Intelligence MEMOS

From: William B.P. Robson and Jacob Kim

To: Canadian Workers

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Re: **LET'S GET YOU THE TOOLS YOU NEED TO SUCCEED**

Would we send a Canadian hockey team into international competition without sharp skates, safe helmets and sticks? Would we dispatch an Arctic expedition without warm clothing, food and navigation aids?

No: that would be irresponsible – unconscionable. Yet bad policies are sending Canadian workers into global competition without the tools – the machinery, innovations and infrastructure – they need to win.

The latest news from Statistics Canada on business investment – the capital spending that turns saving into new buildings, equipment and intellectual property that Canadian workers use in producing and earning incomes – last year was lacklustre. Despite marginal gains quarter to quarter, real private investment outside the housing sector in 2017 was more than one-sixth below its 2014 peak.

Turn to StatsCan's survey of intentions for 2018, and the news is bleak. It suggests that private sector capital spending will fall this year. Business investment is a key driver of productivity growth, which in turn is a key driver of incomes. Weak investment presages small raises for Canadian workers.

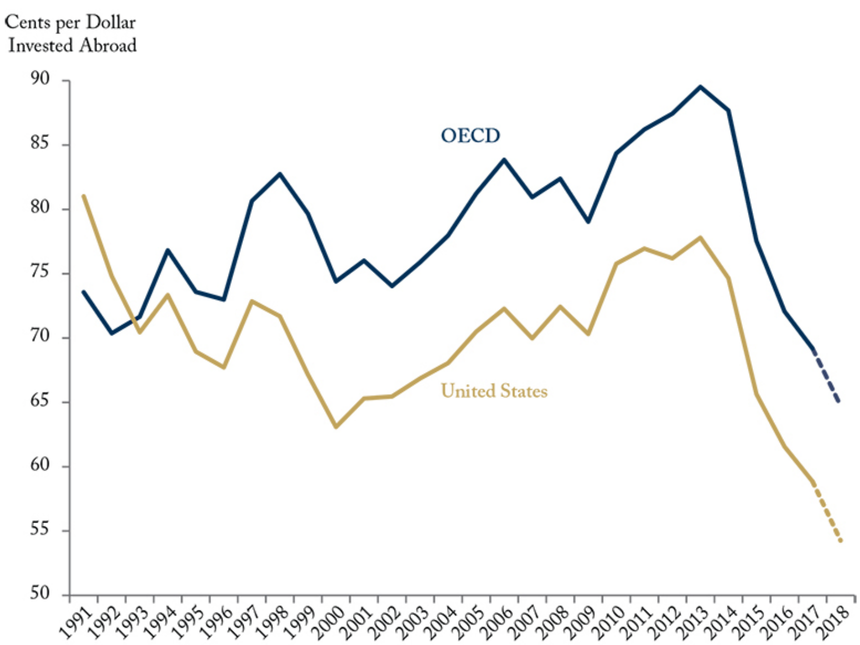
Compare the new tools Canadian workers will get this year to what their counterparts abroad will get, and the situation goes from bleak to alarming. The world economy is on an upswing, and the United States is enjoying a boom. This is the point in the cycle when business investment should be taking off. Elsewhere, it is. But not here.

We can benchmark Canada's performance in equipping its workers against what is happening abroad by comparing per-worker investment, adjusted for variations in purchasing power, from year to year. For every dollar of new investment enjoyed by the average worker in all OECD countries, the average Canadian worker enjoyed less than 70 cents last year – down from 90 cents in 2013, and the worst performance since we have comparable figures (see figure). Lining the intentions figures for Canada up against OECD projections for other countries suggests a further dip this year – to 65 cents.

The comparison with the United States – our closest, and lately less than friendly, competitor – is even worse. For every dollar of new investment enjoyed by the average US worker in 2017, a Canadian worker enjoyed a mere 59 cents. That was the worst performance on record. Yet 2018 seems likely to set a new low.

The Stats Can intentions survey came after the OECD projections, so the two don't line up. But the timing may flatter Canada: if the recent US tax reforms boost investment south of the border as many expect, Canadian workers may get only half the new investment of their US counterparts this year.

Canadian Investment per Worker versus OECD and United States



The federal budget last week offered nothing to improve this dismal outlook. Nothing to unblock major infrastructure projects, nothing to respond to falling tax rates abroad, and nothing to match the faster write-offs south of the border – just more spending that absorbs the resources that would otherwise be available for private-sector investment. Canada is sending its workers into international competition without the equipment they need. That is irresponsible and unconscionable. We can equip them better, and we must.

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To send a comment or leave feedback, email us at blog@cdhowe.org.

Sources: OECD Economic Outlook No.102, StatsCan Annual Capital and Repair Expenditures Survey (CAPEX), and StatsCan National Economic Accounts.