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e-brief

Canadian Workers Need Better Tools: Rating Canada's Performance in the Global Investment Race

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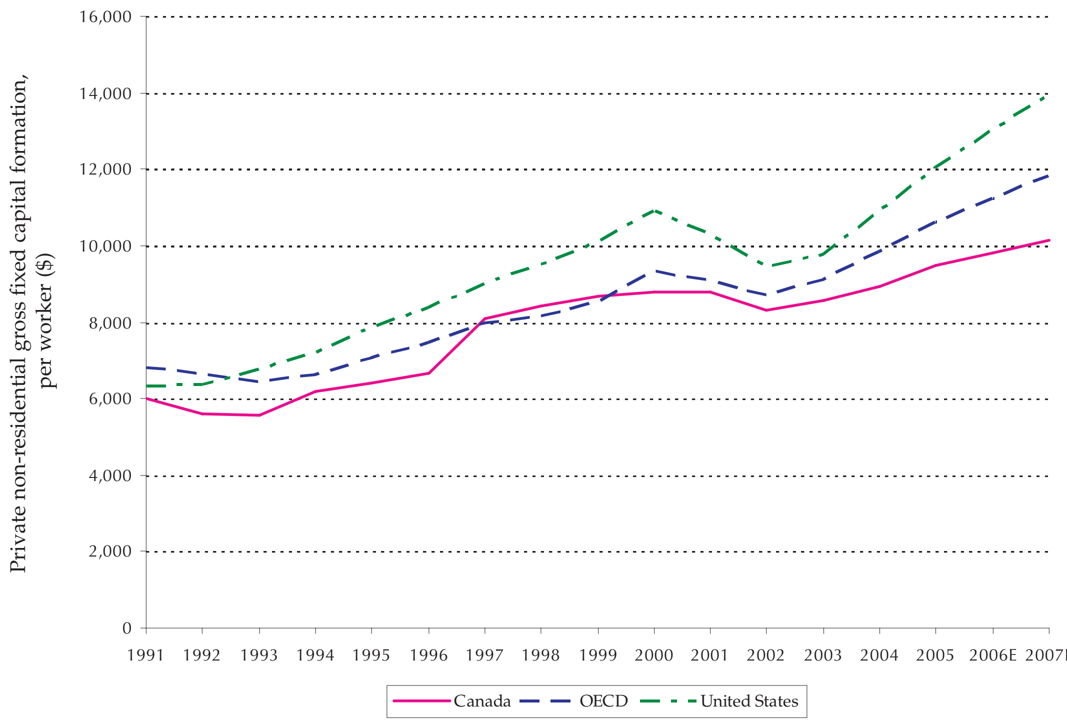
Capital investment matters for Canadian prosperity. When businesses invest in machinery, equipment and structures, they equip their workers to create more and better goods and services, and earn higher salaries. Investment also boosts productivity economy-wide, allowing Canadians to pay for high-quality social goods as well. Yet the investment climate in Canada has changed in important ways in recent years; the factors that foster capital investment are in flux. The loonie's rise relative to the US dollar has made imported equipment relatively less expensive. Changes in terms of trade have boosted the prospects of the resource sectors, while manufacturing is struggling. And Canada faces intensifying competition for investment both from the developed world and from rapidly growing developing countries.

It is natural to wonder, therefore, how workers in Canada and the provinces are faring relative to their counterparts in other jurisdictions. In this *e-brief*, we update and extend previous work (Robson and Goldfarb 2004) on Canadian and provincial performance relative to other countries in the Organisation for Economic Co-operation and Development (OECD) for which comparable data are available. To facilitate comparisons across national borders, we use purchasing-power-adjusted exchange rates. Our international data come from OECD historical data and forecasts, supplemented by Statistics Canada data on provincial capital spending and investment intentions for 2006.[1]

The short answer to our key question — how well are we doing relative to other countries — is: not well. Since the turn of the century, a long-standing gap

1 The OECD series for private non-residential gross fixed capital formation draws on provincial economic accounts data from Statistics Canada, which is, in turn, based on Statistics Canada's survey of public and private investment, to which the agency adds ownership transfer costs. Therefore, to ensure compatibility with the OECD data, we calculate 2005 and 2006 provincial capital spending by applying the growth rate of private spending intentions to the provincial economic accounts data.

Figure 1: *Capital Investment per Worker, 1991–2007*



Sources: OECD; authors' calculations.

between capital investment per worker in the United States and that in Canada has widened further. We estimate the gap at $3,200 per worker in 2006, and the projections indicate that it will grow to almost $3,800 in 2007. The same general message emerges from a comparison of Canada against OECD countries. Investment per worker in Canada roughly matched that in developed countries in general in the late 1990s: now it is some $1,400 less, and the trend is against us (Figure 1).

For every dollar of new investment enjoyed by the typical OECD worker this year, his or her Canadian counterpart will get about 87 cents. And for every dollar of new investment enjoyed by the typical US worker, his or her Canadian counterpart will get only 75 cents.

Not surprisingly, the national average disguises a great deal of interprovincial variation. Table 1 shows investment per worker in Canada and in individual provinces, compared with the OECD and the United States.

