Intelligence MEMOS

From: William B.P. Robson

To: Canadian Workers

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Re: **Canada's Lagging Investment Threatens Your Future**

Capital investment boosts economic activity and jobs in the short run, and equips Canadian workers to raise their output and earn higher incomes over time. When Canada's stock of machinery, buildings, engineering infrastructure and intellectual property grows, each Canadian worker gains new tools that improve productivity and competitiveness – especially valuable in a world of accelerating technological progress.

Unhappily, though, business investment in Canada has recently slipped ominously. As I explore in a recent C.D. Howe Institute *Commentary*, figures from Statistics Canada and the Organisation for Economic Co-operation and Development (OECD) suggest that, in 2019, Canadian businesses will investing only about $15,000 per worker. By contrast, businesses across the OECD are investing about $21,000 per worker, while US businesses are investing about $26,000.

In other words, for every dollar of new capital enjoyed by the average OECD worker this year, you – their Canadian counterpart – will receive only 71 cents. And for every dollar of new capital enjoyed by the average US worker, you will receive a dismal 58 cents. Whatever industry you work in – construction, healthcare, transportation, retail, or any other business, a gap of thousands of dollars of new investment in a year means less, older, and less useful equipment than competitors abroad are getting.

Although weak prices and market-access problems have hurt investment in Alberta, Saskatchewan, and Newfoundland and Labrador, these provinces look robust on a per-worker basis. Manitoba is also above the Canadian average, with investment per worker on track to hit $15,800 in 2019. Elsewhere, per-worker investment is feeble. B.C. might realize $12,900, Ontario $10,800, and Quebec and New Brunswick around $9,000. Nova Scotia at $8,400 and Prince Edward Island at $6,400 round out a discouraging picture. Investment per worker in most provinces will be less than half that garnered by US workers.

Why is capital investment so weak in Canada? Through the 2000s and into the early years of this decade, per-worker investment was catching up to US and OECD levels. Then things went wrong.

Bottlenecks in getting energy resources to market are a suspect. So is a loss of tax competitiveness, especially – but not only – against the United States. Rising electricity costs are a problem in Ontario. Barriers to trade both outside and inside Canada are a rising concern, with the Trump administration's protectionism being a particular threat to Canada.

Not all these challenges are within Canada's control – but those that are need urgent attention from our political leaders at all levels. If businesses lack the funds and the confidence to add to Canada's stock of buildings, engineering, machinery and IP, we are on track to a low-productivity, low-wage future. Moving ahead with vital infrastructure, addressing growth-inhibiting taxes, and liberalizing internal and international trade can all help you – Canada's workers – get the tools you need to compete and thrive.

William B.P. Robson is President and CEO of the C.D. Howe Institute.

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