

## The Index of Economic Well-Being – Norway tops 14 OECD countries

First launched in 1998 with estimates for Canada, the composite Index of Economic Well-being (IEWB) has vastly broadened its scope by extending coverage to the Canadian provinces and 14 OECD countries.

New OECD data for 1980-2007 are presented in “New Estimates of the Index of Economic Well-being, for Selected OECD Countries, 1980-2007” by Andrew Sharpe, Executive Director of the Centre for the Study of Living Standards (CSLS), and Lars Osberg of Dalhousie University (who developed the conceptual framework for the Index in 1985).

It is widely recognized that overall well-being is directly linked to individual “command over economic

resources” and the Index strives to capture social trends by addressing four equally-weighted dimensions of economic well-being — consumption, stocks of wealth, income distribution and economic security. The authors argue the Index is therefore a more meaningful measure of economic well-being than GDP per capita, the most widely used metric of living standards and sometimes seen as a proxy for economic well-being.

### Norway leads in economic well-being

The report shows that, in 2007, Norway enjoyed the highest level of economic well-being, followed by Denmark (Chart 1). Spain had the lowest level, followed by the

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## CSLS welcomes two new board members

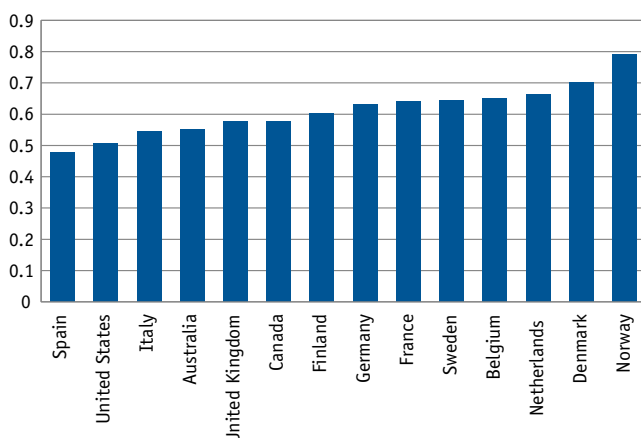
The CSLS is pleased to welcome two new members to its Board of Directors: Don Drummond and Alan Nymark.

Don Drummond is the Senior Vice-President and Chief Economist at TD Bank Financial Group. Previously he worked at the Department of Finance for more than 20 years, holding a series of progressively more senior positions, culminating with Associate Deputy Minister. He graduated from the University of Victoria and holds an M.A. in Economics from Queen’s University.

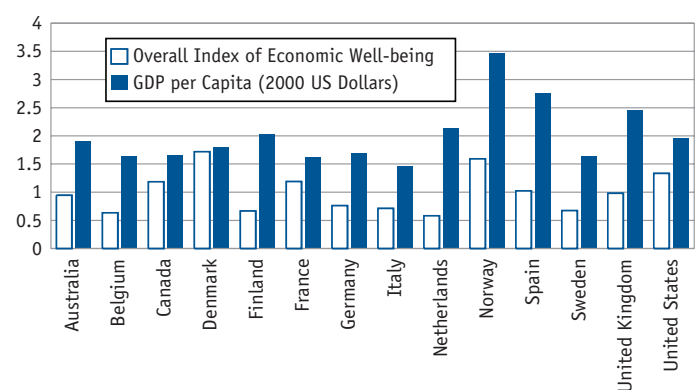
Alan Nymark retired in 2007 from his post as Deputy Minister

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**Chart 1**  
Index of Economic Well-being, Equal Weighting, 2007



**Chart 2**  
Average Annual Growth of the Overall IEWB and GDP per Capita, 1980-2007 (per cent)



# Canada's economic security impacted by rising private health costs — New IEWB data for Canada and provinces

New data for Canada and the provinces, just released by the CSLS, show that since 1981, and more particularly since 1997, the economic well-being of Canadians has improved considerably. This development has been driven by greater consumption and stocks of wealth. The IEWB advanced at a 1.36 per cent average annual growth rate between 1981 and 2008, below the 1.58 per cent annual growth for GDP per capita (Chart 1). The report, entitled “New Estimates of the Index of Economic Well-Being for Canada and the Provinces, 1981-2008” was authored by Andrew Sharpe and Lars Osberg.

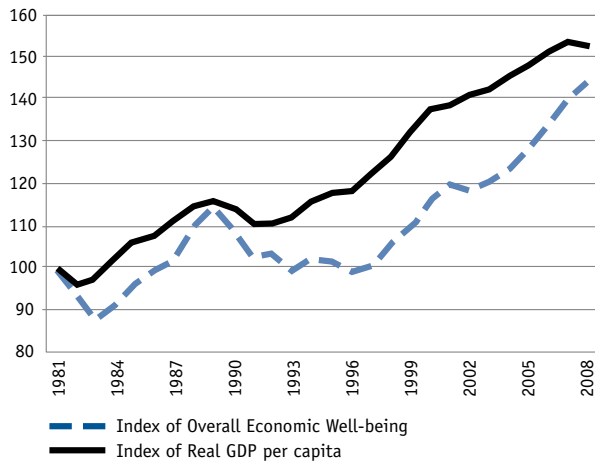
These developments were offset somewhat by falling equality, related to increased income inequality, and, more importantly, declining economic security, driven by the rise in private health expenditures in the period. Private health care spending as a share of personal disposal income more than doubled to 5.42 per cent, accounting for all the decline in economic security.

