Speaking notes for a talk by Brian Lee Crowley

Managing Director, Macdonald-Laurier Institute

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Thank you for the invitation to be here.

In speaking about economic development in western Canada our Americans guests might be forgiven for not knowing what even many Canadians have forgotten: we have been here before. In 1904, Sir Wilfrid Laurier famously predicted a "Canadian Century." This was no mere political rhetoric. He laid the foundations for that century in the boom he unleashed during the 16 years of his premiership (1896-1911), a still unbroken record of four back-to-back majority governments.

During those years Canada, and especially the west, was home to the largest voluntary peacetime movement of people relative to local population ever seen in the history of the world, as people poured in from every corner of the globe. At its height, immigration was higher in absolute numbers than in Canada today. My own family was shaped by the rush to the west. When, as was the case for so many European immigrants that arrived in the United States only to find the free land of the west exhausted, Henry and Edith Barshide knocked at Canada's door at North Portal, Saskatchewan in 1905, they were looking for the last free land available for settlement in North America, what we called the last best west, the Canadian west. And the Barshides brought with them 5 children, including my grandmother, Grace. My mother was born in North Battleford, a child of the Laurier boom.

When Laurier came to power, we were growing 18 million bushels of wheat on the prairies; when he left it was 118 million. Cities like Vancouver and Winnipeg quintupled in size; Calgary, Edmonton, Regina, and Saskatoon became major regional centres.

The movement of people was so great that Laurier had to carve two new provinces out of the western territories and one of them, Saskatchewan, rapidly became the third largest province in terms of population and remained so for 30 years.

One transcontinental railway wasn't enough to handle all this activity, and by the time Laurier left office we had three. The number of companies chartered grew by a factor of twelve. The value of exports doubled, but the value of construction quadrupled. In brief, while manufacturing certainly grew handsomely, the real driver of growth was a natural resource boom, including agriculture, and the concomitant opening up of the west and the north. And that is rather where we find ourselves again today, although the precise circumstances are quite different.

The lesson to remember from Laurier's day, and that I will try to apply to our current circumstances, was that the west's rise then was fuelled by the four things that, when brought together in just the right proportions, cause economic progress. What are those four things?

- Human intelligence and energy;
- properly functioning rules and institutions;
- capital; and
- opportunity.

The world's dispossessed came to Canada, they fled dysfunctional societies where your place in life was determined by your race or your religion or your social class or your accent, and they came to a place where your progress in life would be driven primarily by your own toil and drive. Britain and America supplied capital to open up the Canadian west, to exploit the opportunity created by linking the resources of the west to the markets of the world. And this was all made possible by the great British institutions of democracy, liberty, the rule of law, free trade and so forth. We brought together all the factors that I mentioned and we thrived.

Then there was the Depression, the dustbowl, protectionism and we forgot much of what had made us the envy of the world. And later again we tried to come up with substitutes for the four factors of prosperity that I mentioned. The problem, however, is that in the absence of one or more of these things, you will not get sustainable growth. What you will often get instead is government spending money to try and compensate for the absence of one or more of these four things; you get subsidies to manufacturing or alternative energy or farmers, you get tax breaks for investors, governments trying to pick winners, you get special rules, deductions, exemptions, tariffs, trade barriers and a host of other things that you can name as well as I can. What you won't get is sustainable growth.

The story of western Canada's economic growth in recent years is the story of getting this distinction and, on the whole, being on the right side of it. But while it has got many things right, it has also made important mistakes that continue to haunt us.

Let's begin with what has gone right. A lot of people will tell you that western Canada is a lucky place. Why? Because of its fantastic endowment of natural resources, including water and agricultural land as well as minerals, oil and gas.

But the **real** reason western Canada is lucky, and the reason why the world beats a path to our resources, is not chiefly due to the resource endowment. What makes that endowment almost uniquely valuable in the world is that it exists within another vastly more important endowment of rules, institutions and behaviours to which I have already alluded.

