

Canada's resource economy

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From the beginning, resource activities defined Canada's global role. As Glen Norcliffe's original and perceptive paper observes, John Cabot's discovery of Newfoundland began a relentless, albeit uneven pattern of resource exploitation of Canada designed to serve the metropolitan markets of the world. This early European maritime contact supported small, vulnerable, and dispersed settlements on Canada's eastern shores. As Innis (1930) documented, the east-west extension of these maritime contacts, through the sinewy tentacles of the fur trade via rivers, lakes, and portage geographically defined the future Canada, and its relation to the rest of the world.

The purpose of our paper is to fill out Cabot's story, and more generally the issues of staples, environment and globalization, that are the focus of the first of Norcliffe's sketches. In doing so, we do not intend to derogate the significance of his other four vignettes. To different degrees, they also enter our account, especially the continentalism associated with C.D. Howe. We emphasize staples for four reasons. They fundamentally and indelibly stamp Canada from its very beginning as a particular kind of European geographical invention, shaped by its historical relationship to Europe, and later by extension to the rest of the world. They are, if not the basis of the Canadian ur-narrative, at least the equivalent to golden threads that stitch together the different stories about this country (and here we depart from Norcliffe's seeming belief that no one story is more important than another). They are the beginning point for one of the most distinctive theoretical contributions made to the social sciences by a Canadian,

Harold Innis's staples theory, which has provided a homegrown account of this country and its relationship to the rest of the world. Finally, they are the focus of our own substantive research interest, and in particular, the British Columbia forest industry, which we shall draw upon in this paper to provide illustrations.

The paper is divided into two main parts. The first outlines the general relationship between staples and industrialization in Canada by drawing upon Innis's work and that of later commentators. Two different models of resource development are discussed, entrepreneurial and plantation. An entrepreneurial model predicated upon small producers dominates early exploitation of resources in Canada. This emphasis changes from the 1920s, when increasingly larger firms (equivalent to the plantation system) become more prominent, until by the late 1940s, they dominate. Concomitantly, there are also shifts in Canada's major international markets that then redefine the country's global position. There is a move away from European links, particularly with Britain, towards continentalism, that is, a north-south integration with the United States. While there are public policy initiatives that favour this move, and that Norcliffe discusses with respect to C. D. Howe, continentalism is also pushed forward by the increasing corporatization and US foreign ownership of Canada's resource production under an economic regime known as Fordism. The paper's second section takes the story of Canadian staples into the late 20th century where continentalism, and its associated resource Fordism, is re-jigged in the face of sys-

tematic forces of globalization, and linked to both a new production and political regime, post-Fordism or flexible production, and a different kind of environmental ethic emphasizing sustainability and conservation. One consequence of this shift is that Canada's resource landscape becomes ever more differentiated against a global backdrop that is itself ever more chaotic.

Staples and industrialization in Canada: an Innisian perspective

As a starting Assistant Professor at the University of Toronto during the 1920s, Innis (1956) was appalled by the fact that prevailing economic theories of trade and development reflected conditions in core countries rather than in peripheral countries such as Canada. Not much has changed. The main economic geographical theories of industrialization and regional development are still rooted in the experience of (old or new) core regions. As a result, peripheries are theoretically as well as geographically marginalized. Yet, inherent to the core-periphery distinction is a fundamentally different political economy, one that in resource peripheries is dominated by the 'resource cycle,' and associated skewed industry mix (Clapp 1998).

Innis' (1930) response to the need for a 'local model' of Canada's unique economic history was the staples thesis (Barnes 1996, ch. 8). In this view, European settlement of Canada was motivated by the desire to export staples (raw materials and primary processed manufactures) to core countries. Development then occurs as a diversification process around staples through investments in the resulting industrial linkages.

But as Innisians emphasized, there is nothing automatic about such diversification. If it occurs, it is the consequence of a particular intertwining of the distinctive forces of geography, institutions, and technology (Hayter and Barnes 1990). In this 'Innisian triad,' Canada's geography is distinctive in terms of the peculiar nature of Canadian resource conditions (size, quality, accessibility), and in the particular core-periphery relations that have characterized the evolution of Canada's global role and its internal political economy. Canada's institutions are distinctive because of the unusually powerful role played by governments in economic development, for example, in financing infrastructure, and in reliance on large business organizations, especially foreign-owned business, itself a favoured goal of public policy.

Finally, technology is distinctive primarily because it comes from elsewhere, even when its developers are Canadian (which is the upshot of Norcliffe's story of Alexander Graham Bell). To a remarkable degree, Canada is dependent on its imports of technology (Britton and Gilmour 1978).

