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Ideas for a More Prosperous Nation

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A PLEA FOR A QUEBEC-ALBERTA DIALOGUE

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Executive Summary

In recent years, the sometimes strained, sometimes fruitful relationship between Quebec and Alberta has attracted a lot of attention. The issues raised by this relationship will have undeniable impacts on Quebec's future: equalization, the division of powers between Ottawa and the provinces, the energy future, climate change, etc.

Despite the importance of these questions, the relationship between Quebec and Alberta has never been the object of extensive study. And when it does provoke declarations from public figures or analyses in the media, these are often based on commonly held but mistaken ideas or distorted perceptions.

The goal of this research paper is to deepen our understanding of the economic and political interests that the two provinces have in common.

The first part looks into the need for Quebec and Alberta to ally themselves in order to defend provincial autonomy within the Canadian federation. Quebec needs political allies elsewhere in Canada for this goal to be realized, in a context in which the centralizing vision of Canada is the one that has had the most influence since the federative pact of 1867. Among all the other provinces, it is in Alberta that we find an autonomist position most similar to Quebec's own.

After an overview of the evolution of federalism and the economic advantages of decentralized federalism, the author of this part explains why, for very different reasons, these two provinces are the ones that historically have most strongly opposed the vision of an interventionist central government and in particular the interference of the federal government into areas of provincial jurisdiction.

Then, the author explores a few historical examples in which Quebec and Alberta cooperated, or missed an opportunity to cooperate, in particular the alliance that made possible the re-election of Brian Mulroney's Conservative government in 1988 and the signing of the Free Trade Agreement between Canada and the United States, as well as the Reform Party episode.

The author concludes that the potential for advancing this cause by combining the influence of the two provinces is very real. Quebecers, and particularly their political elites, have an interest in nurturing this alliance and developing it if they want it to produce more results in the medium term.

The second part looks into the economic relationship between the two provinces. After sketching a brief picture of the exceptional dynamism of the Albertan economy, the authors explain that Alberta's prosperity benefits Quebec in various ways.

With regard to interprovincial trade, Alberta is Quebec's main trading partner after Ontario. It is the Canadian province that has experienced the most significant growth in its interprovincial exports over the past six years. It is therefore important to reinforce the economic relationship between Quebec and Alberta in order to encourage more trade with this growing province that offers such varied opportunities.

Alberta is also the second most attractive destination for Quebecers emigrating to another province, and the second most important source of Canadians moving to Quebec. This last includes among others Quebecers who, after having lived in Alberta, return to their province of origin with their bags packed with experience, contacts and ideas that will contribute to the Quebec economy.

Alberta also contributes significantly to the financing of programs for redistributing wealth between the Canadian provinces through the revenue it transfers to the federal government. Alberta's prosperity therefore not only has a *direct* positive impact on Quebec's economy through trade, investment and labour mobility; it also entails *indirect* impacts through federal redistribution programs.

The authors also explain that it is mistaken to pretend that Alberta oil mining causes a "de-industrialization" of Quebec through its effect on the Canadian dollar. By comparing the Quebec situation to that of other regions of the world, we can see that manufacturing employment has been declining for several decades as a share of total employment in all rich countries, including those regions where there is little or no oil and gas production. The development of these sectors in Alberta is not the cause of this inevitable long-term phenomenon.

Finally, the authors show that even supposing that governments around the world were to adopt ambitious policies for replacing fossil fuels with green energy, the consumption of oil and gas would continue to rise for the next 25 years, in Quebec as elsewhere. Albertan oil represents the second largest oil reserves in the world, after those in Saudi Arabia.

With the presence of shale gas and oil on their territory, Quebecers could soon be facing the same challenges as those that have existed in Alberta for several years with regard to the economic, social and environmental impacts of fossil fuel mining. The authors conclude that this potential reinforces the need to deal with these questions seriously instead of simplistically maintaining a negative image of Alberta and oil sands mining.

Foreword

Relations between Quebec and Ontario have always made up the most important economic and political axis within the Canadian federation. The country's two largest provinces are each other's main trading partners and together they have long dominated federal politics.

This situation is evolving, however. Both demographically and economically, the Western provinces are experiencing strong growth. The 2006 election of a Conservative federal government with a political base concentred in the West has modified the balance of power. In particular, the emergence of Alberta as Canada's most prosperous province, thanks in part to its oil and gas industry, has disrupted the traditional relations that Quebec had maintained with its Canadian partners.

In recent years, the sometimes strained, sometimes fruitful relationship between Quebec and Alberta has actually commanded more attention than Quebec's more stable relationship with its traditional neighbour. The issues raised by this relationship will have undeniable impacts on Quebec's future: equalization, the division of powers between Ottawa and the provinces, the energy future, climate change, etc.

Despite the importance of these questions, the relationship between Quebec and Alberta has never been the object of extensive study. And when it does provoke declarations from public figures or analyses in the media, these are often based on commonly held but mistaken ideas or distorted perceptions.

Thus, Gilles Duceppe, the leader of the Bloc Québécois, declared recently that Alberta's oil "enriches Canada," but that it "impoverishes Quebec," a statement with no basis in economic fact, as you will see for yourself in the pages that follow. He went on to add that Quebec should reduce its dependence on oil, which according to him will happen through the electrification of transportation and the commercialization of alternate fuels.[1]

However, all realistic forecasts indicate that these new energy sources will remain marginal and that oil will continue to play an essential role in Quebec's, and the world's, economy for decades to come. Whether we like it or not, Quebec's energy security depends in part on mining Alberta's oil sands.

Another incident involving a political figure in Quebec motivated the Montreal Economic Institute to look into this issue. Several political observers and actors in Alberta and in Quebec (including this author) deplored Jean Charest's declarations regarding the federal government's position on the oil sands during the Copenhagen Climate Change Conference in December 2009. His statements were generally perceived as an attack against Alberta and its economic interests. Mr. Charest subsequently denied that this was his intention, saying that he had simply wanted to criticize the fact that Canada's position was too closely modeled on that of the United States.[2]

1. Malorie Beauchemin, "L'opinion canadienne s'est durcie, dit Duceppe," *La Presse*, February 12, 2011, http://www.cyberpresse.ca/actualites/quebec-canada/politique-canadienne/201102/12/01-4369680-lopinion-canadienne-sest-durcie-dit-duceppe.php.
2. See: Michel Kelly-Gagnon, "Un dialogue crucial - Le Québec aurait tort de maintenir une attitude négative envers l'Alberta," *La Presse*, January 28, 2010, p. A20, http://www.iedm.org/fr/3104-un-dialogue-crucial-le-quebec-aurait-tort-de-maintenir-une-attitude-negative-envers-lalberta; Joël-Denis Bellavance, "Feux croisés contre Jean Charest," *La Presse*, December 23, 2009, http://www.cyberpresse.ca/actualites/quebec-canada/politique-canadienne/200912/23/01-933501-feux-croises-contre-jean-charest.php; Jason Fekete, "Alberta fires back at Ontario, Quebec, over oilsands emissions," *Calgary Herald*, December 17, 2009, http://www.canada.com/business/Alberta+fires+back+Ontario+Quebec+over+oilsands+emissions/2353591/story.html; Agence France-Presse, "Sables bitumineux : Charest nie avoir critiqué l'Alberta," *La Presse*, July 10, 2010, http://www.cyberpresse.ca/environnement/201007/10/01-4297221-sables-bitumineux-charest-nie-avoir-critique-lalberta.php.

In order to keep such misunderstandings from recurring and poisoning relations between our two provinces, it is important to have a better understanding of the economic and political interests that they have in common and of the issues that could fuel controversy unnecessarily. This is the goal that the MEI gave itself in producing this research paper, which we hope will be read with as much interest in Alberta and in the rest of the country as in Quebec.

The first part, signed by yours truly, looks into the need for Quebec and Alberta to ally themselves in order to protect provincial autonomy within the Canadian federation. This goal, in addition to having been at the heart of Quebec's and Alberta's constitutional demands for a very long time, is in accordance with the sound management of public policy in a federal context.

The second part, signed by my colleagues Germain Belzile and Youri Chassin, reviews the benefits of Alberta's prosperity for Quebec, refutes the argument that Alberta's oil harms the Quebec economy, and finally explains why oil will remain an indispensable resource for at least a generation to come.

Michel Kelly-Gagnon
President and CEO
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PART I

Quebec and Alberta: A Necessary Political Alliance

By Michel Kelly-Gagnon

Canada is a vast country with two official languages and very distinct regional cultures. Since its birth as a federation in 1867, these different regions have given rise to different, conflicting visions of the country. Quebec in particular stands out from the other provinces in this regard, and its demands have been at the heart of Canada's constitutional debates for decades, with mixed results.

Whatever their positions on various constitutional options, it is undeniable that a majority of Quebecers want Quebec to become a more autonomous political entity. This desire accords well with an economic analysis showing that a decentralized federal union, with a less interventionist central government, would be in a better position to generate economic growth and good public policy.

It is from this perspective that we propose to discuss the political relationship between Quebec and Alberta. Quebec needs political allies elsewhere in Canada in order to realize its goal of protecting and augmenting provincial autonomy, particularly in a context in which the most influential vision of Canada since the federative pact of 1867 has been a centralizing one. Among all the other provinces, it is in Alberta that an autonomist position closest to Quebec's own is to be found.

We shall see why, for very different reasons, these two provinces are the ones that historically have been most opposed to the vision of an interventionist central government and specifically to the federal Parliament's interference in areas of provincial jurisdiction.

Finally, we will explore a few examples of historical cooperation, as well as one missed opportunity for cooperation, between Quebec and Alberta in order to show that a political alliance between the two provinces is not only possible, but is in fact necessary for the advancement of their common interests.

1.1 The evolution of federalism

A quick overview of the main constitutional developments that have left their mark on Canada over the past 144 years shows that it is primarily a vision of a dominant central state that has held sway from the very founding of the country, and under various Canadian governments, both Conservative and Liberal.

The current federal regime was itself founded on a compromise between, on the one hand, an extreme vision of a unitary country – which is to say the total fusion of the colonies of British North America into a single government – defended notably by John A. Macdonald, and on the other hand, a vision shared by most French Canadians and inhabitants of the maritime colonies favouring a federation that recognizes regional particularities.

