

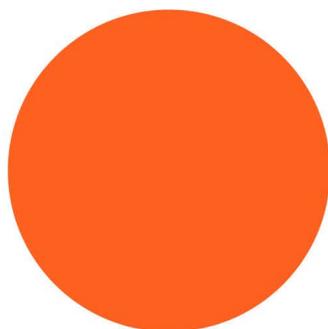


# **THE PRODUCTIVITY PUZZLE**

**Investing In A Better Future: Investment, Taxation  
& Growth**

Ian Munro, Halifax Partnership

Feb 1, 2026



Halifax Partnership's [Productivity Puzzle](#) initiative was created to foster greater understanding around the challenges Nova Scotia faces regarding productivity and economic growth, to identify key questions for further examination, and to convene conversations in pursuit of solutions.

Earlier events included one in [June focused on competition, regulation, and trade](#), and another in [October that delved into the connections between productivity and human capital](#).

The next event on February 5 will examine the importance of investment to productivity improvement and economic growth, and the factors that influence a jurisdiction's investment climate, including taxation.

We are thrilled to feature as our keynote speaker Don Drummond, who formerly served as Senior Vice President and Chief Economist at TD Bank and senior strategist in the federal Department of Finance. We are equally pleased that the event will include a panel discussion with several eminent Halifax business leaders: Phil Fraser, President & CEO of Killam Apartment REIT; Keith MacIntyre, Tax Partner, Doane Grant Thornton; and Nadia Middleton, Vice President, Middleton Group. For more details on the event, please click [here](#).

## Why Investment Matters

The impetus for the Productivity Puzzle initiative was the speech given at a Halifax Partnership event in March 2024 by Carolyn Rogers, Senior Deputy Governor of the Bank of Canada.<sup>1</sup> In this [speech](#), which garnered significant media attention nationwide, she stated that it was "time to break the glass" in response to Canada's productivity emergency.

One part of the speech focused on the role of capital intensity in determining how productive an economy's workforce is and featured a quintessentially Canadian metaphor:

"Capital intensity is about equipping workers with better tools. If you run a snow-clearing business, your workers will be able to clear more driveways if they have solid shovels that don't break easily. Of course, give them a snow blower and they'll be able to clear many more driveways than with just shovels. Invest in pickup trucks with plows, and they can do even more."

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<sup>1</sup> <https://www.bankofcanada.ca/2024/03/time-to-break-the-glass-fixing-canadas-productivity-problem/>

The shovels, snow blowers, and pickup trucks with plows held by the snow-clearing industry comprise its capital stock and the change over time in that capital stock is referred to by economists as investment.

More investment in snow blowers and trucks will, generally speaking, lead to a more productive snow-clearing industry, just as, say, investment in robotic machinery can make a manufacturing operation more productive, or, as another example, investment in modern and efficient ovens and dishwashers can make a bakery more productive.

In addition to machinery and equipment, Statistics Canada also tracks capital stock and investment levels in non-residential buildings (e.g., factories, warehouses, office buildings), engineering construction (e.g., roads, power plants, mines), and intellectual property products (e.g., mineral exploration and evaluation, research and development, software).

Productivity improvements thus could come from a wholesaler investing in a new state-of-the-art warehouse, a mining company identifying an ore deposit and developing a new site, or a professional services firm deploying updated accounting or customer relationship management systems or artificial intelligence tools.

One way to think about investment and productivity is through the lens of competitiveness. An individual business that invests in productivity improvement will be more competitive: if Company A has a truck with a plow and Company B has a guy with a shovel, Company A is going to be able to clear more driveways, more effectively, more cheaply, and more quickly.

More competitive firms earn more market share and more profits, they can afford to pay better wages and salaries to their workers, and they generate more tax revenue for governments.

These scenarios, however, hinge on the assumption that the investment in question is “worth it” – Company A will not spend tens of thousands of dollars for a new truck with a plow if it will generate insufficient new revenue.

