Mostly Harmless: Socialists, Populists, Policies and the Economic Development of Alberta and Saskatchewan

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“The CCF-NDP has been a curse on the province of Saskatchewan and have unquestionably retarded our economic development, for which our grandchildren will pay.” (Colin Thatcher, former Saskatchewan MLA, cited in MacKinnon 2003)

1. Introduction

In 1905, Canada’s federal government set the stage for an interesting natural experiment. In that year the government established two new provinces, Saskatchewan and Alberta, by drawing a political boundary that divided a prairie region into two halves approximately equal in area, population, and economy. Over time, however, the boundary has defined two increasingly unequal economies. Alberta now has three times the population of Saskatchewan and a GDP 4.5 times that of Saskatchewan. While the location of the border was set to equalize endowments, what was not known in 1905 was that the location of the border would cause one province, Alberta, to receive the greater share of the endowment of oil, natural gas and coal found in the region. The other ingredient in the natural experiment is a social/political one. Purportedly rooted in the differences across immigrant populations that settled in the two provinces, Saskatchewan has been perceived as a socialist province, with its governments interested in direct ownership and participation in the economy while Alberta’s right-wing ideology has been perceived to have resulted in governments content to be “passive rentiers” that collect resource rents but who prefer to leave the economy to private interests. On the basis of these perceptions, ideology and government policy are often raised as the explanations for the divergence of incomes between the provinces. The placement of the provincial border then, established the conditions for a natural experiment, one that has now run for 100 years, in which the role of
institutions can be assessed against the role of endowments in determining the pace and level of economic development. Unlike comparative studies of national economies, in our experiment there is a larger set of conditions satisfying the *ceteris paribus* assumption. The provinces share common languages, currency, financial systems, international trade policies and general structures of governance. The two economies are also integrated with free mobility of capital, labour and goods. Thus, despite the focus on sub-national economies, this work contributes to the literature on growth and convergence that addresses the relative importance of institutions versus endowments for explaining economic development.

Alberta’s advantages in the form of much larger reserves of oil, natural gas, and coal would appear to be obvious explanations for the difference in the economic development of the two provinces. But Saskatchewan also contains substantial quantities of natural resources in the form of oil, natural gas, potash and uranium. Both economies are small, open, and dependent upon external sources of capital to develop and exploit their natural resources. As the experience of many resource-dependent economies has shown, government policies can play a key role in encouraging or discouraging investment. This is especially so for policies introduced early in the development process and in economic activities where profits are higher when production is spatially concentrated (agglomeration economies). Tax policies and regulations can encourage or discourage location decisions and in this way give spark to (or extinguish) agglomeration economies. Tyre (1962) asserts that ideological and policy divergence after the Great Depression was the reason for the economic rise of Alberta, the under-performance of Saskatchewan’s economy, and the reason why there are no large corporations in Saskatchewan. The perception persists to this day that socialist policies enacted by Saskatchewan’s government have had more to do with Saskatchewan’s perceived under-performance than energy endowments in Alberta.

Our analysis shows that while the rhetoric of the leaders of the two provinces may have differed, in practice there has been little difference in the policies pursued by the governments of the two provinces with respect to the development of natural resources. Financial constraints and market forces limit the ability of socialist governments in small open economies to be public entrepreneurs while times of abundance encourage in even right-wing governments to move into the role of public entrepreneur. While the perception exists that Saskatchewan’s socialism aided Alberta’s dominant economic position by driving entrepreneurs to that province, ultimately,

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1 MacKinnon (2003) suggests that many business people and right-of-centre politicians feel that the socialists in Regina rather than oil in Alberta have had more to do with Saskatchewan’s perceived under-performance. Since 2002 there have been several newspaper columns identifying Saskatchewan’s CCF/NDP governments as the reason for Saskatchewan falling behind Alberta economically. For example, Wayne Eyre, “A poor cousin begs for mercy: Please take us in, begs one desperate Saskatoon Resident, who wants Alberta to come to the rescue,” *Calgary Herald*, December 18, 2002, page A33; Paul Jackson, “Head for the Hills: Saskatchewan family to mark 100th anniversary in Calgary,” *Calgary Sun* October 28, 2003, Page 15; Mark Milke, “Stuck in the 1930s: The problem with Saskatchewan is its politics, not its people,” *Calgary Herald*, April 12, 2004; Don Martin, “Two Prairie solitudes: It’s not language that separates Alberta from its eastern neighbour but vast wealth,” *Calgary Herald*, Sunday September 19, 2004 See also, Jason Clemons and Niels Veldhuis, “The Alberta/Saskatchewan Chasm Widens,” *Fraser Forum* November 2004, 19-20. And recently, Herman Schwenk of Coronation Alberta wrote to *Canadian Geographic Magazine* (March/April 2005) to express that “Had the people in Saskatchewan been electing right-wing, business-oriented governments for the past 70 years like Albertans have, they would probably be more prosperous today than Alberta. Saskatchewan has a greater diversity of resources than Alberta, but its socialist governments were incapable of economically developing these resources.” This prompted a response from Bryan Tudor of Lumsden Saskatchewan in the May/June 2005 issue of the same magazine “that it is the oil which has created Alberta’s prosperity. If Saskatchewan had the same amount of oil, it would be as prosperous as Alberta, regardless of the political stripe of the government.”
Saskatchewan's fate is really one of natural economic evolution in the presence of falling transport costs and agglomeration economies. Alberta's early lead in manufacturing development, and mineral endowments, were the seeds of its economic leadership. We also conclude that it is not obvious that Saskatchewan is an economic under-performer.

2. The Boundary Decision

By 1897 Canada’s population was expanding through the prairie region of western Canada. Immigration policy, which was the jurisdiction of the federal government, contributed to this population growth but the responsibility for providing “local works and improvements” was the responsibility of the territorial government. Predictably, a growing population and the financial problems that came with it, led the territories to pursue provincial status.2

While the economy of the territories was agricultural, considerable diversity in agricultural activity and economic interests existed across the plains. Nicholson (1954) describes the southern part of the territories as largely flat, treeless prairie suited to large-scale grain growing and ranching whereas the land north of this area is rolling, treed, well-watered and suitable to mixed farming and smaller farms. Not surprisingly, such a clear delineation of economic interests by geography resulted in a proposal for the creation of two provinces with a border running east and west.3 But other proposals were made for the creation of one, two, three, and even four, provinces.

Supporters of a single, large province included Frederick Haultain, the first premier of the Northwest Territories who campaigned for the creation of a single province between Manitoba and British Columbia. The logic behind the establishment of only one province held that as a single government had administered, effectively, the entire area of the Northwest Territories from 1897 to 1905, there was no reason that the territory could not continue to be efficiently managed without division. Haultain suggested that with the aid of telegraph, telephone and railway, a single government could administer all points in the territories. Haultain recognized the geographic, and consequent, economic and social diversity that existed in the territories but he argued that such diversity did not create unmanageable problems and was potentially an advantage. Indeed, one big province with many industries meant a diversified and wealthy economy. Lingard (1946) describes how differences in interests between grain growers and ranchers were recognized by the territorial assembly and addressed by applying ordinances specific to different areas of the territories. For example, fence and herding laws in the territories prohibited cattle running at large in the eastern portion of the Territories, while in the ranching districts in the west, grain growers were required to protect their fields with a lawful fence. In Haultain’s opinion, the proposals to divide the territories into more than one province reflected

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2 Eric J. Hanson suggests that Alberta was granted provincial status prematurely and the financial instability that resulted for the new province contributed to the extreme debt problems of the 1930s (Boothe and Edwards 2003, 308-309). Hanson argues that there was no mass expression of demand for provincial status. The driving forces behind the calls for provincial autonomy came from citizens hoping to have their hometowns designated as provincial capital cities and of other sorts of promoters who felt frustrated by the limits on revenue generation and borrowing for territorial governments. Hanson also suggests that had the single province proposal been adopted in 1905, since the choices of the more fiscally prudent Saskatchewan government would have dominated due to the larger population of Saskatchewan before 1930, some of the ill-advised policies adopted by the Alberta government before 1921 would have been rejected by a single government responsible for the entire area.