Among the provinces, Alberta had the highest value of the overall Index, followed by Newfoundland and Saskatchewan (Chart 2).

Visit [www.csls.ca/reports/csls2009-10.pdf](http://www.csls.ca/reports/csls2009-10.pdf).

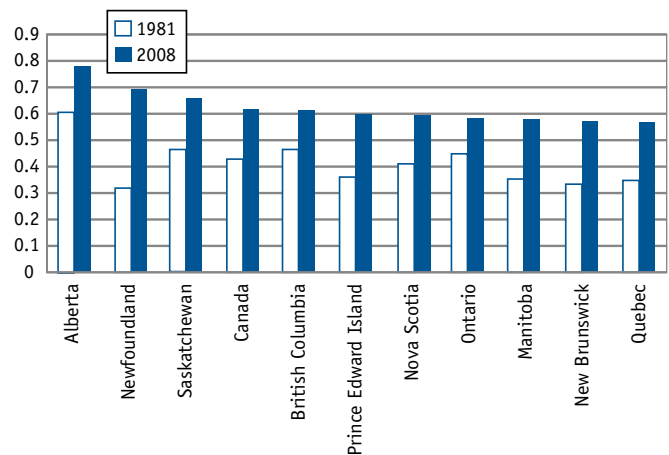
**Chart 1**

Trends in the Overall Index of Economic Well-being and GDP per Capita, Canada, 1981-2008, 1981=100



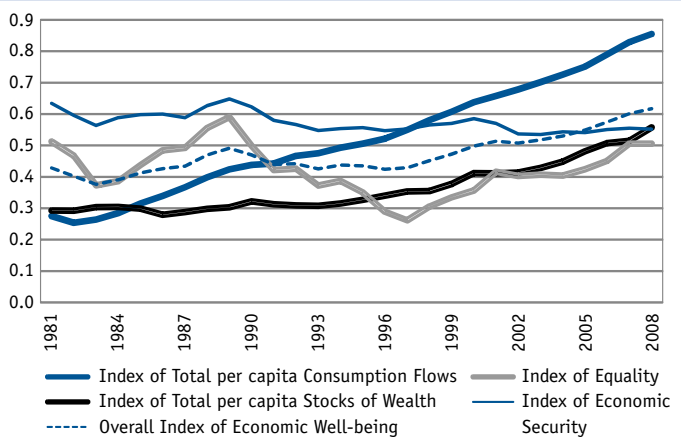
**Chart 2**

Overall Index of Economic Well-being, Canada and the Provinces, 1981 and 2008



**Chart 3**

Trends in the Components of the Index of Economic Well-being, Canada, 1981-2008



## Three new research associates join CSLS

The CSLS welcomes the addition of three new Senior Research Associates:

Ian Currie earned his MA in Public Administration from Carleton University and has earned a certificate in international studies from the London School of Economics and Political Science.

Dr. Helen Boss Heslop, based in London, England, is an economic consultant with degrees from Harvard University and McGill University, where she obtained her PhD in Economics. She has been a professor of economics at the Université du Québec à Montréal.

Dr. David Lewis received his PhD at the London School of Economics and Political Science and has worked as an economist in the U.K., the U.S. and Canada, where he now serves at Senior Vice-President and Chief Economist of HDR Corporation.

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Alan Nymark.

of Human Resources. He was previously Deputy Minister of Environment. He also served as Commissioner of the Canada Revenue Agency and Director of the Royal Commission on the Economic Union and Development Prospects for Canada. Nymark graduated from Queen's University and continued post-graduate studies at the London School of Economics and Political Science.



Don Drummond.

Drummond and Nymark join other prominent board members: Chair Ian Stewart, Secretary Treasurer Richard Van Loon, Keith Banting, Paul Davenport, Pierre Fortin, Morley Gunderson, Richard Harris, Alice Nakamura, Maureen O'Neil, Lars Osberg and Craig Riddell.

See [www.csls.ca/board](http://www.csls.ca/board) for background on members.

## Frayed social net widens wealth gap

The CSLS participated in the development of The Institute of Wellbeing's signature product, the Canadian Index of Wellbeing, which was launched in Toronto in June 2009. The CSLS's report, entitled "Living Standards Domain of the Canadian Index of Wellbeing" and authored by Andrew Sharpe and Jean-François Arsenault, represents the living standards domain of the Index. It examines trends in a large number of indicators over the 1981-2008 period.

The main conclusion is that Canada has become a much richer country but the top quintile has received the lion's share of rising income and wealth. Many dimensions of living standards haven't improved in the past quarter century, in spite of a 52.6 per cent surge in GDP per capita.

Income inequality was exacerbated by what the report refers to as a "frayed social net," reflecting less generous welfare and employment insurance benefits.

However, the introduction in the mid-1990s of the child tax credit and the National Child Benefits Supplement (the only

major new social program established since the 1970s), has provided additional income to poor working families and therefore somewhat lowered the poverty rate for this group. In addition, the minimum wage in 2008 represented 42 per cent of the average industrial wage, up from 35 per cent in 1983.

