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Commentary

A productive labour

The only limit to productivity growth is human ingenuity

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No doubt many readers have been confronted with newspaper columnists and talking heads pontificating on how to improve our productivity performance. Well, we have been part of that discussion and think it's an important challenge for our governments, businesses and citizens.

It's even more important now with the rapid rise in the Canadian dollar that has resulted in the price of manufactured goods and services increasing 63 per cent price since November, 2001. Better productivity performance would mitigate this increase by allowing our exporters to charge lower prices for those same goods and services or else command premium prices for higher value goods and services.

But whether the dollar remains so strong, productivity matters.

Simply put, productivity growth is the surest way to raise our living standards.

In broad terms, there are two ways to do this. One way is to work more hours or use up ever more of our natural and physical resources. But this is limiting. We can find new workers from our population - up to a point. And there are only so many hours in a day and days in a year for us to work. Natural resources, too, are finite or become too costly to acquire, and their use can have adverse environmental consequences.

The other way to raise our standard of living is to improve productivity. And the only limit to productivity growth is human ingenuity. Productivity measures how much value we create per unit of resources used - whether the resources are an hour of labour, an hour of machine time, a barrel of oil, or any other scarce resource. The value created is represented by how much money somebody will pay for the output - beyond the value of resources used.

Princeton University economist Paul Krugman has summed up the importance of productivity this way: "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker."

Productivity increases in one of two ways: greater efficiency in how we employ labour and capital, or greater value creation per unit of these inputs.

Efficiency gains can come from any number of different process innovations, such as better organization of work, automation, improved economies of scale, etc. When you hear business people or union leaders bragging about the number of cars or tonnes of steel or volume of transactions they produce per worker hour, they're talking productivity through efficiency.

Higher value creation comes from adding innovative or unique product or service features for which consumers will pay more than the added cost to the producer. Businesses that achieve greater demand at premium prices for their new improved products - such as BlackBerrys or Tilley hats - are productivity stars.

Unfortunately, many people understand productivity improvements to come only from greater efficiency, and this in turn is often associated with layoffs or outsourcing work. But that is only one limited part of the productivity story.

Equally important, if not more, is the productivity growth from new value creation. Individuals and businesses that add more value to resources through unique skills, products and services are more productive.

Many will recognize that productivity growth from greater value creation is no different than innovation. Similarly, long-lasting efficiency gains are the result of process innovation. It is not a stretch to use the words productivity and innovation interchangeably.

Among businesses, which are the source of much a jurisdiction's productivity, strategies that successfully lead to innovative products and services for which people will pay a premium will drive our country's productivity higher. An efficient auto assembly plant producing products that require price incentives to stimulate consumer demand is not as productive as a facility producing cars that are in great demand at premium prices.

Productivity growth also benefits workers and consumers. Since most of the value created in an economy goes to workers in the form of wages, productivity growth means higher wages. Countries and regions with higher productivity pay higher wages. They are also more insulated from rapid domestic currency increases. Finally, productivity means more innovative and lower cost products and services available for everyday use.

While economists may differ on the relative importance of various drivers of productivity growth, most agree they are:

Skilled workers who can adapt quickly to changing circumstances;

Managers adept at discerning consumer desires and competitive weaknesses, and finding innovative ways of organizing operations;

Scientific and engineering talent that can achieve major improvements in products and processes;

Investments in technology that make workers more efficient;

Competitive pressure to spur innovation;

Clusters of people and businesses to stimulate co-operation, competition and new ideas;

A balanced regulatory environment that protects workers and consumers and allows for resources to be allocated appropriately for wealth creation.

Productivity growth is a fundamental measure of economic health. Canada, meanwhile, is falling further and further behind its global peers in productivity growth. We need to drive greater innovation in order to create unique products and services that are world-beating.

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