3 Supporting this proposal was the observation that with the Canadian Pacific Railway in the south, and the Canadian Northern Railway in the north, operating transcontinental rail lines, each province would have its own rail services within one provincial jurisdiction.
nothing more than ambition of certain cities to be provincial capitals and the establishment of two provinces would “simply double the government, double the legislature, and double every expense as it would be necessary to double all the institutions which we need at the present time…” (Owram 1979, 185).

From the outset, the establishment of the new provinces reflected two competing principles; efficiency in administration versus the separation of diversified interests. Opponents of the proposal for the establishment of a single province also argued that a single province would be too large to efficiently manage and that interests across the vast territory were too diverse. Clifford Sifton, a Liberal Member of Parliament (MP) and at one time the Minister of the Interior, suggested in his comments on the Alberta and Saskatchewan Autonomy Bills that to make one province of a vast territory with a much greater capacity for sustaining population than any of the other provinces “would certainly and obviously be unwise.” Sifton believed that the western and eastern portions of the territory were characterized by different industrial conditions. Hence the territory would be best served by two local governments and two legislatures. Sifton argued “that arrangement which is suggested will give the surest guarantee that the future development of these territories will be best facilitated” (Owram 1979, 316). Ranching interests in the southwest portion of the territories expressed concern that legislation that benefited the eastern and northern parts of the territories where the growing of cereal crops was the dominant activity would be harmful to cattle and horse ranchers in the southwest. Thus these interests sought the complete severance of the stock country in the southwest and the mixed farming country of northern Alberta from the grain farming area of south-eastern Alberta and from Saskatchewan.4

The creation of one province was criticized on the grounds that it would be too big to maintain political balances within Confederation. The pace of population growth in the territories after 1896 contributed to concerns over the balance of political power across provinces, or perhaps even the maintenance of political power in the existing provinces. In 1905, an MP from Quebec, one of the founding provinces of the Canadian confederation, argued that the division of the territories into two was what Canadians supported since two provinces on the prairies would maintain the balance of power among the members of Confederation more equally than would a single new province. The MP expressed the fear that one province extending from the Manitoba border in the east to the Rocky Mountains in the west would “soon become overgrown and devour its creator”.5

In February 1905, the federal government introduced legislation that created two provinces out of the Northwest Territories. What was apparently a crucial consideration was a

4 Another variant of the two-province proposal came from Manitoba that sought to have some of the territories annexed into Manitoba to extend the province as far west as Regina. A single province would then have been created for the balance of territory remaining. While in 1901 and 1902 the Manitoba Legislature passed resolutions requesting the extension of the province westward, the idea was rejected by the population of the territories at least in part on the grounds that Manitoba’s municipal system was patterned on Ontario’s, which was seen as “cumbersome”, “expensive”, and not suitable for western settlement. In addition, in 1901 Frederick Haultain, Premier of the Territories, highlighted that Manitoba had debt and it was not obviously in the best interests of residents of the Northwest Territories to take on a share of that debt when the alternative was to be part of a newly established debt-free province.

5 Lingard 1946, 202. In this sense, the creation of two smaller political entities was reminiscent of British colonial policy after the American Revolution that maintained the view that small, separate colonies would show less independence than large ones. Nicholson (1954, 20) provides the quote about the creation of the Loyalist colonies that “The object … was to govern by means of division, to break them down as much as possible into petty, isolated communities, incapable of combination, and possessing no sufficient strength for individual resistance to the Empire.”
political one. The government held the view that the Northwest Territories were “altogether too large an area to be made into one single province according to the size of the other provinces.” (Owram 1979, 277). Despite the fact that there was considerable variation in the geographic sizes of the existing seven provinces in 1905, it was argued that where the federal government had control over the creation of new provinces, it should endeavour to make the new provinces about the same size as existing provinces. A north/south border that was positioned that created two provinces roughly equal in size by area (275,000 square miles each) and population (about 250,000 each in 1905).

Lingard (1946) argues that the majority of people residing in the Northwest Territories were indifferent between having one or two provinces established. From the outset, however, the arbitrarily placed border was criticized for having divided the ranching country in the south (Nicholson 1954, Owram 1979). Stockmen expressed that they would be very annoyed if the two provinces adopted different sets of brand and stock laws. The Calgary Herald on February 23, 1905 expressed that the “dividing line… is wrong, placed there evidently in an arbitrary manner without consideration and without regard to the physical features of the country or its agricultural and grazing qualities.” To the extent the Territories had been divided to better serve the diverse interests that existed in the west, the placement of the border was somewhat remarkable in that it created two provinces with roughly equal acreages suitable for grain growing, ranching and irrigation farming (Lingard 1946).

What effect, if any, did this political line on the map have on the economic development of these two provinces? Gibbins (2001) stresses that the two provinces began in very similar fashions and were “divided more by a political line on the map than anything else.” Nicholson (1954, 84) contends that it is doubtful that the boundary’s position has caused any “permanent hardship”. Nicholson’s observation was made at a time when the economies of the two provinces were still largely agricultural and the incomes and populations of the two provinces were roughly equal. In the latter half of the century, that situation changed with the rise of Alberta’s oil economy. Aritha Van Herk (2005, 48) opines that “were Haultain to witness this distinction now, he would be even more adamant about the necessity of one big province, one united region. Saskatchewan would be economically better off; Alberta would have a finer social conscience.”

3. Political and Ideological Explanations for the Divergence

The period leading up to the Great Depression was a relatively prosperous one for the two new provinces. Population was growing at better than 3.5% per year driven by substantial in-migration. Agriculture was still the dominant economic pursuit and rural interests held sway in both provinces not only due to the relatively small urban populations but also because the electoral system favoured (and does to this day) greater representation of rural areas. In these early years the dominant economic interests in the two provinces would differ in their choice of how to assert their influence on public policy. In Saskatchewan, the powerful Saskatchewan Grain Growers’ Association (SGGA) preferred to act as a lobby group rather than enter politics directly. The SGGA supported a commitment to public ownership of resources and utilities and a preference for cooperation. Alberta agricultural producers were represented by two

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6 Lingard 1946, 199. The veracity of this argument apparently had a short shelf-life. The subsequent extension of the provinces of Quebec and Ontario in 1912 to include areas of 594,534 and 412,582 square miles respectively made each larger in area than the two new provinces combined.
organizations with differing philosophies on political action. One, the Alberta Farmers’ Union (AFU) was organized to provide a united front to protect the economic interests of the agricultural community and encourage cooperation and like the SGGA, limited its political role to lobbying rather than political participation. The other organization, the United Farmers of Alberta (UFA), that also sought to encourage cooperation and protect the interests of agricultural producers, played a direct role in provincial politics and in fact governed Alberta from 1921 to 1935 (Jaques 2001). Although in these early years the politics of the two provinces would be similar, the potential for differences in political and social ideology and principles to reveal themselves would be provided by the Great Depression.

