

# From Productivity to Well-Being: Keep the Focus on Basic Skills

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*"We'll remember this planet."*  
— Boris Vian

LET ME BEGIN BY STATING THAT, despite my great esteem and admiration for the work of Philippe Aghion and Peter Howitt, I am in a sense going to take the counterpoint of their policy recommendation for growth in a country that is on, or close to, the technology frontier. While we all agree that more needs to be invested in university education and training, as they propose, I would instead emphasize that our most pressing task is fostering basic skills, reducing the high-school dropout rate, and raising the profile of our community colleges and CEGEPs. Our foremost objective should be to raise average labour productivity not as much by encouraging our already productive workforce to become even more productive as by bringing the low-productivity segment of our workforce closer to the median.

I build my defense of this recommendation on three pillars: recent empirical research on the sources of well-being, the impact of basic skills on growth, and the effect of global competition on our low-skilled workforce.

## **The Connection between Income Growth and Well-being**

First, my reading of the results from recent research on the connection between real income and subjective well-being is that it is very largely *relative* in nature. In advanced countries, an increase in income is initially felt as a shot of adrenalin, but this feeling is soon attenuated or entirely dissipated as one becomes accustomed to the new level of income, and as others obtain a raise in their turn, and catch up. This is a relative game, which, coincidentally, is particularly timely to emphasize only a few weeks after Tom Schelling received the Nobel Prize. The assertion here is that New Zealanders at \$20,000 per capita are as happy as the Dutch at \$24,000, Canadians at \$27,000 and Americans at \$32,000. At the same time, this strand of research indicates that raising GDP per capita from zero to about \$15,000 does raise well-being to a very significant extent in absolute terms, as the low-income population is brought above subsistence levels. The view that it is relative, not absolute,

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income growth that matters for well-being is a very old idea, but it is one that has received more support in recent years through empirical work by economists Richard Layard, Andrew Oswald, Ernst Fehr, John Helliwell and Robert Frank. At the same time, it must be recognized that the *absolute* level of production continues to matter, but in a *negative* sense: by making more and more demands on the local and global environment, demands which have the potential to reduce well-being in the long run.

The view that well-being is linked to relative income, whereas the quality of the environment (and hence the long-term sustainability of economic systems) deteriorates with absolute income growth has stark implications for growth policy. As philosopher Joseph Heath has stressed, it means first that pushing on further growth in advanced countries is not such an urgent task. Second, it implies that the focus of growth policy should be on eradicating poverty from low-income countries, and on bringing poor people in advanced countries closer to the median income. Third, given that just raising the average income of less-developed countries to the average income of the more advanced countries would require multiplying world output by a factor of three (even before taking account of ongoing population growth), the environmental impacts of growth should be a foremost concern.

Technological advances clearly offer a promise of cleaner growth in the future. But my concern is not with our technological potential, but with our collective behaviour as 191 nations on this planet. The three great difficulties we have begun to face in managing the global environment are: one, recognizing that we do have a problem when the consequences are uncertain and long-run; two, building a consensus on what to do; and three, enforcing international agreements in this area. The remaining years in this century are not going to be an environmental picnic.

## **The Impact of Basic Skills on Growth**

So, how are we going to bring poor Canadians closer to the median income of the country? By fostering basic skills, reducing the high-school dropout rate, and raising the profile of community colleges and CEGEPs. This is my second point. The literature on the role of basic skills in raising wages and supporting growth is very large. I will not dwell on it. Let me only bring to your attention the recent C.D. Howe Institute *Commentary* by Serge Coulombe and Jean-François Tremblay on the effectiveness of public investment in basic skills. After giving a short introduction to the recent empirical literature, these authors use the International Adult Literacy Survey to show that raising literacy and numeracy at the bottom of the skills distribution is more important to economic growth across countries than producing more highly-skilled graduates and more investment in physical capital. These results not only indicate that fighting the high-school dropout rate should remain a continuing objective in general, but they also provide a basis for constructing indicators of quality — indicators of student and school performance based on standardized skills tests.