The diversification produced by different combinations of geographical, institutional, and technological characteristics also manifests itself as different regional staple trajectories over time. Such a theme is also picked up theoretically in Baldwin's (1956) Innis-inspired model of regional resource development. Baldwin contrasts two scenarios of export-based agricultural development in remote regions supplying industrial cores. One scenario involves a foreign-controlled plantation economy situated in a poor country with a substantial indigenous population, and the other scenario is an entrepreneurial-farmer economy created by settlers in an otherwise empty land. These scenarios represent a choice of alternative modes of production organization¹. For Baldwin, the point of the comparison is to reveal the superiority of the entrepreneurial model for local development. In this model, land use is allocated on the basis of economic principles without the constraints of traditional practice; infrastructure is provided as a public good; profits are applied locally in support of diversification; and, as a result, locally based entrepreneurs are more likely to create an egalitarian society capable of innovative, self-directed change. In contrast, the foreign-owned plantation operates as a high-profit enclave with very limited impacts on the general level of income throughout the region, even if wages are relatively high. Investment in infrastructure is available only to the plantation, the operations of which are tied closely to an international corporate system operated by distant decision-makers.

Whether organized around entrepreneurial or plantation models of development, Canadian resource development by its very nature necessarily depends upon a high degree of competitively priced exports. But given the nature of the resource cycle, to which all staples are necessarily subject, this development strategy always eventually fails. The problem is that the resource cycle is such that costs of production of staples will inevitably rise over time as resource stocks are depleted (even supposedly renewable ones). For resource exploitation always begins with the removal of the highest quality resources first, leaving higher cost, lower quality resources for later (Clapp 1998).

Concentrating on only resource production, then, ultimately bodes no good in the long run. Canada's seeming inability to wean itself from staples, especially the large-scale production of low-value unprocessed resource commodities, is the basis for claiming that the country is stuck in a 'staples trap' (Watkins 1963). Such an idea should not be dismissed as an old, radical notion, not to be taken seriously any more. A recent report sponsored by the BC Science Council (Ernst and Young 1998), and written on the behalf of business, concludes that the BC forest economy is in a 'commodity box.' Indeed, the falling Canadian dollar during the 1990s is partly explained by the view of the international financial community that Canada is still a supplier of resource commodities of declining value.

Fordism and Continentalism

In Canada, the entrepreneurial model reached its peak by the early decades of the 20th century, especially in agriculture, but also in fishing, logging, and saw milling. Increasingly, however, the principal staples of the 20th century, notably various kinds of minerals (such as coal, oil potash, uranium and iron ore) and pulp and paper, were developed according to the principles of the plantation model, that is, as branch plants of multinational corporations (MNCs). In addition, resources that were first developed along entrepreneurial lines were also integrated within corporate spheres of influence. Entrepreneurs never disappeared from the Canadian resource landscape, and Canadian-controlled resource MNCs also evolved alongside those controlled by non-Canadians. Nevertheless, the plantation model became the signature of Canadian resource development during much of the 20th century, especially in what is called the long wave period of Fordism, roughly from the 1920s to the 1970s.

Fordism is both a production system and a concomitant regulatory framework. While the principles of Fordist production are taken as general (for example, mass production, corporate organization, standardized products), it is usually thought that the regulatory framework reflects local-national contexts. As a result, there is not one Fordism, but many, each one associated with a particular country's history and politics. Jenson (1989) argues that the version of Fordism that best characterizes Canada is "permeable". It is one in which "since 1945 the Canadian economy has been permeated by international – or more exactly, continental – effects. Its Fordism was

designed domestically but always with an eye to the continental economy" (Jenson 1989, 78). Specifically, the continentalism that permeated Canada's particular brand of Fordism is defined by three distinct principles (Hayter 1992; Hayter and Holmes 1999): the political hegemony of the US; a commitment to free trade and the free flow of foreign direct investment (FDI); and a spatial division of labour in which Canada's role is to supply resources for processing in the US. While certainly geopolitical issues helped cement this continental relationship between Canada and the US, especially those around the Cold War (Clark-Jones 1987; Haglund 1989), it was also clearly an outcome of the very logic of Fordism as an industrial regime. Predicated upon mass production and mass markets, Fordism required unrestricted access to both resources and consumers, and Canada had ample supplies of both.

While during this Fordist period Canadian official government policy supported the multilateral free trade initiatives of the GATT (General Agreement of Tariffs and Trade), the practice of Canadian policy (as illustrated by the efforts of C.D. Howe in Norcliffe's paper, *this issue*), as well as key politicians, such as Lester Pearson, was to promote continentalism. Throughout the period, the Canadian government heavily subsidized infrastructure, charged low rents or royalties, and actively welcomed US FDI in exploiting resources on as large a scale as possible. With very few exceptions, such as log export restrictions first introduced in the late 19th century, Canadian governments neither restricted resource exports in favour of domestic processing, nor used Canada's vast resource wealth to foster indigenous technological capability (Britton and Gilmour 1978). The attempts to develop a more nationalist policy during the Trudeau years of the 1970s were too little and possibly too late. In any case, they were soon squashed by the Mulroney government's acceptance of continentalism, through initiation of the Canada-US Free Trade Agreement (CUFTA), and later North American Free Trade Agreement (NAFTA).

