THE ATLANTIC ECONOMY IN PERSPECTIVE

Notes for a Presentation to the

Atlantic Federal Council

by Peter Nicholson

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OBJECTIVES

- ❑ Describe the very long-term trajectory of the Atlantic regional economy in a Canadian context
- ❑ Explore the factors leading to convergence of the Atlantic economy toward the national average, and why a gap remains
- ❑ Is there a potentially transformative initiative?

RELEVANCE OF TAKING THE LONG VIEW

The farther back you look, the farther forward you can see

-- *Winston Churchill*

History:

- ❑ **Rarely repeats…but it rhymes**
- ❑ **Separates the signal from the noise**
- ❑ **Provides lessons on what does and doesn't work**

If it's true, it's probably not new; and if it's new it's probably not true

WHY HAS THE ATLANTIC ECONOMY LAGGED CANADA'S AVERAGE?

The regional economy has evolved via a *path-dependent* process of mutually-reinforcing circumstances:

- ❑ **Locus of economic opportunity and dynamism shifted west**
- ❑ **Population growth followed the opportunity**
- ❑ **Political power and influence did likewise**
- ❑ **The Atlantic economy became increasingly peripheral (except in wartime)**
- ❑ **A dependency mentality became pervasive in both people and business**

RELATIVE ECONOMIC CIRCUMSTANCES TEND TO PERSIST

"...the population of Nova Scotia is slowly dwindling, its industries are languishing and its wealth is considerably lower than the central provinces and the opportunities for enterprise and investment are correspondingly small. Younger men and women are compelled to leave the province and to search for careers in other parts of Canada."

--*N.S. Royal Commission, Provincial Economic Enquiry*; Jones & Innis; **1934**

"The Commission's core message is this: Nova Scotia is today in the early stages of what may be a prolonged period of accelerating population loss and economic decline. These negative prospects are not, however, inevitable or irreversible."

--*Now or Never* ("The Ivany Report"); **2014**

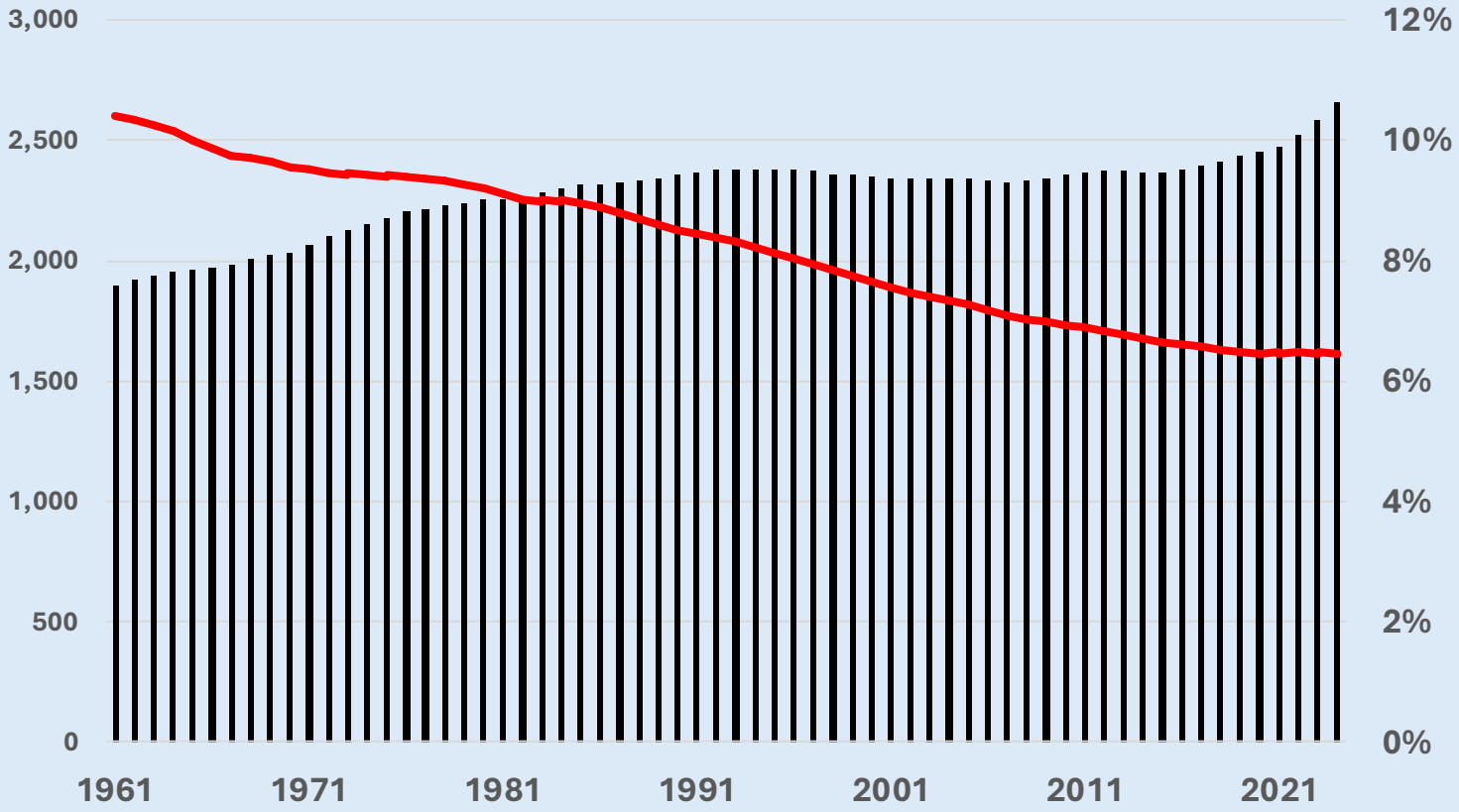
The same has been said many times over the past century

