Alberta Federation of Labour

Policy Papers

Alberta Federation of Labour

ANATOMY OF A BOOM

These are heady times in Alberta. The provincial economy, which has been simmering for a long time, is now boiling over. The Alberta Government has run out of ways to hide money, and has been forced to admit that it is running one huge surplus after another. In a country where relatively high unemployment has been a chronic concern, Alberta suffers from labour shortages, and fast food restaurants use their signs to advertise job benefits instead of burger prices. Canada hasn't seen anything like this since the days of the Klondike gold rush.

The media, of course, are full of clichés about the Wild West, and it won't be long before they're trotting out the tired old one-liners about "blue-eyed sheiks". Even Statistics Canada, which normally ignores the trendy and communicates in a prose that is technical and dry-as-dust, headlined the September issue of *Canadian Economic Observer* with a feature article on "The Alberta economic juggernaut".[i]

So, it's official: we're in the middle of another oil boom, the biggest one since the early 1980s, when Peter Lougheed was still Premier, and Wayne Gretzky was an Oiler rookie.

And like the last boom, this one will eventually disappear, leaving the province with an economic hangover of monstrous proportions, and no idea what happened to the good times.

If we want to avoid that fate, maybe we should put aside the hype and the celebration, and take a good hard look at the boom: at what it really means and who's reaping the benefits. Maybe it's time to ask some hard questions.

The following paper will outline the dimensions of Alberta's current economic boom, and its impact on working people in our province. The policy papers that follow will suggest concrete actions we can take in response to the boom.

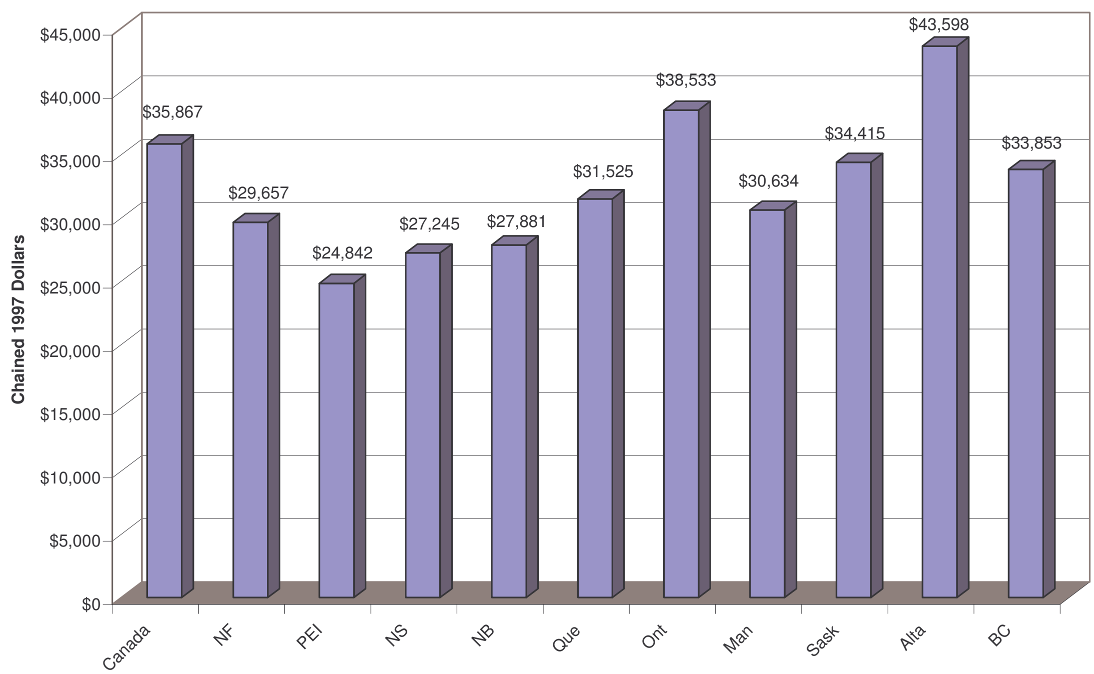
ALBERTA'S GROWING WEALTH

For economists, a boom is a period of rapid economic growth, and this growth is measured by **Gross Domestic Product** (GDP), the total value of goods and services produced in a given period. By this standard, Alberta is doing very well indeed: with about 10% of Canada's population, Alberta in 2005 accounted for 16.8% of the country's GDP.

This strong performance is obviously based, in large part, on high energy prices. Economists treat such growth with a certain amount of caution. Rising commodity prices may increase the flow of money into an economy, but the increase in GDP that results doesn't necessarily reflect "real" growth – the production of more goods and services. On the contrary, to the extent that rising commodity prices fuel inflation, they can actually harm the development of the economy.

To measure real growth, economists use a special GDP deflator to convert nominal Gross Domestic Product to "Real GDP". When this is done for Alberta, the results are still very impressive.

