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Policy success starts with base hits

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Canadian politicians, like baseball sluggers, often swing for the fences—announcing sweeping policy visions designed to grab headlines and secure legacy. But in baseball, as in policymaking, long-term success is more often built on a steady stream of singles and doubles. As of the 2024 **MLB season**, the league-wide probability of hitting a home run per plate appearance is just 3.0%. Meanwhile, singles and doubles still account for over 84% of all hits, and two-thirds of all runs are generated by plays other than home runs.

The lesson for Canada's economic strategy is clear: Ottawa must keep its eye on the ball by focusing on high-probability policy plays, rather than concentrating solely on rare moonshots. Such high-probability measures include streamlining regulation, accelerating project approvals, providing clear and bankable incentives for private capital, and investing in foundational infrastructure.

These policy "base hits" may not generate headlines, but they're the most reliable way to move the economy forward. They're precisely what's needed to close Canada's persistent valuation gap, rebuild industrial competitiveness, and re-attract long-term capital—one base at a time.

With that in mind, the Economics & Strategy team is planning a series of policy papers under the banner of Rebuilding the Base of Industry (RBI). Much like an RBI in baseball drives runs across the plate to win the game, our RBI initiative aims to drive practical, high-impact reforms across the finish line. This work is part of our broader vision to **Make Canada Investable Again (MCIA)**—an effort to close Canada's persistent valuation gap, rebuild industrial competitiveness, and re-attract long-term private capital. The focus will be on measures that help ensure Canada's economic sovereignty by rebuilding a critical mass in manufacturing and securing a meaningful role in global supply chains.

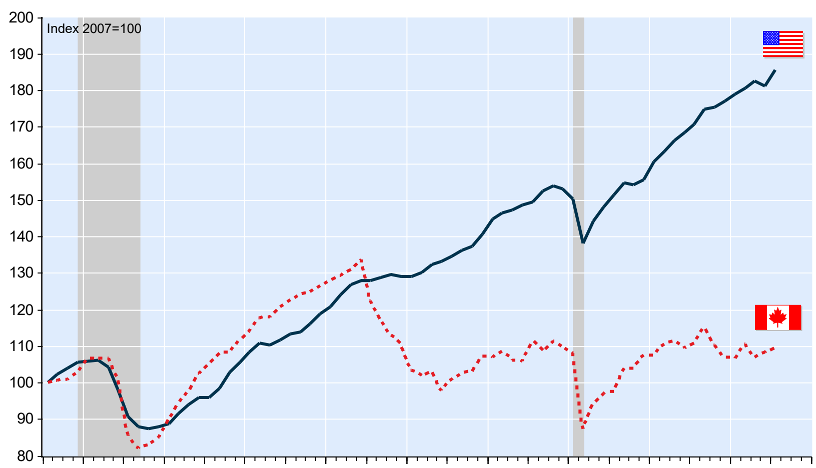
#1: Stop industrial decline with deregulation

Executive Summary: Canada's industrial economy is facing a critical challenge. After more than a decade of stagnation, the country's capital stock has fallen below pre-NAFTA levels, erasing decades of progress—particularly in Ontario and Quebec. Meanwhile, regulatory burdens have surged, with over 320,000 federal rules—110,000 targeting the factory sector—dragging on investment and competitiveness. Canada has now slipped out of the world's top 20 industrially competitive nations, the only G7 country absent from this leading group. Echoing the wisdom of C.D. Howe, the architect of Canada's industrialization, Ottawa must broaden its focus beyond headline-grabbing initiatives and heed his counsel: get out of the way and empower private investment. Pragmatic deregulation and targeted reforms are crucial to rebuilding Canada's industrial base, securing its place in global supply chains, and fulfilling the broader vision of MCIA.

A. Stagnant business investment

- Business investment in Canada has remained stagnant for more than a decade, with the volume of non-residential investment by Canadian businesses barely exceeding its 2007 level. In contrast, business investment in the United States has nearly doubled over the same period.

