

# BRIDGING THE POLITICAL PRODUCTIVITY GAP

Robin V. Sears

While Canada's GDP per capita is among the highest in the world, our productivity growth lags those of most industrialized economies. Though the productivity challenge ought to be a top priority for Canada, governments find it difficult to explain, and even more difficult to sell, to voters. But Robin Sears suggests the Harper government could have the productivity field to itself, since the Liberals and the NDP have "ceded this important challenge entirely, just as most of them did in the deficit debate" of the 1980s. He proposes productivity as part of a "Great Canada Agenda."

Si notre production par habitant est la plus élevée au monde, la croissance de notre productivité est nettement moindre que dans la plupart des pays industrialisés. Ce défi de la productivité devrait figurer en tête de nos priorités, mais nos gouvernements n'arrivent pas à en expliquer les enjeux et moins encore à en convaincre les électeurs. Or, Robin Sears estime que le gouvernement Harper pourrait occuper à lui seul tout ce terrain politique puisque les libéraux et les néo-démocrates « ont totalement renoncé à relever cet important défi, tout comme la plupart d'entre eux l'avaient fait dans le débat sur le déficit » des années 1980. L'auteur propose de faire de la productivité une partie intégrante d'un « Grand projet canadien ».



*Getting people to work harder while paying them less.*

Madeleine Drohan

**W**hy is it that getting voters to support productivity improvement always seems to fail? Politicians pleading that "our children will suffer" if we don't get better at adding value have been no more successful than those who use national humiliation — "Look how far we have fallen behind!"

Academic studies on "Canada's perennial productivity gap" have consumed forests of paper without noticeable impact, from the multimillion-dollar recycling project generated by Michael Porter of Harvard in 1991 to the annual efforts by the C.D. Howe beavers and more recently the Rotman School at the University of Toronto.

It is not as if their prescriptions were in such conflict, offering an excuse for all to ignore "because even the experts don't agree," or even that the remedies proposed are so draconian that a politician would need to be tired of living to dare propose such stern measures. The experts are in broad agreement in both description and prescription. The policy changes they plead for are large, but long-term and hardly punitive.

The productivity message heard by the average voter despite all this brain pounding by economists and political

scientists is, as the *Economist* correspondent and economic guru Madeleine Drohan discovered when she asked her husband for a lay definition, simply: "Lower salaries and faster conveyor belts!"

Then there is the problem of an economy thundering ahead faster than most competitors, for longer than at any time in recent history, generating more wealth and jobs for most Canadians than most citizens can remember. "If we are doing so badly why are we doing so well?" is the not unreasonable query of the average Canadian.

**A**s Canada enters its second decade of record growth, with unemployment transformed into serious labour shortages, and with record resource prices and revenues, it is hard to ring the productivity-gap alarm bell. By every short-term measure the economy is booming.

Roger Martin and James Milway hollered warnings in the first report of their then new Institute for Competitiveness and Prosperity five years ago. The "prosperity gap," as they cleverly tried to rebrand the boring "productivity lag" between Canada and the American economy, was \$5,905 or 13.8 percent of median GDP per capita. In their most recent report, that gap has grown to \$9,200. This is quite an astonishing sum of money for every Canadian to accept as the discount on

their labour compared with that of an American performing similar tasks.

Of the array of tax, infrastructure investment, education promotion and innovation proposals they offered in November 2002, and repeated and expanded in 2007, virtually none has been even partially implemented by Canadian governments in the interval.

Along with similar allies, such as the Conference Board of Canada in a

of those large policy buckets into which economists and politicians throw a lot of favourite nostrums, from raised education spending to lowered corporate taxes to reduced obstacles to interprovincial trade.