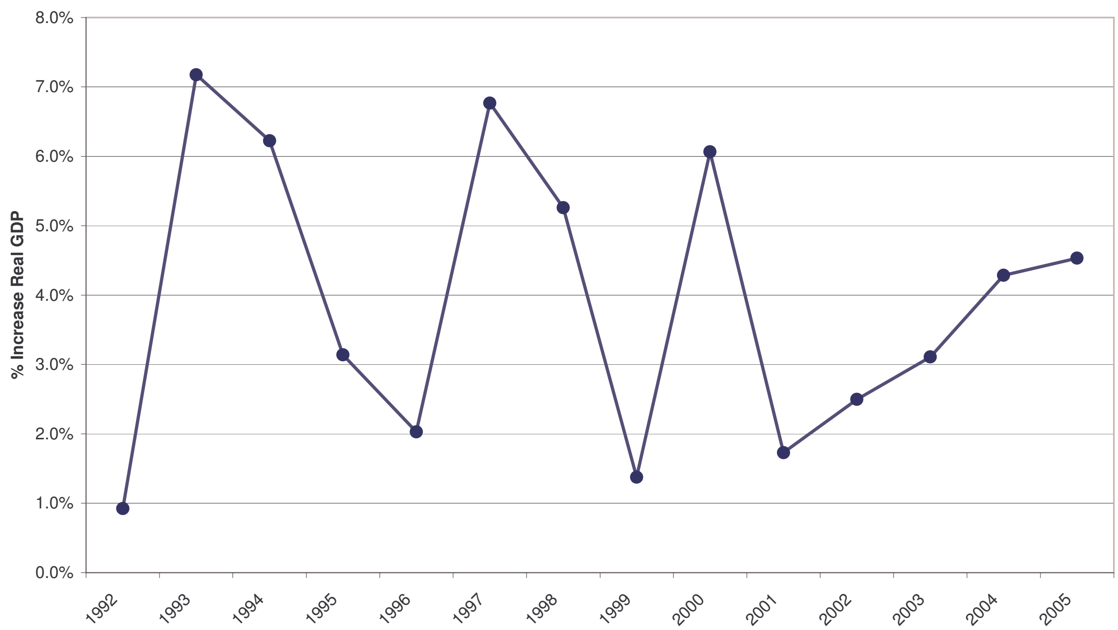
Chart #1 Real GDP Per Capita, 2005



As Chart #1 shows, Alberta's Real Per Capita GDP (the amount of wealth created for each individual in the province) is by far the highest in Canada. [ii]

Provincial politicians, intent on lowering public expectations for government spending, frequently cite the "volatility" of Alberta's energy-based economy. It's true that oil and natural gas prices can fluctuate (although it's obvious that in the long run energy prices are going nowhere but up). Indeed, these fluctuations can sometimes mask real, underlying economic trends. In 2002, for example, economic growth in North America slowed, and both natural gas and oil prices fell. As a result, Alberta's nominal GDP (that is, GDP figures not corrected for changes in prices) actually declined by 0.3%. But as Chart # 2 below indicates, the actual amount of goods and services produced in the province that year actually grew by a healthy 2.5%.[iii]

Chart #2. Real Economic Growth
Alberta, 1992 - 2005



In fact, despite the ups and downs of global energy markets, the Alberta economy has been growing steadily for the last fourteen years, with an average annual real growth rate of 3.9%. Statistics Canada sums up the economic picture as follows:

> *Alberta is in the midst of the strongest period of economic growth ever recorded by any province in Canada's history. Its total income (GDP) rose 43% between 2002 and 2005, and shows no signs of slowing down in 2006. Alberta's 12.7% average annual increase since 2002* (here the article is referring to nominal, rather than real, GDP) *compares favourably with China's 14.8%, the fastest growing among the world's large economies.*[iv]

This kind of strong and consistent growth creates the basis for real prosperity. It doesn't, however, guarantee it. What have been the economic consequences of the boom in Alberta?

GROWTH AND INFLATION

Rapid economic growth creates inflationary pressures. A booming economy means heightened demand for goods and services of all kinds, and when demand exceeds supply, prices rise. In the case of a boom based on increasing prices for basic commodities, this pressure is even greater: as the effect of these price increases itself pushes inflation upward.

The global economy of the 20th and 21st centuries is fundamentally dependant on energy, and rising energy prices provide a powerful source of inflation. Since energy inputs underpin the production and transport of most commodities, increased energy costs soon trickle through the economy and bring about overall price increases.

The oil boom of the late 1970s and early 1980s, for example, was a primary cause of the "stagflation" (high rates of inflation combined with stagnating economic growth) that plagued much of the world. As governments tried to stimulate their economies through deficit spending, public debt and inflation both increased.

This, in turn, led to the rise of monetarist economics, the basic thrust of which was to use high interest rates to choke off inflation, regardless of the economic side-effects. High interest rates meant the cost of servicing public debt increased dramatically, leading in turn to the debt crisis of the 1980s and 90s, and paving the way for the neo-liberal politics of smaller government.

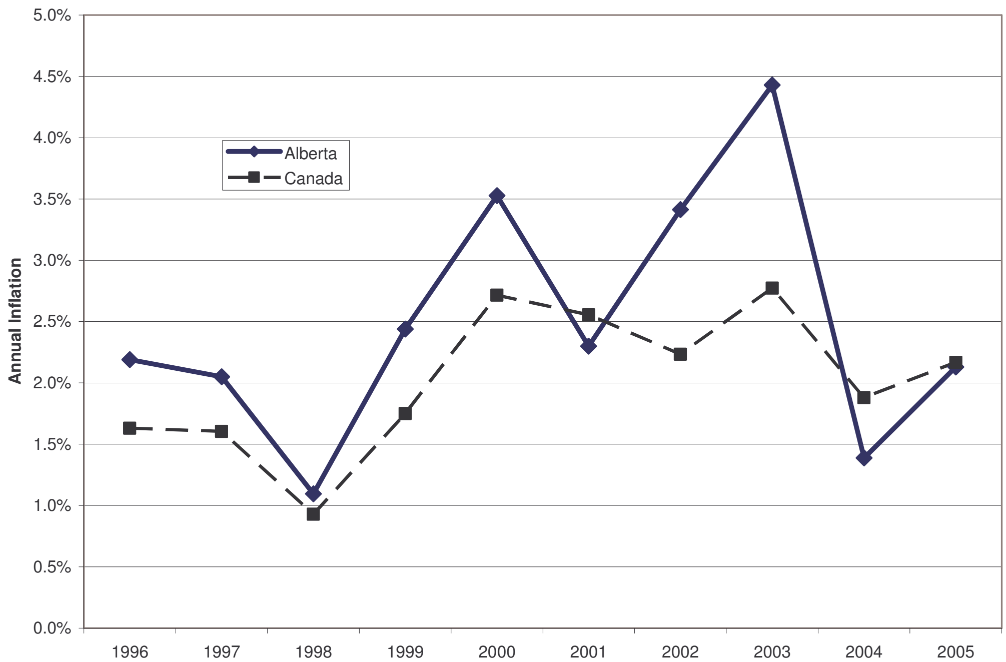
As an energy producer of growing importance, Alberta benefits from high prices for oil and/or natural gas. We also, however, suffer from the inflationary effects of those prices, especially since oil production from tar sands is itself an energy-intensive process.

