

## The (Post) Staples Economy and the (Post) Staples State in Historical Perspective

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### Introduction

This article examines the evolution of the contemporary staples state. There are two forms of competitive states that are relevant to a discussion of the Canadian (post) staples state: the Schumpeterian and Ricardian competitive states. The importance of the Schumpeterian competitive state is the focus of Jessop's (2002a) *The Future of the Capitalist State*. The Ricardian competitive state receives only a passing reference (one paragraph). However, its characteristics lead to the argument that it in fact describes the contemporary staples states that continues to flourish throughout many parts of Canada. Below, we describe these two images of the competitive state and their relation to the Canadian staples context.

The article first outlines the economic importance of contemporary staples production at both the national and provincial level. The next section chronologically defines the staples state in relationship with popular characterizations of from its pre-20<sup>th</sup> century form to the present competitive state. The third section discusses the importance of governance and the forms of coordination within competitive states.

### Contemporary Staples Economies

Originally, the staples thesis set out an export led model of economic growth and attempted to show how regional natural resource endowments led to the autonomous demands for and dependence upon exports, their spreading effects (linkages) to the rest of the economy, and to technological changes. The Staples approach was developed primarily by Canadian economists and historians whose works are rooted firmly in the historical examination of the development of the Canadian economy. They describe the effects of this development on Canadian social and political life. The school derives its name from the emphasis on staples industries, which, following Gordon Bertram, are defined as those industries 'based on agriculture and extractive resources, not requiring elaborate processing and finding a large portion of their market in international trade' (1967, p. 75). Staples theorists view Canadian political economy as having been shaped by the export of successive staples over the course of Canadian history from the earliest colonial times to the modern era.

The staples approach has its origins in research into Canadian social, political, and economic history carried out in Canadian universities, roughly between 1920 and 1940, by members of what were then known as departments of political economy. The two most prominent scholars following this approach were Harold Innis and W.A. Mackintosh. But numerous other scholars during the same era arrived at similar conclusions regarding the significance of the resource industries and their impact on Canadian settlement (Fay, 1934). These included, most notably, Arthur Lower, a Queen's University historian; S.A. Saunders, a Dalhousie University historian; and Donald G. Creighton, a University of Toronto historian, as well as others scattered across the country. Lower (1938) explored the origins and impact of the lumber industry on Canadian development, while Creighton (1937) adopted several staples tenets in developing his 'Laurentian thesis' of Canadian history (Berger, 1976). Saunders

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examined the development of the Maritime provinces using a staples framework (Saunders, 1939).

Enough scholars were working in a similar vein by the mid-1930s to allow the publication between 1934 and 1938 of a nine-volume *Frontiers of Settlement* series on the history of Canadian economic, political, and social development. This series of books contains some of the finest writings in this tradition, including submissions from Lower (1938), Innis and Lower (1936), Mackintosh (1934), and Morton (1938). In 1939, major submissions by Saunders and Mackintosh to the Royal Commission on Dominion-Provincial Relations (the Rowell-Sirois Commission) presented the development of the Canadian economy in staple terms, and in 1941 V.W. Bladen (1943) relied on a staples framework to write the first textbook on Canadian political economy.

Harold Innis, an economist at the University of Toronto and one-time head of the American Economics Association, wrote a series of books from the 1920s to the 1940s discussing the significance of various early resource industries to the development of different parts of Canada. These included the classic works *A History of the Canadian Pacific Railway* (1923), *The Fur Trade in Canada* (1930), and *The Cod Fisheries* (1940) as well as numerous essays and edited works on related topics.

