

Counteracting the Growing Productivity Gap: Call for a Public Debate

Canada continues to lack an overarching productivity strategy. Canadian productivity is not growing as fast as it is in the U.S. and many other countries as Canada sits in the bottom quartile of the Organization for Economic Co-operation and Development (OECD). At present, Canada has relatively healthy balance sheets, low taxes and low borrowing cost, what potentially makes Canada a competitive partner for the emerging markets and global economy key players.¹ However, there continues to be important obstacles that lessen the Canadian economy attractiveness, underuse the country's economic and human potential and, in the whole, slow down the Canadian productivity notably.

As stated by the research conducted by the World Economic Forum (WEF) *Canada is slipping a few notches in the 2014-15 report (with its goods and labour ranked 14th (12th in 2011-12 report) 7th (5th in 2012 report)) respectively. (The country's financial market, which ranked 13th in the 2012 report, has excelled into an 8th positioning, in the 2014 report.) Canada boasts well-functioning and transparent institutions now ranked 14th (11th in 2012 report), and excellent infrastructure now ranked 15th (11th in 2012 report). In addition, the country has been successful in nurturing its human resources: it is ranked 7th (6th in 2012 report) for health and primary education and 18th (12th in 2012 report) for higher education and training. Business sophistication and Innovations falls further down the scale at 23rd and 22nd respectively. As a global competitive entity Canada is ranking 15/144.*²

In less than ten years of time the emerging economies will account for 55% of the world's economic output, up from the current 45%. The strong demand in these countries for materials, finished products and services presents opportunities for the Canadian business. According to the WEC, the most problematic factors for doing business in Canada are: access to financing, tax rates and inefficient government bureaucracy. Rated 4th is insufficient capacity to innovate, followed by inadequate supply of infrastructure. "Structurally, we're not doing as well at innovation as we need to," said Daniel Muzyka, president of the Conference Board of Canada, the WEF's Canadian partner in the global study. "We're not really mobilizing to become more competitive."

If there ever was a time to take poor productivity growth seriously the time has arrived. Over time Canadian business investment has shifted away from manufacturing toward resource development. Key resource sectors, such as the oil sands have absorbed significant and innovative investment but have yet to see a significant and sustained increase in productivity. With a downward adjustment in the price of these key natural resources the country will certainly feel the urgency to diversify and innovate.

At the same time, Canadian researchers indicate that a key source of U.S. higher productivity growth has been the development and production of information and communications related goods, and subsequently the broad application of these through the U.S. economy, particularly in the service sector. The intensity of usage of information technology by Canadian business continues to be only half that of the U.S..

In 2007, Canadian business ranked 14th among OECD countries in research and development expenditures as a percentage of GDP. Canadian business spending on R&D was only 1% of GDP and continues to stay the same according to current studies, well below the OECD average of 1.6%, half of what the U.S. business spends and 33% compared with Sweden, Finland and Korea. As a result, Canadian business has less capacity to be receptive to innovation, and less of a focus on innovation as part of integrated business strategy in Canada.

The globalization of markets is accelerating the diffusion of technology and the pace of innovation. New occupations are emerging and replacing others. Within each occupation, required skills and competencies are evolving, as the knowledge content of production processes and services is rising."³ In a research document titled "Smarten Up: It's Time to Build Essential Skills" prepared by the Canada West Foundation the document identifies 40% of the workers in Canada do not have the essential skills needed to apply their technical skills and knowledge at globally competitive

¹ Productivity must rise: Bank of Canada, Retrieved on 28 May, 2012 from: <http://www.cbc.ca/news/business/story/2010/03/29/boc-jenkins.html>

² *Global Competitiveness Report* <http://www.weforum.org/reports/global-competitiveness-report-2014-2015>

³ *8A Skilled Workforce for Strong, Sustainable and Balanced Growth: A G20 Training Strategy*. International Labour Office - Geneva, (2010)

levels. The document speaks to ½ of the people who did not finish high school who have essential skills shortages (basic skills like math, reading and writing) and 1/3 of 16 – 25 year olds are short of some essential skills for their jobs. The skills shortages are pervasive across all demographics.⁴ The federal government has implemented the Canada Job Grant through provincial bi-lateral agreements, which is a step in the right direction, however, without a needs assessment to determine what essential training is required, by which employees and to which level is not undertaken prior to implementation would be crucial for the success of qualifying federal government spending job creation grant application expenditures.

Public perception may need to be addressed. In a further study through Deloitte; The Future of Productivity 2013; closing the perception gap suggests attitudes and perceptions may explain why Canadian companies invest less in improving their productivity and growth. 36% of Canadian businesses do not realize they are underinvesting and are overconfident. “To spur Canadian Companies into action we need to change perceptions” “Companies need timely, accurate information about their competitive environment and how they compete”.⁵

Taking into account different attitudes towards the Canadian productivity gap, there is no denial that Canada is missing a broader debate about the countries productivity. A concerted productivity strategy, that would encompass innovation, the labour force, markets and attitudes, skills and training should be elaborated.

Recommendations

That the federal government:

1. Within the next 18 months, develop a long-term, comprehensive productivity strategy that will ensure Canada becomes one of the top five nations for competitiveness in the World Economic Forum rankings.
2. Implement the recommendations of the federal government’s own expert panel, which created a framework for action in 2011 that speaks to R & D funding so that Canada can compete on equal terms with the most innovative economies in the world, based on the GII Index 2014.
3. Focus on building global centres of research excellence, better commercialization of research efforts to create jobs and wealth, better models of business-university partnerships, and better market-based means of financing the application of innovation.

⁴ Smarten Up: It’s Time to Build Essential Skills

http://cwf.ca/pdfdocs/publications/HCP_SmartenUp_Report_JUNE2015_WEB.pdf

⁵ The Future of Productivity: Deloitte <http://www2.deloitte.com/ca/en/pages/insights-and-issues/articles/future-of-productivity-2013.html>