In addition, the current wave of expansion and construction in the Athabasca tar sands has created a sharp increase in construction activity. In this sense, the current boom differs from the energy boom of the Lougheed years, in that it is driven almost as much by the construction sector as by the energy industry, although it remains fundamentally energy-based.

With rapid growth <u>and</u> high energy prices, it is hardly surprising that Alberta's economy shows signs of inflationary pressures. As Chart #3 shows, the inflation rate in our province has been higher than the national average for seven of the last ten years.[v] During that period, inflation in the province averaged 2.5% in Alberta, as opposed to 2.0% in the rest of Canada.

While 2.5% annual inflation is relatively modest by the standards of the last few decades, the volatility of prices in Alberta, as evidenced in the years 2000 and 2003, remains a concern. Preliminary data from 2006 suggests that prices last year rose once again by close to 4%.

Chart #3. Inflation Rates, Canada and Alberta



Inflation in Alberta obviously can't diverge too widely from national levels: the flow of goods and services from the rest of the continent puts real limits on overall price increases. On the other hand, the policy tools available to government for dealing with inflation don't work well on the regional level.

The Bank of Canada is responsible for monetary policy in this country, and has a mandate to control inflation through the mechanism of interest rates. The Bank has adopted a policy that would see it raising interest rates when inflation at the national level rises above 3% per annum. Interest rates, however, necessarily apply across the entire national economy, so they aren't really effective at dealing with inflation in a particular regional economy.

This means that as long as energy prices remain high and the construction boom in Fort McMurray continues, inflation in Alberta will normally remain higher than in the rest of Canada. This will make it harder for workers in Alberta to achieve gains in real (after-inflation) wages.

THE LABOUR MARKET

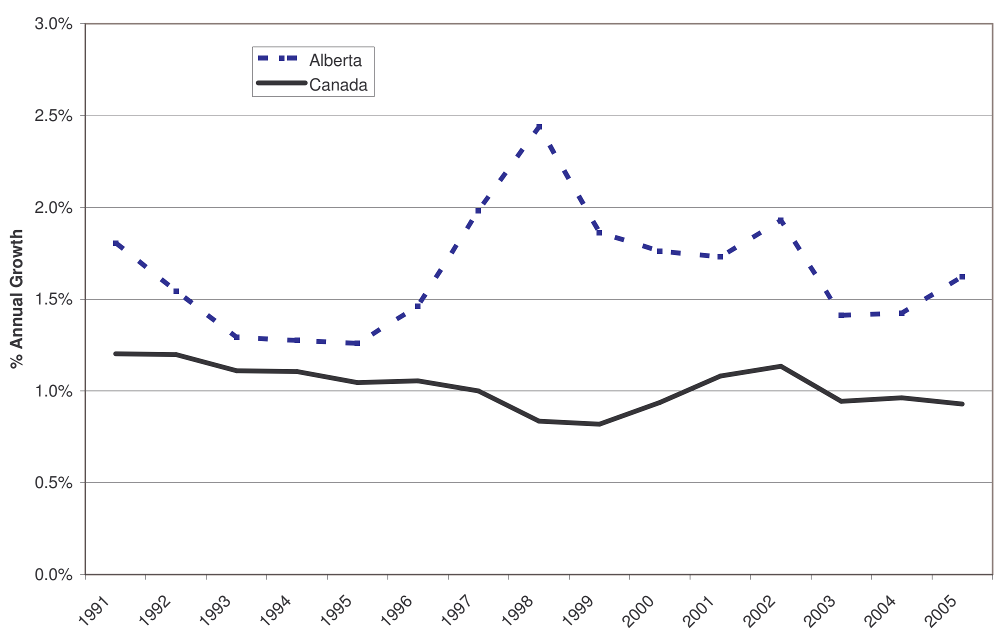
As trade unionists, we are fundamentally concerned with the wages and benefits our members receive, and these wages and benefits are determined in the labour market. The labour market works – like any other market – on supply and demand. The demand for labour is a function of the number of jobs created by the economy, and the supply of labour represents the number of people available to take those jobs.

Media reports of labour shortages in Alberta paint a picture of a very tight labour market, which is what one would expect in a boom economy. What is the actual state of the labour market in our province, and what does it mean for wages?

THE SUPPLY OF LABOUR

The Supply of Labour rests, in the first instance, on population and population growth. As Chart #4 shows, Alberta has had a rate of population growth well above the national average for the last fifteen years.[vi] In fact, for most of the last decade, this province has had the fastest rate of population growth among provinces.

Chart #4. Population Growth, Canada and Alberta
1991 - 2005



The most recent data suggests that this growth is, if anything, accelerating even further. In the third quarter of 2006, Alberta's population grew by 1.12%[vii] which, if the trend continues, would give an annual rate of over 4%.