Innis argues that the political economy of Canada was shaped by the successive concentration on exports of cod, fur, lumber (and pulp and paper), agricultural products (principally wheat), and minerals, which all went to the metropolitan economies of Europe and later the United States. As Innis summarized his staples thesis:

The economic history of Canada has been dominated by the discrepancy between the centre and the margin of western civilization. Energy has been directed toward the exploitation of staple products and the tendency has been cumulative. The raw material supplied to the mother country stimulated manufacturers of the finished product and also of the product which were in demand in the colony. Large-scale production of raw materials was encouraged by improvement of technique of production, of marketing, and of transport as well as by improvement in the manufacture of the finished product . . . . Agriculture, industry, transportation, trade, finance, and governmental activities tend to become subordinate to the production of the staple for a highly specialized manufacturing community. (1956, p. 385)

Innis argued that Canada's export of staples products in unprocessed or semiprocessed forms was necessitated by the lack of technological capability to process them within the country and that exports were also essential to supporting the improved living conditions that had brought Europeans to Canada in the first place. The exportation of staples and the importation of consumer goods, while satisfying the needs of the immigrants, primarily benefited the interests of the industrialized nations, which secured a cheap and reliable supply of raw materials. The domestic commercial interests involved in the movement and financing of the export-import trade also benefited in the process.

With the passage of time, Innis argued, increasingly larger local resources had to be devoted to resource exports, which exacerbated the staples-orientation of the political economy. The railways built to transport wheat and lumber could not pay for themselves, which made it necessary to export pulp, paper, and minerals to take advantage of the railway's unused capacity (Innis, 1956). The increasing dependence on staples correspondingly widened Canada's technological backwardness, which only deepened the country's dependence on unprocessed or semiprocessed raw materials. This was different from the situation in the United States, where a less harsh geography and a larger population enabled the economy to depend less on staples exports and to develop

both a large and prosperous agriculture sector capable of supporting a large domestic population and an industrial sector to serve the growing domestic market.

Climatic and topographical difficulties prevented Canada from undergoing a similar process of development, and the resulting dependence on staples exports, according to Innis, doomed Canada's chances of developing a domestic industrial base. Reliance on staples exports necessitated increasingly large investments in building a transportation infrastructure. The heavy debt-servicing charges that such investments involved diverted funds away from other areas of the economy, including manufacturing. The dependence on staples export also increasingly exposed the Canadian economy to the vagaries of international commodity markets, which tend to witness violent fluctuations as new capacity comes onstream in different countries, lowering world prices until world demand catches up with global supplies and prices rise accordingly. The 'cumulative' impact of all this, according to Innis, was that the Canadian economy became caught in what Mel Watkins (1963) would later call a 'staples trap.' This form of economic life could provide relatively high standards of living to citizens of exporting countries, but only as long as domestic resource supplies and world demand remained constant or increased. Any declines in demand or increases in supplies would have drastic consequences for the domestic political economy, which would be poorly placed to respond to the challenge of finding a new economic base. As a result, Innis and most staples political economists following his lead were pessimistic about Canada's future as a reasonably wealthy 'developed' country.

After slowing down during World War II, more work in the staple tradition emerged following the war. These included works by Vernon Fowke (1946) and Kenneth Buckley (1958), which both follow Mackintosh's line of reasoning. Both point out the tremendous economic spinoffs to the Canadian economy that had accrued as a result of booming wheat exports between the 1890s and 1920s. They argued that a large proportion of the benefits did not flow to the Western wheat producers but to Canadian manufacturers, most of them located in Central Canada.

By the 1950s many different aspects of Canada's resource-dependent economy were being investigated (Easterbrook, 1959), including the impact on provincial development (Dales, 1957) and the impact of U.S. investment in key industries (Aitkin et al., 1959; Aitkin, 1961). The high point in the staples analysis in a practical political sense was no doubt in the late 1950s when the Royal Commission on Canada's Economic Prospects (the Gordon Commission) focused its efforts on planning for and controlling the various effects on Canadian society of resource-led economic growth (Canada, Royal Commission on Canada's Economic Prospects, 1957).

Shortly thereafter, the staples thesis received its clearest formulation in Watkins's staple theory of economic growth. Watkins makes it clear that the staples approach applies only to 'new' countries, such as those in North and South America, Australia, and New Zealand. The distinguishing feature of these nations is their favourable ratio of natural resources (staples) to labour and capital. It is obvious from this that staples necessarily form the cornerstone of their economies.