The devastation wrought by the Depression was severe in both provinces but the responses to the hardship ascribed to policymakers in the two provinces differed. In Saskatchewan, the Depression was interpreted as showing that outside forces – both economic (the collapse of world trade and grain prices) and natural (drought) -- were largely responsible for individual circumstances and this reinforced the judgement that a collective approach was required to answer them. In Alberta, while a similar experience was had, the interpretation was different: The problem of the Depression was the failure of economic institutions, in particular the financial system. The emphasis on individual responsibility in Alberta required that the Depression be explained by a failure of institutions, not the need for collective action. The fact these failed institutions were federal and ‘eastern’ (central Canada) would also play a role as it reinforced the sense of betrayal caused by the fact the federal government chose to withhold from Alberta and Saskatchewan (and Manitoba), until 1930, what had been extended to all other provinces; control over natural resources.

Political histories of the two provinces suggest that reactions to the Great Depression reflected the biases and principles of the immigrants who settled the rural areas of the two provinces. Thus, analysts such as Lipset (1968), Richards and Pratt (1979), Wiseman (1991), and Gibbins (2001) emphasize the role of early immigration flows to the western territories and after 1905 the two provinces. In Saskatchewan, relatively large numbers of eastern European and British Fabians settled in rural areas and hence their socialist sympathies would embed a provincial political culture that provided support for an interventionist provincial government. The flow of eastern European and British Fabian socialists to rural areas was much smaller in Alberta. Instead it was fundamentalist Christians, Ontario Tories and Americans who settled in Alberta’s rural areas and it was these groups who would consequently play a large role in determining the political culture of the province. These immigrant groups stressed to a greater degree those in Saskatchewan the role of the individual over the state. For these analysts, then, the establishment of two provinces from one territory would enable these two groups to find expression in public policy for their different beliefs, biases and principles.

The difficulty with this belief about the cultural importance of the border is that it does not seem to be an accurate depiction for the populations of the two provinces by 1941. Figure 1 shows the distribution of each province’s population in 1941 according to birthplace. The majority of each province’s population was Canadian born and the majority of those populations were living in the province of their birth in 1941. The allegedly influential Ontario Tories, American and British Fabians accounted for at most one-fifth of the populations in both Alberta and Saskatchewan in 1941. While Alberta has a slightly higher proportion of American-born than Saskatchewan, Alberta also has more British-born and foreign-born. Ontario Tories also appear to have more of a presence in Saskatchewan’s population than in Alberta’s. Thus, the populations that would have elected the Social Credit government in Alberta in 1935, and that would elect the CCF government in Saskatchewan in 1944 do not seem so different in cultural background. It also of some interest to note Falconer’s (1978) assessment that there is little to
distinguish Alberta’s Social Credit government from Saskatchewan’s CCF party in the 1930s in terms of ideology and policy directions.

A. Two Rentier Societies Before OPEC

The provinces’ shared experiences of economic devastation, drought and out-migration during the Great Depression impressed upon their governments the need to diversify their economies away from agriculture. Their approaches towards economic diversification would prove to be very different, however, and the border was alleged to have enabled these different responses to the Great Depression to be exercised. Saskatchewan would respond by electing the “socialist” Cooperative Commonwealth Federation (CCF) party in 1944 and embark on an economic program initially favouring nationalization and public ownership. The resources of the province were to be developed to benefit the citizens of Saskatchewan, rather than external capitalists. Under the right-wing “populist” Social Credit government elected in 1935, Alberta would respond by ensuring the tools of capitalism would better serve Albertans by favouring policies to encourage external private capital to locate in the province. Nowhere were these different approaches better revealed, at least initially, than with respect to public policy toward the emerging oil and gas industry.

Prior to the discovery of the large oil pool at Leduc in 1947 relatively little crude oil was produced in Alberta and virtually none in Saskatchewan. Natural gas was produced in small quantity in Alberta but no substantial quantity of gas would be produced in Saskatchewan until the mid 1950s. Playing a role in shaping public policy was the market power of private energy producers. Until the early 1970s, US oil and gas firms, as developers and producers of oil and gas, are generally deemed to have had a great deal of bargaining power. The provincial governments lacked the necessary public capital to develop the resource on their own. Further, the risks inherent in oil and gas exploration proved unpalatable for provinces emerging from the

7 In 1947, one million cubic metres of oil were produced in Alberta, mainly from the Turner Valley area. This was less than 6% of the amount produced in 1955. In 1947 only 83,000 cubic metres of oil was produced in Saskatchewan. Statistical Handbook, Canadian Association of Petroleum Producers.
debt problems of the 1930s. Finally, as domestic sources of capital were not well developed, external private capital that produced the oil had credible exit threats. Federal-provincial relations also helped shape provincial government responses to oil and gas development. The prolonged battle with the federal government to gain control over natural resources in 1930 impressed upon both provinces the need to assert their authority over this emerging industry.

In Alberta the Social Credit government, newly-formed and newly-elected in 1935, sought to diversify the economy by building upon the nascent oil industry that had been established as a result of the small, and by then declining, production of oil in Turner Valley. To do so, it sent assurances to the financial sector and the oil industry that the province would provide every incentive to risk capital and it established a regulatory regime that emphasized private property rights and a generous royalty regime (Hanson 1958, Richards and Pratt 1979). The failure of the Canadian financial sector, centred in central Canada, to finance local firms in the hunt for oil and gas, thereby forcing the province to seek out the major oil companies, would reinforce the sense that the Canadian financial sector and Canadian institutions were failing Alberta and that the provincial government would need to be at the vanguard of protecting Alberta’s economic interests. The province then, advanced a two-prong attack. In one it would entice private firms to drill for oil and gas in Alberta and in the other it would defend itself from federal intrusion.

When the size of the Leduc and other oil pools that were discovered soon after became apparent, Alberta’s Social Credit government moved quickly to impose provincial jurisdiction. In 1949 it established the Petroleum and Natural Gas Conservation Board whose purpose it was to regulate the removal of oil and gas from the province. In the same year it passed the Mines and Mineral Act in which royalty rates on petroleum and natural gas were established. An important element of the Act was to commit the provincial government to a relatively low maximum royalty rate equal to just 16.67% of gross production. When the 1950s saw a glut on world oil markets, with the result that Alberta’s oil industry was producing at less than 50% of potential, these legislative efforts were supplemented by exhortations from the Premier to the international community that unlike the Middle East, Alberta was a stable place for long-term investment in oil and gas. To prevent the establishment of federally incorporated pipeline companies in the province, Alberta established in 1954 a joint public/private enterprise – Alberta Gas Trunk Line (AGTL) – to gather and distribute gas to export companies at the provincial border. The mix of private and public ownership of AGTL reflected a conscious decision to reject complete public ownership in the form of a crown corporation.

While the CCF would not win election in Saskatchewan until 1944, in the 1934 and 1938 provincial elections CCF candidates campaigned on a platform of social ownership of all major industries. In stark contrast to Social Credit in Alberta, the CCF stressed the need for a greater role to be played by the federal government in economic development. In 1938, the CCF ran second in terms of popular vote and won 10 seats despite fielding candidates in only 30 of 52 ridings. In the 1944 election, the CCF would sweep to power winning 50 of 55 seats.

