

Economics Analysis Paper HXEOAO

1. a) What does Canada face regarding productivity (Causes of problems)

Productivity really has a great impact on the prosperity of the country. It is a measure of output per worker per hour. It is important because it reflects how a country uses its resources, skills, technology, research and development to improve the standard of living. Productivity in Canada is affected by several sources namely, technological innovation, level of education, economies of scale, incentive of workers, amount of money and time spent on research and development and how well is the economy performing at that time.

Although Canada has sufficient resources, that is the potential to become prosperous, it is hindered by the above factors.

According to one economic analyst, he says, "When it comes to productivity, you Canadians are lousy." And a measure of productivity by OECD has showed that the productivity in Canada has actually declined in 1980-86, at a rate of 0.3% a year and will continue to slip at 0.2 per cent a year in 1987-90. But why?

Firstly, it is because of the lack of technology innovation. Technology innovation is crucial to the prosperity of the economy and the improvement of productivity. However Canada lacks it and requires to import roughly twice the technology it exports. Due to the sickness in resources, it provided high standard of living and made us consume more than foreigners. We therefore became more and more dependent on others, without the interest to innovate our technology. As a result, the efficiency will fall and the productivity will continue to slip.

Education also has a close link to the productivity of a country like Canada. Canada has a good education system. However, one survey took in 1985 showed that Canadians were more familiar with hockey stars than a famous Nobel prize winner. Some of them even misunderstood the sun revolved around the earth. Besides, there is a continual shortage of trained men and women using laboratory equipment. Moreover, there is a lack of apprenticeship programs for the skilled trades. Generally speaking, there is a shortage of skilled labour in Canada as proved by seventy per cent of Ontario Manufacturing industries, there is not even one engineer on staff. The lacking of training programs gives us unskilled labours, they might not be able to operate the machines, so we cannot improve our productivity even if we have the best capital equipment. These equipments might as well be a burden of improving productivity. It may also lead to more dependent on foreign imports, producers might not be so keen to improve productivity.

Another critical factor effecting productivity is the economies of scale. Take Canada as an example, it has a lack of economies of scale, meaning Canada is too small to support big, efficient industries. As a result, Canada might not be able to apply technology to improve productivity. Although some people might argue that countries like Sweden and Finland with similar resource structures have succeeded in exploiting scale economies and have had better growth in productivity, we cannot omit the fact that Canada does have some barriers which hinder the growth of productivity. Finally, many Canadian manufacturing plants are unable to work to its optimum level. As a result, efficiency is low and productivity will be lowered too. Besides, large companies produce several products due to small size of Canadian economy. Specialization on one product becomes impossible. They have to introduce new machinery or even train workers for producing another product. As a result, high productivity cannot be achieved. Also, the tariffs imposed on foreign goods, prohibit competition and does not encourage improved efficiency and productivity. Rather, it shelters home-

made industries from fierce competition outside. Although, the Canadian manufacturing sector survives and grows, it didn't keep them to be efficient. Moreover, it adds up to the problem of limited markets. The productivity problem is then further worsened by a variety of provincial laws which restrict the movement of people, capital and products between provinces, which further divides up the Canadian market, restricting the scales of operation and efficiency of many Canadian industries. Productivity cannot be enhanced.

Incentives also affect productivity in Canada. Businessmen go into business because they want to raise profits. However, when they find out that it's better to produce less in order to get more profit. They will not improve productivity because there is no point for doing so. However, the income tax rate in Canada does not really favour businessmen, it simply means, the more you produce, the more you have to give it to the government. Therefore, businessmen will not be eager to produce efficiently or increase productivity. It also inhibits the businessmen to invest in additional production facilities, capital investment. Moreover, the tax rate payable on any extra income earned is high which makes people think it's not worthwhile to work efficiently. They will not do overtime or additional jobs. The general productivity will be low.

Another problem in Canada is that Canada has spent far less as compared to other countries in research and development. A lack of research and development simply means a failure to increase productivity. Canada has wrongly put too much emphasis on the welfare programs, unemployment insurance and measures for older workers. With limited resources in every economy, the spending of more resources on these programs causes Canada to forego investment on research and development. Canada becomes incapable of increasing productivity through introduction of new technology which boosts productivity.

Moreover, after 1988, Canada has been experiencing a recession. Although businessmen will not lay off all the workers, they will restrict the number of output produced. The demand for luxury or unnecessary goods from consumers must fall during recession. Therefore, producers will reduce production. With less to produce, the productivity will not be raised, rather they will make less as compared to prosperous times.

b) Suggest some solutions (explain why and how productivity will be improved)

There are many methods we can use to improve productivity. Firstly, I must have to say, it's not solely the responsibility of the government. Generally speaking, all of us, the consumers should spend money on what we need, but the money we saved should be used for investment. Investment will lead to prosperity. During prosperous times, producers have to produce more in order to satisfy the demands of the consumers, they will think of ways to improve productivity. Besides, businesses will have more capital to spend on investment, buying capital equipment to enhance productivity or they can use the money on research and development.

Secondly, for the role of the government, it must provide more training programs for workers which make them more skillful, they'll then be more capable of using or operating machinery and equipment, productivity will then increase. Besides, government has to introduce saving/investment plans to formulate capital investment. With more capital investment, it means better machinery and equipment, therefore higher productivity. Also, government should support technological improvements by supporting R&D in the form of tax allowances or other financial support. Business people will then find more advantageous to put emphasis on R&D. Therefore, more new technology and better productivity. Furthermore, in order to enhance productivity, the government should forbid activities which reduce competition, like agreements amongst producers not to compete on tariffs. As competition exists, producers will be more eager to increase productivity in order to compete.

Moreover, the government should think of a way to eliminate the inter-provincial barriers, provincial law, etc as it will increase competition, thus increasing productivity. The government should also make free trade policies with the US because it will expand the Canadian market, making it more competitive and productivity will follow to increase. Also, the government should make a shift of two percent of GNP from unproductive programs to science and technology which will make productivity better off. The correction of abusive use of social programs can be a cure. A national industrial policy and a science culture can be helpful.

To conclude, there are underlying problems hindering the growth of Canadian productivity, but if we can apply the solutions carefully and adapt in the changing world, there is no reason why we can't be a competitive and prosperous country in the near future. And we cannot undermine the effect of productivity on us because high productivity means prosperity and a high level of living standard.