Visit [www.csls.ca/reports/csls2009-4.pdf](http://www.csls.ca/reports/csls2009-4.pdf)

United States, while Canada ranked ninth of fourteen countries.

The Index grew in all countries during the 1980-2007 period, and Norway again led with growth of 53.1 per cent (Chart 2). The Netherlands had the smallest growth (16.9 per cent overall) while Canada advanced 37.4 per cent over the period.

However, except for Norway, the rank positions for countries are different when comparing the IEWB with

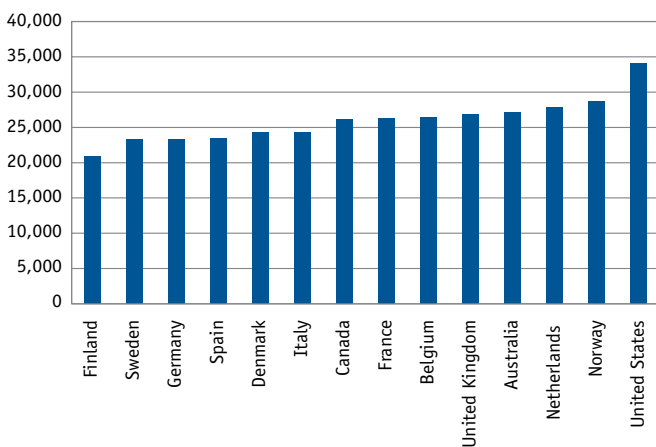
GDP per capita, the measure most often used as an indicator of economic well-being. For example, Canada ranked fourth in terms of GDP per capita level in 2007 in spite of standing at only ninth place in the IEWB. This divergence reflects the fact that the ranking of certain components of the Index, such as equality and economic security, which are not included in GDP, differ across countries from the ranking of GDP per capita.

Starting with the first of the Index's four domains – consumption – the United States had the highest level of consumption flows per capita in 2007, Finland was last and Canada placed eighth of the 14 countries (Chart 3). In the second domain, Norway had the highest absolute real stocks of wealth per capita, followed by Netherlands, with Spain at the lowest level (Chart 4).

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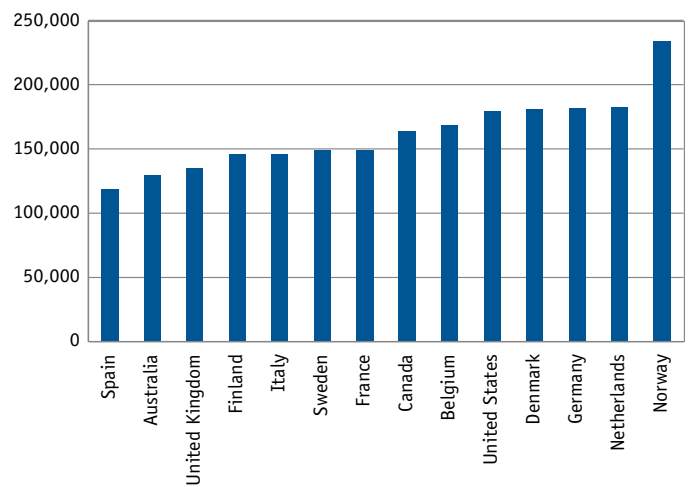
**Chart 3**

Total Consumption Flows per Capita, 2007  
(2000 US dollars)



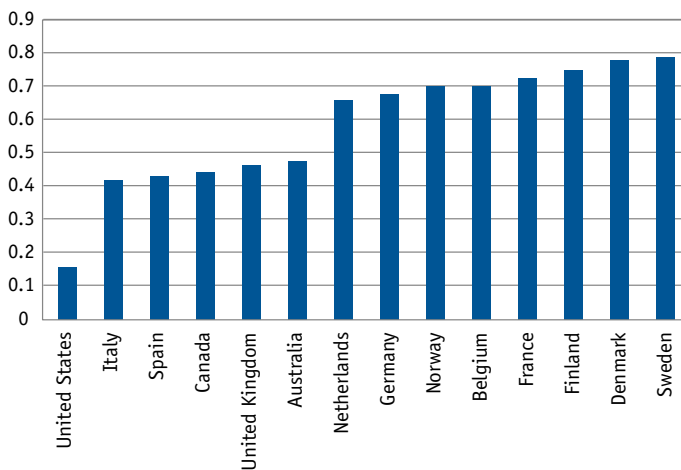
**Chart 4**

Total Real per Capita Wealth, 2007  
(2000 US dollars)



