Intelligence MEMOS

From: William B.P. Robson

To: Federal Economic Ministers

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Re: **HIGH IMMIGRATION AND LOW INVESTMENT WON'T BOOST LIVING STANDARDS**

Immigration is driving a historic surge in Canada's population. At the same time, Canadian wages and living standards are stagnant. That is a bad combination – and, worse, it is not a coincidence. Here's the link: Business investment is so weak that the stock of productive capital per worker in Canada – the buildings, tools and software they use – is falling. More workers and less capital are putting Canada on a path to a low-productivity, low-wage economy.

Polls show that most Canadians think of **immigration** as a driver of economic progress. Until recently, that belief was well founded. Immigrants earn less than Canadian-born contemporaries when they first arrive – so, crunching the numbers, recent arrivals lower average incomes. But they tended to catch up. Thanks in part to a system that identified people whose economic prospects in Canada were good, immigrants, and their children and grandchildren, had a good chance of becoming productive, high earners – and, crunching the numbers, of raising average incomes.

A key complementary force in this success was business investment that gave the average Canadian worker, recent arrival or not, more capital – newer and better tools to work with – each year. Historically, Canada's stock of business capital – non-residential structures, machinery and equipment, and intellectual property products, adjusted for price changes – grew consistently faster than Canada's work force. Over time, Canadian workers, immigrants and native-born alike, got better factories and offices, better vehicles, machine tools and electronics, and better software and databases. That raised their productivity and earnings. Rising productivity and earnings, in turn, spurred more business investment – a virtuous circle typical of most of our country's history.

Since 2014, however, the virtuous circle has turned vicious. Business investment in Canada plummeted in 2015 and 2016, and has been feeble ever since. Figures for 2023 to date show per-worker investment, in real terms, at least one-fifth below its late 2014 peak. For eight years now, investment per worker has been too weak even to replace capital that was wearing out or going obsolete. The capital stock per worker is at least 6 percent below its peak. Nothing like that has happened in Canada since the depression of the 1930s and the Second World War. No wonder labour productivity is falling, and **living standards** are not rising.

The need to use approximate numbers – investment per worker is down "at least" one-fifth and capital per worker is down "at least" 6 percent – is because of something else troubling on the immigration front: We have lost count of temporary residents. The gap between a tally of temporary residents in the work force from administrative sources and the number in **Statistics Canada**'s Labour Force Survey tripled from 2015 to 2022, when it surpassed one million. Suppose the larger number were right. Then the decline in capital per worker since 2015 would be closer to 8 percent.

A look abroad compounds the concern. The story in the United States and other countries in the Organization for Economic Co-operation and Development (OECD) is different. In the run-up to the peaks of investment and capital per worker in the middle of the last decade, Canada narrowed a long-standing gap in per-worker investment against the United States, and closed the gap in per-worker investment against other OECD countries. Now those gaps are chasms. OECD projections indicate that for every dollar of new investment received in 2023 by the average worker in OECD countries outside Canada and the US, the average Canadian worker will receive only 74 cents. For every dollar of investment received by the average US worker, the average Canadian worker will receive a dismal 58 cents. If Canada is on a path toward less capital per worker, lower productivity and worse living standards, it is travelling that path alone.

Why is business investment in Canada so weak? The list of negative influences is long. Taxes that are high, and lately – especially at the federal level – seem capricious. An environment for natural resource development – an area of traditional strength – that is uncertain at best, hostile at worst. Government borrowing and a regulatory tilt toward residential investment that absorb savings businesses might otherwise use. Higher immigration itself may be a factor, as some businesses choose cheap labour over productivity-enhancing capital.

Whatever the reasons, weak business investment and a falling stock of capital per worker are the wrong environment for higher immigration. We want high investment, high productivity and high earnings in Canada. We are not getting them. Until we do, higher immigration will likely make things worse, not better.

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