



AUGUST 2023

# LAGGING PRODUCTIVITY: A THREAT TO CANADIAN LIVING STANDARDS

By Renaud Brossard, with the collaboration of Elias Djabri

Productivity in Canada is a major source of concern, as it influences the economic growth and competitiveness of the country. Indeed, although Canada has abundant resources and considerable economic potential, its overall productivity remains below that of many other industrialized countries. This situation is a significant obstacle to improving Canadians' standard of living, productivity being its main determining factor.

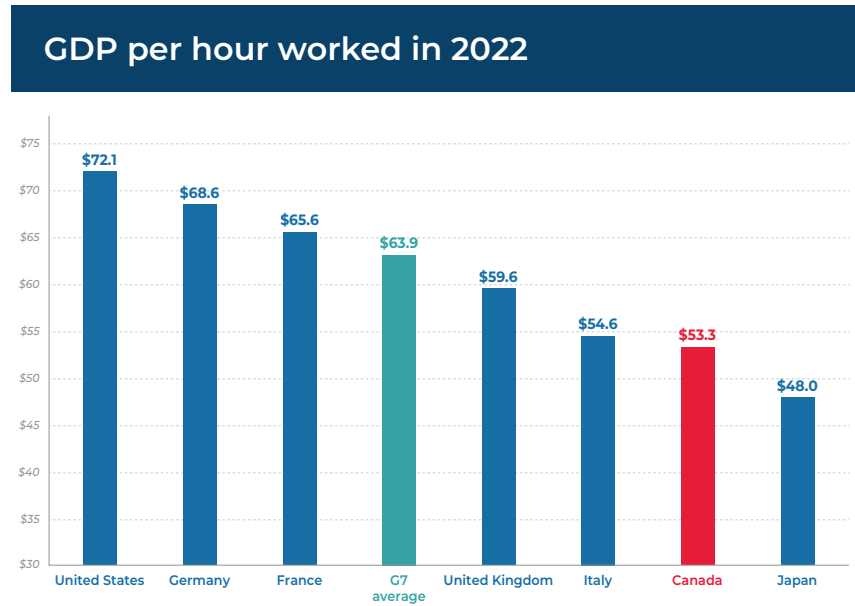
## THE STATE OF PRODUCTIVITY IN CANADA

The low level of productivity in Canada is an indisputable fact. The country is an underperformer among the G7 when it comes to productivity. In 2022, it was 6<sup>th</sup> in terms of hourly productivity as measured by gross domestic product per hour worked, just ahead of Japan<sup>1</sup> (see Figure 1).

A deeper analysis of the productivity gap between Canada and a comparable economy like that of the United States shows that this phenomenon has persisted for some time. On average, the productivity gap from 2010 to 2022 was 35.7%,<sup>2</sup> a non-negligible difference which is all the more worrisome given that it is observed over an extended period. This means that Canada is not able to generate as much economic value per unit of time, on average, as the United States.

This dynamic represents a significant challenge, as a decline in productivity risks leading to a loss of international competitiveness,<sup>3</sup>

Figure 1



Note: USD, constant prices, 2015 PPPs.

Source: OECD.Stat, Level of GDP per capita and productivity, OECD, consulted July 25, 2023.

which would limit the creation of quality jobs and undermine the maintenance of strong economic growth.

- For one thing, when productivity is low, companies have trouble producing more with the same resources, which restricts their ability to introduce competitive products on the global marketplace. This hampers the creation of quality jobs, as companies have less leeway for investing in new projects, hiring additional staff, or increasing remuneration for those already employed.
- For another, low productivity interferes with the maintenance of strong economic growth, as it limits the capacity of companies to

generate revenues and invest in innovation and development. According to one report, 53% of the average annual growth in global GDP since 1964 is due to productivity.<sup>4</sup>

### THE RESULT OF LOW INVESTMENT PER JOB

Low productivity is directly related to the low level of investment in the economy. Once again, Canada's relative performance in this regard is not encouraging. The country is lagging significantly behind its peers in terms of private investment.