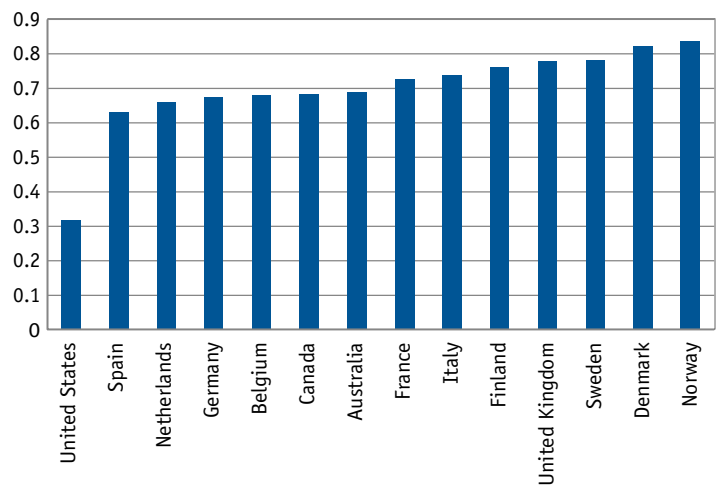
**Chart 5**

Index of Equality, 2007



**Chart 6**

Index of Economic Security, 2007



The third domain measures equality. In 2007, Sweden had the highest level of equality while the U.S. had the lowest, by a wide margin (Chart 5). Only three countries experienced increasing equality over the 1980-2007 period: Denmark, France and Sweden, with Denmark showing the most progress. The United States, Italy and the U.K. experienced the greatest setbacks in terms of equality.

The fourth domain – economic security – was highest in Norway, followed by Denmark (Chart 6). The United States had the lowest index value, making it the least economically secure nation as well as the one with the lowest equality of the 14 countries studied.

The overall trend of the economic security index was clearly negative with the majority of the countries experiencing negative growth. The U.S. and U.K. declined the most in percentage terms. Only four countries enjoyed improvement in economic security over the 1980-2007 period: Denmark, Australia, Canada and Norway.

## **IEWB more meaningful than GDP but challenging to develop**

Sharpe and Osberg are candid in discussing the challenges they have faced in the past decade in developing the Index as a reliable measure of economic well-being. They attribute this in part to the Index's complexity, both conceptually in terms of the specification of the components and empirically in

terms of its massive data requirements. Data gaps have been a major obstacle to the IEWB's construction, particularly at the international level. Indeed, estimates are produced for only 14 of the 30 OECD countries.

## **Index enjoys media exposure in France, Goldman Sachs Report**

In spite of its limitations, the IEWB's value in capturing trends "has the potential to make an even greater contribution to measuring the progress of societies," the report states. The Index – constructed to assist in public policy discussion – has received significant attention, particularly outside Canada and especially in France, where the CSLS partners with *L'Expansion*, a Paris-based business publication. Many prominent media outlets, such as *Le Monde*, have published stories on the Index. Goldman Sachs, London, also gave prominent mention to the IEWB in a September report. The Index also received positive reference in the Stiglitz report commissioned by the French President Nicholas Sarkozy on the measurement of economic performance and social progress, released in September.

## **The economic crisis and the economic security domain**

The recent financial crisis has resulted in a loss of jobs and savings for many middle-income households. This has important implications for the economic security component of the Index, which has until now focused on the economic security of low-income households. To integrate this new reality of increasing economic insecurity for middle-income Canadians into the economic security component of the IEWB, the CSLS has produced two background studies on economic security. In the first, CSLS Senior Research Associate Helen Heslop reviews the literature on economic security from the perspective in the IEWB. In the second, Lars Osberg from Dalhousie University discusses the concept of economic security in insecure times.

Visit [www.csls.ca/reports/csls2009-11.pdf](http://www.csls.ca/reports/csls2009-11.pdf), [www.csls.ca/reports/csls2009-12.pdf](http://www.csls.ca/reports/csls2009-12.pdf), and [www.csls.ca/reports/csls2009-13.pdf](http://www.csls.ca/reports/csls2009-13.pdf).

### **Federal Budget 2009: Implications for Living Standards**

"An Assessment on the Implications of the 2009 Federal Budget for the Living Standards of Canadians," at <http://www.csls.ca/notes/Note2009-1.pdf>

## CSLS at Economics Association Conference

The CSLS organized six sessions at the Canadian Economics Association Annual Meeting, held at the University of Toronto, May 29-31, 2009.

The first session focused on education and Aboriginal Canadians, the second session addressed policies to foster the human capital development of Aboriginal Canadians and session three examined advances in productivity measurement for the Canadian economy. The fourth session was on the impact of the economic crisis on the well-being of Canadians, the fifth session looked at business, and the final session explored measures of economic security in insecure times.

Some are available for viewing at [www.csls.ca/events/cea2009.asp](http://www.csls.ca/events/cea2009.asp)

## Seminar Series in Ottawa

In April 2009 the CSLS launched a seminar series on living standard issues for subscribers to its Publications Program. Speakers have included Bart van Ark, Chief Economist of the Conference Board; Peter Nicholson, President of the Council of Canadian Academies; Chris Ragan, Clifford Clark Visiting Economist at Finance Canada; and John McCallum, Liberal Finance critic.

On November 19, John Richards from Simon Fraser University will speak on aboriginal education. December 14, Michael Wolfson from Statistics Canada will speak on a new measure of well-being called the Good Life Time Index.

## CSLS represents Canada at OECD forum in Korea

CSLS Executive Director Andrew Sharpe participated in the 3rd OECD World Forum on “Statistics, Knowledge and Policy,” held in Korea on October 27-30, 2009.

