

Editor's Overview

THIS 17TH ISSUE OF THE *International Productivity Monitor* published by the Centre for the Study of Living Standards contains six articles. Topics covered are the effect of labour market regulation on productivity in OECD countries; the relationship between the growth in labour productivity and real wages in Canada; the importance of higher education and market rigidities for the diffusion of information and communications technology (ICT) in OECD countries; the importance of the ICT-producing sector for productivity growth in Finland and Sweden; the appropriate measurement of total factor productivity (TFP) in unstable economies with an application to Argentina; and recent and proposed changes to US National Accounts.

It has been argued that certain labour market reforms that increase labour utilisation may at the same time reduce productivity growth. To assess this hypothesis, **Andrea Bassanini** and **Danielle Venn** of the OECD investigate the impact of several labour market policies on productivity. At an aggregate level, pro-employment policy reforms can affect productivity indirectly by changing the skills composition of the labour force, or directly by, for example, changing incentives for workers or firms to invest in training, facilitating the movement of resources across industries or improving the quality of job matches. Based on their empirical analysis, the authors conclude that more stringent employment protection legislation and less generous unemployment benefits are likely to reduce measured aggregate labour productivity, while increases in the ratio of the minimum wage to the median wage and additional parental leave appear to increase labour productivity.

The most direct mechanism by which labour productivity affects living standards is through real wages. Yet, between 1980 and 2005, the median real earnings of Canadians were unchanged, while labour productivity rose 37 per cent. In the second article, **Andrew Sharpe**, **Jean-François Arsenault** and **Peter Harrison** of the Centre for the Study of Living Standards examine why growth in real wages

has lagged behind growth in labour productivity in Canada. They find that the divergence between median earnings growth and labour productivity growth can be explained by four factors of roughly equal importance: inconsistent measurement, in particular, the failure to account for important increases in supplementary labour income; an increase in income inequalities; a decline in labour's terms of trade expressed as the ratio of output prices to consumer prices; and a decline in labour's share of national income. The failure of real median earnings to track labour productivity growth raises an important question: if Canadians are not seeing the benefits of labour productivity growth, why should they view labour productivity growth as an important societal goal?

Since the early 1990s, investment in ICT has been one of the key drivers of labour productivity growth in OECD countries, yet one observes significant gaps in ICT diffusion among major advanced countries. In the third article, **Gilbert Cette** and **Jimmy Lopez** of the Banque de France and the Université de la Méditerranée conduct an empirical investigation into the gap in ICT diffusion between European countries and the United States. They conclude that compared to the United States, lower ICT diffusion in the other major advanced countries can be largely explained by a smaller share of the popu-

lation with higher education and a higher level of rigidity in labour and product markets. They provide a quantification of the expected effects of education and market rigidities on ICT diffusion. For instance, they find that of the 48 percentage-point gap in ICT diffusion between France and the United States, 29 points are due to lower educational levels and 17 points are related to more rigid markets. The identification of areas where greater efforts are needed, in each country, to reduce the gap has important implications for policymakers.

While ICT diffusion has been important for productivity growth in many countries, Sweden and Finland have both become known for the development and manufacture of ICT products. In the fourth article, **Daniel Lind**, Chief Economist at Unionen, a Swedish trade union, compares the contribution of the ICT sector to labour productivity growth in Sweden and Finland from 1975 to 2004. The author finds that the level of labour productivity in Finland has been converging with that of Sweden, but that a gap remains. He argues that significant growth in the Finnish ICT sector since the mid-1990s, especially in the electrical engineering industry, has contributed to the labour productivity convergence.

In the fifth article, the focus shifts from Sweden and Finland, which have seen robust growth over the past decade, to an economy that has experienced considerable economic instability: Argentina. In this article, **Ariel Coremberg** of the United Nations Economic Commission for Latin America and the Caribbean develops a methodology for isolating the contribution of technological change, which he defines as a shift

in the production function or “pure” TFP, to economic growth. The key question the author seeks to answer is whether Argentina’s economic growth from 1990 to 2004 was driven by changes in the quantity and quality of the factors of production or by pure TFP growth. Particular attention is paid to the cyclical fluctuations that have affected the Argentine economy over the period analyzed and their effect on the measurement of TFP. The author finds that TFP, when appropriately adjusted to take into account short-term phenomena, has grown slowly. In 2004, both TFP and labour productivity were below their 1998 levels. These findings raise doubts about the ability of the Argentine economy to generate productivity gains independently of composition and quality effects and cyclical variations in factor utilisation, gains necessary to maintain sustainable long-run growth.

Developed and developing economies alike face the challenge of quantifying economic activity in a way that is accurate, affordable, and that provides useful data to analysts. In the sixth and final article **Jean-Pierre Villetelle** of the Banque de France reviews the volume *A New Architecture for the U.S. National Accounts* edited by Dale W. Jorgenson, J. Steven Landefeld, and William D. Nordhaus. The author sequentially examines each chapter, highlighting key findings and commentary. He finds the volume a valuable resource for statisticians and economists around the world who want to learn about the future directions and solutions proposed by their US colleagues for the development of the System of National Accounts.