



**Reply from the Work Less Party to the
BC Progress Board's Discussion
Paper on Productivity**

April 16, 2006

Reply from the Work Less Party to the BC Progress Board's Discussion Paper on Productivity

The Work Less Party welcomes the interest of the BC Progress Board in a topic that is dear to our own hearts: productivity. As the Progress Board states, "Productivity is very important." Indeed, it is *too* important a topic to leave to those who only look at one side of the coin. Therefore we wish to open up dialogue by pointing out something the BC Progress Board overlooked in their discussion paper: leisure.

Andrew Sharpe, executive director of the Centre for the Study of Living Standards pointed out several years ago that one of the chief benefits of increased productivity is that it "would also give Canadians the option of choosing more leisure time, a component of economic well-being that is currently not incorporated into GDP." The BC Progress Board's discussion paper, however, doesn't recognize that option. The word "leisure" doesn't appear once in the report. Indeed the report's focus appears to be exclusively on increasing the numerator of the productivity equation while leaving the denominator unchanged.

Productivity is not a "simple sum in arithmetic" and making a one-sided assumption – as the Progress Board does – leads to one-sided and possibly misleading calculations. The Board's paper begins its assessment of BC's productivity performance with the claim that "Canada has consistently experienced declining relative productivity since its strong performance in the 1970s." The statement is accompanied by a chart that shows Canada's ranking on productivity among 24 OECD countries declining from 5th place in 1970 to 17th in 2004. Let's take a closer look at that decline.

It is crucial to understand that the productivity being referred to in the chart equals total output, as measured by gross domestic product (GDP) divided by hours worked. The paper only makes that essential point clear some five pages later. The fact that productivity is a fraction means that it could be increased either by increasing the numerator, GDP, assuming that hours are constant or it could be increased by *reducing the hours of work* (the denominator), assuming a constant level of GDP.

Of the 16 countries that ranked ahead of Canada, only in the United States did workers average more annual hours in 2004 than in Canada (See tables in appendix "A"). Part of the policy mix that enabled the other 15 countries to pass Canada in productivity was shorter working time. Australia had only a small productivity edge over Canada – too small to be significant. On average, Australians worked 37 fewer

hours in 2004 than Canadians. Meanwhile, in the 14 European countries with significantly higher productivity levels than Canada, employees worked an average of 245 fewer hours in 2004, or roughly 6 weeks less, than Canadians. Seven European countries that worked significantly fewer hours annually surpassed the US in productivity. Those countries were Austria, Belgium, France, Ireland, Luxembourg, the Netherlands and Norway.

This is not to say that a reduction in the hours of work will *automatically* or always increase productivity, only that it is one of the important factors determining productivity. It is curious that this possibility is not mentioned at all in a 38 page paper that somehow manages to repeat the mantra of “productivity” 399 times. The closest the paper comes to acknowledging a relationship between productivity and reducing the hours of work is to (rather ambiguously) suggest, in a discussion that begins at the bottom of page 7 and continues to the top of page 8, that an *increase* in the hours of work (or one of several other factors mentioned) “may improve labour productivity growth levels for a [limited] period of time.” Now this happens to be entirely wrong not only in terms of economic theory (see below) but also in terms of grade-three arithmetic.

It is not an eccentricity of the Work Less Party to suggest a correlation between reducing the hours of work and increasing productivity. Last May, in his presentation to the Senate Standing Committee on Banking, Trade and Commerce, Andrew Sharpe included the reduction of working time as one of six policies for improving productivity growth in Canada. He pointed out that:

A person who works 35 hours a week rather than 40 tends to be more productive on an hourly basis. The worker will be less tired, and more focused as the more limited time available for work will be used more effectively. For example, less time will be wasted on meetings. One of the effects of the 35 hour work week legislation in France (which has recently been modified) has been to increase productivity, even though the purpose of the initiative was to increase employment.

Perhaps this seems too intuitively obvious to be trusted by the Progress Board’s adepts. Economics is, as we all know, complicated. But the economic theory backs up Sharpe’s common-sense explanation. In its submission to the Australian Industrial Relations Commission on the Reasonable Hours test case, the government of the state of Queensland summarized the economic analysis of the impact of longer hours of work on productivity. We have included relevant sections from that submission (which incidentally draws heavily on the work of the Work Less Party’s Policy Coordinator, Tom Walker) in appendix “B”.

In a nutshell, economist S. J. Chapman argued that reduction of the hours of work could enable workers to produce as much or more in fewer hours (the very definition of a productivity increase!). But he also cautioned that both employers and workers could be driven by competitive pressure to accept hours of work that were longer than optimal from the standpoint of either output or worker well-being.

