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Language Trends in Western Canada

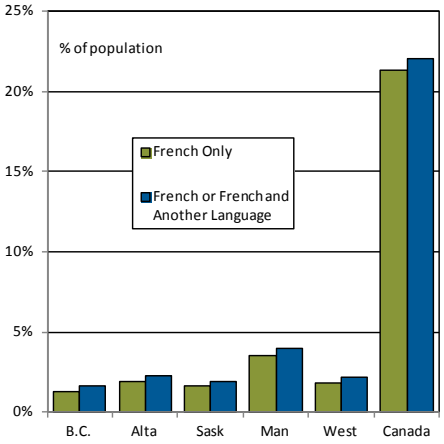
By Daniel Béland, Professor and Canada Research Chair in Public Policy, Johnson-Shoyama Graduate School of Public Policy, and Associate Member, Department of Sociology, University of Saskatchewan and Pierre-Marc Daigneault (Ph.D.) Postdoctoral Fellow, Johnson-Shoyama Graduate School of Public Policy, University of Saskatchewan

Language has always been a central aspect of human cultures and identities and, from a political and policy standpoint, it remains especially relevant to an officially bilingual, multicultural and multinational country such as Canada. According to the dominant narrative, our country is said to have sprung from a "pact" between three founding peoples: the Aboriginal, the British, and the French. Language is thus a fundamental feature of our political life. Featuring 2011 census data on language trends in Canada, the following discussion focuses on the four western provinces and issues like the prevalence of French and bilingualism, the impact of immigration on language patterns, and the persistent dominance of English in these provinces.

Is French a Declining Language in the West?

Although Canada is officially bilingual, linguistic groups are geographically concentrated, as the vast majority of Francophones live in Quebec – the only province where they constitute a majority – and New Brunswick – the only officially bilingual province in Canada. Outside *La Belle Province* and New Brunswick, Francophone minorities have faced tremendous challenges in order to maintain themselves as meaningful language groups for decades. In western Canada, Francophones form a small minority of the population, whether we consider those who have only French as their mother tongue[1] or we also consider those who have French and another language as their mother tongue (see Figure 1).

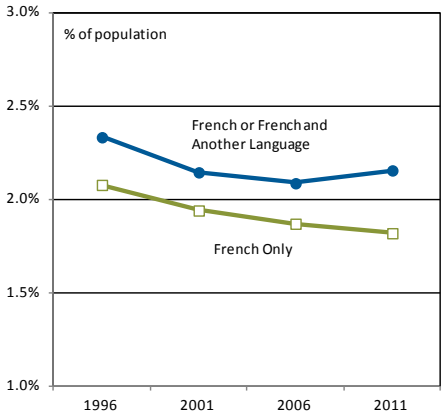
Figure 1: French as the Mother Tongue, 2011



In B.C., Alberta, and Saskatchewan, the percentage of people whose mother tongue is only French is less than 2%. As for Manitoba, 3.5% of its inhabitants declare French as their only mother tongue, a figure lower than Ontario's.

While a decline over time must be noted with respect to the number of Francophones in the western provinces on both measures (i.e., French only and French plus another language), the drop is more pronounced on the first (see Figure 2). This suggests that Francophones in western Canada are increasingly having both French and English as their mother tongue. This partly offsets the decline in the number of western Canadians having French as their only mother tongue.

Figure 2: French as the Mother Tongue, Aggregate of Four Western Provinces



[1] The mother tongue is the language "learned at home in childhood and still understood".

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The relative weakness of French compared to English is also reflected in the most recent data on bilingualism in the four western provinces (See Figure 3). Although, in absolute terms, the number of bilingual[2] people is on the rise, this increase does not keep pace with population growth. As a result, the proportion of western Canadians who see themselves as "bilingual" has declined slightly since 1996 and this drop is most significant in Saskatchewan and Manitoba.

However, the fact that the level of bilingualism is much stronger among younger people than among older citizens could eventually translate in a positive trend. That is, provided that this denotes a long-lasting difference (i.e., a cohort effect), rather than a temporary difference due to age, where the command of French as a second language declines after its initial acquisition in school (see Figure 4).

Figure 3: Population who Report that they are Bilingual

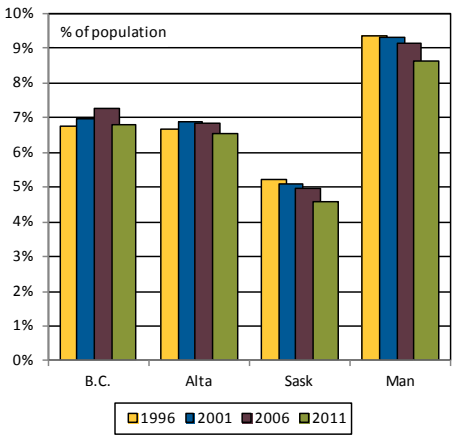
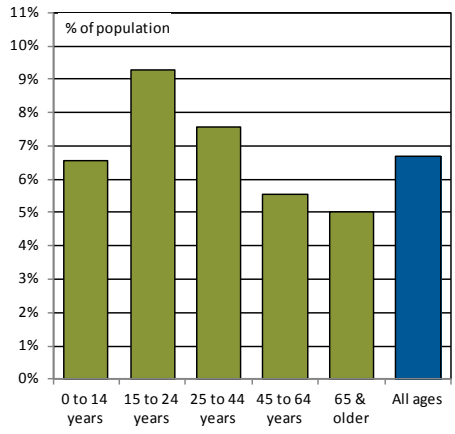


Figure 4: Population in Western Canada who Report that they are Bilingual, 2011



Is Immigration a Threat to the Enduring Dominance of English?

Immigration has long been a source of linguistic diversity in Canada, including the western provinces. This is especially the case in recent decades, as the relative prosperity of the "New West" has attracted many new immigrants, especially in Alberta and British Columbia.

Immigration sometimes threatens the common national language. For instance, in the United States, Spanish is gaining ground at a fast pace in states such as California, New Mexico and Texas. Although Canada relies more on immigration than most other advanced industrial societies, the dominance of English remains undeniable. Thus, Canada is not witnessing the emergence of one dominant immigration language that is competing against the language of the majority in many regions of the country.

Yet, in western Canada, English as a mother tongue is declining in the two largest provinces (see Figure 5). In B.C., where the decline is the most significant, from 1996 to 2011, the percentage of people whose mother tongue is English alone fell from 75.5 to 70.4%. Next door, in Alberta, this percentage declined from 80.9% to 77.0%. Although this is not reflected in the chart, this trend is primarily the product of changes taking place in large cities such as Calgary, Edmonton, and Vancouver, which attract many of the immigrants settling in these two provinces.

As for Manitoba and Saskatchewan, between 1996 and 2011, English-as-a-mother-tongue actually increased in Saskatchewan, while it declined only slightly in Manitoba. The counterintuitive trend in Saskatchewan could be related to the death of people from European origin who settled in the province during the first three decades of the twentieth century. Importantly, considering the economic boom currently taking place in Saskatchewan and the increase in immigration stemming from it and from related policy changes, the percentage of people whose mother tongue is not English could increase in the years to come, though there is little evidence of this to date.

