



# **THE PRODUCTIVITY PUZZLE**

**Reflections on Taxation, Investment & Growth**

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# Halifaxatxamania: The Hottest Ticket in Town

We are through the looking glass, people.

On February 5<sup>th</sup>, the Partnership hosted a sold out, standing room only [event focused on the economics of investment and taxation](#). Who needs the Grammy Awards, the Super Bowl, or the Olympic Games for mid-winter entertainment?

The event's success can be credited to Don Drummond, an engaging and entertaining keynote speaker who brought the perfect blend of expert economic knowledge and real world experience as a former senior government official and Chief Economist at a Big Five Bank, and to a thoughtful and frank panel of Halifax business leaders – Phil Fraser, President & CEO, Killam Apartment REIT, Keith MacIntyre, Partner, Tax, Tax Services, Doane Grant Thornton, and Nadia Middleton, Vice President, Middleton Group – who adeptly connected their daily business challenges and concerns to the broader issues of the session.

Credit and thanks are also due to Gold Sponsor, Doane Grant Thornton, and Silver Sponsor, Scotiabank, whose support made the discussion possible.

This event was billed as a conversation around investment, taxation, and growth, and each of these topics was examined. The discussion, however, also touched on themes of prior Productivity Puzzle events – [our general productivity performance](#), [trade, competition, regulation](#), and [human capital](#) – demonstrating again the interconnectedness of all these issues.

## Key Points from the Keynote

From a rich and wide-ranging talk, here are a few top (paraphrased) take-aways from Don Drummond's address.

***We need to accept that there is a crisis.***

Echoing Andrew Coyne, keynote speaker at the Productivity Puzzle kick-off event in April 2025, the confluence of our longstanding productivity and growth stagnation with the rupture to international trading relationships precipitated by the United States over the past year has serious implications for the health of our economy and our standard of living.

If firms were not investing before, when they thought they had easy access to the American market, how and why would they invest now when that access is under threat? How do you diversify your trade into markets where incumbent firms are specialized, more productive, and highly competitive? In charting a path forward, we will need to understand the gravity of the moment and address these pointed questions.

***Policy improvements are a necessary but insufficient condition to drive productivity improvement and economic growth.***

Investment, productivity improvement, and economic growth are facilitated by effective and efficient regulation, smart taxation, sound infrastructure, and a skilled labour force.

Also critical, though, is firm-level behaviour, one aspect of which was described as the “ambition deficit” in that Canadian firms choose – or are incentivized – to remain small. And here things circle back to policy choices: many tax and regulatory choices encourage businesses to remain small and act conservatively, rather than invest, grow, and become more competitive through increased scale.

As another example, labour market, procurement, investment support, and other policies can encourage firms to rely more heavily on lower-skilled labour, rather than investing in productivity-enhancing equipment and systems. This is especially counterproductive when demographic shifts drive concerns of labour shortages.

Success requires not only enacting good policy, but also rescinding or reforming existing policies that have outlived their usefulness.

***We know what to do to raise productivity.***

The aforementioned dual-pronged crisis in which we find ourselves has focused a public spotlight on our productivity and growth challenges. These are not, however, new issues. At the outset of the Productivity Puzzle project, the Partnership [noted](#) that we have had reports, strategies, and commission findings over decades that produced broadly the same recommendations: maximizing the level of competition in markets for goods and services, reducing barriers to trade among Canadian provinces and territories, improving the skill level of our labour force, embracing policies that encourage capital investment, reforming our taxation system to better align with the goal of improving productivity, and removing barriers and perverse incentives that encourage small businesses to remain small.

Don Drummond’s keynote address specifically referenced one of these studies, the 2014 report commissioned by the Province of Nova Scotia,

*Charting a Path for Growth: Nova Scotia Tax and Regulatory Review*, and stated that if such a review were to be written again today, it would probably – and properly – say the exact same thing. As with so many other of these initiatives, the key recommendations, backed by extensive research and expert analysis, were never fully implemented.