The Work Less Party would like to see a much broader discussion about productivity than is envisioned in the BC Progress Board's discussion paper. Productivity is indeed "very important" as the Progress Board claims. However, Andrew Sharpe presciently replied to that claim last May when he observed, "Productivity is certainly important, but it is not everything." Sharpe went on to argue that "economic well-being and quality of life are higher level concepts that trump productivity."

What could be more important than "boosting incomes?" UBC economist John Helliwell told an *Imagine BC* dialogue session in March that beyond a certain level of sufficiency, more income doesn't bring people greater happiness. What most adds to happiness, according to Helliwell, is trust. And trust takes *time* to develop; it can't be bought. Furthermore, economists Peter Victor of York University and Gideon Rosenbluth of UBC have developed an economic model, "Managing without Growth", that shows it is feasible to reduce unemployment, reduce poverty and reduce greenhouse gas emissions in an economy with low or no growth. A key element of such a miracle would be the reduction of working time. Finally, UBC ecological economist William Rees has called attention to the very large ecological footprint that Canadians implant on the earth "Our economic system has made a secular religion out of growth and our god is technology. But if you take the footprint stuff seriously then you have to do something serious to reduce consumption, to change our lifestyle."

So, what could be more important than boosting incomes? Building trust. A more equitable distribution of incomes. Stepping more lightly on the earth. Increased productivity can indeed contribute to those good things. But it can only help if people intelligently consider the questions: production of what?, for what purpose? and for whose benefit?

In its discussion paper on productivity the BC Progress Board side steps those fundamental questions. Words besides "leisure" that don't occur at all in the paper are "footprint," "poverty" and "greenhouse gas." "Income" appears 62 times in the paper and "growth" 185 times but there is no mention of "security," "trust" or "happiness." "Well-being" appears only once – in the bibliography. "Unemployment" makes its lone cameo appearance to highlight a current 30-year low. Perhaps most marvellous is the contrast between "innovation" and

“imagination.” “Innovation” appears in the paper 35 times but neither “imagine” nor “imagination” are there. What kind of innovation is it that thrives in the absence of imagination? Sometimes what is left unsaid is more revealing than what has been said.

The Work Less Party invites the members of the BC Progress Board to imagine productivity that improves the quality of life rather than single-minded productivity that only increases the quantity of income. There is a difference. The failure to notice that difference – and to act on it – is at the root of our society’s most worrisome problems today. We look forward to a response from the BC Progress Board to the issues we have raised and we call on the citizens of British Columbia to also join in this dialogue.

Appendix A: Tables

24 OECD countries ranked by productivity, 2004

Country	Dollars*	Rank
Luxembourg	\$60.38	1
Norway	\$59.21	2
France	\$53.28	3
Ireland	\$50.13	4
Belgium	\$49.31	5
Austria	\$48.35	6
Netherlands	\$47.84	7
U.S.A	\$47.35	8
Germany	\$47.12	9
U.K.	\$42.49	10
Italy	\$42.46	11
Denmark	\$42.42	12
Sweden	\$42.33	13
Finland	\$42.17	14
Switzerland	\$40.75	15
Australia	\$38.50	16
Canada	\$37.17	17
Spain	\$35.21	18
Japan	\$35.17	19
Iceland	\$34.83	20
Greece	\$29.74	21
New Zealand	\$29.03	22
Portugal	\$24.29	23
Turkey	\$13.45	24

24 OECD countries ranked by average annual hours worked, 2004

Country	Hours	Rank
Netherlands	1355	1
Norway	1362	2
France	1439	3
Germany	1443	4
Luxembourg	1477	5
Denmark	1497	6
Austria	1497	7
Switzerland	1534	8
Sweden	1575	9
Belgium	1598	10
Italy	1603	11
U.K.	1621	12
Ireland	1649	13
Finland	1652	14
Portugal	1718	15
Japan	1749	16
Australia	1758	17
New Zealand	1765	18
Canada	1782	19
Spain	1798	20
Iceland	1810	21
U.S.A	1819	22
Greece	1918	23
Turkey	1918	24

*in US Dollars converted with EKS purchasing power parity

Source: Conference Board and Groningen Growth and Development Centre "Total Economy Database, January 2006

Appendix B: from the submission of the government of Queensland to the Australian Industrial Relations Commission on the Reasonable Hours test case

5.2 Working hours and productivity: an economic analysis

The impact of longer hours on productivity has been a traditionally complex and controversial question in economics. Much of the conflict arising from this debate has stemmed from the difficulty in determining a time frame around which to measure productivity changes. For instance, a short-term view may yield vastly different conclusions in terms of the impact of extended hours on productivity than a long-term view, when the fuller consequences of working extended hours have begun to materialise.