The 'turning gyre' of staple industries: continentalism revised

The Fordist boom of especially the 1950s and 1960s – the 'Golden Age' – brought massive resource expansion throughout Canada (Bradbury 1978). By the early 1970s, Canadian resource towns, which served as a lynchpin between the staple itself and interna-

tional markets, had achieved both stability and prosperity (they were 'mature' in Lucas's [1971] terms). Neither characteristic was to hold. Latent, structural problems found at the core of Fordism began manifesting themselves from the early 1970s, causing the wider system, including its geographical form, to unravel. Canadian resource industries, which were subject to high degrees of US foreign ownership and reliance on US export markets because of continentalism, were especially vulnerable to restructuring that included large-scale labour redundancy, and in extreme cases the abandonment of resource sites and associated investment infrastructure. Emerging out of such turbulence was a new kind of economic order defined by production flexibility, new relations around trade, and a different environmental sensibility affecting the very markets for staples. Such changes, in turn, reoriented Canada within the wider global system. Continentalism was still critical, although altered because of NAFTA, but now set within a more restless, interconnected, and economically enlarged world system.

Production Flexibility

Historically, the periodic restructuring or transformations of Canada's resource landscape are tied to the ebbs and flows of global industrialization (Hayter 2000, 6-7). A distinct feature of the recent restructuring of Fordist production structures is the shift towards more 'flexible' or 'post-Fordist' operating cultures (Holmes 1997). Moreover, among Canada's staples industries, the imperatives of flexibility necessarily must be largely sought *in situ*, that is, in places where resources already exist and continue to be exploited and processed. In contrast, the possibilities for opening up new 'spaces' for flexibility, such as off the Newfoundland coast, are much fewer than they were at the beginning of Fordism.

The idea of a flexible operating culture refers to a related set of changes around the organization of production and labour within a firm. Flexibility is itself an ambiguous term and can be interpreted as both a cost-minimizing strategy, still largely rooted in economies of scale, and a value-maximizing strategy based on economies of scope. Similarly, it can also mean 'intensifying' a workforce or enskilling workers. However defined, flexibility puts premium on the ability to adjust operations rapidly to changing conditions.

It is precisely an environment of changing conditions that defines the process of globalization, and

that Norcliffe describes so well. In this sense, flexibility was made for globalization. Within the resource sector, implementation of that flexibility has been sector-specific. It is now widely found within the forest products industry, although it has been more difficult to achieve *in situ* than at new sites. For example, compare the ease in which flexibility was instituted at the new newsprint mill at Whitecourt, Alberta (Preston *et al.* 1997), with the problems of its introduction at the existing paper mills at Powell River, Gatineau, and Corner Brook (Hayter 1997; Norcliffe and Bates 1997; Rose and Villemare 1997). At these existing mills, flexibility was negotiated with unions that were under no legal obligation to change existing contracts. The result at Powell River, at least, was a highly contentious and prolonged process of bargaining.

Flexibility once installed has led to some reshaping, at least around the edges, of the old Fordist version of continentalism, although again it has been selective. BC coastal mills since the early 1980s have been dramatically restructured along flexible lines in order both to reduce costs, but also to serve Asian, primarily Japanese, and European markets, rather than the traditional one south of the border (Edgington and Hayter 1997; Hayter and Barnes 1997; Reiffenstein 1999). Such changes, though, do nothing to address the continuing problems of the staples trap, and production of low-value added commodities.

NAFTA, trade, and continental politics

In the 1980s, the post-Fordist restructuring of Canada's resource industries was caught up in the process of negotiating the CUFTA and the NAFTA. Restructuring was to continue according to NAFTA's provisions, as well as associated US-inspired revisions to continentalism. The critical point is that these trade agreements with the US, even more than before, set the agenda of continentalism, thereby globally positioning Canada. The power of the US can be illustrated by the way in which Canadian goals regarding the CUFTA were changed by the experience of the lumber industry dispute (Hayter 1992). Initially, the Canadian government rationalized the CUFTA as a means to expand trade. Before it was signed, however, the US lumber lobby intimidated Canada into believing that the CUFTA would not be concluded unless there was a prior agreement restricting Canadian lumber exports to the US. Such a threat convinced the Canadian government of the

importance of incorporating both a trade-dispute mechanism within the CUFTA, and a changed rationalization couched now as a means to protect existing Canadian exports, rather than as a means to expand them.

