

Editor's Overview

THIS 16TH ISSUE OF THE *International Productivity Monitor* contains two articles on the recent productivity performance of the Canadian business sector and a symposium consisting of three articles on data requirements for better productivity measurement.

Canada's performance on most economic variables in recent years has been excellent. Unemployment is low, employment growth strong, inflation low and stable, and real incomes up. But on one criteria, arguably the most important from a long term perspective, Canada has done poorly. Business sector productivity growth has been weak, well below that of the United States and below Canada's the long-term trend established during the last quarter of the 20th century. This situation represents the Achilles heel of the Canadian economy. The first two articles in this issue address this crucial issue.

In the lead article, **Paul Boothe** and **Richard Roy** from Industry Canada review the performance of the Canadian business sector in improving labour and multifactor productivity and examine possible factors underlying recent developments. They link weak multifactor productivity growth to the weak innovation performance of Canadian firms. They then describe a research program on the demand for innovation in the business sector that Industry Canada is undertaking. The objective of this program is to identify the reasons for Canada's poor innovation and productivity performance in order to shed light on actions that can be undertaken to improve productivity growth.

In the second article, **Jean-Francois Arsenault** and **Andrew Sharpe** from the Centre for the Study of Living Standards provide a detailed analysis of productivity growth in Canada since 2000. At 1.0 per cent per year from 2000 to 2007, business sector output per hour growth in Canada has been below the 1.6 per

cent trend established in 1973-2000 and the 2.6 per cent rate of advance enjoyed by the United States in the 2000s. They make a case that it has been the movement from a labour surplus to a labour shortage economy that accounts for much of the weakness of productivity growth. The Canadian economy has experienced significant inter-industry and interprovincial employment shifts associated with the large increase in commodity prices and the rising value of the Canadian dollar, implying adjustments costs which have temporarily dampened productivity growth. Furthermore, they argue that there has been no fundamental deterioration in the state of the drivers of productivity, such as machinery and equipment investment, research and development, human capital, and the macroeconomic and microeconomic policy environments, in Canada relative to the United States. They thus conclude that it is unlikely that US and Canadian productivity growth have decoupled, suggesting that productivity growth will return to a rate of advance more consistent with the historical experience.

A sound analysis of productivity trends is dependent upon high-quality productivity data. There have been major advances in the availability of productivity time series and the quality of these series in OECD countries in recent years. The release of the KLEMS database is one important example of such advances. But there is still much to be done. This issue contains a symposium of three articles on data needs for better productivity measurement by a number of the world's leading productivity researchers.

In the first article in the symposium and third article of the issue, **Erwin Diewert** from the University of British Columbia identifies general problems for the measurement of total factor productivity. He argues that the treatment of exports, imports and indirect taxes in the national accounts is not adequate for productivity measurement. He concludes with six concrete recommendations for what statistical agencies in general, and Statistics Canada in particular, should do to improve productivity data. A number of these recommendations focus on the importance of better balance sheet information.

In the fourth article, **Jack Triplett** and **Barry Bosworth** from the Brookings Institution review and assess US data on services industries from the point of view of productivity research. They find that the availability and quality of US services statistics has increased dramatically in recent years. But they stress that additional

progress is needed, given the growing importance of the service sector. In this vein, they put forth 41 detailed recommendations for US statistical agencies to implement for better services productivity measures. Many of the recommendations relate to better producer price indexes for services industries.

In the fifth article, **Robert Inklaar** and **Marcel Timmer** from the University of Groningen and **Bart van Ark** of the Conference Board and the University of Groningen assess data for market services in EU countries. They find that, on average for 10 EU countries, about one third of the value added of market services industries is estimated with methods which produce estimates of unacceptable quality. They advocate that national statistical agencies in EU countries devote additional resources and efforts to adopt best-practice methods for output measurement in market services industries.