The very existence of the provinces is therefore due in large part to the insistence of French Canadians from Canada East – the eastern portion of the United Province of Canada, and the future province of Quebec – on having a provincial state where they would be in the majority and where their laws and customs would be more protected than in a unitary country. This compromise nonetheless clearly favours a strong central government, where the provinces are subordinate to Ottawa in the same way in which the colonies were subordinate to the imperial government in London.[1]

1. See: Réjean Pelletier, *Le Québec et le fédéralisme canadien*, Presses de l'Université Laval, 2008, p. 9-25.

The goals of supporters of a strong, interventionist central government have always been to protect Canada from too great an influence on the part of its powerful American neighbour, especially on economic and cultural levels; to promote the development of a stronger, more coherent Canadian identity and culture; and to standardize Canadians' living conditions by imposing national norms in various domains and by redistributing the wealth of rich provinces to poorer ones.[2]

It is from this perspective that Macdonald, who governed the country for nearly 20 years after 1867, adopted his famous *National Policy* imposing very high tariffs on imported manufactured goods.

During the two World Wars and the depression of the 1930s, the federal government also arrogated exceptional powers to itself in order to run the war efforts and to pull the economy out of recession. This was the era of the New Deal in the United States and the rise of Keynesian theory, which was used to justify more and more interventionist policies.

After the Second World War, the logic of centralization continued. The federal government wanted, like all the other governments in the industrialized world, to set up a Canadian welfare state, even if social issues, according to the constitutional pact of 1867, clearly fall under provincial jurisdiction.

> Professional training, family allowances, hygiene and health, aid to the blind, aid to the disabled, hospitalization insurance, social services, health insurance – all of these programs will allow the federal government, in virtue of its spending power, to intervene in matters of provincial jurisdiction.[3]

This power to intervene in social matters was considered fairly insignificant in the 19th century, an era in which educational and social services were mostly offered by churches, charitable organizations and municipalities. For this reason, social issues were assigned to the provinces. They subsequently acquired crucial importance as public policies with the development of the welfare state. According to supporters of an interventionist, centralized federal state, Ottawa was in a better position to have a global view of the development of social programs, and was in a better position to finance them too, which justified the recourse to the spending power and the imposition of national norms.[4]

In spite of this centralizing tendency, Liberal Prime Minister Pierre Trudeau set out, especially after his re-election in 1980, to reverse what he considered a trend toward too much provincial autonomy. His government launched a series of measures aiming to grow the federal government's legitimacy and ability to intervene in various domains: repatriating the Constitution, creating the *National Energy Program* to control the oil industry, setting up the Foreign Investment Review Agency, etc.

It is true that at other times, like under the governments of Wilfrid Laurier and Brian Mulroney, the federal government avoided confrontation with the provinces and even dismantled some of the centralizing programs that created tensions with the provinces, as Mulroney did with his predecessor's *National Energy Program*. Still, Canada remains a relatively centralized federation – certainly more centralized than it should be if we respected to the letter the separation of powers established in 1867.

This centralization has unintended consequences for public policies, insofar as it short-circuits the benefits of federalism.

2. See especially the section entitled "Defensive Expansionism: Nationalist Glue in the Service of Federalism," in David Milne, *Tug of War: Ottawa and the Provinces under Trudeau and Mulroney*, James Lorimer & Company, 1986, p. 27-32.
3. Réjean Pelletier, *op. cit.*, footnote 1, p. 33 [our translation].
4. See: Garth Stevenson, *Unfulfilled Union: Canadian Federalism and National Unity*, McGill-Queen's University Press, 5th ed., 2009, especially Chapter 7.

On an economic level, the logic of federalism is indeed to apply to the federated governments the discipline of competition as it is experienced in the private sector. If a provincial government adopts an ineffective regulation, manages its public services poorly, taxes its citizens too heavily, or restrains the mobility of capital, labour or goods and services too much within its territory, the harmful effects of these policies will be quickly felt by its citizens, just as poor management directly affects a company's dynamism and revenue.

These poorly governed citizens will more easily compare their situation to that of their fellow citizens elsewhere within the federation and will in particular have the possibility of moving easily to another province in order to improve their living conditions. The same logic applies for other resources like capital, which can more easily be transferred from one province to another than from one country to another.

Since these citizens and companies are less captive, a federated government cannot allow itself to adopt policies that restrain its economic dynamism too much. If it does, the harmful effects will be more quickly felt and will apply the brakes to its interventionist fervour.

On the contrary, when the central government shares the costs of the programs, redistributes wealth and imposes regulations in a particular area upon all of the provinces, it neutralizes this competitive effect. As summed up by Quebec economist Jean-Luc Migué,

> The essential contribution of federalism to solving the problem of the monopoly state is to limit the Prince's power to abuse citizens. By opening a path to the mobility of resources between communities, decentralization becomes the market's counterpart in the public sector. It is the institutionalization of competition between governments. In a decentralized system, people, and more generally resources, choose the administration that will govern them. Decentralized administrations must constantly take care not to drive away labour and business with their taxation and regulatory decisions.[5]

The economic logic of federalism leads to certain conclusions that are of a more strictly political nature. We are not here taking a position on the question of Quebec's longer-term political status, but simply on the nature of the federal state as it currently exists.

Whatever the reasons that justify the existence of Canada – shared history and values, an emotional attachment to national institutions and symbols, common political and economic interests – it is counterproductive to rely on bad economic policies to consolidate a country's unity and identity artificially. Protectionist, centralized, interventionist policies that make a country's economy less productive, and therefore its population less prosperous, should not be among the reasons that justify that country's existence. Besides, these kinds of policies create regional tensions and therefore often have a political effect contrary to what is hoped for.

Unfortunately, the Canadian government has long relied, and still relies, on such policies to justify its status as the central government. This vision, which has enjoyed strong support since 1867 in several regions of the country, ironically has the effect of making Canada less strong, less united and less prosperous than it could be. The historical opposition of a majority of Quebecers to this centralizing vision is therefore perfectly justified, even from a federalist point of view.

5. Jean-Luc Migué, *Étatisme et déclin du Québec. Bilan de la Révolution tranquille*, Éditions Varia, 1998, p. 130-131 [our translation].

1.2 Historical support for a decentralized federation

Quebec and Alberta have long been perceived by observers of Canadian politics as the two provinces most unquestionably in favour of provincial autonomy. This common position means that the two provinces have complementary interests in their relations with Ottawa, even if their visions of Canada differ markedly. Former Alberta Premier Peter Lougheed summed up this position nicely in a 1977 speech:

> (…) just as Albertans want more control over their destiny – primarily for economic reasons – Quebecers, I sense, want also more control over their destiny, essentially for cultural and linguistic reasons. Hence, just as Albertans want more government decisions made in Edmonton than in Ottawa, I think Quebecers, for different reasons, but somewhat similar motives, want more government decisions made in Quebec City, and fewer in Ottawa.[6]

Nearly two decades later, another Albertan Premier, Ralph Klein, recognized this fact by declaring that "Alberta and Quebec have been staunch allies in the fight for provincial rights. The alliance has helped mold a Confederation that protects and nurtures the uniqueness of each region."[7]

The support of a majority of Quebecers for the notion of provincial autonomy needs no elaborate explanation. It has been, since the beginning of federation, a constant of Canadian political life, which stems from a distinct language, culture, legal and political tradition and, until fifty years ago, a distinct religious tradition. Leaving aside differences between the federalist and sovereignist positions, we can see that:

> Put simply, a majority of Quebecers thinks that their provincial government should seek both recognition, as the government of a nation within Canada, and autonomy – as a partly sovereign state within the Canadian federation.[8]

The search for recognition as a distinct society or nation gave rise to long constitutional debates in the 1980s and 1990s surrounding the Meech Lake and Charlottetown Accords, both of which failed. In 2006, the Canadian Parliament adopted a motion tabled by Prime Minister Stephen Harper recognizing that "the Québécois form a nation within a united Canada," which, however, has no constitutional consequences.

What concerns us primarily here is the autonomy of Quebec. This desire has expressed itself in various ways over the years, but one of the constants has been Quebec's opposition to Ottawa's spending power, or at the very least the demand for this power to be more strictly circumscribed. In 1998, the Quebec government published an exhaustive document detailing the positions of successive governments on this question going back to 1946. These governments have:

> […]constantly and unequivocally denounced this attempt at federal government appropriation of Québec's capacity to set its own priorities. Regardless of the political party they represented and the political status they favoured for Québec, these governments systematically opposed the federal spending power: first, by calling for the federal government's withdrawal from Québec's jurisdictions and a new distribution of financial resources which would give Québec a tax base commensurate with its legislative and social responsibilities; second, by arguing that exercising this power was contrary to the distribution of powers and

6. Roger Gibbins, *Prairie Politics and Society: Regionalism in Decline*, Butterworth and Company, 1980, p. 186.
7. *Canadian Speeches*, vol. 9, no. 6 (October 1994), p. 14 quoted in Chantale Breton, *Interprovincial Relations and Canadian Federalism: the case of Québec and Alberta*, master's thesis submitted to the Department of Political Science, McGill University, September 17, 1997, p. 3.
8. Alain Noël, "Il suffisait de presque rien: Promises and Pitfalls of Open Federalism," in Keith G. Banting *et al.*, *Open federalism: interpretations, significance*, Institute of Intergovernmental Relations, 2006, p. 28.

> the very spirit of federalism; third, by expressing the importance, for the people of Québec, to retain full control of their options in fields essential to maintaining and developing specificity; and finally, by proving that within its own jurisdictions, the Government of Québec is in the best position to implement programs in the interest of Quebecers.[9]

This historical position remains the current government's position. Note that this is not just a purely political position, but also a constitutional argument that is reflected in a current of thought, albeit a minority one, that is present in the rest of the country.[10]

The Albertan position is more complex. Most authors make reference to the fact that Albertans and residents of the other Western provinces have long had the impression of being a colony exploited by Ottawa and the Eastern provinces. Federal government policies, including Macdonald's *National Policy* favouring Eastern industries at the expense of Western agriculture, grain freight rates considered to be discriminatory, and the control retained by Ottawa up until the 1930s over the public lands and natural resources of the recently created provinces, fostered a profound sense of alienation at the end of the 19th century and during the first decades of the 20th century.[11]

9. Secrétariat aux Affaires intergouvernementales canadiennes, *Québec's Historical Position on the Federal Spending Power, 1944-1998*, July 1998, http://www.saic.gouv.qc.ca/publications/documents_inst_const/positionEng.pdf.
10. See: Burton H. Kellock and Sylvia LeRoy, *Questioning the Legality of the Federal "Spending Power,"* Fraser Institute, October 2007; Karine Richer, *The Federal Spending Power*, Parliamentary Information and Research Service, November 2007, http://www2.parl.gc.ca/Content/LOP/ResearchPublications/prb0736-e.pdf.
11. For a more detailed discussion, see Chantale Breton, *op. cit.*, footnote 7, p. 19-25; Roger Gibbins, *op. cit.*, footnote 6, p. 173-192.