There are many possible explanations for these failures to launch: the challenges in communicating to the public about complex topics; the difficulty in getting elected officials to prioritize long-term societal gains over short-term political payoffs; the understandably limited attention spans of governments who must address systemic issues like productivity improvement, as well as multiple crises-of-the-moment; and the ability of well-organized groups – e.g., small business or industry lobby groups – to mount challenges to policy changes that could impact specific benefits that they enjoy, for example.

A key finding of the Productivity Puzzle initiative is that while determining *what* needs to be done is important, the bigger challenge may be figuring out *how* to overcome the barriers to implementation when the desired course of action is known but difficult on some fronts.

**Much of what needs to be done is already well known. The question is why we so often cannot seem to execute.**

***Some taxes are better than others.***

As a former senior official in Canada’s Department of Finance, it is no surprise that taxes were prominent in Don Drummond’s remarks. A final summary point from his keynote address is that there is a hierarchy of taxes from the most damaging to the least damaging.

There is not space here to fully address all the pros and cons of the various taxes employed by our governments, but as highlights, taxes on capital are particularly damaging and taxes on consumption (like the HST) are preferable to taxes on personal and corporate income.

A related point worth noting is that taxes may be desired to perform a variety of functions such as providing means for users of a good or service to pay for that use, facilitating transfers between the more-affluent and the less-affluent, and of course generating, as efficiently and effectively as possible, the overall revenues needed by government to fund the services they provide. Some taxes may be well-suited to one objective but ill-suited to another.

Despite the deep body of knowledge that exists on which types of taxes can best achieve different objectives, and which ones do more or less collateral harm, politics and populism continue to lead us to questionable choices. In pursuit of greenhouse gas reduction, more costly regulation is chosen over carbon pricing that would impose lower overall costs on society. Policies are skewed to benefit “small” businesses and “senior” citizens, even though they may be more profitable and affluent than their larger and younger counterparts. In the name of housing “affordability” we impose a property tax assessment cap that effectively transfers wealth from thirty-year-olds desperately wishing to grasp the first rung of the home ownership ladder to sixty-year-olds who already have reached the top. These are just a few examples of how we shoot ourselves in the foot with taxation choices that are regressive, not progressive, and that impede growth, rather than incentivize it.

## The Local Viewpoint

Our panel of Halifax business leaders corroborated many of Don Drummond’s points and provided additional important insights:

- Policies like the assessment cap protect the older and often more affluent at the expense of the younger and less affluent.
- Clarity and predictability in policy, regulation, and taxation are critical to creating an environment conducive to investment.
- People understand that the taxman reaches deeper into your pocket in Nova Scotia than in other jurisdictions and they make decisions on where to locate, invest, and do business accordingly.
- The complexity of our taxation system is becoming overwhelming, even for expert practitioners.

- Bureaucratic and regulatory processes are too slow, are too burdensome, and hinder the very growth we seek.

Beyond their roles as community leaders and successful professionals, many of the people in the room on February 5<sup>th</sup> also are parents and have real concerns about prospects for their children and grandchildren.

A sense of urgency in addressing our current challenges is entirely warranted.

## What’s Next

Building on the previous Productivity Puzzle research and events, the February 5<sup>th</sup> session reinforced that investment, productivity, and growth matter to our standard of living, and that in turn these are influenced by taxation, regulation, and policy choices.

Much of what needs to be done is already well known. The question is why we so often cannot seem to execute.

An important part of bridging that gap is to heighten awareness of key issues and their urgency, broaden understanding of potential solutions, and spark dialogue that will generate impetus for action and support.

This what the Productivity Puzzle project is all about. The opening line of this paper was a joke about rock-concert like enthusiasm for a discussion on tax policy. As with all the Productivity Puzzle events to date, it truly was heartening, however, to see such a level of interest and engagement, even if the topics at hand were not *quite* as compelling as a Taylor Swift show or a gold medal final. Conversations like these, which lead to further conversations among more people in more places, will, we hope, build the momentum and the consensus for the bold actions needed in our current circumstances.

[Please join us for more debate and dialogue at the next Productivity Puzzle event on March 30<sup>th</sup>.](#)

We’ll reflect on key insights and share recommendations to strengthen productivity and advance inclusive prosperity across our city and province.