Alberta, with its energy-related investment and congenial business climate, is in a class of its own, with investment per worker that is more than twice as large as the rest of the country. Notwithstanding recent setbacks, energy-related investments in Newfoundland remain large enough to put workers in that province, on average, in an advantageous position relative to their counterparts south of the border.

Elsewhere in the country, the picture is much less happy. The average worker in Ontario will enjoy some 65 cents of new plant and equipment this year

Table 1: *Investment per Worker for Provinces, Canada Compared with OECD and the US, 1996–2006*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2006 compared to OECD	2006 compared to US
	dollars											*percent*	
Alberta	12,349	16,128	17,444	16,172	19,097	20,316	18,808	19,812	20,827	21,877	23,156	206	178
British Columbia	5,640	6,767	6,622	6,736	6,911	7,533	7,089	7,141	7,496	8,558	9,106	81	70
Manitoba	5,584	7,070	7,149	7,307	7,136	7,348	7,763	7,315	7,813	8,053	8,176	73	63
New Brunswick	5,191	4,814	6,250	8,175	7,980	6,098	6,033	6,881	6,798	6,859	7,671	68	59
Newfoundland and Labrador	9,104	10,860	10,442	13,582	11,843	10,942	10,097	11,696	13,537	15,410	15,769	140	121
Nova Scotia	4,388	6,704	7,923	9,847	7,798	8,006	8,217	7,437	7,365	7,260	6,360	57	49
Ontario	6,347	7,424	7,742	8,084	7,968	7,738	7,273	7,117	7,197	7,366	8,411	75	65
Prince Edward Island	6,231	3,895	4,463	5,399	5,263	5,110	5,162	5,340	5,456	5,539	5,968	53	46
Quebec	5,166	5,915	6,412	6,942	7,107	6,547	6,210	6,251	6,709	6,583	6,091	54	47
Saskatchewan	9,814	13,689	11,671	11,813	11,873	11,729	10,679	11,212	11,149	10,693	10,788	96	83
Canada	6,670	8,075	8,437	8,692	8,773	8,805	8,314	8,564	8,921	9,499	9,821	87	75
OECD	7,470	7,965	8,183	8,534	9,322	9,076	8,727	9,111	9,844	10,605	11,237	100	86
United States	8,373	9,015	9,504	10,114	10,920	10,296	9,440	9,784	10,908	12,043	13,036	116	100

Sources: OECD; Statistics Canada; authors' calculations.

for every dollar enjoyed by a US worker, and the comparable figures for workers in Quebec, Nova Scotia, and Prince Edward Island are less than 50 cents.

The hard truth emerging from a survey of Canada's relative investment performance is that Canada is not faring well in a world where countries are increasingly motivated to achieve economic development through business investment. In 1991, Canada attracted $2.81 of every $100 spent on structures and equipment in the 21 OECD countries for which we have comparable data; in 2006 Canada looks set to attract $3.04. Focusing on North America in particular, Canada attracted $8.67 of every $100 of continental investment in 1991; in 2006, we estimate it will be around $7.28. So while Canada's share of OECD investment has grown slightly, there has been an important decline in Canada's share of capital investment relative to investment in North America as a whole.

With rapid growth in major developing countries altering the global economic landscape, one would ideally want to include such growing powers as China and India in the comparison. Comparable data on business fixed-capital investment do not exist for these countries so, as a proxy, we bring Brazil, China, India and Russia into the picture using data from the International Monetary Fund.[2] Differences in definitions across countries — especially in China's case —

2 We use IMF International Financial Statistics data on business fixed capital investment converted at IMF World Economic Outlook database purchasing-power-parity exchange rates, and use projected GDP growth rates for 2005 and 2006, assuming that the share of capital investment in GDP for these countries will be the same as it was in 2004.

make comparing levels problematic, but trends in investment share may still be revealing. Relative to the OECD countries and Brazil, China, India and Russia, Canada's share of capital investment fell from 4.4 percent in 1992 to 3.9 in 2000, and will likely stand at around 2.2 percent in 2006.

Many moves up and down in capital investment reflect changes in terms of trade and other forces that affect Canada, with its particular industrial structure, differently than they affect other countries. But Canadians would be wrong to see their relatively poor performance as arising from circumstances completely beyond their control. Businesses choose locations for investment for many reasons, and countries with rich resource endowments, apparently favourable locations and much else may lose out if labour-market, regulatory or tax policies offset those advantages.

While Canada's labour force is among the best educated and most skilled in the world, federal and provincial programs continue to impede the movement of labour to places where it is needed: very tight job markets in the West coexist with still high unemployment rates in the East. Regulation in specific sectors freezes industry in patterns reflecting yesterday's economy, inhibiting the investment and innovation that greater competition would unleash. And Canada continues to impose marginal effective tax rates on capital investment that are among the highest in the world (Mintz et al. 2005). Unsurprisingly, those provinces where the combined impact of corporate income taxes, capital taxes, and sales taxes on purchases is high also register investment performances that are relatively poor.

Canadian workers urgently need more plant and equipment to raise their productivity and their wages. Their counterparts elsewhere in the world are enjoying levels of investment spending that are greater, and promise higher living standards in the future. Canadian workers deserve no less.

References

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