

The Impact of the Oil and Gas Sector on Canada's Productivity Performance

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Abstract

The report develops a framework to identify specific impacts that oil and gas extraction can have on aggregate productivity, including both direct and indirect effects. The former include within-industry effects – due for example to diminishing returns on the extensive margin (the Alberta story) – and reallocation effects, reflecting the high labour productivity levels of oil and gas extraction activities (the Newfoundland and Labrador story). The latter effects, which can be considered knock-on effects, include the myriad impacts of developments in oil and gas extraction on productivity in other sectors, and on other economic variables that affect productivity, such as the exchange rate and wages. Such spillover impacts include the effect of oil and gas extraction on the dynamism of the economy due to booms and busts; on competitive intensity; and on the labour market, including labour shortages, incentives to invest in higher education, and movement of skilled workers from oil and gas extraction activities to other sectors (and vice versa). The impact of oil and gas extraction on government revenues can also indirectly affect productivity, through the productivity-enhancing programs in areas such as: higher education, employee training, R&D, adoption of best practice technologies, and availability of venture capital.