

# THE SCHOOL OF PUBLIC POLICY PUBLICATIONS

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# THE STATE OF THE ALBERTA ECONOMY AND THE PATH FORWARD

Todd Hirsch

# ALBERTA FUTURES PROJECT PRE-PUBLICATION SERIES

Alberta has a long history of facing serious challenges to its economy, including shocks in the form of resource price instability, market access constraints, and federal energy policies. However, the recent and current challenges seem more threatening. It seems that this time is truly different.

The collapse of oil and gas prices in 2014 combined with the rapid growth of U.S. oil production, difficulties in obtaining approval for infrastructure to reach new markets and uncertainty regarding the impacts of climate change policies world-wide have proven to be strong headwinds for the province's key energy sector. Together, the negative effects on employment, incomes and provincial government revenues have been substantial. To make matters worse, in early 2020 the Covid-19 pandemic struck a major blow to the lives and health of segments of the population and to livelihoods in many sectors. The result has been further employment and income losses, more reductions in government revenues and huge increases in government expenditures and debt. These events, combined with lagging productivity, rapid technological shifts, significant climate policy impacts and demographic trends, call for great wisdom, innovation, collective action and leadership to put the province on the path of sustainable prosperity.

It is in this context that we commissioned a series of papers from a wide range of authors to discuss Alberta's economic future, its fiscal future and the future of health care. The plan is that these papers will ultimately be chapters in three e-books published by the School of Public Policy. However, in the interest of timeliness and encouraging discussion, we are releasing selected chapters as pre-publications.

#### INTRODUCTION

There has been no lack of commentary on the weak state of Alberta's economy. The double hit of low oil prices combined with the impact of the global pandemic has knocked the wind out of many businesses and sent unemployment soaring. Making matters worse, the province was already hobbling into 2020, having sustained a brutal recession in 2015-16, and only a modest recovery leading up to the start of the pandemic.

It's not unfamiliar territory for Alberta. Since the early 1970s, the province has been on a continual boom-and-bust cycle. Recessions are not new. Still, the last seven years have been particularly punishing.

There are now greater glimmers of hope on the horizon. As Alberta enters mid-2021, the vaccination process is picking up momentum. That is increasing optimism the COVID-19 pandemic will soon be in the past and the global economy will gradually reopen. Yet while the virus will ebb and the economy will eventually reopen, there has been a structural shift that has altered Alberta's economy permanently. Simply put, there will be no "getting back to normal" any time soon.

For so many years the energy sector was the growth engine of Alberta, pulling in foreign capital, creating high paying jobs and spurring construction and engineering spending. Now, the energy sector is taking on a new role: it's no longer a growth engine, but a backbone. The province's hydrocarbon production will remain significant for decades to come, but Alberta can no longer rely on it alone to drive growth.

This essay will explore three themes:

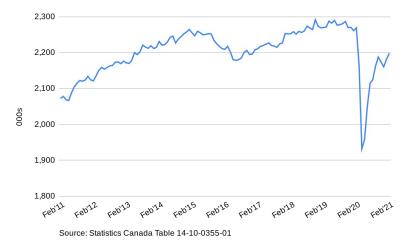
- 1. How have employment trends in Alberta changed over the last two recessions, and what do they suggest about structural changes in the energy sector?
- 2. What do these job trends reveal about the public sector, traditional industries and emerging industries?
- 3. What is the path forward for Alberta, and what changes might need to be made to ensure a strong, stable and prosperous economy?

## 1. A TALE OF TWO RECESSIONS: JOB TRENDS IN ENERGY AND NON-ENERGY SECTORS

Figure 1 shows total employment in Alberta over the last ten years, which captures both the oil-price induced downturn of 2014 and the impact of the global COVID-19 pandemic. The recessions of both 2015-16 and 2020 can be seen clearly in the employment data, although the two patterns stand in stark contrast.

In the first recession, between January 2015 and June 2016, the labour market shed nearly 90,000 jobs, a drop of 3.4 per cent over a period of 17 months. Total employment did not return to pre-downturn levels until August of 2018. While quite severe, the drop and recovery in total employment followed a typical pattern for Alberta during an oil-price induced recession.

