Most people want to get rich. In general, there are two ways to do so: being an efficient worker or dumb luck. As it goes for people having higher incomes, so it goes for Canada’s economic growth.

Canada won the natural resource lottery in the past decade with booming resource prices. In the long run, however, Canada’s economic well-being is largely determined by the effectiveness of its workers, not by luck. Unfortunately, improvements in production per worker, or labour productivity growth, for the provinces during the decade have been very low from an international perspective – behind the United States and the major countries of Europe.

Knowing why Canada is falling behind its peers is the first step in knowing how to fix the problem and, like any classic Canadian conundrum, this is a story that puts some provinces at the top of the heap with some at the bottom.

Increasing production per worker does not mean workers working harder for less money. It means investing in new physical infrastructure, better education and better use of technology. It means giving workers the intellectual and physical tools they need to be able to do their jobs better.

In each of these areas, the provinces must look at the reasons why they have fallen behind and take steps to fix their problems.

Between 1984 and 2009, the fastest production per worker growth was in Newfoundland and Labrador; the slowest growth was in British Columbia.

Newfoundland and Labrador saw the largest improvement in production per worker because the province moved away from a low-productivity natural resource business, fishing, to a higher-productivity natural resource activity, oil extraction, and it recorded the largest improvement in education.

This boom in production per worker growth on the back of higher resource prices is inherently temporary. When Newfoundland and Labrador’s oil runs low, just as the fish stocks did, or resource prices falter, the province will need to rely on savings stuffed away now to invest in better education, infrastructure and technology.

Alberta has had among the lowest growth rates of educational achievement and production per worker, partly reflecting young workers not investing in higher education because of the easy money in the oil sands.

For provinces booming now because of high resource prices, saving non-renewable resource revenues in rainy-day funds is crucial to keeping the good times rolling.
The federal government’s bottom line has also benefited from the resource boom by taking in more income and value-added tax. If it, too, continues to run deficits during times of high resource prices, then a future of a return to lower resource prices or lower production per worker growth with little savings cushion will look bleak.

If these governments are complacent about riding the wave of higher resource prices toward higher incomes and ignore policies that boost long-term growth, future economic growth (and incomes) will falter.

To see the consequences of complacency in productivity growth, Canadians can look to Ontario. That province was the leader of the pack in productivity growth in the late 1990s but has slowed down substantially since.

B.C. has fallen behind the most on investment between 1984 and 2009. The B.C. government can go a long way toward reversing this by keeping the harmonized sales tax, which reduces the tax on investment relative to the old investment-taxing provincial sales tax. The HST will bring the effective tax rate on new investment in B.C. below most of the rest of Canada and will help erase the physical capital productivity gap the province has historically had relative to other provinces.

Just as an individual’s income is dependent in the long run on how productive he or she is, so, too, is that of the nation. If Canada fails to improve its productivity, the incomes of both individual Canadians and the country as a whole will fall behind those of other developed countries.

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