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9 Doern and Toner 1984. Interestingly, it was not until 1971 after the election of a new government following the end of the 36-year reign of the Social Credit party that this low maximum royalty rate was raised. Great effort was made to maintain the sanctity of the original contract agreed to by the Social Credit government of 1949 and the industry by changing the maximum royalty rate only on remaining oil reserves. This had the effect of raising the royalty rate to 23% of gross production (Doern and Toner 1984). Dramatic increases in oil prices would soon cause the government to abandon this agreement and tie royalties to the price of oil.
10 Richards and Pratt 1979. Similar statements are still being made today in the face of political uncertainty in the Middle East, Venezuela, and elsewhere.
From 1944 to 1948 the newly-elected CCF sought to promote Saskatchewan’s economic diversification through nationalization and promotion of secondary manufacturing and natural resources. Aggressive moves designed to limit private exploitation of natural resources followed. In 1944, the Mineral Taxation Act imposed a tax on undeveloped freehold mineral rights in an effort to cause the Hudson Bay Company and the CPR to allow mineral rights granted to them by the federal government to revert to the province.\footnote{See Richards and Pratt (1979, 109-110) for discussion. An eight-year legal challenge followed at the end of which the act was declared to be within the jurisdiction of the province. By 1952, however, the province was backing away from this goal of the act.} In 1945, in a prescient move given there were at that time no known reserves of crude oil or potash in the province and only tiny known gas reserves, the province issued a statement in which it outlined its plan to gain eventual complete social ownership and management of key industries in the development of its natural resources. Shortly after winning election, the CCF government was approached by Imperial Oil with a proposal for a long-term contract giving the company exclusive exploration rights over a large section of the province should it find commercial volumes of oil. While the government’s own advisors suggested that turning down the offer would delay exploration and possible industrial development for many years and that the risks inherent in oil and gas exploration were inappropriate for a provincial government to take on, it nonetheless refused the offer (Richards and Pratt 1979).

This Imperial Oil episode is often emphasized by those seeking to establish the importance of political differences in the two provinces as a key reason for their differences in economic development. Tyre (1962, 196) describes the CCF government’s “treat-‘em-rough” attitude towards oil companies via a quote from Russ Brown, a CCF member of the legislature, who in 1953 said

“We did frighten the oil companies a little. We set them back on their heels. They expected the same deal from us that they got from the Liberals but we said they could come in on our terms. We are not handing over our resources for the oil companies to exploit.”

The absence of Imperial Oil in Saskatchewan in the 1940s is the highest profile example of the alleged negative effects of CCF policies. Tyre argues that Imperial Oil took its money and equipment into the

“free enterprise climate of Alberta and made petroleum history. It discovered the rich Leduc field and this was the start of a flow of oil revenues to the provincial treasury which any other Western province might well envy and hope to duplicate from whatever oil potential it possessed….Compulsion, control and innate hostility of Socialism to free enterprise have had the effect of turning Saskatchewan into an island of economic blight in a prairie region where neighbouring provinces have made tremendous progress in their industrialization.” (Tyre, 1962, 210).

Alex Cameron, a Liberal (opposition) member of the Saskatchewan Legislature in 1950 alleged that “The major oil companies have been stung by government bureaucracy, loaded with excessive taxation and having to carry these leeches (CCF patronage land controllers) on their backs, have thrown in the sponge.” (Tyre 1962, 201) Cameron said that exploration for oil and gas had ground to a virtual halt in Saskatchewan and no new gas wells had been brought into
production since 1946. Richards and Pratt (1979) similarly argue that the slower growth of the oil and gas sector was the result of the “threat of nationalization” from the CCF.

In 1948, following the Leduc and Redwater oil discoveries in Alberta and sensitive to criticism about the relatively slow pace of oil exploration in Saskatchewan, the CCF contacted Imperial Oil about returning to the province. In a 1950 memorandum to Premier Douglas reporting on the discussions with Imperial Oil about the company’s lack of activity in Saskatchewan and the prospects for the company becoming more active in the province, senior government officials reported that Imperial identified four reasons for not operating in Saskatchewan since 1945; first, they felt there was difficulty obtaining land; second, there were “more interesting” geological structures in Alberta; third, there was a necessity to place all available funds in Alberta to protect the discoveries that they had made, and fourth, they had a “fear of expropriation in Saskatchewan.”12 Thus aware that concessions would need to be made to bring the oil majors back to the province Douglas was by this time sending letters to majors and independents indicating the province “has no intention of either expropriating or socializing the oil industry.” (Richards and Pratt 1979, 136). According to Richards and Pratt (1979), by 1950 there was effectively a unified policy regime in Alberta and Saskatchewan with regards to oil and gas. By 1950, capital market forces and moderates within the CCF had moved Saskatchewan into the same passive rentier role as Alberta (Johnson 2004).

How important, then, was Imperial Oil’s departure from Saskatchewan in the 1940s? The suggestion from Tyre (1962) is that had the CCF government been “business friendly”, Imperial would have located in Regina and created Saskatchewan as the center of the prairie oil and gas economy. This is a peculiar interpretation to make. It ignores the fact that Imperial Oil already had a presence in Calgary by 1944 due to its operations in nearby Turner Valley. Even with Imperial Oil’s oil discoveries in Alberta, its head office has been in Toronto. Further, even if Imperial had remained in Saskatchewan, the major discovery of the Leduc field would not have happened in Saskatchewan, nor would the royalties from that field’s production have accrued to Saskatchewan. Did the CCF’s policies retard economic development of Saskatchewan’s oil resources and consequent economic development? The interpretation of analysts such as Tyre is that the CCF’s anti-business stance drove capital away and into business friendly Alberta where the Social Credit government was content to play the role of passive rentier. The truth of the matter, however, is that the CCF experiment with public entrepreneurship was short-lived as most of its policy experimentation occurred in the first two years of the Douglas government’s mandate, 1944-46. By the early 1950s the CCF had formally abandoned the nationalization option and by the mid 1950s, the oil polices of the CCF had largely converged with those of the Social Credit government in Alberta (Johnson 2004). In part this was in response to a threat from those oil companies that remained in the province to move out if the government went through with an agreement over the leasing of Crown reserves that the industry saw as putting the government in the oil business. By this time too the failure of the publicly owned firms established by the CCF government in 1945 and 1946, firms that competed with existing private firms, had become apparent.13

Financial necessity also encouraged the CCF government to converge towards Alberta’s policies and approaches to resource development. American investors sent a clear message to

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13 In two years following its election in 1944, the CCF government established a brick manufacturing plant, a shoe factory, a tannery, a fish processing and marketing board, a timber board, a fur marketing service, a box factory, a provincial bus company, and a sodium sulphate mine (Richards and Pratt 1979, 112).
the CCF Government’s Treasurer, Clarence Fines, that Saskatchewan Bonds would not be in demand if the CCF did not improve the province’s credit position.\textsuperscript{14} This financial constraint limited the extent of the CCF social experimentation. Finally, it is worth stressing that whatever the politics of oil in the two provinces, the economics were clear: The relatively slower development of the oil and gas resources of Saskatchewan in the 1940s and early 1950s reflected the fact that the vast majority of proven reserves of conventional oil were in Alberta. With Alberta’s geological formations having been proved to hold commercial quantities of oil, with new oil services firms established in Alberta to service the newly discovered fields, and with new pipelines being established to transport oil from field to market, it is not surprising that exploration in Saskatchewan may have held less appeal for oil companies.\textsuperscript{15} The lack of exploration effort in Saskatchewan was no longer a problem by 1949 and the province had its first major oil discovery in 1952 (Johnson 2004, 156). Saskatchewan’s petroleum resources were rapidly developed after 1953, and exports of its abundant potash resource began in the 1960s. By the end of the 1960s, Saskatchewan’s per capita GDP was converging towards the national average and Alberta’s. Thus whatever negative consequences are attributed to Tommy Douglas and his CCF government, they would appear to have been short-lived, if they were ever problems at all.