There are many factors that influence the calculation of whether an investment is indeed worthwhile.

Examples of investment climate attributes in our extended snow-clearing metaphor include:

- **Labour force:** Can Company A find the qualified staff it needs to drive its trucks?
- **Market access:** If Company A is based in Amherst, are there trade restrictions that prevent it from serving customers across the border in New Brunswick? (Conversely, does Company A feel no need to make investments because protectionist measures shield it from competition from more productive companies based in New Brunswick?)
- **Regulation:** Are there rules, standards, or licence conditions that impose costs such that the investment in the new truck is unprofitable?
- **Taxation:** Is the profit generated by the investment in the new truck still worthwhile after taxes are factored into the calculation?

To summarize, investment in productivity-enhancing equipment, software, etc. will make firms more competitive and profitable, will generate better pay for workers, and will put more tax dollars into government coffers. **These investments will only occur, though, if the business climate is favourable.**

## Our Investment Performance

The first two points in the executive summary of a December 2025 report from the C.D. Howe Institute, [\*Canada's Investment Crisis: Shrinking Capital Undermines Competitiveness and Wages\*](#), encapsulate Canada's recent investment performance:

- “Business investment in Canada has been so weak since 2015 that capital per member of the workforce is falling, undermining growth in labour productivity and compensation.”
- “The longstanding gap between investment per available worker in Canada and other OECD countries narrowed from the late 1990s through the early 2010s, but has since widened, especially relative to the United States. In 2025,

Canadian workers will likely receive only 70 cents of new capital for every dollar received by their counterparts in the OECD as a whole and 55 cents for every dollar received by US workers.”

Not only is Canada failing to keep pace with international peers in equipping its workers, but the Canadian workforce today is *less* well-equipped now than it was in 2015.

It also is worth noting that in 2023, Canada [ranked last among a set of 32 OECD countries](#) in terms of the share of its annual investment (gross fixed capital formation) accounted for by its corporations at 46.6%. Ireland led at 79.8%; the United States came in at 53.2%. Canada was in the middle of the pack in terms of its share accounted for by government at 16.0% and was tops for the household sector at 37.4%. In short, compared to its OECD peers, Canada underinvests in its businesses and overinvests in real estate.

The story at the provincial level also is not entirely encouraging.

Capital-intensive industries like oil and gas production drive investment statistics in Alberta, Saskatchewan, and Newfoundland and Labrador far above the other provinces. Nova Scotia ranked second-lowest, ahead of only Manitoba, in capital expenditures per capita on non-residential tangible assets in 2025.

Digging a bit deeper into investment per worker broken out by asset type, Nova Scotia ranked ninth in 2024 among the ten provinces for engineering construction, eighth for non-residential building investment, and eighth for intellectual property. For machinery and equipment investment, there was somewhat brighter news as only the three major oil and gas-producing provinces and British Columbia had figures greater than Nova Scotia’s.

Statistics Canada data also allow for comparisons of capital expenditures broken out by province and by industry.

COMPARISON OF CAPITAL EXPENDITURES PER CAPITA, 2025		
INDUSTRY	NOVA SCOTIA RANK AMONG TEN PROVINCES	NOVA SCOTIA FIGURE AS SHARE OF CANADIAN FIGURE
Health care and social assistance	1	189%
Public administration	1	161%
Retail trade	3	113%
Educational services	4	111%
Construction	4	105%
Arts, entertainment and recreation	5	97%
Accommodation and food services	6	88%
Finance and insurance	4	86%
Administrative and support, waste management and remediation services	6	80%
Other services (except public administration)	7	74%
<b>All Industries</b>	<b>9</b>	<b>73%</b>
Utilities	7	71%
Professional, scientific and technical services	7	68%
Real estate and rental and leasing	7	62%
Information and cultural industries	9	62%
Wholesale trade	9	58%
Agriculture, forestry, fishing and hunting	9	48%
Transportation and warehousing	9	39%
Manufacturing	10	32%

Source: Statistics Canada, *Flows and stocks of fixed non-residential capital for all industries, by type of asset, provinces and territories*, [Table: 36-10-0098-01](#).