Beginning in the 1960s, Western Canadians' sense of alienation was also fed by what they considered to be an excessive preoccupation on the part of the federal government with the constitutional demands of Quebec and with issues like bilingualism, while their own equally legitimate regional demands were ignored.

The implementation of the *National Energy Program* by the Trudeau government in 1980 was perceived as a direct attack on Alberta's economic interests and gave Albertans the impression of going backwards by several decades to a time when Ottawa controlled their resources to the benefit of the Eastern provinces. This program, which "represented the most comprehensive and sophisticated orchestration of policy in the name of centralized federalism that Canadians had ever seen,"[12] aimed, among other things, to increase Canada's control of the oil sector, to promote low prices for Canadian consumers and to inflate Ottawa's revenues – all to the detriment of the oil industry and the Alberta government.

This experience elicited two types of reactions: first, the desire to be treated the same as the other provinces, a desire that was translated into very strong support for the notion of provincial equality and into opposition to any kind of special status for Quebec; and second, the desire to protect and increase provincial autonomy in such a way as to keep as much control as possible over local resources and to block federal policies that do not take local interests into account.

The prosperity of Albertans in recent decades could ironically have fed their old sense of alienation and their desire for autonomy, since until the recent election of a federal government headed by Albertan Stephen Harper, their economic might had not been translated into greater influence on the federal political scene.

12. David Milne, *op. cit.*, footnote 2, p. 71.

> Western Canadians, particularly those in Alberta, are searching for a degree of political power commensurate with their economic strength. That search was frustrated in the 70s by the region's Conservative partisan complexion in the face of the Liberals' hold on national office, and by the fact that western Canada remains a numerically small region within a country whose government is based on representation by population. Thus there has been a push to increase the region's political power by redistributing legislative responsibilities from a central government lying beyond the grasp of Westerners to provincial governments resting within their control.[13]

Finally, we can recognize more explicitly ideological motifs in Albertans' attitudes toward federalism. Historically, voters in the province have been the most likely to vote for conservative parties. The Social Credit Party was in power for 36 years in Edmonton, from 1935 to 1971. The Progressive Conservative Party of Alberta took over in 1971 and has been in power without interruption ever since. The perception of many conservative Albertans has long been that the federal government was dominated by political forces that leaned too far to the left, which explains why "[s]ince 1937, Alberta's agenda has been to decentralize power within the federation and meet the threat posed by planners and state socialism."[14]

13. Roger Gibbins, *op. cit.*, footnote 6, p. 176.
14. Stephen G. Tomblin, *Ottawa and the Outer Provinces: The Challenge of Regional Integration in Canada*, James Lorimer & Company, 1995, p. 123.

1.3 Examples of cooperation between Quebec and Alberta

The vision of a less domineering federalism shared by Quebec and Alberta has led the political classes and the populations of the two provinces to collaborate in various ways over the years. One of the most spectacular historical examples of this collaboration is the alliance that made possible the re-election of Brian Mulroney's Conservative government in 1988.

That electoral campaign was almost completely devoted to the signing of a free trade agreement between Canada and the United States. Two very distinct visions of Canada squared off against each other: in one corner, a vision of a centralized, protectionist federation whose identity is protected by its central government from an American influence considered to be too strong; and in the other corner, a vision of a federation that is more open to continental trade, with a less interventionist, less protectionist central government.

During a televised debate, the leader of the Liberal Party of Canada, John Turner, clearly expressed the first vision by affirming:

> We built a country east and west and north. We built it on an infrastructure that deliberately resisted the continental pressure of the United States. For 120 years we've done it. With one signature of a pen, you've reversed that, thrown us into the north-south influence of the United States and will reduce us, I am sure, to a colony of the United States, because when the economic levers go the political independence is sure to follow.[15]

15. Stephen Azzi, *Election of 1988*, Historica-Dominion Institute, http://www.histori.ca/prodev/article.do?id=15407.

In Quebec, the two main political parties, led by Premier Robert Bourassa and Leader of the Opposition Jacques Parizeau, supported the agreement, although for different reasons. Robert Bourassa supported it for economic reasons. For the sovereignists, a free trade agreement with the United States had the advantage of making the Quebec economy less dependent on the rest of Canada, therefore facilitating the road to political independence. A former Parti Québécois minister and future Premier, Bernard Landry, had actually published a plea in favour of free trade the year before.[16]

Albertans, for their part, have long been in favour of free trade with the United States, particularly in reaction to Canadian protectionism that was perceived as having favoured the country's Eastern provinces since the end of the 19th century. For them, the free trade option "seemed a golden opportunity to challenge at its very roots the old structural patterns of dominance in the Canadian economy that had worked themselves out over the first hundred years of the National Policy."[17] Alberta also needed to consolidate its access to the American market for its oil and natural gas exports.

The results were a resounding demonstration that an alliance between Quebec and Alberta could change the course of Canadian history. The Conservative Party received more than 50% of the popular vote and a strong majority of the seats in the two provinces. Everywhere else, they were in the minority, or at best on a par with one of the other main political parties, with respect to votes and seats.[18] "The Quebec-Alberta alliance held, delivering 89 seats out of 170 for the Conservatives in the new 295-seat House of Commons. Free trade was a done deal."[19]

On the question of the division of powers, despite the Albertan position in favour of provincial autonomy being similar to Quebec's, examples of cooperation leading to concrete results are rather scarce. In recent decades, the attempts to place limits on the federal spending power in the Constitution ended with the defeats of Meech and Charlottetown.

The minority Conservative government of Stephen Harper, which ostensibly advocates "open federalism," considerably increased transfers to the provinces in order to correct the "fiscal imbalance" and committed itself to imposing formal limits on the use of the spending power. This latter promise, however, has remained a dead letter thus far.[20] Even if it were put into effect, it must be recognized that it would constitute, just like those contained in the Meech Lake and Charlottetown Accords, a watered-down version of Quebec's traditional position, which promotes not merely the restriction of this power, but its outright elimination.

The former Conservative minister and current MP Maxime Bernier recently revived this debate within his own party by expressing a point of view more in line with Quebec's demands, proposing the complete withdrawal of Ottawa from provincial jurisdictions and the transfer of tax points corresponding to the transfer of funds to the provinces.[21]

In fact, despite this seemingly greater openness to provincial autonomy, it is ironically a new attempt by the Harper government to centralize power in Ottawa that gave rise to the most recent alliance between Quebec and Alberta. In May 2010, Canadian Finance Minister Jim Flaherty tabled a bill aiming to create a national securities regulator to replace the

16. Bernard Landry, *Commerce sans frontières : le sens du libre-échange*, Éditions Québec/Amérique, 1987.
17. David Milne, *op. cit.*, footnote 2, p. 153.
18. Wikipedia, *Canadian federal election, 1988*, http://en.wikipedia.org/wiki/Canadian_federal_election,_1988.
19. L. Ian MacDonald, *From Bourassa to Bourassa: Wilderness to Restoration*, McGill-Queen's University Press, 2002, p. 292.
20. See: Alain Noël, "Fédéralisme d'ouverture et pouvoir de dépenser au Canada," in *Revista d'Estudis Autonòmics i Federals*, no 7 (October 2008), p. 10-36, http://www10.gencat.cat/drep/binaris/reaf7_Noel_tcm112-86272.pdf.
21. See: Maxime Bernier, *Restoring our Federal Union*, speech delivered at the Albany Club, October 13, 2010, available at: http://www.maximebernier.com/en/2010/10/restaurer-notre-union-federale/. Mr. Bernier was Vice President of the Montreal Economic Institute before being elected MP for Beauce in 2006.

provincial regulators. The Minister also referred the bill to the Supreme Court to rule on whether or not such a power falls under the Parliament of Canada's jurisdiction.

Quebec and Alberta both appeared before their respective Court of Appeal to challenge the right of the federal government to form such a centralized securities regulator and will be going before the Supreme Court to defend their position. Although other provinces oppose the federal government's initiative, it is Quebec and Alberta that actively took the lead in this case by explicitly joining forces.[22]

It could be argued that it is above all else a profound lack of understanding of each other's political cultures by the elites and the electorates of the two provinces that explains why the concrete results are so slim, while the potential for cooperation is so great.

The Reform Party of Canada episode nicely illustrates this lack of understanding. This party was formed at the end of the 1980s to provide a political vehicle for Western Canada's, and in particular Alberta's, sense of alienation from what its founder and leader Preston Manning called "old Canada": the domination of the federal government by the central provinces (Ontario and Quebec), Ottawa's indifference to the West's interests, the "two nations" thesis, official bilingualism imposed from coast to coast, etc.

The creation of the Reform Party was therefore motivated in part by a rejection of what was considered Quebec's excessive influence. After all, one of the main elements that led to its formation was the Mulroney government's granting of a maintenance contract for CF-18 military planes to Montreal's Canadair, while Bristol Aerospace in Winnipeg had submitted a more competitive bid.[23]

Correctly or not, the Reform Party was largely perceived in Quebec, right up until its dissolution in 2000, as an "anti-Quebec" and "anti-French" party, especially because of its opposition to the notion of a "distinct society" and to the Meech Lake and Charlottetown Accords that aimed to satisfy Quebec's constitutional demands. For this reason, it never succeeded in making any electoral breakthroughs in that province. And yet, large sections of its program echoed Quebec's traditional demands for greater autonomy, and in a much more concrete manner than any other federal party has proposed in Canada's recent past.

In its 1996 platform, the party proposed a radical decentralization of federalism:

> A Reform Government will focus federal powers in the following areas: defence, foreign affairs, monetary policy, regulating financial institutions, the criminal code, facilitating national standards, equalization, international trade, domestic trade, and reform of national institutions such as Parliament.
>
> A Reform Government will recognize that responsibility for many important areas of policy should be placed as close to the people as possible. This will eliminate duplication and jurisdictional overlaps between various levels of government. Included among the powers that we will leave to the provinces are all areas designated by the Constitution as exclusive provincial jurisdiction, and also such areas as employment training, social services, language and culture, municipal affairs, sports and recreation, housing, and tourism.[24]

22. See: Bill Curry, "Alberta, Quebec unite to challenge Ottawa," *The Globe and Mail*, June 15, 2010, http://www.theglobeandmail.com/news/national/alberta-quebec-unite-to-challenge-ottawa/article1605734/; Presse canadienne, "Valeurs mobilières : d'autres provinces s'opposeraient au projet Flaherty," *Les Affaires*, June 15, 2010, http://www.lesaffaires.com/secteurs-d-activite/ gouvernement/valeurs-mobilieres—d-autres-provinces-s-opposeraient-au-projet-flaherty/515715.