5.2.1 Theoretical review

The study of the relationship between work intensity and fatigue owes much to S.J Chapman's theory of the hours of labour, where in 1909 Chapman demonstrated market failure in the determination of working time (Walker 2000). This argument initially involves the establishment of a concept of 'optimal hours'. The main points of this argument can be summarised as follows:

- a mass of evidence indicating that reductions in hours of work had not led to proportionate declines in output;
- modern industry fatigue was increasingly less physical in nature and more a combination of psychological and physiological as a result of specialisation and increased need for mental concentration;
- the reduction of hours allowed better-rested workers to produce as much or more in the shorter hours;
- the total value of the output would initially rise as the working day increased but eventually the total output as well as the output per hour would decline as the working day became so long that it prevented adequate recovery from fatigue for workers;
- this is the case because, beyond a certain point, each additional hour of work would be contributing to the output of the current day's total output but at the expense of the following day's output capacity; and
- the intensity of the work involved would dictate the point at which total output begins to fall and thus the length of the 'optimal' working day.

The second half of this argument explores whether the free market can arrive at the 'optimal' length of day, and can be summarised as follows:

- the maintenance of a long-term optimum by employers would require short-term restraint;

- each individual employer could never be certain of reaping the benefit of their restraint as another firm could potentially entice the employer's well-rested workers away with a wage premium;
- therefore the optimal output work time is a form of investment without equity;
- simultaneously, Chapman (1909) assumed that workers would choose a longer working day than was prudent (although not as long as the working day preferred by employers), primarily because of a general short-sightedness that would mean workers would consider their immediate earning capacity more than their longterm earning capacity¹; and
- the outcome in a free market situation would therefore be one where employers and employees acting in self-interest would each tend to select a working day that was longer than the 'optimal' hours.

¹Chapman (1909) considered three elements in gauging the optimal day for the worker; 1) the wage, 2) the marginal value of leisure and 3) the disutility of work.

References:

- Burrows, M. (2006) "We create a huge footprint." *Georgia Straight*. January 12. <http://www.straight.com/content.cfm?id=15319>
- BC Progress Board. (2006) "Boosting Incomes, Confronting Demographic Change: BC's Productivity Imperative." Discussion paper from the BC Progress Board. Vancouver, BC. http://www.bcprogressboard.com/2006Report/ProductivityReport/Productivity_Final.pdf
- Chapman, S. J. (1909) "Hours of Labour," *The Economic Journal* 19(75): 353-373.
- Conference Board and Groningen Growth and Development Centre (2006) "Total Economy Database, January 2006" <http://www.ggdc.net/>
- Helliwell, J. (2006) Remarks at the Imagine BC dialogue session, March 30, 2006, Vancouver, BC.
- Queensland. (2001) "Reasonable Hours." Submission to the Australian Industrial Relations Commission. <http://www2.ir.qld.gov.au/reports%26submissions/2001sub-reasonablehours.pdf>
- Sharpe, A. (2002) "Raising Canadian Living Standard: A Framework for Discussion." Centre for the Study of Living Standards. paper presented at the TD Forum on Canada's Living Standards, October 7-8, 2002, Ottawa, Ontario. <http://www.csls.ca/reports/tdpaper.pdf>
- Sharpe, A. (2005) "Six Policies to Improve Productivity Growth in Canada." Centre for the Study of Living Standards. Edited testimony given to the Senate Standing Committee on Banking, Trade and Commerce hearings on productivity, May 11, 2005, Ottawa, Ontario. <http://www.csls.ca/news/presentations/productivity.asp>
- Victor, P. and G. Rosenbluth. (2005) "Managing without Growth." Paper presented at the CANSEE conference, October 27-29, 2005. York University, Toronto, Ontario. <http://www.cansee.org/cdocs/2005/35/Managing%20without%20Growth%20-%20%20CANSEE%20presentation%20281005.ppt>
- Walker, T. (2000) "The 'Lump-of-Labor' Case Against Work-Sharing: Populist Fallacy or Marginalist Throwback?" in L. Golden and D. M. Figart, (eds.) *Working Time: International Trends, Theory and Policy Perspectives*, New York and London: Routledge. <http://maxspeak.org/mt/archives/lump%20of%20labor.pdf>