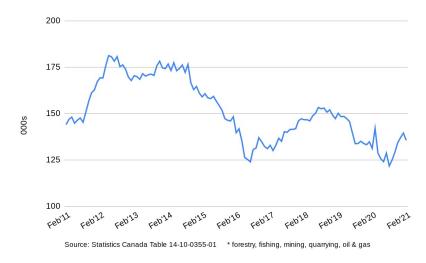
Figure 1: Total Employment in Alberta (seasonally adjusted)



However, what happened in early 2020 was unprecedented. With the onset of the pandemic, total employment fell by an astounding 13.7 per cent between February and May 2020. And while it recovered approximately three-quarters of its losses in the following few months, total employment remains well below (-3.1 per cent) its prepandemic levels.

Yet the job market in Alberta's oil and gas industry shows a very different pattern of recession and recovery over the same period of time. In Figure 2 we see the energy recession starting much sooner than in the overall economy. Employment started to fall almost immediately with the dip in oil prices, which had reached a peak in June 2014. Employment in the resource sector dropped 30 per cent between July 2014 and July 2016.

Figure 2: Employment in Resource Extraction\* in Alberta (seasonally adjusted)



After recovering about half of its losses in the following two years, employment in oil and gas dropped again after the summer of 2018 — but this time oil prices were not the cause. The employment losses in 2018 and 2019 were more because of companies improving their efficiencies through consolidation within the sector, the increased use of automation and technology, and other cost reduction.

The COVID pandemic also reduced employment in Alberta's energy sector, but it seems that the drop in oil prices — not the pandemic itself — was the chief cause (although the two were closely related). By February 2021, both global oil prices and employment in Alberta's energy sector managed to recover to their pre-COVID levels.

Figure 3 shows total employment excluding resource extraction. Here the difference between the 2015-16 recession and the 2020 recession stands in even starker contrast. While employment excluding resources did drop in the 2015-16 recession (-0.7 per cent), it recovered within two years — something employment in oil and gas never came close to achieving. On the other hand, employment excluding resources plunged much deeper in the 2020 recession, and unlike resource employment, it remains significantly below (-3.5 per cent) pre-pandemic levels.



Figure 3: Total Employment excl. Resources in Alberta (seasonally adjusted)

All of this points to a clear shift in employment in Alberta's energy sector, suggesting a unique structural change that has occurred. The energy sector was able to recover from the global pandemic relatively quickly, but total employment remains far below 2014 levels. What's more, it seems unlikely that employment in oil and gas will ever fully recover. Efficiency gains and cost containment, forced by the 2014 price collapse, are the reasons. As well, it is possible that policy changes around carbon constraints and expectations of further restrictions in the future are also contributing to lower employment levels.

To sum up, employment data over the last ten years show two distinct recessions in Alberta. The first induced by an oil price collapse, and the second by a global pandemic

(also involving an oil price collapse). While employment in sectors outside oil and gas recovered relatively quickly from the first, employment in oil and gas has never recovered. The COVID recession had the opposite effect — oil and gas rebounded quickly, but other sectors have not.

The structural change in Alberta's oil and gas industry appears to be permanent. More automation, better technology and greater operating efficiency have allowed the industry to operate profitably with far fewer employees. That may be good news for shareholders of companies, but it presents a challenge for the provincial economy as some 50,000 high-paying energy sector jobs are permanently gone.

### 2. JOB TRENDS IN THE PUBLIC, TRADITIONAL AND EMERGING SECTORS

What other sectors have taken up the baton of growth in Alberta's job market? Figure 4 shows changes in employment by sector in the province for the last ten years, encompassing both recessions. The patterns are interesting and at times contradictory to commonly accepted "truths" about Alberta's economy.

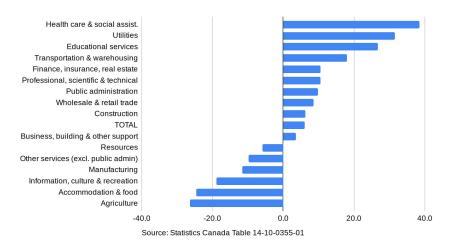


Figure 4: Percent Change in employment in Alberta, Feb'11-Feb'-21

Employment growth has been greatest in three sectors: health care and social assistance (+38 per cent), utilities (+32 per cent) and educational services (+27 per cent).

Over the same time, employment fell significantly in agriculture (-26 per cent), accommodation and food (-25 per cent) and information, culture and recreation (-19 per cent). Admittedly, much of the drop in employment in some of these sectors (especially accommodation and food) is due to COVID; they are still likely to recover in the post-COVID years.

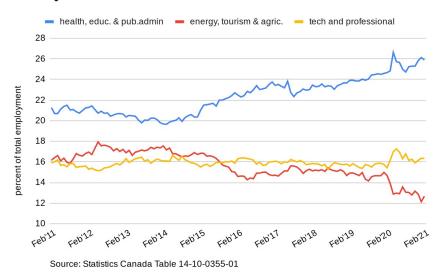
There has been little or no growth in other key sectors of the job market, including business services and construction.