I should add that the effort should be particularly focused on my own province, Quebec, where 13 per cent of the population aged 25 to 29 does not have a high-school degree (Table 1). This 13 per cent figure is higher than the average of 10 per cent that is observed in the rest of the country, and further, it occurs in spite of high-school diplomas being granted at the end of grade 11 in Quebec.

Raising the profile of community colleges and CEGEPs comes next. A recent study that I have had the opportunity to prepare with my colleague Marc Van Audenrode of Analysis Group in Montreal suggests that for a number of reasons the establishment of the CEGEP in Quebec has been an incredible accelerator of

**Table 1**  
**Distribution of population aged 25 to 29 according to highest diploma/degree obtained (2002), and median years of schooling (2001) in four regions of Canada**  
(per cent)

Highest diploma/ degree obtained	Quebec	Ontario	Atlantic Canada	Western Canada
None (dropouts)	13	9	11	10
High school	18	28	28	36
Postsecondary	44	34	40	33
University	25	29	21	21
Total	100	100	100	100
Median years of schooling	15.2	15.3	13.9	14.2

Source: Statistics Canada, *Labour Force Survey 2002* and *Census of Canada 2001*, microdata files.

general and professional schooling in that province and, moreover, has mostly benefited the low- and medium-income population. As the Table 1 reports, the median level of schooling for the 25-29 age group in Quebec is 15.2 years. It is about equal to Ontario's median of 15.3 years of schooling. Quebec has been able to achieve this schooling performance despite posting the highest high-school dropout rate in the country and having a lower university graduation rate than Ontario. In my wildest moments, I dream of all of Canada being on the CEGEP system!

Further, given that over half of CEGEP students are in the technical sector instead of the general track, the system provides for a relatively large pool of professional and technical graduates, which helps improve the match between supply and demand of intermediate-skilled labour. Our results on the impact of CEGEPs on schooling have also been obtained independently by Mark Lewis in his 2002 MIT Ph.D. thesis based on microdata. Mark found that the CEGEP system has increased the average schooling level of both anglophone and francophone Quebecers. Raising the profile of community colleges would obviously be an appropriate simultaneous move in favour of the low-income population of other parts of the country.

### **The Impact of Global Competition on our Low-skilled Labour Force**

My third and final reason for supporting greater public investment in productivity at the lower end of the scale is the Asian threat. The Asian economies are in the process of bringing approximately one billion new workers into the open world labour market over a period of twenty years or so. Most of these workers will be low-skilled and low-paid — but of course higher-skilled and higher-paid than before. If the basic theorems of international trade still have any meaning — remember Stolper and Samuelson? — this is going to spell trouble for low-wage workers in Canada and other industrial countries, to the extent that most of these new workers manufacture goods that are covered by WTO rules.

Actually, the process has already started. The large Quebec clothing manufacturing industry has lost 20,000 of its 50,000 jobs in the past 24 months. The process of North American manufacturing employment declining in relative terms has been going on since the 1950s, largely due to rapid productivity growth and relative demand elasticities. But this time it could be low-skilled-labour intensive production definitely going down the drain. We can delay the process, but not prevent it from occurring.

This underlines the increased urgency of raising average skill levels in Canada and other advanced countries. We should view education and training policies as a key part of the fight against income inequality, as recently stressed by Kevin Murphy, Craig Riddell and Paul Romer. Raising the average skill level in a population increases both the scarcity of low-skilled workers and the abundance of high-skilled workers. Therefore, it has the effect of reducing wage inequality in the entire economy. This is exactly what we should be after.

## **Conclusion**

Let me conclude by restating my argument. I believe we should strive to raise average labour productivity not as much by encouraging our already productive workforce to become even more productive as by bringing the low-productivity segment of our workforce closer to the median. The basis for this recommendation is that the marginal value of increases in productivity is highest where they serve to increase the well-being of our low-income population. Our most pressing tasks are distributive in nature: fostering basic skills, reducing the high-school dropout rate, and raising the profile of our community colleges and CEGEPs.