The Forum, which attracted nearly 2,000 high level participants from over 130 countries, is organized in the context of the OECD-hosted Global Project on “Measuring the Progress of Societies.” Sharpe is one of three Canadian representatives on the Project’s international coordinating committee.

Sharpe presented a paper, with Michael Wolfson of Statistics Canada, developing a time-based indicator of well-being, the Good Life Time Index.

## Pioneering Métis work programs yield \$103 million lifetime fiscal benefits

The Métis Human Resources Development Agreements, federal work programs ceding control of employment and training to local Aboriginal organizations, result in annual fiscal savings of \$8.5 million to the federal and five provincial governments covered by the program, according to the CSLS report “A Review of the Potential Impacts of the Métis Human Resources Development Agreements in Canada.”

Total lifetime benefits of one year of Métis programming reach

\$103 million, with the Agreements estimated to generate more than enough additional activity each year to cover their \$49 million annual costs. As the programs encourage permanently higher incomes, income tax revenue increases and government transfer costs and health care costs fall.

The government is evaluating the program, ahead of its possible extension or revision on March 31, 2010. It covers about 85 per cent of the Métis population, which is

concentrated in the four western provinces and Ontario. The report, the first independent assessment of the economic implications of giving Métis people unprecedented control over labour programs, found that the community-based Agreements are culturally sensitive and can address local needs.

Visit [www.csls.ca/reports/csls2009-1.pdf](http://www.csls.ca/reports/csls2009-1.pdf) to view the report.

# Newfoundland leads, Alberta trails in provincial productivity growth

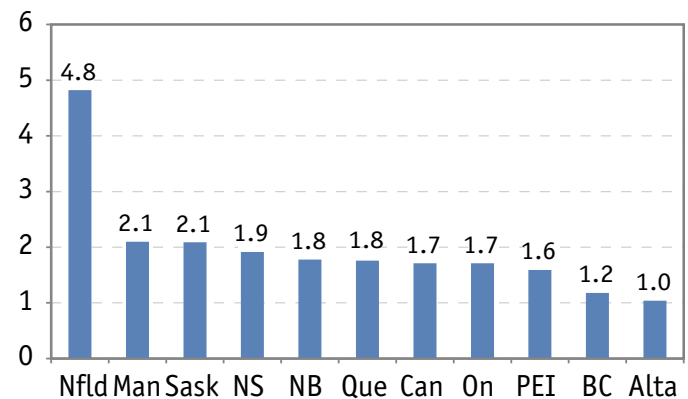
The Spring 2009 issue of the *International Productivity Monitor* presents new estimates of multifactor productivity (MFP) for Canadian and provincial industries. In the ten years to 2007, Newfoundland boasted the strongest growth in all three areas assessed – labour productivity, capital productivity and multifactor productivity – while Alberta was the weakest.

In both provinces, the MFP performance of the oil and gas sector – an 18.8 per cent annual increase in Newfoundland versus a 7.4 per cent annual decline in Alberta – was

a determinant factor. The authors ascribe the gap to Newfoundland benefiting from conventional oil and gas extraction while Alberta suffered from an industry shift to labour and capital-intensive oil sands exploitation.

In a departure from previous comparisons of productivity by province, this study incorporates changes in the composition or quality of both labour and capital.

Chart 1  
Labour Productivity Growth by Province, 1997-2007  
Average annual rate of growth, per cent



Source: CSLS calculations based on unpublished Statistics Canada data.

The Monitor is published in both hard copy and online at [www.csls.ca/ipm18.asp](http://www.csls.ca/ipm18.asp)

## Aboriginal education key to bolstering productivity, labour force

If Canadian Aboriginals attained complete educational and social parity with the non-Aboriginal population, combined fiscal savings and increased tax revenues would climb to an estimated \$115 billion over the 2006-2026 period, a CSLS report states. Prepared for Indian and Northern Affairs Canada, the report is entitled “The Effect of Increasing Aboriginal Educational Attainment on the Labour Force, Output and the Fiscal Balance” and was written by Andrew Sharpe, Jean-François Arsenault, Simon Lapointe and Fraser Cowan.

“Canada’s Aboriginal population is in crisis,” declares the report, noting social conditions remain an embarrassing challenge to policy makers who should view the report’s findings as additional incentive to

### ... higher education levels (would) contribute to the personal well-being of Aboriginals

prioritize Aboriginal education. Not only would achieving higher education levels contribute to the personal well-being of Aboriginals, it would address Canada’s two most pressing economic challenges: a looming labour shortage caused by an aging population and low birthrate; and lackluster growth in productivity which has eroded Canadian industry’s ability to compete.

Although Aboriginals make up only 4 per cent of the overall population, they are much younger on average, with almost 40 per cent

under the age of 20. In 2006, 44 per cent of Aboriginals over 15 had not completed high school, almost double the rate for other Canadians. This produces higher unemployment, lower incomes and higher government costs for health, social programs and housing – estimated at \$6.2 billion in 2006 and rising to \$8.4 billion (2006 dollars) by 2026.

The importance of Aboriginal employment and productivity is underscored by the fact that their numbers will grow more than twice as fast as the non-Aboriginal population. Manitoba and Saskatchewan, where the share of Aboriginals in the population is well above the national average, “could be left with a large wave of new entrants to the labour market that don’t possess the necessary skills or education to thrive in the new economy,” the report warns.