Canada: Stagnant business investment
Real private nonresidential investment (chained 2017 dollars)



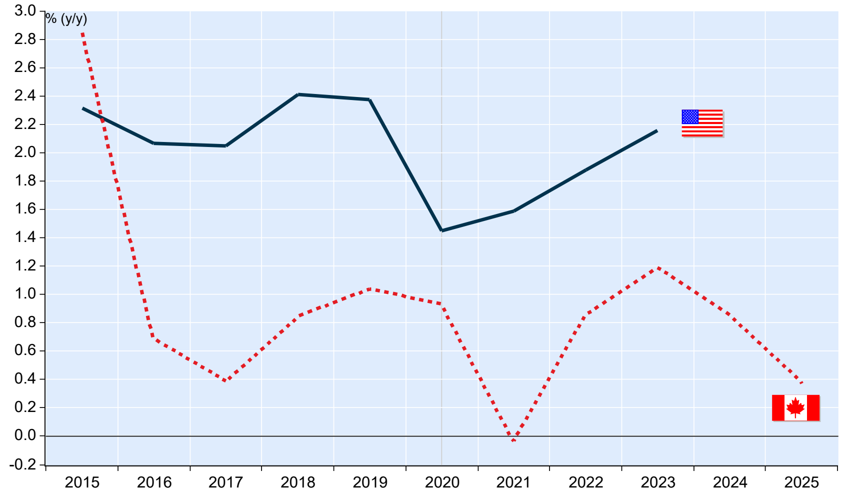
NBC Economics and Strategy (data via Statistics Canada and Fred)

B. Stagnant business investment limits production capacity

- When businesses refrain from investing in new machinery, technology, and facilities, the overall capital stock stagnates, leaving production capacity stalled and productivity growth subdued.

Canada: Capital stock growth lags U.S. by a factor of five

Private nonresidential fixed assets (chained 2017 dollars): Canada vs. the U.S.*



* US data not available beyond 2023

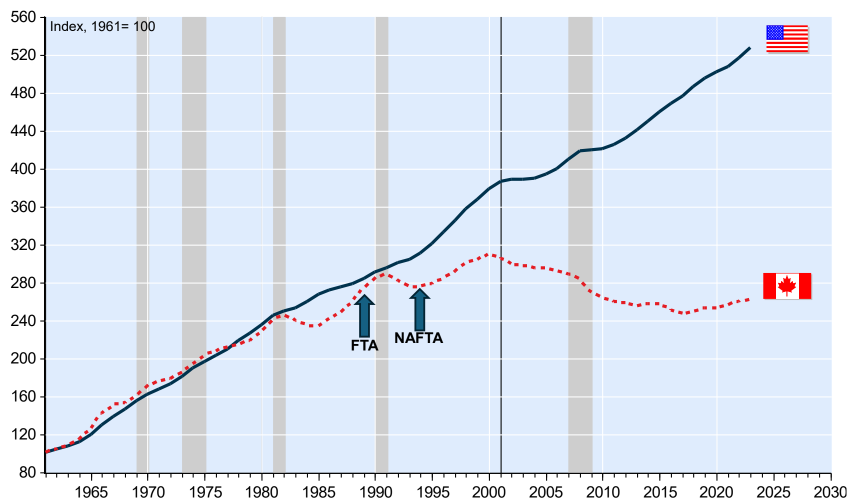
NBC Economics and Strategy (data via Statistics Canada and Fred)

C. Manufacturing crisis

- The situation is especially stark in manufacturing, where Canada's capital stock has actually declined in recent years, falling back to levels last seen before the FTA and NAFTA era. In contrast, the net capital stock in the United States continues to reach record highs.

Canada: Capital stock in manufacturing down to pre-FTA levels

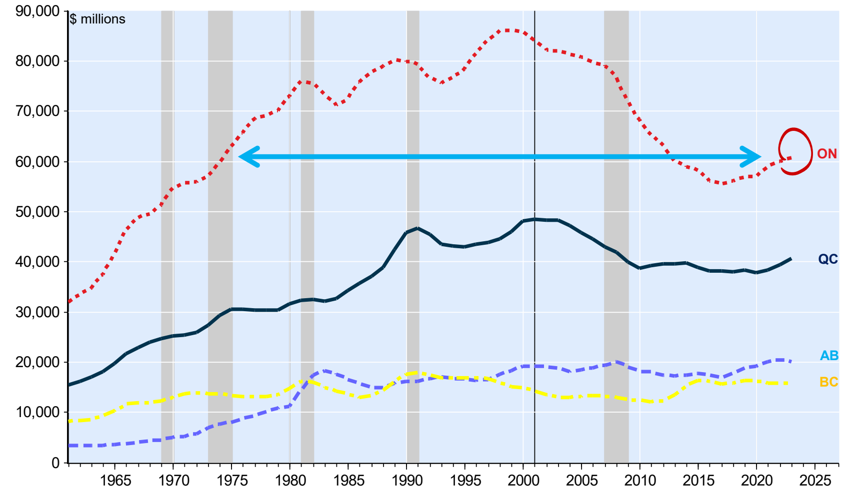
Geometric end-year net stock of capital in manufacturing, Canada and the U.S. (chained 2017 dollars)