B. Divergence and Public Entrepreneurism after 1970

The economic divergence between the provinces realized after 1970 was primarily the result of the OPEC oil boom of the 1970s. This was also a time of dramatic change in Alberta politics, a period of time when Alberta’s government took on “public entrepreneurship.” By the late 1960s, the growing ability of OPEC countries to affect the world oil price caused oil to become a commodity associated with increasing scarcity. Under conditions of scarcity, the focus for the owner of a resource is to conserve as the value of the resource in the ground continues to grow. Coincident with this shift, when he became Premier of Alberta in 1971, Peter Lougheed was able to enact radical changes to Alberta’s royalty structure so that Alberta could capture a greater share of resource rent. Further he promoted public entrepreneurship in the oil and gas sector. On election night in 1971, Lougheed indicated that his most important objective was to take control of Alberta’s resources so that resource royalties could finance his “province building” agenda. Lougheed’s Conservative government promoted the development of forward-processing of oil and gas into petrochemicals and after 1975, it saved 30% of government oil revenues in the Alberta Heritage Savings and Trust Fund. Lougheed’s governments created and owned significant shares of the Alberta Energy Corporation, AGTL and Syncrude to encourage the creation of local capital and to aid the development of oil and gas entrepreneurial talent in

\textsuperscript{14} Richards and Pratt, 1979. It is also the case that CCF “moderates” such as Fines did not have enthusiasm for these early attempts at nationalizing industry and resource development. Richards and Pratt (1979) and Johnson (2004, 92) attribute these ambitious policy directions as primarily driven by Joe Phelps, the Minister of Natural Resources in the CCF’s first term of Government from 1944-1948. Johnson (2004, 62) describes Phelps as “fanatically loyal to the CCF platform and ideology,” and he stood in contrast to principled yet practical cabinet ministers like Douglas, Fines and J.H. Brockelbank. Phelps failed to be re-elected for the CCF’s second term in 1948.

\textsuperscript{15} Hanson (1956) describes how the development of the Redwater oil discovery in Alberta drew resources away from the further development of the Leduc oil field. This in part reflected the shortage of equipment for drilling in the late 1940s and early 1950s which also means that that it would not be surprising that resources would not go to Saskatchewan until these big fields were developed. Hanson (1956, 99) describes how drilling in Alberta slowed down after 1951 as exploration and development efforts moved into Saskatchewan where some successes had been occurring.

11
Alberta. In 1974 Lougheed’s government also acquired controlling interest in Pacific Western Airlines and moved its headquarters to Alberta amid rumours that the government in neighbouring British Columbia planned to take the airline over. In 1973, the government announced that it would acquire 20% of the Saskatchewan-based IPSCO (Inter-provincial Steel Company), a producer of steel pipe used for oil and gas pipelines. Clearly, after 1971, it could no longer be claimed that the government of the province of Alberta remained in a passive rentier role.

The Lougheed government’s activist role in the Alberta economy was a dramatic departure from that of the passive role pursued by the Social Credit party between World War II and 1971. Lougheed’s approach was criticized by “pro-free enterprise” conservatives in Alberta as his government promoted ownership in companies that competed with existing and flourishing private firms in the economy. Perhaps anticipating this criticism, two days after he was elected Lougheed declared that “We stand for free enterprise – not socialism. We stand for social reform and individual rights – not big government control.” (*Alberta in the Twentieth Century, Volume 11*, page 49). Lougheed also emphasized in 1975 that Alan Blakeney’s NDP government’s participation in the economy made Lougheed’s own government look “laissez-faire” in comparison (*Alberta in the Twentieth Century, Volume 11*, page 57). In practice, however, the Lougheed government’s actions were not radically different from the resource-based public entrepreneurship ideas and policies of the Saskatchewan CCF before 1950.

Both Lougheed after 1971 and Premier Tommy Douglas of Saskatchewan after 1944 believed that resource rents could be used to aid the development of other industries to diversify the economies. The differences between Lougheed’s success and accolades and Douglas’ failure and the criticisms of he and his government, are the product of time and bargaining power. In 1944, an indebted provincial government in Saskatchewan attempted its public entrepreneurship before capital had installed itself, before reserves of oil and gas were proven, when public capital and domestic industrial expertise were short in supply and when capital had a credible exit threat when oil was a commodity in surplus. Lougheed, on the other hand, inherited a debt free province when he came to power. Lougheed unilaterally re-wrote Alberta’s royalty policies to capture more of the resource rents, and aggressively developed a public presence in the resource industry, prompting oil producers in Alberta to engage in a “capital strike” protesting higher royalties and taxes. Lougheed responded to the strike by reducing the royalty. Lougheed’s initiatives took place at a time when reserves were proven, capital was installed and production was underway, and oil was a scarce commodity all of which reduced the credibility of capital’s exit threat. Further, the enormous resource rents captured by the Alberta government meant that the supply of public capital was abundant. By the 1970s, considerable local expertise for the oil and gas sector had developed as well.

How the provincial governments have used their royalty wealth for economic development is also worth considering as it may be important for understanding the differing fates of the provinces. The government of Alberta is perceived to have invested its resource wealth whereas that of Saskatchewan has not. Richards and Pratt (1979, 273) argue that “To the extent Saskatchewan’s resource rents are used to augment public consumption and not as a source of investment funds, the government may merely be retarding an inevitable process of contraction of provincial population and infrastructure as agricultural employment continues to decline.” However, between 1970 and 1980, Saskatchewan invested its resource rents in several Crown Corporations such as SaskOil and the Potash Corporation of Saskatchewan. SaskOil was created to retain refining capacity in the province when private sector oil refiners announced their intention to close down refining capacity in Saskatchewan and the province of Manitoba and expand refining capacity in Alberta. Alberta’s reputation for not consuming its public
revenues from oil and gas are also overstated. To the extent that resource royalties have been used to reduce income taxes and allow Alberta to finance high levels of public spending without the need of a provincial sales tax (Alberta is the only Canadian province without a sales tax) it would appear that the main role for resource rents in Alberta has also been to augment private and public consumption. Consider also that by 1983 Alberta was including interest income from the Heritage Fund in general revenues and, after the collapse of the price of oil in 1986, the provincial government stopped depositing oil and gas royalty income into the Heritage Fund and instead made these revenues part of general revenues. As a result of these decisions, the provincial government in Alberta has saved less than 10% of all natural resource revenue collected since 1970.16

Figure 2 shows the levels of public sector investment per capita in Alberta, Saskatchewan and Ontario from 1961 to 2000. To the extent that public sector investment reflects one of the prominent policy levers that a government has to influence the economy, this figure confirms that there is little to distinguish the behaviours of governments supposedly espousing different ideologies. A second important policy lever available to provincial governments is taxation. Saskatchewan has had to rely on higher levels of personal and corporate taxation than Alberta to finance similar levels of public sector investment because of the latter’s more abundant resource revenues.

**Figure 2: Real Per Capita Public Sector Investment (1992 dollars)**

Sources: CANSIM Table Number 290035, Capital and Repair Expenditures on Construction and Machinery and Equipment, Public and Private Investment, Actual Data.