To those who pay less attention to the vocabulary of the army of policy wonks and wonkettes, the word is no more relevant than “deficit” or “national” debt used to be. There is a lesson to

Perhaps it's time to frame the productivity debate in terms of a national toolkit, and the contribution it can make to building a better future for our children. After all, the estimate of what value we have added to the labour and raw materials with which we construct our national wealth is only a measurement tool. A bathroom scale is not of much interest to someone unconcerned about their weight. To a non-carpenter, a spirit level is only one of those mysterious tools that go into making a fine cabinet or beautiful home — of no interest beyond its output.

The Martin/Milway “prosperity gap” is a good beginning down this path. For all the consequences of our weak productivity, to become part of a national political dialogue it will require much more emotional

colour and connection. The Harper government has a special need, and potentially a particular competence, to paint this new picture for voters.

Few Canadians would regard Singapore as a national model in many respects — “Disneyland with the Death Penalty,” as Canadian author Douglas Coupland famously dubbed it. However, in its demonstrated ability to link its government bureaucrats and its business community to a shared national productivity crusade it is hard to beat. Its holy grail is to become the high-value-added services hub of Asia, supported by a globally competitive port, biotech sector and petroleum and chemical processing industry. With the exception of the Asian financial crisis of the mid-1990s it has moved up the economic food chain, raised national per capita GDP, and hit high productivity goals, virtually every year for decades.

Civil servants are rewarded with bonuses, on top of high salaries, when GDP and productivity targets are met. Private sector compensation is more tightly tied to similar performance goals than is CEO pay in Canada or the United States. In a nervous city-state of fewer than five million people sur-

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series of learned studies, the C.D. Howe Institute and bank economists of every description — supported by an unprecedented four-part lead editorial series by the *Globe and Mail* — these increasingly frustrated Cassandras have run into a brick wall of political indifference.

It would be hard to argue their anxieties were misplaced:

- OECD statistics place Canada dead last in productivity growth in the period from 1981 to 2005 among developed economies larger than 10 million people (figure 1).
- American employers invest two-thirds more per employee in high-tech capital equipment than their Canadian competitors (\$3,200 versus \$1,800 in 2005).
- Canada has the second-highest taxes on investment in the developed world.

There are an array of reasons why the subject is such a political non-starter. First is simply the word. Like “preventive health care” or “comprehensive pension reform,” “fighting Canada’s chronic productivity gap” is not a bumper sticker to move voters. To knowledgeable voters there is some suspicion that the word is simply one

be learned from those who turned deficit from a yawn to a crusade in the nineties, however. Relate the meaning to an impact that has emotional content for citizens. Millions of Canadians were slowly persuaded by Paul Martin, and his business journalist and academic supporters, that a nation which handed nearly 40 cents of every tax dollar to creditors was on a fast ride downhill. Deficit reduction came to be associated politically with better health care and children’s futures, however enraging that was to left-wing economists.

**F**or productivity to ever matter to voters, its political meaning needs to make the same journey. However, for the champions of “added value” the challenge is even greater than it was for the deficit hawks, as the shock value of productivity statistics is weak compared to “one out of nine Canadians is unemployed” or “our children will inherit a national debt equal to a second mortgage on every house in Canada.” A productivity growth rate that is close to inflation at 2 percent or so, even if it’s only half of American gains, doesn’t have the same punch as a rhetorical hammer.

rounded by several potential enemies, it is obviously easier to whip national progress than it will be to stir complacent Canadians. A useful lesson may be how consistently and uniformly Singapore's leaders hammer at the political message that the country's

**The Harper government could articulate a "Great Canada" agenda as part of its summer-long policy retrofit. It could steal the policy clothes from several centre and centre-right governments around the world to boost commercialization of R&D — a consistent Canadian failure. It could set out a higher education strategy that is less cowardly than the NDP's and the Liberals' call for free university education for all. It could even make an offer to share some of its booming resource revenues, perhaps in a "Canadian prosperity fund," in partnership with any province or corporation willing to similarly commit to joint productivity investments.**

future economic and very physical security is dependent on beating its neighbours in productivity gains. For a high-cost economy, in a sea of low-cost labour competitors, this is not a trivial national goal.

