

Editor's Overview

THE 14TH ISSUE OF THE *International Productivity Monitor* published by the Centre for the Study of Living Standards contains five articles. Topics covered are recent productivity developments in the United States; lessons for Canada from international productivity experience; India's productivity performance; measurement error and productivity growth in the Canadian construction industry; and the recently released EU KLEMS productivity and growth accounts.

The most important development in the US economy during the last decade has been the acceleration of productivity growth after 1995. Productivity growth is economic destiny so this trend, if sustainable, will deliver to the American people faster growth in material well-being. In the lead article, **Barry P. Bosworth** and **Jack E. Triplett** from the Brookings Institution focus on post-2000 productivity developments and find that the pace of productivity growth experienced during the second half of the 1990s has been maintained since 2000, with the driving force continuing to be the service sector.

The article represents an updating of the authors' important 2004 volume *Services Productivity in the United States: New Sources of Economic Growth*. They find that multifactor productivity growth in the services sector picked up after 2000 and was almost as high as that in the goods sector, an unprecedented historical development. They also note that reallocations of resources across industries, after reducing overall productivity growth before 2000, now appear to be playing a much more favourable role.

From an international perspective, Canada's productivity performance has been very poor during the last three decades, with our relative labour productivity level falling from third in the OECD in 1973 to 18th in 2006. This suggests that Canada has much to learn from international productivity experience. The second article by **Andrew Sharpe** from the Centre for the Study of Living Standards examines the fac-

tors that have fostered productivity growth in six OECD countries (United States, United Kingdom, Australia, Ireland, Sweden, and Finland).

Four important lessons for Canada emerge from the review. First, competition and productivity are closely intertwined. One of the most important steps, if not the most important step, governments can take to promote productivity is to ensure that markets are as competitive as possible. Second, human capital is the foundation of productivity advance, driving innovation. Third, the adoption of new technologies can be as important for productivity growth as the creation of new technologies through R&D. Fourth, institutional rigidities as a general rule impede productivity advance, while institutional flexibilities support it.

India has emerged in recent years as a dynamic economy with growing linkages to other countries. Indeed, the possibility of a Canada-India Free Trade Agreement has been raised. In the third article, **Joydeep Mukherji** from Standard and Poor's examines the productivity performance of the Indian economy and discusses the factors that are both driving and impeding productivity growth.

Mukherji argues that India has created the basic rules of modern political and economic life, the latter through economic liberalization policies. In his view, this institutional framework will allow India to become one of the fastest growing economies in the world during the next decade, in other words Asia's next productivity

success story. But he feels India could go even better if it addressed its fiscal deficits, poor infrastructure, low level of human capital, and rigid labour laws.

The construction sector has been one of the pillars of the Canadian economy in recent years, with real GDP advancing at nearly a 6 per cent average annual growth rate since 2000. But measured labour productivity growth in the sector has been low, at 0.5 per cent per year only one third of that of the overall business sector over the 1981-2006 period. In the fourth article, **Peter Harrison** from Finance Canada examines the issue of whether measurement error can account for this weakness in labour productivity growth.

Harrison reviews the evidence that both supports and does not support the mismeasurement hypothesis. He identifies the use of input cost indexes for the deflation of nominal output, instead of the use of the more appropriate output price indexes, as the most likely source of measurement error. He finds that this procedure may have resulted in a downward bias to labour productivity growth in the construction sector of up to 0.44 percentage points per year over the 1981-2003 period. This would account for about one half of the gap in output per hour growth between the construction and business sector.

The importance of comprehensive, high-quality databases for productivity analysis and research cannot be overemphasized. On March 15, 2007, an important new international productivity database was released, the EU KLEMS growth and productivity accounts. In the fifth and final article in the issue, the developers of this database, **Marcel Timmer** of the University of Groningen, **Mary O'Mahony** from the University of Birmingham, and **Bart van Ark** from the University of Groningen, present an overview of this massive data gathering and synthesizing exercise. Productivity researchers will be long grateful to the authors, and to the European Commission for financing, for the creation of this public good.

These growth and productivity accounts include measures of output, employment, capital formation, and labour and multifactor at the industry level from 1970 onwards for 25 European Union countries as well as for the United States and Japan. The authors find that the numbers confirm the view that European countries experienced a significant and widespread slowdown in productivity growth since 1995, in contrast to pick-up in productivity growth that has characterized the United States.