Of course, population numbers are only the foundation of labour market supply. This population must actually be available and willing to fill job vacancies. This is the case in Alberta. The province has "the youngest as well as the fastest growing adult population, with 57% of people in Alberta less than 45 years old last year….Partly, this reflects more births, but mostly it is because migrants tend to be relatively young".[viii]

Further, if a large portion of Alberta's population is in its prime working years, it's also composed of people who are ready and willing to work. The labour force participation rate measures the percentage of the labour force that is either employed or looking for work. Alberta has had the highest participation rate in Canada for the last 30 years.[ix]

So the supply side of the labour market in Alberta is very strong. On its own, this would tend to push up unemployment and exert downward pressure on wages. But what about the demand side?

LABOUR MARKET DEMAND

The demand side of the labour market is created by the number of jobs created by the economy. This is where the Alberta economy really shows its strength:

Chart #5. Alberta Unemployment, 1992 - 2005

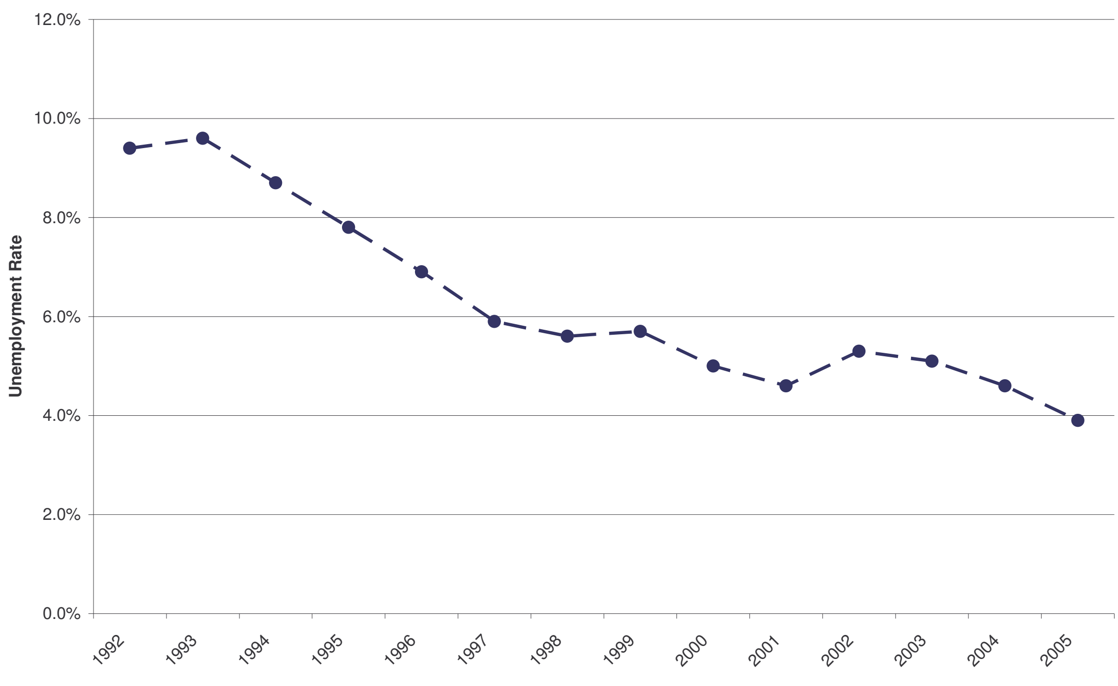


Chart #5 shows how unemployment has fallen steadily since the early 1990s.[x] In 2006, the rate continued to fall, and is now probably very near its theoretical limit. Labour market economists view an unemployment rate of 3% as a sign of a serious labour shortage. Of course, if unemployment across the whole economy is in the 3% range, it's clear that in some sectors it will be even lower, and some positions may simply not get filled. This is already happening in the health care sector.

Not surprising, the energy and construction sectors are leading the way: with 19,000 jobs in construction and 30,000 in mining (which includes oil and gas) since 2002. this accounts for nearly half of all job growth in this period.

So despite the strong performance by the supply side of the labour market, the demand side (job creation) has been even stronger:

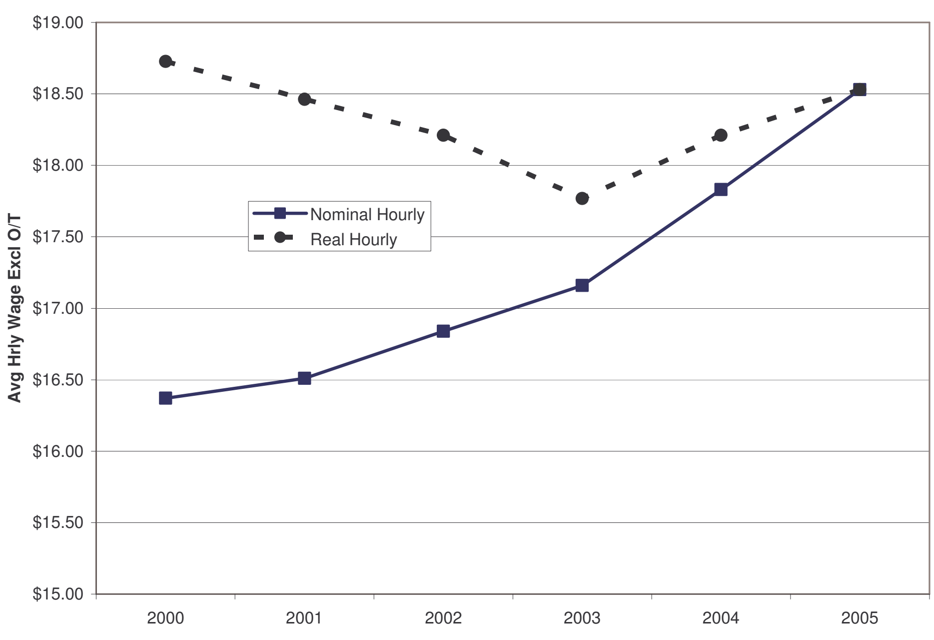
> *Over the last decade, Alberta has consistently had Canada's strongest labour market, averaging annual job gains of 3.1%. But now it has moved ahead of all North America. It has the highest share of its population employed of any province or state, and the lowest unemployment rate.*[xi]

WAGES

If Alberta's economy is as strong as the numbers suggest: if GDP is growing rapidly and the labour market is extremely strong, wages should be rising. That, at least, is what both economic theory and common sense tell us. Unfortunately, the evidence tells us something quite different.