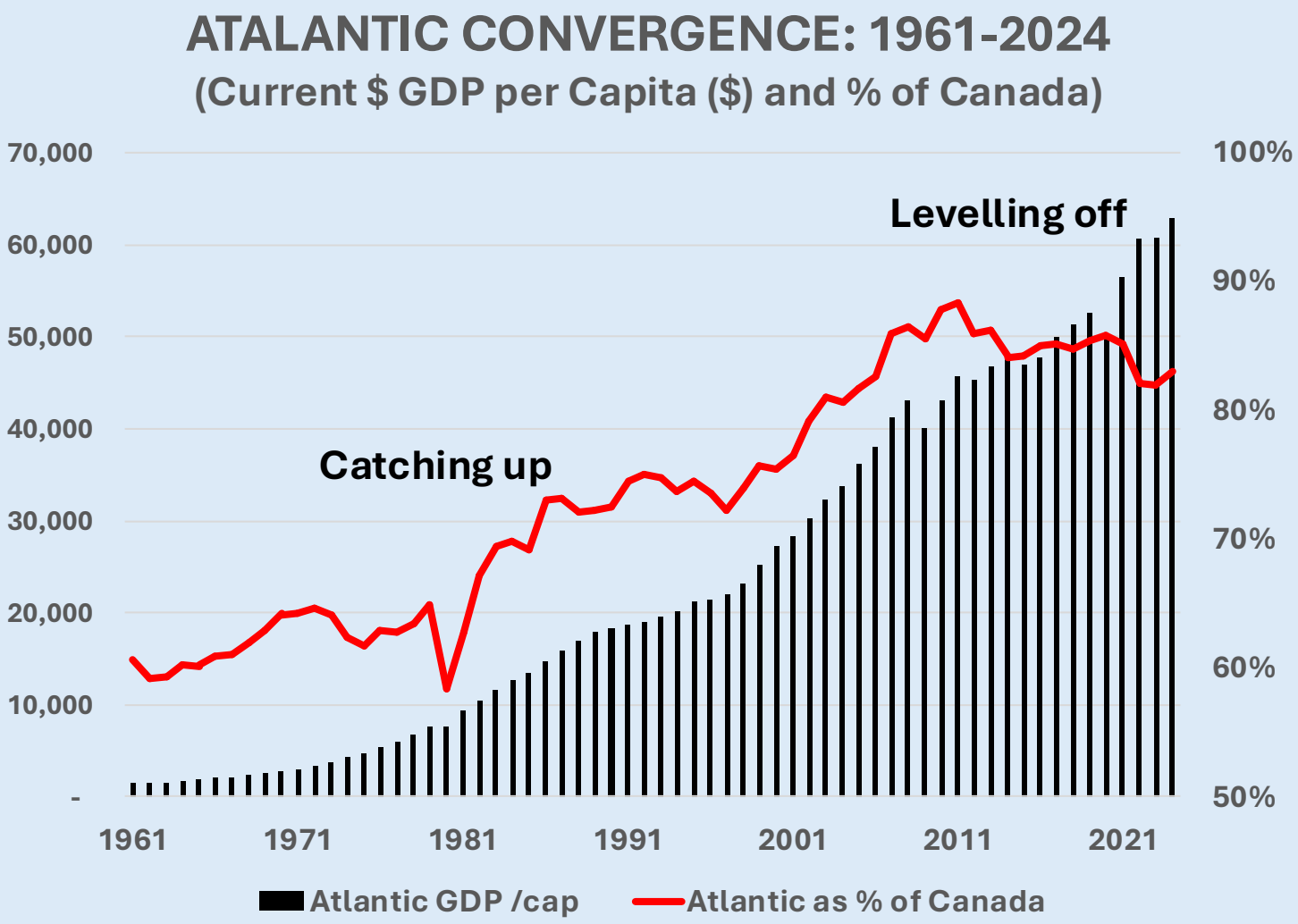
STATISTICAL PORTRAIT OF ATLANTIC CANADA'S GROWTH: 1961-2025

Emphasizing Atlantic relative to the Canadian average

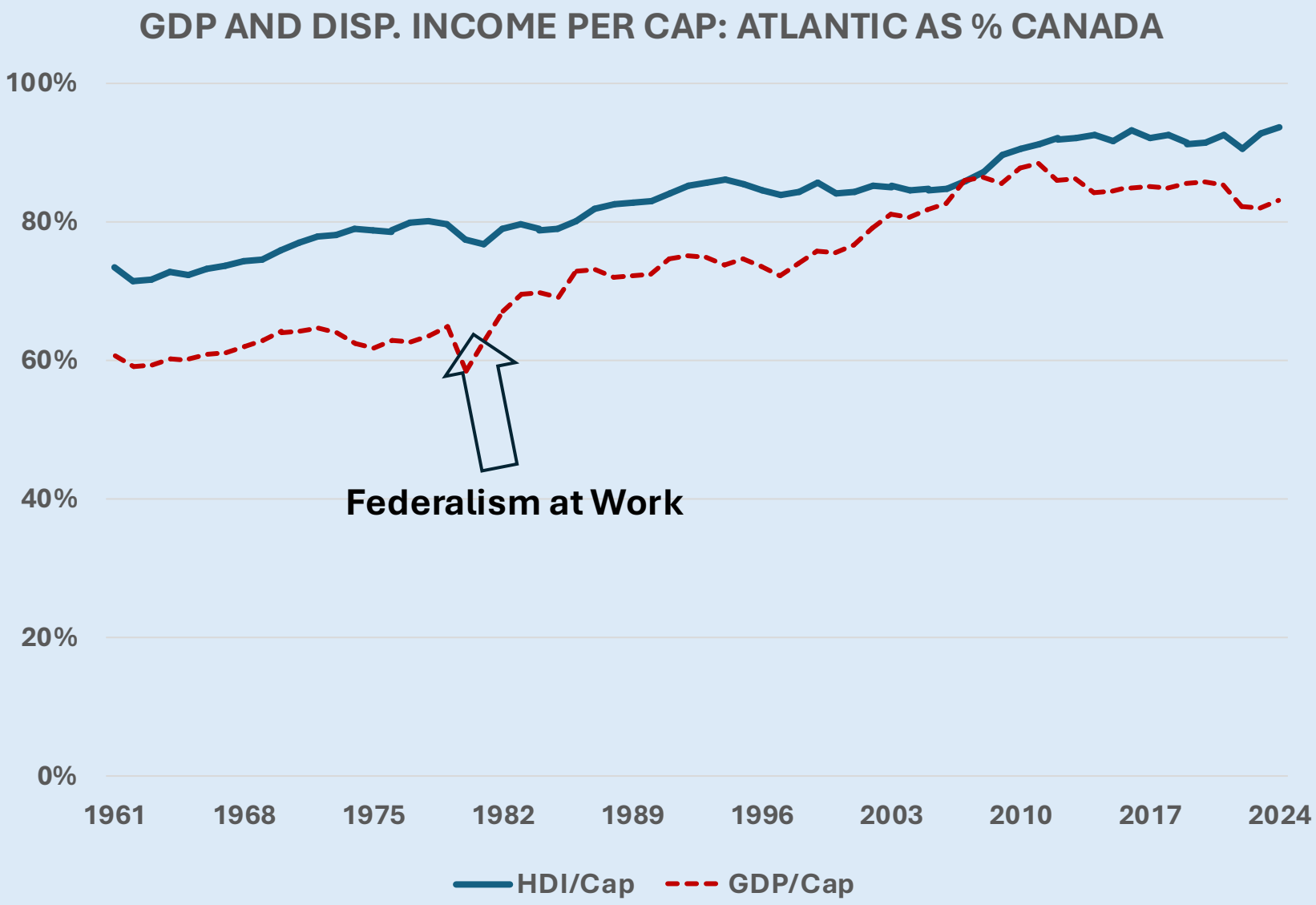
EVOLUTION OF ATLANTIC POPULATION: 1961-2024

('000 and as Percent of Canada)

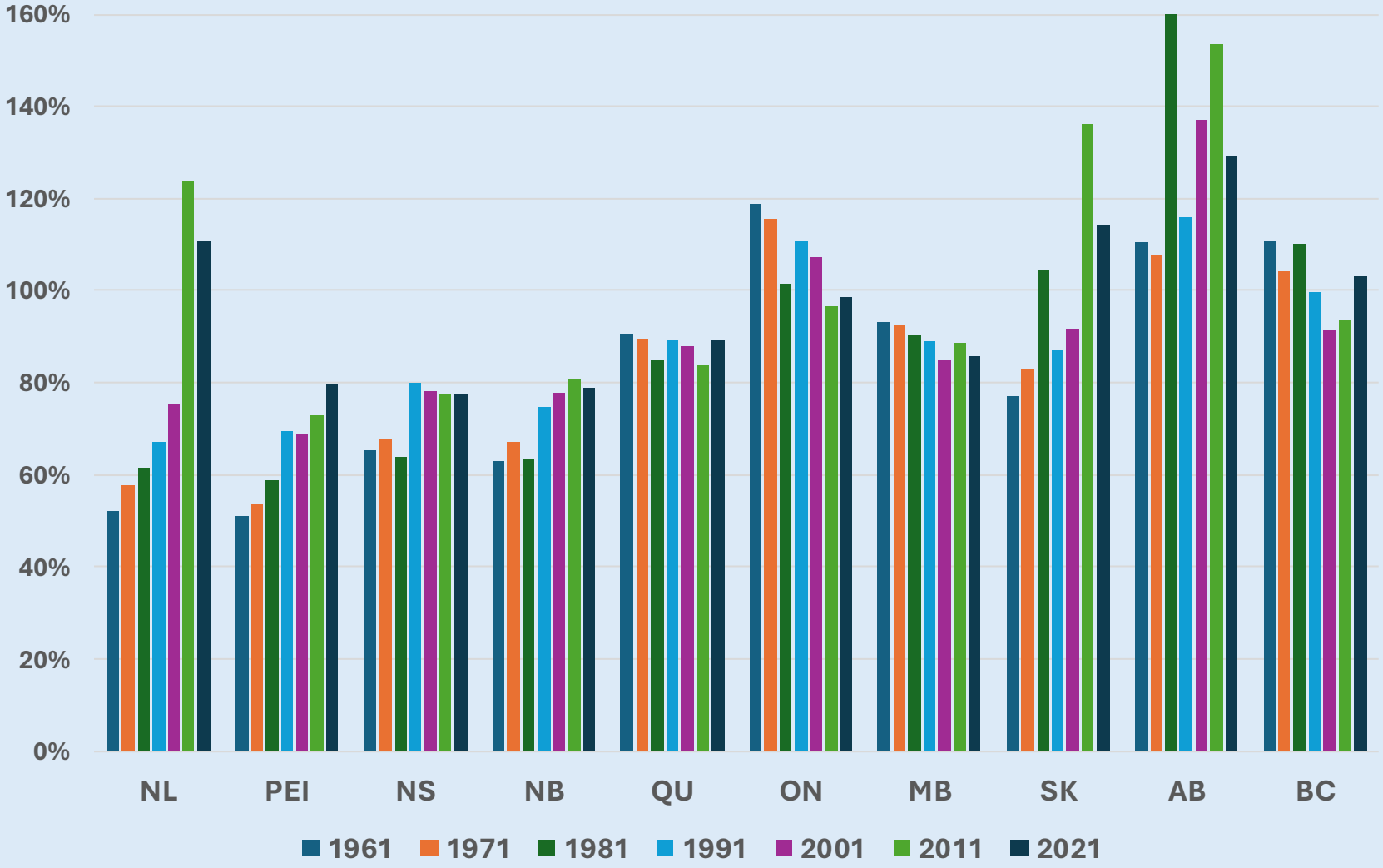




Re: GDP per Capita—Atlantic is to Canada as Canada is to the U.S.


GDP AND DISP. INCOME PER CAP: ATLANTIC AS % CANADA
100%
80%
60%
40%
20%
0%
1961
1968
1975
1982
1989
1996
2003
2010
2017
2024
Federalism at Work
HDI/Cap
GDP/Cap

GDP PER CAPITA AS % OF CANADA:1961-2021



FOR CANADA, THE OIL PRICE EXPLAINS A LOT



ECONOMIC CONVERGENCE AND ITS LIMITS

Atlantic Canada’s Performance in a Global Context

CONVERGING TO A STABLE GDP GROWTH PATH

Convergence is driven by *diffusion of innovation* from the leaders

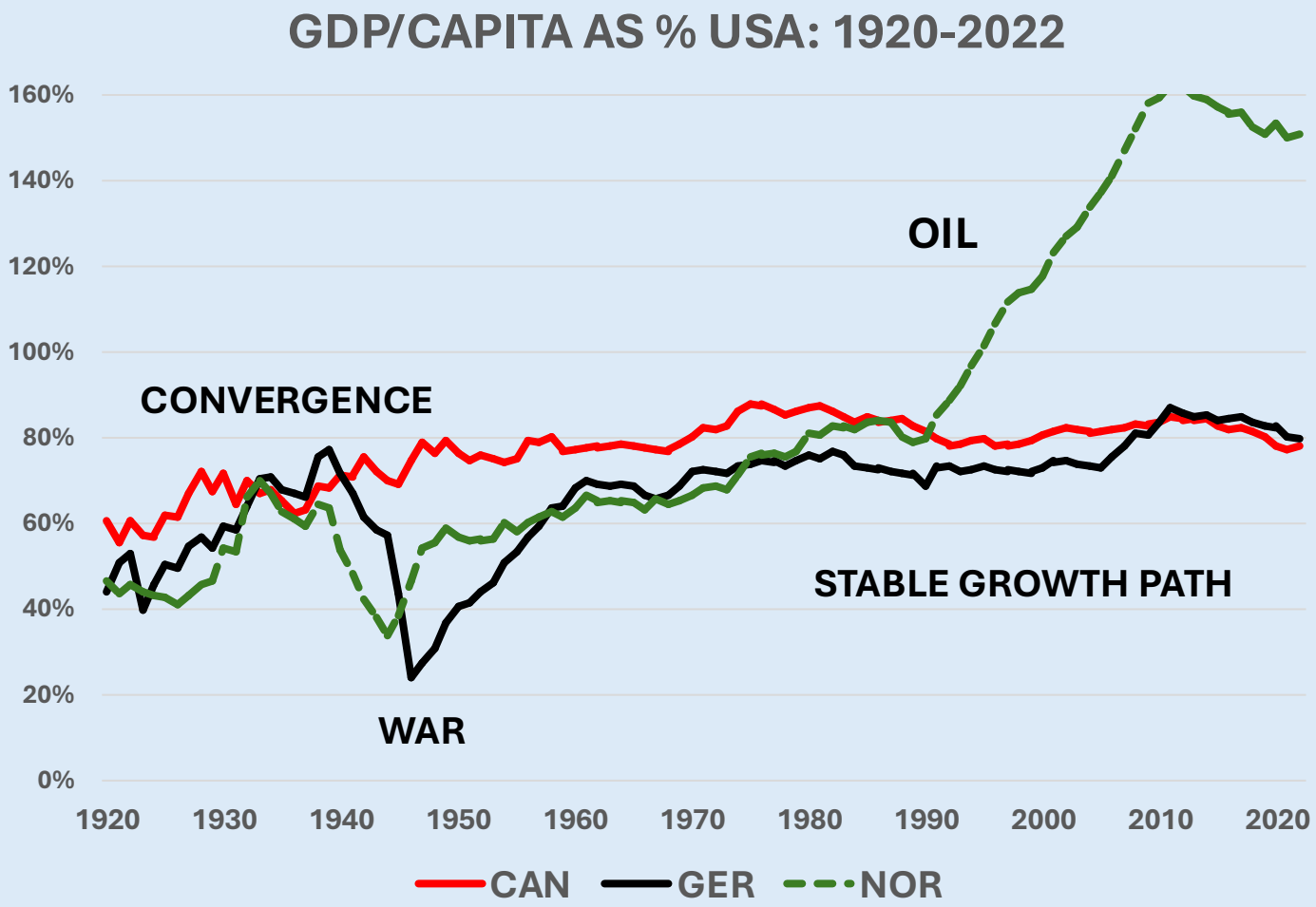
- ❑ **Investment & Trade**
- ❑ **Flow of ideas**
- ❑ **Flow of skilled people**
- ❑ **Receptivity to innovation**