But even Canada's ambition to defend existing trade proved futile. Again to use the example of lumber, in 1996 the US forced Canada into another restrictive quota export agreement (Hayter 2000). This agreement expires in 2001, and the US is arguing that the agreement will not be renewed unless Canadian forest policy is changed to allow privatization of forests and free markets in logs. After a hundred years, when Canadian governments first felt impelled to limit raw log exports to establish a basic commodity industry, log exports to the US could become an issue again.

Apart from lumber, US trade action since the CUFTA has been directed towards other resource activities, notably in agriculture, that compete with US interests. These actions are a reminder that continentalism is not simply about free trade. Rather, its first principle is US hegemony. US protectionism does not mean that the US is no longer interested in Canadian resources. Indeed, stimulated by the low value of the Canadian dollar, takeovers by US MNCs of Canadian resource companies continues and, emboldened by NAFTA, US interests are increasingly pressuring Canada to export water.

It might be expected that the difficulties in accessing US resource markets would encourage value-added shifts in Canada, including to other markets, such as Japan. While there is some evidence of such trends, as we noted above, there is also evidence that Canadian firms are more inclined to invest in value-added in the US in order to evade trade action directed at them. In this sense, continentalism is reasserting itself, albeit in a different form: it is now Canadian firms that are investing in the US (for further evidence see, Burgess 2000).

Environmentalism And First Nations

In the transformation from a Fordist past to a post-Fordist future, environmentalism, defined broadly as an attempt to reduce human impacts on the natural environment, has emerged at a global scale as a potent force. This conjunction is not coincidental. During Fordism, global industrial output reached unprecedented levels and, in Canada, the massive resource expansion of the Fordist boom assumed the pre-eminence of industrial values, with environmen-

tal considerations subordinate to the goals of economic growth. By the 1970s, however, there was growing recognition of the scale of environmental impacts generated by the mass production and consumption of the Fordist period. In response to growing public alarm, Canadian governments have introduced a plethora of policies to reduce pollution, maintain aesthetic values, and conserve surviving natural systems. Other developed countries have also taken similar measures.

The scope of these efforts is controversial, however, as witnessed in the high-profile environmental opposition to resource projects throughout Canada. In BC, for example, provincial governments have literally re-regulated the forest economy to meet environmental priorities (Hayter 2000). But their initiatives have been insufficient to placate a global environmentalism that continues to organize logging blockades, court actions, and consumer boycotts. Recently, it was also proposed that vast parts of BC should become conservation areas, notably the so-called Great Bear Rainforest and the Y2Y (Yellowstone to Yukon) eco-corridor. Ostensibly, the controversy centres on the meaning of 'old growth' forests, and their potential for harvesting. Industrial forestry has been considerably changed, but its future is uncertain (Hayter and Soye 1996). More broadly, the controversy illustrates the 'new' power of both domestic and international environmentalism, the implications of which, good and bad, will be a major force shaping Canada's resource map in the coming decades.

We should also note that the politics of environmentalism will be joined with the politics of aboriginalism in influencing Canadian resource trajectories (Hayter 2000, 33-34, 338-351). Such politics are again most pronounced in BC, where Aboriginal Peoples have claims covering the whole province. The strength of the aboriginal movement in BC reflects the failure to sign treaties. Demands for Aboriginal rights and title, however, are also strongly expressed in the Maritimes, Quebec, and Alberta. How this debate will unfold is uncertain. But it is clear that Aboriginal Peoples, who for various reasons were largely non-participants in Canada's resource developments since the fur trade, will have a greater impact in the future (Blomley and Pratt *this issue*; Harris and Peters *this issue*). At least in BC, the empty land assumption is no longer tenable (Hayter 2000, 34).

Conclusion

During the period of Fordism, there were powerful forces of standardization shaping the Canadian resource map, notably FDI, and government policies favouring large-scale industrialization and commodity exports. The imprint of an earlier, more entrepreneurial form of development never disappeared, however. Likewise, as Fordism itself now breaks down, its imprint continues to live on. That said, the standardization with which it was associated is increasingly a thing of the past. The culture of flexibility, the changing politics of continentalism, and the global politics of environmentalism have all contributed towards a much more differentiated and unruly resource map of Canada (Hayter and Barnes 1997; Hayter 2000). This development should not be surprising. After all, as Norcliffe makes clear, it is precisely that same differentiation and unruliness that characterizes globalization more generally.

Notes

- 1 Baldwin's deductive analysis is traced out in purely hypothetical terms. The empty land assumption literally implies a land with no existing occupation by indigenous peoples until settled by an entrepreneurial class.

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