NBF Economics and Strategy (data via Statcan, table 36-10-0096-01 and BEA table 3.2ESI)

- In Ontario, the heartland of Canada's industrial sector, manufacturing capital stock is now no higher than it was in 1974. In Quebec, which has the country's second-largest factory base, it stands at 1988 levels. Among Canada's four most populous provinces, only Alberta still maintains a manufacturing capital stock close to its record high.

Ontario: Capital stock in manufacturing at 1974 level
End-year net stock of capital in manufacturing, Ontario, Quebec, Alberta and B.C. (constant 2017 dollars)



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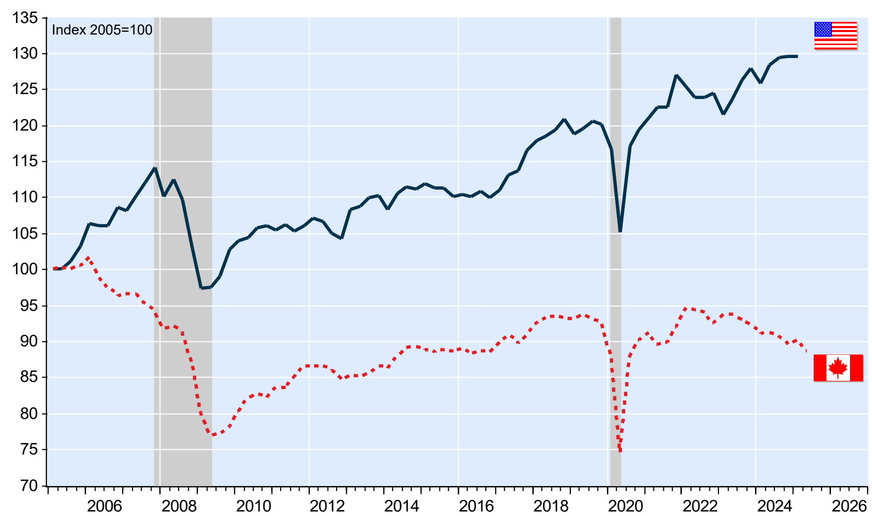
- As a result, it should come as no surprise that Canada's manufacturing GDP continues to atrophy—a decline made even worse by the tariff wars and trade uncertainty stemming from the U.S. Administration. That said, it is striking that policymakers are only now turning their attention to the plight of the manufacturing sector, even though this erosion has been underway for decades. Since 2005, Canada's factory output has fallen by more than 10%, while U.S. manufacturing has expanded by 30%. This contrast is even more concerning given that Canada's population has grown by almost 30% over the same period, compared to just 15% growth in the United States.

Canada: Our industrial base is disappearing
Real GDP in manufacturing (chained 2017 dollars): Canada vs. the U.S

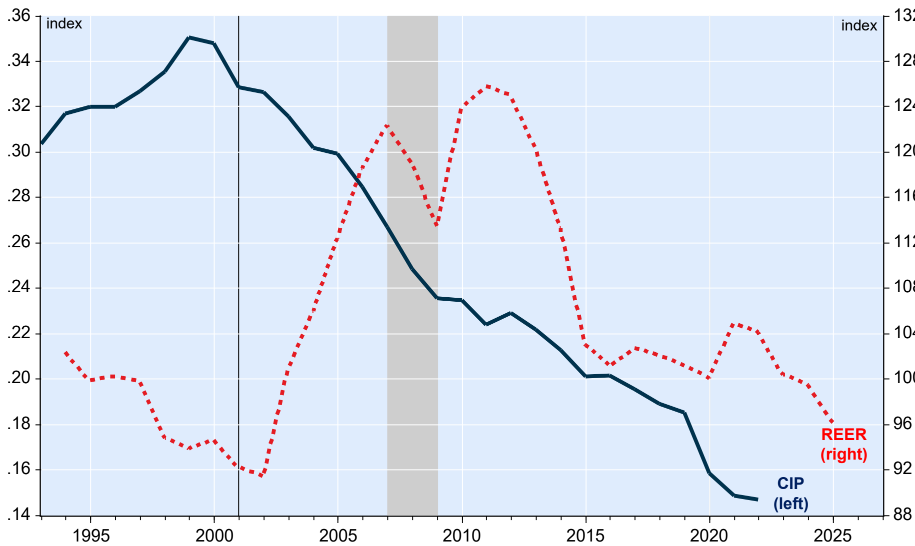


NBC Economics and Strategy (data via Statistics Canada and Fred)