In 2018, as measured by non-residential private investment per job, an indicator of our competitive environment and level of productivity, Canada ranked behind many OECD countries.<sup>5</sup>

This trend is also evident when looking at companies' spending on research and development (R&D), as such investment plays a major role in our productivity deficit. Canada thus found itself at the bottom of the pack<sup>6</sup> in terms of R&D in 2017, which indicates a fundamental lag compared to many of its OECD peers as opposed to simply a structural lag.

Faced with this reality, Canada's governments need to intensify their efforts to encourage companies to devote more resources to research and development in order to make up this significant gap.

### NEGATIVE EFFECT ON CANADIAN LIVING STANDARDS

Productivity being the main determinant of living standards in the long term,<sup>7</sup> the ramifications of this decline in productivity are found notably in the evolution of GDP per capita, a key indicator in this regard. Because of the cumulative effect of economic growth,<sup>8</sup> even small variations in productivity can translate into significant gaps in GDP per capita, and therefore in the standard of living of Canadians.

For example, according to data from the World Bank, in Canada, GDP per capita in 2022 was US\$54,966 in current dollars.<sup>9</sup> In the United States, it was US\$76,396, some 39% higher, which reflects the difference in productivity referred to above.

Another indicator of standard of living that accounts for differences in purchasing power paints a similar picture. According to data from the CIA's World Factbook,<sup>10</sup> GDP per capita was \$47,900 in Canada in 2021, versus \$63,700 in the United States. This gap, a little lower than the previous one, is 33%.

As productivity is the main cause of the relative drop in Canadians' standard of living, it behooves us to give it the attention it deserves.

By adopting a more favourable fiscal and regulatory framework, we could strengthen the attractiveness of Canada as a destination for investment, like the United States between 2010 and 2022. An approach that aligns our fiscal environment to the best international practices would stimulate innovation and lead to increased productivity, thus favouring Canada's economic growth and global competitiveness.

### REFERENCES

1. The data for Japan are an OECD estimate. OECD.stat, Level of GDP per capita and productivity, OECD, consulted July 25, 2023.
2. *Ibid.* Author's calculation. Difference in productivity between Canada and the United States for each year between 2010 and 2021. An average was then established.
3. Aline Dresch, Dalila C. Collatto, and Daniel P. Lacerda, "Theoretical understanding between competitiveness and productivity: firm level," University of Valle, *Ingeniería y competitividad*, Vol. 20, No. 2, 2018, p. 2.
4. James Manyika, Jaana Remes, and Jonathan Woetzel, "A productivity perspective on the future of growth," *McKinsey Quarterly*, September 2014, p. 6.
5. Jonathan Deslauriers, Robert Gagné, and Jonathan Paré, *Productivité et prospérité au Québec : Bilan 2022*, Centre sur la productivité et la prospérité – Fondation Walter J. Somers, HEC Montréal, p. 33.
6. *Ibid.*, p. 34.
7. Daniel J. Shaw, "Canada's Productivity and Standard of Living: Past, Present and Future," Government of Canada, Economics Division, October 24, 2002.
8. Philip Cross, *What is Behind Canada's Growth Crisis?* Fraser Institute, July 2023, p. 11.
9. World Bank, GDP per capita (current US\$) – Canada, United States, consulted July 25, 2023.
10. The World Factbook, Country Comparisons – Real GDP per capita, consulted July 25, 2023.



This Viewpoint was prepared by **Renaud Brossard**, Senior Director, Communications at the MEI, in collaboration with **Elias Djabri**, Public Policy Analyst at the MEI. The MEI's Regulation Series aims to examine the often unintended consequences for individuals and businesses of various laws and rules, in contrast with their stated goals.

The MEI is an independent public policy think tank with offices in Montreal and Calgary. Through its publications, media appearances, and advisory services to policy-makers, the MEI stimulates public policy debate and reforms based on sound economics and entrepreneurship. It neither solicits nor accepts any government funding.

910 Peel Street, Suite 600, Montreal QC H3C 2H8 - T 514.273.0969  
150 9<sup>th</sup> Avenue SW, Suite 2010, Calgary AB T2P 3H9 - T 403.478.3488

iedm.org