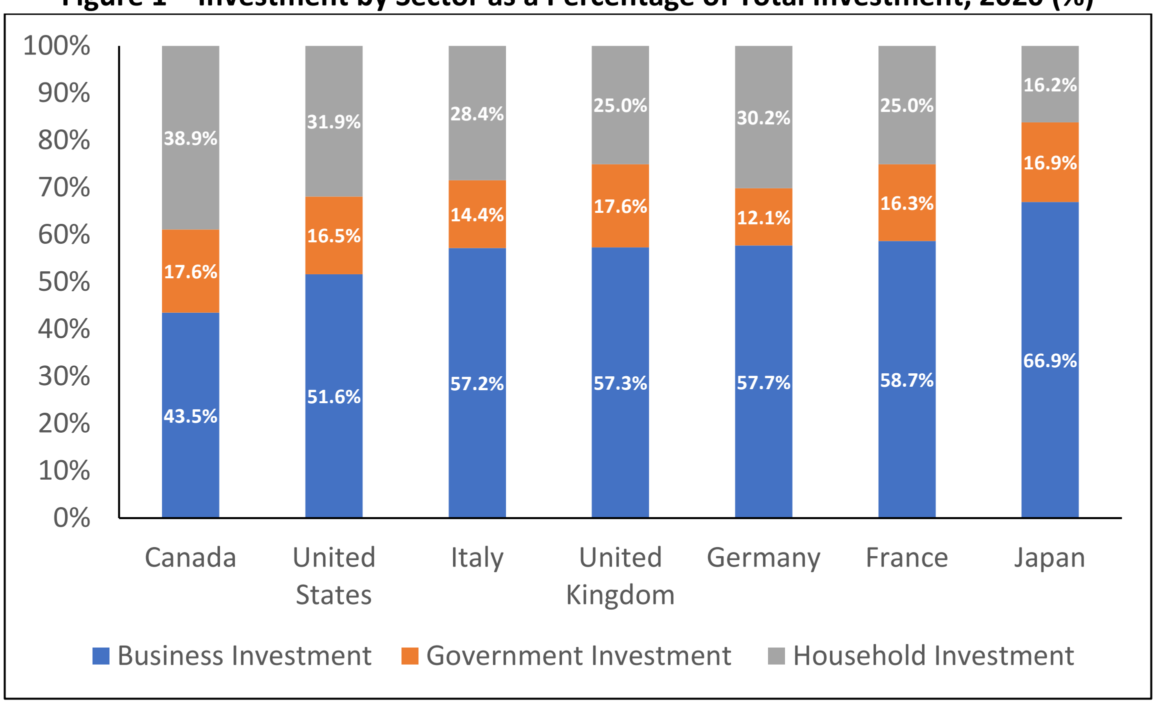
On December 16, 2021, the Standing Senate Committee on Banking, Trade and Commerce was authorized by the Senate to examine and report on its study matters relating to banking, trade and commerce generally, as described in rule 12-7(8). Pursuant to this order of reference, the committee decided to initiate several exploratory studies on topics that we believe are important to examine in the aftermath of the COVID-19 pandemic. The purpose of these studies is to explore where the committee should focus its future in-depth studies.

One study examined the concerning state of business investment in Canada. The committee heard testimony from Tiff Macklem and Carolyn Rogers, the Governor and Senior Deputy Governor of the Bank of Canada, as well as Stephen Poloz and David Dodge, both former governors of the Bank of Canada. It also heard from Paul Desmarais III, Chairman and Chief Executive Officer at Sagard Holdings Inc., and it received a written submission from the Canada Pension Plan Investment Board (CPPIB). This interim report summarizes the committee's findings to date.

International statistics on business investment and labour productivity

As shown in Figure 1, Canada had the lowest level of business investment as a percentage of total investment in the Group of Seven (G7) in 2020. However, it had the highest household investment level and the second-highest government investment level as a percentage of total investment in the G7 in 2020.