23. Mia Rabson, "How the West lost the CF-18," *Winnipeg Free Press*, August 14, 2010, http://www.calgaryherald.com/West+lost/3399145/story.html.

24. Reform Party of Canada, *A Fresh Start for Canadians. A 6 point plan to build a brighter future together*, Authorized by Reform Fund Canada, official agent for the Reform Party of Canada, 1996, p. 21.

Such a program, had it been enacted, would undoubtedly have responded to the political aspirations of a very large majority of Quebecers. It is no longer on the agenda, even if one of its main architects is the current Prime Minister of Canada, Stephen Harper. We can nonetheless assume that if these positions were able to elicit the support of a large proportion of voters in Alberta and the other Western provinces, they remain a part of their political culture and could be reawakened under different circumstances.

Next time, Quebecers should make sure to find common ground with those who put forward such propositions, despite their differences of opinion on other matters. Negative historical perceptions on both sides, if they are analyzed objectively with a sober mind, should not be an obstacle to the advancement of common interests.

Conclusion

A majority of Quebecers decided, in 1980 and again in 1995, to reject propositions aiming to make Quebec an independent state. A very large majority of Quebecers, however, whether they are federalist or sovereignist, and whether their philosophical leanings push them to demand more or less government intervention, want Quebec to be more autonomous. Even without any transfer of additional powers, a withdrawal of the federal government from areas of provincial jurisdiction would entail a significant realignment of Canadian federalism in the direction of greater decentralization.

Political reality therefore imposes this unavoidable conclusion: to reach this goal, as long as Quebec remains a Canadian province, Quebecers need to find allies in the rest of the country. This is not a political bias, but simply a logical deduction of the means required to defend the political interests of Quebecers.

Observing the Canadian political landscape, it is plain to see that potential allies are few and far between. The maritime provinces and Manitoba are the ones that have been most dependent financially on the federal government for the past several decades. This dependence means that increased autonomy is not generally perceived as being in their interests.

Other provinces like Saskatchewan and British Columbia have a strong tradition of independence, but this has not necessarily been translated into a firm desire on the part of their governments to diminish federal government interference in their affairs. Still, voters in these two provinces are not necessarily opposed to a decentralization of federalism, since a large proportion of them supported the Reform Party in the 1990s.

Since Confederation, Ontario has probably been the province where the centralizing vision is most solidly entrenched. "Even if Ontarians have shown more openness than Western Canadians to some of Quebec's demands, like the recognition of the province's status as a nation, Ontario has always considered a strong federal government to be an expression of its own identity."[25] This situation may be changing, according to observers of Ontario's political scene, and a greater desire for autonomy just might emerge in Canada's largest province. Such an evolution could significantly alter the dynamics of Canadian federalism, but for the moment, this remains only a possibility, not a reality.

25. Matthew Mendelsohn, *Pour un Ontario fort*, Mowat Centre for Policy Innovation, http://www.mowatcentre.ca/opinions.php?opinionID=13# (this article was published in the French language daily *La Presse* on November 18, 2009).

The only Canadian province in which a clear desire for provincial autonomy has been expressed systematically in recent decades is Alberta. It is true that Alberta's very firm position in favour of equal provinces does not make it an ally in the quest for recognition of Quebec's special status within the Constitution. Furthermore, except for the Free Trade Agreement with the United States, the results of the alliance between the two provinces have been rather slim insofar as Ottawa continues to intervene actively in many provincial jurisdictions.

The potential to move this cause forward by combining the influence of the two provinces nonetheless remains very real. Quebecers, and in particular their political elites, have an interest in fostering and developing this alliance if they want it to produce more results in the medium term.

Each of the players should, at the very minimum, seek to understand each other better, to appreciate each other's prevailing political culture, and to do a better job of homing in on their common economic and political interests. They should also avoid fruitless confrontations and ensure that disagreements do not pointlessly threaten good relations between the two provincial governments.

Quebec nationalism – regardless of our constitutional future – should be a force for good aiming to reinforce our identity and our economic dynamism, and not a feeling of rejection and denigration of others, which it has a tendency to become when it is politically expedient. Quebecers' desire for autonomy must also take the form of a realistic political strategy in order to become a reality.

An objective analysis of the situation leads us to conclude that Quebec has every reason to ally itself with Alberta if it wants to thwart the centralizing, interventionist vision that has held sway for decades in Ottawa. As we have seen, a central government that is more respectful of provincial autonomy would also very likely have the advantage of making the Canadian economy more dynamic and prosperous.

If the political elites of the two provinces could come to agree on a common program for the decentralization of federalism and take the lead in convincing a sufficient number of Canadians in the rest of the country of the economic and political benefits of such a program, then Quebec, Alberta and Canada as a whole would be better off in every respect.

PART II

Quebec and Alberta: A Mutually Beneficial Economic Relationship

By Germain Belzile and Youri Chassin

Alberta has been experiencing strong economic growth for several years. This vigour is due in part to oil sands mining, which represents one sixth of the province's economic activity. Less well-known and less often analyzed than the relationship between Quebec and Ontario, the economic relationship between Quebec and Alberta deserves to be studied in more detail.

Alberta's prosperity benefits Quebec and Quebecers in a number of ways. As we shall see in the pages that follow, Alberta and Quebec are important partners when it comes to trade and labour mobility. Alberta also contributes indirectly, through the equalization program, to Quebec government revenue.

But perhaps the development of Alberta's oil industry, by raising the value of the Canadian dollar, has had harmful effects on manufacturing activity in Quebec? We shall see that this has not been the case. Finally, we will look at oil as a source of energy that will continue to play an important economic role for the foreseeable future and at the importance for Quebec and for Canada as a whole of being able to enjoy this reliable source of oil that are the Alberta oil sands.

2.1 Alberta's prosperity benefits Quebec

Alberta represents 10.9% of the Canadian population, but 16.2% of the country's wealth is created in that province. This differential of just a few percentage points represents billions of dollars. Indeed, the Albertan economy created 91 billion dollars more in 2009 than it would have if that province had had the same per capita GDP as the rest of Canada.[1]

With a per capita GDP of $67,339 in 2009, Albertans are by far the richest Canadians, far ahead of the per capita GDP of the country as a whole ($45,292) and very far ahead of the Quebec average ($38,801).[2]

A part of this wealth stems from the importance of hydrocarbons. The oil and gas extraction sector represents just 5.6% of Alberta's jobs, but 16.7% of its GDP. As a result, labour productivity in this sector is nearly three times higher than average productivity in Alberta, which is itself 20% higher than average productivity in Quebec.

Nevertheless, it is interesting to note that the hydrocarbon sector's impressive part of the Albertan economy has been declining for years, as it has diversified and as other sectors have become veritable economic engines in their own right. This can be seen in Figure 2-1, which compares the evolution of oil and natural gas extraction to the financial, insurance and real estate sectors that represented 17.6% of GDP in 2007 (a gain of 3.5 percentage points in 12 years).[3]

1. Authors' calculation based on data from the Institut de la statistique du Québec, *Interprovincial Comparisons*, www.stat.gouv.qc.ca/donstat/econm_finnc/conjn_econm/TSC/index_an.htm.
2. *Id.*
3. Statistics Canada, CANSIM Table 379-0025.

This evolution illustrates the economic dynamism of the entire province. Alberta's prosperity does not depend only on a single sector, important though it might be; rather, it rests upon general economic development that is supported by a number of industries. Other factors like competitive taxation, appropriate and flexible regulation, the quality of the workforce, etc., also help to explain Alberta's success.

Positive impacts for Quebec

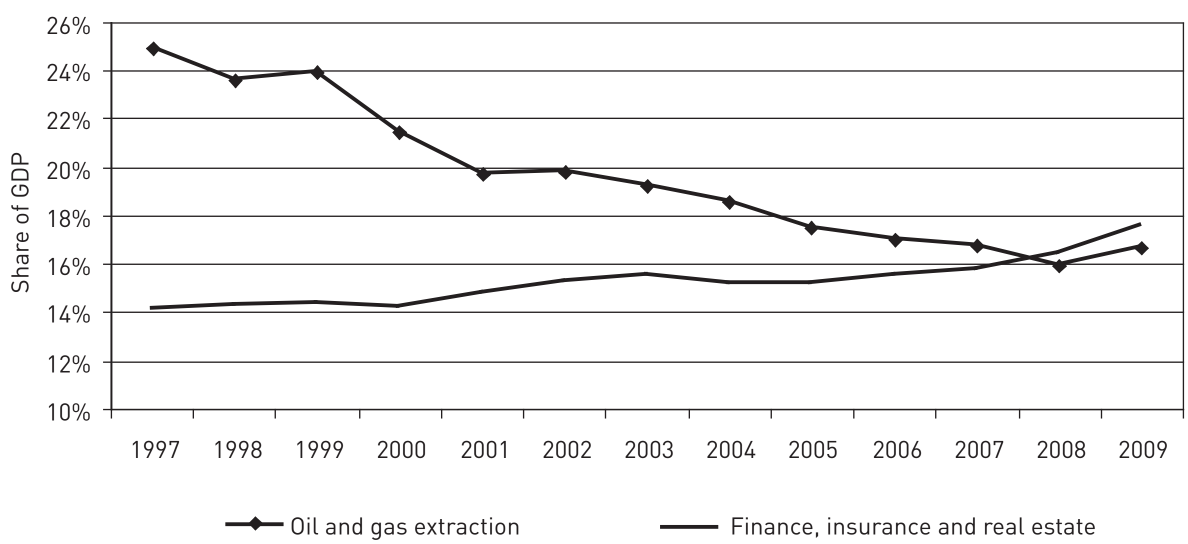
The economic relationship that exists between Quebec and Alberta is beneficial for the residents of both provinces. The mining of the oil sands, just like trade and labour mobility, have positive repercussions for Quebec.

With regard to oil and gas investment in the province of Alberta, a study by the Canadian Energy Research Institute evaluates the benefits for Quebec at 36.7 billion dollars over 25 years, from 2008 to 2032.[4] This would allow an average of 24,000 jobs to be created in Quebec alone over the same period, both direct employment due to construction and operation of the assets and indirect employment in the support and manufacturing industries.

Trade offers Quebec companies and consumers a larger variety of goods and services and it opens up new markets to Quebec companies. In both cases, it allows both partners to grow richer, since trade only takes place when both participants want what the other has to offer more than what they themselves have to offer in exchange. This principle means that trade only produces winners.

