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CSLS Study Explains Why Canadian ICT Investment Is Less Than U.S.

Toronto, December 12, 2005 – In 2004, current dollar investment in information and communications per worker in the Canadian business sector was 45.1 per cent of the United States. ICT investment in the Canadian business sector, as a share of GDP, was 61.6 per cent of the U.S. level in the same period. This disproportionately low investment applied to all three ICT asset types – software, communications equipment and computers.

Virtually no growth of labour productivity in the Canadian business sector occurred in 2003 and 2004, and the gap between American and Canadian labour productivity has grown significantly. Lagging ICT investment has been identified as a possible cause of the weak growth and the gap between the two countries. A new study by the Centre for the Study of Living Standards has identified the factors that have caused this investment gap. These include:

- The industrial structure of Canada versus the United States. Canada has smaller shares of ICT intensive sectors, such as the cultural and information industry (including telecommunications and finance).
- The size distribution of employment. Canada has a larger share of employment in small and medium sized enterprises. SMEs typically spend less on ICT than larger firms.

CSLS estimates that these two factors explain about 20 per cent of the gap. Gaps in Canadian statistical reporting of ICT investment in some sectors account for a further 2 per cent.

The report also notes that lower Canadian labour compensation costs contribute to the gap. While ICT prices are relatively similar in both countries, the lower (by an estimated 20 per cent) cost of labour in Canada makes firms more reluctant to substitute labour for capital by adopting ICTs than their U.S. counterparts.

The study identifies other factors contributing to the gap, such as the lower proportion of Canadian managers with university education. It also suggests that there is anecdotal evidence of cultural differences in the operation of businesses between Canada and the United States and that these differences may contribute to the gap, though it acknowledges that this aspect requires further study and stronger data.

“An understanding of the causes of the Canada-U.S. ICT investment gap is crucial for a correct diagnosis of Canada’s productivity problem and the development of effective policies to reverse this situation,” Andrew Sharpe, Executive Director of CSLS, said.

The Centre for the Study of Living Standards (CSLS) is a national, independent, not-for-profit research organization which began operations in August 1995. Its objectives are twofold; first to contribute to a better understanding of trends and determinants of productivity, living standards, and economic well-being in Canada through research and, second, to contribute to public debate by developing and advancing specific policies to improve the standard of living in Canada.

The Study, “What Explains the Canada-U.S. ICT Intensity Gap,” was sponsored by the Information Technology Association of Canada and its members, Bell Canada, Hewlett Packard (Canada) Co., Intel of Canada, Microsoft Canada, Nortel and SAP Canada Inc. The complete study can be found at www.csls.ca and www.itac.ca.

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