16 Source: *Alberta Budget* (various years) and *Alberta Heritage Savings Trust Fund 2003-04 Annual Report.*
In the 1980s and 1990s, economic circumstances forced still further similarities in the economic policies of the two provincial governments. A crash in oil prices in 1986 would force governments in both provinces to pursue deficit reduction strategies that were remarkably similar. Kneebone and McKenzie (1999) show that Saskatchewan and Alberta reacted to the fiscal crisis in ways far more similar than different. Indeed, while Alberta is often considered the champion of expenditure cuts and government withdrawal from the economy in the face of the budget crisis, it was Saskatchewan that instituted the larger cuts to program spending due to the province’s high debt level. Reminiscent of Clarence Fine’s predicament in his first term as Provincial Treasurer, Janice MacKinnon (2003) describes how she waited anxiously in the early 1990s to hear whether the government of Saskatchewan would be able to borrow from international capital markets. Like Fine, MacKinnon had to convince NDP supporters that it was not feasible under those circumstances to pursue redistributive policies and levels of social spending to the extent that many NDP members wanted. Finally, in a detailed examination of recent economic policy choices, Kneebone and Emery (2003) conclude that differences in provincial tax and spending policies and differences in industrial policy have been differences only in degree and are more reflective of differences in income distribution and industrial structure than profound differences in political ideology.

4. Economic Evolution and Economic Performance

Saskatchewan had a larger population than Alberta as late as 1951. However, from 1951 to 1971, while Saskatchewan’s population grew from 900,000 to 950,000 Alberta’s grew from 900,000 to 1.6 million. From 1971 to 2003, Saskatchewan would realize a net gain in population of only 50,000 people while Alberta’s population would increase by 1.4 million. Most important for enabling the realization of agglomeration economies and further industrial development, almost all of Alberta’s population growth occurred in urban centres. As early as 1951, each of the two largest cities in Alberta (Edmonton and Calgary) was larger in population than the combined populations of the two largest cities in Saskatchewan (Regina and Saskatoon) and this would remain so thereafter.

Today, the economies of Alberta and Saskatchewan have very different structures. Both provinces have export-to-GDP ratios of 36%, and 80% of exports are commodities (Roach and Berdahl 2001). Saskatchewan’s exports are dominated by wheat, potash, and oil, while 67% of Alberta’s exports are from oil, natural gas, and coal. While Saskatchewan’s agricultural production is dominated by wheat and other grains, Alberta’s agricultural production is dominated by cattle production. Saskatchewan is the largest producer of potash in the world. While both Saskatchewan and Alberta produce oil and natural gas, the greater importance of energy resources for Alberta is clear. Alberta is the 9th largest producer of oil in the world and the 3rd largest natural gas producer. Within Canada, Alberta produces 55% of Canada’s conventional crude oil and all of Canada’s oil sand production. Saskatchewan is Canada’s second largest producer of oil in Canada, producing 20% of Canada’s conventional crude oil. Alberta has also seen its manufacturing sector develop to the extent that the value of manufacturing output is three times the value of the province’s agricultural production, whereas in Saskatchewan, the value of manufacturing output remains below the value of agricultural production.

From 1947 to 1970, Alberta and Saskatchewan were both outposts for American and British corporations. In the 1970s, that changed as domestic control of the oilpatch and potash production took place. Alberta became home to many large corporations while Saskatchewan
created Crown Corporations like Potash Corp. and Saskoil. Of the 800 largest (ranked by
revenue) corporations in Canada in 2002, 205 of the largest 800 corporations have their
headquarters in one of the four western provinces with 90 located in Alberta, 76 in British
Columbia, 15 in Saskatchewan and 24 in Manitoba. Of the 800 largest corporations in Canada in 2002, 205 of the largest 800 corporations have their headquarters in one of the four western provinces with 90 located in Alberta, 76 in British Columbia, 15 in Saskatchewan and 24 in Manitoba.17 Alberta’s large corporations are dominated by the oil and gas sectors with Energy (28), Utilities (10) and Oil Field Service (10) accounting for over half of Alberta’s large corporations. Saskatchewan has very few large corporations and amongst the five largest that it has, two are potash/fertilizer producers, one of which was a Crown Corporation until it was privatized by the Conservative government of Grant Devine in the 1980s. The largest corporation in Saskatchewan is Federated Cooperatives Ltd., and the third largest is the Saskatchewan Wheat Pool. Saskatchewan also lacks large subsidiaries with no entries in the Top 100 Subsidiaries in the National Post FP500 rankings, while Alberta has eight entries, British Columbia five, and Manitoba four.

It is difficult to identify the importance of Saskatchewan’s policies for discouraging large corporations from choosing to locate in Saskatchewan as this would have to be disentangled from the effects of Saskatchewan’s small local markets, its distance from external markets and other locational factors. Given the high-degree of economic integration and mobility of capital and labour between the provinces, the relationship between Alberta and Saskatchewan has evolved into an economic core and an economic periphery. Krugman (1991, 1998) describes the geographic concentration of economic activity like manufacturing, and perhaps services, as the product of a three-way interaction between economies of scale in production, transportation costs and mobile factors of production. Due to scale economies in production, firms maximize profits by concentrating production. Transportation costs lead firms to prefer to locate near markets and suppliers. Market size effects also encourage geographic concentration of production since access to markets and suppliers is best where other firms have chosen to locate. By these forces, economic development is a path dependent process where growth begets growth. Krugman provides an illustration of a case with two regions, A and B, of equal size with economies based on manufacturing and agriculture. Starting from a point in time where transportation costs between the regions are high, and as a consequence, manufacturing activity is equally distributed across A and B. As transportation costs fall, manufacturing will migrate from one region to the other resulting in one of the regions emerging into a manufacturing core, and the other into an agricultural periphery region. As part of this process, labour and capital migrate from the periphery to the core resulting in a larger population in the core, and higher real wages than in the periphery. Which of the two regions will develop into the core is a priori ambiguous. It could be the result of historical accidents or small differences in initial endowments.

Table 1 (below) shows that in 1910 Saskatchewan had the larger economy and population. However, the evidence presented in the table also suggests that Alberta had some important advantages in initial endowments. While smaller in population Alberta enjoyed a higher income per person. By 1929, the wealth of Alberta’s endowments compared to Saskatchewan’s was clear. In current dollars, the total incomes of the two provinces were equal but adjusting for cost of living reveals that Alberta had the higher real income. Alberta’s

17 Source: “FP500: The Rankings”, Nation Post Business, June 2003. The 100 largest Corporations had revenues from $2.76 billion to $37 billion in 2002; the 101st to 200th largest had revenues between $1.2 billion and $2.76 billion and the 201st to 800th ranked corporations had revenues between $0.269 billion and $1.2 billion. In BC, Forestry (12) and Services (9) are the dominant sectors for head offices. In Manitoba, Farm (6) is the largest single sector.
population remained less than Saskatchewan’s with the result that per capita income was one-third higher in Alberta.

Table 1: Gross Value Added, Current and Constant Dollars

<table>
<thead>
<tr>
<th></th>
<th>Price Index (Toronto 1913=100)</th>
<th>GVA (millions $)</th>
<th>Per Capita GVA ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Constant</td>
<td>Population</td>
</tr>
<tr>
<td>1910</td>
<td>Saskatchewan</td>
<td>113.1</td>
<td>$121.4</td>
</tr>
<tr>
<td></td>
<td>Alberta</td>
<td>104</td>
<td>98.7</td>
</tr>
<tr>
<td>1929</td>
<td>Saskatchewan</td>
<td>156.8</td>
<td>415</td>
</tr>
<tr>
<td></td>
<td>Alberta</td>
<td>146.4</td>
<td>411</td>
</tr>
</tbody>
</table>

Sources: Green (1971): Population numbers form Table A-1; GVA estimates from tables B-2 and B-3; Inter-temporal inter-urban price index values are from Emery and Levitt (2002) using Regina’s price index for Saskatchewan and Calgary’s for Alberta.

