16 member countries of the Organization for Economic Cooperation and Development other than Italy. In Italy, the chances of death on the job are equally high, says a raft of the study by the Centre for the Study of Living Standards.

In 2001, the incidence of workplace fatalities for every 100 workers was seven in Canada and Italy, states the centre's report: *An Index of Labour Market Well-being for OECD countries*.

Workplace fatality rates in the other countries, based on data from the International Labour Organization, were 5.3 in New Zealand, 5.0 in France, 4.0 in Australia and the U.S., 3.1 in Germany, 2.3 in Switzerland, 2.1 in Finland, 2.0 in Denmark, 1.6 in Norway, 1.5 in Sweden, and a mere 0.9 in Britain.

"The magnitude of these differences may raise some suspicion that countries differ in the extent to which fatalities are linked to workplaces," cautions the study. "However, time trends within countries will generally be measured more reliably."

And over time, Canada's record in reducing the number of workplace fatalities is even more dismal, according to the study, which tries to measure whether workers are better or worse off now compared with past years as well as with workers in other countries.

Unlike Italy, and most other industrialized countries, Canada has had little success in reducing the staggering loss of life among its workers.

While all countries boasted a falling fatality rate during the two decades from 1980 to 2001, Canada's fell the least — a mere 6.6 per cent. In contrast, Italy, has reduced its job fatality rate by nearly 60 per cent.

Next to Canada, the smallest reduction in workplace fatalities was in the Netherlands, which still slashed them by more than 30 per cent.

Canada's relative rate of non-fatal workplace injuries, while not as bad, is nothing to boast about either — nor is its success in reducing them.

In 2001, the number of workplace injuries per 100,000 workers was 3,145 in Canada,

the fourth highest of the 16 countries — the highest being in France at 4,432 and the lowest in Britain at 645.

Again, the study cautions that the "surprising" large range may be related to differences in the national definitions of injuries.

However, Canada's relative success in reducing workplace injuries over the past two decades has been only modest.

The incidences of workplace injuries fell 18.3 per cent in Canada, the same as in Britain. Six other countries had greater success in reducing on-the-job injuries, including Switzerland where they plunged 39.3 per cent; Italy, 35 per cent; the U.S., 28.9 per cent; Germany, 26.5 per cent; Belgium, 19.8 per cent; and Norway, 19 per cent.

While there may be differences from country to country in the reporting of workplace injuries, Canada's poor performance likely also reflects the relatively large proportion of workers employed in natural resources, such as logging and mining, said Andrew Sharpe, an economist and co-author of the report.

"There's a higher incidence of accidents, for example, in logging than in services," he noted.

But he noted that workplace safety is only one of several sub-components of the study's index of labour market security, the others being the risks of unemployment and poverty in retirement. And labour market security, where Canada ranks near the middle of the pack, is only one of four components of the study's overall "index of labour market well-being."

The other three components of labour market well-being are; labour market income, average educational attainment of workers, and labour market equality.

However, in terms of job market equality, Canada also ranked low.

"In 2001, the highest level of labour market equality was found in Norway, followed by Sweden and Denmark, while the lowest level was in the United States, followed by Canada and the United Kingdom," the study stated.

But Canada ranked third in educational attainment, behind only the U.S. and Germany, and fourth in labour market income, behind, Belgium, the U.S. and Switzerland.

"We're comparing ourselves with some of the best countries," Mr. Sharpe said. "So I don't think it's a disaster, although there's room for improvement."

OK, Rosie ... you've had your say

There'll be no damages awarded in Rosie O'Donnell's scrap with a publisher. D3



BUSINESS

Editor: Hugh Paterson, 596-8419 • business@thecitizen.com



China opens trade door a little wider

Tensions with the U.S. will ease after deals with the Big 3, Boeing and GE. D10

Martin adviser pushes education, training

Analysis critical of EI rules, says productivity must improve

BY ERIC BRAUCHERSNE

A senior policy adviser to prime minister-in-waiting Paul Martin warns of rising spending pressures, and he laments the Chrétien government's retreat from tough jobless insurance reforms.

Mr. Nicholson, a former special adviser to the head of the Organization for Economic Cooperation and Development and now a member of Mr. Martin's leadership team, applauded

the success of policies that have led to eliminating the deficit and taming inflation. "The payoff from a decade of improved practices in both the public and private sectors is finally becoming visible," he says in the latest issue of the *International Productivity Monitor* published by the Centre for the Study of Living Standards.

But more must be done to boost economic productivity and, in turn, Canadian living standards, he adds. "While Canada has made a good start, the economic performance gap relative to the United States — the only benchmark that matters to most Canadians — is still large and, until the late 1990s, was growing," he says.

