



(NOT) KEEPING UP WITH THE JONESES: CANADA'S ECONOMY TRAILS PEER COUNTRIES OVER THE CURRENT BUSINESS CYCLE

HIGHLIGHTS

- An economy that can deliver rising GDP per person is able to provide a rising tide of economic prosperity and opportunity for its citizens. This is especially true for a country like Canada given its relatively well-balanced distribution of income.
- Canadians have seen the largest deterioration in living standards relative to peer countries (“the Joneses”) over the current business cycle from 2007 to 2018. This is primarily because peer countries have increased their productivity by more than Canada.
- Germany, New Zealand, Australia, the Euro area, the OECD, France and the G7 average all improved GDP per person relative to U.S. levels during the current business cycle.
- Canada has the most evenly-distributed market incomes, and the third most evenly-distributed disposable incomes, among the G7 countries, Australia and N.Z. Canada appears to have much less of a problem of sharing economic gains and much more of a problem generating them in the first place.
- Arguably, Canadian policy-makers have been focused on improving already high rates of labour utilization (e.g. raising labour force participation and reducing unemployment). However, labour utilization has delivered no gains whatsoever in relative living standards over the current business cycle.
- Meanwhile, there has been insufficient attention to structural reforms that would spur labour productivity growth.
- An optimistic view is that Canada now has considerable scope to raise living standards by accelerating productivity. This needs to be policy-makers’ paramount focus if they wish to see Canadians’ standard of living improve over time.

It’s been 11 years since the peak of the previous business cycle in 2007. With the federal election underway, it’s a good time to assess how Canada’s economy has performed over the current business cycle compared to peer countries (the “Joneses”).

The question is: has Canada kept up with the Joneses?

Unfortunately, the answer is clearly no. Canada’s economy is **not** keeping up with the Joneses, according to OECD data. Canadians have seen the largest deterioration in living standards among and relative to peer countries over the period from 2007 to 2018. This is primarily because peer countries have increased their productivity by more than Canada.

THE ARITHMETIC OF LIVING STANDARDS

A key measure of living standards is real gross domestic product (GDP) per person. **GDP per person** is the product of **labour productivity** (output per hour worked) and **labour utilization** (hours worked per head of population). Productivity is the efficiency by which an economy’s

production processes transform inputs (labour and capital) into outputs. Hours worked per capita is a function of average annual working hours per worker, labour force participation, and the unemployment rate.

WHO ARE THE "JONESES"?

The charts that follow show data as a percentage of United States' levels between 2007, the peak of the last business cycle, and 2018. The peer group of countries – the "Joneses" – include the U.S., France, Germany, Italy, Japan and the United Kingdom, and averages for the OECD, the G7 and the Euro area. Also included are Australia and New Zealand, two resource-based economies with similar institutions and educated workforces.

CANADA RECORDED THE LARGEST RELATIVE DECLINE IN LIVING STANDARDS SINCE 2007

Figure 1a shows the level of real GDP per person, adjusted for purchasing power parity, across the peer countries in 2007 and in 2018.¹ The data are shown as a percentage of U.S. levels (i.e. the U.S. equals 100%). **Figure 1b** shows the *change* between 2007 and 2018.

Canada saw the largest decline in relative living standards – an almost 6 percentage point fall in GDP per person relative to U.S. levels – followed by Italy, Japan and the U.K. By contrast, Germany, New Zealand,

Australia, the Euro area, OECD, France and the G7 average all gained ground relative to the U.S. during the current business cycle.

HOW ARE THE JONESES GETTING AHEAD?

Countries can raise overall living standards by improving their economic efficiency or by working more hours per head of population, or both. **Figures 2a and 3a** show labour productivity and labour utilization, respectively, as a percentage of U.S. levels for 2007 and 2018. **Figures 2b and 3b** show the change between 2007 and 2018.

Canada's slippage in relative GDP per capita is primarily due to Canada becoming much less productive relative to peer jurisdictions since 2007 (**Figure 2b**). Put simply, other countries have improved their productivity by more than Canada. There has also been a slight decline in Canada's still very high rate of labour utilization relative to peer countries (**Figure 3b**).

Australia, Germany, the Euro area, France and Italy saw the largest gains in productivity levels relative to the U.S. during the current business cycle. Germany achieved significant gains in both labour productivity and labour utilization. This explains why Germany saw the largest relative improvement in GDP per person since 2007.