The limited . . . domestic market, and the factor proportion--an abundance of land relative to labour and capital--create a comparative advantage in resource-intensive exports, or staples. Economic development will be process of diversification around an export base. The central concept of a staple theory, therefore, is the spread effects of the export sector, that is the impact of export activity on domestic economy and society. (Watkins, 1963, pp. 53-4)

The extent to which the spread effects are realized depends on three kinds of

'linkages' in the export of particular staples: 'backward linkage, forward linkage, and final demand linkage' (ibid., p. 55). The forward linkage involves investments in further processing of the staples, such as lumber into pulp and preferably paper. The backward linkage involves investments in production of the inputs required by the staples sector, such as railways to move wheat or machinery used in mining and logging. The final demand linkage is created by the expenditure of incomes generated in the production and export of staples; it exists to the extent that those incomes are used to invest in manufacturing of the goods consumed in the home country.

The establishment of these three linkages cannot be taken for granted. Much depends on the nature of the staple itself. Cod fishing afforded few linkages, because at the end of the season the fishermen tended to return to their homeland after they had caught and cured their fish; they didn't invest in backward or forward industries. Wheat, in contrast, attracted permanent immigrants who established, for example, an agricultural machinery industry (backward linkage) as well as food milling, processing, and preserving industries (forward linkage). Wheat production also automatically led to some degree of final demand linkage as industries were established to supply basic needs such as clothes, shoes, and toiletries to farmers and other members of the agricultural community.

The importance of final demand linkage is clearly the greatest if the economy is to diversify. But the full realization of this linkage remains elusive if the staples exports are in the hands of foreign investors who siphon off their profits to their home countries, leaving little behind to invest in local manufacturing. Besides, it is easier and more profitable for foreigners to supply manufactured goods to the local economy from their home country, thus making profits in both the export of staples and the import of manufactured goods. The most significant problem, however, is that staples dependence fosters an 'export mentality, resulting in an overconcentration of resources in the export sector and a reluctance to promote domestic development' (Watkins, 1963, p. 62). If this happens the economy is caught in the 'staples trap'; it becomes dependent on the economies that receive its imports and supply its manufactured goods. Towards the end of his article, however, Watkins indicated that he was optimistic that eliminating the 'inhibiting export mentality' is within the means of policy-makers.

Ultimately, following Gordon Laxer, we can identify four main 'analytical assumptions of the staples school' (Laxer, 1989b, pp. 180-181). First, staples theorists believe that the key to understanding Canadian history is to discover the export commodity that the economy depends on. They argue that the Canadian state and Canadian capital devote themselves singlemindedly to discovering and extracting bulk resource commodities or staples that have a ready export market. The money thus derived is used to pay wages to Canadian workers and finance imports of goods demanded by Canadian consumers. Canadian economic growth, then, is intimately linked to the demand for staples in the industrialized nations, and this demand has shaped economic development in Canada: any shift in demand for the staple in question, while inconsequential for the importing country, has a pervasive impact on the local economy, which is dependent on its export. An example is the fading away for the fashion in beaver-felt hats in Europe, which had a serious, debilitating effect on the early nineteenth-century Canadian economy, which was almost completely dependent on the export of furs (Innis, 1956).

Second, staples political economists argue that Canadian political life is heavily influenced by the country's staple export-dependent economy because economic wealth and political power are concentrated in Canadian business and political elites--often the same people--who act as the instruments of interests in the industrialized countries importing the staples. According to this idea, the Canadian business community has been

more interested in promoting continued and expanded staples-resource exports than in acting as entrepreneurs developing an industrialized Canadian manufacturing economy.

Third, the staples school emphasizes history as a key to understanding the Canadian political economy. A study of the actual history of Canadian economic development enables these scholars to overcome the limitations of other models developed to understand the industrialized economies of Europe. They clearly understand that Canada and many other 'new world' economies have unique features that the most traditional theories cannot account for.