There are a number of different ways to measure wages. Each method has its strengths and drawbacks. Chart # 6, below, shows two such measurements.[xii]

Chart # 6. Nominal and Real Hourly Wages, Hourly Paid Employees, Alberta, 2000 - 2005
(Real Wages in 2005 Constant Dollars)



Both lines on this chart show the average hourly wage paid to hourly employees in Alberta. We believe this is an appropriate measurement, because most workers and most union members are paid on an hourly basis. Both lines also exclude overtime earnings. We chose this measure because we are concerned with the wages workers are paid for their regular work, not how much extra they are able to earn by working extra hours.

The lower line – "Nominal Hourly" – is just the average hourly wage paid in the province between 2000 and 2005. As we can see, it rose during this period from $16.37/hr to $18.53/hr.

The top (dotted) line shows the same wages expressed in "real" (inflation-adjusted) terms. It does this by using the Consumer Price Index to convert the nominal wage rates into 2005 constant dollars, in order to remove the effects of inflation.

This procedure produces a dramatically different result: real wages – the amount of goods and services your wages can actually purchase – didn't increase between 2000 and 2005. Instead, they actually fell slightly from $18.73/hr (constant 2005 dollars) to $18.53/hr. What kind of boom is this, when the purchasing power of the average worker's wages stagnates or actually declines?

Even last year, when the media was full of complaints about labour shortages and rising wages in fast-food restaurants, average hourly wages in Alberta didn't rise at all between January and June – in fact they fell for the first five months of the year, and only recovered over the summer.

2006 Alberta Average Hourly Earnings[xiii]
(hourly employees, excluding overtime)

January	*February*	*March*	*April*	*May*	*June*
$18.95	$18.85	$18.81	$18.70	$18.29	$18.94

These figures are nominal hourly wages, which means that real (after-inflation) hourly wages actually fell during this period.

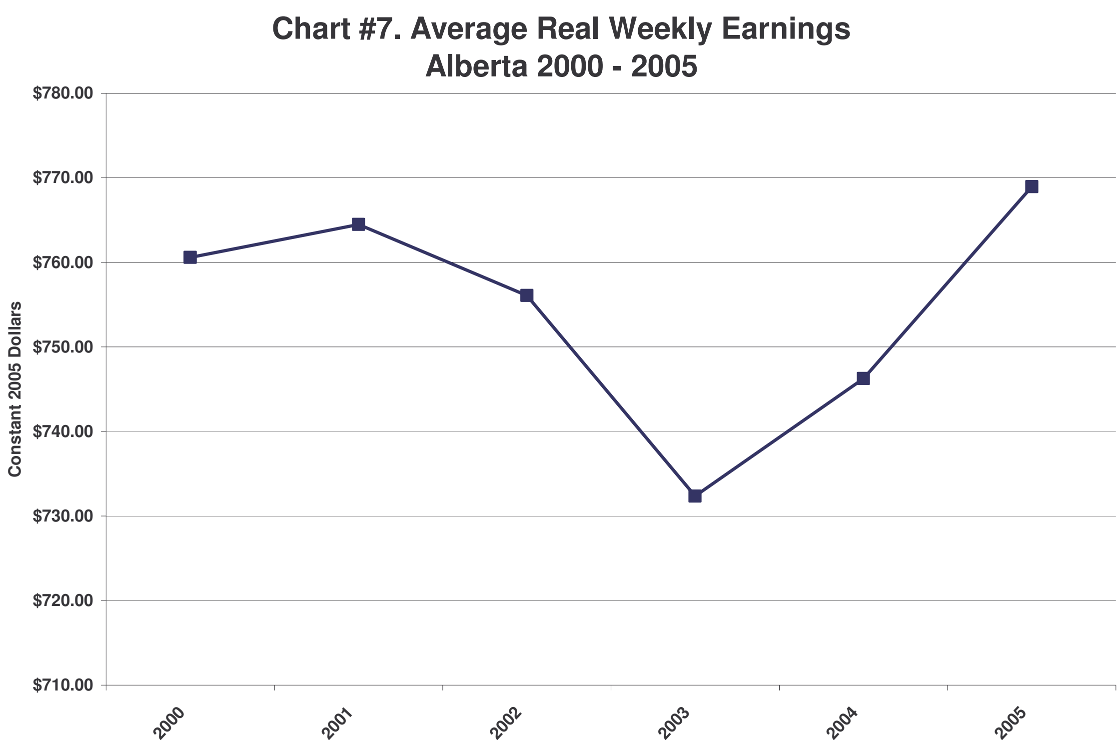
Average weekly earnings is another wage measurement, one that illustrates the difficulties in identifying wage trends. It includes all those receiving wages or salaries, everyone from CEOs to casual workers, and also includes overtime earnings. There are two reasons for preferring the hourly wage data we have used above:

1. The high salaries paid to senior executives distort the resulting wage picture, and make growing income inequality appear as rising wages.

