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Canada's Productivity Performance Under the Stephen Harper Government

By Jim Stanford

Statistics Canada has reported that Canada's national productivity level declined in the second quarter of 2008, for the third quarter in a row, by 0.2%. Since peaking last autumn, national productivity has declined by a cumulative 1.3%.

Most strikingly, national productivity is now lower than in the first quarter of 2006, when the Stephen Harper government took office. At that point, Statistics Canada's index of national labour productivity (measured in the business sector of the economy) equaled 104.0 (calculated on a base of 2002=100). As of the second quarter of this year, the index had declined to 103.4, marking a cumulative decline of 0.6% over the Harper government's term in office.

As indicated in Table 1, therefore, the Harper government represents the first elected federal administration[1] to experience a decline in average national productivity during its entire term in office since Statistics Canada began gathering this productivity data in 1961.

Even the ill-fated government of Joe Clark (which governed for just 9 months in 1979 and 1980) oversaw a (small) increase in national productivity, of about 0.4%.

During the first 7 quarters of the Harper government's term (until autumn of 2007), national productivity grew sluggishly and inconsistently. And since last autumn, three quarters of consecutive productivity decline (associated with a dramatically weakening economy) have pushed Canada's cumulative productivity performance under this government into the red—lower than it was when the Harper government was elected.

On average, an hour's work in the business sector of the economy results in less real output today than in did at the beginning of 2006. In general, economists expect productivity to continually improve by 1–2% per year, to reflect the positive effects of technological change, business innovation, and general improvements in efficiency. A stalling of productivity progress, on a nation-wide level, for such a sustained period of time is virtually unprecedented.

During this period, Canadian productivity levels have continued to lag far behind comparable U.S. levels. Since the first quarter of 2006, average labour productivity in the U.S. economy has grown by 4.3%, while Canadian productivity declined. The productivity gap between Canada and the U.S., which economists have highlighted as a major threat to the competitiveness and prosperity of the Canadian economy, has become significantly wider under the Harper government.

This continues a long-term trend that began in the mid-1980s. During the 1960s and 1970s, Canadian productivity increased faster than in the U.S. By 1984,

Table 1: National Productivity Growth, Prime Ministerial Records, 1961–2008

Prime Minister	Entered Office	Left Office	Entering Productivity (2002=100)	Leaving Productivity (2002=100)	Change in Office
Diefenbaker	1Q 1961[1]	2Q 1963	41.5	45.5	9.7%
Pearson	2Q 1963	2Q 1968	45.5	54.0	18.6%
Trudeau (1st)	2Q 1968	2Q 1979	54.0	70.4	30.4%
Clark	2Q 1979	1Q 1980	70.4	70.7	0.4%
Trudeau (2nd)	1Q 1980	2Q 1984	70.7	79.0	11.8%
Mulroney	3Q 1984	2Q 1993	78.2	83.2	6.4%
Chrétien	4Q 1993	4Q 2003	84.5	99.9	18.2%
Martin	4Q 2003	1Q 2006	99.9	104.0	4.1%
Harper	1Q 2006	2Q 2008[2]	104.0	103.4	-0.6%

Source: CCPA calculations from Statistics Canada quarterly data.
Prior to 1981, quarterly start and end productivity levels are interpolated from annual averages (quarterly figures are available only for 1981–2008).
1. Diefenbaker was elected in 1957, but the productivity series used in this table commenced only in 1961. 2. Most recent data available.

Canada's average productivity (in the business sector) equaled 90% of U.S. levels. Since then, however, Canada's relative productivity has declined markedly, and now equals just over 70% of U.S. levels. The Canada-U.S. productivity gap has widened by almost 5 percentage points during the Harper government's term in office.

The very poor performance of Canadian productivity during the last three years largely reflects the structural effects of Canada's emerging specialization as a producer and exporter of natural resources (especially energy). The resource boom, centred especially around the petroleum and tar sands industries in Western Canada, has had three important negative impacts on Canadian productivity:

1. Productivity in the mining and energy industries is falling rapidly (by as much as 20% since 2003). Sky-high world prices for these commodities has spurred companies to exploit increasingly marginal (and hence unproductive) reserves. In addition, the helter-skelter pace of development in Northern Alberta undermines the productive use of inputs.

2. Reflecting Canada's emerging resource status, our currency has followed global energy prices skyward. The unprecedented rise of the Canadian dollar has been a major factor behind the loss of 400,000 manufacturing jobs in Canada since 2002. Productivity in manufacturing is higher than the Canadian average, and hence the contraction of manufacturing has damaged average productivity levels.

3. Most of the new jobs which have been created during this structural change in Canada's economy are in non-traded service industries—especially private services (including retail and hospitality services) which are less sensitive to the over-valued exchange rate. These industries, on average, exhibit lower productivity than other sectors of Canada's economy, and so the concentration of employment creation in these sectors has further pulled down national productivity.

In this regard, the negative productivity growth which has been experienced during the Harper government's term in office does indeed reflect that government's decision to endorse Canada's emerging specialization as an energy exporter, its effective endorsement of the record rise in the Canadian currency, and its failure to arrest the dramatic decline in high-productivity manufacturing.

The complete stalling of productivity growth in Canada represents a major long-term economic risk to our future prosperity. Finance Minister Jim Flaherty, urging Canadians not to worry about recent negative economic news (such as the shrinkage of real GDP during the first half of 2008, or recent job losses), has repeated many times that Canada's economic "fundamentals" are strong.

However, there is nothing more fundamental to the long-run prosperity of a society than productivity: that is, how efficiently and productively we are able to produce the goods and services we need. On this score, Canada's economic fundamentals have deteriorated dramatically since the Harper government came to office. No other elected government (since Statistics Canada began collecting this data) has done as much damage to national productivity as has Stephen Harper's.

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Notes

1. Table 1 excludes the two short-lived "caretaker" governments of John Turner and Kim Campbell, neither of whom led their parties to victory in a federal election.