4. Canadian Energy Research Institute, *Economic Impacts of the Petroleum Industry in Canada*, July 2009, pp. 207 and 210, http://www.ceri.ca/docs/CERIIOFinalReport.pdf.

Figure 2-1
Evolution of the oil and gas extraction sector and of the finance, insurance and real estate sectors as proportions of Alberta's GDP



With regard to interprovincial trade, Alberta is Quebec's main trading partner after Ontario. According to the latest figures released by the Institut de la statistique du Québec, which are for the year 2007, Quebec exported nearly 7 billion dollars of goods and services to Alberta in that year alone. It also imported 6 billion dollars of goods and services from that province.[5] This trade represents around 10% of Quebec's total interprovincial trade.

Of course, because of its size and its proximity to Quebec, Ontario remains Quebec's main trading partner in Canada and trade among these two provinces still represented 63% of Quebec's interprovincial trade in 2007. Alberta, however, is the Canadian province that has experienced the largest growth in its interprovincial exports from 2003 to 2009 at 7.1% per year on average, and is among the provinces with the strongest import growth as well at 4.5% per year. Comparatively, during the same period Quebec's interprovincial exports and imports grew by 2.8% and 2.1% per year respectively.

It is therefore important to reinforce the economic relationship between Quebec and Alberta in order to encourage more trade with this growing province that offers such varied opportunities.

Labour mobility between Quebec and Alberta, for its part, is characterized primarily by the migration of Quebecers to Alberta. This is not surprising in light of the fact that the net result of interprovincial migration within Canada as a whole consists in losses for Quebec and gains for Alberta. The latter province actually experienced an impressive demographic influx from 2001 to 2006, seeing its population grow by 10.6%.[6]

The migratory "losses" of Quebec to the benefit of Alberta have been decreasing since 2006, however, falling from a peak of 5,519 to only 590 in 2009.[7] There are therefore nearly as many Albertans moving to Quebec today as there are Quebecers moving to Alberta. The Institut de la statistique du Québec does point out that "although the data do not allow us to say for sure, it is reasonable to suppose that a portion of the migrations from Alberta to Quebec are in fact returns,"[8] which is to say Quebecers returning from Alberta with their bags packed with experiences, contacts and ideas that will contribute to the Quebec economy.

Although interprovincial migrations involve more than just workers, they sketch a picture that generally reflects the movement of workers. Indeed, it is young people without children that are most likely to emigrate to another province. The probability of emigrating for youths aged 20 to 24 was a full five times higher than for individuals aged 45 to 54 between 1992 and 2004.[9] Moreover, "migratory trends seem to be governed in large part by economic prospects,"[10] which supports the idea that a large proportion of interprovincial migrants are workers.

The economic circumstances that promote emigration include being a recipient of welfare or employment insurance benefits, having little or no income and having to deal with a high unemployment rate in one's province of origin. In other words, a certain number of Quebecers migrating to Alberta leave behind precarious conditions to find a job in a prosperous province where labour is in high demand. From a personal perspective, these migrants benefit from Alberta's prosperity to improve their lot, gain some experience that is even more important when starting a career and increase their income. From the perspective of government finances, the mobility of these

5. The data on interprovincial trade come from Table 8 of: Institut de la statistique du Québec, *Interprovincial comparisons*, http://www.stat.gouv.qc.ca/donstat/econm_finnc/conjn_econm/TSC/index_an.htm.
6. André Bernard, Ross Finnie and Benoît St-Jean, *Interprovincial Mobility and Earnings*, Statistics Canada, October 2008, p. 16, http://www.statcan.gc.ca/pub/75-001-x/2008110/pdf/10711-eng.pdf.
7. Institut de la statistique du Québec (ISQ), *Bilan démographique du Québec, édition 2010*, December 2010, p. 70, www.stat.gouv.qc.ca/publications/demograp/pdf2010/Bilan2010.pd.
8. *Id.*, p. 66.
9. André Bernard, Ross Finnie and Benoît St-Jean, *op. cit.*, footnote 6, p. 20.
10. *Id.*, p. 18.

workers has the benefit of lightening the load for programs like employment insurance and welfare.

If Quebec has long lost the interprovincial migrations game to Ontario, British Columbia and Alberta,[11] it is partly due to its less favourable economic conditions. The provisional data for 2009 in fact indicate that Quebec's negative migratory balance is mainly made up of migration toward these three most populous provinces, as can be seen in Table 2-1. Nonetheless, in recent years, this record has clearly improved since Quebec's migratory balance in 2009 (a loss of 3,700) is markedly lower than its balance in 2008 (a loss of 9,700) and 2007 (a loss of 12,700).

Ontario is the destination of choice for nearly 60% of Quebecers who emigrate; however, Alberta is the second most popular destination, attracting 15% of them. Interestingly, though, it is also second among the other provinces as a source of Canadians choosing to move to Quebec, also representing 15% of interprovincial migrants arriving in Quebec, even if these are somewhat less numerous than emigrants. As we saw, these data include among others Quebecers who, after having lived in Alberta, return to their province of origin. The mobility of workers allows them not only to move away, but also to return home, generating a positive dynamic both for the relationship between Quebec and Alberta and for their respective economic development.

11. Bryan Breguet, *Evaluating the Human Capital-Flows Across Canadian Provinces: An Income-Based Approach*, Research paper, November 2007, p. 15.

Alberta and public finances

Because of its prosperity, Alberta makes a large contribution to the financing of programs for the redistribution of wealth between Canadian provinces through the revenue that it transfers to the federal government. In other words, Alberta's prosperity, due in part to the oil sands that are mined there but also to the dynamism of its economy as a whole, not only has a *direct* positive impact on the Quebec economy through trade, investment and labour mobility; it also entails *indirect* impacts through the federal redistribution programs. If the mechanics of this redistribution are a little more complex, it is nonetheless worth taking the time to understand it properly in order to measure its effects.

Table 2-1
Interprovincial migrations between Quebec and the rest of Canada (2009)

	Emigration from Quebec to…	Immigration to Quebec from…	Quebec's interprovincial migratory balance
…Ontario	16,258	13,634	-2,624
…B.C.	2,970	2,396	-574
…Alberta	4,157	3,567	-590
…Other	3,978	4,026	48
Total	**27,363**	**23,623**	**-3,740**

Source: Institut de la statistique du Québec, *Interprovincial migratory flows, Canada, 2006-2009*, http://www.stat.gouv.qc.ca/donstat/societe/demographie/migrt_poplt_imigr/608.htm.

Governments' tax revenue is always the result of a tax rate applied to what is called the "tax base," which is the sources of revenue subject to taxation. While federal tax rates are identical across the country,[12] the tax bases of different provinces do not share the same characteristics. Since Albertans have lots of revenue, the personal income tax base there, for example, is correspondingly larger. This explains why each Quebecer pays an average of $5,948 annually to the federal government in total federal taxes, while each Albertan pays nearly twice as much, namely $10,550.[13]

The federal government collects taxes in each province, but spends in each province as well, especially by paying large amounts to the provincial governments through the Canada Health Transfer and Canada Social Transfer, and through equalization in the case of the poorer provinces. According to Statistics Canada's estimates, the federal government spends $5,000 per Alberta resident versus $6,575 per Quebec resident, which in the latter case is a fair bit more than it collects. With regard to federal revenue and expenditures, then, the average Albertan is a net contributor to Ottawa's finances, while the average Quebecer contributes less than he or she receives, as seen in Table 2-2.

12. There are certain exceptions to this rule, but they do not affect the conclusions we draw here. For example, the special 16.5 % Quebec tax abatement reduces in practice the federal personal income tax rate since these amounts are transferred to the Quebec government.
13. The data for 2007 are the most recent available. Statistics Canada, CANSIM Tables 384-0004 and 051-0001.

While federal transfers are calculated on the basis of population,[14] equalization is simply a program for redistributing wealth between the provinces. This mechanism therefore presumes that the richer provinces like Alberta will receive nothing while the poorer provinces like Quebec will benefit – even if their residents also contribute to financing the program with their taxes, since it is a federal program paid for by all taxpayers.

In 2010-2011, Quebec received around 8.6 of the 14.4 billion dollars paid out by the federal government under this program, or nearly 60% of the total. This amount represents around 13% of the Quebec government's total budget revenue[15] or $1,111 per Quebecer.[16]

14. James Gauthier and Shahrzad Mobasher Fard, *The Canada Social Transfer*, Library of Parliament, PRB 08-57E, revised July 23, 2009, http://www2.parl.gc.ca/content/LOP/ResearchPublications/prb0857-e.pdf.
15. Ministère des Finances du Québec, *2010-2011 Budget Plan*, March 30, 2010, pp. C.11 and E.12, http://www.budget.finances.gouv.qc.ca/Budget/2010-2011/en/documents/BudgetPlan.pdf, which is to say an equalization payment of 8.6 billion dollars out of total budget revenue of 64.5 billion dollars.
16. *Id.*, p. E.12.

Table 2-2
Federal revenue and expenditures per resident in Alberta and Quebec (2007)

	Alberta	Quebec
Federal revenue per resident	$10,550	$5,948
Federal expenditures per resident	$5,000	$6,575
Net, per resident	**- $5,550**	**$627**

Source: Statistics Canada, CANSIM Tables 384-0004 and 051-0001. The Quebec data from Statistics Canada include in federal revenue the amounts collected by the federal government that will subsequently be returned to the Quebec government due to the special 16.5% Quebec tax abatement. Similarly, the data on equalization take into account the total amount calculated by the equalization formula before it is reduced by the amount of the special Quebec tax abatement.

Equalization is of course a form of support for the poorer provinces and we should not congratulate ourselves for receiving any. The Quebec government's long-term objective should be to encourage, through sound policies, the kind of economic development that will allow Quebec to stop relying on equalization payments. There exists, in short, "a moral obligation to do everything possible to no longer need this help."[17] We cannot, however, deny that in the short term, this important financial injection allows the Quebec budget and the public services offered to Quebecers to remain afloat.

17. Marcelin Joanis, "Péréquation : les plaques tectoniques du déséquilibre fiscal horizontal sont en mouvement," *Policy Options*, May 2010, p. 44, www.irpp.org/po/archive/may10/joanis.pdf.