2. Including overtime pay can hinder the identification of what's actually happening to wages.

For example: in a booming economy that is suffering a labour shortage, employers will attempt to induce or coerce their employees into working longer hours. This will result in higher overall earnings, and will be reflected in the weekly earnings data, but won't necessarily tell us much about what people are being paid for their regular work.

So the wage measurement "average weekly earnings" may tend to give an inflated picture of the wages people are actually being paid for the work they do. Even so, when we look at Chart #7 we see that, once inflation is factored in, weekly earnings have shown mixed results over the last five years. They rose in 2004 and 2005, but only after showing marked decreases in the previous two years.[xiv]



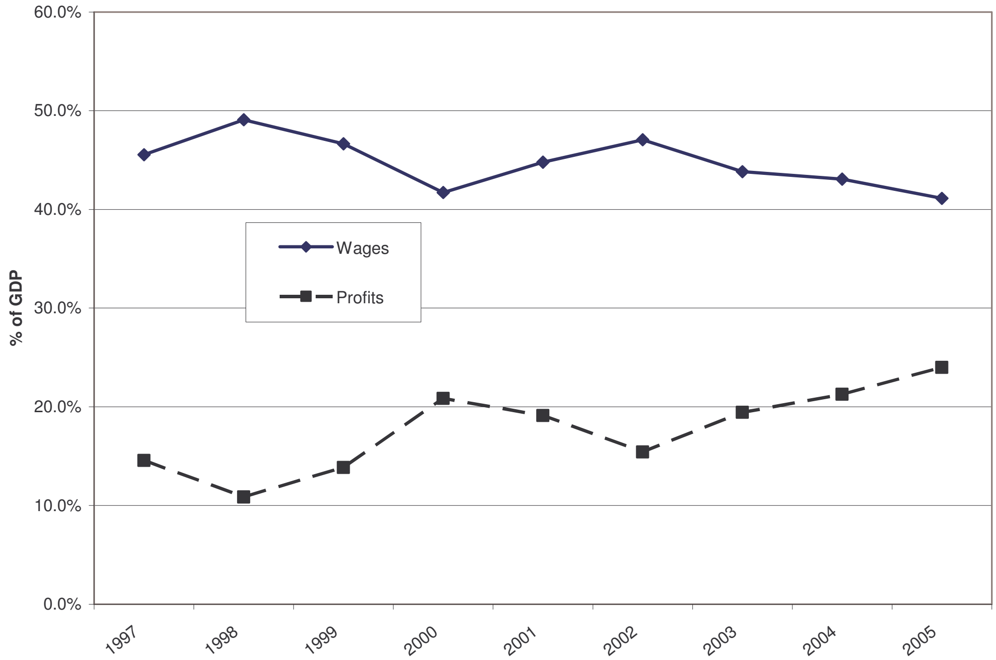
What, then, are we to make of all the claims from media and business that wages in Alberta are "soaring", when we hear about wait staff at a donut shop in Fort McMurray or Grande Prairie getting paid $18 an hour, or someone claims that average family incomes in Alberta are almost twice the national average?

Some of these claims are mere anecdotes, and some are simply made up. More important, however, are figures that are quoted accurately, but that reflect different measures of wages and earnings. Family income, for example, is a real and legitimate measurement. It includes all sources of income (wages, investment income, etc.) from all members of a family. This information is useful for policy makers, but it tells us nothing meaningful about wages.

WAGES AND PROFITS

If the Alberta economy is generating wealth at a rate without precedent in modern Canadian history, but the wages actually paid to Albertans are stagnating, where is the wealth going?

Chart # 8. Wages and Profits as % of GDP, Alberta 1997 - 2005

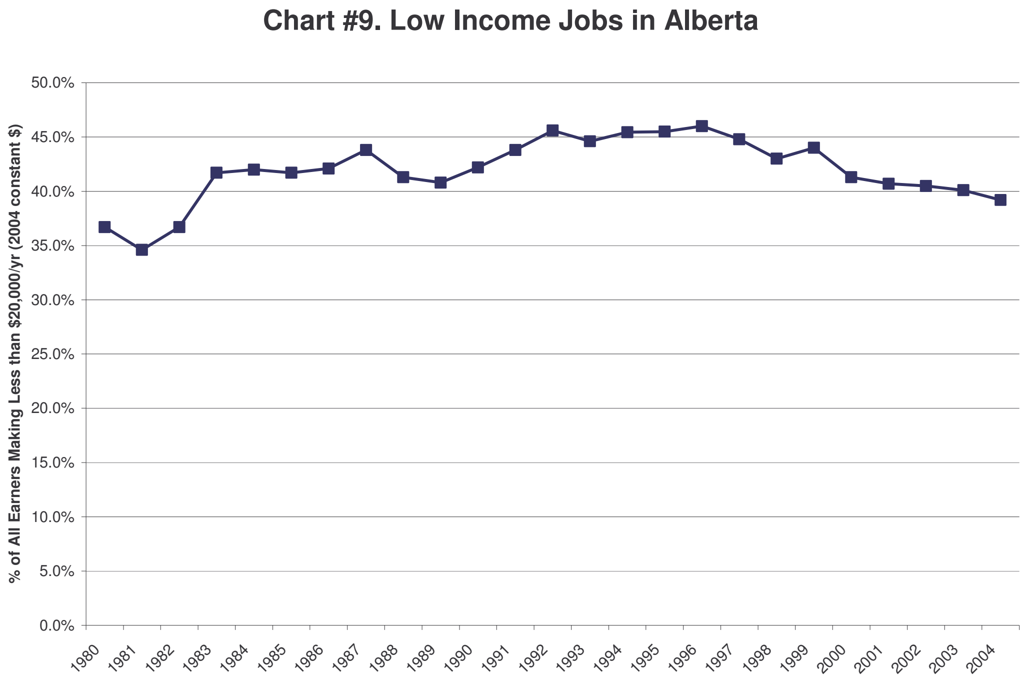


As Chart # 8 shows how the shares of GDP (the total wealth created in the economy) devoted to wages and corporate profits have changed over the last decade. Since 1998 the proportion of provincial GDP expended on wages, salaries, and other forms of compensation to labour has followed a downward trend. The proportion accruing to corporate profits, on the other hand, has been increasing fairly steadily.[xv]