Grouping some of these job categories together, we can identify several interesting trends in the province. A few of these trends contradict some of the conventional thinking about Alberta, especially with respect to certain industries that dominate the stereotypes.

Figure 5 illustrates the trend in these three broad employment categories.

- BLUE LINE: public sector oriented jobs (health care and social assistance, education services and public administration)
- RED LINE: jobs in Alberta's traditional and stereotypical sectors (resource extraction, accommodation and food services, and agriculture)
- YELLOW LINE: jobs in what are thought to be new and emerging industries in the province, like technology and life sciences<sup>1</sup>

Figure 5: Jobs in Key Sectors as % of Total Jobs in Alberta



A few observations stand out immediately.

First, an undeniable pattern emerges over the last ten years: jobs in healthcare, education and public administration — largely related to government spending — are becoming more dominant. They grew from 21 to 26 per cent of all jobs over the last ten years.

Second, jobs in sectors that traditionally define the images of Alberta — energy, tourism and farming — are becoming less dominant. They fell from 16 to 13 per cent of total jobs. This defies the misconception that everyone in Alberta is employed in oil and gas or farming.

Third, there is little evidence that jobs in technology, life sciences or other emerging industries have yet materialized. They moved only from 15.9 per cent to 16.3 per cent.

It is difficult to isolate jobs in the "tech sector" since that is not a category in employment data as defined by Statistics Canada. But three broad job categories can be used to capture emerging industries: professional, scientific and technical services; business, building and other support services; and finance, insurance, real estate, rental and leasing. While not a perfect fit, these will serve as a proxy to measure activity in the technology, life sciences and financial services.

However, it is encouraging that almost all of the growth that has occurred was in the last year or so. That suggests these sectors are indeed starting to grow and may indeed continue to rise in the future.

A fourth observation is that while the *share of employment* in traditional sectors may have fallen, the contributions these sectors make to the overall economy have not necessarily fallen. As described earlier, the improvements and efficiency gains made in the energy sector have allowed it to be more productive with fewer workers. The same is true of agriculture, where total output has expanded while employment has shrunk. They should not be considered "sunset" industries simply because they employ fewer people. Rather, they will remain core components of the province's export industries without which Alberta's economic base and future prosperity would shrink.

Nonetheless, the loss of employment in Alberta's traditional energy industry is a concern. It raises the obvious question: what will replace oil and gas as a driver of economic growth and employment? Several industries offer great potential for this role, including the technology and digital sectors, agriculture and agri-foods, renewable energy and clean energy technologies. But even the most optimistic booster of these sectors would not suggest they alone can replace the jobs lost in oil and gas. And many of the skills required in these emerging industries are not directly transferable from the energy sector.

If Alberta is to avoid slipping into long-term economic decline, it will require growth from these and many other new industries. How we get there is the basis of the next and final section of this chapter.

#### 3. THE PATH FORWARD

Given the evidence of a decade's worth of jobs data, it is clear that Alberta is at a turning point. Employment opportunities in traditional industries are in decline. Jobs in the public sector have risen, but given the challenges of provincial government finances, this cannot continue to be the sole growth engine. And while there is a lot of hope for emerging industries in the technology and digital space, jobs in these sectors have yet to truly "emerge."

What can Alberta do?

Countless policy recommendations and prescriptions for boosting economic activity have been put forward. Many of these recommendations can be described as "progrowth" and have focussed primarily on two themes: 1) boost overall productivity, and 2) increase competitiveness. Cutting business taxes, incentivizing research and development, reducing regulatory burden (colloquially called "cutting red tape"), lowering operating costs, building transportation infrastructure, offering tax incentives and reducing labour expenses are the most common methods prescribed by economists and business advocacy groups alike.

While they may be effective at drawing in business and capital, one must recognize that these kinds of recommendations could also have damaging unintended effects in other areas, leading to suboptimal outcomes from a societal perspective. For example, cutting red tape for business could mean skipping important steps and processes

around environmental protection. Lowering business taxes can create a revenue vacuum that must be filled with higher taxes elsewhere, cuts to programs or higher public debt. Lowering labour expenses by, for example, relaxing labour health and safety codes could result in higher worker injuries on the job.