Scandinavian politicians and intellectuals frame their discourse on this issue differently, but equally powerfully for their culture and history. The smarter progressive politicians in Denmark, Sweden and Finland — where the political spectrum runs from the centre to the far left in Canadian terms — pound relentlessly that in order to *maintain* their high-income, strong social safety net economies, they cannot raise taxes any further and they need to keep boosting productivity. Intense debates about education quality and R&D success are at the centre of national politics. Even Norway, "blessed" with booming oil wealth, has reached a national consensus on the importance of setting aside a large slice of it for future investment for future generations. Though they battle over adequate funding for their social infrastructure in a ritualistic vocabulary familiar to Canadians, the need to make effective productivity-boosting investments is accepted even by the Norwegian trade unions.

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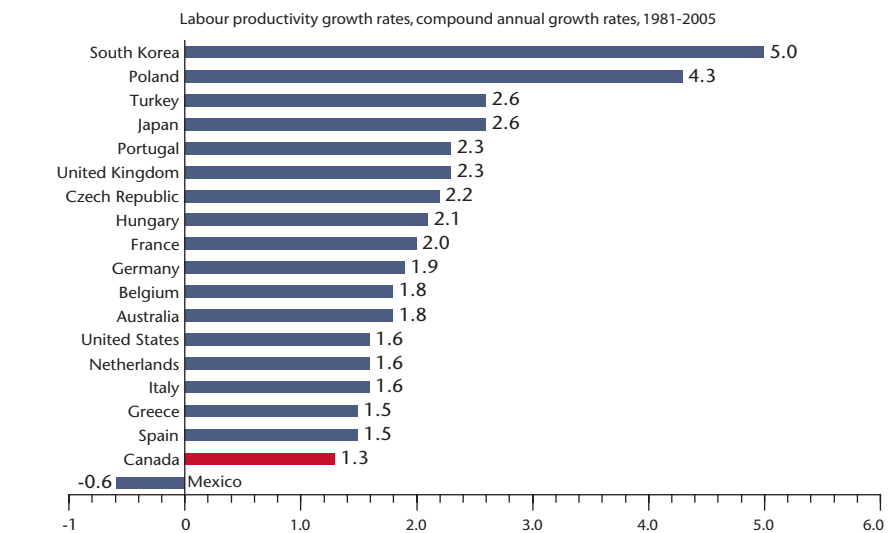
So far, however, the Harper government's productivity record is

mixed, to put it most gently. It has taken some steps to address the "stagnating productivity" file. Finance Minister Jim Flaherty's "Advantage Canada" economic agenda was an effort to send a signal that the federal government gets it. The budget and his subsequent speeches were full of the usual productivity buzzwords and hand-wringing. Little seems to have stuck in national consciousness, though — can you name any one of the "Advantage Canada" national priorities? — or to have been followed up with a focused political campaign.

As was obvious to even someone as economically challenged as Stéphane Dion, encouraging consumer spending is not normally seen as a path to improved productivity. In a little-noticed speech in April, he said:

*From the IMF to the OECD, from the Fraser Institute to the government's own Finance Department — all have clearly said that lower income tax, not lower GST, is the right way to go. Taxes have a powerful*

FIGURE 1: AVERAGE ANNUAL PRODUCTIVITY GROWTH IN SELECTED OECD COUNTRIES, 1981-2005



Source: OECD.