That gap is at least 15 per cent, he says, adding that it can be attributed to Canada's lagging productivity. Canada has merely reached the point at which it is in position to make up for ground lost through the 1980s to the mid-1990s, then achieve the increased productivity growth it will need to support an aging population.

If Mr. Martin follows Mr. Nicholson's advice, Canadians can expect his government to invest more in education and training. But the policies Mr. Nicholson is advocating will all so reach into the womb. The greatest payoff will come from policies directed at improving the "early childhood and pre-natal environment, where lifelong potentialities can be enhanced or crushed," he says, suggesting health and education will be cornerstone policies of a Martin government. "There is strong evidence that early intervention to mitigate disadvantage has vastly greater payoff than later attempts at remediation."

Mr. Nicholson also sees a need to pursue policies that encourage investment in equipment and machinery, and promote innovation. He says the challenge is to create policies that contribute to a hospitable investment climate in taxation, competition, intellectual property rights and trade and to support those policies with public investment in infrastructure, research and education.

He says a higher tax burden is generally bad for an economy, tending to reduce output, work incentives, and entrepreneurial risk taking. But he adds that some forms of taxation promote growth, such as that aimed at improving the quality of the labour force and the underlying infrastructure supporting the economy.

Business

A message for Paul Martin: Think innovation



David Crane

Paul Martin's success as prime minister will depend in large part on his ability to build a successful economy generating good jobs and wealth. These are vital to sustain a high quality of life for Canadians and to underwrite the bigger vision he has for Canada and its role in the wider world.

This is why pushing the innovation agenda is so critical. As Peter Nicholson, Martin's senior policy adviser, writes in the latest edition of *The Productivity Monitor* from the Ottawa-based Centre for the Study of Living Standards, Canada has positioned itself well for future growth in many respects, but

the capacity for innovation is still in doubt.

Why does innovation matter? Because Canada is in an increasingly competitive world — as Nicholson says, just think of China — at a time when the country's working-age population is poised to begin shrinking as a share of the total population.

The only way open for Canada to improve its economic prospects is to improve its productivity performance.

Productivity is all about working and investing smarter to get more value out of our efforts. Productivity depends on the skills and knowledge of workers and on the level and pace of investment in new capital equipment, such as the clever use of information and communications technologies, in our businesses and in public institutions.

Canada can do more here. But the other crucial factor in boosting productivity performance is innovation. That's a word that includes the capacity to develop new products and services as well as new ways of producing and distributing both spending on research and development and commercializing new ideas that result, developing new forms of business organizations and new forms of supply and distribution chains, finding effective ways to strengthen links between businesses and universities; creating a competitive business environment that sends the right signals and provides the most effective incentives; and a financing system that responds quickly to new ways of doing business.

Canada's productivity performance has been disappointing for many years, but picked up in the second half of the 1990s. Even so, a productivity gap has widened between Canada and the United States, with many commentators blaming Canada's weaker capacity for innovation.

So, "the challenge is not only to maintain the recent encouraging productivity trend but actively intensify it," Nicholson argues.

Martin himself has given some clues on what his government is likely to do.

In a speech in Montreal last month, he spoke of the critical importance of building a 21st-century economy.

Canada, he said, must be "firmly positioned at the cutting edge of a global economy whose pace is set by new technologies, new start-ups and, most of all, by the creativity and ingenuity of individual endeavour."

This, he said, means supporting basic research, a much greater effort to commercialize applied research and faster adoption of cutting-edge technology by businesses. Canada also must ensure it has a financial system in place to help innovative entrepreneurs develop their businesses.

"If Canada is to be an incubator of dynamic new companies, and not merely a breeding ground of good ideas for others, we must do even better at getting resources into the hands of Canadian entrepreneurs at the right time and in good measure," Martin said.

He also spoke of creating structures to help small and mid-sized businesses conduct their research.

He pointed to two sectors where much more can be done to derive economic benefits for Canada: developing environmental technologies; and using the country's \$112 billion annual health-care spending to help develop opportunities for Canadian companies, in biotechnology, medical devices, diagnostics and other related areas.

But, if Martin is to succeed, he has to get the business community outside. Ultimately, most innovation will have to take place within individual businesses. As the Conference Board of

Canada said this week, "the level of innovation shown by Canadian companies is the primary challenge in the innovation system in Canada."

So here we are dealing not only with the incentives and signals in the marketplace but also the quality of business management.

The incoming Martin government will almost certainly be an activist government, with strong ambitions for a bigger Canadian role in the global community, stronger cities and leadership in sustainable development at home.