New Zealand experienced the second largest gain in relative living standards. This was due to very large

Canadians have seen the largest deterioration in living standards relative to peer countries over 2007 to 2018. This is primarily because peer countries have increased their productivity by more than Canada.

increases in labour utilization relative to U.S. levels, while its productivity remained comparatively low. Australia recorded similar gains in relative GDP per person as N.Z. over the current business cycle. However, unlike N.Z., Australia achieved the greatest improvement in relative productivity among the Joneses, offsetting a modest decline in (still relatively very high) labour utilization.

CANADA IS GOOD AT SHARING ECONOMIC GAINS, BUT LESS GOOD AT GENERATING THEM IN THE FIRST PLACE

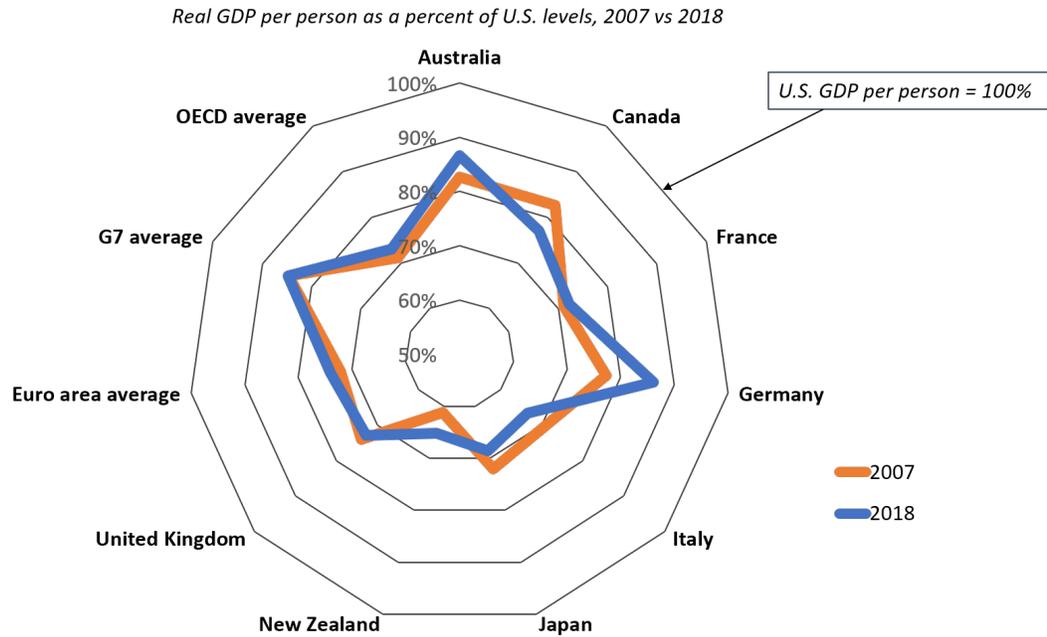
It is important to note that Canada has a relatively well-balanced distribution of income. The Gini coefficient, which ranges between zero and one, is a widely-used measure of the concentration of income across the population. The closer it is to zero, the more balanced is the country's distribution of income.² **Figure 4** provides the most recent OECD data.

¹ PPP exchange rates are used to translate a country's GDP (in local currency) into a measure of a country's purchasing power for a representative basket of goods and services (see [Lafrance and Schembri, 2002](#)).

² A Gini coefficient of zero indicates that income is perfectly equal across the population, whereas a coefficient of one indicates that a single person captures all the income.