Fourth, analysts in this school argue that the need to overcome geographical impediments to the expansion of staples exports helps explain the state's role in a staples-dependent market economy. They argue that confronting the harshness of the Canadian terrain and the physical distances that had to be traversed to get staples from the hinterland to ocean loading ports required large capital expenditures on transportation and communications infrastructure, which Canadian business could not afford to make. Instead, projects such as canals and river improvements, railway construction, and the establishment of telephone, electrical, and airline systems were all undertaken by the Canadian state.

### **The Post-Staples Thesis**

The prevailing view of Canada's economy, as well as some provincial economies, is that a shift from dependence on staples production began in the 1960s, leading to the emergence of a new form of political economy. Exactly what this political economy is, however, remains uncertain and controversial. One view, suggested by Thomas Hutton (1994) in his work on the development of the British Columbia political economy was that there were signs in some regions of the emergence of a "post-staple" based economy and with it, new forms of governance. Differentiating a 'post-staples' political economy from a 'mature' staples one, Hutton argued that substantial natural resource depletion, increasingly capital and technological intensive resource extraction from lower-cost staple regions, and the transformation from pure extraction to increased refining and secondary processing of resource commodities were characteristic of a mature staples environment. If these changes persisted, he argued, a sectoral shift from natural resources to the service sector, and from periphery to centre, as the focus of economic growth could occur, ushering a new 'post-staples' political economy. Similar observations about the evolution of British Columbia's forest economy were made by Barnes, Hayter and their colleagues (Barnes and Hayter 1997), (Hayter 2000).

### **The Empirical Situation**

Table 1 below supports the argument that Canada's resources are declining in their overall national economic importance. Less than 7% of Canada's workforce is employed in natural resource sectors and they contribute to less than 13% of national GDP despite the fact that Canadian exports of resources more than doubled between 1990-2001, growing from \$72.0 billion to \$167.5 billion or annual rate of growth of just under 8.0 per cent for the period (Department of Foreign Affairs and International Trade 2003). However, this resource-based growth rate was less than the 10.7% average annual rate recorded by non-resource exports, which increased from \$76.9 billion to \$234.8 billion (Department of Foreign Affairs and International Trade 2003).

*Table 1. Economic indicators for Canada's natural resource sectors*

<b>Year (2002)</b>	<b>Forestry</b>	<b>Minerals</b>	<b>Energy</b>	<b>Total Natural Resources</b>	<b>Canada</b>
Gross Domestic Product (\$ billions)	\$29.9 (2.8%)	\$38.1 (3.6%)	\$65.3 (6.2%)	\$133.3 (12.7%)	\$1050.9 (100%)
Direct employment (thousands of people)	361 (2.3%)	355 (2.3%)	225 (1.5%)	941 (6.1%)	15411 (100%)
New capital investments (\$ billions)	\$2.7 (1.3%)	\$4.5 (2.2%)	\$38.2 (18.6%)	\$45.4 (22.1%)	\$205.3 (100%)
Trade (\$ billions)	\$43.1 (11.8%)	\$47.7 (13.1%)	\$49.7 (13.6%)	\$140.5 (38.5%)	\$365.1 (100%)
○ <b>Domestic Exports</b> (excluding re-exports)					
○ Imports	\$10.5 (3.0%)	\$47.2 (13.5%)	\$17.3 (5.0%)	\$75.0 (21.5%)	\$348.4 (100%)
○ Balance of trade (including re-exports)	+\$32.6	+\$1.9	+\$33.2	+\$67.7	+\$47.9

Source: Natural Resources Canada (2003)

A provincial consideration of natural resource related trade—the heart of staples based research-- reveals a greater dependence on the natural resources sector. The role of resources in the various provinces is best demonstrated by two sets of statistics in Table 2. The first, revealed comparative advantage, shows the ratio of the provincial share in resources trade to the national share of resources in total trade. If this statistic is greater than one, then the province trades relatively more in natural resources than it does for all other commodities. Conversely, if the ratio is less than one, resources are less important for their overall scheme of provincial trade. The second set of statistics is a dependency ratio that shows the share of natural resources in total provincial trade. This statistic indicates that trade in resources accounts for a certain percentage of total provincial trade. Both Ontario and Quebec had revealed comparative advantage scores less than one (0.46 and 0.99 respectively) and an export dependency less than 40% (18.6% and 39.99% respectively).