2.2 Alberta's oil does not harm the Quebec economy

Alberta's economic vitality benefits Quebec and Quebecers, as we have just shown. Nonetheless, some still have doubts because they see in oil a source of wealth that is essentially Alberta's and that certainly benefits that province, but to the detriment of the economies of other provinces like Quebec.[18]

Their reasoning is as follows:

1. the increase in the price of oil boosts the Canadian dollar;

2. a strong dollar harms Quebec exports because the same price in Canadian dollars will be more expensive for foreigners if the dollar is strong;

3. in addition, the prices of foreign goods and services become more affordable for Canadians than those that are manufactured at home;

4. Quebec manufacturers therefore see their markets shrink and they create fewer jobs because the Canadian dollar was boosted by Albertan oil.

This theory, which dates back to the 1970s when the Netherlands began mining natural gas fields off their coast, is known in economics as "Dutch disease."

18. See for example: Michael Beine, Charles S. Bos and Serge Coulombe, *Does the Canadian Economy Suffer from Dutch Disease?*, Tinbergen Institute Discussion Paper, November 2009, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1504565&http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1504565; Thomas J. Courchene, "Canada's Floating Rate Needs Fixing," *Policy Options*, February 2008, http://www.irpp.org/po/archive/feb08/courchene.pdf; Jean-François Lisée, "L'emploi québécois dans les sables mouvants albertains," Blogue de *L'actualité*, January 31, 2010, http://www2.lactualite.com/jean-francois-lisee/lemploi-quebecois-dans-les-sables-mouvants-albertains/1742/; and Malorie Beauchemin, "L'opinion canadienne s'est durcie, dit Duceppe," *La Presse*, February 12, 2011, http://www. cyberpresse.ca/actualites/quebec-canada/politique-canadienne/201102/12/01-4369680-lopinion-canadienne-sest-durcie-dit-duceppe.php.

It is true that the Canadian dollar has increased significantly in value since 2002, thanks in part to Alberta's extraordinary economic activity. However, the long-term decrease in the relative importance of manufacturing sector jobs, in Quebec and in Canada as a whole, is not due to the strong dollar and Alberta's oil sands. Neither is it particular to Canada or Quebec. It can be observed in all of the world's advanced economic regions, including those that produce little or no oil like Europe and Japan. It stems primarily from the manufacturing sector's large gains in productivity.

The importance of productivity

Productivity measures the quantity or the value of the goods and services that a worker can produce per unit of time, usually per hour worked.[19] In other words, productivity measures efficiency of production. Low productivity corresponds to poor efficiency (workers take lots of time to manufacture goods), whereas high productivity means that workers are very efficient and succeed in producing many goods in a shorter period of time.

Productivity should not be mistaken for pacing. Production per hour worked can certainly be increased somewhat over the short term by picking up the pace, but these gains will be small and difficult to maintain. Productivity can only grow substantially if workers can take advantage of better technology, more capital goods and better work organization.

When productivity increases in a given sector, the workforce in that sector may increase, remain constant or decrease. Let's take a concrete example in which productivity increases and workers can now produce 10% more per day. If the same quantity of goods or only slightly more goods are produced, then less labour is required and employment falls; if exactly 10% more goods are produced, the same number of workers are needed and employment remains stable; and if production increases by more than 10%, then current workers will not be able to keep up and their number will have to increase.

For example, agriculture over the past 100 years is a clear example of the first scenario, with productivity increasing more rapidly than production and the number of agricultural workers declining considerably.

Throughout the world, productivity has a tendency to increase more rapidly in the manufacturing sector than in other sectors of the economy like services.[20] There are many reasons for this, but they can be summed up by a few fairly simple ideas. While it is generally possible to add machines and equipment to a manufacturing assembly line, to replace certain workers with robots and to introduce new technologies, such measures are often more difficult in the service sector.

For example, a string quartet required four musicians in the 18th century, and this remains the case today. To take another example, a waitress can certainly take care of a few more customers if she uses a computer to track orders, but she still needs to talk to each of them, make sure they are all satisfied with their meals, etc.[21]

19. This is average labour productivity.

20. See for example: Millan Mulraine, *What's Behind the Canadian Manufacturing Sector Recession?*, TD Economics Special Report, March 2008, http://www.td.com/economics/special/mm0308_canmfg.pdf and Daniel J. Ikenson, "Thriving in a Global Economy: The Truth about U.S. Manufacturing and Trade," *Trade Policy Analysis* no 35, August 2007, http://www.cato.org/pub_display.php?pub_id=8750.

21. There are, however, exceptions to this general tendency, among others in the financial services sector, which has experienced large productivity gains in the past 20 years. Note also that conditions in the services sector seem to be improving. See for example: Jack E. Triplett and Barry P. Bosworth, "Productivity Measurement Issues in Services Industries: 'Baumol's Disease' Has Been Cured," *FRBNY Economic Policy Review*, September 2003, http://www.brookings.edu/~/media/Files/rc/articles/2003/0901business_bosworth/200309.pdf.

This brings us to the heart of the matter. Given that manufacturing productivity increases more rapidly than productivity in the services sector and that the manufacturing sector's production volume remains relatively stable, it is entirely normal for the proportion of workers in manufacturing to keep shrinking while it keeps on growing in the services sector. Figure 2-2 clearly illustrates this evolution in Canada for the manufacturing sector. The total volume of goods produced by the manufacturing sector relative to the economy as a whole was essentially unchanged from 1961 to 2005 despite the relative decrease of the number of workers in this sector.

Those who maintain that Canada is de-industrializing could nonetheless point the finger at the decrease in the value of the manufacturing sector's production relative to the value of total production in Canada: this measure fell from 24% in 1961 to 16% in 2005.[22] This argument, however, is no more persuasive. In fact, since the relative volume has not changed, this drop in relative value is entirely due to a slower increase in the prices of goods produced in the manufacturing sector compared to the prices of services.

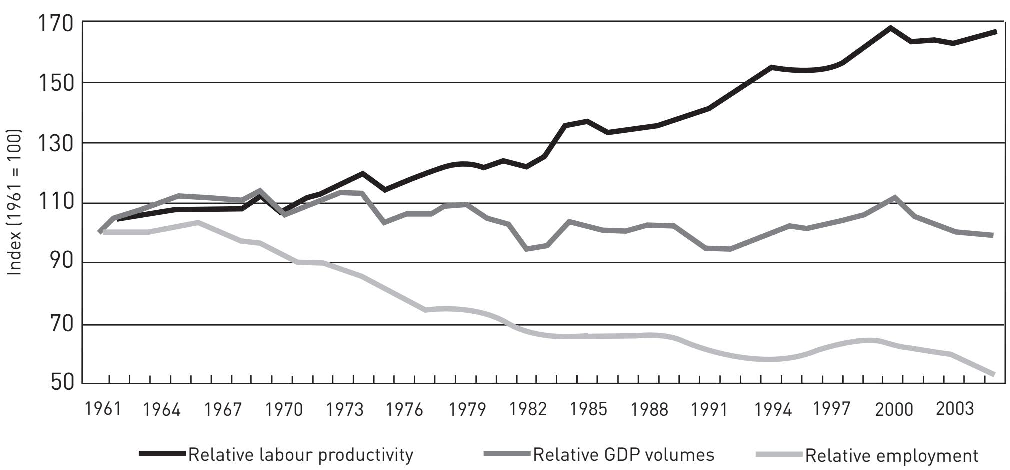
Finally, let us note that the value of real GDP increased by 372% from 1961 to 2005. If we take this economic growth into account, then despite the manufacturing sector's proportion of the economy falling from 24% to 16%, we can see that the real-term value of manufacturing increased by 203% from 1961 to 2005.[23] As the authors of a Statistics Canada study on the subject conclude: "Is Canada de-industrializing? No."[24]

22. John R. Baldwin and Ryan Macdonald, *The Canadian Manufacturing Sector: Adapting to Challenges*, Statistics Canada, July 2009, p. 20, http://www.statcan.gc.ca/pub/11f0027m/11f0027m2009057-eng.pdf.

23. Authors' calculations based on the study mentioned in the previous footnote and: Statistics Canada, CANSIM Table 380-0017.

24. John R. Baldwin and Ryan Macdonald, *op. cit.*, footnote 22, p. 7.

Figure 2-2
Employment, labour productivity and volumes of the Canadian manufacturing sector relative to the total economy (1961-2005)



Source: John R. Baldwin and Ryan Macdonald, *The Canadian Manufacturing Sector: Adapting to Challenges*, Statistics Canada, July 2009, http://www.statcan.gc.ca/pub/11f0027m/11f0027m2009057-eng.pdf.

The evolution of manufacturing employment

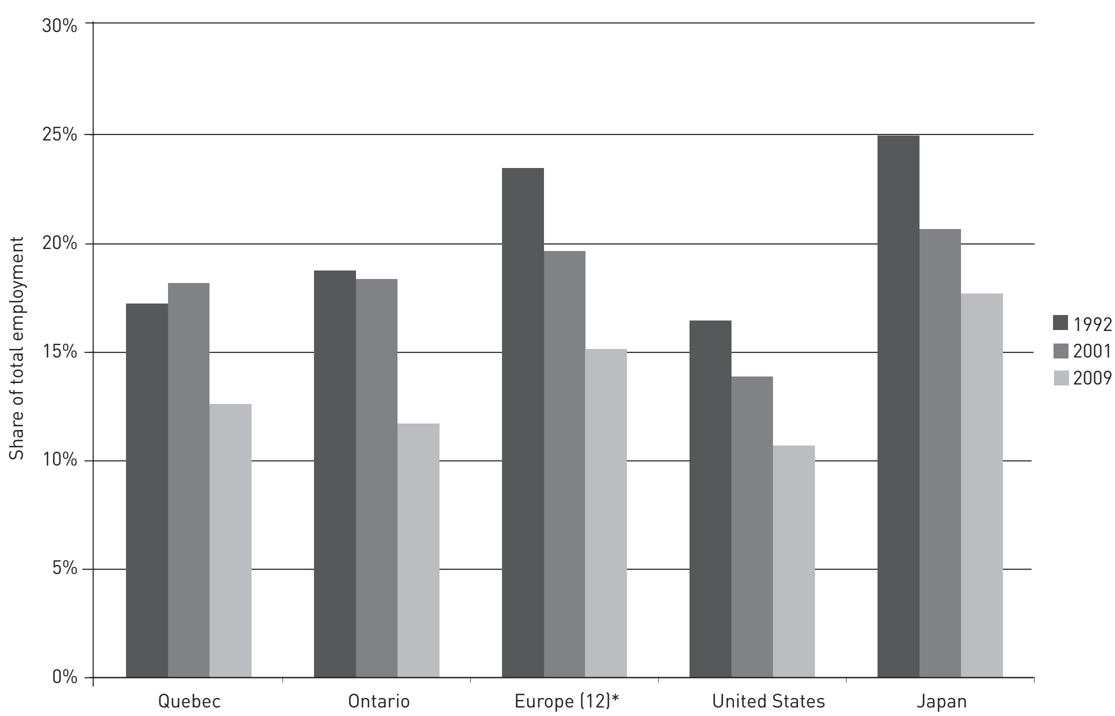
To understand the alleged "de-industrialization" of Quebec and Ontario, it is interesting to compare the evolution of manufacturing employment here with that evolution in other industrialized regions.