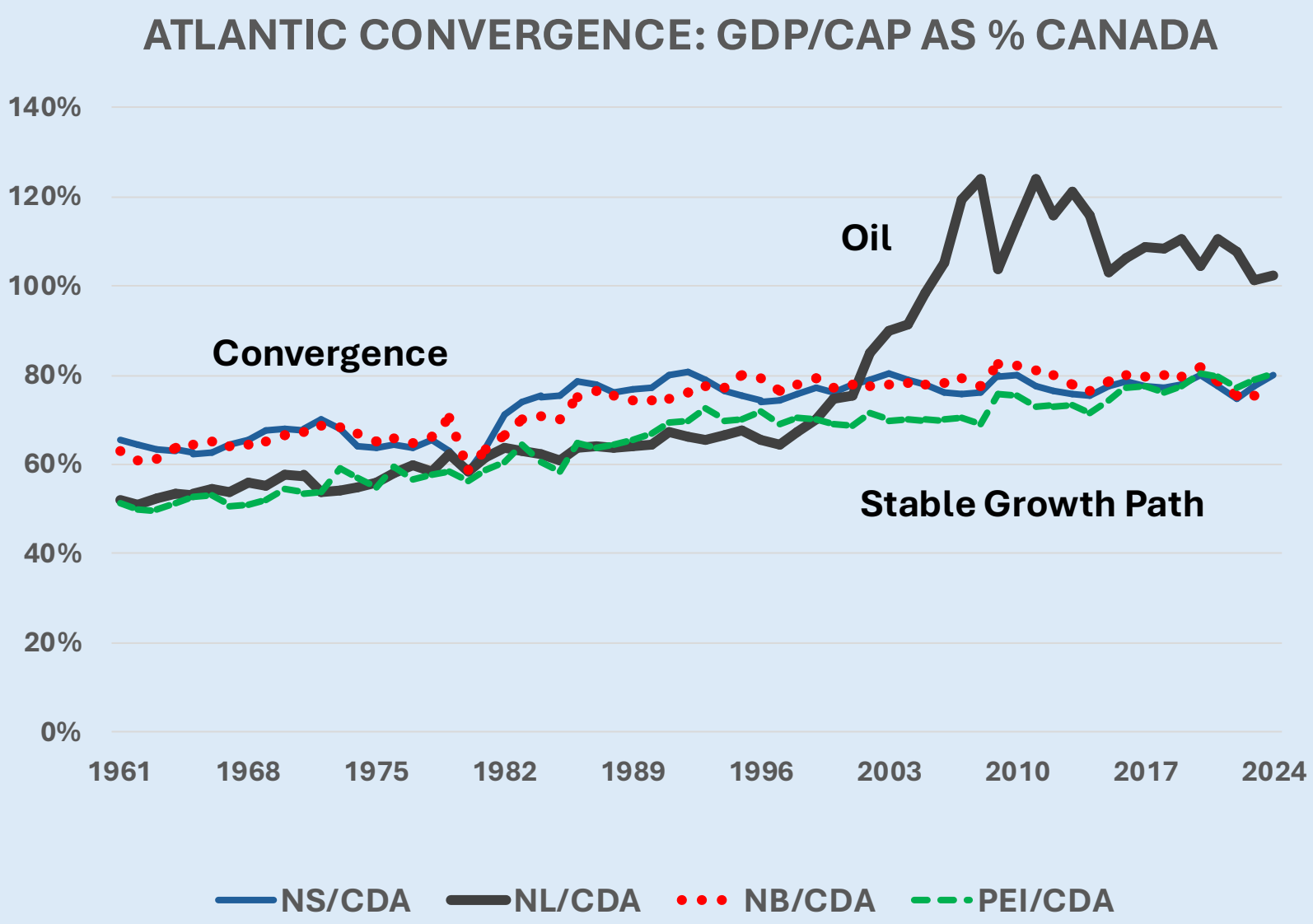
Why convergence stalls

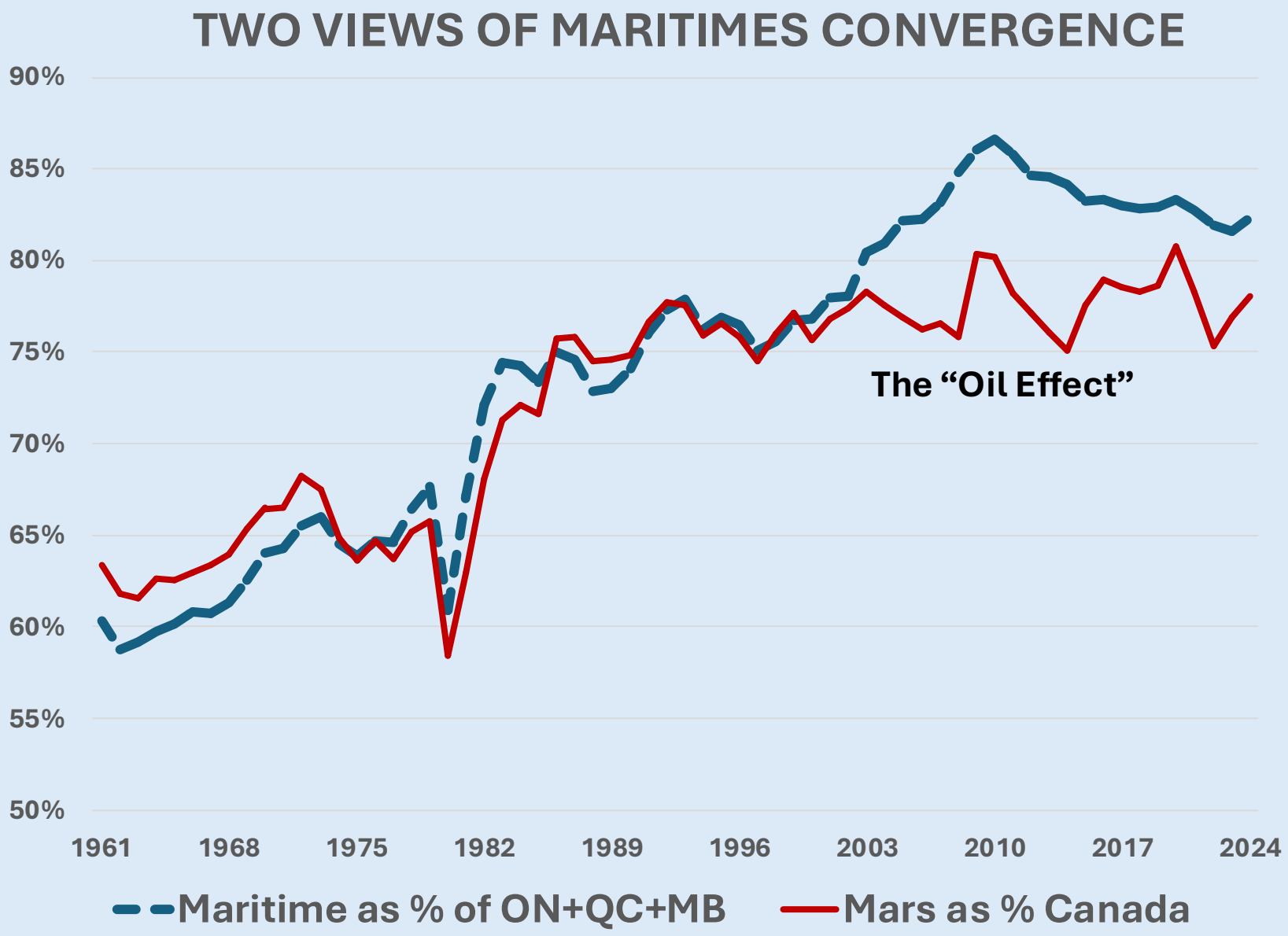
- ❑ **Low-hanging fruit is picked**
- ❑ **Remaining gap determined by the *rate* of diffusion**