Consider that the world's wealthiest societies, be it Switzerland or Japan or Singapore or Taiwan or Germany or many others I could name have no natural resources to speak of.

On the other hand, economists often talk about the curse of natural resource wealth because many of the societies that are blessed with such wealth do not know how to control it. Like many a lottery winner they are ruined by their good fortune. Just think of Nigeria, Venezuela, Indonesia, Angola, Algeria, Russia or Saudi Arabia and ask yourself if you would trade living where you are to live there. I am pretty sure the answer is no. And by the way, the natural resource curse is not limited to the developing world. Louisiana has one of the best natural resource endowments in the United States, and it consistently ranks near the bottom of all the states on most measures of social and economic progress. On the other hand many of the wealthiest states in the union, such as Massachusetts or Connecticut of Florida have no natural resources to speak of.

What makes the difference? It is all chiefly due to that endowment of institutions and behaviours I talked about. In Canada in general and the west in particular we have the full set of institutions and behaviours that as a matter of empirical and historical fact confer economic success. Many of these Harvard historian Niall Ferguson summed up in his recent book *Civilization* as the 6 killer apps of western democracies.

I will tell you what I think it entails: the rule of law, independent judges and reasonably speedy and reliable resolution of disputes, the enforcement of contract, the absence of corruption among government officials and the police, respect of private property, moderate, predictable and stable taxation and regulatory burden, a stable currency that keeps its value, responsible public finances, freedom to trade both domestically and internationally, a well-developed work ethic and a refusal to resort to violence to resolve political disagreements. **That** is the greatest endowment that we have.

Note that many (although not all) are conditions that are created by public officials, through law, regulation and standards of public behaviour. These are powerful tools you possess to create the conditions in which wealth can be created. Note too, however, that creating this world of supportive institutions will not guarantee you any particular KIND of economic activity or investment or industry. In fact all attempts to use the power of government to pursue particular kinds of business or industry invariably result in the abandonment of one or more of the elements of the institutional endowment I have described. It requires government picking winners by favouring one industry over another, it requires tariffs or subsidies or tax breaks. It may require interfering with people's ability to sell or trade their goods or services and therefore the stability of their property.

By and large western Canada has increasingly chosen the philosophy of creating the framework of prosperity and leaving to entrepreneurs and business leaders and investors the decisions about what industries are best suited to our conditions. And this is why if you are looking for me to regale you with stories of how western Canada developed alternative energy or biofuels or IT or call centres or aircraft manufacturing you will be disappointed. I am here to try and explain why people who have tales to tell like that are almost invariably trying to lead you down the wrong path. It is not that there haven't been attempts like that in the west, but they are increasingly the exception that proves the rule.

Now let's think about this idea of the nesting of a rich natural resource endowment inside this endowment of rules, institutions and behaviours that I have just described. Companies can invest billions of dollars to unlock opportunities, such as the oilsands, reasonably secure in the knowledge that they know the fiscal, regulatory and contractual conditions they will face over a period of years sufficient to recoup their investment and make some money. They know they will not be extorted by megalomaniacal presidents or state-sanctioned gangs of thieves. They know their investment will not be nationalized overnight on a change of regime. They know that they are not in competition with favoured state corporations that will take a share of their business with no compensation, or be given access to opportunities on more favourable conditions than foreign investors. They know they can sell their product wherever they can get the best price and they can repatriate their profits in real hard currency.

Contrast this with Venezuela, Russia, Iran or Argentina, to pick only a few examples. Or, to be a bit more controversial for this audience, compare that with California, the 5th largest producer of oil and gas in the United States, but a state that has essentially decided to forgo the opportunity of developing its resources further. It has done this through regulatory and other policies that simply destroy the opportunity the west has worked so hard to create by the careful maintenance of its institutional endowment.

This may all help you to understand why, while it costs about $20 to extract a barrel of oil in Saudi Arabia and about $80 to extract one from the oilsands, oil companies from around the world are vying for the opportunity to invest and develop that resource here. Its institutional context makes it more valuable.

