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We may not be so lazy after all

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Canadian business productivity has been systematically underestimated for decades, according to provocative new research.

Years of hand-wringing that the Canadian economy is less productive than the United States' and other leading countries' economies may be misplaced as a radically different picture of the business landscape emerges.

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Erwin Diewert, a leading Canadian economist and world-renowned productivity expert, concludes in a new paper slated to be published Wednesday that Statistics Canada has badly underestimated the growth of so-called multifactor productivity as far back as the 1960s. Multifactor productivity is considered a proxy for a country's innovation performance, encompassing technological change and other efficiencies. It's a more comprehensive indicator than labour productivity because it incorporates all the factors that contribute to growth – capital, energy, materials, services as well as labour. It's regarded as the most important source of higher living standards.

Contrary to official figures that show that productivity has been slipping badly since the 1970s, it's actually been rising and has bounced back strongly from the recession, the paper argues.

Even before its release the work is sparking controversy, including allegations that federal officials tried to suppress the findings. The conclusions of Prof. Diewert of the University of British Columbia and co-author Emily Yu, an economist at the Department of Foreign Affairs and International Trade, cast doubt on the true state of Canada's economy and suggests many of the policies pursued for decades to make it better are actually working.

Official Statscan data suggesting that productivity has been falling in Canada since 1977 "doesn't really make a lot of sense," pointed out Andrew Sharpe, executive director at the Ottawa-based Canadian

Centre of the Study of Living Standards. "It means that we're not doing as bad as we thought," he said.

The paper also challenges the reliability of official data from Statscan, which has been hit with deep budget and staff cuts in recent years. It said the agency is beset by "data problems."

Officially, multifactor productivity expanded at an average annual rate of just 0.28 per cent from 1961 to 2011, or roughly a fifth of the comparable growth in the United States. And it's been negative since 1977.

Using fresh unreported Statscan data, Prof. Diewert and Ms. Yu suggest that Canadian productivity performance is much better, growing at an average of more than 1 per cent per year.

"The [productivity performance] of the business sector of the Canadian economy has been reasonably satisfactory over the past 50 years," according to the paper, published in the Fall 2012 issue of the International Productivity Monitor.

The main source of the gap is the agency's overestimation of "capital input growth," according to the paper.

Among other things, it argues Statscan should add more documentation and experiment with better measures of land services and depreciation rates.

Statistics Canada issued a response to the Diewert and Yu paper, saying the agency follows international guidelines and practices. Given that Canadian productivity is frequently compared with that of the U.S., the methodology behind the estimates for Canada "should be comparable to the largest extent possible to that used by the U.S. Bureau of Labour Statistics," said Wulong Gu of Statscan's economic analysis division.

Outside experts hailed the new research as a potential missing piece to Canada's productivity conundrum.

Economist Alice Nakamura, a business professor at the University of Alberta, said Statscan has resisted efforts to improve its productivity data and tried to suppress Prof. Diewert's findings.

Chronic under-reporting of productivity feeds the perception that there's nothing Canadian policy makers can do to fix the economy, when in fact their policies are working, according to Prof. Nakamura, whose response to Statscan is also contained in the publication being released Wednesday.

The result is that Canada may be chasing away Canada's best and brightest, she said.

"You have a young person who is ambitious and they keep reading in the newspaper how productivity is terrible in Canada, it makes them think they should make their career in the United States," she said.

It's not that the official numbers are necessarily flawed, explained Philip Cross, research co-ordinator at the Macdonald-Laurier Institute and Statscan's former chief economic analyst.

But the figures are "at least open to question," he said.

"Whereas Statscan doesn't like any questions about this, I think it's good that a leading expert like Erwin asks these questions," Mr. Cross said.

Prof. Diewert acknowledged in an email that his conclusions don't mean Canadians are necessarily richer than they thought. But he said the numbers could mean a lot to Canadian monetary and fiscal policy going forward. If productivity is growing faster than thought, the Bank of Canada can let the economy expand faster before inflation becomes a problem. Governments can also better gauge future tax revenue.

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