THE ALBERTA ECONOMY: 1997 OUTLOOK AND STRATEGIC OPTIONS

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INTRODUCTION

This Bulletin offers some short and medium-term perspectives on the Alberta economy, it considers the experience of the past several years, the present quite favourable economic outlook, and raises some issues facing Alberta best addressed in the relatively benign environment now present.

The consensus forecast is that the Canadian economy will grow in 1997 after allowance for price change by 3.1%. This is a doubling of the growth rate from the 1.5% recorded in 1996. The labour market conditions should improve markedly with the unemployment rate falling below 9%.

Exceptionally high oil and gas prices drove very strong economic growth in 1996. Our expectation is that in 1997 Alberta GDP will grow by 4%, exceeding the growth forecast for Canada. Labour markets in Alberta are already tightening in selective occupations, a reflection of the 56,000 net increase in jobs during the calendar year 1996. The bulk of the increase last year was in the manufacturing, business service and transportation sectors. We anticipate a growth in employment of another 40,000 jobs in 1997. This growth will be accompanied by population net in-migration from other parts of Canada. In these conditions we expect the unemployment rate to fall to 6% by the end of 1997.
A. EMPLOYMENT PERSPECTIVES: ALBERTA AND CANADA

Employment is a key indicator of how well a region is doing economically and of the well-being and comfort level of the population. In considering employment, we provide perspective on employment experience over the past decade for Canada and for Alberta. We will also consider the eight identifiable economic regions within the province. The latter permits comparisons of non-metropolitan economic regions with Calgary and Edmonton, and is essential in understanding how the employment experiences of these regions compare with those in the province as a whole. In the comparisons, employment is converted to index numbers with a base of average employment levels in the year 1987.

Figure 1 is a measure of average monthly total employment in Alberta and Canada by quarters for the period from 1987 to 1996. Note that the data in the figures includes the self-employed and employment in small business firms. The figure reveals that over the period from 1987 to 1996 total employment including self employment in Alberta has increased by 20%. The comparable increase in the nation is 10%. Note the much greater impact of the 1990-91 recession on jobs in Canada compared to Alberta. Since the fourth quarter of 1992 employment in Alberta has increased steadily at an annual rate of 2.7%.

Figure 1

Source: Statistics Canada (72-001) and the Western Centre for Economic Research, University of Alberta. Data are adjusted for seasonality.
Figure 2 reports employment in large and medium sized establishments. It does not include the self-employed and contains only a limited representation of smaller business firms. The impact of the recession of the early nineties on large and medium sized enterprises in both the province and the country is clear. In Alberta, employment in these establishments has just about reached the pre-recession level. In Canada, employment is still significantly below pre-recession levels. In Alberta employment in these larger businesses is about 10% above the level of 1987; in Canada the comparable figure is about 3%.

Figure 2

Alberta and Canada: Employment in Large and Medium Sized Establishments, 1987:1 to 1996:3
(index 1987=100)

Source: Statistics Canada (72-002-XPB) and the Western Centre for Economic Research, University of Alberta. Data are adjusted for seasonality.
In Figure 3, the broken series, showing employment in large and medium sized Alberta establishments including government, provides a good indication of the impact of the restructuring and downsizing of recent years in both the private sector and in government. The gap between the two measures of jobs indicates the importance to the province during this entire decade of self-employment and small business generally.

Figure 3

(index 1987=100)

Source: Statistics Canada (72-001 and 72-002XPB) and the Western Centre for Economic Research, University of Alberta. Data are adjusted for seasonality.

The growth during 1996 in Alberta employment across establishments of all sizes is very encouraging. The breadth of the growth is reflected in the increase of 56 thousand jobs. Naturally, this favourably affected consumer confidence.
Figure 4 shows the Canada-wide experience and can be compared with the Alberta record as revealed in Figure 3. Nationally the effects of the recession and the restructuring were more severe than in the province, and the labour market recovery has obviously been more sluggish.

**Figure 4**  
Canada: Comparison of Total Employment Including Self-Employment and Employment in Large and Medium Sized Establishments, 1987:1 to 1996:4  
(index 1987=100)

In the Canadian case, the recovery in self-employment and small business has been much stronger than that in larger establishments.

In sum, the comparison of Alberta and Canadian data demonstrates that Alberta’s employment growth in the recent quarter has exceeded the national index by a substantial margin for all size classes of business. In calendar 1996 Alberta employment growth accounted for 29% of the net increase in jobs in Canada. The fact is that Alberta and British Columbia together accounted for 2 jobs in every 3 created in Canada during the year. It is also clear that the growth in self-employment and in small business has outstripped the growth in jobs in medium and large scale enterprises.
Employment opportunities in the eight labour market regions of the province for which we have systematic data do not necessarily mirror those in the province as a whole. Hence, one must be extremely cautious in applying the overall picture for the province to its various regions. That may be self-evident but it bears repeating.