Table 2 shows that a larger mining and manufacturing sector explain Alberta’s income advantage in this early period. Alan Green’s (1971) estimates of gross value added by sector show that in 1910, the gap in total GVA between the two provinces is due to the gap in incomes generated in agriculture. Alberta made up a portion of the agricultural gap through larger mining and manufacturing sectors. Across all remaining sectors, the two provinces generated equal incomes. By 1929, Alberta’s advantage and importance of manufacturing was substantial and was large enough to offset the higher income from agriculture generated in Saskatchewan. These observations reveal an important but over-looked aspect of the economic development of the two provinces: Alberta’s advantages in mining and manufacturing were present from the outset and not solely the product of the post-1947 oil boom. The fact that much larger pools of oil and gas would be found in Alberta meant that that province would realize the larger share of economic benefits from energy resources. Mansell (1987) stresses that Alberta benefited from the fact the oil and gas industries are characterized by high capital intensity, specialized technology, strong forward and backward linkages and hence large inter-industry multiplier effects. These industries demand massive amounts of capital, a highly skilled workforce and supply large revenues to government that in turn enables the provision of social infrastructure without a high tax burden. For these reasons, the development of oil and gas enabled Alberta to develop economically in ways that Saskatchewan never could. The development of oil and gas, and the industrial linkages developed as a result, was crucial because non-oil and gas industries would necessarily remain small in both provinces due to the geographic isolation of Alberta and Saskatchewan from large population centres.
Table 2: Gross Value Added by Selected Sectors

<table>
<thead>
<tr>
<th>Current Dollar GVA:</th>
<th>Total</th>
<th>Mining</th>
<th>Manufacturing</th>
<th>Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>$121.4</td>
<td>$0.3</td>
<td>$3.0</td>
<td>$74.9</td>
</tr>
<tr>
<td>Alberta</td>
<td>98.7</td>
<td>7.4</td>
<td>7.2</td>
<td>34.0</td>
</tr>
<tr>
<td>1929</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>415.0</td>
<td>2.0</td>
<td>18.0</td>
<td>157.0</td>
</tr>
<tr>
<td>Alberta</td>
<td>411.0</td>
<td>31.0</td>
<td>34.0</td>
<td>120.0</td>
</tr>
</tbody>
</table>

Percentage Distribution:

<table>
<thead>
<tr>
<th>1910</th>
<th>Mining</th>
<th>Manufacturing</th>
<th>Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saskatchewan</td>
<td>0.2%</td>
<td>2.5%</td>
<td>61.7%</td>
</tr>
<tr>
<td>Alberta</td>
<td>7.5</td>
<td>7.3</td>
<td>34.4</td>
</tr>
<tr>
<td>1929</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>0.5</td>
<td>4.3</td>
<td>37.8</td>
</tr>
<tr>
<td>Alberta</td>
<td>7.5</td>
<td>8.3</td>
<td>29.2</td>
</tr>
</tbody>
</table>

Sources: Green (1971).

The solid line in Figure 3 shows the ratio of Saskatchewan’s per capita GDP to Alberta’s from 1910 to 2001. From 1929 to 1956, Green’s (1971) GVA numbers suggest a slight decline in Alberta’s income advantage. Given that Hanson (1958) estimates that the Alberta oil boom had increased average incomes in the province by 20% by 1956, this would suggest that had Alberta not had oil, Saskatchewan incomes may have converged to Alberta’s. Provincial GDP estimates from Statistics Canada suggest that Saskatchewan continued to make gains on Alberta as late as 1971. Thus, it would appear that Alberta’s expansion around its early oil boom was resulting in extensive growth, but whatever productivity gains were driving increases in per capita incomes were shared by Saskatchewan. The significant divergence between the two provinces does not occur until after 1971 with OPEC oil price shocks and the Lougheed era in Alberta. As noted above, Alberta’s population increased dramatically but so did per capita incomes. Saskatchewan had reached 80% of Alberta’s per capita income in 1971, but by 1980, it only had 2/3 of Alberta’s per capita income. With the collapse of oil prices in 1986, Saskatchewan’s per capita GDP gained relative to Alberta’s reaching 80% in 1996. With the resumption of rising oil prices, and natural gas prices after 1996, the ratio again deteriorated. Thus, unlike the first oil boom, this evidence indicates that the post-1971 energy booms were resulting in intensive growth for Alberta, at least over the short run.
The interpretation suggested by the data on per capita GDP can be misleading, however, because per capita incomes of the two provinces may also reflect differences in demographics. Alberta has had higher labour force participation rates and lower dependency ratios over time. To account for this influence, the dashed line in Figure 3 shows the ratio of per capita GDPs adjusted for the labour force participation and demographics (age and sex) of the provincial populations. This measure shows no trend in Alberta’s advantage through either the 1950 to 1970 or the 1970 to 2001 period. The gains made by Alberta between 1971 and 1986, were offset by deteriorations in its relative position from 1986 to 1996. The conclusion to be drawn from Figure 3 is that Alberta’s apparent gains in per capita incomes relative to Saskatchewan reflect a well-established outcome of resource booms; high participation rates and a relatively young and male population. Saskatchewan’s disadvantage in per capita GDP comparisons reflects its higher dependency ratio. Adjusting for this fact yields the information that the productivity of labour employed in the two provinces has remained more or less unchanged over the long run. This would suggest that Saskatchewan’s “socialist” policies may have resulted in a higher dependency ratio, but they have not in any obvious way, undermined the economy’s productive capacity. This conclusion is also in line with Chambers and Gordon’s (1966) view that over the long run, natural resource exports make your economy larger and increase the income paid to the fixed factors of production, but they do not result in increases in per capita

Source: Green (1971) for 1910, 1929 and 1956. CANSIM II Tables 3840014 “Provincial Gross Domestic Product (GDP), Income Based” and 380001 “Provincial Gross Domestic Product (GDP), Income Based, Provincial Economic Accounts”. Population data from CANSIM II Table 3800043, “Population of Canada and the Provinces”.

18 Following MacLean’s (1993) work on California in the 19th century, the per capita GDP of each province is multiplied by the following term:

\[
\frac{\text{Males,15 – 64}_n}{\text{Total Population}_n} \times \frac{\text{Male Employment,15}_n}{\text{Males,15 – 64}_n} + \frac{\text{Females,15 – 64}_n}{\text{Total Population}_n} \times \frac{\text{Female Employment,15}_n}{\text{Female Population}_n}
\]
incomes. If Saskatchewan’s socialist policies have had an effect on the economy of Saskatchewan, then it is most likely to be apparent in the income accruing to the owners of land and natural resources.\textsuperscript{19}

Figure 4 (below) shows per capita levels of private sector investment (in constant 1992 $) in Alberta, Saskatchewan, and Ontario.\textsuperscript{20} If Saskatchewan’s provincial public policies discouraged investment, then we would expect to see unusually low levels of private investment in Saskatchewan. The figure shows that the level of per capita investment in Saskatchewan up to 1969 is comparable to that in the two other provinces suggesting that Douglas’ socialism had not had an obvious negative influence over the long run. Investment in per capita terms fell precipitously after 1969 due in large part to the collapse of potash prices.\textsuperscript{21} In addition, in the early 1970s, private sector oil refiners announced that they would be removing operations from Saskatchewan and Manitoba and expanding in Alberta to rationalize production. In Alberta the impact of the 1973 and 1979 OPEC oil shocks show up in these data as an enormous investment boom that collapsed precipitously due to the combined effects of the 1980 National Energy Program (NEP) and the 1982 recession. It is interesting to note that other than the early 1970s, Saskatchewan has generated levels of per capita private investment comparable to that in Ontario.