Note that we don't have to compare western Canada with Russia to see the power of getting the political, fiscal, legal and regulatory framework right. We have lots of fruitful comparisons from western Canada itself.

Consider that when the oil and gas industry was in its infancy in this region, it was centred in Saskatchewan, not Alberta. Moose Jaw was to be what Calgary eventually became. But then a government came to power in Saskatchewan that changed the institutional context, increased the tax and regulatory burden and preferred to see resources developed by state-run corporations. The result was a rapid exodus of the industry to Alberta, which was more welcoming.

Then 60 years later the situation was reversed. The Alberta government decided it wanted to increase its share of oil and gas revenues and changed the regulatory and fiscal rules. Investment started to dry up and shift to Saskatchewan, now a jurisdiction committed to exactly the kind of stable friendly policy environment that huge investments of capital with long pay back periods require. The Alberta premier of the day was affectionately known next door as the best economic development minister Saskatchewan ever had. Alberta was forced to backtrack, but the relationship with the provincial government here remains cool.

Remember though that I said economic growth is the magic intersection of:

- human intelligence;
- institutions and behaviours;
- capital; and
- opportunity

We've talked a fair bit about institutions and capital. Now let's talk about opportunity in a bit more detail.

At the beginning of the twentieth century roughly 90 percent of Canadians lived in rural Canada, and the rest in cities. By the end of the century the proportions had essentially reversed.

Our forebears didn't move just for the bright lights. They moved chiefly because life in the city made them and their children better off. On the farm people have to be more self-sufficient, and do a little bit of a lot of things. In the city there were more kinds of jobs, services, goods and education, so more room for specialization. That shift from the countryside to the city was probably the single biggest factor behind the vast increase in the standard of living we have enjoyed compared to our great-grandparents.

Canada's experience is not unique. What is unusual in global terms, however, is how far out in front we and other industrial countries are in the transition to urban living. The rest of the world is working hard to catch up however.

Of the 7 billion people in the world, only about half of them live in cities. But by 2050, according to the UN, the world's population will have increased by 2.3 billion, whereas the population of the world's cities will have increased by 2.6 billion. All of the population increase over the next 40 years will take place in cities, and another 300 million people will move from rural areas to the cities.

As Paul Romer, one of the world's leading economists, said in a talk he gave in Ottawa recently for my institute, all this means that there is a serious shortage of cities in the world. He points out that much effort is spent trying to tear down the barriers to trade between countries on the grounds that this will increase the world's wealth by a few percentage points. But you pull more people out of poverty faster by simply moving them from the country to the city. Look no further than this for the explanation of the explosive growth of cities throughout the world and especially in the developing world.

Moreover this rapid urbanisation is the chief explanation as to why these societies are able to grow so quickly compared to the west. We already have gone through the transition; they are on the way.

The effect of urbanisation on workers' incomes in the developing world is startling. Workers in cities earn 33% more than their nonurban counterparts. Every time you add another million people to a city's population, you increase the wage level of everyone living there by 15%, so the growth is self-reinforcing.

So it is the completion, over the next 50 years, of the vast shift of humanity from rural to urban living, that will feed the world's prosperity, and the bulk of that shift will happen in what we now think of as the developing world. The simple shift of these billions of people into cities will increase the productive capacity of humanity hugely. That is the nature of the opportunity our natural resources confront. And this is why it seems to make sense to think that we should not be distracted by the short term gyrations of prices. There will be 2.3 billion more people by the middle of the century, barring major war or pandemic, they will live in cities and they will be richer than their forebears, just as we are richer than those who preceded us.

According to the *National Post*, there are 36 million affordable homes to be built in China by 2015 under the government's current plan, and even that may not be enough. That is the equivalent of building one house for every single Canadian over the next three years.

All of these houses will require an awful lot of timber, concrete, copper wire, and other commodities. That is only a tiny slice of the opportunity for resource-exporting Canadian companies and their investors. China's oil consumption alone will rise from about 7 million barrels a day today to over 12 million, according to my friend Gordon Houlden of the China Institute at the University of Alberta here in Edmonton.