But the incoming Martin government's first challenge will be to work to ensure Canada has the kind of innovative economy that can support these worthwhile ambitions.

David Crane's column appears on Wednesdays and Saturdays. He can be reached by fax at 416-926-8048 or at dcrane@interlog.com by e-mail.

Canada lags on manufacturing but narrows services sector gap

Amazing Facts

BRUCE
LITTLE

Here, for a change, is some good news about Canadian productivity. No, we haven't suddenly leaped ahead of the United States; even with hard work, that will take years.

But while our manufacturing sector has been falling further behind U.S. factories in recent years, a trend that has become almost notorious, our much bigger services sector has been closing the gap with its U.S. counterpart at a surprising clip.

Productivity is a hot topic because it indicates whether living standards are improving or not. In broad terms, it's the economy's output — gross domestic product — divided by the number of hours worked to produce that output.

Economists of almost every ideological stripe agree that productivity growth is a good thing. We're better off today, for example, with only a handful of extraordinarily productive farmers producing the food we eat than we were a century ago, when it took three-quarters of the work force to feed us all.

But if we've fallen further behind Americans in living standards (and we have), it's because of our lagging productivity growth.

A new study, however, indicates that our usual focus on weak factory productivity growth has blinded us to the much stronger performance of the services sector.

The numbers reveal a fascinating contrast. They come from a report published last week by the Centre for the Study of Living Standards in Ottawa. The report was written by Andrew Sharpe, head of the centre, and two Industry Canada economists, Someshwar Rao and Jianmin Tang.

Manufacturing productivity in Canada is about 65.8 per cent of the U.S. level, and it's easy enough to see how we got there. From 1981 to 1995, productivity growth here

averaged about 2.8 per cent a year, just behind the 2.9-per-cent level in the United States. But from 1995 to 2000, Canada's productivity growth rate slid to 2 per cent annually, while the U.S. rate zoomed to 5.2 per cent, largely because of superior gains by their high-technology industries.

But manufacturing accounts for only 18 per cent of Canada's GDP, and the story is quite different if you look at the much bigger services industry. Not counting governments and other public institutions such as hospitals and schools, services industries in the private sector account for 54 per cent of GDP — triple the share of the factories.

The productivity level for this group is 83.8 per cent that of comparable industries in the United States, meaning that the Canada-U.S. productivity gap is 18 percentage points smaller in business sector services than it is in manufacturing.

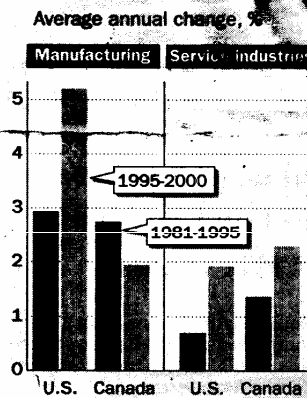
A couple of key differences set the record of the services sector apart from manufacturing. First, productivity growth accelerated between the two periods analyzed. Second, Canada did better than the United States in both periods.

In the 1981 to 1995 span, Canada's service productivity growth came to 1.4 per cent, double the 0.7-per-cent level in the United States. And from 1995 to 2000, Canada's growth rate accelerated to 2.3 per cent, while that of the United States picked up to 1.9 per cent. Another noteworthy point about 1995 to 2000: In Canada, service sector productivity grew faster than manufacturing productivity.

During the latest five-year period covered by the data, some industries in particular made huge strides.

The finance, insurance and real estate sector, for example, racked up an average annual productivity gain of 3.3 per cent, a full percentage point higher than the 2.3-per-cent average for overall private sector services companies. Since financial companies accounted for more than 14 per cent of all private sector output in Canada (and here we're including manufacturing, primary industries and construc-

Improved services



SOURCE: CENTRE FOR THE STUDY OF LIVING STANDARDS THE GLOBE AND MAIL

tion in the total), they delivered a large chunk of the overall gain.

Other big segments of the services sector also chalked up substantial gains. Among them were the business services industry, which sells its wares (such as accounting and legal services) to other companies, retailers and communications firms.

Yet a gap remains because Canadian companies in the services sector, relative to their U.S. competitors, employ workers with lower levels of education, invest less in research and development and devote a smaller share of their total investment spending to information and communications technology. All three have been the source of productivity gains in the past two decades, so Canadian companies know what they have to do to reduce the disparity even further.

Still, the narrowing of the productivity gap in services is encouraging. Despite what the authors call the "dismal relative performance" of Canadian manufacturers, service companies have shown that all the news on the productivity front is not bad. It is indeed possible for Canadians to run faster than Americans, though they still have a long way to go to make up the remaining distance that separates them.

blittle@globeandmail.ca