The report is available for viewing at [www.csls.ca/reports/csls2009-3.pdf](http://www.csls.ca/reports/csls2009-3.pdf)

# Dismal productivity in oil and gas extraction industry

The oil and gas extraction industry has had weak output growth and rapid input growth resulting in negative productivity growth over the 2000-2007 period. “A Detailed Analysis of the Productivity Performance of Oil and Gas Extraction in Canada,” written by Celeste Bradley and Andrew Sharpe, bases this phenomenon on higher oil prices which encourage exploitation of marginal deposits and, more tellingly, profitability at the expense of productivity. Normally these two objectives would coincide but they can diverge when commodity prices soar.

Real GDP in the sector increased only 1.9 per cent per year between 2000 and 2007, much more slowly than the 2.55 per cent per year for the economy as a whole. Hours worked increased 11.03 per cent per year in the same period, 9.45 per-

centage points faster than the total economy. Capital input increased 8.36 per cent per year between 2000 and 2006, 5.88 percentage points faster than the total economy.

The sector saw labour productivity fall 8.23 per cent per year between 2000 and 2007, while capital productivity dropped 5.97 per cent per year and total factor productivity (TFP) fell 6.67 per cent per year (2000-2006).

Ironically, however, the dismal productivity numbers do not signal a crisis for the industry but rather an indication of the sector’s vitality on the technological frontier. Increases in oil prices and employment shares have in part positively contributed to aggregate labour productivity growth, even though the subsector contributed to the post-2000 aggregate labour productivity slowdown. Additionally, higher

commodity prices in recent years have boosted employment in the sector which in turn has enhanced the real incomes of Canadians through a terms-of-trade effect.

The report’s authors therefore don’t see the need for industry-specific policies to improve productivity growth. The Canadian oil extraction industry is more technologically innovative than other industries, such as manufacturing, which face intense cost competition and are forced to remain competitive through productivity growth. In oil and gas extraction, the high economic rent makes productivity less important compared with other areas of the economy, according to the report.

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The report can be viewed at [www.csls.ca/reports/csls2009-8.pdf](http://www.csls.ca/reports/csls2009-8.pdf)

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## Mining industry: poor productivity but technologically robust

The Canadian mining industry’s patterns echo those of the oil and gas industry: poor productivity performance in recent years caused by higher commodity prices as firms extract from marginal deposits and place a higher priority on profitability than productivity.

“A Detailed Analysis of the Productivity Performance of Mining in Canada,” also written by Celeste Bradley and Andrew Sharpe, demonstrates that labour productivity in mining fell by 0.94 per cent per year between the 2000

cyclical peak and 2007, with capital productivity off 0.28 per cent per year and TFP down 1.07 per cent per year between 2000 and 2006.

In that period, Canada’s labour productivity growth fell to 1.02 per cent per year from 2.35 per cent in the 1996-2000 period. Without higher output prices and hours worked in the high-productivity level mining sub-sector, which translated into a positive contribution from this sub-sector, this slowdown would have been more severe.

The report’s authors examine a number of possible reasons for

the sector’s decline in productivity: higher output prices, declining capital intensity, compositional shifts within mining, lagging innovation and technological progress, deterioration of the quality of the workforce and resources, greater environmental regulation, labour relations and taxation.

### Soaring commodity prices encourage profitability over productivity

They conclude that higher prices had the biggest impact on both capital intensity and TFP. It became

Continued on page 9



# Rising earnings inequality as real wages stagnate

A new research note, “Median Wages and Productivity Growth in Canada and the United States,” looks in detail at the relationship between real wages and labour productivity. Canada and the United States have experienced stagnant median real wages as their economies are transformed by globalization and technological change. The importance of these trends on real wages remains contentious, according to the report, but “there will likely be implications for political economy to the extent that these trends persist.”

Median real annual earnings of Canadians rose a negligible \$53 between 1980 and 2005 and yet total economy labour productivity gains were 37.4 per cent. The report ascribes this primarily to rising earnings inequality as the

top one per cent of the population enjoys income gains while income shares elsewhere are stagnant or falling. This trend is much more pronounced in the United States. The report notes that the ambiguity in the interpretation of labour share growth suggests attention would be better focused on rising inequality as the key driver of the divergence between the growth of real wages and labour productivity.

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The note can be read at [www.csls.ca/notes/Note2009-2.pdf](http://www.csls.ca/notes/Note2009-2.pdf)

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profitable for mining companies to increase extraction rates at existing deposits and to extract from marginal resource deposits that were previously unprofitable. Because labour is less rigid than capital, this adjustment process would normally translate into a falling capital-labour ratio. Similar to the oil extraction industry, mining firms capitalized on high commodity prices to favor profitability over productivity.

Since productivity growth is the key driver of increases in living standards, the deceleration in labour productivity growth in Canada after 2000 implies a slower rate of increase in living standards. But,

the report adds, improving terms of trade are also a source of real income increases. Higher commodity prices have negatively affected mining productivity but have boosted the real income of Canadians – a phenomenon that replicates the oil industry’s contribution. The report therefore doesn’t see the need for industry-specific policies to improve productivity growth.