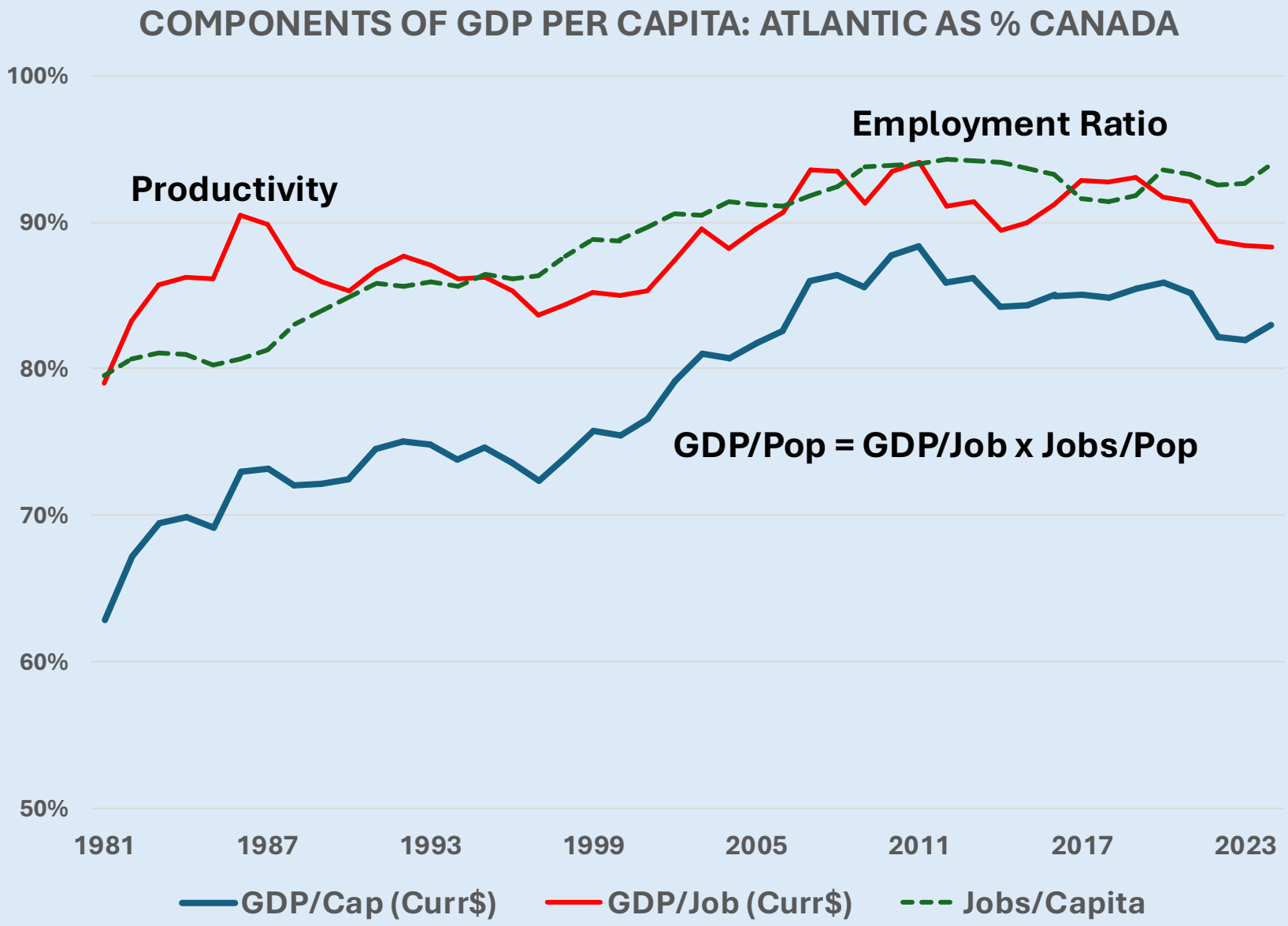
Without a major disrupter the gap persists

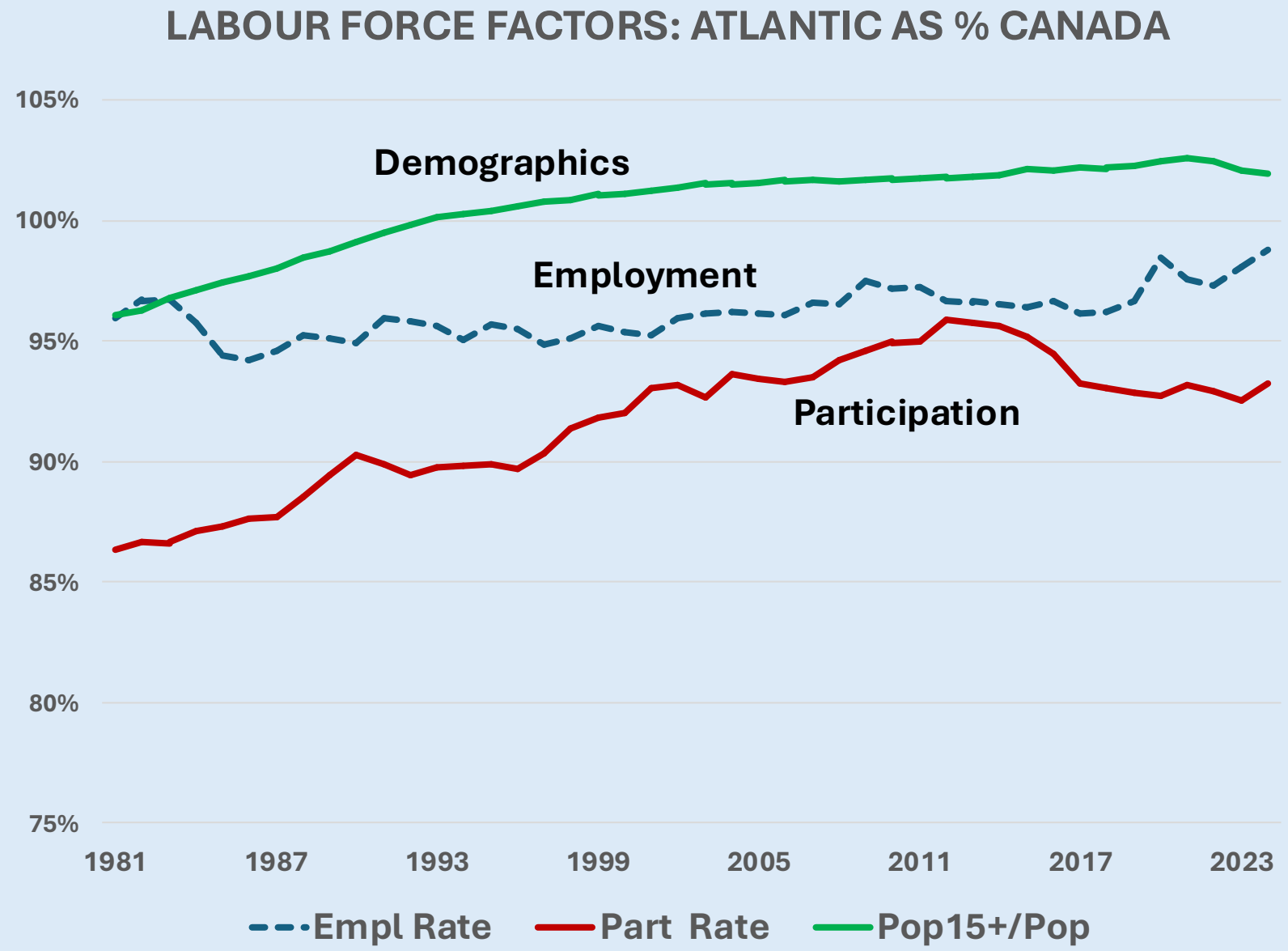
CONVERGING TO A STABLE LONG-TERM GROWTH PATH




ATLANTIC CONVERGENCE: GDP/CAP AS % CANADA
140%
120%
100%
80%
60%
40%
20%
0%
1961
1968
1975
1982
1989
1996
2003
2010
2017
2024
Oil
Convergence
Stable Growth Path
NS/CDA
NL/CDA
NB/CDA
PEI/CDA


TWO VIEWS OF MARITIMES CONVERGENCE
90%
85%
80%
75%
70%
65%
60%
55%
50%
1961
1968
1975
1982
1989
1996
2003
2010
2017
2024
The “Oil Effect”
Maritime as % of ON+QC+MB
Mars as % Canada


COMPONENTS OF GDP PER CAPITA: ATLANTIC AS % CANADA
100%
90%
80%
70%
60%
50%
Employment Ratio
Productivity
GDP/Pop = GDP/Job x Jobs/Pop
1981
1987
1993
1999
2005
2011
2017
2023
GDP/Cap (Curr$)
GDP/Job (Curr$)
Jobs/Capita


LABOUR FORCE FACTORS: ATLANTIC AS % CANADA
105%
100%
95%
90%
85%
80%
75%
Demographics
Employment
Participation
1981
1987
1993
1999
2005
2011
2017
2023
Empl Rate
Part Rate
Pop15+/Pop

WHAT DRIVES LONG-TERM ECONOMIC GROWTH?

- GDP (Y) = F(K,L) e.g. Y = A*(K^b)* (L^(1-b))

  A is Multifactor Productivity (Efficiency + Innovation)

  K is Capital Stock employed (tangible and intangible)