Manufacturing employment has been declining relative to total employment for several decades in all rich countries, including in regions where there is little or no oil or gas production, like Europe or Japan. This is especially true of the last 20 years. As we can see in Figure 2-3, manufacturing's share of employment is decreasing everywhere, and sometimes more abruptly in other regions of the world.

It is therefore wrong to claim that Quebec and Canada stand out in this regard. One single reason explains this universal phenomenon: the rapid rise of productivity in all industrialized countries, whether or not those countries mine for oil or natural gas. This productivity growth in the manufacturing sector allows jobs to be transferred to sectors where productivity does not progress as rapidly, since the production of manufactured goods themselves does not follow any downward trend.[25]

25. See: Millan Muraine, *op. cit.*, footnote 20.

Figure 2-3
Manufacturing employment as a proportion of total employment (1992, 2001 and 2009)



Sources: Statistics Canada, CANSIM Table 281-0024; OECD, *Labour Force Statistics*; Eurostat. Note: the countries of Europe (12) are Germany, Belgium, France, Italy, Luxemburg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Spain and Portugal.

The dollar and the manufacturing sector

We must nonetheless recognize that the value of the Canadian dollar does exert some short-term influence on manufacturing's share of employment in Canada and Quebec. This influence, however, is negligible in the long term.

According to a document published by the TD Bank Financial Group in 2008,[26] the heavy downward trend in manufacturing employment over the past 35 years was interrupted between 1994 and 2001 by a steadily depreciating Canadian dollar.

The Canadian dollar was worth US$0.88 in November 1991; it plummeted to US$0.62 in January 2002. Such serious depreciation occurred nowhere else except in Canada, which explains the positive results for manufacturing employment in the latter half of the 1990s. One could say that the continual decrease in the value of the Canadian dollar simply delayed the normal adjustment of Canadian manufacturing, by "subsidizing" it in a certain way. Since 2002, the Canadian dollar has rebounded (it is currently near parity with the US dollar) and the downward adjustment of manufacturing employment has resumed its natural course.

In order to maintain manufacturing's share of employment, it would therefore likely be necessary for the Canadian dollar to fall in value continuously. There would, however, be a steep price to pay: Canadians would need to spend ever more for their imports, and would see their standard of living fall.

26. *Id.*, p. 7.

According to the same TD Bank Financial Group study, there is in any case only a very moderate connection between the exchange rate and the manufacturing employment share.[27] If we want to explain the loss of jobs in the manufacturing sector, we therefore need to look at factors other than the value of the loonie.

Notice also that the continual decline in the value of the Canadian dollar from 1991 to 2002 might have allowed employment in the manufacturing sector to stabilize temporarily, but that it also had negative long-term effects. Since the dollar was steadily depreciating, manufacturers neglected to invest in productivity improvements during this period. What was won in terms of price competitiveness thanks to the falling dollar was thus partially lost by the very weak growth in Canadian productivity.

The value of the Canadian dollar is therefore of relatively little importance in explaining the long-term evolution of the Canadian manufacturing sector. Manufacturing employment in Quebec and in the whole of Canada remained more stable than in other developed countries from 1994 to 2001, thanks to the sustained depreciation of the Canadian dollar during this period. When this phenomenon was reversed, the heavy downward trend in manufacturing employment simply resumed its natural course, as in the other industrialized regions of the world, including those that produce neither oil nor natural gas. The development of the oil and gas sectors in Alberta is therefore not the cause of this inevitable long-term phenomenon.

27. *Id.*, p. 5. For each 1% increase in the value of the Canadian dollar, manufacturing's share of employment falls by 0.016 percentage points. In other words, the appreciation of the Canadian dollar from US$0.61 to US$1.00 would reduce Canadian manufacturing's share of employment by around 1%.

2.3 Oil will remain an indispensable resource

Many Quebecers believe the days of using oil as an energy source are numbered. The notion that we could simply do without it and quickly replace it with green energy sources, like wind and solar power, is widely shared. The prospect of switching over entirely to electric cars in the near future helps fuel this belief. Moreover, Quebec hardly imports any oil at all from Alberta.[28] Why, then, should Quebecers care about the future of the oil sands mined in that province?

In reality, fossil fuels will remain an essential and indispensable resource for a long time to come in Quebec and elsewhere in the world. As we shall see in the following pages, even supposing that governments the world over were to adopt ambitious policies to substitute green energy sources for fossil fuels, oil and gas consumption would continue to increase in the next 25 years, including in Quebec. According to all realistic scenarios, human beings will therefore still need oil for quite some time.

Furthermore, the oil market is a global market. Whatever reduces world oil production, whether close to home or in faraway lands, increases the world price and therefore the price in Quebec. A reduction of Albertan oil production would therefore mean higher prices at the pump for Quebecers.

Finally, conventional oil production will undoubtedly level off over the course of the next 20 years and will increasingly be replaced by unconventional oil sources like oil sands. In short, mining the Alberta oil sands is both necessary and inevitable.

Energy market prospects

From 1973 to 2008, world consumption of primary energy doubled, growing from 6,115 to 12,267 Mtoe (million tonnes of oil equivalent).[29] In 2008, oil represented 33% of consumption, while natural gas accounted for 21% and coal 27%. Energy from nuclear, hydroelectric and biomass sources accounted for 18% of consumption. Alternate "green" energy resources, such as wind, solar, and geothermal power, totalled 0.7%. Even though these last have grown tremendously since 1973, when they represented barely 0.1% of the total, they remain a tiny fraction of the energy picture.

The International Energy Agency (IEA), in its 2010 *World Energy Outlook* report,[30] presents three scenarios for the growth of the world's primary energy consumption from 2008 to 2035.

In its basic scenario, called the *Current Policies Scenario*, global demand will increase by 1.4% per year, which is clearly lower than the 2% per year observed since 1980. In the *New Policies Scenario*, which takes as a given that most governments will enact measures aiming to reduce energy consumption and encourage renewable energy, demand nonetheless increases by 1.2% per year until 2035. In the *450 Scenario*,[31] which assumes that governments will act very aggressively to limit consumption, demand increases by only 0.7% per year.

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28. "In 2009, the main countries supplying oil to Quebec were Algeria and the United Kingdom. (…) Supply from the rest of Canada represented 9.7% of the total, after having been the largest supplier in the early 1980s and after having supplied negligible amounts during the 1990s. (…) In 2009, a small quantity of crude from the Canadian West was delivered to Quebec, the previous delivery from this region dating back to 1997. The Canadian supply of crude comes mainly from Newfoundland." See: Quebec Department of Natural Resources, *Importations et exportations de pétrole*, http://www.mrnf.gouv.qc.ca/energie/statistiques/statistiques-import-export-petrole.jsp.

29. International Energy Agency, *Key World Energy Statistics*, October 2010, p. 6. Primary energy is energy that has not been transformed into another form by an industrial process. For example, electricity produced by a natural gas-fired power plant is secondary energy, while the natural gas itself is primary energy.

30. Unless otherwise indicated, all of the data in this section are from the International Energy Agency's *World Energy Outlook 2010* report, http://www.oecd-ilibrary.org/energy/world-energy-outlook-2010_weo-2010-en/.

31. The "450" figure refers to the goal of limiting the concentration of greenhouse gases in the atmosphere to 450 parts per million.

Note that if the first scenario comes to pass, demand will increase by a total of 47% from 2008 to 2035. For the other two scenarios, the figures are 36% and 22%. Whatever the measures undertaken by governments on a global level, demand for energy will therefore continue to rise (see Figure 2-4).

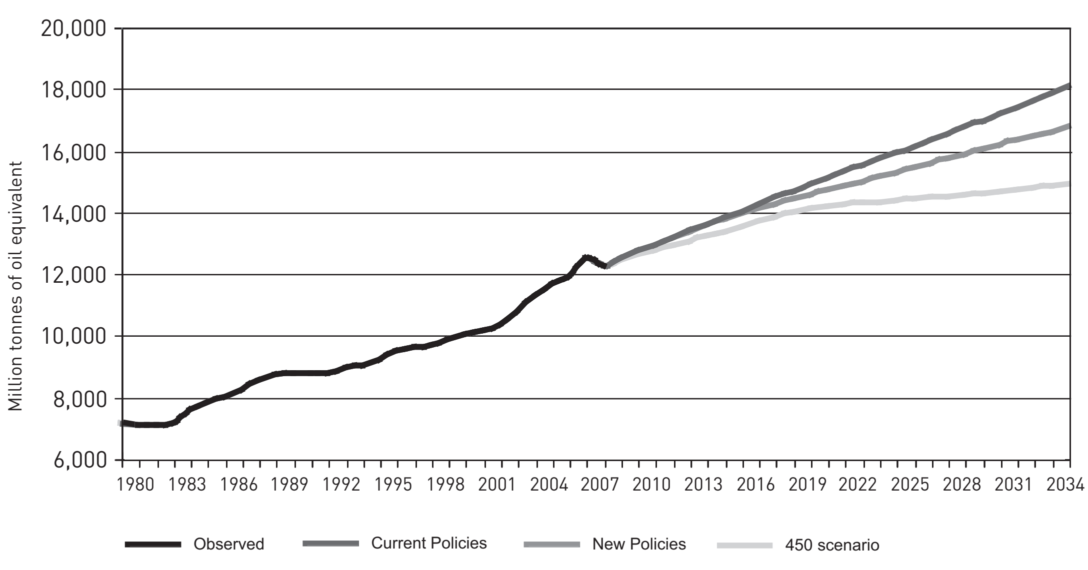
In the following paragraphs, we will use the IEA's middle *New Policies Scenario*, with the understanding that using either of the other two scenarios would change the specific results without affecting the essential conclusions.

In 2035, oil remains the biggest primary energy source. Its share decreases from 33% of the total in 2008 to 28% in 2035, but the absolute demand for oil still increases by 15%. The share of natural gas increases (absolute demand increases by 44%), while coal's share decreases (but absolute demand for coal still increases by 19%). Energy from nuclear, hydroelectric, and biomass sources will see their share increase from 18% to 22%, while alternate "green" energy resources will see their share increase from 0.7% of the total to 4% (see Figure 2-5).