In industries largely within the public sector – health, education, and public administration – Nova Scotia has disproportionately high levels of capital investment. In the other industries (i.e., an approximation of the private sector), Nova Scotia is below the Canadian average in all but two categories, frequently failing to reach even 75% of the national figure.

Regarding foreign direct investment (FDI), over the past three years, Nova Scotia has ranked fourth or fifth among the eight provinces for which data are available, in terms of FDI capital expenditure per potential worker.

## Our Investment Climate

Many factors contribute to a jurisdiction's investment attractiveness.

### Location

Some factors are immutable, like geographic location. Our placement on the globe provides certain advantages, such as a natural position as a shipping gateway between the North American interior and ports across the Atlantic Ocean and beyond. At the same time, Nova Scotia businesses must incur greater transportation costs to get their goods to the most populous Canadian markets than do competitors based in Quebec and Ontario. Nova Scotia is blessed with forest, ocean, and agricultural resources, but we do not enjoy the same levels of mineral, fossil fuel, or hydroelectric endowments as other provinces.

### Infrastructure

The competitiveness of a jurisdiction's businesses is also impacted by infrastructure. The connectivity, cost, and efficiency of ports, airports, and rail and road networks affect access to markets for a firm's outputs and inputs. The accessibility, cost, and reliability of water, wastewater, communications, and electricity services also are important.

There are no readily available datasets that allow for quick, comprehensive, and meaningful comparisons between the cost and quality of, say, Halifax's port and Vancouver's port, or Nova Scotia's rail network and Manitoba's.

Statistics Canada does, however, publish data on the remaining useful life of various types of infrastructure assets. A higher figure would suggest more modern assets in a better state of repair; a lower figure would suggest assets in a poorer state of repair and more imminent need of potentially costly replacement or refurbishment.

Across the full range of assets tracked by Statistics Canada, the most recent data show that Nova Scotia ranked second-last among the ten provinces in terms of remaining useful asset life. Looking at a variety of subcategories, Nova Scotia ranks in the top half for

marine engineering and sewage treatment infrastructure, but scores lower for transportation, waterworks, communications, and electric power assets.

Remaining Useful Asset Life as of 2024	
Selected Asset Classes	Nova Scotia Rank Among Ten Provinces
Total assets	9
Marine engineering infrastructure	5
Transportation engineering infrastructure	6
Waterworks infrastructure	10
Sewage treatment plants	4
Communications networks	8
Electric power infrastructure	8

Source: Statistics Canada, [Census Profile, 2021 Census of Population](#).

### Labour

The Programme for International Student Assessment (PISA) is a study of educational performance among millions of 15-year-olds across 81 countries and includes subnational data. The most recent results are for 2022. (The next set of results will be published later in 2026.) In the 2022 results, Nova Scotia continued to show declines in reading, mathematics, and science. The 2022 scores for each subject were the lowest on record, dating back to 2003 (2006 for science). Looking across Canada, Nova Scotia's mean scores were not significantly different from those of many provinces. However, across all three subjects, the top provinces have mean scores that are above Nova Scotia's in a statistically meaningful way.

Turning to labour costs, Statistics Canada 2025 data for average weekly earnings and average hourly wages show that Nova Scotia ranks in the bottom half of provinces with figures below the Canadian average. This is an advantage in that businesses will be encouraged to invest in locations where labour costs will be lower. However, lower wages, coupled with a shrinking advantage compared to other major Canadian cities in terms of housing costs and relatively high living costs in other categories like food and energy, make it harder to attract and retain skilled workers.



## Reforming our tax system to incentivize greater investment has been a consistent recommendation for close to 40 years.