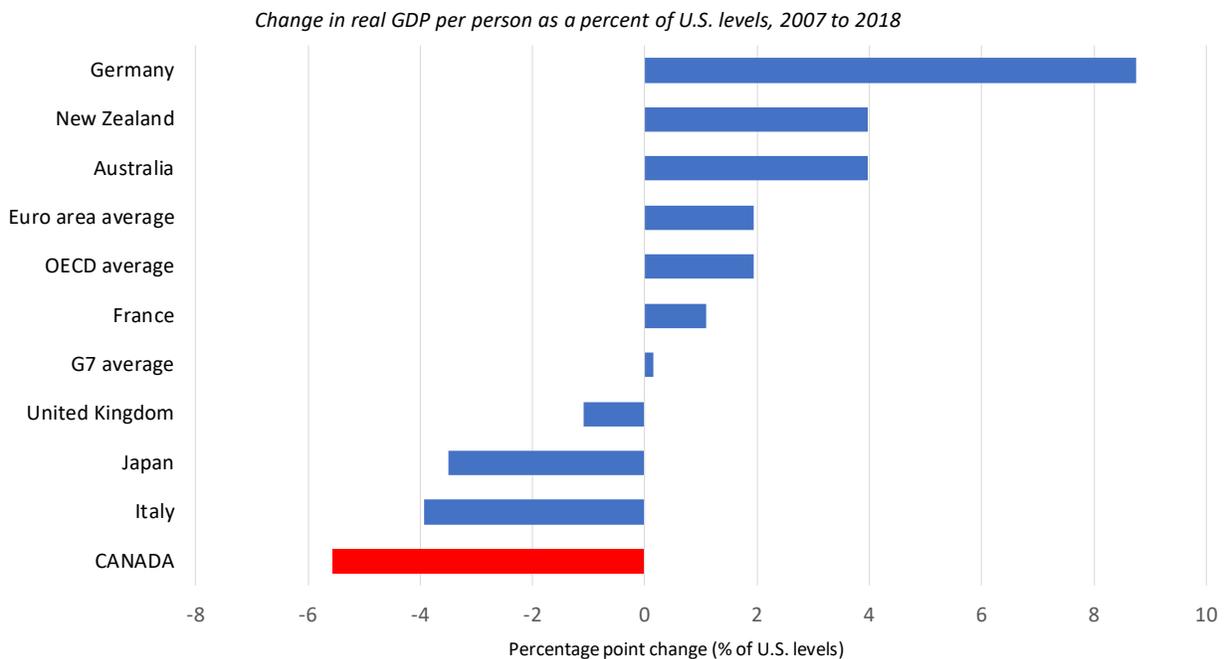
³ Canada's Gini coefficient is 0.438 for *market* incomes (before taxes and transfers) and 0.31 for *disposable* incomes (after taxes and transfers). The latest available OECD statistics are: 2017 for Canada, U.K. and U.S.; 2016 for Australia, France, Germany and Italy; 2015 for Japan; and 2014 for New Zealand. Gini coefficients tend to be fairly stable from year to year.

FIGURE 1A: LIVING STANDARDS RELATIVE TO THE U.S. HAVE FALLEN IN CANADA, ITALY, JAPAN AND U.K. DURING THE CURRENT BUSINESS CYCLE



Source: OECD.stat.

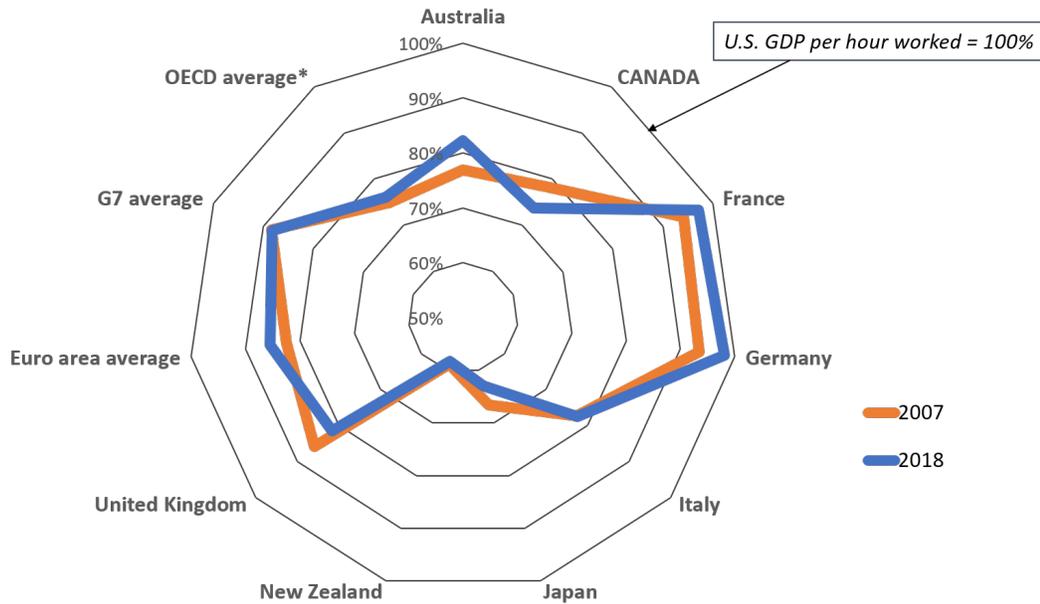
FIGURE 1B: CANADIAN LIVING STANDARDS DECLINED THE MOST RELATIVE TO PEER COUNTRIES DURING THE CURRENT BUSINESS CYCLE



Source: OECD.stat.