Regardless of the province, English remains the overwhelmingly dominant language in the workplace as, in all four western provinces, it is the language spoken most frequently at work by at least 95% of people (see Figure 6) . Workplace language is a much better indicator of the role of English in the public domain than mother tongue

data, as people can switch language as they age (i.e., someone who spoke Ukrainian at home as a child may turn to English later in life and make it the everyday language of the family and for work). Because workplace interactions play a central role in the integration of new immigrants to Canada, the enduring dominance of English in the workplace in western Canada is a positive sign for the integration of recent immigrants. By the same token, however, the dominance of English in the workplace raises concerns about the ability of Francophones, including immigrants, to live their public life in French in western Canada.

Regarding the dominance of English, Figure 7 clearly indicates that the large majority of second-generation Canadians from the four western provinces have English as their mother tongue[3]. For instance, in B.C. and Alberta, more than four out of five second-generation citizens define English as their mother tongue, compared to only about one of out of four for first-generation Canadians. In Saskatchewan and Manitoba, about three out of four second-generation Canadians claim English as their mother tongue, which is a high percentage by any standard.

Overall, this means that, despite all the talk about multiculturalism, language integration of immigrants is taking place in western Canada. Regardless of the normative opinion one may have about this trend, it suggests once again that English remains dominant across the West.

Another way to illustrate the ongoing dominance of English in the everyday life of Canadians from the four western provinces is to measure the language they speak at home (see Figure 8). Here again, English is strong, although a slow decline has been witnessed since 1996. This is especially true in B.C., where the percentage of people speaking English at home fell from 85% to 80% between 1996 and 2011. However, what matters most in terms of social integration is the language spoken at work and in the public sphere (outside the home). From this perspective, the language spoken at work reported above is a much better indicator of the strength of English as a public language in the four western provinces (see Figure 6).

Figure 5: Population who Report a Mother Tongue of English Alone

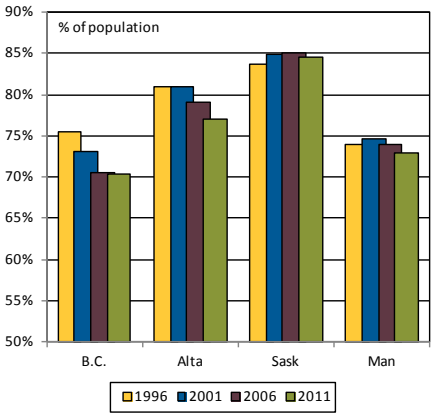


Figure 6: Language Spoke Most Frequently at Work is English, 2006

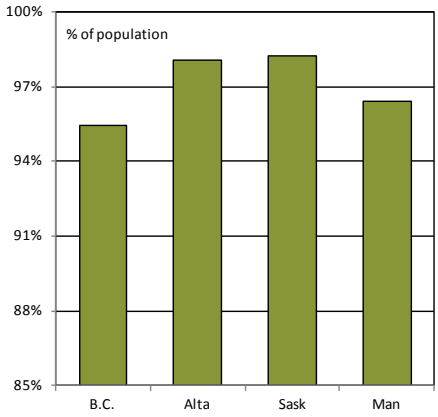


Figure 7: Population who Report a Mother Tongue of English Alone, 2006

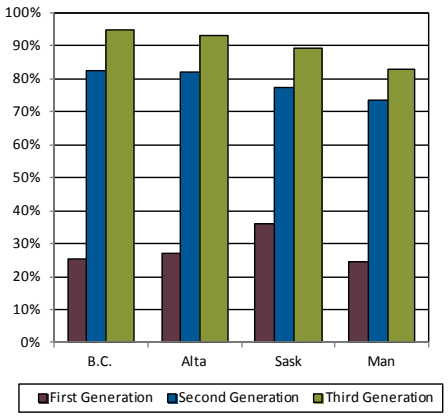
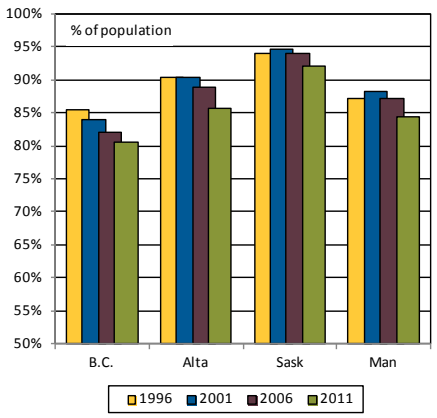


Figure 8: Population who Report a Home Language of English Alone



Unanswered Questions and Policy Implications

To conclude, here are a few unanswered questions regarding language trends in western Canada that raise key policy issues. First of all, starting with the assumption that fostering bilingualism and vibrant Francophones communities in the western Provinces are desirable ends, what could be done to promote those ends through policy?

In addition, how can we explain the fact that immigration does not seem to threaten the dominant status of English in western Canada, especially in the public sphere? Is it due to the fact that the number of immigrants is sufficiently low to allow integration, that immigrants already know English when they arrive in the western provinces, or that our integration policies (e.g., English and Canadian society courses, mentoring by Canadian citizens) are highly successful? Could immigration and interprovincial migration be used as tools to maintain and even increase the demographic representation of Francophones in western Canada?

Finally, while English remains the dominant language in the workplace and second-generation and third-generation immigrants seem to integrate well in western Canada, work is not the universal way to integrate for all immigrants. For instance, some recent immigrants do not wish to or cannot work (i.e., housewives, older people and the unemployed). What policies could be implemented to foster their integration? These are significant questions policy officials need to tackle in the years to come.

Sources: Statistics Canada Census; Table 98-314-XCB2011028 for 2011; Tables 97-555-XCB2006043, 97-555-XCB2006033, and 97-555-XCB2006009 for 2006; 97F0007XCB01002, 97F0007XCB0100, and 97F0007XCB01005 for 2001; special tabulations for 1996.

[2] "Bilingual" is used here in the official sense, as it refers to people who speak both French and English, Canada's two official languages.

[3] "First generation" Canadians were born outside Canada. At least one parent of a "second generation" Canadian was born outside Canada. All others are considered as "third generation".

Older Workers in the Labour Market

By Debora Senger, BCS, MPA Candidate, Alumni and Stewardship Coordinator, College of Dentistry, University of Saskatchewan

Understanding factors affecting the labour force participation of older workers is of paramount importance to Canada because the Canadian population is expected to age faster than in most other OECD countries[1]. By some estimates, Canada's "accelerated population aging" is expected to push its ratio of elderly to working-age population above the OECD average as early as 2030.

For this reason, the fact that older Canadians, taken as those 55 and older in this analysis, have lower participation rates in the labour market than in other advanced countries may be a concern to be addressed. The data presented in this article from the Labour Force Survey[2] reveals two significant current trends in labour force participation for older workers. They are connected to gender and educational attainment[3].

Older Workers with Less Than High School

Figure 1 shows employment rates for the population 55 and older with a low level of completed education, taken to be those with less than a high school diploma.

- Women in western Canada are employed at a higher rate than the Canadian average for females.
- Male workers in B.C. have a lower employment rate than the national average whereas the employment rate in the three prairie provinces is higher than the Canadian average for men.
- Among those with less than high school, employment rates are much lower for women than for men, typically 10%-15% compared with rates of 30%-35% for men.
- From 2002 to 2012, the employment rates increased for both men and women in all four western provinces and in Canada as a whole. The increase was most pronounced among men.