Figure 5 (below) shows the ratio of the value of the capital stock per worker in Alberta and Saskatchewan. From 1961 to 1971, there is little difference between the provinces. Saskatchewan’s capital-labour ratio stagnates for the first half of the 1970s, whereas Alberta shows slow growth. From 1974 to 1985 the capital-labour ratios diverge with Alberta’s investment boom. Following the collapse in oil prices in 1986 the capital-labour ratios of both provinces have different levels but comparable growth rates. Thus, much of the explanation for the large increase in Alberta income relative to Saskatchewan’s is associated with the increasing capital per worker after the OPEC oil shock. This is also the period of time when Calgary developed significant corporate concentrations in the oil patch.

\textsuperscript{19} Boyce and Emery (2005) demonstrate that in a dynamic version of the Chambers and Gordon (1966) model, the only effect of poor policies and institutions is on the income of the resource owner.

\textsuperscript{20} Investment is represented by expenditures on capital goods and is from CANSIM Label:

\textsuperscript{21} The price collapse was due to the combined effects of a declining world demand for potash and the disintegration of the potash cartel that had maintained high potash prices with pro-rationed production across members. Saskatchewan’s government was named as a co-defendant in antitrust action in the US.
**Figure 4: Real Per Capita Private Sector Investment, Saskatchewan, Alberta and Ontario (1992 dollars)**

![Graph showing real per capita private sector investment](image)

Source: CANSIM Table Number 290035, Capital and Repair Expenditures on Construction and Machinery and Equipment, Public and Private Investment, Actual Data.

**Figure 5: Capital-Labour Ratios, Saskatchewan and Alberta, 1961-2002**

(millions of 1992 $)

![Graph showing capital-labour ratios](image)

Source: See Table 3.
Table 3 shows for the two provincial economies the contributions to GDP growth of input accumulation and total factor productivity (TFP) growth. The table shows that what really have been strong growth rates for Saskatchewan has largely been interpreted as poor growth compared to that experienced in Alberta. From 1962 to 2001, Alberta’s real GDP grew at an average of 5.4% per year while Saskatchewan’s grew at an average of 3.4% per year. Over this period, TFP growth was slightly faster in Saskatchewan than in Alberta.

Table 3: Accounting for Growth in Alberta and Saskatchewan

<table>
<thead>
<tr>
<th>Period</th>
<th>Alberta Growth Rate</th>
<th>Contributions to Growth by:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP Growth Rate</td>
<td>Labour Input</td>
<td>Capital Input</td>
<td>Technical Progress</td>
<td></td>
</tr>
<tr>
<td>1962-2001</td>
<td>5.4%</td>
<td>2.1%</td>
<td>2.0%</td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td>1962-1970</td>
<td>6.1%</td>
<td>2.1%</td>
<td>3.2%</td>
<td>0.8%</td>
<td></td>
</tr>
<tr>
<td>1971-1985</td>
<td>7.7%</td>
<td>2.7%</td>
<td>2.3%</td>
<td>2.7%</td>
<td></td>
</tr>
<tr>
<td>1986-2001</td>
<td>2.9%</td>
<td>1.4%</td>
<td>1.2%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>1962-2001</td>
<td>3.4%</td>
<td>0.6%</td>
<td>1.2%</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>1962-1970</td>
<td>4.9%</td>
<td>0.9%</td>
<td>2.4%</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>1971-1985</td>
<td>4.6%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td>1986-2001</td>
<td>1.3%</td>
<td>0.2%</td>
<td>0.8%</td>
<td>0.3%</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Provincial GDP numbers for 1961 to 2001 from CANSIM II Tables 3840001 and 3840014. Labour input is the size of the working population. For each province, the capital input is calculated is 95% of the previous period’s capital input plus total expenditures on capital (CANSIM). The initial capital stock for each province was obtained by attributing a share of the estimated capital stock for Canada in 1956 equal to the province’s share of GVA in 1956. The estimate of the capital stock for Canada is from the Historical Statistics of Canada and its value is converted into 1960 dollars, and the 1960 capital stocks are equal to the 1956 capital stock compounded at 2.86% per year to 1960 according to Lithwick’s (1970) estimate of the annual growth rate of Canada’s capital stock for 1929 to 1956. The calculations reported in the table assume labour’s share of income equal to be two-thirds. The results are not significantly different if we instead use the Conference Board of Canada’s estimate of Labour’s share of national income of 0.55.

The explanation for Alberta’s more rapid economic growth in terms of faster input accumulation holds for each of the four sub-periods shown in the table. The pre-oil boom period of 1962-1970 saw Alberta enjoy a slightly faster rate of output growth but this advantage was due solely to more rapid input growth. Saskatchewan, in fact, realized twice the average rate of technological progress as Alberta over this period. The 1971-1985 period of high oil prices, when Alberta enjoyed an investment boom associated with the expansion of energy production, generated rapid economic growth for that province but again this was the product of very rapid input growth rather than technological progress. While realizing significantly slower rates of labour force and capital stock growth, Saskatchewan enjoyed the fruits of a comparable level of technological progress.

These calculations suggest that the differences in the two economies were most likely the product of differences in endowments of oil and natural gas. TFP growth rates are similar in the two provinces before, during, and after the oil boom. Growth rates differ substantially only when Alberta enjoys the benefits of high energy prices and realizes rapid input growth. Alberta’s economic advantage over Saskatchewan, then, depends on that province’s ability to attract labour and capital. With projections that Alberta’s endowment of conventional crude oil
and natural gas has been depleted by 50% between 1970 and 2000, it is interesting to speculate that Alberta may only have 30 years or less to live off of its energy resources and so continue its advantage over Saskatchewan (Conference Board of Canada 2003).

5. Conclusion

In 1905 the Canadian federal government set the stage for an interesting natural experiment. The government established the provinces of Saskatchewan and Alberta by drawing a border that divided a prairie region into two halves approximately equal in area, population and economy. Throughout their histories the two provinces have consistently elected governments of seemingly very different political persuasions; right-of-center governments in Alberta and left-of-center parties in Saskatchewan. From equal beginnings the political boundary has come to define two very different economies. What role has the difference in political regimes made possible by the border played in determining the divergent outcomes of the two economies? This paper contributes to the literature on growth and convergence that addresses the relative importance of institutions versus endowments for explaining economic development. Our examination of provincial economies means that there is a larger set of conditions satisfying the *ceteris paribus* assumption than is possible in comparative studies of national economies. The provinces share common languages, currency, financial systems, international trade policies and general structures of governance. The two economies are also integrated with free mobility of capital, labour and goods.

We have found that while the rhetoric of the leaders of the two provinces may have differed, in practice there is little difference in the policies pursued. As one would expect in small open economies with integrated factor markets, financial constraints and market forces limit the ability of socialist governments to be public entrepreneurs. In times of abundance, even right-wing governments moving into the role of public entrepreneur. While the perception exists that Saskatchewan Socialism helped caused Alberta’s eventual dominant position, ultimately, Saskatchewan's fate is really one of natural economic evolution in the presence of falling transport costs and agglomeration economies. Alberta's early lead in manufacturing development, and mineral endowments, were the seeds of its economic leadership. We also conclude that it is not obvious that Saskatchewan is an economic under-performer.
References


Green, Alan (1971) Regional Aspects of Canada’s Economic Growth (Toronto: University of Toronto Press).