*impact on people's behaviour. If you cut the GST, you encourage consumption. On the other hand, if you cut income tax, you encourage Canadians to save and invest, increasing our productivity. As prime minister, I would not cut a second point*

**It would give the prospect of changing Canadian attitudes on our ability to maintain our status as a high-cost, high-value economy an enormous boost if it were Buzz Hargrove and not only Roger Martin, Tom d'Aquino et al. making the case. The association of productivity alarms exclusively with business and not with union leaders' demands means many Canadians turn off. If Canadian left-wing academics, union and think-tank pundits were to sing from a similar song sheet as to that of business academics and CEOs, politicians would pay more attention, and voters would show more interest.**

*from the GST. Instead, I would help grow the economy by ensuring that income taxes are low and that taxes on business and investment are competitive.*

Former Martin economic adviser and venture capitalist Jim de Wilde sums up his view of the policy challenge in a set of tightly argued goals. Among them:

- Canada should aim to become the most economically and scientifically literate society on the planet.
- Canadian universities and venture capitalists need to develop much better skill sets and organizational cultures to succeed at R&D commercialization.
- Constant re-engineering of skills and best practices requires lifelong training and sabbatical opportunities, or the best talent will simply leave Canada to find it.
- Fostering strong bilateral economic alliances with complementary local and regional economic successes is a key role for government: e.g., Waterloo-Bangalore.
- Tax systems must reward economic success, investment, and risk taking.
- A national capital market strategy is essential, starting with securities regulation.

Each of the Liberal leadership candidates last year took mild to more vigorous swipes at their own government's poor record on productivity, demonstrating that they understand there is some political ground to be fought for here. Rae and Ignatieff, for example, argued for tougher action on national securities reg-

Jacobs of the Canadian Centre for Policy Alternatives wrote in 2005. "The experience of workers over the past decade paints a different picture. While economic growth, profits, and productivity increased, workers' earnings stagnated."

Deconstruct the argument: first the bizarre claim that Canadian average earnings have stagnated, then the suggestion that productivity isn't a problem anyway! A unique analysis, certainly.

While many Liberals and a few Canadian social democrats claim to understand that the generation of wealth must precede its distribution, their comfortable default position is to attack how the economic pie

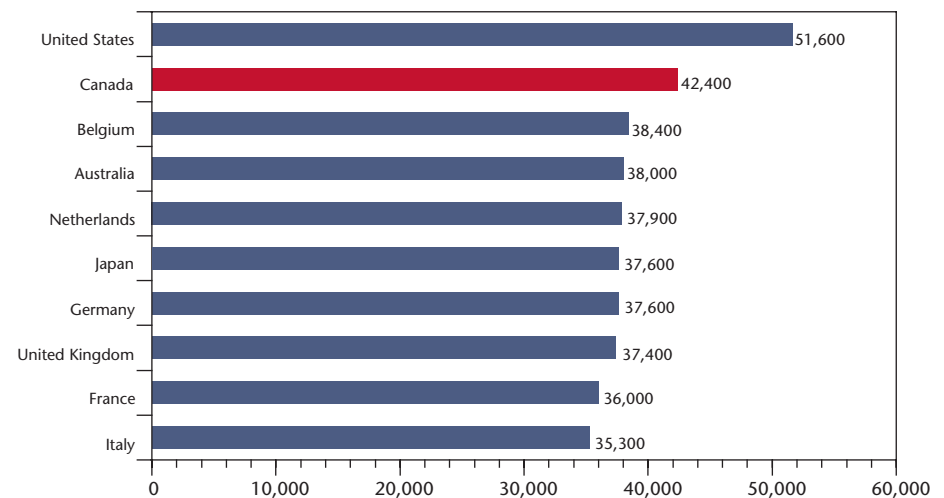
is sliced, not whether it has grown. Like their defence of deficit spending — "This isn't a deficit, it's an essential investment in the future!" — such a devotion to "fairness" in pie slicing allows one to avoid advocating the changes required to keep up with other countries' rapidly improving pie-making skills. The size of our pie and its value gets ignored.

It is not as if the problem were not real. Commenting on last year's Competitiveness Institute study,

ulation, national education standards, reduced barriers to immigrant professionals and interprovincial trade, as well as "competitive" business taxes.

