Productivity studies reveal a mixed bag

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We are awash these days in productivity, chiefly because the Centre for the Study of Living Standards in Ottawa, which in some ways is Canada's head office for analyzing productivity issues, is itself so productive.

Last week, the CSLS name was on two publications (one in conjunction with the Montreal-based Institute for Research on Public Policy) containing 21 studies of an issue that goes to the heart of how well Canadians live now and might live in the future.

The news was both bad and hopeful. The bad: Canada's factories are falling further behind their U.S. counterparts. The hopeful: Canada as a whole can catch up, and if we do, we can make some surprisingly pleasant choices.

The bad news first. Canada's manufacturing productivity, which kept pace with productivity gains in the United States over the three decades from about 1965 to 1995, suddenly slowed. At the same time, factory productivity in the United States took off.

By last year, Canadian manufacturers were only 70.1 per cent as productive as their U.S. counterparts -- down from about 85 per cent between 1965 and 1995 to their worst showing since 1955. The figure for 2002 is likely to be even lower.

Here's how it happened. From 1994 to 2001, manufacturing output increased at roughly the same rate in both countries -- about 3.5 per cent annually. But Canadian factories hired more people who worked more hours (up 2.7 per cent annually), so output per hour worked increased by only 0.7 per cent a year. U.S. factories trimmed their payrolls and each worker put in fewer hours (down almost 1 per cent annually), so their output per hour rose 4.5 per cent a year.

Why did this happen? First, U.S. factories invested more in new equipment that made their workers more productive, while Canadian factories did not.

Second, the United States developed a much larger high-tech manufacturing sector than did Canada. In 2000, high-tech operations accounted for 21 per cent of all factory workers and 35 per cent of all factory output in the United States, compared with 13 per cent and 17 per cent in Canada.

Productivity growth in the high-tech segment was much higher in the United States as well -- 17 per cent annually to Canada's 3 per cent. So when you combine high-tech's greater importance and faster productivity growth in the United States, there's no mystery to why overall productivity growth was faster south of the border.

There might be any number of reasons, according to the researchers involved -- Jeffrey Bernstein of Carleton University, Richard Harris of Simon Fraser University and Andrew Sharpe of CSLS.

Perhaps the collapse of commodity prices and the difficulties of adapting to free trade discouraged investment in Canada. Perhaps stronger overall U.S. growth encouraged more investment there. Perhaps it had something to do with higher taxes, unionization and regulation in Canada.

Whatever the causes, Canadian manufacturers have work ahead if they are to recover the lost ground. It isn't just the United States ahead of us these days. Finland, Sweden, Belgium, the Netherlands and western Germany all excelled us in 2000.

Mr. Sharpe, executive director of CSLS, offered a more hopeful tone in a separate article. The productivity evidence is dismal, but Canada isn't out of the game yet.

Looking across the whole economy, not just manufacturing, he figured Canada's productivity -- total gross domestic product per hour worked -- was about 82 per cent that of the United States in 2001, down from a peak of 91 per cent in 1977.

More than any other reason, he argues, that slide explains why Canada's standard of living -- narrowly defined as GDP per person -- has slipped to 85 per cent of the U.S. level from about 90 per cent in the late 1970s.

To close the productivity gap, Canada must crank out gains that exceed those of the United States by about 1.2 percentage points annually for 15 years. It sounds daunting, but Canada has done just that before and might be able to do it again, especially if we quickly adopt the lessons learned elsewhere, especially in the United States.

But here's the really hopeful bit. Mr. Sharpe suggested that Canada's real goal should be to close the productivity gap, not the gap in GDP per person. We can't close the latter without closing the former. But if we close the former, we don't have to close the latter.

If we close the productivity gap, we can choose. We can take our gains as money, which means we'd close the gap in GDP per person, the conventional definition of living standards. Or we can convert our gains into more leisure. We won't be as rich as the Americans, but we'll have more time to enjoy what we have. It's a choice that's already been made by many European nations, whose productivity matches that of the United States, but who work less than Americans. It all depends how you define a standard of living -- money alone or money and leisure?
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