Employee Status	Nova Scotia Rank Among Ten Provinces		Nova Scotia as Share of Canadian Average	
	Average Weekly Earnings	Average hourly wage rate	Average Weekly Earnings	Average hourly wage rate
Employees who are union members and/or covered by a collective agreement	6	7	98%	95%
Employees who are not union members nor covered by a collective agreement	7	7	86%	86%

Source: Statistics Canada, Average weekly earnings, average hourly wage rate and average usual weekly hours by union status, annual, [Table: 14-10-0134-01](#).

Other important factors to monitor in terms of attracting and retaining labour are the cost and availability of childcare and access to health care.

### Regulation

A jurisdiction's regulatory environment is critical to investment but also is hard to compare across cities and provinces.

One information source is the annual [Provincial Red Tape Report Card](#) published by the Canadian Federation of Independent Business. The 2026 edition of this report gave Nova Scotia an "A" grade, tied at the top with Alberta and Ontario. This is especially welcome news given that as recently as 2015 Nova Scotia was ranked dead last. The CFIB notes the role of both the provincial Office of Service Efficiency and the *Charter of Governing Principles on Regulation* in improving the province's regulatory climate.

However, other reports provide a different view. With newly heightened interest in the development

<sup>2</sup>David Campbell and Don Mills, *Toward Prosperity: The Transformation of Atlantic Canada's Economy* (Nimbus Publishing, 2025), pp. 211-212.

potential of Nova Scotia's mining sector, it is worth noting that the Fraser Institute's most recent [Annual Survey of Mining Companies](#) ranked Nova Scotia worst in Canada and 79<sup>th</sup> out of 82 national and subnational jurisdictions in terms of attractiveness for mining investment. (Finland takes top spot and Saskatchewan, in 7<sup>th</sup> position, is the top-ranked Canadian province.) It also should be noted, though, that the Province of Nova Scotia is now taking action to address this situation. For example, it has launched [NovaMINE](#), a one-stop portal to streamline mine permitting.

As another industry-specific example, two prominent analysts of the Atlantic Canadian economy, David Campbell and Don Mills, have argued that Nova Scotia's complex and slow regulatory process for aquaculture makes doing business here more difficult compared to other jurisdictions.<sup>2</sup>

A concluding point on the topic of regulation is the importance of stability and predictability. Erratic, unexpected, or poorly communicated government interventions in marketplaces can do serious damage to investor and business confidence. As firms worldwide consider their options for doing business in and with North America, this factor may increasingly work in our favour.

### Taxation

Since 2018 Halifax Partnership's annual survey of Halifax businesses, carried out by Narrative Research, has included a series of questions asking respondents to rate various aspects of doing business in Halifax on a scale that ranges from major/moderate/minor disadvantage to minor/moderate/major advantage. The tax environment has consistently been one of the lowest-rated attributes. Over eight years of data, the share of respondents rating Halifax's tax environment as some degree of disadvantage ranged from a low of 58% to a high of 80%. The most recent figure for 2025 was 66%.

Compared to other provinces, Nova Scotia has relatively high levels of taxation. The table below shows the total federal and provincial personal

income (PIT) tax paid across a range of income levels. At four of the five income levels shown, ranging from a modest \$50,000 up to a top-tier income of \$500,000, Nova Scotia claws back more than any other province in personal income tax. At the \$200,000 income level, Nova Scotia ranks second behind Quebec by \$107. Nova Scotia also has one of the highest sales tax rates, with its 14% HST rate only one percentage point below the maximum 15% levied in the other three Atlantic provinces.