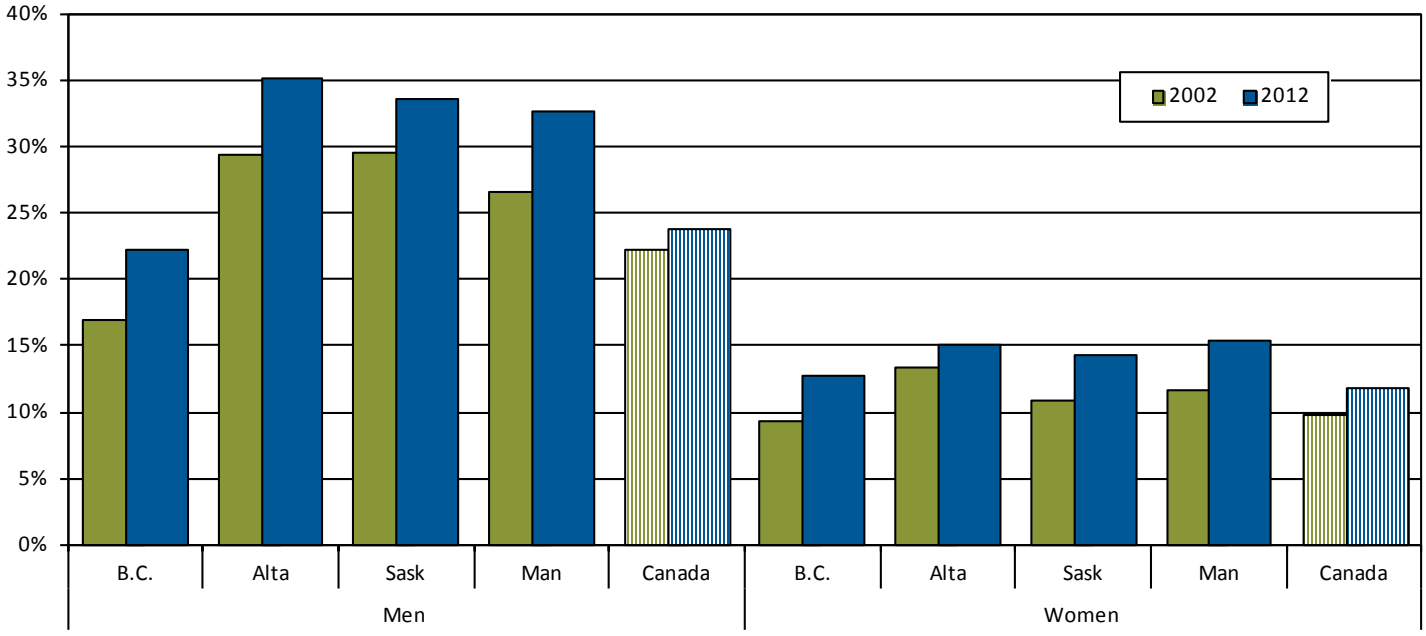
Older Workers with University Degrees

Figure 2 shows employment rates for the population 55 and older with a university degree.

- Both men and women in the prairie provinces are employed at a higher rate than the equivalent Canadian averages. In B.C., the employment rates are slightly lower.
- For those with a university degree, employment rates of women (approximately 50%) approach those of men approximately 55%).
- From 2002 to 2012, the employment rates increased for both men and women in all four western provinces and in Canada as a whole. The increase was most pronounced among women in the prairie provinces.

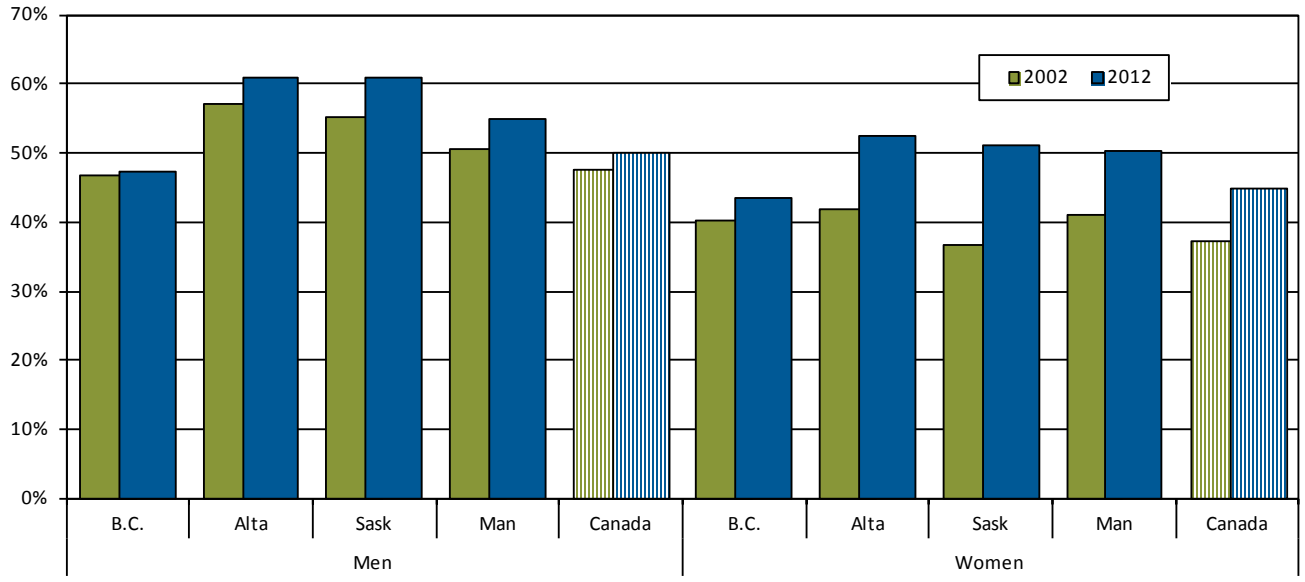
In summary, educational attainment is shown to be directly correlated to delayed retirement by older women in the West, particularly in the prairie provinces. Female workers with a university degree have much higher employment rates than their less educated counterparts.

Figure 1: Employment Rates for Older Workers (55 and older) with Less than High School



[1] The Organization for Economic Co-operation and Development (OEC) is a collection of mainly rich nations.
[2] The Labour Force Survey is a sample survey conducted monthly by Statistics Canada. It excludes the population living on Reserve.
[3] Statistics Canada uses a hierarchy for the levels for completed education. Those with a university degree are considered to have a "higher" level of education than those with a post-secondary certificate or diploma. Those who have a post-secondary qualification are considered as having completed high school. There is no requirement that the education be obtained in Canada.

Figure 2: Employment Rates for Older Workers (55 and older) with a University Degree



We are about to see a dramatic reduction in the percentage of the population that is of "working age" (often considered 25 to 64 years of age) and the data provides evidence that the older cohorts are remaining in the active labour force longer. Public policies to facilitate their continued participation and productivity may enhance the size of our labour resources. The increase over time is encouraging, suggesting that supports contributing to the health and activity of older workers may improve their willingness and ability to participate. Conducive workplace conditions and transportation access may be strategies to be considered for this cohort. Increasing participation is a bigger challenge for older workers with lower levels of completed education. From the perspective of career planning and education choices for young people, more years of employment income may be used as an incentive for continuing education.

