

## Canadians work harder, but not smarter

**W**e identify Canada's international "peers" as those countries with at least 10 million people (about one third of Canada's population) and with the highest GDP per capita. The population criterion excludes smaller, but prosperous countries like Sweden and Switzerland. While their specific policies are of interest, these countries do not have the size and breadth of economic challenges that make them comparable to Canada. The prosperity criterion eliminates countries like Korea, Egypt, and the BRIC countries. China, for example, is important, given its growth and trade performance. However, its current GDP per capita is \$8,600, only one fifth of Canada's. All of Canada's peers have highly developed, diverse economies with internationally competitive labour forces. As we have seen, Canada's performance compares quite well against them (*Exhibit A*).

The United States is unique in that it gains its prosperity through above average labour effort and productivity. Other countries do well on only one of the two measures. The countries of continental Europe rank high in productivity (although Italy's productivity is slightly below average), but are laggards in labour effort. In essence, lower skilled workers are less engaged in the economy and productivity is driven by higher skilled workers. Australia, Canada, the United Kingdom, and Japan have wider participation in their labor forces, but achieve lower productivity.

Canada's economic success is based on an above average labour effort, not on productivity and innovation. In demographic terms, Canada has the most favourable profile of any of our peers, with just under 70 percent of our population in the prime working age range of 15-64 years old, ahead of Australia at 68 percent, our closest competitor. We do very well in job creation and are above average in hours worked per worker.

With a similar economy and considerable bilateral trade, the **United States** is a natural peer for comparison with Canada. Despite this, on a GDP per capita basis Canada trails the United States significantly. Although Canada's labour force statistics are roughly comparable, higher productivity gives the United States greater prosperity.

With a population of approximately 16 million, the **Netherlands** has about half of Canada's population, but in a geographical area that represents only a tiny fraction of Canada's. A country built on trade with the rest of the world, the Netherlands performs well in GDP per capita,

but has labour force characteristics that differ greatly from Canada's. Its labour force participation rate is much higher than those in the other European peers. However, hours worked per working individual are much lower in the Netherlands than in most of Europe or in Canada. Its high productivity level means the Netherlands leads Canada in GDP per capita terms.

A fellow Commonwealth country, **Australia** is in many ways similar to Canada. It has large urban centres separated by sparsely populated rural regions and a significant resource base. Where Canada exports a large amount of processed and unprocessed natural resources to the United States, Australia does likewise to Asia. Australia's GDP per capita slightly leads Canada's, and when we analyze their labour effort and productivity performance, we see very similar performance to Canada's.

With a population of about 10 million, **Belgium** is Canada's smallest peer and falls between its French and Dutch neighbours in prosperity. Its lower labour force engagement is more like France's than the Netherlands', but with higher hours worked per worker. Belgium led all of the peers with the highest productivity level in 2009.

**Germany** has a population of over 80 million, and trails Canada in GDP per capita. The legacy of reunification continues in Germany. While some of the German Länder (states) are very competitive by international standards, the country as a whole does not lead. Like others in continental Europe, Germany has a significantly lower labour force participation rate than Canada, and those who are employed tend to work fewer hours. However, a significant productivity advantage allows Germany to post a competitive GDP per capita.

While it has a lower GDP per capita than its former colonies, the **United Kingdom** looks much more like the United States, Canada, and Australia than continental Europe. It has a labour effort that falls only slightly short of Canada's, as well as similar urbanization and education measures. Canada's GDP lead over the United Kingdom is a result of the higher labour effort as well as a modest lead in productivity.

