

Major new report unpacks facts and myths about economic diversification in Canada

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CALGARY - With the Alberta economy in recession, cries for a more “diversified economy” are being heard across Alberta, and Canada. Will greater diversification benefit our economy? While many think it will, few are explicit about what they mean by diversification or what an “ideal” level would be. Billions of public dollars are invested in pursuit of economic diversification, which makes it a serious policy issue.

In a new report released today by co-authors Robert Mansell and Trevor Tombe and published by The School of Public Policy, the authors present a surprising and counter-intuitive picture of diversification in Canada and its provinces.

According to Mansell and Tombe, “There are many ways to measure diversification in Canada, and each measure tells a different story. Canada’s GDP and employment, for example, are more diverse than many other countries, including the U.S. Employment is also more diversified today than at any point in its recent history, even in resource-rich provinces. Perhaps surprisingly, Alberta and Saskatchewan lead the country in employment diversity. Even accounting for non-resource jobs that are indirectly linked to resources does not reveal resource-rich provinces to be less diverse than others.”

But does diversification even matter? Economists, for centuries, have found gains when industry specializes in areas where they have a comparative advantage. Subsidizing certain selected industries risks causing economic damage by displacing workers and investment from more valuable uses. Policy-makers should therefore focus on neutral policies: Create a favorable investment climate, facilitate adjustment and re-training as well as encourage savings (including by government).

At the end of the day, responsible governments must define their objectives clearly, and recognize the costs of policies meant to achieve those objectives. We cannot hope to have a sensible debate on economic policy without full and complete information. If it matters, measure it.

The report can be found online at www.policyschool.ca/publications/

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