Sources: Statistics Canada Labour Force Survey CANSIM Table 282-0002 and 282-0004

Education and the Western Canadian Boom

By Michael Atkinson, Executive Director and Professor, Johnson-Shoyama Graduate School of Public Policy and Associate Member, Department of Political Studies, University of Saskatchewan and Ken Coates, Professor and Canada Research Chair in Regional Innovation, Johnson-Shoyama Graduate School of Public Policy, University of Saskatchewan

Much of the country envies western Canada. The multi-level boom – oil and gas, mining, agriculture and the surprising financial and service strength of the urban areas – has produced high incomes, low unemployment rates, and buoyant economies. The western experience raises important questions about the relationship between educational attainment and economic growth and about the ongoing government effort to connect education, training and economic development.

Across most of the industrial world, governments have justified their commitment to higher education on the grounds that a highly educated population is necessary for sustained economic growth. Belief in a human capital model of growth combined with the bright image of a "knowledge economy" has driven policy across Canada, in the United States and in countries around the world. At the aggregate level, there is no question that prosperity and advanced education go together, but there is no consensus on what kinds of educational experiences are the most productive in economic terms or how far governments should go in directing resources toward particular educational objectives.

One topic on which unanimity is virtually assured is the need for basic levels of literacy and numeracy. In Canada a high school education is a major asset in this regard. Only 18% of those without high school have the numeracy skills to prosper in our society and only 22% of non-high school graduates have the literacy skills . Note that high school education merely increases literacy and numeracy; it is far from a guarantee. Think of it as an absolute minimum.

When it comes to high school completion among those participating in the workforce, Figure 1 shows that the West is about the same as the rest of Canada (with Manitoba pulling up the rear). If you are in the labour force, chances are you have at least a high school education (90% in Saskatchewan). But Manitoba and Saskatchewan have significantly fewer high school graduates overall: almost 25% of the population in these provinces is without a high school diploma although the proportion is smaller among those 25 to 64 years of age. That translates into a major literacy and numeracy deficit. The Saskatchewan government's recent commitment to eliminate the backlog in demand for adult basic education (ABE) speaks to this issue.

When it comes to post-secondary education, Figures 2 and 3 indicate that Western Canada taken as a whole is, once again, not that dissimilar from the rest of the country, but the Prairie Provinces have fewer university graduates and Manitoba and Saskatchewan have far fewer citizens with any post-secondary education. In these provinces supply may be part of the problem: there are not as many high school graduates to begin with. The result is that levels of education in the workforce are strikingly lower in these provinces than in other parts of the country.

The demand for higher education is becoming a more complicated issue. In aggregate terms there has been a steady increase in the number of post-secondary graduates in the workforce. Figure 4 shows, once again, that British Columbia

Figure 1: Percentage of the Population 25 to 64 who are Grade 12 Graduates, 2012

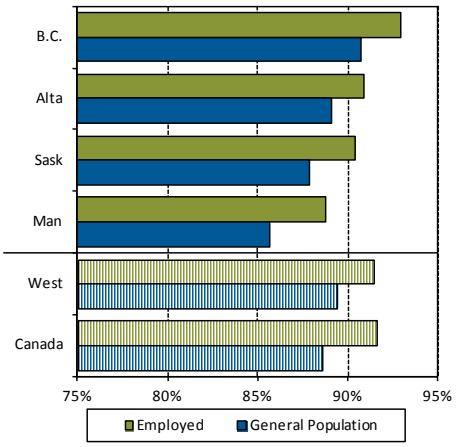


Figure 2: Percentage of the Population 25 to 64 Years of Age who are Post-Secondary Graduates, 2012

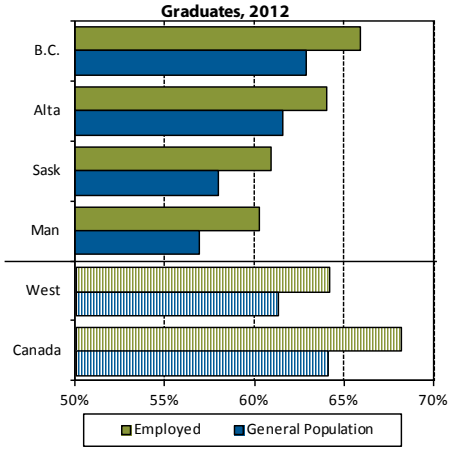
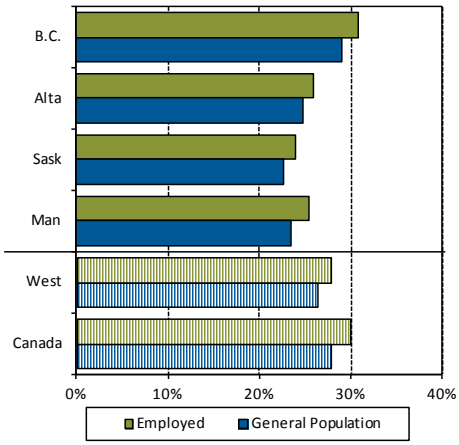
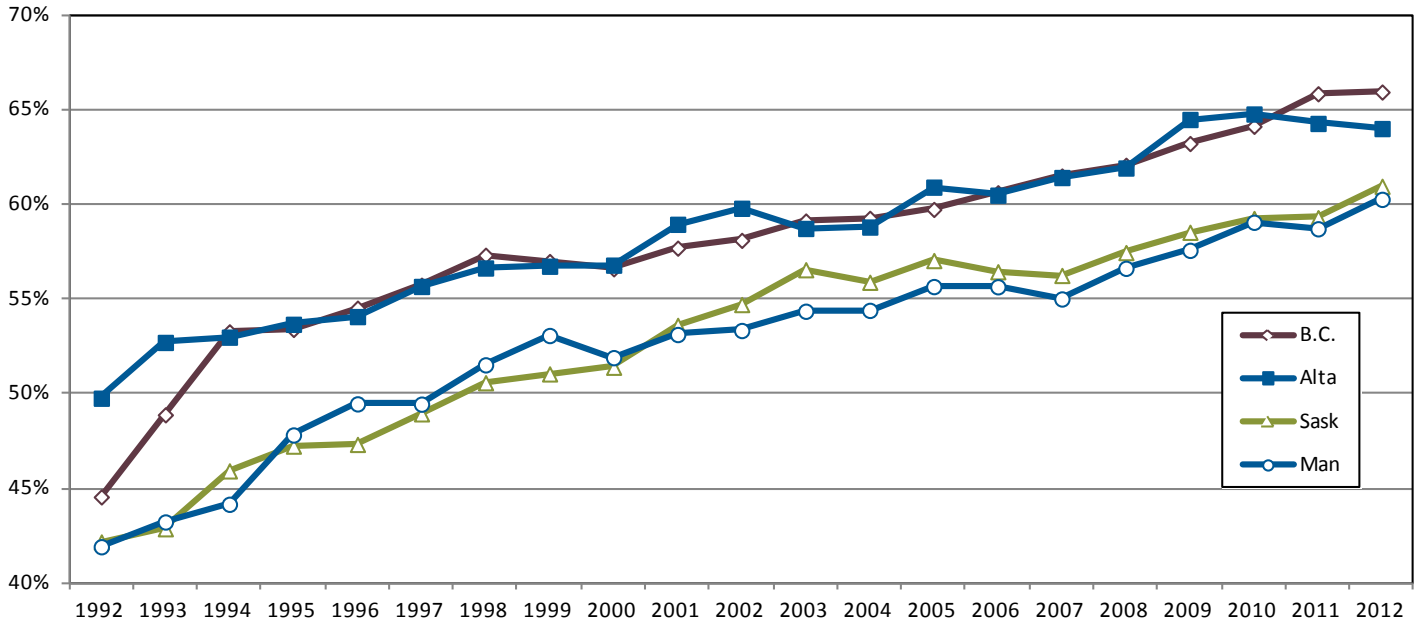


Figure 3: Percentage of the Population 25 to 64 Years of Age with a University Degree, 2012



[1] HRSDC Canada http://www4.hrsdc.gc.ca/d.4m.1.3n@-eng.jsp?did=5).

