

Median Wages and Productivity Growth in Canada and the United States

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Abstract

In 2008 the CSLS published an article that examined the relationship between real wages and labour productivity in Canada. The most direct mechanism by which labour productivity affects living standards is through real wages, that is, wages adjusted to reflect the cost of living. Between 1980 and 2005, the median real earnings of Canadians workers stagnated, while labour productivity rose 37 per cent. Four factors of roughly equal importance explain this situation: rising earning inequalities; falling terms of trade for labour; a decrease in labour's share of GDP; and measurement issues.

This paper explores in more detail issues around the labour share and labour's terms of trade, and extends the previous analysis to the United States. In regard to labour share, issues around the changing market power of workers and firms, and the increasing importance of capital cost allowances in GDP are discussed. The paper also explores why labour's terms of trade declined from 1980 to 2005. Put another way, it explores why the prices of the goods and services produced by Canadians have failed to rise as quickly as the prices of goods and services that they consume. Finally, the paper extends the analysis of the relationship between real wages and labour productivity to the United States, and compares findings with Canada.