

BOOSTING INCOMES, CONFRONTING DEMOGRAPHIC CHANGE: BC's “PRODUCTIVITY IMPERATIVE”

Executive Summary

The BC Progress Board, established by Premier Gordon Campbell in July 2001, is an independent panel of 18 senior business and academic leaders. The Board is tasked with benchmarking BC's economic and social performance over time and relative to other jurisdictions. The Board also provides strategic advice on ways to improve performance.

In past annual benchmarking reports, the Progress Board has highlighted the importance of productivity, discussing the Canada–US productivity gap, Canada's lagging productivity growth, and the inextricable relationship between productivity growth and improving income growth and living standards. The Board has also delved into the broad determinants of productivity growth, including business investment levels, the quality and nature of provincial infrastructure, research and development expenditures and intensity, and the number and quality of skilled workers along with other more narrow factors such as information and communications technology investment and intellectual property commercialization. Building on past work, this discussion paper examines the competitive and enabling conditions for productivity growth as a driver of province-wide economic growth and, consequently, as a catalyst for improving overall living standards for British Columbians. In doing so, the paper focuses attention on several framework policy areas to encourage productivity growth in British Columbia.

The importance of productivity growth to the overall prosperity and quality of life in British Columbia stands behind the Progress Board's desire to keep the topic at the top of mind in deliberations of policymakers in all orders of government, business and community interests, and the public at-large. British Columbia's mediocre productivity performance – 6th in Canada for real GDP per hour worked in the business sector in 2004 – is also a motivation. Relative to the national average rate for 2004, British Columbia lags (slightly) behind at 96.9 percent of Canada's level. A related factor is BC's relatively weak export sector. In 2004, BC posted 8th rank among the provinces for exports of goods and services per capita. Solid business investment and greater export exposure ultimately provide the backdrop for improved productivity performance and rising incomes in Canada, and in British Columbia.

In its simplest terms, productivity and productivity growth determine how much a jurisdiction can produce given finite resources – a stable and finite amount of labour and workable hours, in combination with capital resources such as land, natural resources such as oil and gas, and machinery and equipment. Growing productivity, through investing in physical capital and in people, stimulating innovation, and/or specializing in more productive industries is the primary method to encourage macro-level economic growth. By jump-starting our mediocre productivity and growing it past the national average, BC can become a national leader in investment, innovation, and in living standards. This is not to suggest the task will be easy. British Columbia's industrial mix is weighted towards labour-intensive service industries and the preponderance of firms are small and medium sized. And, the sectoral mix of BC is highly dependant on natural resources, which is not entirely flexible. On a micro or individual level, becoming more productive – through training, new techniques and learning from skilled co-workers – means a worker can demand a higher wage, and consequently improve their relative individual or family standard of living. Productivity and productivity growth is therefore important to economic well-being at a province-wide level, at the sector or firm level, and at the individual level.

In order to effect further improvements in material living standards in British Columbia, public and firm-level policies and practices must continuously be reviewed for their contribution to making BC enterprise more productive. Productivity is a very complex topic and there is not complete agreement among experts on precise prescriptions to improve performance. And it is important to remember that

investments which are likely to yield productivity improvements can take some time to pay off. Having said this, in the BC context there are a variety of practical suggestions which policy makers can consider to help boost overall productivity performance over time. Based on previous work and analysis within this report, the Progress Board suggests that broad efforts can usefully be concentrated in five areas: tax policy; trade barriers, openness, and immigration; regulatory reform; public infrastructure; and, skills, education and research.

- **Tax Policy**

- Ongoing efforts to shift the tax burden away from investment with continued efforts to lower the marginal effective tax rate on capital investment are imperative. On the international scale, top economic growth performers such as Singapore and Ireland have much lower rates. Within Canada, a low marginal effective tax rate on capital has helped propel productivity growth in Newfoundland and Labrador between 1997 and 2004.
- Mindful of the provincial government’s current provincial sales tax review, the province should examine the feasibility of harmonizing the provincial sales tax with the federal goods and services tax to reduce compliance costs for businesses as well as eliminate sales tax on business inputs.
- Provincial corporate taxes should continue to be neutral to all industries to ensure the competitive market can function effectively to encourage the growth of highly productive sectors and firms.
- Efforts to review the impact of the provincial property tax regime on industrial competitiveness, particularly within the province’s regional economies should be a priority.