Figure 1 – Investment by Sector as a Percentage of Total Investment, 2020 (%)

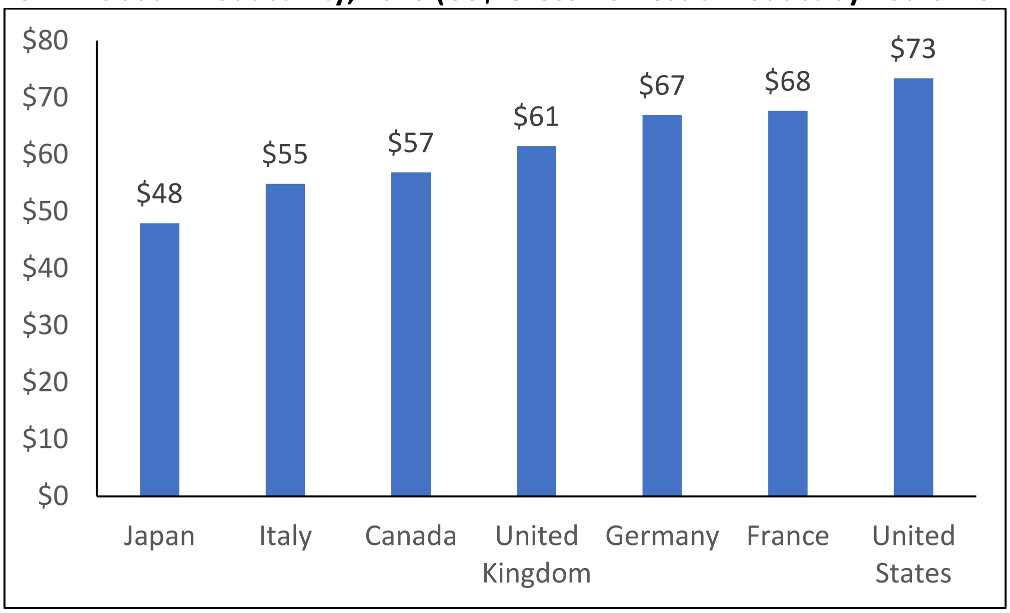


Note: 2020 is the latest year for which data is available for all G7 countries.
Source: Organisation for Economic Co-Operation and Development, [Investment by Sector](#).

The Organisation of Economic Co-operation and Development's (OECD's) data on Investment by asset also indicates that Canada had the highest level of investment in dwellings as a percentage of total investment in the G7 in 2019, but the lowest level of investment in intellectual property products and the second-lowest level of investment in information and communication technologies as a percentage of total investment in the G7.

With respect to labour productivity, Figure 2 shows that one hour of work in Canada produced $57 worth of goods and services in 2020 compared to $73 in the United States, which represents 78% of the U.S. labour productivity.

Figure 2 – Labour Productivity, 2020 (US$ Gross Domestic Product by hours worked)



Note: 2020 is the latest year for which data is available for all G7 countries.
Source: Organisation for Economic Co-Operation and Development, Gross Domestic Product (GDP) per hours worked.

Low Levels of Business Investment Since the 2008 Financial Crisis

In his appearance before the committee, David Dodge described the worrying trend in business investment that has been observed over the past few decades. He noted that since the 2008 financial crisis, Canada has experienced low levels of business investment and weak productivity growth, both of which are well below many of the G7 and OECD countries. He highlighted that from 2016 to 2019, business investment, as a share of national income, was less than 15%, and that it dropped to its lowest historical level of 14% during the COVID-19 pandemic. These percentages were below Canada's own long-term average of about 15.5% and well below international levels. These low business investment levels have resulted in a low capital to labour ratio in Canada compared to other countries, weak productivity and low future potential economic growth.

Regarding the current state of business investment, both Tiff Macklem and Stephen Poloz stated that they believe that business investment in Canada is improving and that this should help in boosting the economy's future productive capacity. However, Stephen Poloz shared that, despite this improvement, he expected that Canada will continue to lag other countries in both business investment and in productivity growth.

Consequences for the Canadian Economy

The implications of Canada's declining levels of business investment were discussed by the CPPIB. It stated that Canada's economic growth is impeded by the private sector's underinvestment in productivity-enhancing investments, such as machinery and equipment, and information and communication technology. It warned that this underinvestment hinders labour productivity, curbs the adoption of new technology and lowers a country's collective standard of living, which could make Canada a less attractive place for investors. From its perspective, "Canadian firms that are underinvesting in their business are also losing out on long-term success."

Similarly, David Dodge asserted that business investment must grow faster than the economy to maintain or raise living standards in Canada, and this investment must include research and development, software and intellectual property. In his view, "there is no scenario for sustainable growth in Canada that does not require an extraordinarily rapid and durable ramp-up of investment by business and complementary action by governments."

Proposals to Increase the Levels of Business Investment

As to why there are such low levels of business investment in Canada, Stephen Poloz stated that the biggest impediment to investment is uncertainty about the future, and that companies are holding back and waiting before making investments in their business because of this uncertainty. In his view, the main sources of uncertainty are:

- geopolitical tensions and the risks associated with international trade;
- the transition from conventional energy to net-zero carbon emissions by 2050;
- labour market shortages and the competition for talent as the global population ages; and
- the federal government's slow and unpredictable deployment of its infrastructure financing plan.