- Canada's manufacturing sector shows no signs of stabilizing as it continues to lose competitiveness, despite the country's clear **comparative advantages**, such as affordable energy and an educated workforce. Data from the United Nations Industrial Development Organization (**UNIDO**), show that Canada's Competitive Industrial Performance (CIP) Index has plunged by half since 2005. The CIP reflects a nation's ability to produce and export manufactured goods, its technological resilience and upgrading, and its role in global supply chains. Notably, the sharp depreciation of the Canadian dollar in real effective terms since 2010—now at its lowest level since 2002—has done little to support Canada's CIP performance.

Canada: A collapse in competitiveness

Canada's competitive industrial performance index vs. CAD real effective exchange rate (REER)



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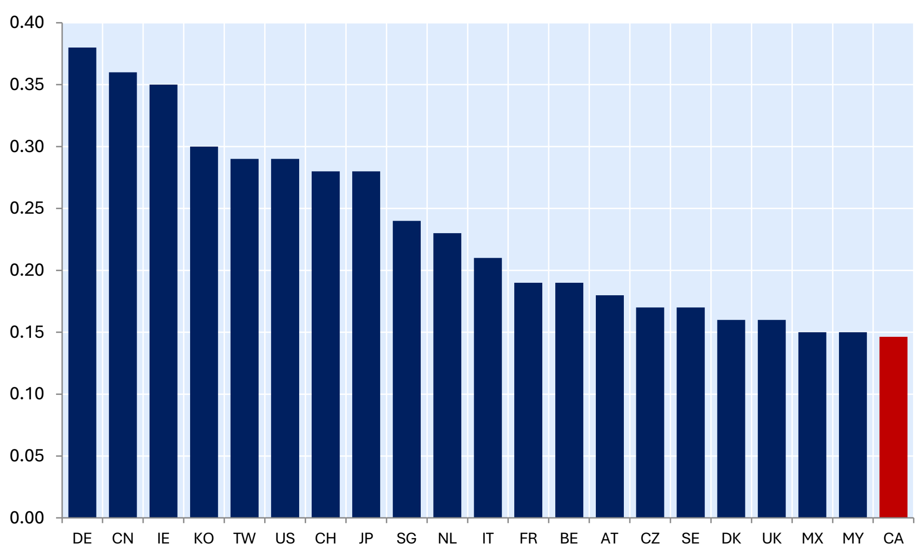
- As a result of this ongoing erosion, Canada has now fallen out of the world's top 20 countries in industrial competitiveness, making it the only G7 nation absent from this leading group, which is currently dominated by Germany, China, **Ireland**, South Korea, Taiwan, and the United States. This marks a stark contrast to Canada's #8 global ranking at the time it signed NAFTA. The decline has been particularly steep since 2005, with Canada dropping more than 10 places in the rankings.

World rankings: Canada falls outside the top 20

Competitive Industrial Performance Index (CIP): Global ranking as of 2022



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D. The surge in regulatory Burdens

- Although de-industrialization since 2005 isn't solely the government's fault, policymakers have not helped by failing to adopt a pragmatic approach to economic development, such as reducing corporate taxes or alleviating regulatory burdens. Instead, regulations have surged: at the federal level, the number of regulatory requirements has grown by 37%, now exceeding 320,000—more than the total number of federal **employees**.

