

## **Diversifying the Economy will Insulate Alberta's Economy against Volatile Oil and Gas Prices, Right? New Report Says Not So Fast**

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Calgary – Whenever there is a downturn in the Alberta economy because of slumping oil and gas prices, politicians call for policies to diversify the economy, on the assumption that expanding other sectors of the economy will insulate Alberta's economy against volatile oil and gas prices. However, just because a sector is not directly part of the oil and gas extraction sector, does not necessarily make it counter-cyclical. In fact, the sectors that have been promoted in the name of diversification are often linked to the oil and gas extraction sector and follow the same boom-bust cycle.

Today, The School of Public Policy with authors Bev Dahlby and Mukesh Khanal released a report that takes a hard look at the issues concerning economic diversification in Alberta. The report shows that not only are the government's attempts to subsidize certain sectors in the name of "diversification" failing to insulate the provincial economy from fluctuations in oil and gas prices, but may even exacerbate the economic cycle.

According to co-author, Mukesh Khanal "Research shows that economic output in Alberta today is as diverse as in Ontario. Alberta's economic output has become quite diversified in the last 20 years, and that has resulted in a 21 per cent decline in the volatility of economic output. Therefore, output diversification is not really the need of the hour in Alberta. In fact, since manufacturing is the third-most volatile economic sector in Alberta after oil and gas and construction sectors, policies to support and increase manufacturing, particularly petrochemical manufacturing, will actually make Alberta's economic output even more volatile."

While economic output has become more diversified in Alberta in the last 20 years, labor income has become less sector-diversified. It has become more concentrated in the two most volatile sectors: oil and gas, and construction. As a result, labor income volatility in Alberta in the last 20 years has increased by 40 per cent. Therefore, instead of focusing on reducing output volatility by diversifying output, since it is already diversified, government policies should focus on reducing income volatility. The Government of Alberta should find ways to expand unemployment insurance, as the current federal government policy actually provides fewer supports to unemployed Albertans than it does to residents of other regions and promote self-insurance by expanding tax-sheltered savings products so workers can save during good-times to help sustain themselves during downturns.

Rather than exacerbating Alberta's boom-and-bust cycle, the provincial government should adopt a counter-cyclical fiscal policy, which during boom times means restraining public spending, lowering public expectations concerning growth, and saving a substantial share of the non-renewable resource revenues.

The paper can be downloaded at <https://www.policyschool.ca/publications/>

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