For her part, Carolyn Rogers noted that current house price increases are unsustainable and that a lot of investment has gone into the housing sector at the expense of the other sectors of the Canadian economy. She then expressed the hope that as interest rates go up and housing demand moderates the investment that has gone into housing will go into other parts of the economy.

Witnesses offered various proposals to spur business investment in Canada. These proposals include:

- **Regulatory consistency and simplification:** Stephen Poloz called for the reduction of red tape and the streamlining of permitting processes, which are currently impediments to business expansion. He also pointed out that interprovincial regulatory differences are estimated to cost Canada four percentage points of GDP every single year. David Dodge noted that companies leave countries that have an unpredictable regulatory environment, and so the government should focus on creating clear, consistent and predictable regulations. From an investor's perspective, the CPPIB indicated that in order to attract long-term institutional investors, public policies and the legal and regulatory frameworks governing investment must be transparent, fair, stable, consistent and predictable.
- **Procurement policies:** Stephen Poloz and Paul Desmarais III suggested changing government procurement policies to favour high-productivity Canadian start-up companies, rather than safe, low-productivity suppliers, and to remove barriers. Paul Desmarais III also mentioned that the pace of adoption of innovative solutions could be accelerated if the government mandated that a certain amount of procurement come from diverse groups, rather than established companies.
- **Human capital and immigration policies:** David Dodge advocated for a human capital policy that would facilitate investments in new skills, while Paul Desmarais III expressed the need for Canada to take an aggressive approach in its immigration policies to attract talent in Canada, particularly engineers. The committee notes that it will also be examining labour market issues in greater detail in another exploratory study.
- **Tax policies:** With respect to tax policy, David Dodge said that "we need quite a different bias in our revenue system; i.e., we ought to have a bias that actively encourages reinvestment and taxes at a reasonable rate those earnings that are not reinvested." Stephen Poloz also mentioned that tax breaks should be provided to growing companies, as the current tax system begins to increase income taxes on these companies as soon as they grow to a certain size. As well, he commented that taxes do not necessarily have to increase in order to pay for high levels of public debt incurred during the pandemic; rather, the debt could be serviced by the increase in tax revenues that results from introducing measures that remove impediments to economic growth.

- **Trade policies:** David Dodge expressed support for trade policy designed to reduce the costs of barriers, both internationally and interprovincially. The CPPIB recommended that the government reduce barriers to trade and generate diversified economic opportunities beyond the United States, through free trade agreements, foreign investment promotion and protection agreements, and potentially positioning itself as a commercial hub between the United States and other key markets.
- **Financial sector policies:** To stimulate and attract more business investment in the financial sector, Paul Desmarais III made the following recommendations: implement open banking and payments modernization and increase regulators' resources for developing regulatory frameworks for digital assets. David Dodge also recommended the adoption of a financial sector policy that would facilitate competition and digitalization of financial flows, for example, enabling same-day payments.
- **Fiscal policy:** With respect to the federal government's fiscal policy, David Dodge emphasized that the objective of fiscal policy should be to encourage investment that will benefit the economy in the future, rather than focussing on current consumption.
- **Financial support:** Stephen Poloz recommended providing additional financing to the Canadian Business Growth Fund to assist growing companies with high productivity that are past the start-up phase. Paul Desmarais III suggested to provide more support to ecosystems that help entrepreneurs to scale their businesses and commercialize research because very few of them have that experience. According to him, companies in Silicon Valley are successful due to "their ecosystem of people who have scaled companies and who are investing in each other, sharing best practices and attracting talent from all around the world who have experience in that scaling."
- **Natural resources policies:** Paul Desmarais III noted that the natural resources industry will require a significant amount of investment going forward as it provides the mineral resources necessary for the shift to low-carbon energy production.

Committee Observations

The limited testimony received has shown the committee that improvements in only one or two policy areas are unlikely to provide Canadian businesses with the confidence they need to make the necessary investments to grow their business for the future. Witnesses made recommendations ranging from changing procurement requirements to regulatory simplification to tax policy that incentivizes reinvestment of retained earnings, which we believe are all commendable ideas that may require further study. As the solutions to improve Canada's levels of business investment probably lie in many of these areas, the committee will reflect on these important findings and will use them to guide its work and future studies.