Figure 4: Post-Secondary Graduates as a Percentage of the Employed, 25 to 64 Years of Age



and Alberta have led the way in the West. The relatively lower levels of higher education in Manitoba and Saskatchewan is a testament to the magnet force of Alberta and British Columbia and the absence of strong pressures to significantly expand enrollment in universities and colleges.

Many sectors of the Western economy provide high wage work to people of relatively limited technical skill or training, increasingly an anomaly in the country at large. While highly skilled workers in the oil sands and other resource sectors make impressive incomes, so do the bus and truck drivers, carpenters' helpers, supply workers, bull cooks and the thousands of men and women who support the resource sector. These people earn, in comparative terms, extremely high wages and benefits, despite the fact that many either have no credentials relative to their work or diplomas and degrees in completely different fields.

The result, at the college and university levels, has been historical volatility in enrollments and applications. When the resource economy is strong, unskilled and semi-skilled workers can nonetheless find decent pay and steady work. When the economy takes a downturn, as it has several times in the past few decades, interest in college diplomas and university degrees picks up. In the rest of the country, high school students listen attentively to the appeals by government leaders and others to prepare themselves for the knowledge economy. In Western Canada – with important pockets of variance, including Vancouver and South West British Columbia – college and university education is not such an easy sell.

Western Canada is, therefore, a vital test case of the one of the central tenants of global economic policy, namely that a vibrant economy requires high level of post-secondary attendance and completion. Faith in this formula is currently being tested. Certainly college and university education is a more reliable source of literacy and numeracy skills than high school, but recent reports in the United States suggest that almost half of college graduates are in jobs that do not require that level of education. Indeed, the student-centred approach to advanced education in Canada has produced sharp gaps between the needs of marketplace and the skills and training of young adults. Studies in Ontario, not yet replicated for western Canada, have described a world of "people without jobs, jobs without people," where the extensive mismatch between educational opportunities and the needs of the modern economy is serving as a brake on provincial economies.

This phenomenon may be less pronounced in the West. The western Canadian economy is one of the last strongholds of the high wage-low skill workforce. For several decades, the ability of comparatively under-skilled individuals to find well-paid, often unionized jobs in the nation's factories, construction sites and mining campus underpinned the emergence and strengthening of the middle-class. The sharp collapse of central Canadian factory work, private sector unionization, and the replacement of unskilled and semi-skilled workers with high-tech machinery sharply eroded this important segment of Canadian society. But this is not happening so much in the West.

Provincial governments on the Prairies might be concerned with the overall education pattern, particularly the relatively fewer numbers, by national standards, of well-educated people. But these benchmarks, while popular in elite circles, are less pressing for the current economy. In other words, the educational performance of the West, far from suggesting a failure to adjust to global realities, is actually well-suited to the nature of the booming Western Canadian economy. The challenge lies in the future as this regional economy begins to experience the same adjustments visited upon other parts of the country.

The Residential Housing Market in Western Canada

by Doug Elliott, Editor, *Western Policy Analyst*

Our homes are often the single largest investment that we have so we pay considerable attention to changes in their market value. Homeowners are usually pleased when this asset appreciates in value and often spend money based on this newfound "wealth" even if the extra money is only on paper. Those wishing to enter the market are, of course, less pleased when housing prices increase.

But this is about more than individual wealth. The world has watched what happens when a housing market collapses. The USA, Spain, and Ireland have all experienced catastrophic declines in their housing markets, creating recessions, driving financial institutions and some national governments into bankruptcy. It pays to watch the housing market for signs of instability.

Unfortunately, housing "bubbles" like all asset price bubbles are notoriously difficult to forecast, prevent, or even recognize. It is only in retrospect that we see that the prices were rising too quickly, were too high relative to ability to pay, or that the supply was outstripping the demand. There are some statistical measures for the sustainability of the market available but we start by just looking at the rental market in western Canada's largest cities since 2000. Rents will reflect housing prices to the extent that they represent either the return on the property owner's investment, or the next best alternative to home ownership. The next issue of the Western Policy Analyst will look at the home ownership market.

Average Rents

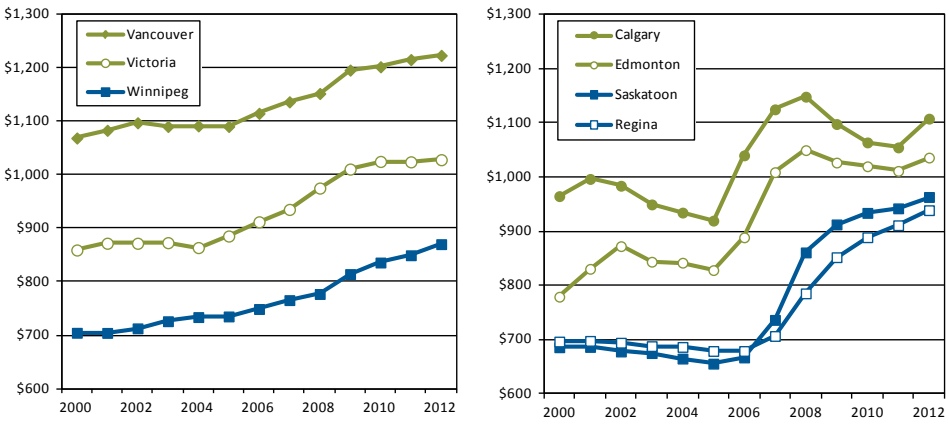
Figure 1 shows the average rents, adjusted for inflation, for a two-bedroom apartment in the seven large metropolitan areas in the West. The trends fall into two categories. In Vancouver, Victoria, and Winnipeg on the left side of the figure, there is a relatively steady increase in the average rent over the years from 2000 to 2012. It is no coincidence that B.C. and Manitoba are the two western provinces with a form of rent control that restricts the amount that rent can be raised. (Both Alberta and Saskatchewan restrict the frequency of rate increases but not the amount by which the rent can increase.)

In the four metropolitan areas in Alberta and Saskatchewan, on the right side of the figure, there is more volatility. Average rents typically showed no increase in the first half of the decade and then a sharp increase from 2005 to 2008. In recent years, average rents have fallen in Calgary and Edmonton and continued to increase slowly in Regina and Saskatoon.