FIGURE 2A: PRODUCTIVITY RELATIVE TO THE U.S. DECLINED IN CANADA, U.K., JAPAN AND N.Z. DURING THE CURRENT BUSINESS CYCLE

Labour productivity (output per hour worked), PPP adjusted, percent of U.S. levels, 2007 vs 2018

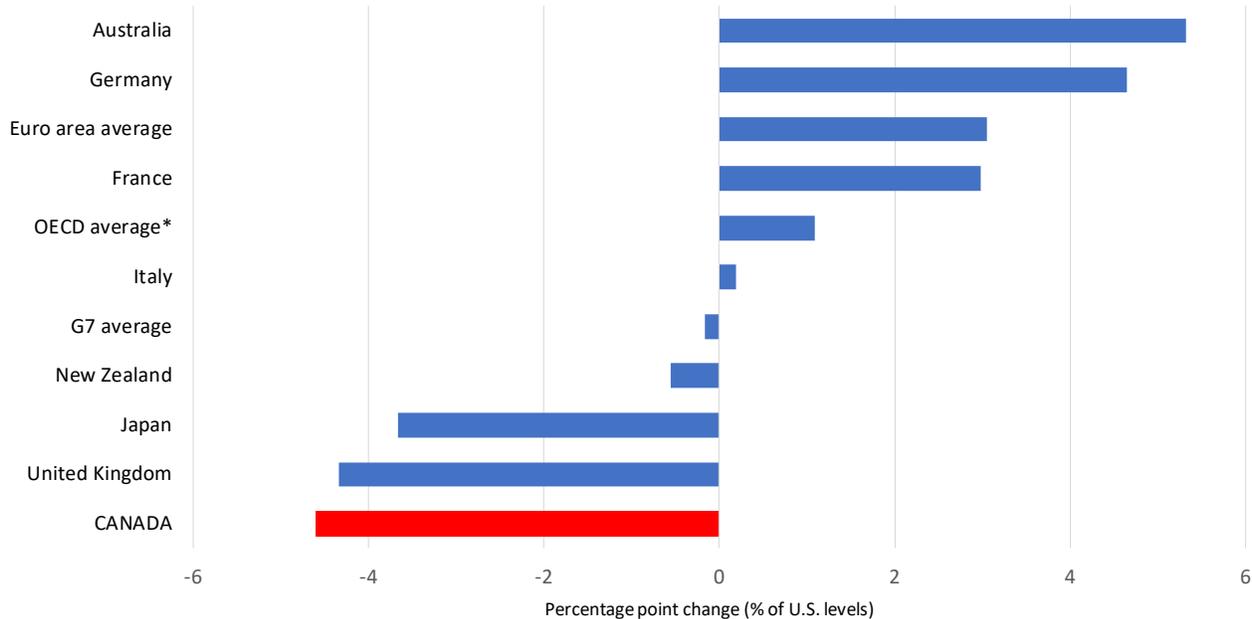


Source: OECD.stat.

* Latest data for OECD average is 2017.

FIGURE 2B: CANADA'S PRODUCTIVITY DETERIORATED THE MOST RELATIVE TO PEER COUNTRIES DURING THE CURRENT BUSINESS CYCLE

Change in labour productivity (output per hour worked) as a percent of U.S. levels, 2007 to 2018