Income Tax Payable, 2026 (Federal + Provincial)						Sales Tax Rate
On income of:	\$ 50,000	\$ 75,000	\$ 100,000	\$ 200,000	\$ 500,000	
BC	\$ 6,558	\$ 13,044	\$ 20,094	\$ 59,394	\$ 215,303	12%
AB	\$ 6,875	\$ 13,722	\$ 21,347	\$ 58,085	\$ 197,747	5%
SK	\$ 7,806	\$ 15,412	\$ 23,662	\$ 62,720	\$ 203,053	11%
MB	\$ 8,450	\$ 16,209	\$ 24,522	\$ 67,595	\$ 218,332	12%
ON	\$ 6,566	\$ 13,264	\$ 20,771	\$ 63,971	\$ 222,081	13%
QC	\$ 8,268	\$ 16,618	\$ 25,648	\$ 71,840	\$ 229,963	14.975%
NB	\$ 8,112	\$ 16,075	\$ 24,700	\$ 66,496	\$ 221,829	15%
NS	\$ 9,214	\$ 17,745	\$ 27,059	\$ 71,733	\$ 231,563	14%
PE	\$ 8,660	\$ 16,885	\$ 26,160	\$ 70,181	\$ 224,014	15%
NL	\$ 8,381	\$ 16,578	\$ 25,466	\$ 67,749	\$ 225,663	15%

Source: EY, [2026 Personal Income Tax Calculator](#).

All provinces differentiate between a small-business rate and a general rate for corporate income taxation (CIT), and some (Ontario and Saskatchewan) also specify a different rate for businesses involved in manufacturing and processing (M&P). For most provinces the income threshold for a small business is \$500,000, although it is \$600,000 in Prince Edward Island and Saskatchewan, and \$700,000 in Nova Scotia.

At 14%, Nova Scotia is tied with New Brunswick for the third-highest general corporate income tax rate, behind the 15% rate in the other two Atlantic provinces. Alberta has the lowest rate at 8%.

Only Manitoba (0%), Prince Edward Island (1%), and Saskatchewan (1%) have lower corporate income tax rates for small businesses than Nova Scotia's 1.5%. The highest small-business rate is the 3.2% charged in Quebec and Ontario.

Province	Small Business Threshold	Small Business CIT	General CIT	M&P CIT
NL	\$500,000	2.5%	15.0%	15.0%
PE	\$600,000	1.0%	15.0%	15.0%
NS	\$700,000	1.5%	14.0%	14.0%
NB	\$500,000	2.5%	14.0%	14.0%
QC	\$500,000	3.2%	11.5%	11.5%
ON	\$500,000	3.2%	11.5%	10.0%
MB	\$500,000	0.0%	12.0%	12.0%
SK	\$600,000	1.0%	12.0%	10.0%
AB	\$500,000	2.0%	8.0%	8.0%
BC	\$500,000	2.0%	12.0%	12.0%

Source: EY, [Provincial corporate income tax rates for active business income – 2026](#).

When comparing municipal taxation, comparisons are trickier because property taxes payable depend on both a home's assessed value and the tax rate applied by the municipality.

Each year, the Canadian Real Estate Association (CREA) publishes benchmark prices for cities across Canada that reflect "a typical home based on the features of homes that have been bought and sold. ... It therefore provides an apples-to-apples comparison of home prices across the entire country."

If the prevailing property tax rates in multiple cities are applied to the benchmark prices (values) in those cities, this gives a sense as to how "the same" house would be taxed in each of those cities. Using the ten benchmark cities from the [Halifax Index](#), the annual property tax bill for a CREA benchmark home ranges from a low of approximately \$3,200 in Montreal to a high of \$9,400 in Winnipeg. Halifax ranks fifth-highest out of ten at around \$6,000. Note, though, that such comparisons should be treated with significant caution as, for example, the split in service delivery between the provincial and municipal governments in each province varies and therefore so too will the relative tax burdens imposed by the two levels of government.

While everyone loves to complain about paying taxes, they are necessary to fund our public services. Debates over the size of the public sector, the range of services it provides, the degree of redistribution that should occur between the more affluent and the less affluent, and the amount of taxes that should be levied to fund these choices are fundamental aspects of our democracy.