Table 2. The role of resources in provincial exports: 1997-2001 averages

	Revealed comparative advantage	Export dependency
British Columbia	1.87	75.87
Alberta	1.97	79.95
Saskatchewan	2.19	88.56
Manitoba	1.42	57.41
Ontario	0.46	18.60
Quebec	0.99	39.99
New Brunswick	2.24	90.60
Nova Scotia	1.59	64.30
Prince Edward Island	1.94	78.76
Newfoundland & Labrador	2.38	96.48
Yukon	2.13	86.20
Northwest Territories	2.45	99.08
Nunavut	2.46	99.64

Source: Department of Foreign Affairs and International Trade 2003

High revealed comparative advantage and export dependencies were evident in nearly all provinces and territories. In the case of the Prairie provinces, both Alberta and Saskatchewan are highly dependent upon natural resource sectors. Their sources of dependency are highly differentiated. The oil and gas sector dominates Alberta's natural resource sector while agriculture is the leading sector in Saskatchewan. Manitoba, on the other hand, has a comparatively diversified economy and diversified natural resource sector. While Manitoba is still dependent on natural resources, their economy includes strengths in agriculture, forestry, mining, and hydropower. Furthermore, Manitoba is a crucial transportation hub. As a consequence, transportation, an indirect but important staple related service sector plays an important role in Manitoba's economy (4.7% of GDP and 20% of foreign based commodity exports) (Manitoba 2004). The variety of economic compositions and natural resource endowments in the three Prairie provinces suggests that state responses will also differ. The most surprising statistic was the results for British Columbia that revealed high comparative advantage (1.87) and (75.87) export dependency scores. However, as argued earlier, the province's transformation to a post-staples economy should suggest lower scores. Recently, *The Economist* reported that the natural resource "sunset" had "given way to a new dawn" and driving a revival in the Province's economy (2005).

### Defining the Staples State

Conceptualizing the capitalist state's evolution is a critical starting point to developing an understanding of the evolution of Canada's overall and regional political economies. The evolution of the state in Canada has moved through four generalized forms as staples production has advanced (Table 3): the minimalist state, the emergent state, the Keynesian welfare state, and the competitive state.

#### *Minimalist State*

The pre-20<sup>th</sup> century period defined the classic staples political economy in which state involvement was sparse to non-existent in nearly all staples-based sectors.

Conversely, staples defined Canada's overall economic growth (Hessing and Howlett 1997). The state and its actions revolved around the facilitation or impacts on resource development for colonial or mercantilist interests. For example, the impact of a particular colonial policy decision, such the 1831 *Colonial Trade Act* or the 1854 Reciprocity Treaty defined the extent of state involvement. In *The Fur Trade in Canada: An Introduction to Canadian Economic History*, Innis (1930) stated that the administration of the early fur industry revolved around the interaction of two large mercantilist companies and their officials, namely the Northwest and the Hudson's Bay Companies, with the early traders. He notes that "[I]t was significant, however, that business organization was of vital importance [to the development of Canada's fur trade]" (Innis 1930 p.387). In the conclusion, Innis does acknowledge the staple related business linkages with early Canadian state: "The lords of the lakes and forests have passed away but their work will endure in the boundaries of the Dominion of Canada and in Canadian institutional life" (Innis 1930 p.393).

Similarly, in the forest sector, the Department of the Interior's Dominion Forestry branch, the precursor of today's Canadian Forest Service was established in 1899. However, rapid commercial timber harvesting had been underway and proceeded unabated for nearly a century prior, particularly during the early 1800s.<sup>1</sup> In eastern Canada, concern over the depletion of forested lands, precipitated calls for timber regulations (Ontario 1893). The Forestry branch was charged with the monumental task of the "protection of standing forests on Dominion lands" (Canada 1918). In western Canada, the Forestry branch reported that in 1918 it employed 562 members of which only 44 were "technically trained foresters" (Canada 1918). The Commission (1918) also highlighted the challenges of forest administration.