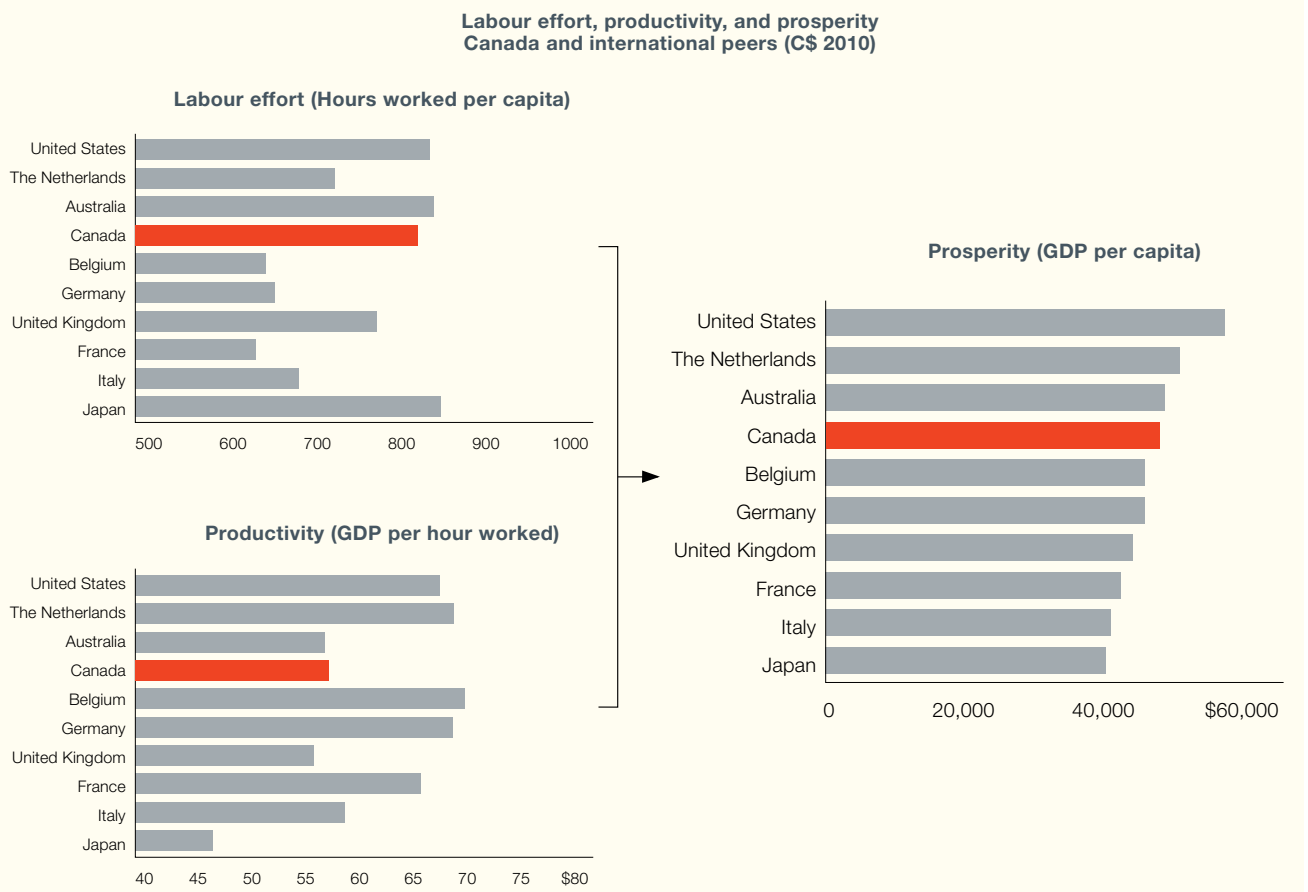
**France** defines the continental Europe model, with very low labour force engagement compared to that in Canada, even lower than in Germany. Those who do engage in the labour force tend to work a moderate number of hours – higher than in Germany or the Netherlands, but much lower than off the continent. France achieves a high level of productivity, as many of

the lower skilled individuals there do not participate in the economy. The country's lower work effort overwhelms its productivity advantage, and so France's prosperity trails Canada's considerably.

**Italy** is similar to Germany in that it is a country with two sets of economic performers. Italy's north contains an economic engine that can be compared to the best in France and Germany, with high GDP per capita. However, when averaged out with Italy's southern economy, Italy's prosperity trails Canada's markedly. Compared to Canada, Italy has slightly higher productivity, but much lower labour effort.

**Japan** looks different from our European peers, with relatively high participation rates, and high hours worked per employed person. However, Japan's traditional labour effort advantage over Canada has been eroding, and in 2009 it barely led the peer group. This decline tracks Japan's demographic changes: two decades ago Japan was among the leaders in terms of 15-64 year olds as a percent of its population; in 2009, it was nearly last. Japan's productivity, and as a result prosperity, trail the other members of the peer group.

**Exhibit A Canada leads international peers in labour effort, but lags in productivity**



Note: Data are from the year 2009 and converted to 2010 dollars at PPP = 1.203.  
 Source: Institute for Competitiveness & Prosperity analysis based on data from Statistics Canada; US Bureau of Economic Analysis, US Bureau of Labor Statistics, US Census Bureau (Current Population Survey); Australian Bureau of Statistics; Statistisches Bundesamt Deutschland; Centraal Bureau voor de Statistiek; INSEE - National Institute for Statistics and Economic Studies; Japan Statistics Bureau & Statistics Center; Eurostat; IMF; and OECD.