We are accustomed to discussions in the political arena about raising or lowering taxes and their subsequent effects on spending, saving, investing,

deficits and debt, and the quality and quantity of public services.

These discussions will never end, and the pendulum will swing over time between preferences for bigger government and smaller government, tax increases and decreases.

In contrast, broad public discourse on the types and mix of taxes we utilize is limited. Academic economists and think tanks frequently analyze and comment on these questions, but their findings garner little attention in the broader community. These reports and their recommendations tend to gather dust on shelves because governments are unwilling to risk the potential political impacts of making changes to the taxation system.

As noted at the outset of the *Productivity Puzzle* initiative, the answers to addressing many of our productivity shortcomings are not state secrets or yet-to-be-made discoveries. From Michael Porter's work in the early 1990s through the reports of the Competition Policy Review Panel, the Expert Panel on Business Innovation of the Council of Canadian Academies, the Ivany Commission, and the Advisory Council on Economic Growth, among others, over the following thirty years, reforming our taxation system to incentivize greater investment has been a consistent recommendation.

More precise expert advice is available in the internationally renowned [Mirrlees Review](#) from 2010 (Dimensions of Tax Design) and 2011 (Tax by Design) and, closer to home, [The Nova Scotia Tax and Regulatory Review](#) of 2014, which itself builds on the findings of the *Mirrlees Review*.

The broad strokes of the latter report are laid out in the submission letter from the author, Laurel Broten:

“The essence of the tax recommendations would shift more of the burden of taxation toward consumption, and off personal and corporate income; and would tax pollution with the resulting revenue further reducing income taxes and offering income support to Nova Scotians who need it most. The basic rationale for pollution taxation is clear. Pollution imposes costs on society that are not currently borne by the polluter. A tax ensures that the polluter accounts for these costs and, on this basis, reduces pollution at least to a level that takes into account both

the costs of the pollution and the benefits of the polluting activity.

The small business tax rate would increase gradually to narrow the gap with a reduced general corporate tax rate, encouraging all businesses to grow and recognizing the important role large Nova Scotia corporations play in creating jobs and driving prosperity.”

This advice is consistent with the tax policy recommendations of the aforementioned long list of expert analyses on improving productivity and economic growth.

There also are many other expert analyses that delve into the detailed pros and cons of specific taxes, such as [work by the C.D. Howe Institute](#) that is critical of deed/land transfer taxes.

**We know that taxes matter to investment, that investment matters to productivity, that productivity matters to economic growth, and that economic growth matters to our standard of living and that of future generations.**

We know that there is a broad consensus as to which types of taxes are better or worse in terms of incentivizing desirable behaviour or causing unintended economic damage.

However, we continue to hear proposals, for example, to increase ill-advised deed transfer taxes, to widen rather than narrow the corporate income tax gap between smaller and larger businesses, and to decrease HST rates, rather than focus on reducing other more harmful taxes. In the race towards productivity enhancement, this is akin to shooting ourselves in the foot.

## Concluding Thoughts

Capital investment is key to productivity improvement and economic growth. Recent trends in Canada and Nova Scotia, and their comparative performance with peers on various investment metrics, are concerning.

As discussed in this paper, business investment decisions are influenced by a variety of factors, including location-specific attributes, infrastructure

quality, availability of skilled labour, and regulatory and taxation regimes.

We are fortunate to have political stability, many excellent natural and location assets, a generally well-educated population, and recent policy improvements, such as significant moves to reduce trade barriers with other provinces.

However, we also face significant issues, such as relatively high tax rates and a less-than-optimal mix of tax types, as well as worrying trends in our P-12 education system that portend concerns with our future labour force.

Addressing these issues is, in one sense, simple, as significant expert research already exists to guide our way. On the other hand, solutions present political challenges that will require discourse, education, and consensus-building to overcome.

In that spirit, please join us on February 5 for what is sure to be a robust and enlightening discussion.