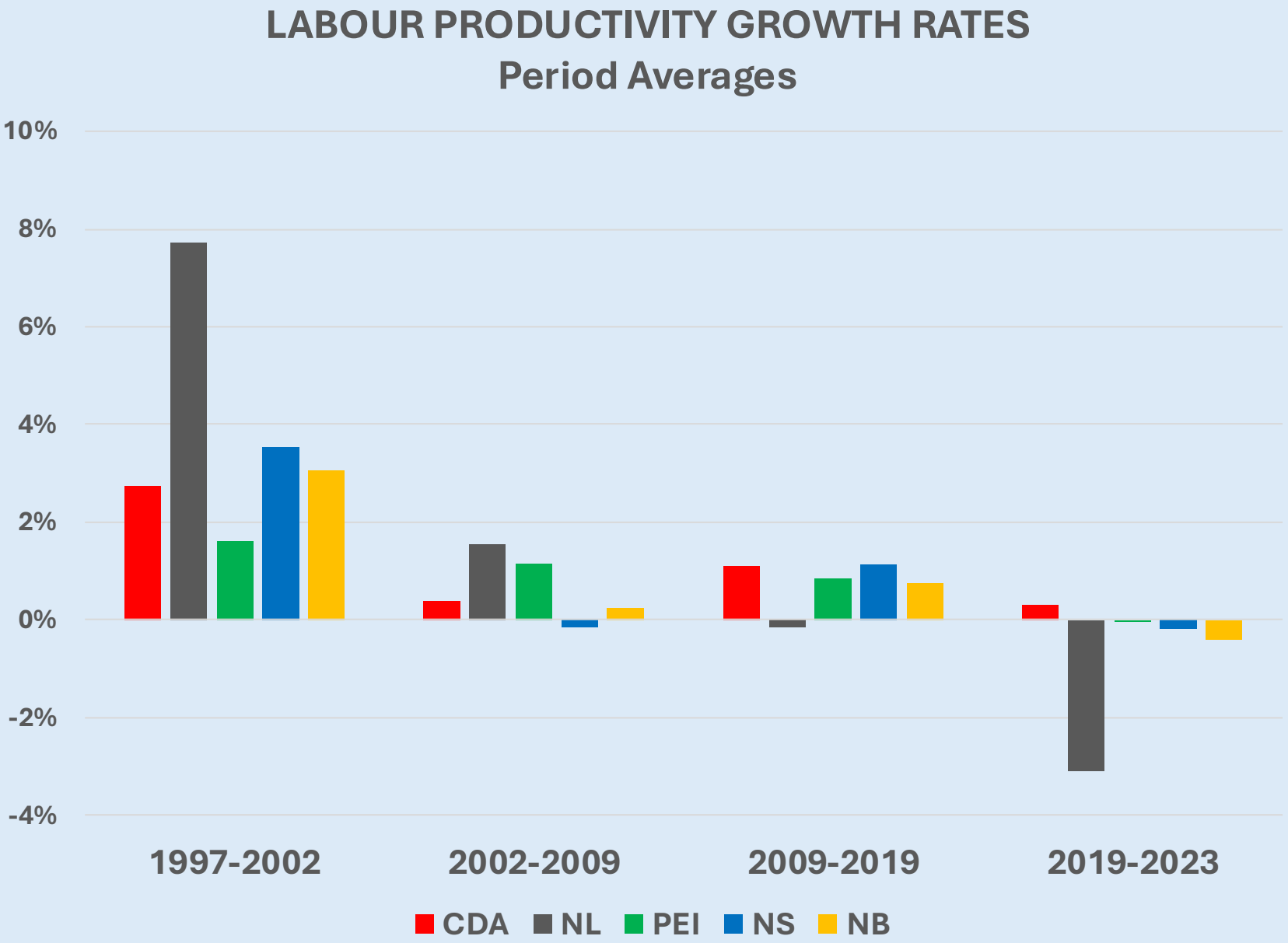
  L is Labour employed (quality-adjusted)

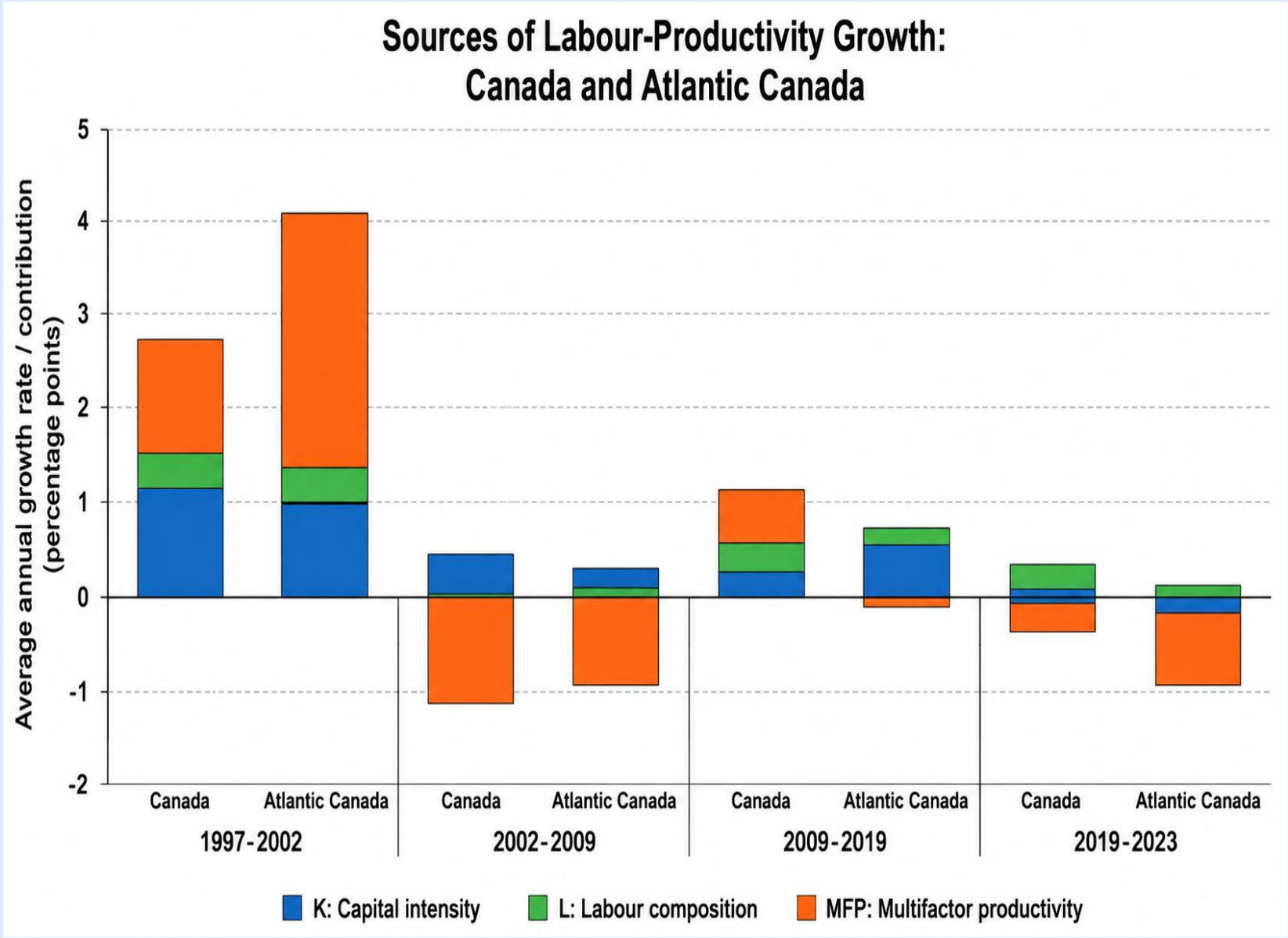
  b is Capital's share of income

- Labour Productivity = Y/L e.g. A* (K/L)^b

- GDP/Pop = GDP/Job x Jobs/Pop e.g. Y/P = A*(K/L)^b x L/P

Growth of (L/P) is limited and under demographic pressure.
Growth of GDP per capita depends almost entirely on Productivity


LABOUR PRODUCTIVITY GROWTH RATES
Period Averages
10%
8%
6%
4%
2%
0%
-2%
-4%
1997-2002
2002-2009
2009-2019
2019-2023
CDA
NL
PEI
NS
NB


Sources of Labour-Productivity Growth:
Canada and Atlantic Canada
Average annual growth rate / contribution
(percentage points)
5
4
3
2
1
0
-1
-2
Canada
Atlantic Canada
Canada
Atlantic Canada
Canada
Atlantic Canada
Canada
Atlantic Canada
1997-2002
2002-2009
2009-2019
2019-2023
K: Capital intensity
L: Labour composition
MFP: Multifactor productivity

WHERE TO FROM HERE?

CLOSING THE REMAINING GAP?

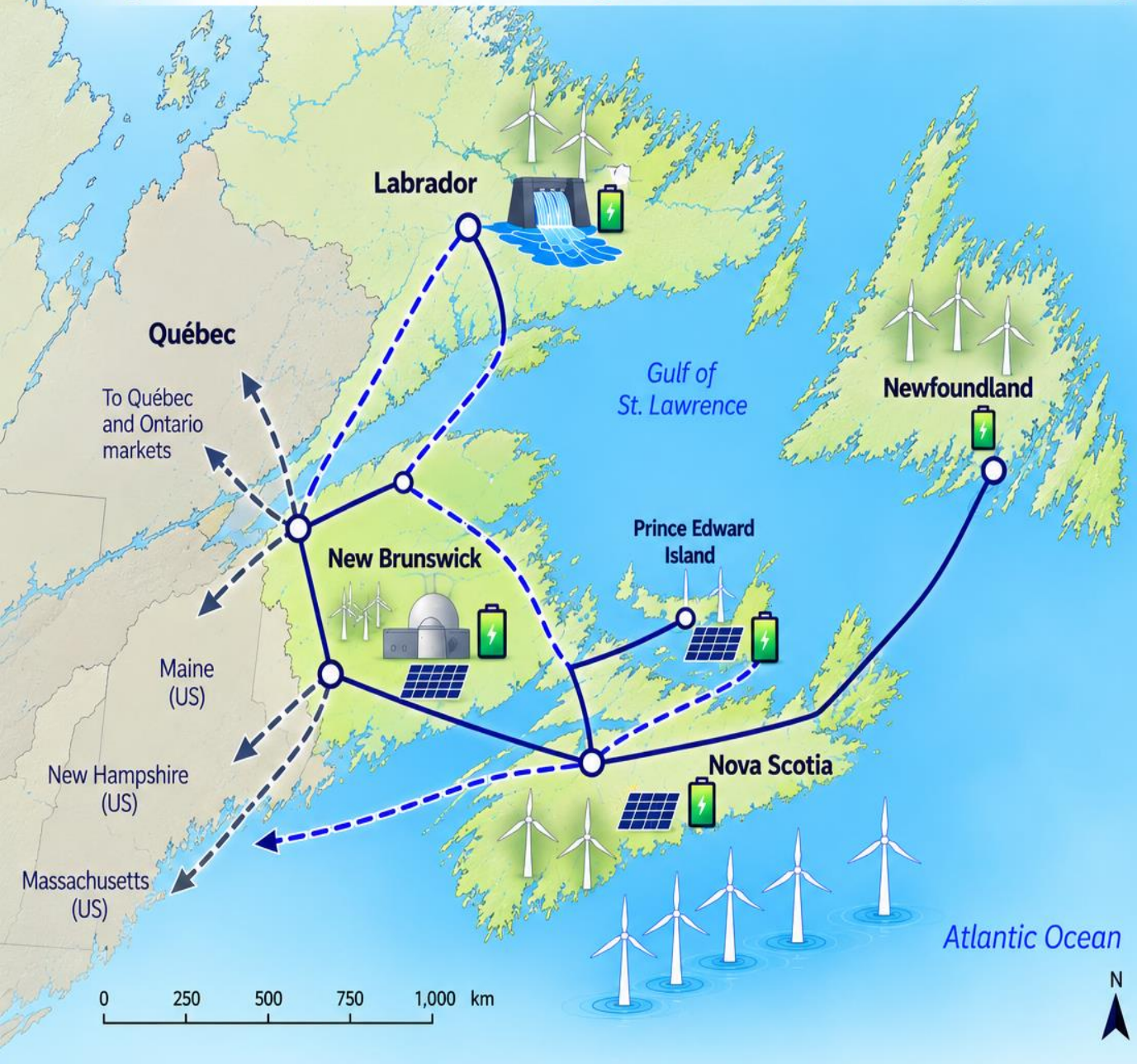
“Bolder Ambitions”: Report of the Atlantic Economic Panel (Sept. 2026)

1. **Adopt a one Atlantic Canada approach to regional economic issues**
2. **Make faster project approvals a competitive advantage**
3. **Develop an integrated regional electricity system**
4. **More fully develop the region’s natural resources**
5. **Compete more effectively for skilled talent**
6. **Foster a business growth mindset emphasizing productivity and AI**
7. **Establish an Atlantic Prosperity Fund**

WHAT COULD BE “DISRUPTIVELY” TRANSFORMATIVE?