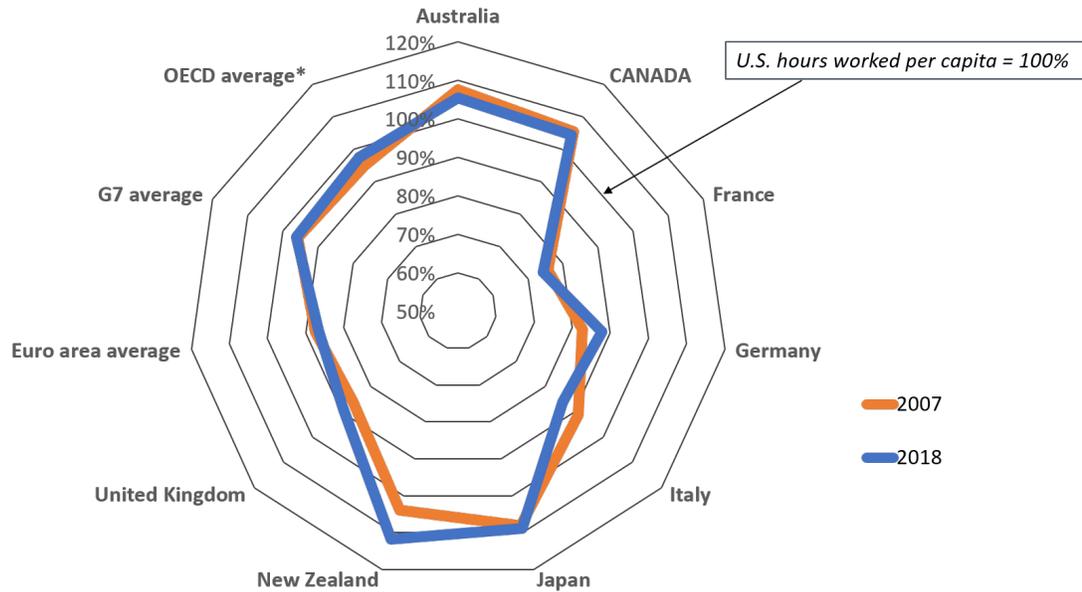


Source: OECD.stat.

* Latest data for OECD average is 2017.

FIGURE 3A: CANADA'S LABOUR UTILIZATION REMAINED HIGH RELATIVE TO PEER COUNTRIES DURING THE CURRENT BUSINESS CYCLE

Labour utilization (hours worked per capita), percent of U.S. levels, 2007 vs 2018

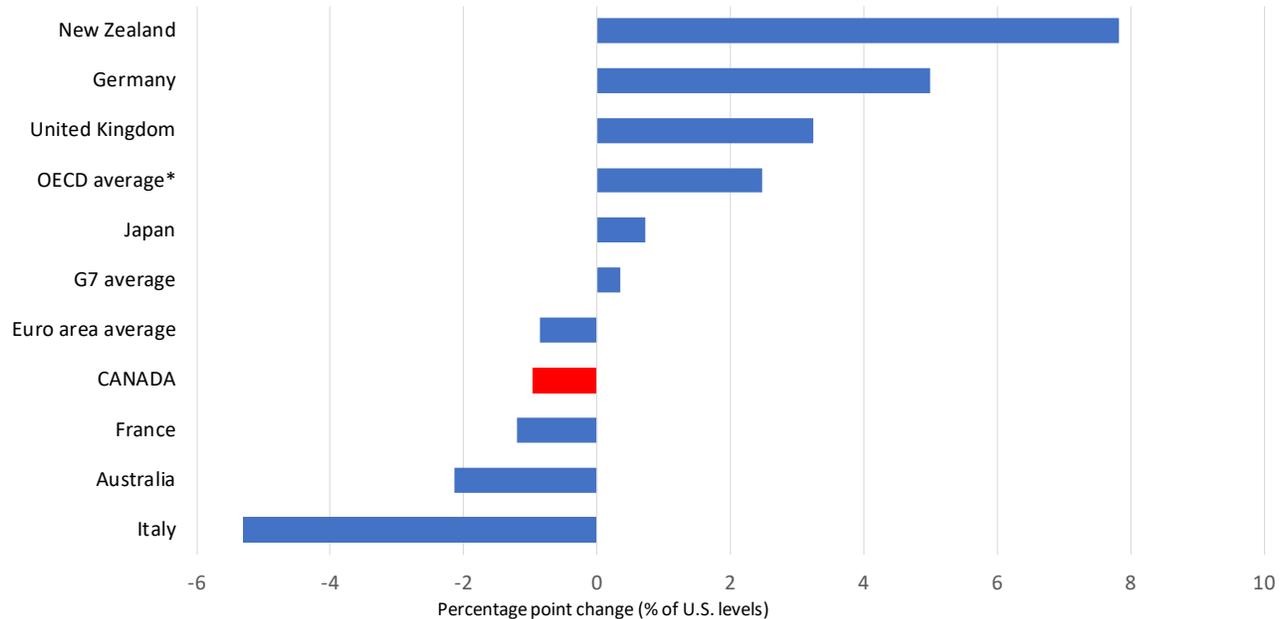


Source: OECD.stat.

* Latest data for OECD average is 2017.

