

Editor's Overview

THIS ELEVENTH ISSUE OF THE *International Productivity Monitor*, published by the Centre for the Study of Living Standards, contains seven articles on a range of topics: policies to improve productivity growth in Canada; the causes of lower information and communications technology investment in Canada relative to the United States; the impact of fiscal policy on employment and productivity; productivity growth in manufacturing in Sweden, and service sector productivity measurement.

In November 2005, the Centre for the Study of Living Standards (CSLS) celebrated its tenth anniversary. To mark the occasion, the CSLS organized a public event featuring panels on policies to improve productivity growth in Canada and on policies to increase the economic well-being of Canadians. Presentations from the panel on policies to improve productivity are published as the first three articles of this issue.

In the first article, **Pierre Fortin** of the University of Quebec at Montreal makes the case that productivity should be raised by bringing the low productivity segment of the workforce closer to the median. Consequently, he argues that the most pressing task for Canadians is to foster basic skills, reduce the high school dropout rate, and raise the profile of community colleges and CEGEPS.

In the second article, **Andrew Jackson** from the Canadian Labour Congress also argues that a focus on the human capital needs of the bottom third of the workforce is the most effective way to boost productivity, while at the same time creating a more equitable labour market. Given the unmet demand for adult learning on the part of the disadvantaged, he proposes a scheme for paid training leave funded through Employment Insurance.

James Milway from the Institute for Competitiveness and Prosperity in the third article makes a case that Canada's current system of fiscal federalism, which results in very large transfers of resources from have provinces to have-

not provinces, promotes consumption over investment and hence does not maximize our productivity potential. Among his policy recommendations are reform of Employment Insurance towards a true insurance program with the elimination of the interprovincial social transfer aspects of the program, and a shift in the tax system from business income to consumption by reducing corporate taxes and raising the GST.

It is widely recognized that machinery and equipment investment intensity is less in Canada than in the United States. What is less well known is that it is information and communications technology (ICT) investment that largely accounts for this gap. In the fourth article, **Andrew Sharpe** from the Centre for the Study of Living Standards documents trends in ICT investment in both Canada and the United States and attempts to explain why ICT investment per worker in the Canadian business sector in 2004 was only 45 per cent of that in the US business sector. While no definitive explanation emerges, among the factors he identifies as playing a role are industrial structure, firm size distribution of employment, the price of labour compared to ICT investment goods, and the underestimation of ICT investment in official statistics.

According to the conventional wisdom, we face a trade-off between our equity and efficiency objectives. In the fifth article, **William Scarth** from McMaster University challenges this proposition. He shows in a rigorous manner

that employment subsidies can indeed lead to lower unemployment and higher productivity growth in a standard economic model. This finding is particularly timely given the announcement by the federal government in the November 2005 *Economic and Fiscal Update* of a Working Income Tax Benefit. Scarth approvingly notes that this initiative suggests that the government may be starting to appreciate the pro-growth benefits of simultaneously addressing structural unemployment and inequality.

Since 1990, the Swedish manufacturing sector has enjoyed the fastest labour productivity growth among the 12 OECD countries for which BLS data are published. In the sixth article, **Daniel Lind** from the Swedish Confederation of Professional Employees provides an analysis of the factors behind this exemplary

performance, finding that most of it was due to the radio, television and communication equipment industry, and in particular to one company in the sector, Ericsson.

Measurement of productivity in the service sector has always represented a challenge for economists. In the seventh and final article, **Erwin Diewert** from the University of British Columbia reviews the volume *Productivity in the U.S. Services Sector: New Sources of Economic Growth*, by **Jack Triplett** and **Barry Bosworth** from the Brookings Institution. Diewert notes that the authors have produced a textbook on the different types of measurement error that will force economists to take their empirical estimates with a considerable dose of caution. He concludes that both economic statisticians and policy makers will find the book invaluable.