The OECD countries, which include Canada, the United States and the other wealthy countries of the world, only account for a small part of the increasing world primary energy demand between now and 2035—a mere 7%. The other 93% comes from China (36%), India (18%) and other developing countries. The per capita energy consumption in these countries today is far lower than it is in the OECD countries, but this gap should shrink in the coming decades.

Fossil fuels will therefore remain dominant from now until 2035. Moreover, the greater part of the increase in energy consumption will come from these energy sources, despite the rapid increase in the production of renewables. For at least another generation, the world can simply not get around the need for more oil, more coal and more natural gas. If supply does not rise with demand, we can expect large price hikes, including in Quebec.

Figure 2-4
World demand of energy and projections according to different scenarios



Green energy sources as alternative solutions?

Barring draconian changes to our way of life, it will therefore be impossible to manage without extra oil over the next 25 years. Even though we can produce electricity using other methods (coal, natural gas, nuclear), oil is particularly well adapted for transportation. In fact, the greater part of the increased demand for oil comes from the transportation sectors in emerging countries.

A few countries have tried to reduce their dependence on fossil fuels drastically in recent years. The case of Spain is particularly instructive. Beginning in 1997, the Spanish government enacted one of Europe's most aggressive policies for promoting green energy, making use of both subsidies and regulations. A Universidad Rey Juan Carlos study carried out by Gabriel Calzada Álvarez that made the news in 2009 paints a picture of the situation.[32]

32. Gabriel Calzada Álvarez *et al.*, *Study of the effects on employment of public aid to renewable energy sources*, Working Paper, Universidad Rey Juan Carlos, March 2009, http://www.juandemariana.org/pdf/090327-employment-public-aid-renewable.pdf.

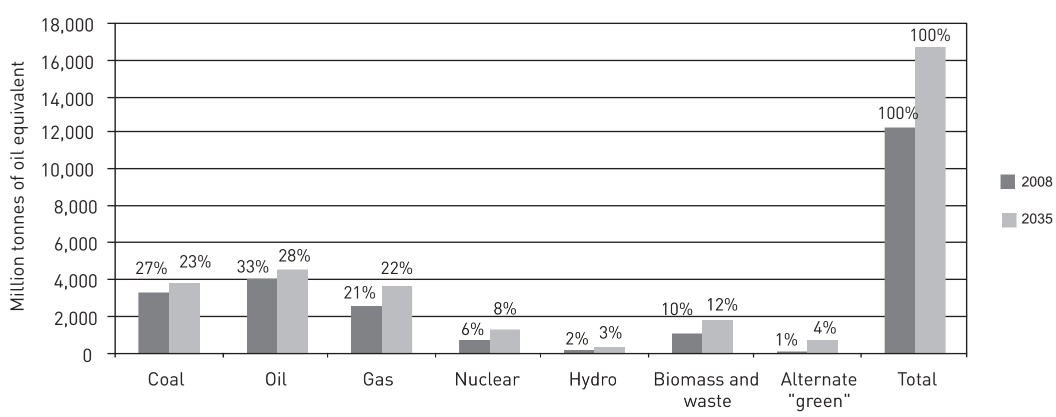
What were the results for the solar photovoltaic energy sector? The regulated sale price per kilowatt-hour obtained by the producers of this energy on the electricity grid was seven times higher than the average market price. This led to a subsidized deficit[33] of 5.64 billion euros for 2008 alone (and rising, since the number of installations increases each year). And this sector still accounts for just 1% of electricity production in Spain.

The impact on employment has been just as disastrous. For each "green" job created, 2.2 jobs were lost elsewhere in the economy. Each "green" megawatt of installed capacity destroys 5.28 jobs, because of the higher costs for electricity and the higher taxes used to subsidize them. Each "green" job created since 2000 cost 571,138 euros in government subsidies (and over a million euros per job in the wind energy sector).

To be competitive, green energies all require subsidies, which become enormous if an attempt is made to replace a substantial portion of fossil fuels. A massive and rapid conversion to renewables would necessarily rely on these subsidies that are

33. Electricity producers receive a subsidy for each kilowatt-hour produced, since their production costs are higher than revenues from the sale of electricity.

Figure 2-5
World energy demand per source (2008 and 2035)



Note: The 2035 forecasts correspond to the IEA's *New Policies Scenario*.

so harmful to employment, not to mention their impact on government finances. The switch will happen in the long term by relying on greater demand, more competitive prices and more efficient technologies. In the meantime, oil remains a necessity.

Where will we get the oil we need?

Currently, around 23% of world oil production comes from OECD countries. The Middle East accounts for 31% of production, Russia 13%, and Africa 12%.

According to the IEA's middle scenario, conventional oil production will level off around 2020, while the production of unconventional oil and liquid natural gas will continue to climb rapidly. Alberta's unconventional oil is well-placed in all of the scenarios. In fact, all of the increase in oil production from now until 2035 will come from unconventional oil.

Conventional oil production in non-OPEC countries will fall from now until 2035. The oil available over the next 25 years will increasingly come from countries that are not, for the moment, models of democracy and stability. By 2035, OPEC countries–in particular Saudi Arabia, Iraq, and Iran–will produce 54% of the world's conventional oil (versus 42% now).

Unconventional oil, of which there exist vast reserves, will account for 9.9% of oil production in 2035 (compared with 2.8% today). Canada, with its oil sands, and Venezuela, with its extra-heavy oil, will be the two main producers of unconventional oil. Oil shales, a form of unconventional oil that is more difficult to extract, should begin gaining ground after 2025.

The quantity of unconventional oil contained in the Albertan oil sands is estimated to exceed 2,000 billion barrels. With existing technology and at current prices, recoverable oil sands reserves amount to 170 billion barrels. They are the world's second largest reserves, after those in Saudi Arabia.

Albertan oil is an extremely advantageous source for Canada and the United States. It is produced under very secure conditions, where property rights and contracts are respected. Canadian environmental norms are much stricter than those of the OPEC countries. Situated in the interior of the continent, transported by pipeline, it is not subject to the risks of offshore oil extraction or sea transport and does not pass through the Persian Gulf or the Suez Canal. Its production does not enrich dictatorial regimes.

In short, Alberta is the most reliable supplier of this energy source—an energy source that is and will remain of vital importance for Quebec for many years to come.

Conclusion

Quebec and Alberta are, each in their own way, energy powerhouses.

As we have just seen, Alberta possesses the second largest recoverable oil reserves in the world, after those found in Saudi Arabia. Quebec is also a first-class world player in the field of energy. It is the fourth largest producer of hydroelectricity in the world behind only China, Brazil and the United States.[34] Just like Alberta, which exports vast quantities of oil to the south, Quebec exports electricity to the United States, Ontario and New Brunswick.[35]

34. Quebec Department of Natural Resources, *La production d'électricité disponible par type de producteurs*, http://www.mrn.gouv.qc.ca/energie/statistiques/statistiques-production-electricite.jsp; U.S. Energy Information Agency, *International Energy Statistics: Hydroelectric Power*, http://www.eia.gov/cfapps/ipdbproject/ IEDIndex3.cfm.
35. In 2008, 13% of oil consumed in the U.S. came from Canada. See Foreign Affairs and International Trade Canada, "Canada-U. S. energy relations", http://www.canadainternational.gc.ca/washington/bilat_can/ energy-energie.aspx?lang=eng. For Quebec exports, see Quebec Department of Natural Resources, *Importations et exportations d'électricité*, http://www.mrnf.gouv.qc.ca/energie/statistiques/statistiques-import-export-electricite.jsp.

Some public declarations and debates have highlighted the divergent opinions and interests of the two provinces, especially with regard to the environmental impacts of oil sands mining.[36] But Quebec and Alberta have complementary interests when it comes to energy. In particular, the two provinces must ensure continued access to the American market and maintain popular support for the development of their respective resources, both of which are subject to criticisms from environmentalist and other advocacy groups.

In addition, Quebec has the potential to produce hydrocarbons, which could change the province's energy picture considerably. The oil and gas potential of the Old Harry deposit in the Gulf of Saint Lawrence, where a moratorium on exploration is in place until 2012, has been known for a long time.[37] According to recent exploration, the subsoil of Anticosti Island could represent Quebec's most promising oil and gas potential on land.[38]

Moreover, a debate is already underway over shale gas mining in the Saint Lawrence Valley, whose economic repercussions could also be considerable. According to estimates from the Quebec Department of Natural Resources, "up to 250 horizontal wells could be drilled each year in the Saint Lawrence Lowlands, which would require investments of at least $1 billion a year from oil companies. At that rate, up to 7,000 direct jobs and 3,000 indirect jobs could be created in Quebec."[39]

Quebecers could therefore soon be faced with the same issues that have existed in Alberta for several years regarding the economic, social and environmental impacts of fossil fuel extraction. The fact that such potential exists in Quebec reinforces the need to stop addressing this question in a simplistic manner, for instance by pretending that oil sands mining in Alberta hurts the Quebec economy and that Quebec will in any case soon be able to replace fossil fuels with alternative energy sources. As we have seen in this section, these kinds of arguments do not hold water.

Alberta's prosperity benefits Quebecers in a variety of ways, although many of them are unaware of it and entertain a negative image of the province for various reasons. It would be in their interest, however, to better understand what their Albertan compatriots are going through, especially if Quebec itself becomes a fossil fuel-producing region in the near future. Quebec and Alberta have everything to gain by cooperating more with each other and thereby reinforcing a partnership that unites two of the planet's foremost energy powerhouses.

36. Alexandre Robillard, "Charest 'profitera de toutes les tribunes' à Copenhague," *Cyberpresse*, September 10, 2009, http://www. cyberpresse.ca/actualites/quebec-canada/politique-quebecoise/200909/10/01-900559-charestprofitera-de-toutes-les-tribunes-a-copenhague.php.

37. Robert Dutrisac, "Pétrole : changement de cap à Québec," *Le Devoir*, February 16, 2011, http://www.ledevoir.com/politique/quebec/316914/petrole-changement-de-cap-a-quebec.

38. Alexandre Shields, "Anticosti : Hydro-Québec aurait cédé un trésor," *Le Devoir*, February 14, 2011, http://www.ledevoir.com/environnement/actualites-sur-l-environnement/316778/anticosti-hydro-quebec-aurait-cede-un-tresor.

39. See: Quebec Department of Natural Resources, *Le développement du gaz de schiste au Québec*, Technical document, September 15, 2010, p. 8, http://www.mrnf.gouv.qc.ca/publications/energie/exploration/developpement_gaz_schiste_quebec.pdf

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