In percentage terms and adjusted for inflation, rental rates from 2000 to 2012 have increased by:

- 2.9% per year on average in Saskatoon;
- 2.5% in Regina and 2.4% in Edmonton;
- 1.8% in Winnipeg and 1.5% in Victoria; and
- 1.1% in Vancouver and 1.2% in Calgary.

Figure 1: Average Rents (constant $2010) for a Two-Bedroom Apartment



Vacancy Rates

Figure 2 shows the vacancy rates in private apartment buildings for the same seven centres. The vacancy rates in Vancouver, Victoria, and Winnipeg, already low, were on a downward trend from 2000 to 2008 before beginning to increase in the last few years.

In Alberta and Saskatchewan, the general pattern was for rapidly increasing vacancy rates early in the 2000s followed by an equally sharp decline in the middle part of the decade. This pattern is most pronounced in Calgary and Edmonton and helps explain the sharp increase in average rents from 2005 to 2008 when the vacancy rate dropped from 4%-5% in 2004 and 2005 to less than 2% in 2006. Since 2006, Regina and Saskatoon show a slightly different pattern – vacancy rates have remained low since the decline in the middle of the decade whereas they have increased in Edmonton and Calgary peaking in 2009 before declining again in recent years.

A vacancy rate that is in the 2% to 4% range will offer a reasonable return to property owners and still provide renters with some choice of where to live. In the West, vacancy rates are near or below this level in all of the large metropolitan areas.

Starts for the Rental Market

How has the market responded to these low vacancy rates and increasing rents? Figure 3 shows the number of new units constructed for the rental market. One might expect that a low vacancy rate would trigger the construction of new apartment buildings and conversely, a large number of starts should trigger a decline in vacancy rates.

The number of starts in Vancouver and Victoria markets seems to be unrelated to vacancy rates. Starts fell in the first half of the decade even as vacancy rates were low and declining. Vacancy rates increased after 2008 as the number of starts increased.

Figure 2: Vacancy Rates for Privately Initiated Apartments with Six Units or More

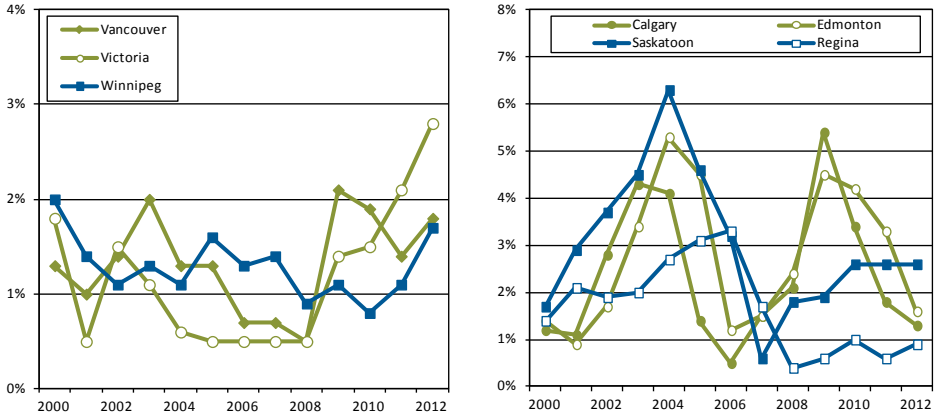


Figure 3: Housing Starts Intended for the Rental Market

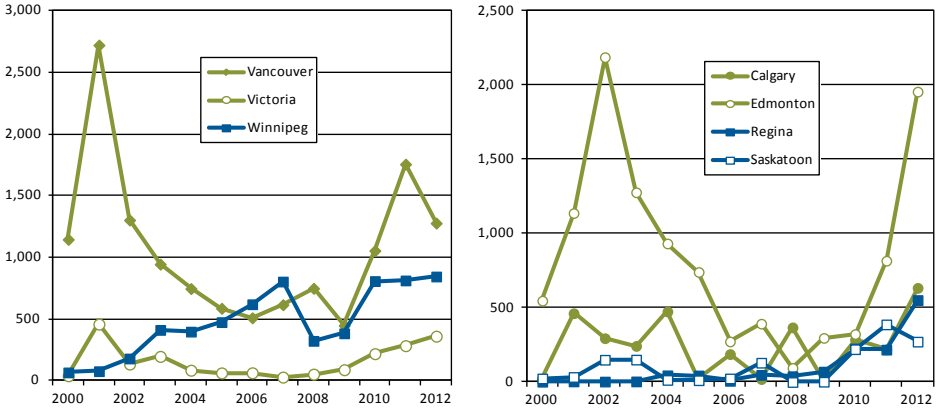
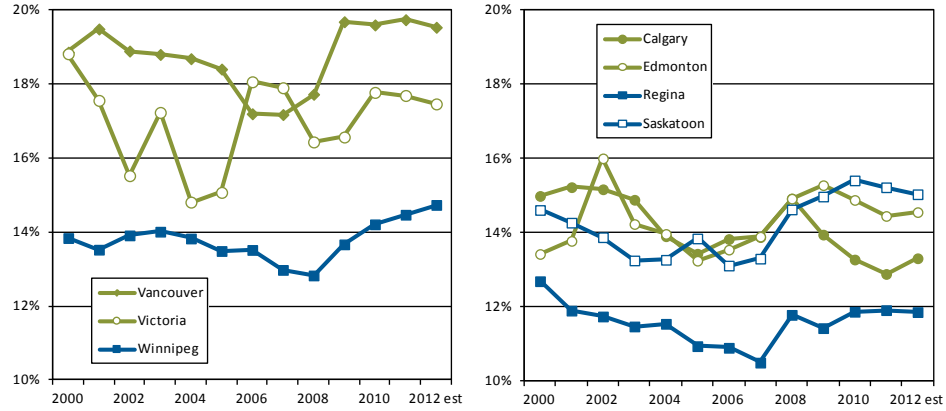


Figure 4: Average Rent as a Percentage of Average Household Income ($2010)



In Edmonton, the market seems to be responding more normally with increases in starts shortly after periods when vacancy rates were declining. For example, the low vacancy rates from 2006 to 2008 may be responsible for the increase in the number of starts during 2011 and 2012. The same lag seems to be happening in Regina and Saskatoon. Starts have picked up but only after several years of low vacancy rates.

Vacancy rates are not well correlated with housing starts. This suggests that the conversion of rental units to condominiums is affecting the stock of rental units as much as or more than the number of new units constructed.

Affordability

As a simple measure of the affordability of rental units, Figure 4 shows the average annual rent relative to gross incomes, both measured in constant 2010 dollars. The ratios are remarkably stable over time. The least affordable rental markets are in Victoria and Vancouver; the most affordable are in Regina. The remaining four centres have average rents near 15% of average income and this has been the case for the past ten years.

The next issue of the *Western Policy Analyst* will contain an analysis of the home ownership side of the market.

Sources:
Income and inflation figures are from Statistics Canada CANSIM Tables 202-0401 and 326-0001
Average rents, vacancy rates, and starts are collected and compiled by CMHC and published by Statistics Canada in CANSIM Tables 027-0040, 027-0011, and 027-0034 respectively.
Estimates are the responsibility of the author.