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See [www.csls.ca/reports/csls2009-7.pdf](http://www.csls.ca/reports/csls2009-7.pdf) to view the report.

# Better Labour Market Information essential

The CSLS has actively participated in the government-appointed Advisory Panel on Labour Market Information (LMI) which provides advice on how to make Canadian labour markets function better through accurate and timely data. The Panel’s final report, released in July 2009, notes that the combined forces of globalization, the financial crisis and recession, the growth of the knowledge economy and Canada’s aging population and increasing dependence on immigrants for net labour force growth have created a challenging environment.

The CSLS, for its part, contributed a background paper to the report. Titled “Best Practices in Labour Market Information: Recommendations for Canada’s LMI System” and authored by Andrew Sharpe, it put forward a number of ideas in the areas of LMI data, analysis and forecasting and dissemination.

Sharpe’s paper warns, however, that the recommendations won’t have traction if senior policy makers don’t recognize their importance and if jurisdictional issues hamper public access to LMI. An effective LMI system is crucial for a high-performance economy. The “current downturn might make this message easier to communicate” to policy makers, he notes.

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View the report at [www.csls.ca/reports/csls2009-5.pdf](http://www.csls.ca/reports/csls2009-5.pdf)

# Unemployment, poverty levels to remain high

The CSLS, as part of its collaboration with the Atkinson Charitable Foundation's Institute of Wellbeing, produced a report that concludes the current recession will wipe out many of the advances in economic and standard of living levels made since the mid-1990s. The authors, Jean-François Arsenault and Andrew Sharpe, do not foresee current high unemployment and poverty levels abating for years. The report is called "The Economic Crisis Through the Lens of Economic Wellbeing."

The authors identify two priorities in dealing with the recession,

from a public policy perspective. They urge the government to introduce income supplement and retraining programs to address the needs of those who have lost jobs and to offset, where possible, private spending gaps that will hamper economic recovery. Canada's low debt to GDP ratio makes these objectives attainable, the report asserts.

The unemployment rate increased from 5.8 per cent in January 2008 to 8.7 per cent in August 2009. Wealth levels also dropped, with average nominal net worth per household down 15 per cent between May 2008 and February

2009 — respectively the peak and trough of the current wealth cycle.

The recession will impose high costs on the economy with an expected shortfall of about \$12,000 per capita (2007 dollars). Without an economic crisis, GDP per capita in Canada would have likely been \$1,736 higher on average each year over the 2008-2014 period. The effect of the crisis on economic activity is projected to last to 2015, the authors state.

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The report can be viewed at [www.csls.ca/reports/csls2009-6.pdf](http://www.csls.ca/reports/csls2009-6.pdf)

## Infrastructure projects to bolster Quebec/Ontario trade corridor

"The Ontario-Quebec Continental Gateway: A Situational Analysis of Human Resources Needs," by Souleima El Achkar, is a new CSLS report commissioned by Human Resources and Skills Development Canada to analyse the labour market situation for Gateway sector occupations and identify potential skills shortages and human resources challenges for the next five years.

The report shows the economic downturn is reducing the risk of labour shortages in the short term. Many workers, having lost significant savings, are opting to delay retirement and remain in the labour force.

The federal government aims to improve Canada's integration in global supply chains through an efficient multi-modal transportation system and the development

of the Quebec/Ontario trade corridor (Continental Gateway) is but one such initiative. Several major infrastructure projects are planned or underway in the two provinces under the umbrella of the Continental Gateway.

The projected growth in trade between Canada and its trading partners may not materialize in the short term due to the financial crisis but investing in Gateway infrastructure is likely to remain a government priority, the report asserts.

Representatives of the Gateway sectors expressed the need for action to ensure the labour and skills shortages identified prior to the onset of the crisis are addressed to avoid significant bottlenecks during the economic recovery. Of major concern is the sustained decline in manufacturing in Ontario and Quebec

which would have a structural impact on human resources in the two provinces in terms of employment distribution across industries.

Other issues facing many Gateway sectors in attracting and retaining skilled workers include economic uncertainty, an aging workforce, entry barriers and difficulties in attracting youth and lack of adequate training and standards, especially for the trucking industry in Ontario.

On a positive note, the common challenges faced by Gateway sectors provide significant grounds for the sharing of best practices, the report concludes.

