



*Centre for the Study of Living Standards  
Centre d'étude des niveaux de vie*

*Andrew Sharpe (Executive Director/Directeur exécutif)*

*Don Drummond (Chair/Président)*

*604-170 Laurier Ave. W  
Ottawa, Ontario  
K1P 5V5*

*Board of Directors/Conseil d'administration*

*Donna Feir*

*Jock A. Finlayson*

*Pierre Fortin*

*David Green*

*Helen Heslop*

*Michael Horgan*

*Maureen O'Neil*

*Lars Osberg*

*Richard Van Loon*

*Telephone : 613-233-8891*

*[csls@csls.ca](mailto:csls@csls.ca)*

*[www.csls.ca](http://www.csls.ca)*

## **Inclusive Growth Elusive in Canada**

**Press Release, Ottawa, January 5, 2022**

The Centre for the Study of Living Standards today released the latest issue of its flagship publication, the *International Productivity Monitor*. The table of contents of the issue and links to the articles are found below. The volume contains a symposium on the decoupling of productivity and pay in the United States, the UK and Canada by leading international economists.

One definition of inclusive growth is that all members of society benefit equally from economic and productivity growth. A metric of inclusive growth is equal rates of advance for median wages and labour productivity. Both papers in the symposium on Canada show that median wage growth in this country has significantly lagged labour productivity growth since 1976. Productivity gains have gone disproportionately to those in the top half of the wage distribution and to capital.

In the first article, Jacob Greenspon and Lawrence Summers from Harvard University and Anna Stansbury from MIT compare productivity and pay in the United States and Canada, They find:

- Typical workers' pay has grown substantially slower than average labour productivity over the last four decades in both Canada and the US – particularly in the US. Despite much slower labour productivity growth in Canada than in the US, the growth in real median compensation has been about the same in both countries since 1976 due to relatively larger increases in labour income inequality in the US.
- There is evidence for linkage between productivity and pay in both the US and Canada: years with higher productivity growth rates have also tended to be years with higher growth rates of pay, suggesting that marginal increases in productivity growth still raise

pay holding all else equal. This holds both for the average worker and for a newly constructed measure of “typical” workers’ pay in Canada, calculated from historical data on compensation for workers paid by the hour in five sectors of the economy.

- The linkage between productivity and average pay does however appear somewhat weaker in Canada than in the US. It is possible that Canada’s smaller and more open economy may mean there is a greater role for international factors in reducing the strength of the linkage between productivity growth and compensation growth in Canada. These results suggest that trends or policies which increase the rate of productivity growth should be expected to increase the pay of typical workers – even as there may at the same time be other variables acting to suppress the growth in incomes for typical workers.

The second article by Andrew Sharpe and James Ashwell from the Centre for the Study of Living Standards provides a narrative on the evolution of the productivity-median wage gap in Canada between 1976 and 2019. They find:

- Real median wage growth in Canada advanced at only 0.14 per cent per year over the 1976-2019 period in Canada compared to 1.10 per cent for labour productivity growth, resulting in a gap of by 0.96 percentage points per year.
- The productivity-median wage gap fell from 1.35 points in 1976-2000 to 0.46 points in 2000-2019 reflecting the pick-up in median wage growth and the relative stability of productivity growth. Median wages actually fell 0.17 per cent per year in 1976-2000 so the typical worker received no benefits from productivity growth. After 2000 median wages advanced at 0.53 per cent per year. With productivity growth at 0.99 per cent slightly over half of the gains of productivity growth went to the median worker.
- The fall in the productivity-median wage gap after 2000 in Canada can be explained by the increased bargaining power of labour, as evidenced by the fall in the unemployment rate, the much slower decline in the unionization rate compared to the last quarter of the 20<sup>th</sup> century, and the fall in the import share.

For further information, contact

Andrew Sharpe  
Executive Director  
Centre for the Study of Living Standards  
613-233-8891  
andrew.sharpe@csls.c

## International Productivity Monitor, Fall 2021 Number 41

Andrew Sharpe and Bart van Ark


[Editors' Overview](#) 

### Symposium on the Decoupling of Productivity and Pay in the United States, the United Kingdom and Canada

Jacob Greenspon, Anna Stansbury and Lawrence H. Summers

[Productivity and Pay in United States and Canada](#) 

Andreas Teichgraber and John Van Reenen

[Have Productivity and Pay Decoupled in the UK?](#) 

Lawrence Mishel and Josh Bivens

[The Productivity-Median Compensation Gap in the United States: The Contribution of Increased Wage Inequality and the Role of Policy Choice](#) 

Andrew Sharpe and James Ashwell

[The Evolution of the Productivity-Median Wage Gap in Canada, 1976-2019](#) 


Robert Inklaar and Pieter Woltjer

[Is Egypt Really More Productive than the United States? The Data behind the Penn World Table](#) 

Cindy Cunningham, Sabrina Wulff Pabilonia, Jay Stewart, Lucia Foster, Cheryl Grim, John Haltiwanger and Zoltan Wolf

[Chaos Before Order: Productivity Patterns in U.S. Manufacturing](#) 

Robin C. Sickles and Valentin Zelenyuk

[Response to Review Article by Bert Balk on \*Measurement of Productivity and Efficiency, Theory and Practice\*](#) 

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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 Canadians through research