Opinion

Canada needs to raise the rate of productivity growth so there's more to share

That's the challenge of the next federal budget. So Finance Minister Chrystia Freeland should get the priorities right.

Finance Minister Chrystia Freeland, pictured arriving at a press conference at the Sir John A. Macdonald Building on Dec. 13, 2021, with Governor of the Bank of Canada Tiff Macklem to announce the Bank of Canada's inflation mandate. *The Hill Times photograph by Andrew Meade*

David Crane

Opinion

TORONTO—There is something wrong when productivity is growing but the typical worker doesn't share in that growth. Yet that has been the experience of the typical Canadian worker for much of the past 45 years—a growing gap between growth in productivity and growth in a typical worker's wage.

Only recently, with shortages of workers in many industries, is this starting to change. More is needed both to ensure that the typical worker fairly shares in productivity growth but also to improve Canada's disappointing productivity performance so that there is more to share.

In the implicit social contract that existed for many years, rising levels of productivity would lead to higher pay for the typical worker. But that contract broke down several decades ago, with businesses and their shareholders, along with the more highly paid members of the workforce, capturing most of the gains, leaving very little for the typical worker.

The exact details of what has been happening in 1976-2019 have now been set out by Andrew Sharpe and James Ashwell of the highly respected Centre for the Study of Living Standards, an Ottawa-based economic research organization. They pick up on *The Economist* magazine view that the economic progress of a society should be judged not by big gains in corporate profits or rising share prices but by increases in the purchasing power of median wages, in other words the pay of a typical worker.

The median hourly wage, adjusted for inflation, rose just 6 per cent between 1976 and 2019 while productivity rose 60 per cent, spelling out the gap between pay increase and productivity growth. In 1976, the median hourly wage was $16.40 an hour while productivity was $37.60 an hour, so that the typical worker received 43.5 per cent of productivity. In 2019, the median wage was $17.40 an hour—a measly $1 an hour increase spread over 45 years—while productivity was $60.20 an hour, so that the typical worker received just 28.8 per cent of the productivity, and just 4.4 per cent of the 60 per cent growth in productivity.

"Since 2000, the median worker has received about one-half of the gains from productivity growth, still very far from a fair and equitable sharing, but a dramatic turnaround from the pre-2000 period when the median worker received no benefit from productivity growth," the two economists point out. In the 1976-2000 period, high unemployment, falling unionization, and a rising import share all weakened labour bargaining power, but since 2000 these positions have been reversed or stabilized.

While their research shows that there continues to be a linkage between increases in productivity and increases in pay, it also shows that productivity for some time has been growing much faster than pay for a typical worker.

If progress is to be judged by gains in median wages, then, they argue, "one must conclude that progress in Canada over 1976-2019 has been meagre. Both profits and share prices have done well, but the median wage has advanced at only 0.11 per cent per year despite labour productivity growth of 1.10 per cent a year." In other words, only a tiny sliver of rising productivity has gone to typical workers.

Wage inequality within the labour force is one key factor in explaining the plight of typical workers. "The median worker's limited economic progress reflects their weak bargaining power to obtain wage increases from employers, compared to workers in the top half of the wage distribution who did considerably better," they say. This weak bargaining power reflected, until recently, high unemployment, falling unionization rates, and globalization leading to increased competition from imports.

While higher rates of unemployment and rapidly falling unionization— especially in the private sector—were important reasons for the weak bargaining power of workers, globalization—especially implementation of the Canada-U.S. free trade agreement and the follow-on North American Free Trade Agreement—also had a big impact on the bargaining power of workers, according to the Sharpe-Ashwell analysis.

The FTA and NAFTA meant employers could and did relocate production facilities to the U.S. south or Mexico where wages were lower while "the threat of relocating in the manufacturing sector also reduced the bargaining power of workers in wage negotiations and had negative spillover effects on wages in other sectors," Sharpe and Ashwell argue. Employers were able to freeze or cut compensation.

China's entry into the World Trade Organization in 1991 also weakened the bargaining power of workers in Canada. China accounted for 1.8 per cent of our imports in 1990, rising to 3.4 per cent in 2000 and 13 per cent in 2018. Overall total imports from the U.S. and the rest of the world were equivalent to 17 per cent of GDP in 1976 but 32 per cent in 2000, before settling back to 27 per cent in 2019.

But with business leaders, corporate and academic economists and government policymakers all extolling the benefits of lower trade barriers, no one was paying much attention to the losers in this process where freer trade was depicted as a "win-win" benefit. The losers felt the costs, but no one cared much about their plight.

The best world for the typical worker is "a fully employed economy characterized by soaring demand for workers in the bottom half of the wage distribution," Sharpe and Ashwell conclude, arguing this is "the key to ensure that the median worker receives an equitable share of the real income benefits generated by productivity growth." So if the current tight labour market continues in the years to come then "economic progress in the Canadian economy and society will significantly outpace the dismal overall performance recorded over the 1976-2019 period, especially the 1976-2000 period."

But there is another important need for future prosperity, which is to raise the rate of productivity growth so that there is more to share. That's the challenge of the next federal budget. So Finance Minister Chrystia Freeland should get the priorities right. We need fair sharing of productivity gains but we also need much stronger productivity growth.

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The Hill Times