In comparing the employment experience of these regions we make use of monthly labour force survey data which includes establishments of all sizes including the self-employed. Data presented are quarterly, cover the last decade and for comparative purposes are presented in index form with a base of 1987=100.

Figure 5 shows the employment record of the last decade for the Edmonton, Ft. McMurray, Red Deer and Grande Prairie/Peace River regions. For comparative purposes the graph also contains the Alberta employment index. The Edmonton region accounts for about two thirds of the total employment in these
regions. Fourth quarter 1996 employment in thousands is:
- Edmonton region-475
- Red Deer/RMH-80
- Grande Prairie/Peace River-75
- Ft. McMurray-90.

The star in growth performance is Grande Prairie/Peace River where employment increased by some 30% over 1987 levels, substantially higher than the 20% recorded for the province. At the same time, the impact of the recession is more apparent in this region than in others, and in the province as a whole. The Ft. McMurray region also experienced recessionary tendencies. However, note the sharp increase in employment in the latter region in the past 6 quarters, and the steady growth in employment opportunities in the Grande Prairie/Peace River region since the beginning of 1993.

The performance of the Edmonton and Red Deer region lags behind the provincial index. However, Red Deer, unlike Edmonton, has experienced steady growth since the fourth quarter of 1992. The Edmonton region is, of course, where the major expenditure impacts of deficit reduction were felt. Despite the impact of government downsizing, stagnation in employment levels other than outright decline was evident, a fact that may reflect the degree of diversification actually present in this region’s economic base. Edmonton employment growth in 1996 was significantly below the longer term trend with the increase in employment limited to about 1.3 thousand. The investment commitments in the Edmonton region and in northern Alberta indicate that growth in 1997 should show a return to trend with employment increasing by from 15-18 thousand jobs.

In Figure 6, the Calgary, Medicine Hat/Lethbridge, Drumheller/Stettler, and Banff/Jasper regions are compared. The provincial experience is also plotted. In these areas, the Calgary region accounts for about two thirds of the total. Fourth quarter 1996 employment in thousands is:
- Calgary region-490
- Lethbridge/Medicine Hat-110
- Drumheller/Stettler-45
- Banff/Jasper-68.

The star performer is Banff/Jasper where over the 1987-96 period employment increased by 40%, or double the rate in the province as a whole. Employment trends in Calgary closely followed those in the province through 1994 but since that time the Calgary region has outperformed the all-Alberta index, and some 21 thousand jobs were created in the region in 1996.
Growth in Lethbridge and Medicine Hat reflects fairly closely the all-provincial situation. The no growth area is the southeast central part of the province including Drumheller, Stettler and Wainwright.

The trends in employment over the past decade show clearly that the Alberta experience in job creation varies measurably across the regions of the province. Job creation ranged from a low of about 4% over the decade in the Drumheller/Stettler/Wainwright area to a high of 40% in the Banff/Jasper region.

**SUMMARY OVERVIEW OF THE 1997 OUTLOOK**

We have a very positive view of the economic outlook for Alberta in 1997. The hiring intentions of employers, the vastly increased employer visits to post-secondary placement offices, the evidence of selected shortages in particular occupations, the number and range of significant projects that are either on-stream or on the drawing boards are all evidence of what will be a very strong 1997. Further, the provincial
budget is in surplus and the cuts in provincial expenditures appear to be over. Our political leaders now talk about targeted “re-investment”.

Alberta’s recent results and its economic prospects have been buoyed by its resources base and its access to markets. Oil and natural gas prices have been strong and so too have Alberta government royalties and attendant employment, investment and taxes. Desirable as it might be, such continuing high prices are unlikely. Fortunately, the Alberta economy has been bolstered by recent strength in agriculture, forestry and resources-related technology.

Alberta is a trading region within a trading nation. A substantial "bounce" in Canadian economic growth has been fed by international trade success driven by trade agreements that have created export opportunities. Trade is even more important to Alberta and the opportunities have been realized.

In January 1997 a new economic strategy for Alberta was announced. Its provisions are general. We wish to turn now to three specific areas of policy choice that can build on Alberta’s current strengths for sustained economic strength.

B. STRATEGIC POLICY OPTIONS FOR ALBERTA

Alberta is now in a position to take advantage of an expanding and strong economy to make policy choices that can enhance its longer term economic prospects. Recent market and public policy changes raise troubling questions that cannot be dismissed. We suggest that Alberta adopt pro-active strategies toward them—feasible now but much more difficult in tough economic times. Certain initiatives can be taken by Alberta on a stand-alone basis; others require Federal Government actions as well.