Many recommendations targeting overall efficiency and productivity are valid, particularly since Canada's lagging rates of productivity growth have long been a concern of economists. These recommendations should be considered and implemented where appropriate. Yet taken in isolation, they are incomplete solutions to achieving a healthy, balanced and prosperous society in the long-run. In a complex system like a provincial economy, a holistic approach to growth and development must take into account all of the side effects that these policy recommendations might have.

Rather than repeating another list of pro-growth recommendations, it makes more sense to step back and look at the bigger picture in the long-run, and ask: What needs to happen in Alberta to secure a healthy and prosperous economy for all, where the well-being of each individual takes priority over simply growing the GDP? This, after all, should be the goal. It is not the size of the GDP that matters, but its quality as measured by rising income per capita and falling income inequality.

Offered here are four high-level values that should guide the practices of businesses, policies of governments and the priorities of citizens. Unlike simple policy remedies, these values are more philosophical in nature. They are principles and attitudes that must prevail if Alberta is to achieve its economic and social potential.

#### i. Prioritize education

Globally, Alberta's education system ranks quite highly in terms of quality and accessibility (although there are criticisms to be made about the global ranking process). Our K-12 system performs particularly well; still there are improvements to be made. A favourable ranking against global peers is no reason to rest on one's laurels, especially when there are suggestions that our ranking is slipping.

Where there are more pressing challenges and concerns is with two other equally important areas of education: early childhood care and education, and post-secondary education.

There is no lack of evidence supporting the connection between good early childhood education and positive outcomes later in life. According to UNESCO,

"Early childhood care and education (ECCE) is more than preparation for primary school. It aims at the holistic development of a child's social, emotional, cognitive and physical needs in order to build a solid and broad foundation for lifelong learning and wellbeing. ECCE has the possibility to nurture caring, capable and responsible future citizens."<sup>2</sup>

Marope, P.T.M., Kaga, Yoshie, 2015. "Investing against evidence: the global state of early childhood care and education" UNESCO website https://en.unesco.org/themes/early-childhood-care-and-education

Yet for all the evidence, Albertans (or Canadians) have never prioritized ECCE. At best, a growing dialogue is taking place around the need for a national daycare system. The emphasis has been on enabling women to enter or re-enter the workforce post-COVID. That alone is a laudable goal. But a step beyond simply offering daycare is *prioritizing early childhood education*. Embracing some notion of that would be a bold step in preparing today's children for the economy and society of the future.

At the other end of the education time-line is post secondary education (PSE). This, too, needs to gain a higher degree of priority by Albertans — governments, businesses and citizens. High quality higher education, coupled with accessibility and affordability for students, will produce the talented workforce of the future. Yet increasingly, access to PSE in Alberta is becoming more limited. Rising tuition fees, limited capacity in programs and a reduction in the number of programs available have pushed some potential students away. Increased funding for education at all levels would help, but given the province's tight fiscal constraints, this seems improbable. Blunt cuts to funding for education, on the other hand, will likely make matters worse.<sup>3</sup>

Finally, there should be a greater focus on skills training and development for workers of all ages. This can happen both through government programs and employer-sponsored training. Ensuring all workers are continuously upgrading their skills, especially in digital and technological literacy, is becoming increasingly important.

#### ii. Foster social inclusivity and diversity

Just as the connections between education and the economy have been well established, there is a growing recognition that social and racial diversity is also an economic imperative.<sup>4</sup> Yet in Alberta — as in virtually all other places — racial discrimination, misogeny and xenophobic attidues remain ingrained in our culture.

There is work for governments to do in this regard, to be sure. Both in terms of hiring practices within the bureaucracy and policies to combat racism, misogyny and xenophobia in the general public, governments at all levels must set the example. Strong condemnation of racist demonstrations must come swiftly and forcefully. Silence cannot be an option for governments.

Yet for all governments can and should do, there's probably more work to be done by individual citizens. It behooves each Albertan to examine what racism in its many forms looks like. Racism is not limited to hatred and violence against people of colour. Racism also takes the form of stereotyping, joking, excluding and marginalizing people of colour. The same goes for misogyny and xenophobia, which affects women, LGBTQ2S+, physically and mentally challenged people, Indigenous people and religious communities.

It is beyond the scope of this chapter to discuss options for education reform. More funding is one starting point, but should not be seen as a panacea. Adopting best practices from K-12 education systems around the world, implementing a system of early childhood education, and considering more micro-credentials (vs. four-year programming) in post-secondary institutions are places to start.