But China won't be the only one bidding for our oil and other resources. China, like many other major consumers, is acutely aware that 80 percent of the world's oil supply is controlled by state corporations and comes from countries with various forms of political and other stability. Canada is the only major industrialized country that projects a significant increase in its oil exports over the coming decades, and we are an oasis of stability. Countries around the world will be willing to pay a premium for what Canada has to offer. And it won't just be oil: Rio Tinto expects global copper consumption over the next 20-30 years, for instance, to exceed the total historical consumption to date.

Just as importantly, more food will be consumed in the next 50 years than has been consumed in the whole rest of human history. Population is rising, and wealthier people around the world are demanding more sophisticated and expensive foods just as the productivity gains of the Green revolution are tailing off. We are leaving an era of food surpluses and entering an era of world food shortages.

Western Canada has one of the finest and least degraded endowments of agricultural soil, access to the most abundant supply of available water, it has well-developed infrastructure to get food products to market and it has a huge investment in human and physical capital in agriculture. And yet unlike the natural resource sector, we are failing to capitalise on these opportunities, as our share of world markets is declining rather than rising.

And that is in part because we have been reluctant to extend to agriculture that full network of institutions, rules and behaviours I talked about, damaging the opportunity for Canada and for those who desperately need our food.

Why? Many reasons but amongst the most drearily familiar have been the conflict between food producers who want to be in the business of exporting to the world, and are looking for governments to tear down the barriers to trade, and those who have become addicted to subsidies and tariffs and protected local markets.

We have just won new freedom for Canada's grain farmers to sell into international markets, and this has already unleashed a wave of new investment and international interest in Canada's agricultural potential, just as extending these same institutions and rules to our natural resources has done.

But much remains to be done. Canada is a low cost hog producer – we can produce at about $40 per hundredweight. Pork sells in China for $80 and Japan for $125, while the cost of transport to get it there is about $11. That is a graphic illustration of how the failure to connect our agricultural markets to the institutions and rules I've talked about, such as freedom to trade, respect of private property, allowing price signals and real opportunities to guide our capital investments and so forth has stunted our growth and impeded the progress of our rural communities.

While I congratulate James Rajotte and his government for the new freedom for grain farmers, I would remind him that there is much left to be done, including via free trade negotiations, to free the potential of the west's agricultural sector, which is operating well below its potential.

Finally let me just dwell on the notion of free trade for a moment to say this: Canada is the luckiest country in the world not just in its endowment of resources and its endowment of institutions, but in its endowment of neighbours. There is no other country in the world that I would rather have next door to me than the United States of America, which has been a force for good, for freedom, and for progress and whose best days lie ahead of it and not behind it. We are two of a tiny band of countries that share the same institutional endowment which is the foundation stone of our respective national successes. And Canada has increasingly opened itself to integration with the US economy and to sharing our resources and our productive capacity in the interest of our shared prosperity.

But Canada and the west in particular increasingly have choices. It used to be that 80 % of our exports went to the US. It is now down to 65% or so. The US is growing slowly, whereas China, India and many developing markets are growing faster. Our first choice is always to do business with our partners and neighbours, but we have in recent years suffered significant reverses in our relations with you, whether the Western hemisphere Travel Initiative, Buy America, the Keystone XL pipeline decision or many others.

In an increasingly free-trading world it would be a grievous mistake for America to think that Canada does not have many more choices than ever before so I think it is more than time that we take a look at broadening and deepening that relationship to ensure that North American integration remains a source of harmony and amity rather than of discord and strife. This is no time to take your best friend for granted.

To sum up: Canada has what the world wants, not just in our resources, but in the society and institutions that make their stable, safe, and reliable production possible, and in the people whose energy and intelligence have been so good at taking nature's endowment and turning it into products that enrich the lives of people all over the world. These are the lessons I commend to you from the second rise of the last best west.

Thank you.