(1) Interprovincial Trade

At the time of Confederation, policy intentions for free trade within Canada could hardly have been clearer.1 More than a century and a quarter later, and despite reaffirmation by the Constitution Act of 1982, barriers to trade between Canadian provinces remain numerous, complex and costly. Canada benefits from trade, and always has. Canada has been a vigorous participant in international trade arrangements, policy discussions and negotiations; in recent times Canada has dealt with world trade in a proactive fashion. "Team Canada" missions are a current example. Yet there is a perverse disparity between Canada’s commitment to freer international trade, and its maintenance of protectionism and balkanization of interprovincial trade.

The Government of Canada is responsible for international trade policies. But provincial governments pursue policies that affect trade, both interprovincially and internationally. Provinces use regulatory and administrative barriers to impede the flow of goods and services. For example, virtually all provinces exercise some degree of preferential procurement policy. These barriers discriminate against producers from other jurisdictions in favour of local producers and labour. Foregoing comparative advantage and incurring "deadweight loss", interprovincial trade barriers reduce economic growth and prosperity in Canada. The economic evidence is overwhelming contained in studies this century by a range of research entities across Royal Commissions such Rowell-Sirois (1937), Pepin-Robarts (1979) and Macdonald (1985) all have urged relief

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1 "All articles of the growth, produce or manufacture of any of the provinces shall, from and after the Union, be admitted free into each of the other provinces" -- Article 121, BNA Act, 1867.
from restricted internal trade within Canada. In 1991 the Canadian Manufacturer’s Association published "A Plan for the Creation of A Single Economic Market in Canada", and in fall 1996 the Canadian Chamber of Commerce did the same in "Building A Strong United Canada". Finally, Constitution proposals in the Meech Lake Accord, the Clark Report, and the Charlottetown Accord all called for actions to implement a freer economic trade union for Canada.

Free internal trade is not dependent on Constitutional change. During the 1990s the federal government and some provincial governments initiated efforts toward practical measures for achieving freer trade results. Alberta has led the provinces in this effort; progress has been made. In July 1994 a "rules based" agreement with ten "chapters" (economic sectors and governance policies) was signed with effect in July 1995. The first priority under the agreement was governments themselves, followed by their Crown Corporations and MASH sectors (municipalities, advanced education entities, schools, and hospitals). Progress is stalling, and major sectors (especially energy and agriculture) are outstanding. Newer ideas for economic integration and efficiency, such as a National Securities commission, are languishing on the agenda.

Canada’s and Alberta’s prosperity is hobbled because of self-inflicted economic injury through internal trade barriers. Alberta has asserted an effective leadership role in lowering these barriers. Vigilant business sector support continues to be needed. Above all, federal government leadership is required. Progress to date is fragile; "feet must be held to the fire" lest the opportunity be missed; certainly the province can play an important role.

(2) Tax Reform and Harmonization
Alberta is the only province without a sales tax. Due to Alberta’s generous endowment of publicly-owned natural resources, large though volatile revenues have supported the province’s needs. The result is the lowest—by a wide margin—overall tax rates in Canada. Except for "sin taxes", Alberta’s tax structure is only 75-80% as high as counterpart Canadian jurisdictions; both personal and corporate income taxes are the lowest in Canada.

Alberta data show that expenditure levels "track" upward with buoyant resource revenues. But resource revenues are volatile, and it is politically much more difficult in the face of declining resource revenues to "track" expenditures downward than upward. When resources revenues fell precipitously in the mid-1980s, Alberta public expenditures were the highest in Canada; in the last half of the 1980s and early 1990s Alberta government expenditures had leveled off (actually decreased marginally if inflation and population increases are considered). But shrinking revenues resulted in sudden and huge deficits and accumulating provincial debt. To its credit, the Alberta Government came to grips with the deficit/debt problem. Public policy analysis and debate ensued. Policy options were explored by Government Budget Roundtables, an Alberta Financial Review Commission, professional and interest groups (especially the Institute for Chartered Accountants of Alberta), an Alberta Tax Reform Commission, and independent university researchers.