In the early stages, forest matters were dealt with by the officials of the Department of Lands. The work centred chiefly in Vancouver, at the office of the timbers inspectors. A forest ranger with a launch patrolled the 700 miles of coast-line between Vancouver and Prince Rupert. The forests of the interior country were administered by collectors, who paid occasional visits in quest of royalty due from operators who had cut Crown timber. In those days, even though logging operations were conducted on a small scale, this slender staff was unable to cope with the situation effectively (p115).

Prior to World War I, state involvement by either level of government in forest matters was very limited. A newly emerging cadre of forest professionals first seriously raised the concerns about the depletion of forests--at the 1906 Canadian Forest Convention in Montreal and the 1909 North America Conservation Conference (Burton 1972). State involvement within the natural resource sector was very limited. The state's focus during the latter half of the 19<sup>th</sup> century was the expansion and settlement of Canada's hinterland (e.g. construction of the CPR railway).

#### *Emergent State and New Industrialism: The Staples State's Golden Era*

The minimal state can be contrasted with the emergent industrialized capitalist state (1900-1945) and the growth of a "new generation of staples," particularly the expansion of prairie based agriculture development, but also the development of the pulp and paper industry, efforts at oil & gas extraction, and the foundation of the hydro-electric industry. The role of the state in staples productions in all provinces and all sectors was rapidly developed during this period - which Nelles (1974) refers to the "new industrialism." One of the driving factors behind economic growth was a booming population as a result of the Federal government's immigration policy.<sup>2</sup>

Accompanying the demographic and economic expansion of the agriculture sector was increased political activity in the form of protest movements. This emergence



was most profoundly shown by the formation of the agricultural cooperative movements as well as many of the Prairie agricultural organizations, such as the Manitoba Grain Growers' Association and the Alberta Farmers' Association, some of which continue to be in operation today. The initial early 20<sup>th</sup> century struggles by farmers to form agriculture cooperatives underlies long-standing history of the political and policy interaction between farmer-based organizations and the state. The growth of organizational activity on the Prairies outlined the importance of organizations in developing early agricultural policies. The role of producer-based groups continues to dominate current agricultural policy making.

Whereas the issue of marketing and prices dominated the early 20<sup>th</sup> century agriculture sector, conservation came to the forefront of the burgeoning Canadian forest sector and was the reason for the rise in the “emerging state.” Forest related industrial, particularly after World War I, was spectacular. Between 1918 and 1922 pulpwood production quadrupled and there were over 300 pulp mills established throughout Canada. In response to this economic growth, the 1924 Royal Commission on Pulpwood found that many tracts of lands in the western provinces had been cut over (Howlett 2001). The push for conservation-oriented policies was a predominant concern among civil servants within the Dominion Forest Branch (Gillis and Roach 1986). This matter also resonated from within newly formed prairie Provincial departments of forests that were established as a result of the 1930 *Natural Resources Transfer Agreement* that transferred the ownership of resource rights from the Dominion government to the Provinces. The prominence of provincial forestry responsibilities and the concern over the long-term sustained timber yields signaled the beginning of extensive state involvement throughout the Canadian forest sector. Within the mining sector scientific management, business, and liberalism heavily influenced the political culture of public and private organizations in the early 20<sup>th</sup> century.

A notable aspect of this period is the number institutional and structural outcomes and developments that continue to influence natural resources sectors today. In forestry, for example, an initial event, namely the transfer of forested Crown lands to provincial governments, eventually led to creation of large-scale industrial tenure arrangements. Such path dependencies (Goldstone 1998) are exhibited across all natural resource sectors and continue to shape the state's response to the challenges of Canada's primary industries.

