

## A 21<sup>st</sup> Century Resource Economy

The Bank of Canada's Senior Deputy Governor, Carolyn Rogers, has warned it's "time to break the glass".<sup>1</sup> Our productivity is at approximately the same level it was seven years ago,<sup>2</sup> as is GDP per capita.<sup>3</sup> The heartbeat that drives our economy forward is flatlining. This is an emergency.

Our productivity is determined by the quality of our capital, the quality of our labour, and how efficiently we bring them together.<sup>4</sup> Much has been made of the inefficiencies within our economy and addressing them is one way to increase our productivity.<sup>5</sup> I, however, am more interested in an alternate, but parallel, path.

Canada needs to put more energy into its most productive industries and less into its least. As Rogers says, we must, "[pay] attention to where the future high-value industries are coming from."<sup>6</sup> This pokes at the core questions I'm desperate for Canadian decision makers to ask: What can Canada do that nobody else can? What is the direction of Canada's economy? What is Canada's economic identity?

It is sometimes proposed that Canada needs to be an innovation economy in the model of the U.S., focusing on advanced-technology and knowledge-based innovation. The reasoning behind this is sound; innovation is the closest thing we have to a magic bullet for increasing productivity. There's just one issue: that's not an area in which we can compete with the U.S. Innovation isn't our comparative advantage.

However, not being an innovation economy doesn't mean not being an *innovative* economy. We simply have to be innovative in a targeted way to make the most of our strengths. So where should we innovate? The answer lies in understanding where Canada has created the most value in the past and where it creates the most value now.

A large portion of how we understand our economic history comes from the Canadian economist and historian Harold Innis.<sup>7</sup> He put forward the Staples Thesis, an argument that much of Canada's economic history is based upon the exporting of key natural resources or "staples".<sup>8</sup> In other words, Canada's economic history is that of a resource economy.

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<sup>1</sup> Carolyn Rogers, "Time to break the glass: Fixing Canada's productivity problem," transcript of speech delivered to the Halifax Partnership in Halifax, Nova Scotia, March 24, 2024. <https://www.bankofcanada.ca/2024/03/time-to-break-the-glass-fixing-canadas-productivity-problem/>.

<sup>2</sup> Rogers, "Time."

<sup>3</sup> Carter McCormack and Weimin Wang, "Canada's gross domestic product per capita: Perspectives on the return to trend," Statistics Canada, April 24, 2024. <https://doi.org/10.25318/36280001202400400001-eng>.

<sup>4</sup> Rogers, "Time."

<sup>5</sup> Rogers, "Time."

<sup>6</sup> Rogers, "Time."

<sup>7</sup> Ian M. Drummond, "Economic History of Canada," The Canadian Encyclopedia, last modified March 7, 2018. <https://www.thecanadianencyclopedia.ca/en/article/economic-history>.

<sup>8</sup> Mel Watkins, "Staple Thesis," The Canadian Encyclopedia, last modified December 16, 2013. <https://www.thecanadianencyclopedia.ca/en/article/staple-thesis>.

The Canadian economy has continued to develop in the century since Innis first proposed his theories. In 2023, 74% of Canada's GDP came from service producing industries.<sup>9</sup> Some may argue that Canada is no longer a resource economy, which may be true. However, Canada's productivity growth has fallen far behind our G7 allies over the last 50 years;<sup>10</sup> we aren't exactly excelling at being a knowledge-based service economy.

This reality is made stark when we examine which of our industries are most productive. The mining and oil and gas extraction sector is one of Canada's most productive, coming second in terms of both labour productivity (output per hour)<sup>11</sup> and multifactor productivity (which considers capital and labour)<sup>12</sup>. By labour productivity, it's only less productive than the utilities sector, whose productivity is led by power generation and natural gas, another key natural resource.<sup>13</sup> By multifactor productivity, it is 1% less productive than retail trade, which is in first place due to its negligible capital requirements.<sup>14</sup> Notably, Canada's most productive service subsector, by labour productivity, is the transportation of oil and petroleum.<sup>15</sup> Leaning upon our natural endowments is what our economy is built around. What should Canada's economic direction be? It seems like it's staring us in the face.

Luckily, the world is in the midst of a global energy transition that provides Canada with an opportunity to use our resource-oriented advantages as a springboard for meaningful innovation. Let's take advantage of the fact that we have the world's longest coastlines<sup>16</sup> and take the lead in developing durable and scalable tidal energy systems. Let's take advantage of our rolling plains that are perfect for wind and solar farms and find innovative ways of making those methods of energy capture more efficient. Let's acknowledge the vast size of our country and use it as motivation to spur development of solutions for the long-distance electricity transmission and high-volume energy storage. Let's support our Canadian businesses that are already finding innovative ways to embrace this transition, like B.C.'s Edison Motors, inventors

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<sup>9</sup> "Table 36-10-0434-03 Gross domestic product (GDP) at basic prices, by industry, annual average (x 1,000,000)," Statistics Canada, August 30, 2024. <https://doi.org/10.25318/3610043401-eng>.