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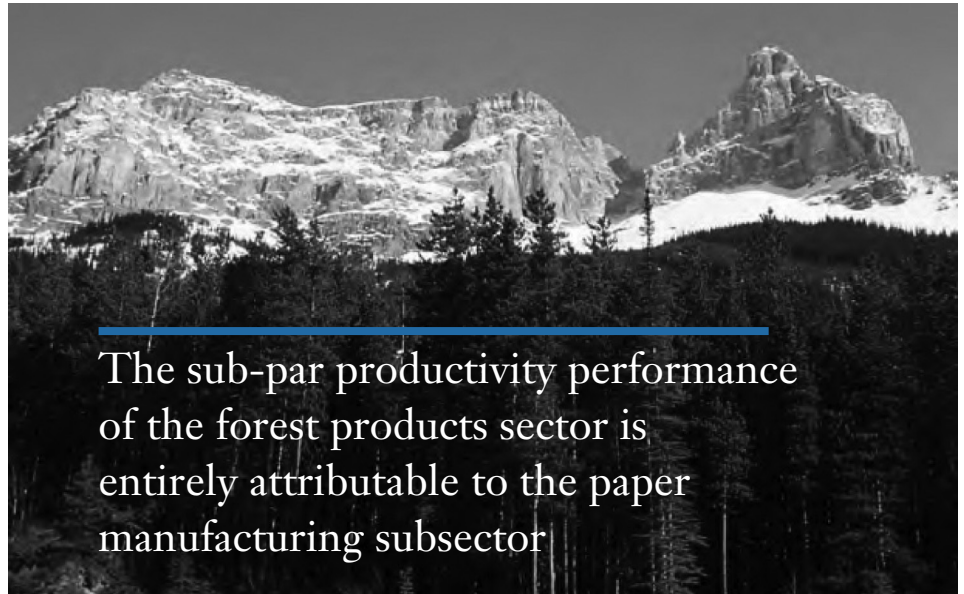
The report can be viewed at [www.csls.ca/reports/csls2009-2.pdf](http://www.csls.ca/reports/csls2009-2.pdf)

# Falling productivity in paper manufacturing

In October 2009 the CSLS released a report on productivity developments in the Canadian forest products sector, focusing on the recent performance.

Since 2000 the sector has faced hard times. Between 2000 and 2007, the sector's real output decreased by 1.34 per cent per year and total profits across the sector fell precipitously. The long-run decline of the sector as an employer of Canadian workers and a contributor to Canada's GDP continued. In response to this crisis, firms in the forest products sector have made efforts to lower costs through improvements in productivity. These efforts have not proved successful for the sector as a whole. Annual growth in labour productivity in the forest products sector averaged 0.38 per cent over the 2000-2007 period, even lower than the economy-wide average of 0.98 per cent.

This sub-par productivity performance is entirely attributable to the paper manufacturing subsector, where growth of labour and multifactor productivity sharply declined after 2000. Labour productivity in this industry declined by 1.93 per cent per year over the 2000-2007 period, a dramatic reversal from its annual growth rate of 3.55 per cent in the 1990s. The other two subsectors within the forest products sector – forestry and logging and wood product manufacturing – performed



The sub-par productivity performance of the forest products sector is entirely attributable to the paper manufacturing subsector

better. Forestry and logging, in particular, had strong growth in labour, capital, and multifactor productivity. However, much of this improvement came from cuts in inputs that exceeded cuts in real output. Given that the three subsectors exhibited different productivity trends over the period, each subsector requires its own set of explanations.

Investment in research and development, education and training, and new machinery and equipment is key to improving productivity in the forest products sector. And improving productivity is the only sustainable way to ensure the long-term viability of the sector. At the same time, investment in Canada's forest products sector will only occur if the likely return is higher than elsewhere in the world economy. The federal and provincial governments must assist the sector in adjusting to the changing global

environment while softening the adverse affects of such adjustment on communities and individuals.

The report can be viewed at [www.csls.ca/reports/csls2009-9.pdf](http://www.csls.ca/reports/csls2009-9.pdf)

# Work in progress

The CSLS is working on a number of projects, including:

## Levy Institute Measure of Economic Well-Being (LIMEW)

The CSLS is working toward establishing household level estimates of the LIMEW for Canada in 1998 and 2005. This will provide a comprehensive measure of economic well-being, with which one can analyze not only the averages but also the distributional realities of economic welfare, both historically within Canada and compared to other developed countries.

## Benchmarking Aboriginal Economic Development

The CSLS, with BBM and D Consulting, has been commissioned by the National Aboriginal Economic Development Board to draw up the first comprehensive set of performance indicators in five policy areas. These indicators will then be used to benchmark Aboriginal economic development relative to non-aboriginal Canadians and among the different Aboriginal heritage groups.

## Human Capital Challenges Facing British Columbia

The B.C. Progress Board has commissioned the CSLS to examine human capital infrastructure in the province, including the education system, and to identify key indicators to serve as benchmarks for monitoring human capital performance, such as educational attainment and literacy levels.

## Determinants of Well-Being and Happiness

This joint project with the Ontario-based Institute for Competitiveness and Prosperity aims to explore the determinants of well-being and happiness.

## Forthcoming research reports

### “The Paradox of Market Oriented Public Policy and Poor Productivity Growth in Canada”

This paper examines the issue of why Canada’s productivity performance has been poor despite the movement toward more market-oriented public policies.

### “The Productivity Performance of Atlantic Canada” report prepared for the Atlantic Canada Opportunities Agency

This study examines productivity performance in the region in both absolute terms and compared to the average in Canada and other OECD countries.

### “Estimates of GDP for the on-Reserve Aboriginal Population in Canada”

This paper uses Census data on employment and earnings at the reserve level to develop estimates of GDP for the Aboriginal population on reserves.

### “Aggregate Measures of Income: A Canada-U.S. Comparison”

The objective of this report is to clarify definitions and trends of all eight aggregate measures of income and product in Canada and the U.S. from 1980 to 2008.



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