

Intelligence MEMOS



From: Don Drummond
To: Economy Observers
Date: March 14, 2025
Re: **HOW TO GET OUR HOUSE IN TARIFF-WAR ORDER**

Understandably, the focus of Canadian political leaders is on the imposition of US tariffs and the devastating effect they will have on the Canadian economy. But Canada must also address the fundamental weaknesses in our economy the tariffs have exposed and there is no time for delay.

In the early 1980s, the level of business sector output per person in Canada was more than 90 percent of that in the United States. By 2022, it was down to 70 percent; Canadian productivity growth from 2000 to 2022 was half the US pace. And Canada's productivity growth rate has fared poorly against other countries as well, placing 28th out of 38 countries from 2000 to 2022.

Weak business investment is a prime culprit in the productivity weakness. Capital per worker has been declining in Canada since 2015.

All this is magnified by the fact that three-quarters of our merchandise exports go to the United States. We are over-reliant on that economy and therefore vulnerable to such shocks as tariffs and other arbitrary changes in American policy.

We should have addressed these problems long ago. Now it is imperative that we do so. Even if the tariff threat and other attempts to coerce companies to move production to the US were to fade, the need for economic growth driven by sources outside of the US is undeniable. Such growth is only possible if Canada is seen as a more attractive location for investment.

Several federal advisory groups have been struck over the years to strengthen the Canadian economy, none of which led to bold action; the problems have only deepened. The Council of Economic Advisors promised in 2022 by the federal government has not materialized. In any case, it is essential that the provinces and territories be active participants in such endeavours.

Many of the policies and practices being discussed of late to strengthen Canada's economy are fully or partially in the provincial/territorial domain, some being shared with the federal government. Those ideas include, but are not limited to:

- Elimination of interprovincial trade barriers.
- More economic activity along Canada's east-west axis, including electricity grids and transportation of other forms of energy.
- Streamlining the approval processes for major projects, especially those involving energy transportation, critical minerals and expanding port facilities to widen the export market.
- Diversification of trade beyond the United States.
- Increased strategic public sector infrastructure outlays.
- Increasing public procurement from Canadian sources – provincial and local governments account for about three-quarters of public sector direct spending.
- Creating a more competitive tax system – federally and provincially – that, among other things, would impose lower personal and corporate marginal tax rates and greater incentives for investment and “scaling” growth in firm size to gain efficiencies, elevate research, bolster productivity and be more export-oriented.
- Refocusing the immigration system toward highly educated and skilled people and better settlement processes.
- Eliminating supply management in the agriculture sector – a controversial change but a move that would lower costs for Canadian households, raise productivity and remove a trade irritant with many countries.
- Shoring up Canada's primary, secondary and post-secondary education system and boosting skilled trades training.
- Taking greater advantage of the post-secondary education sector's role in research, commercialization of its fruits, and creation of a skilled domestic talent pool.
- Seizing the opportunity created by US withdrawal from clean growth to be a world leader in a field that will continue to grow globally.

Strengthening Canada's defence, not to appease the United States but to better protect Canada, including the Arctic.

Canada's seems set for a late April election, but even without a federal government in place, provinces and territories can do much in the interim to advance the growth agenda.

The provincial and territorial governments should coordinate the work on economic reforms through the Council of the Federation. This would greatly expand upon their current deliberations on striking down interprovincial trade barriers. It may well make recommendations for the federal government, but premiers must also recognize and act decisively and quickly upon their own heavy responsibilities for Canada's growth prospects.

Ontario, Canada's largest economy, currently chairs the council. Premier Doug Ford asked for and received a mandate to fight the US tariffs. He and the now much more cohesive council must put it to good use.

If premiers started work on a growth agenda now, it could be well advanced by the time a new federal government is in place, which could then join the cause – well-armed, one hopes, with the transition briefing books federal civil servants will prepare. The plight of the Canadian economy in the face of the trade war declared by the United States is of such great concern that there will be no shortage of Canadians willing to pitch in and help.

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