- **Trade Barriers, Openness, and Immigration**

- Ongoing efforts to reduce international and remaining inter-provincial barriers to trade should be a priority. Though few, remaining inter-provincial barriers that limit labour mobility should be eliminated. These include:
 - Areas of limited transferability of work-related benefits; and,
 - Professions for which there are no mutual recognition agreements of qualifications between provinces.
- Programs aimed at integrating new skilled immigrants into the British Columbia workforce should be encouraged, including:
 - Credential assessment programs that assist employers in evaluating foreign education and training;
 - Bridge programs to “top-up” immigrant skills and language training, among others; and,
 - Leverage, to the greatest extent possible, the provincial nominee program to help address existing and prospective skilled trade shortages.
- Further proactive efforts by both British Columbia and federal authorities to address visa processing challenges to encourage foreign students to study and stay in Canada should be a priority.
- Further efforts by federal authorities to develop more multi- and bi-lateral trade agreements, like NAFTA, to further integrate BC and Canada into the global economy should be a priority.

- **Regulatory Reform**

- Coordination and wherever possible harmonization of regulatory standards across agencies within government and across all orders of government (federal, provincial and local) should be aggressively pursued.
- While past BC reform efforts have targeted a reduction in the quantity of regulation, future reforms should aim to improve the quality of regulation to ensure minimal impacts on the efficient functioning of markets and productivity growth.
- Provincial efforts should be targeted initially at high impact areas including land use and environmental regulation.
- The province should track and report regularly on regulatory enactments made by local governments under the Community Charter.
- Similar to efforts in other provinces, BC's mandatory retirement policy should be reviewed.

- **Public Infrastructure**

- Because most infrastructure is managed at the local level (more than 50%), the province should continue to work with local governments to target the most necessary and urgent projects in terms of their ability to boost provincial productivity.
- Federal and provincial authorities should continue investments in critical Airport infrastructure province-wide, particularly in selected urban and regional nodes where such investments can have transformative effects from both passenger and cargo standpoints.
- Consistent with past Progress Board policy suggestions, the province and federal government should continue efforts to four-lane key North-South and East-West highway infrastructure, particularly the Trans-Canada and Highway 97 from Prince George to the Canada-US Border
- Continue planned provincial and federal gateway transportation improvements in the Lower Mainland (port, roads, rail, and air), twinned wherever feasible with Transportation Demand Management Techniques to improve the flow of consumer goods and services and people.
- Efforts should be taken to align regional transportation and land use planning (zoning) to increase ridership on Skytrain lines to further productivity and sustainability within the Greater Vancouver Region as a whole.

- **Skills, Education, and Research**

- Continue to focus efforts on early childhood education to ensure the next generation is prepared to fully contribute to the province.
- Continue to focus on enhancing adult basic literacy.
- Provincial authorities should develop and make widely available materials outlining productivity enhancing measures that individuals and firms can implement in their daily lives, including but not limited to: incentive and bonus schemes; use of more flexible work arrangements; and, adjustments to pension provisions to provide incentives for working past age 60.
- Continue to focus on achieving a leadership position relative to other provinces in terms of provincial high school completion and test results, including:
 - Pay particular attention to reducing performance outcome gaps between Aboriginal students and the general student population;
 - Address growing student performance gaps between female and male students;

- and,
 - Focus additional efforts on smoothing out regional variations in high school completion results.
- Focus on Post-Secondary Education and Research
 - Focus on maintaining British Columbia’s leadership position with respect to the percentage of persons of working age with a post-secondary credential;
 - Focus on increasing British Columbia’s provincial graduate student enrolments generally, and those in applied sciences and engineering disciplines in particular;
 - Continue concerted efforts to address skilled trade and other worker shortages through training, immigration and other means;
 - Continue efforts to encourage firm level adoption and diffusion of information and communications technology;
 - Continue efforts to improve British Columbia’s relative performance on public and private research and development expenditures;
 - Develop and aggressively pursue a province-wide strategy to commercialize research from BC’s post-secondary institutions; and,
 - Examine and act on areas where the province can benefit most from the integration of foreign credentialed immigrants into the provincial workforce.

British Columbia needs to become seized with the task of building a “culture of productivity” as a collective provincially, in public policy decisions of all orders of government, within business planning and daily decision making in firms and organizations, and within our own decisions as individual citizens. The reality of demographic change and its consequences for provincial labour markets and, ultimately, our ability to fund public services in the coming decade suggests that “pulling out all the stops” to boost productivity performance must be a provincial priority.