A More Integrated Atlantic Energy System

Complementary resources. A larger market. Greater opportunity.



A balanced, low-carbon mix that can meet Atlantic Canada's needs and enable exports

Hydro • Wind • Nuclear • Solar • Storage

Transmission links

- Existing transmission
- Potential transmission
- Potential export link
- Major node / hub

Key opportunities from provincial collaboration

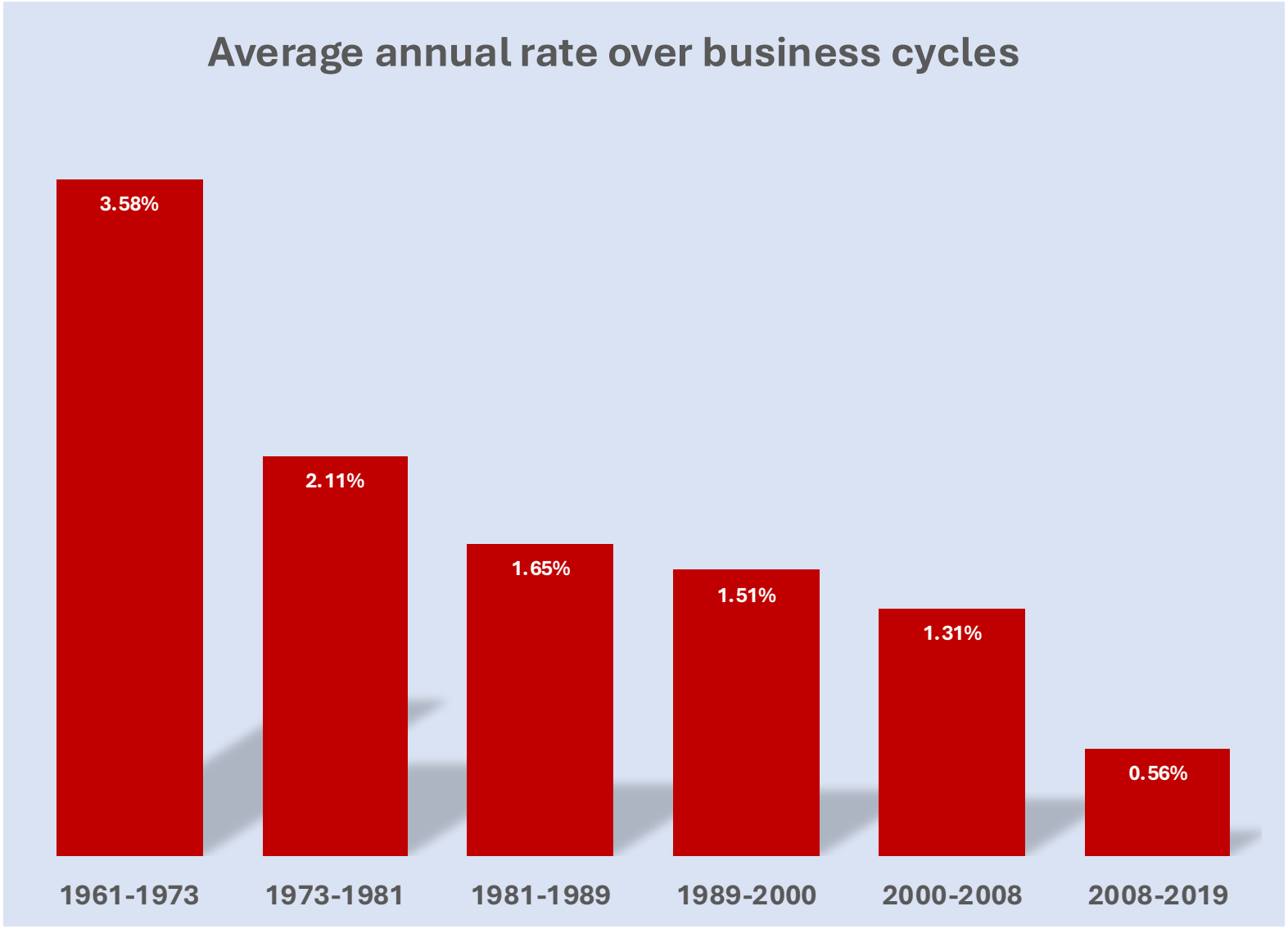
1. **A diversified, complementary mix**
   Hydro (Labrador), wind (onshore and offshore), nuclear (New Brunswick), solar and battery storage.
2. **A more reliable and affordable system**
   Complementary resources reduce variability and lower system costs.
3. **Export potential**
   Access to larger markets in Québec and New England.
4. **Economic growth and investment**
   A larger, integrated market can attract investment in generation, transmission and clean industry.
5. **Greater energy security**
   Reduced reliance on imported fossil fuels and more resilience.

MAIN MESSAGES IN SUMMARY

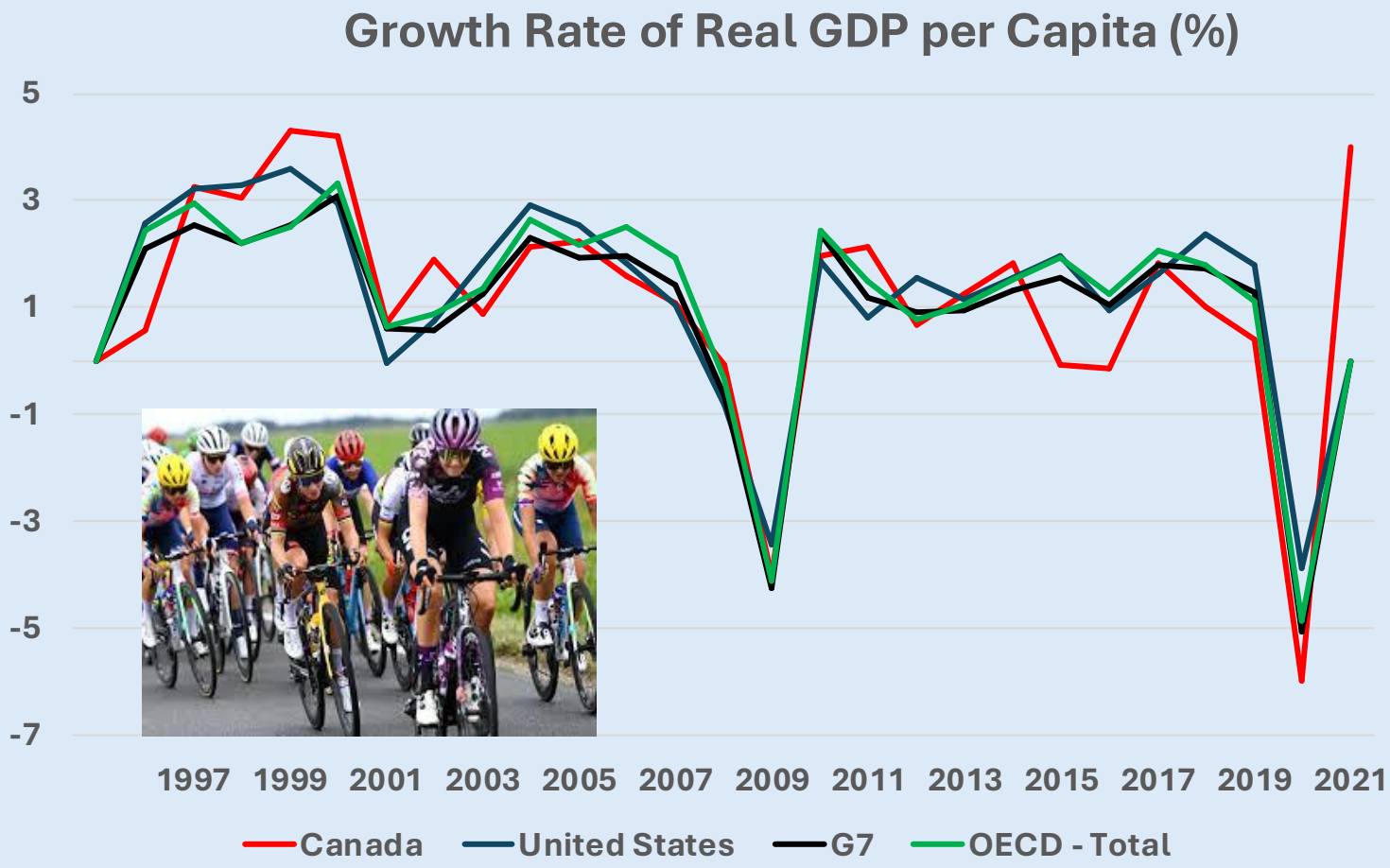
- **History matters—A long view is needed to understand the fundamental forces that shape economies and societies.**
- **The trajectory of Atlantic Canada's economy has been determined by economic and political forces operating at continental and global scale.**
- **Atlantic GDP per capita has nevertheless grown *faster* than the national average from 1960 through 2010, converging from 60% to 85% of the Canadian average.**
- **The remaining gap will be hard to close in view of deeply-rooted structural factors and the limited speed of diffusion of innovation from leading regions.**
- **Massive and *collaborative* development of the region's vast clean energy resources provides by far the best opportunity for genuinely *transformative* impact on the Atlantic economy.**

