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Large Shortfall in Software Investment Behind Canada-U.S. ICT Investment Gap

The Centre for the Study of Living Standards today released a report entitled “Explaining the Canada-U.S. Software Investment Intensity Gap”. According to official estimates, in 2012, software investment per worker in the Canadian business sector was only \$1,025 in PPP adjusted U.S. dollars, 40.7 per cent of the \$2,517 per worker spent in the U.S. business sector.

The key findings of the report:

- Information and communications technologies consists of three components: computers, communications equipment and software. Computer investment per worker in Canada has risen from 61.5 per cent of that in the United States in 1987 to 110.5 per cent in 2012, while communications investment has risen from 54.9 to 61.8 per cent of the U.S. level. In contrast, software investment has fallen from 58.5 to 40.7 per cent of the U.S. level.
- The very large Canada-U.S. software gap (59.3 points or \$1,492 US per worker) means that this ICT component in 2012 accounted for 85.4 per cent of the overall Canada-U.S. ICT investment gap.
- In the last five years the software gap has increased significantly. Software investment per worker fell 6.4 per cent between 2007 and 2012 in Canada, while surging 21.4 per cent in the United States. These trends resulted in the Canada-U.S. software investment relative falling from 52.8 per cent in 2007 to 40.7 per cent in 2012 (or the Canada-U.S. software investment gap rising from 47.2 per cent in 2007 to 59.3 per cent in 2012).
- The report finds that around one third of the gap can be explained by Canada’s lower productivity and income level, industry structure and lower wages for software workers.
- The software gap is concentrated in a small number of sectors (information and cultural industries, finance and insurance, and professional scientific and technical services), suggesting that the gap may to a considerable extent be an industry-specific issue.
- The role of public policy in affecting private sector ICT investment may be limited. First, to the degree that the gap reflects the less strategic behavior toward innovation of Canadian firms compared to their U.S. counterparts, and consequent less interest in using software, it may be difficult for government to affect firm behaviour. Second, the policy

environment for software investment in Canada is already favourable, as evidenced for example by low tax rates.

- The ICT adoption problem appears to be particularly acute for small and medium sized enterprises (SME). This suggests that the greatest potential for government to contribute to an increase in business sector software investment is by working with SMEs.

The report is posted at <http://www.csls.ca/reports/csls2014-04.pdf>.

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The Centre for the Study of Living Standards (CSLS) is a national, independent, Ottawa-based not-for-profit research organization. Its primary objective is to contribute to a better understanding of trends and determinants of productivity, living standards and economic wellbeing in Canada through research.