The Quebec sovereignists, the federal NDP and the Greens have ceded this important national challenge entirely, just as most of them did on the deficit debate. Typical of the Canadian left's "frozen in '60s amber" thinking: "Another problem is [the assumption] that increased productivity equals increased prosperity for all Canadians," John

FIGURE 2. GDP PER CAPITA (2005 C\$)



Source: OECD.

Maclean's said:

*Canada has lost ground to international competition. Our business productivity peaked relative to the US at 91.4 percent in 1984 — and has since fallen to 74 percent. Moreover, we are slipping relative to many members of the Organization for Economic Co-operation and Development (OECD). Four decades ago we ranked third. Now we're 17th. As Roger Martin, dean of the University of Toronto's Rotman School of Management, recently warned: "The stealthily slow drift of underachievement could erode our economic strength before we know it."*

That single statistic in the hands of a good speechwriter should send a shiver down any listening Canadian audience's spine: "Just think, my friends, in two decades we have cut the value of the Canada we will leave to our children by 25 cents out of every dollar of our national assets. At this rate, in another two decades, we can give Argentina a run for its money..."

It would give the prospect of changing Canadian attitudes on our ability to maintain our status as a high-cost, high-value economy an enormous boost if it were Buzz Hargrove and not only Roger Martin, Tom d'Aquino et al. making the case. The association of productivity alarms exclusively with business and not with union leaders' demands means many Canadians turn off. If Canadian left-wing academics, union and think tank pundits were to sing from a similar song sheet to that of business academics and CEOs, politicians would pay more attention, and voters would show more interest.

Until a Canadian opinion leader can show there is a link between foreign takeovers of Canadian resource and manufacturing industries and consistently lower productivity, few will

care. Until the the layoff of thousands of Canadian high-value-added service or manufacturing employees is blamed not simply on "weak governments" but on weak productivity as well, it will languish as a political rallying cry.

There are those who say that it was sad that the penetrating economic analysis done by the many advisers to the Macdonald Commission two decades ago got diverted to an attack on deficits and a defence of free trade, rather than productivity. Canadians were deluded into thinking, this argument runs, that with the gains that flowed from the free trade "economic adjustment" we had done all the heavy lifting required for a generation.

As our respect for politicians has continued to decline in the period since, it is even harder today for any politician or party to make the kind of changes a serious productivity agenda will require. Perhaps a Gwyn Morgan and a Lucien Bouchard, as co-chairs of

**As our respect for politicians has continued to decline in the period since, it is even harder today for any politician or party to make the kind of changes a serious productivity agenda will require. Perhaps a Gwyn Morgan and a Lucien Bouchard, as co-chairs of a new blue-ribbon panel, tasked for one year only, could come up with a new economic and social "Agenda for a New Canadian Century" that wraps the productivity enhancement toolkit in a new national vision.**

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We can continue to focus on the export of mostly unprocessed rocks, logs and fossil fuels, watch our auto sector decline along with America's and continue to live our happy grasshopper's existence, consuming future generations' patrimony by the summer barbecue. We could continue to enjoy the investments of previous generations in our urban transportation and educational infrastructure, and pretend not to notice their decline.

We could also harness our unique gifts and aim higher. No nation is so richly endowed with our incredible combination of resource wealth, hungry newcomer talent in the millions from around the world and unparalleled access to the largest and most dynamic economy in the world. Should we not find it a little embarrassing that we do not top the league tables in adding value to those blessings? Should we not blush a little at being consistently beaten by places like Poland and Korea?

Could not a panel made up of some of our best academic and political minds frame realistic policy goals that succeed in capturing the national imagination, and escape the dead-end left-right policy reflex and the provinces' sad commitment to a zero-sum competitive frame? They might help us overcome our complacent acceptance of our slow

slide down the graphs of human progress.

They could do for productivity in this decade what the Macdonald Commission kick-started on the deficit and trade debates of the '80s and '90s. If they paint this compelling portrait of the kind of high-achieving, high-productivity Canada we could become, maybe our political elites would compete to get us to that new plateau.

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