ANNEX SLIDES

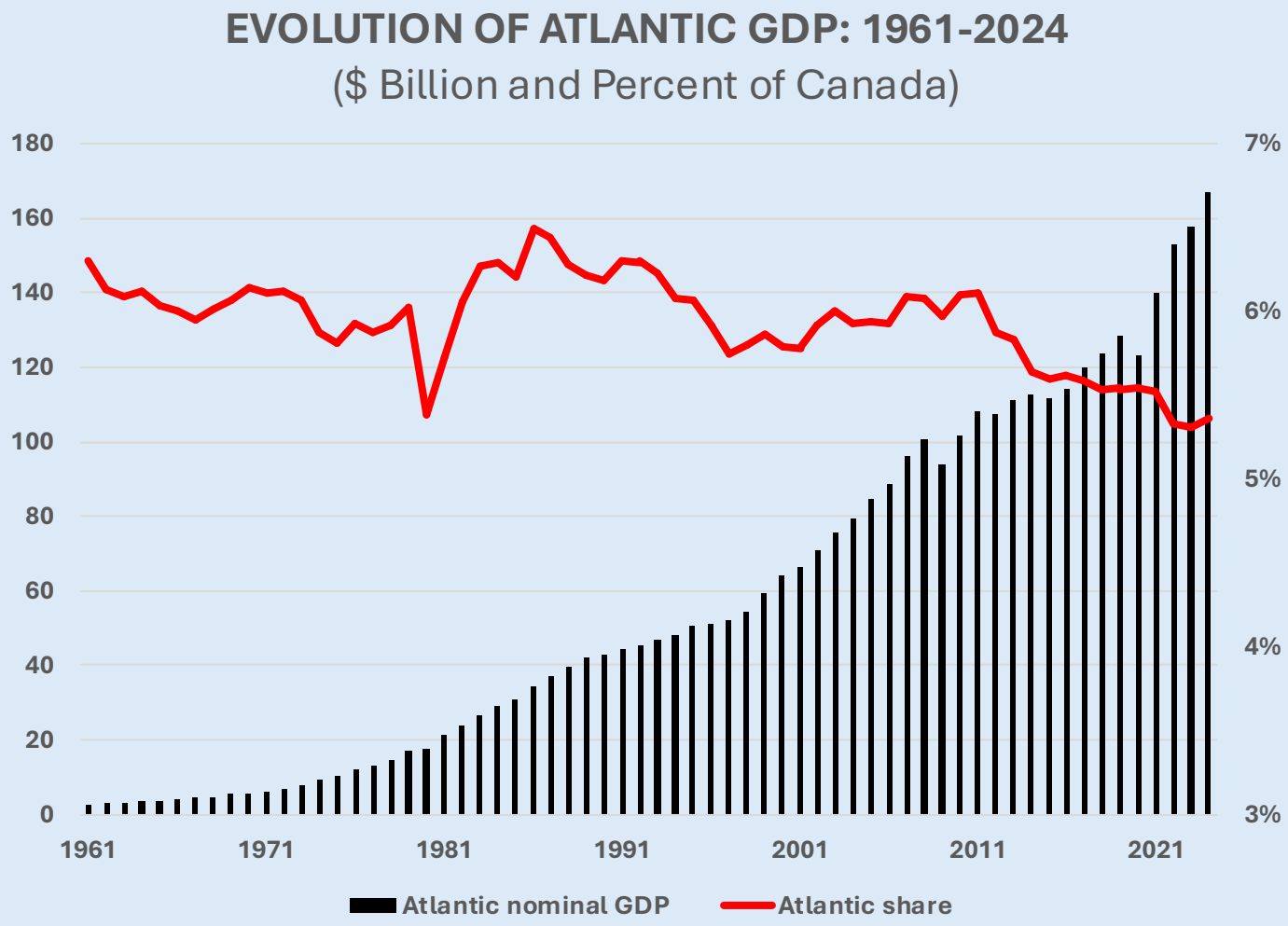
CANADA'S GROWTH RATE OF GDP PER CAPITA (1961-2019)



