Symposium on Future Productivity Growth in Canada: An Introduction

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No issue is more important for the future prospects of the Canadian economy than trend labour productivity growth. Greater productivity growth boosts potential income gains, gains that Canadian society can choose to take in the form of more consumer goods, additional public services, or less work time. To examine the issue of future productivity growth in Canada, the Centre for the Study of Living Standards organized a panel on this topic at the annual meeting of the Canadian Economics Association in June 2003 at Carleton University.

The three panelists, Thomas Wilson from the University of Toronto, Tiff Macklem from the Bank of Canada, and Benoît Robidoux from Finance Canada have since written up their presentations, which are published in this symposium. The purpose of this introduction is to provide the context for their discussion by highlighting certain issues related to the topic not directly addressed in the contributions. Brief summaries of the three contributions to the symposium are found in the Editor's Overview at the beginning of the issue. The key message that emerges from the symposium is a very positive one. There is a consensus among the contributors that total economy labour productivity growth in Canada is likely to be around 2 per cent per year over the next two decades, almost double the pace of the 1973-96 period.

Choice of Measure of Aggregate Labour Productivity

Aggregate labour productivity can be defined in a number of ways: on the basis of the total economy or the business sector, and in terms of persons employed or hours worked and growth rates differ among measures. Labour input is used as a measure of output in the non-business sector, which by definition results in no recorded productivity growth. This means that output in the total economy, which includes the non-business sector, tends to grow at a slower pace than the output of the business sector (see Table 1). An important reason for choosing the total economy as the appropriate measure of aggregate labour productivity is that the potential for real income gains is determined by economy-wide aggregate productivity increases, but the business sector accounts for only around three quarters of total economy output.

Total hours worked is a more accurate measure of labour input than persons employed because hours exhibit both cyclical and secular movements. Total economy output per hour has grown significantly faster than output per worker since 1961 (Table 1). When data on hours are available, an hours-based aggregate labour productivity measure is preferable to a worker-based measure.

Productivity and the Sustainability of Social Programs

Small increases in productivity and real income over long periods can greatly affect fiscal balances and the sustainability of social programs. A movement from an environment of 1 per cent productivity growth, which characterized the 1973-96 period, to an environment of 2 per cent productivity growth, which the contributors to this symposium believe will be realized in coming years, has extremely favourable consequences for the affordability of social programs. Indeed, according to William Robson (2003:20) from the C.D. Howe Institute,

> Growth in output per working age population of 1.9 per cent annually would essentially cause the net national demographically driven liability to disappear.

With 2 per cent annual labour productivity growth, this would imply growth in output per working age person of 1.7 per cent, assuming that the working age population grows 0.3 percentage points per year faster than the labour force following Dungan and Murphy (2003). This is very close to the figure given by Robson required to guarantee sustainability of social programs. Many would argue alternatively that 2 per cent productivity growth removes basically any threat to the financial solvency of social programs related to demographic developments.

Table 1
Productivity Growth Rates in Canada, 1961-2001
(Compound average annual rates of change)

	Total Economy		Business Sector	
	Output per Worker	Output per Hour	Output per Worker	Output per Hour
1961-2001	1.48	1.85	1.79	2.13
1961-1973	2.69	3.42	3.06	3.74
1973-1989	0.75	1.06	1.07	1.38
1989-1996	1.03	1.17	1.08	1.22
1996-2001	1.56	1.61	2.03	2.02

Source: Statistics Canada, Aggregate Productivity Measures. CANSIM table 383-0003. Released August 1, 2002.

Other Projections of Aggregate Labour Productivity

Long-term productivity forecasts are also produced by Global Insight, Informetrica, and the Conference Board of Canada. These projections are somewhat lower than the consensus of around 2 per cent total economy labour productivity growth that emerges from the three contributions to this symposium. Global Insight projects aggregate labour productivity growth of 1.9 per cent over the 2002-26 period. Informetrica sees aggregate labour productivity rising at only a 1.6 per cent average annual rate over the 2002-26 period, while the Conference Board of Canada projects an even lower 1.46 per cent per year over the 2002-15 period.

These projections show that, despite the consensus of the three contributions to the symposium, there is no overall consensus in the economics profession in Canada. Labour productivity growth in Canada may be lower than 2 per cent as certain projections would indicate. On the other hand, given the degree to which the extremely strong productivity growth recently experienced in the United States spills over to Canada, it may be well above 2 per cent. In any case, future productivity trends are of the utmost importance for the living standards of Canadians and will be followed very closely by economists and policymakers.

References

Dungan, Peter and Steve Murphy (2003) "Long Term Outlook for the Canadian Economy: National Projection Through 2025," Policy Study 2003-2, Policy and Economic Analysis Program, Institute for Policy Analysis, University of Toronto.

Robson, William B.P. (2003) "Time and Money: The Far-Reaching Fiscal Impact of Demographic Changes in Canada," C.D. Howe Commentary No. 185, July (Toronto).