Government Challenges in the Natural Resource Economy

By Rose Olfert, Professor, Johnson-Shoyama Graduate School of Public Policy, and Department of Bio-resource Policy, Business and Economics, University of Saskatchewan

There was a time when being "hewers of wood and drawers of water" had significant negative connotations in Canada and especially in western Canada. The development of a broader economic base including a manufacturing and the full array of services, were seen as the ideal for long-term economic development. This was especially the case in terms of employment because the natural resource sectors tend to be very capital intensive, requiring relatively little labour. Small or declining labour requirements also imply limited population growth potential. The argument was that if we only ever extract natural resources that are non-renewable and export them in unprocessed form, we are allowing others to "add value" and benefit from the associated employment and income generation. Unless we broaden our economic base, the natural resource economy would be both subject to instability due to volatile commodity prices, and also may remain 'under developed' in terms of sustaining economic growth including a growing population.

Things have changed, however, and now our natural resources are more often referred to as "fuelling the economy" (indeed for all of Canada), "providing jobs", or "generating revenues for governments", indeed as a "blessing" (Canada West Foundation 2012). Fears of the "resources curse" and "Dutch Disease" that are commonly associated with a resource-based economy have faded into the background with only occasional references to the potential negative side effects of reliance on natural resources for economic prosperity. In the context of a developed country, with enabling institutions, having natural resources would indeed seem preferable to not having such resources. Even so, some would argue that the long-term negative effects still outweigh the benefits. The efficacy of these latter arguments is highly sensitive to whether we are currently situated in the "boom" or the "bust" part of the inevitable commodity price cycle.

A critical examination of effects of a natural resource-based economy includes a consideration of the effect on government revenues. Government revenues extracted from natural resource development (non-renewable resource revenue) in the form of royalties, for example, are a coveted means of financing infrastructure and other expenditures within the provinces that have this option. Indeed these revenues can be used to facilitate the development of a broader economic base. For example, Norway's Government Petroleum Fund has been set up to save up resource revenues, both to prevent the impact on the rest of the economy and also to save for future growth.

The four western provinces are reliant on non-renewable resource revenues to varying degrees. Figure 1 shows the composition of provincial revenues in percentage terms. As a percentage of total provincial government revenue (including transfers from the federal government), Alberta has the highest percentage of revenues from non-renewable resources at 27%, followed closely by Saskatchewan at 22%. For B.C., these revenues make up a much smaller proportion of total revenues and for Manitoba, they are almost non-existent.

Of course, the percentage composition of government revenues varies over time. Figure 2 shows the percentage of total provincial revenues that originates directly from non-renewable resources over the 1981-82 to 2011-12 time span. For Saskatchewan, this proportion ranged from a low of 7.5% in 1991-92 to a high of 33.9% in 2008-09. In Alberta, the low of 15.7% also occurred in 1991-92, with a peak of 41.4% in 2000-01 and another peak of 40.0% in 2005-06.

One potential downside in terms of government reliance on natural resource revenues is the uncertainty related to resource revenues because of volatile world prices. This is especially clear in comparing the volatility of non-renewable resource revenue with other sources of government revenues. Figure 3 compares non-renewable resource revenues with taxation revenues for Alberta and Saskatchewan – the western provinces most dependent on resource revenues. Taxation revenues increase steadily over time in a seemingly predictable way, though there is some cyclicality. This steady increase stands in stark contrast to the volatility of non-renewable resource revenues.

Non-renewable resource revenues are royalties, taxes, and fees that are directly related to the extraction and development of natural resources like oil and gas, potash, uranium and other minerals – that is, resources that are non-renewable.

Comparing for Saskatchewan 2008-09 and 2009-10, we see resource revenues plummeting by 59%. That is, 2009-10 non-renewable resource revenues were 41% of what they had been the year before. For Alberta, the peak in 2005-06 was more than twice the value four years later in 2009-10. From a budgeting/planning perspective, reliance on non-renewable resource revenues poses serious forecasting and long-term planning challenges.

Figure 1: Sources of Provincial Government Revenue, Most Recent

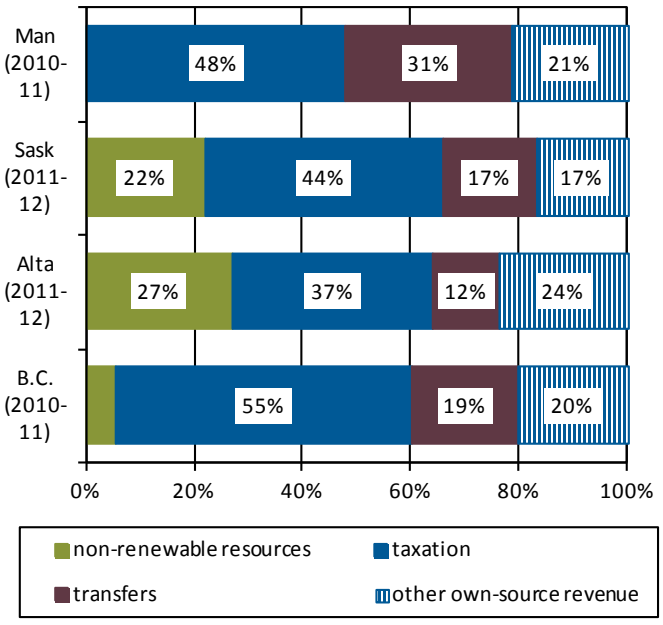
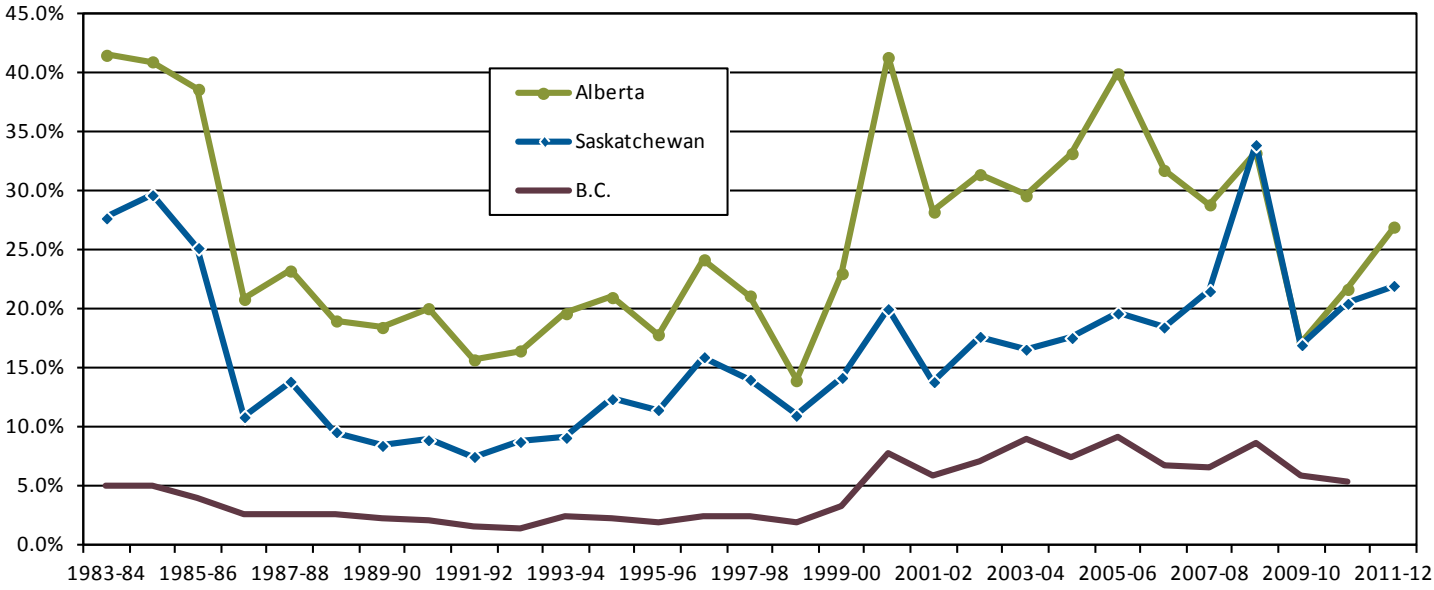
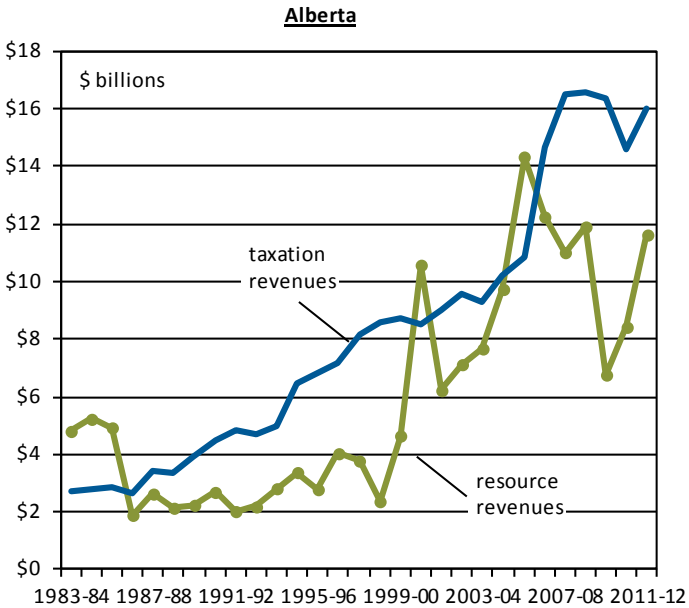