### **The Keynesian Welfare State**

The 1946 to 1990 period marks a declining period of the Canadian staples political economy. During the previous “emerging state” periods staples activities were defined along the lines of the classic staples core-periphery relationship which Innis and other staples theorists focused upon. This uneven relationship was built on the extraction of staples and their transportation to the centre for processing. Periphery based producers then purchased capital from the centre. This unequal relationship produced the rise of Prairie political protest movement in the early part of the 20<sup>th</sup> century chronicled in such seminal works such as CB McPherson's 1953 *Democracy in Alberta*.

During the KWS period, the relationship between the core and periphery changed (Gilpin 1974).<sup>3</sup> The periphery retained and attempted to foster industrial growth. Provincial states developed strategies and ambitions of their own (Gilpin 1974; Pratt 1977; Cairns 1988). Conversely, economic activity was no longer linked to the domestic centres for financial and other service related sectors (Krugman 1991). Between 1940 and 1994, the percentage of Canadian exports to the U.S. increased from 41.1% to 81.4%. However, the growths in exports (both in total dollar value and a percentage of exports)

were for manufactured goods. This period marked the debate regarding Canada's branch plant relationship with the U.S (Levitt 1970; Watkins 1970).

In the area of staples dependence, Provincial and Federal governments made concerted efforts to overcome a common problem, namely the "staples trap." Staples dependence, it is argued, could over a long period of time to well-established investment and market patterns (path dependencies) that are difficult to change (Marchak 1983). In some cases, regional decision-makers can become 'addicted' to resource extraction with little opportunity to escape (Freudenberg 1992).

According to Marchak (1983), escape from the staple's trap can take a number of different forms and ational and Provincial governments during the KWS period pursued three notable strategies. The first strategy was to do nothing, or rather to simply continue historical resource exploitation patterns, which led to resource exhaustion and permanent underdevelopment. Such a strategy was undertaken in Atlantic Canada leading to the exhaustion of its key resources such as the fisheries and coal, and the subsequent decline of its economy (OECD 2002).

The second strategy was promoting a new or existing staples base. The use of national a flow-through share program that allows a company to flow a 100 % tax deduction for the cost of eligible exploration expenses, is an example of a state subsidy to this sector. Urquhart and Pratt (1994) similarly chronicled the Province of Alberta's role in expanding its forest sector through the use of generous government land tenure arrangements and favourable loans to multinational forestry corporations.

The third and most prevalent strategy during the KWS period was the strategy of diversification in resource dependent regions. This strategy has, for a number of decades, been an ongoing policy direction of both the federal and provincial governments. For example, Pearson government established the Department of Regional Economic Expansion (DREE) and the Department of Regional Industrial Expansion (DRIE).

The Mulroney Conservative government began to gradually reduce the level of industrial incentives and began to promote a knowledge based industrial strategy coupled with an emphasis on Free Trade (Doern and Phidd 1992). Federal agencies such as the Atlantic Canada Opportunities Agency (ACOA) and Western Economic Diversification (WED) remained in order to tap into "insufficiently exploited local competitive advantages" but were a shadow of previous attempts to enhance regional development (OECD 2002). The shift to efforts to promote a knowledge based economy marked the beginning of the emergence of the competitive state in Canada.

### **The Competitive State: A Reconsideration of the Staples State in the Contemporary Era**

Jessop (2002a 2002b) argues that since the early 1970s the post-war Keynesian welfare state has been destabilized by crisis and in decline. In its place has emerged the Schumpeterian (name after the Austrian political economist Joseph Schumpeter) competition state. The 'generalized' Schumpeterian competition state's orientation is "the concern with innovation, competitiveness and entrepreneurship tied to long waves of growth and pressures for perpetual innovation" (Jessop 2002a). Such a state must facilitate one of the key features of nearly all capitalist economies, the transformation from an industrial or commodities-based economy to one based on knowledge.