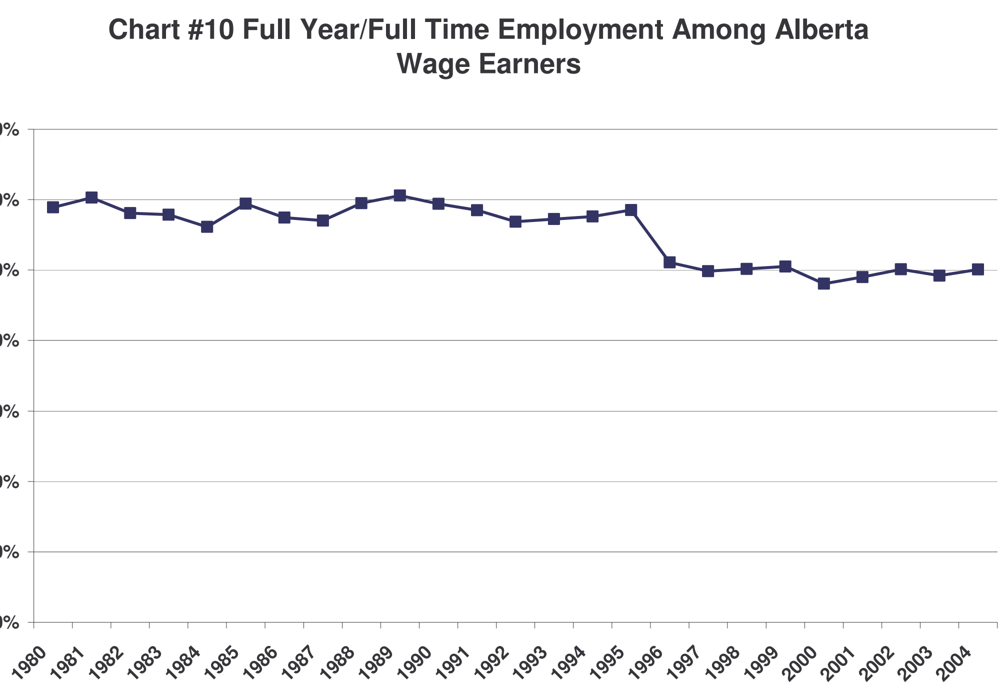
These trends reflect the reality of neoliberal economic policies – the transfer of wealth from working people to corporations. In Alberta it means that the benefits of the boom are not being reflected in the wages of working people because they are instead being diverted into corporate profits.

Despite all the hype about the golden opportunities awaiting workers who migrate to Alberta, the fact of the matter is that an astonishing percentage of the jobs created in this province are low-wage and provide only part-time or seasonal work.

As Chart #9 shows, the percentage of all wage earners who are making less than $20,000/yr (2004 constant dollars) has fallen only slightly during the recent boom years, and is actually still higher than it was back in 1980.[xvi]



In part this poor performance on the earnings front reflects a trend in employment patterns in Alberta. As Chart # 10 shows, the proportion of full time, year-round jobs in provincial employment fell sharply in 1995, and has not recovered since then.



The persistence of low-wage and part-time jobs in the Alberta labour market is something we should bear in mind when discussing the current "labour shortage" in the province.

While it is clear that unemployment is low, and that there are shortages in some sectors of the economy, it's also true that what some business and government leaders are upset about is a shortage of people prepared to accept lousy jobs.

THE SOCIAL WAGE

There is another aspect to the question of wages in a boom economy. An argument can be made that when rising commodity prices create an economic windfall, it would be a mistake to raise wages to capture this economic surplus. After all, when commodity prices come back down, would wages be expected to follow suit? It seems unlikely. There are, however, two simple responses to this line of reasoning:

1. No one is arguing that all the windfall should go to wages, but rather that stagnant real wages in an economic boom suggests a failure of the labour market to function effectively. Working people simply aren't getting a fair share – in fact their share is declining.

2. Revenue windfalls from rising commodity prices can and should be captured through taxation or royalty collections, and used to provide sustainable improvements to the "social wage" – the range of public services that provide benefits for all citizens of the province.

The logic of this latter proposal is obvious to anybody who has paid attention to the sorry state of Alberta's health care and education systems. A province that "is in the midst of the strongest period of economic growth ever recorded by any province in Canada's history" can't afford to provide efficient and effective medical care to its citizens, can't afford build enough schools for its children, and can't afford to provide advanced education for its youth at an affordable tuition rate. In fact, judging by recent media reports we can't even find the resources needed to make the Emergency Wards in our hospitals function at an acceptable level.

Of course, as government services are cut back, individual Albertans end up paying for things that were once provided free of charge through the public sector. And as the cost of everything from post-secondary education to health insurance rises, the disposable income left to purchase housing and the other necessities of life decreases.

The spectacle of stagnant or declining wages and social benefits in one of the richest economies in the world constitutes a sorry indictment of government policy over the last two decades.

