

# Editor's Overview

This 21st issue of the *International Productivity Monitor* published by the Centre for the Study of Living Standards contains five articles. The topics addressed are: a comparative industry perspective on productivity and economic growth in Europe; a detailed analysis of labour productivity growth in the transportation equipment industry in Canada; a portrait of the productivity performance of the Canadian provinces from a growth accounting perspective; a review of productivity experience and challenges in Latin America and the Caribbean and insights for Canada; and a discussion of the relationship between ageing and productivity.

A key stylized fact that productivity analysts must explain has been the divergence in productivity growth between Europe and the United States since 1995, with productivity growth in the United States accelerating and that in Europe falling off. In the first article, **Marcel Timmer** and **Robert Inklaar** from the University of Groningen, **Mary O'Mahony** from the University of Birmingham, and **Bart van Ark** from The Conference Board, drawing on their recent book *Economic Growth in Europe*, provide a comprehensive analysis of the issue from both a growth accounting and a major sector perspective.

They find that contributions from the knowledge economy—which they define to include labour composition, ICT capital intensity, and multifactor productivity—to labour productivity growth fell off in Europe after 1995, while they increased in the United States. Equally, they identify a much smaller contribution from market services to market economy labour productivity in Europe, only 0.6 percentage points per year compared to 1.8 points in the United States in 1995–2007, as the key sectoral difference in productivity performance between Europe and the United States. In terms of policy thrusts to boost Europe's productivity performance, they advocate a more flexible approach towards labour, product, and capital

markets and the establishment of a truly single market across Europe for service industries.

The transportation equipment industry has experienced much slower labour productivity in Canada since 2000 and has consequently contributed significantly to the post-2000 productivity slowdown. In the second article, **Kelvin Chan** and **Jianmin Tang** from Industry Canada and **Wulong Gu** from Statistics Canada examine the impact of industry mix and plant turnover at the sub-industry level on the sector's labour productivity performance. They find that reallocation effects made only a small contribution to productivity growth and that it has been the falloff in labour productivity growth at the sub-industry level, particularly in motor vehicle manufacturing, and in continuing plants, that accounts for the sector's productivity growth slowdown. They identify the fall in capacity utilization as the driving force behind the decline in both output and productivity growth.

There have been significant differences in the productivity performance of the Canadian provinces in recent years. In the third article, **Ricardo de Avillez** and **Chris Ross** from the Centre for the Study of Living Standards provide a detailed examination of productivity performance for the ten provinces for the 1997–2007 period. Drawing on the CSLS provincial productivity database and using a growth accounting approach, they provide estimates of

labour and multifactor productivity growth for 15 sectors by province, and decompose market sector labour productivity growth by province into labour composition, capital services intensity and multifactor components. They find that developments in the mining and oil and gas extraction industry explain both Newfoundland and Labrador's rapid productivity and Alberta's weak performance. The rapid increase in offshore oil production in the former based on investments made largely before 1997 boosted productivity growth, while the shift from low-cost, conventional oil production to high-cost non-conventional production (i.e. the oil sands) led to negative productivity growth in the latter.

It is now well recognized that economic development is synonymous with productivity growth. Without the latter, the former cannot take place. The fourth article, by **Someshwar Rao** of S. Rao Consulting, presents a review of *The Age of Productivity: Transforming Economies from the Bottom Up*, an edited research volume on productivity issues in Latin America and the Caribbean from the Inter-American Development Bank. The volume identifies the region's growing TFP gap with the United States and East Asian economies as the reason for its growing income gap. It provides a detailed diagnosis of the factors responsible, including high trade

costs, inadequate credit, a very large number of small firms, an ineffective tax system, and a large innovation deficit. The author of the review notes the parallel between Latin America's productivity situation and that of Canada. Both are experiencing an increasing productivity gap with the United States, have low business R&D intensity, and have large differences in productivity levels between firms in the same sector.

It is often asserted that older workers are significantly less productive than younger workers. But is there solid evidence for this view? In the fifth article, **Andrew Sharpe** from the Centre for the Study of Living Standards reviews *Ageing, Health and Productivity: The Economics of Increased Life Expectancy*, an edited research volume that explores the relationship between productivity and ageing. The volume finds that while there is some evidence of a negative effect of ageing on productivity, the aggregate effect is small. The author of the review argues that this finding provides support for efforts to boost the employment rate of older persons, both to benefit the individuals themselves given the strong relationship between work and well-being, and to increase tax revenues to meet the costs associated with the growing 65 and over population.