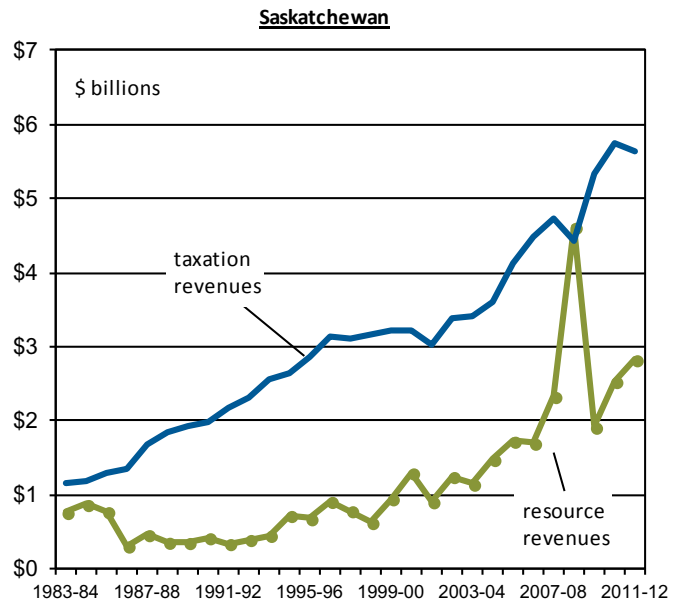
Figure 2: Non-renewable Resource Revenues as a Percentage of Total Provincial Government Revenues, 1982-83 to 2011-12



In the context of a developed country, with enabling institutions, having natural resources would indeed seem preferable to not having such resources.

Figure 3: Comparison of Non-Renewable Resource Revenues with Taxation Revenues





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Governance Challenges

Challenges related to governing a resources-based economy are often summarized in the terms "natural resource curse" and "Dutch Disease".

The resource curse includes the possibility that the presence of natural resource revenues can lead to bad behavior on the part of governments. If governments have to tax their citizens to raise the revenues for their expenditures there is a much more direct accountability, it is argued, than if the revenues come in the form of royalties levied on the extraction of resources. In the latter case, there may be a temptation to spend in an unsustainable way, one that would not stand up to the type of public scrutiny that would be effective if taxation were the source of the revenue. This is similar to the "Flypaper Effect" that is well-documented in the Public Finance literature to refer to the phenomenon that a transfer from the federal to the provincial government has a larger effect on spending than does the equivalent increase in local income (Dahlby 2011). While there are many good reasons to use resource revenues to build a reserve (similar to Norway's Government Petroleum Fund) rather than spending it, experience suggests that it is difficult to sustain the required discipline to maintain this strategy.

The Dutch Disease argument refers to the effect of natural resource booms on the manufacturing (and other) sectors of the economy. This happens in two ways. One is through the appreciation of the currency. As the value of the domestic currency increases, our exports become less attractive to other markets and imports become more attractive to domestic buyers. Domestic producers become relatively less competitive. The second main channel for the Dutch Disease effect is through direct competition for labour and other inputs. As local demand for labour increases in the resource sector, especially during the construction phase, other sectors are faced with higher input costs and again may become uncompetitive. In the extreme, the resource-centric economy becomes more and more dependent on its natural resource sectors, as other activity is crowded out due to high costs.

The "curse" and "disease" described above can be used as indicative of the kind of government strategy that would be appropriate to harvest the bounty while minimizing negative consequences. To the extent that windfalls from resource booms can be sequestered to prevent them from crowding out other economic activity, some of the longer term damaging effects may be averted. Discipline in spending with the long-term trajectory of the provincial economy in mind is crucial to avoid inappropriate and unsustainable commitments. Judicious use of these revenues to develop the economy beyond it resource dependence may also be a productive long-term strategy. The impact on the currency would be more difficult to avoid though at least an acknowledgement of these effects would seem appropriate. Where the industry distribution is so fundamentally different across regions of a country, as is the case in Canada, the governance challenges are magnified.

Sources:
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Government of Alberta. Consolidated Financial Statements, Schedule Revenues, 1980-2012 Annual Reports.
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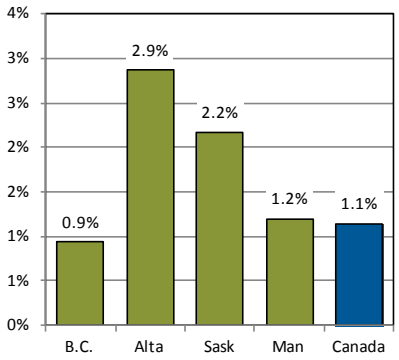
Government of Saskatchewan. Public Accounts, V1, 1980-2012 Annual Reports.

STAT FACTS

The population in the four western provinces grew by 1.8% from October 2011 to October 2012. This is the fastest rate of growth in several years and well above the national average of 1.1%. Alberta and Saskatchewan are growing more quickly than Manitoba or B.C.

Weakness in the Alberta and B.C. labour markets lead to slower employment growth in the West in December. Employment grew by 1.3% to bring the annual increase to 2.0% compared with 1.2% in Canada as a whole.

Annual Increase in Population, October 2012



Annual Employment Increase, December 2012