Treuhaft, Sara, and Justin Scoggins and Jennifer Tran. October 22, 2014. "The Equity Solution:Racial Inclusion Is Key to Growing a Strong New Economy." Policy Link, USC Program for Environmental and Regional Equity. https://policylink.app.box.com/v/equity-brief

Alberta businesses also have a role to play in battling racism, misogyny and xenophobia in the workplace. It must be more than a token approach or an afternoon of "sensitivity training." It has to permeate the cultural DNA of the company.

While there are encouraging signs on all three fronts — governments, individuals and businesses — we have only started to scratch the surface of confronting our deeply entrenched biases and racist attitudes. It must become an ongoing effort.

Not only is it the morally right thing to do, weeding out discrimination is also the economically right thing to do. Businesses benefit from greater cultural, racial and gender diversity because it enriches the conversations and enlarges perspectives. Nothing kills innovation and creativity more quickly than ten people sitting around a board table, all with the same gender, colour, education and cultural background.

And as an added economic benefit, a more richly diverse and inclusive Alberta will more easily attract new-comers to the province. International migration, the source of an almost endless bounty of talent and creativity, will become increasingly important in the years ahead. If we foster a generous spirit of inclusivity — not just "tolerant" of diversity, but truly desirous of diversity — our reputation will act to draw the world's best and brightest minds.

#### iii. Uphold our brand and reputation

In an increasingly globalized world — a trend that preceded the COVID pandemic, and will certainly return after it — being an attractive place to live, work and play is becoming more important than ever. Albertans pride themselves on the province's affordable cost of living, great natural amenities, vibrant cities and safe communities. The Economist Intelligence Unit agrees, ranking Calgary fifth on the ranking of most livable cities in the world.<sup>5</sup>

But we cannot take this for granted. Albertans must continually be asking themselves "What is it about Alberta that would draw someone to live here?" This is particularly critical at the moment when the province is suffering high unemployment. While there is not much data available yet to corroborate it, the impression painted by anecdotal information is that young people are leaving the province in droves. It may or may not actually be happening, but the perception is that they are leaving.

What attracts and retains people to a region? Good jobs? Low taxes? Affordability? Lifestyle? It's likely a combination of all of these things, but as the world becomes more globalized, attracting and retaining the most talented people will come down disproportionately to lifestyle — amenities like recreation, vibrant culture, liveable communities, great post-secondary institutions and cultural diversity. (The latter two are addressed in key values #1 and #2 above). This is especially true of young, bright, talented people in sectors like technology and digital media. They can live anywhere in the world they please. While job opportunities, income levels and costs of living are

<sup>5</sup> See The Economist Intelligence Unit website https://www.eiu.com/public/topical\_report.aspx?campaignid=liveability2019

significant factors, we cannot discount the attraction of a city that matches their own values and opportunities for self-fullment.

This is why reputation is so important. Arguably Alberta has a "branding" problem at the moment. Fairly or unfairly, the province has been depicted as nothing more than dirty, fossil-fuel spewing industries with socially-conservative minded people. This, of course, is far from the truth. But this is the stereotype that sometimes defines Alberta to people in the rest of Canada and abroad.

(Another way of looking at this is to suggest Alberta has attracted in-migration over several decades because of — not in spite of — its perceived socially conservative and libertarian values. Many Canadians find these characteristics to be positive. The extent to which this has been the case is an excellent area for further research.)

Addressing this "branding" challenge will take some effort, but the first thing Alberta needs to do is stop making it worse. The blame is certainly not limited to governments. Individual Albertans have also propagated these unseemly stereotypes (such as the infamous Greta Thurnberg bumper stickers<sup>6</sup>). With these images and perceptions allowed to define the narrative, how can Alberta expect to attract and retain young, talented and globally-minded people? Why would they live in a place that is seemingly incongruous with their own values and priorities?

Again, the responsibility is shared among governments, businesses and individuals. They shouldn't base their decisions solely on what others think, but they must always consider how their actions shape and define the province's reputation. If Alberta allows itself to be painted in negative tones, it shouldn't be surprised if it sees increasing numbers of young, educated people leave, and fewer global young people arrive. Loss of talent and people is something that not even the lowest taxes or most deregulated market can counter.

#### iv. Look positively toward the future

Nostalgia, it's been said, is a cruel lover. It paints a beautiful image of a glorious past which is, almost certainly, a fantasy. Then it makes us long for its return — which of course can never come. Nostalgia is a trick of the mind, and it can become a trap from which escape is difficult.