<sup>10</sup> "OECD Data Explorer," Organization for Economic Co-operation and Development, accessed September 20, 2024. [https://data-explorer.oecd.org/vis?lc=en&df\[ds\]=DisseminateArchiveDMZ&df\[id\]=DF\\_DP\\_LIVE&df\[ag\]=OECD&df\[vs\]=&av=true&pd=%2C&dq=G-7%2BCAN.GDPHRWKD...A&to\[TIME\\_PERIOD\]=false&vw=tb](https://data-explorer.oecd.org/vis?lc=en&df[ds]=DisseminateArchiveDMZ&df[id]=DF_DP_LIVE&df[ag]=OECD&df[vs]=&av=true&pd=%2C&dq=G-7%2BCAN.GDPHRWKD...A&to[TIME_PERIOD]=false&vw=tb).

<sup>11</sup> "Table 36-10-0480-01 Labour productivity and related measures by business sector industry and by non-commercial activity consistent with the industry accounts," Statistics Canada, May 21, 2024. <https://doi.org/10.25318/3610048001-eng>.

<sup>12</sup> "Table 36-10-0208-01 Multifactor productivity, value-added, capital input and labour input in the aggregate business sector and major sub-sectors, by industry," Statistics Canada, April 16, 2024. <https://doi.org/10.25318/3610020801-eng>.

<sup>13</sup> Statistics Canada, "Labour productivity."

<sup>14</sup> Statistics Canada, "Multifactor productivity."

<sup>15</sup> Statistics Canada, "Labour productivity."

<sup>16</sup> "International Perspective," Statistics Canada, last modified October 7, 2016. <https://www150.statcan.gc.ca/n1/pub/11-402-x/2012000/chap/geo/geo01-eng.htm>.

of North America's first all-electric logging truck.<sup>17</sup> This will require intelligent industrial planning, government funding and investment, and reduction of regulations that stifle innovation. Taking these steps, Canada can define what it means to be a resource economy in the 21<sup>st</sup> century.

Some groups heavily criticize Canada's mining and oil and gas industries as environmentally harmful, but they can serve as a case study in how Canada can develop highly productive industries by leaning on our natural endowments. In the 70s, the Alberta oil sands were spurred into their modern form through innovation born from public-private partnerships and the Alberta Oil Sands Technology and Research Authority, a provincial Crown corporation.<sup>18</sup> Similar strategies must be employed today.

Currently, the Government of Canada and provinces like Ontario and Quebec are leveraging our rich mineral resources and using corporate tax credits, direct funding, and loans to establish our place in the EV industry.<sup>19</sup> Unfortunately, this appears to be a pursuit of a singular opportunity rather than a piece of a coherent, long-term vision.

Nova Scotia stands as a model for the rest of the country. They have explored novel energy capture methods like the use of green hydrogen<sup>20</sup> and have recently announced that they are pushing forward with offshore wind farms, with or without the support of the federal government.<sup>21</sup> Nova Scotia understands their unique advantages and is seeking to leverage them and decisively build in a new and promising direction.

I propose a vision for Canada's economy that is simple but bold. Embrace our past and our skills as a resource economy and lean heavily into resource-based innovation, knowing that doing what we do best is how we create a productive and prosperous economy. What's a better use of our time: pretending we're something we're not or defining what it means to be a resource economy in the 21<sup>st</sup> century? I know which sounds more productive to me.

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<sup>17</sup> Edison Motors, accessed September 15, 2024. <https://www.edisonmotors.ca>.

<sup>18</sup> Homer-Dixon, Thomas, Peter Massie, and Emily Smejkal. "Key to Canada's growth? Recall the role of public money in developing Alberta oil." The Globe and Mail. September 22, 2024. <https://www.theglobeandmail.com/business/commentary/article-key-to-canadas-growth-recall-the-role-of-public-money-in-developing/>.

<sup>19</sup> Abigale Subdhan, "Canada's Committing Tens of Billions of Dollars to the EV Industry. Here's a List of the Planned Projects so Far," The Globe and Mail, April 25, 2024. <https://www.theglobeandmail.com/business/article-canada-ev-battery-plants-list-honda-stellantis>.

<sup>20</sup> "Green Hydrogen," Government of Nova Scotia, accessed September 16, 2024. <https://novascotia.ca/green-hydrogen/>.

<sup>21</sup> Taryn Grant, "Nova Scotia charges ahead with offshore wind regulator, aims to open bids next year," CBC News, September 10, 2024. <https://www.cbc.ca/news/canada/nova-scotia/offshore-wind-regulator-bids-1.7318995>

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