Some of the key characteristics of the Schumpeterian competition state include, changing regulatory frameworks to facilitate market flexibility and mobility, the liberalization and deregulation of foreign exchange (that will facilitate the internationalization and acceleration of capital flows), modifying institutional frameworks for international trade (the harmonization of technological, economic,

juridicopolitical, sociocultural and environmental issues), promoting national-level industries and their ‘global spread’, and engaging in place-based competition in an attempt to fix mobile capital within the state’s own economic spaces and thereby enhancing interurban, interregional, or international competitiveness (Jessop 2002a). Hutton (1994) also discusses the growing importance of transnational urbanism as the leading agency of economic growth and change and the movement away from a policy emphasis on resource development. While Jessop dedicates most of his discussion to the Schumpeterian competition state, he does highlight other forms of competition that may lead to other forms of political action. The competitive state directly linked to staples production is the Ricardian competitive state.

The ‘Ricardian’ (coined after the British Economist, David Ricardo) competition state stresses the importance of a comparative advantage and/or relative prices (Jessop 2002). Such competitiveness depends on exploiting the most abundant and cheapest factors of production in a given economy and exchanging products embodying these factors for products from other spaces with different factor endowments. Ricardian competitiveness depends on a static or stable level of efficiency in the allocation of resources to minimize production cost with a given technical division of labour and on the assumption that current economic conditions will continue (Oser and Blanchfield 1975). The importance of natural resources to nearly all of Canada’s provinces (Table 2 above) means that some provincial states will continue to promote their natural resources (abundant factors of production) and will take on this Ricardian state form.

This discussion of the Ricardian and Schumpeterian competitive states raises further questions about the role of natural resources and the state in the contemporary Canadian political economy. It must be noted that all Ricardian states will attempt to pursue Schumpeterian competition strategies. Future research will be required to determine what mix of the two strategies result in defining what is Ricardian (mature staples) state and what is a Schumpeterian (post-staples) state.

## **Conclusion**

This article sought to reconsider the recent trend of a shift from the staples state to a “post” staples state. This shift has many valid merits. As Hutton (1994) discusses, natural resources within some provinces face widespread resource depletion, the competition from lower cost staple regions, regional market (ie Pacific Rim) integration, and growth of city-regions. This may be the case for Canada as a whole and in provinces such as British Columbia, Ontario and Quebec. However, many provincial and territories continue to remain staples dependent.

Throughout Canada’s history, the match between the staples political economy and a generalized state type has been uneven. Until the dawn of the 20th century state involvement was minimal. However, the emergent state represented the golden age of the staples state. During this period, Canada’s economy centred on natural resource exploitation and the state facilitated its growth and expansion. This contrasts with the shift to the Keynesian welfare state’s (KWS) strategy of increasing industrial capacity and providing a social safety net for workers. As the KWS has declined, the competitive state has emerged. This state is involved both in the trend towards new post-staples economies and as well as in the perpetuation of staples dependent trajectories in some provinces and regions. Whereas the Schumpeterian states stress the importance of knowledge and innovation in developing new industries to augment or replace staples-dependent ones, the Ricardian state relies on continuing to exploit resources based upon their comparative advantage.

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## ENDNOTES

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1 British placed heavy tariffs on Baltic and American timber in favour of Canadian timber (Marr and Paterson 1980).

2 Canada's net migration increased in the 1901-11, 1911-21, and 1921-31 periods by 716,000, 232,000, and 229,000 respectively (Marr and Paterson 1980). The influx of immigrants is largely attributed to the Prairie wheat boom, which saw the increase of populations (Marr and Paterson 1980). That is, Manitoba's population increased from 152,506 to 461,394 between 1891 to 1911; Saskatchewan's grew from 91,279 to 492,432 between 1901 and 1911; and Alberta's grew from 73,022 in 1901 to 374,295 in 1911 (Innis 1943). Attracted to free or inexpensive landholdings, the area of Prairie land in farm holdings grew from 5.9% in 1881 to 52.9% in 1911. By 1971, this rate was 78.7% and by 2001, 81.4% (Statistics Canada 1995).

3 There is ample scholarly analysis and debate of the KWS and its subsequent crisis (See Crozier et al 1975; Gough 1979; Offe 1984; Esping-Andersen 1990 for extensive overviews of the welfare state).