Certainly for Alberta, a sense of nostalgia has crept into the conversation. Regularly you will hear people and politicians say, "We need to get our economy back on track!" The sentiment resonates with people. Many Albertans long for the 1970s, 1990s or early 2010s, when oil prices were lifting many (but not all) boats. Employment was improving, incomes rising, public debt retiring and consumers spending. Times were good for many.

Globe and Mail, February 27, 2020. "Greta Thunberg sticker depicting sexual assault linked to Alberta oil company draws outrage" https://www.theglobeandmail.com/canada/alberta/article-greta-thunberg-sticker-depicting-sexual-assault-linked-to-alberta-oil/

Of course, the good times were not had by all — and this is what nostalgia causes one to forget. Low income people on fixed incomes faced spiralling rent increases. Businesses outside oil and gas competed (with futility) for labour. Government programs strained to keep pace with population increase. Residential prices skyrocketed, pushing property taxes higher on some fixed-income residents.

The nostalgia of the past was also rooted in a different reality. Pipeline opposition was almost non-existent and the oil patch never had to worry about market access. Although climate change and greenhouse gas emissions have been part of the public consciousness for decades, governments and citizens around the world were still rather passive about carbon emissions.

Today, the world has changed — and these changes are forcing Alberta to shake loose the nostalgic dreams of a by-gone day. No one doubts that oil will continue to be produced and sold for decades to come. But a growing consensus has formed that peak global oil demand will come sooner or later. That reality has shocked the province into grappling with this fact: the hydrocarbon industry is the backbone, but no longer the growth engine, of Alberta's economy.

Looking positively toward the future means we stop trying to "get back on track" — arguably, it was the track Alberta was in that was the problem. Without question, there are values and characteristics from our past that we need to foster: entrepreneurship, adaptability, community and innovation, to name a few. These are legacies of our industrial heritage, and should not be left in the past. But until Albertans can symbolically let go of nostalgia and stop trying to recreate the economy of the past, the province won't be able to move forward.

#### 4. CONCLUSION

Alberta's labour market has changed over the past decade, signalling a fundamental shift in the economic composition of the province. In Parts 1 and 2 of this chapter, we see that the energy sector has not only shed a sizable portion of its workers over the last two recessions, but also that this reduction in labour is likely permanent. We also see that jobs in the public sector have grown in size relative to the overall workforce, while jobs in more traditional sectors like energy, agriculture and tourism have fallen. As well, there is limited evidence jobs in emerging industries like tech, life sciences and financial services have materialized, yet recent trends remain encouraging.

All of that led us to the question: what comes next for Alberta's economy? Predicting the future is almost always a futile endeavor, especially when we are reminded that events like COVID-19 can wipe out our forecasts in an instant. Still, it's human nature to try to peer into what lies ahead.

For Alberta's economy, the future remains bright — but only if active planning and intentions are taken now. These may include some well-considered improvements to the business environment, such as measures to boost efficiency, competitiveness and productivity. But these recommendations will be left for others to make.

The path forward for Alberta discussed here involves the adoption of values and principles.

- placing greater priority on education to ensure a high quality, flexible and adaptable workforce in the future;
- fostering greater social inclusivity and diversity by actively combatting racism, misogyny and xenophobia will strengthen the social fabric and generate greater innovation and creativity in the workplace.
- upholding Alberta's reputation and improving its brand will help attract and retain young, talented and globally mobile workers; and
- looking positively toward the future will help Alberta shake off its nostalgia for the past

These values are at a high level; specific actions and policies should be viewed through their lenses. If Albertans allow these values to permeate the culture, the province's economy will continue to be healthier, more balanced and more prosperous for all.

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#### **About the Author**

**Todd Hirsch** is the Vice President and Chief Economist for ATB Financial. He holds a BA Honours in Economics from UAlberta and an MA in Economics from UCalgary. For over 25 years, he has worked as an economist at numerous organizations including the Canadian Pacific Railway, the Canada West Foundation and the Bank of Canada. He also taught economics at the University of Calgary, both in the Department of Economics and the Faculty of Continuing Education. He has also been an instructor at the University of Alberta School of Business in executive education. Todd is also the author of four books. His latest, "Spiders in COVID Space: Adapting during and after the pandemic" was released in March 2021. He is a strong advocate in the arts and culture community, serving on the boards of the Glenbow Museum and the Alberta Ballet. He is also an advisor to the Dean of the Chiu School of Business at Bow Valley College. Todd has received the Queen's Diamond Jubilee Medal, the University of Alberta's Alumni Honour Award, and an honorary degree from Mount Royal University. He lives in Calgary.

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