- According to Statistics Canada, this growing regulatory complexity has contributed to reducing business sector investment growth by an estimated 9.0% across the economy. The impact on manufacturing was likely even more severe, as the regulatory burden surged by 41%, with the government introducing over 31,000 new measures during the period, bringing the total to just under 110,000 regulations

Ottawa: Now serving more than 320,000 reasons not to invest

Total number of **federal** regulatory requirements by sector from 2006 to 2021

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Requirements variation from 2006-2021
Agriculture & Forestry	9,679	9,486	9,539	9,366	9,663	9,639	9,743	9,772	10,091	10,077	10,161	10,049	11,265	8,111	8,303	8,482	**(1,197)**
Business Services	6,925	6,392	6,391	6,503	6,649	6,865	7,100	7,167	7,087	7,098	7,297	7,362	7,944	8,034	8,044	8,205	**1,280**
Construction	29,169	29,785	30,107	29,357	30,730	30,930	31,778	32,546	30,144	33,750	33,851	33,838	34,488	34,765	35,332	37,500	**8,331**
Distribution	40,826	41,211	41,716	40,638	42,732	43,668	44,961	47,384	47,430	49,029	49,940	50,244	55,197	54,225	54,473	57,603	**16,777**
E-Communications	734	730	771	795	794	1,004	1,018	1,022	1,086	1,219	1,223	1,268	1,429	1,444	1,417	1,685	**951**
Electricity	5,490	5,676	5,684	5,855	5,939	6,138	6,438	6,646	7,072	7,133	7,257	7,229	7,982	8,092	8,053	8,085	**2,595**
Financial Services	21,710	22,936	23,685	24,297	25,014	25,700	27,539	27,950	28,222	29,390	29,933	30,009	30,310	30,758	30,875	33,022	**11,312**
Fisheries	3,977	4,132	4,141	4,160	4,186	4,213	4,215	4,236	4,218	4,271	4,271	4,298	4,341	3,690	3,698	3,683	**(294)**
Hotels & restaurants	312	312	312	313	325	326	326	326	326	326	326	346	345	345	345	345	**33**
Manufacturing	78,233	79,630	79,971	79,462	82,514	83,790	87,463	91,152	91,780	95,912	99,110	99,877	104,528	101,619	104,976	109,993	**31,760**
Media	258	304	305	308	293	398	412	489	442	460	464	449	447	432	547	547	**289**
Mining & Quarrying (incl. Oil extr.)	5,974	5,819	5,859	5,542	5,693	5,663	6,123	6,234	6,721	6,739	6,855	6,806	7,089	7,219	7,133	7,335	**1,361**
Transport	30,883	31,831	32,568	33,098	33,040	33,932	33,816	34,306	36,714	38,488	39,116	39,477	39,892	40,798	44,096	44,388	**13,505**
Total	**234,170**	**238,244**	**241,049**	**239,694**	**247,572**	**252,266**	**260,932**	**269,230**	**271,333**	**283,892**	**289,804**	**291,252**	**305,257**	**299,532**	**307,292**	**320,873**	**86,703**

NBC Economics and Strategy (data via Statistics Canada)

E. Conclusion

Clarence Decatur Howe, the architect of Canadian industrialization, liked to say that the economy always needed one great project to keep it functioning properly.[1] In this context, Ottawa's passing of Bill C-5 on June 26—to expedite nation-building projects—is welcome.

Yet Howe also understood that "Canada's prosperity need owe nothing to the government and its plans. The one precondition for success was that the government get out of the way."[2] Ottawa would do well to heed those wise words as it considers large-scale projects it hopes might be home runs. While pursuing grand initiatives, it cannot ignore the importance of "base hits" that come from empowering the private sector to invest across a broad range of projects. Such private investment is crucial for rebuilding Canada's manufacturing sector to critical mass, strengthening its role in global supply chains, and revitalizing the country's military-industrial complex.

Much of what C.D. Howe built has been undone by excessive regulation. And at a time when Ottawa is still grappling with a sizable deficit, deregulation of the industrial sector may be one of the most effective policy levers available—requiring minimal fiscal outlay while delivering significant gains in investment, productivity, and economic growth. Beyond simply reducing red tape, deregulation should be viewed as a strategic tool to maximize the impact of new defence spending and broader nation-building efforts. **Canada cannot simply "build, baby, build"—it must also "make, baby, make."** Without a vibrant factory sector, even the most ambitious infrastructure projects or defence procurement plans will fall short of delivering sustainable economic strength.

For this economist—who helped promote NAFTA and other free trade agreements while at the Department of Finance in the 1990s—the current decline in manufacturing represents a deeply troubling reversal of the very gains those agreements were meant to secure. It's one thing for manufacturing's share of GDP to fall as services expand; it's quite another to witness the outright erosion of the industrial base on the scale Canada has endured.

[1] See C.D. Howe: A Biography by Robert Bothwell and William Kilbourn, page 275.

[2] See Bothwell and Kilbourn, page 181.

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