THE ROLE OF GOVERNMENT

In the past, even strongly pro-business provincial and federal governments have acted to limit the growth of inequality in society. Progressive taxation, subsidized housing, employment standards and labour legislation, income support – all these were political measures taken to mitigate the tendency of unconstrained capitalism to generate large income and wealth gaps.

The Government of Alberta, however, has almost completely abandoned this role. Our tax system is "flattened"; our welfare benefits are some of the lowest in the country, as is our minimum wage. Alberta's expenditure on public housing is a joke – a joke that's in bad taste given our current housing shortage.

The province's labour laws make it harder for workers here to organize, harder to bargain collectively, harder to conduct a successful strike, and harder to conclude a satisfactory collective agreement. We have some of the lowest employment standards in the country, and the resources dedicated to the Employment Standards Branch have been cut back until it is now incapable of enforcing even the minimal standards we do have.

Indeed, the package of government policies that have impact on wages and the labour market looks like the perfect plan for a low-wage economy.

- First, enact labour legislation tailor-made to weaken unions, thus limiting the bargaining power of workers.
- Then hold welfare benefits and the minimum wage as low as possible, to put downward pressure on wages at the lower end of the income range.
- Amend labour standards legislation to allow 12-year-olds into the workplace, and bring in temporary foreign workers with no enforceable rights, to increase the supply of labour and hold wages in check.
- Finally allow, or even encourage uncontrolled development causing a high rate of inflation that erodes the real wages of working people.

Voila! You have a recipe for stagnant wages in a booming economy.

BOOM AND ???

The situation in Alberta is critical. It's not just that working people in this province are missing out on their share of the boom. The real question is this: what happens when the boom comes to an end?

If there is one lesson that the history of economics teaches us, it is this: all booms comes to an end sooner or later, and the bigger the boom, the more devastating the bust that follows.

It isn't possible to predict just when and how the boom will end; in the volatile world of the energy industry things can change very quickly. If nothing else, as the construction phase of oil sands expansion is completed, the stimulus this construction has given the provincial economy will disappear. Just as investment in this construction has generated spin-off growth in the rest of the economy, so the slowdown in construction may well contribute to a more general downturn in the province.

Of course the expansion of oil sand production will create new jobs in the production facilities, and these jobs tend to be well-paid and (often) unionized positions. Unfortunately these production facilities and heavy oil upgraders are highly capital-intensive operations. The number of jobs they generate tends to be relatively small relative to the size of the overall investment. In other words: once they are up and running, they tend not to have big spin-off effects on the rest of the economy.

When the bust finally comes, Alberta workers will have missed the opportunity of a lifetime. Historically, economic booms and tight labour markets have provided working people with real economic and political leverage. It is during such periods that they, and their unions, have been able to negotiate better contracts, improve wages and working conditions, and create the conditions for stable and ongoing prosperity. Boom times have also been the periods when workers, unions and labour-friendly political movements have been able to win major improvements in social programs.

During periods of recession, on the other hand, employers go on the offensive: driving down real wages, sponsoring decertification drives, and increasing the use of contract or conditional employees with no job security. At the same time, right wing politicians attack the social wage, slashing program spending in the name of deficit reduction. In the case of Alberta, this process will be accelerated by the fact that our government, during the boom times has eviscerated the tax system, using energy revenues to pay for public programs while simultaneously reducing taxes.

CONCLUSION

It’s not too late. The Alberta economy is still in a period of rapid expansion. The labour market is still the strongest in North America, and working Albertans actually have a good deal of economic leverage, if they just figure out how to use it.

During this convention, a series of policy papers will outline some of the challenges we face as trade unionists, and provide concrete proposals on how we can make use of this leverage.

The present state of our province provides an historic opportunity. If we fail to grasp that opportunity, we will pay the price when the inevitable downturn occurs.

REFERENCES

[i] Cross, Phillip and Bowlby, Geoff, "The Alberta economic juggernaut: The boom on the rose", Statistics Canada, *Canadian Economic Observer*, September. 2006, p.3.1
[ii] Chart data from Statistics Canada, *Canadian Economic Observer, Historical Statistical Supplement 2005/06*, p.119
[iii] Chart based on data from Statistics Canada, *Canadian Economic Observer, Historical Statistical Supplement 2005/06*, p. 117
[iv] Cross and Bowlby, p. 3.1
[v] Chart data from Statistics Canada, *The Consumer Price Index*, various releases.
[vi] Chart based on data from Statistics Canada, Statistics Canada, *Canadian Economic Observer, Historical Statistical Supplement 2005/06*, pp. 124-125
[vii] "Canada's population", Statistics Canada, *The Daily*, December 21, 2006
[viii] Cross and Bowlby, *op. cit*. p. 3.10
[ix] Statistics Canada, *Canadian Economic Observer, Historical Statistical Supplement 2005/06*, p. 121
[x] Alberta Economic Development, *Monthly EconomicReview,* various issues
[xi] Cross and Bowlby, *op. cit*. p. 3.7
[xii] Chart based on data from Statistics Canada, Cansim Database, Table #281-0300, real hourly rates calculated using the Consumer Price Index (1992 = 100)
[xiii] Statistics Canada, Cansim Database, Table #281-0029
[xiv] Weekly Earnings data from Alberta Economic Development, *Monthly EconomicReview,* various issues, converted to constant dollars using the Consumer Price Index (1992 = 100)
[xv] Data from Statistics Canada, *Cansim* Database, seriesV687289, V687290 and V687287
[xvi] Charts 9 & 10 are based on data from Statistics Canada, *Income Trends in Canada 1980 – 2004*

TF:cep#1118:mw/sh*cope#458
File: G:\EVENTS\2007 Convention-Calgary\POLICY PAPERS\finals\formatted\A - anatomy of a boom.doc