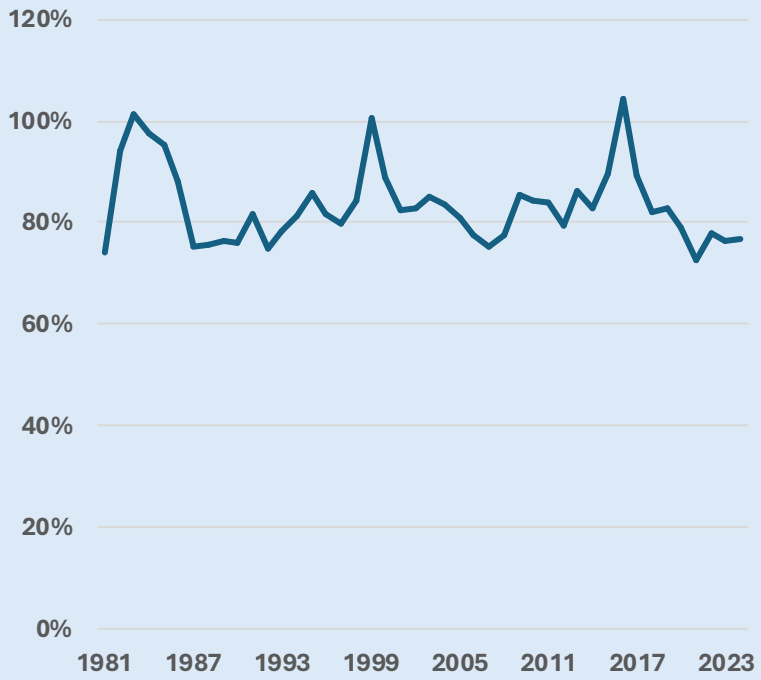
DEVELOPED WORLD GROWS IN SYNCH



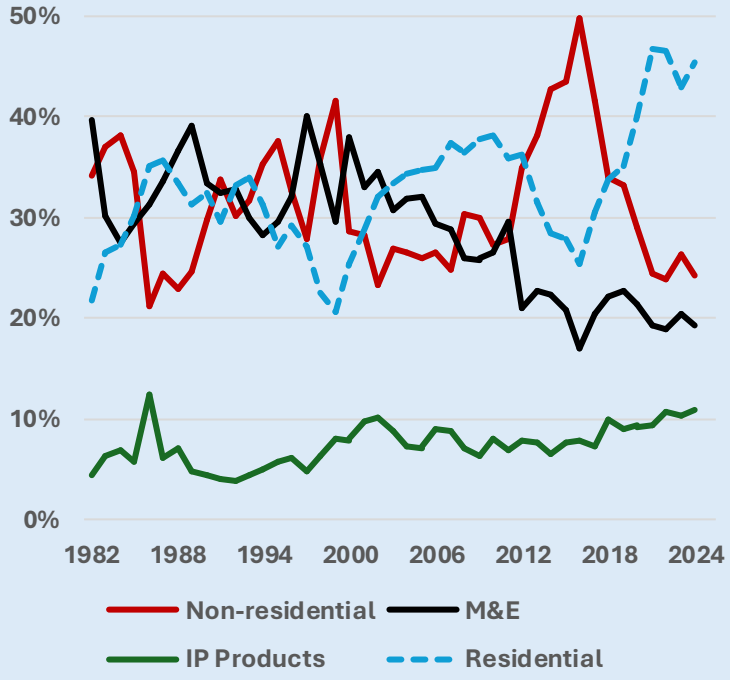
FLOWS OF KNOW-HOW AND INVESTMENT EQUALIZE GROWTH RATES

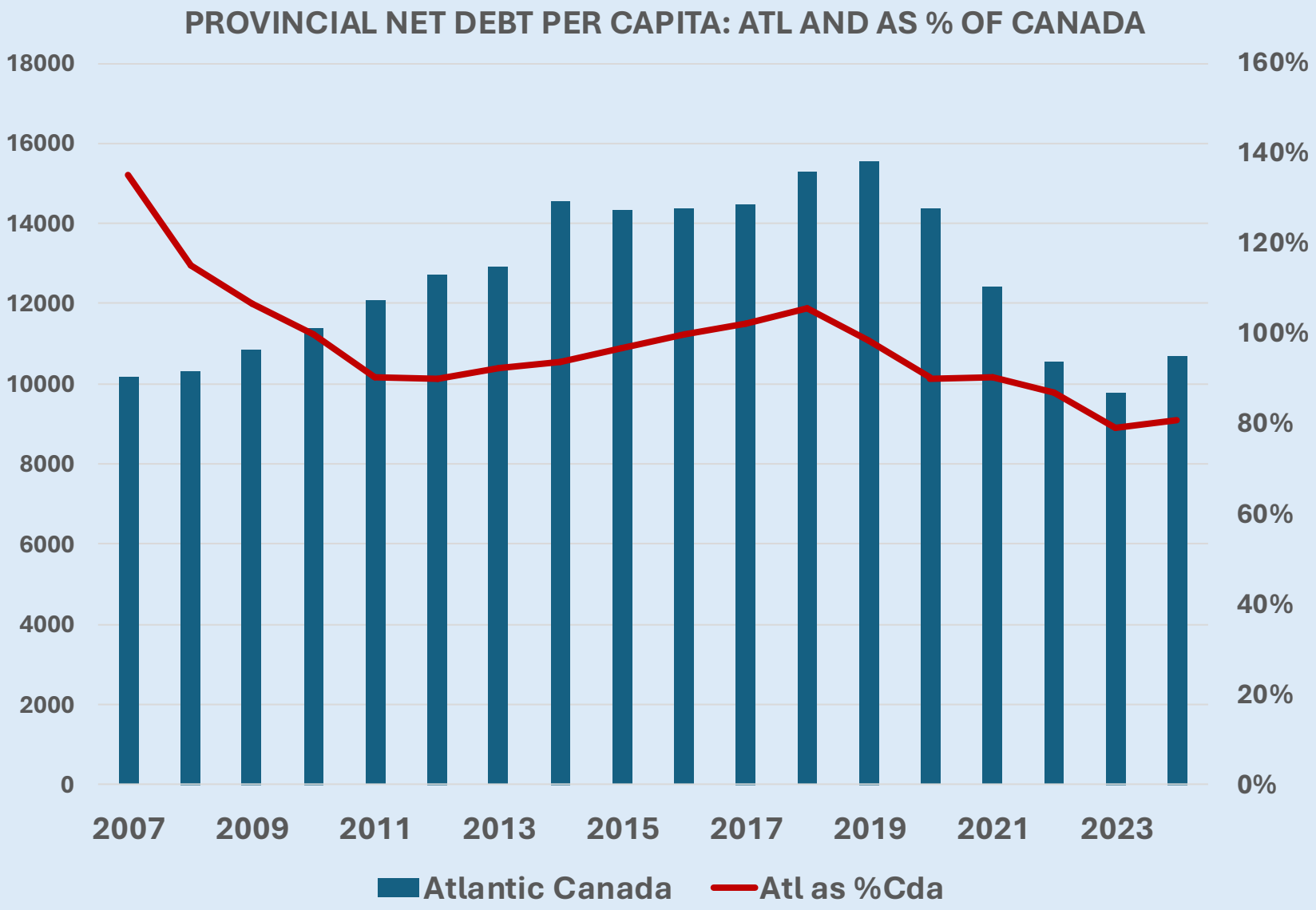

EVOLUTION OF ATLANTIC GDP: 1961-2024
($ Billion and Percent of Canada)
180
160
140
120
100
80
60
40
20
0
7%
6%
5%
4%
3%
1961
1971
1981
1991
2001
2011
2021
Atlantic nominal GDP
Atlantic share

INVESTMENT PER JOB: ATL AS % CANADA

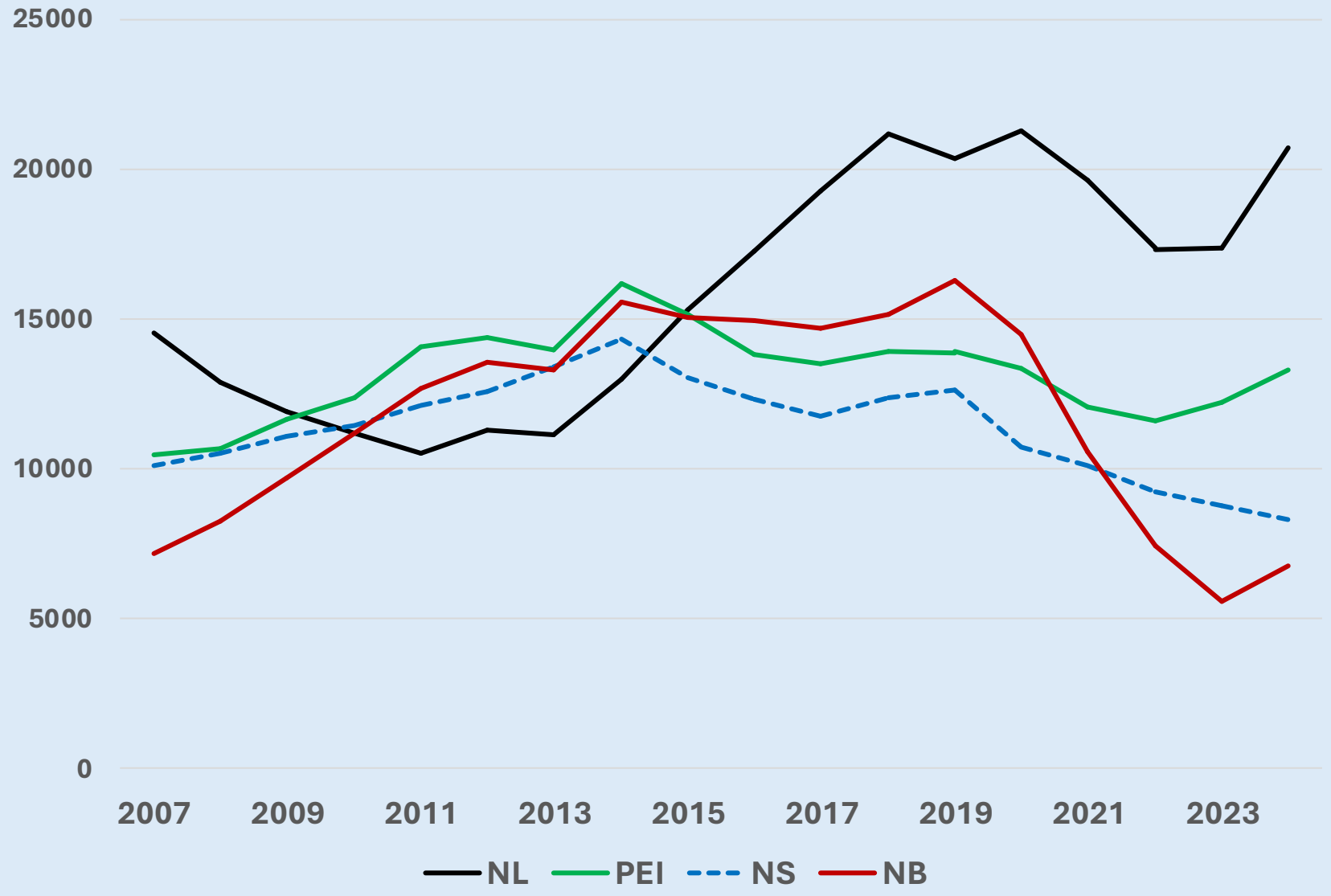


DISTRIBUTION OF BUS. INVESTMENT: ATL

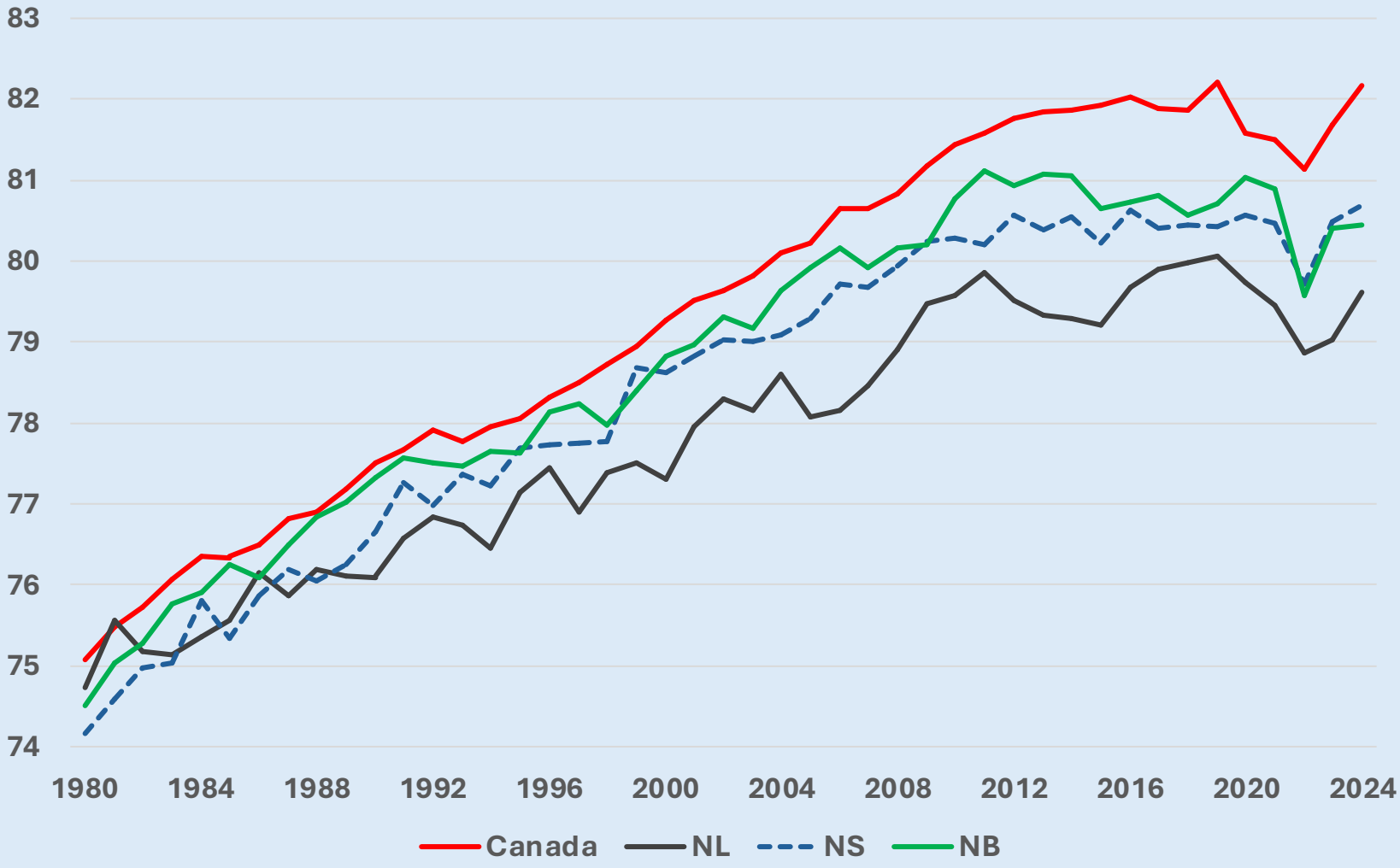



PROVINCIAL NET DEBT PER CAPITA: ATL AND AS % OF CANADA
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
160%
140%
120%
100%
80%
60%
40%
20%
0%
2007
2009
2011
2013
2015
2017
2019
2021
2023
Atlantic Canada
Atl as %Cda

NET FINANCIAL DEBT PER CAPITA



AVERAGE LIFE EXPECTANCY



YOU CAN LEAD A HORSE TO WATER…

"It is uncertain whether any incentive plan to stimulate the growth of domestic technology and innovation, or to make corporations expand aggressively into foreign markets, can deliver significant success when applied to companies in which the drive to do these things has not already been forced to emerge because of exposure to a real stimulus from the economic environment."

--V. O. Marquez, CEO of Northern Electric, 1972