The ringing consensus was that Alberta public expenditures be reduced. But the debate was over how much, and whether cuts should be the sole method of eliminating the deficit. Some input and policy advice suggested a balance of expenditure reductions with tax increases (not necessarily sales tax); increasing tax levels to about 90% of other Canadians would dispose of at least half of the deficit. In February 1994 the Alberta Tax Reform Commission recommended an intriguing strategy: keeping, and even reducing income taxes on low incomes, enabled by a modest (presumably lower
than British Columbia and Saskatchewan) broad-based consumption tax. The Commission also concluded it would support a sales tax only if the Alberta Budget had otherwise been balanced.\(^2\)

Due to expenditure reductions and sharply increased resource revenues, the Alberta budget again is (more than) balanced. The moment and circumstance contemplated by the Tax Reform Commission is upon us now. There are two fundamental arguments for a provincial sales tax: (i) stronger incentive is built into the economy through a greater reward for productivity and investment than in an alternate tax regime of higher income and payroll taxes; and (ii) Alberta needs a tax system that will yield more stable revenue flows through good times and bad—the present tax structure is one of the most risky among the provinces and states of North America. The time to address a risky tax structure is during buoyant—not depressed—economic times. That time is now.

A Western Centre for Economic Research study released in December 1996, jointly sponsored with the Chartered Accountants of Alberta, analyzes the impact of a sales tax for Alberta harmonized with the GST (Goods and Services Tax)\(^3\). Significant benefits are identified, particularly of tax simplification. As well, tax on capital goods can be lessened and income taxes reduced. Any major policy change requires an adjustment and adaptation period; our conclusion is that adjustment is less difficult and thus more practical during a period of economic strength in Alberta. We are in that position now.

(3) Better knowledge for better policy formation—it makes sense

We will mention two recent developments in the Alberta economy where more systematic knowledge is essential if public policy is to be rationally developed and effectively implemented.

First is the growth in self-employment and in home based businesses. Anecdotal evidence suggests that much of this growth results from restructuring and downsizing. Individuals choose to stay here and to engage their abilities in self-employment. This is an important change in the labour market—an upsetting transition more easily negotiated by some individuals than by others.

The limited studies (none relating to Alberta) we have about the rapid growth in self-employment suggest that the self-employed fall into several categories with very different needs and goals. They include: the traditional entrepreneur; the propreneur (oriented to profession or vocation); home based lifestylers; income supplementers; hobbyists; and the temporarily unemployed. Alongside the growth in self employment is the disturbing fact that Alberta records the highest bankruptcy rate per capita in Canada. We need research to identify a number of things:

- Who are the self employed and what are there goals and objectives?
- How do the self employed relate to large and medium sized establishments and to the export sector?
- What, if any, is the relation of the self-employment boom to personal and business bankruptcies?
- What is the impact of these changes on average household income?

The second thing we need to know more about is what can be termed the “underside” of the economy. There are many economically distressed persons living in Alberta. Social assistance rolls are clearly related to the pace of economic growth. With good growth social assistance rolls decline. Yet while numbers on social assistance rolls have been reduced significantly, demands on food banks and social agencies are increasing. We need a

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\(^2\) The Commission also said it should be approved by referendum.

\(^3\) The Impact of Sales Tax Harmonization on the Alberta Economy and its Taxpayers by Karen S. Davis.
serious study of what happens in terms of labour market participation and employment experience when individuals leave social assistance. We are absent this knowledge. We need to identify a number of things:

- Where those leaving social assistance rolls go
- What kind of labour market involvement and employment experience they have?
- What kind of employment is possible
- How transitions to work can be best secured?

CONCLUSION

Exceptionally high oil and gas prices, a strong resource sector, continuing success in international markets, and the strength displayed by the technology sectors combined to drive very strong economic growth in Alberta during 1996. Labour markets in Alberta are already tightening in selective occupations, a reflection of 56,000 jobs created during the calendar year 1996. The bulk of this job increase was in the manufacturing, business service and transportation sectors.

Our expectation is that in 1997 Alberta GDP will grow by 4%, exceeding the growth forecast for Canada. The outlook for the Alberta economy in 1997 is bright. We expect the number of jobs to increase by 40 thousand, or by 2.7%. The unemployment rate in Alberta will fall to 6% by the end of 1997. This growth will be accompanied by population net in-migration from other parts of Canada.

The trends in employment over the past decade show clearly the differences in job creation rates across the different geographical regions of the province. What happens in these regions may differ significantly from the all-province experience. Job creation over the decade from 1987-96 varies from a low of about 4% over the decade in the Drumheller/Stettler/Wainwright area to a high of 40% in the Banff/Jasper region. These differing experiences point to a much greater emphasis on what is happening within each of the regions of the province.

We argue that a period of cyclical expansion and strong growth is the advantageous time to tackle some of the pressing issues before us. Three are identified:

- leadership to realize freer interprovincial trade;
- the courage and will to lower the risks inherent in Alberta’s present tax structure with its heavy reliance on highly volatile natural resource revenues;
- the need for research into changes in the labour market—particularly the increase in selfemployment—and into the “underside” of the economy—the reduction in social assistance cases, the increased use of foodbanks, and the highest bankruptcy rates in Canada.