FIGURE 3B: CANADA'S RELATIVELY HIGH LABOUR UTILIZATION SLIPPED ONLY SLIGHTLY DURING THE CURRENT BUSINESS CYCLE

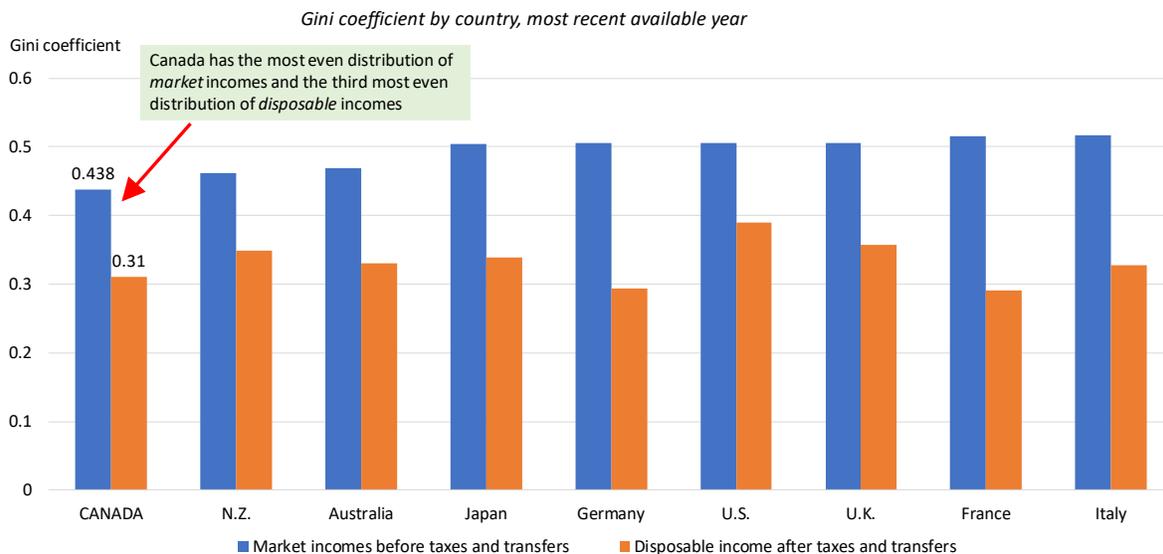
Change in labour utilization (hours worked per capita) as a percent of U.S. levels, 2007 to 2018



Source: OECD.stat.

* Latest data for OECD average is 2017.

FIGURE 4: CANADA IS GOOD AT SHARING ECONOMIC GAINS, IF IT CAN GENERATE THEM



The Gini coefficient measures the dispersion of income across the population. It ranges between 0, indicating an perfectly-even distribution, and 1, indicating a perfectly-concentrated distribution.

Source: OECD.stat.

Among the G7 countries, Australia and N.Z., Canada has the *lowest* Gini coefficient for the distribution of market incomes (before taxes and transfers) and the *third lowest* coefficient for the distribution of disposable incomes (after taxes and transfers).³ **Relative to its peers, Canada appears to have much less a problem of sharing economic gains and much more a problem of insufficient income generation.**

CANADA NEEDS HIGHER PRODUCTIVITY GROWTH TO KEEP UP WITH THE JONESES

An economy that can deliver rising GDP per capita is able to provide a rising tide of economic prosperity and opportunity for its citizens. This is especially true for a country like Canada given its relatively well-balanced distribution of income. However, relative to peer countries, Canada's tide is going out (like Italy

and Japan), not in (like Germany, New Zealand, Australia and France). In fact, Canada's real GDP per person has barely grown at all in recent years (see [here](#)).

Canada's decline in relative living standards over 2007-2018 is due almost entirely to slippage in relative productivity. Quite simply, peer countries are improving their productivity at a faster rate than Canada. Arguably, Canadian policy-makers have been focused on improving or maintaining already high rates of labour utilization (e.g. raising labour force participation and reducing unemployment). However, labour utilization has delivered no gains whatsoever in relative living standards over the current business cycle.

At the same time, there has been insufficient attention to structural reforms that would spur productivity growth, such as tax reform, regulatory modernization,

reducing internal trade barriers and intensifying product market competition. Going forward, raising productivity growth should be policy-makers' paramount focus if they wish to see Canadians' standard of living improve over time. An optimistic view of the situation is that Canada now has considerable scope to raise living standards by accelerating productivity.

Canadian living standards have *not* kept up with the Joneses over the current business cycle. As the federal election approaches on October 21, perhaps it's time to ask policy-makers if they have any ideas on how to turn this uninspiring arithmetic around.

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