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

Herb Emery
R.D. Kneebone
Department of Economics
University of Calgary

This Paper has been prepared for the Canadian Network for Economic History Meetings: The Future of Economic History, to be held at Guelph, Ontario, October 17-19, 2003. Please do not cite without permission of the authors.

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

In 1905 Wilfrid Laurier's government established the provinces of Saskatchewan and Alberta with a border running from north to south and drawn so as to create two provinces approximately equal in area, population and economy. Over time, the political boundary has defined two increasingly unequal economies as Alberta now has three times the population of Saskatchewan and a GDP 4.5 times that of Saskatchewan. What role has the border played in determining the divergent outcomes of the two provincial economies? Factor endowments may have made it inevitable that Alberta would prosper relative to Saskatchewan. But for small open economies depending on external sources of capital to produce natural resources for export, government policies can play a role in encouraging or discouraging investment in the economy, especially those introduced early in the development process and in economic activities where profits are higher when production is spatially concentrated (agglomeration economies). Tax policies and regulations can encourage or discourage location decisions and in this way give spark to (or extinguish) agglomeration economies. Thus, to the extent Saskatchewan has been perceived as a "socialist" province with its governments interested in direct ownership and participation in the economy, while Alberta's right wing ideology has been perceived to have resulted in governments content to be "passive rentiers" that collect resource rents but who prefer to leave the economy to private interests, ideology and policy are raised as the explanations for the divergence of incomes between the provinces. In this paper we review the economic and political histories of Alberta and Saskatchewan and in so doing assess the impact the provincial border, and hence their contrasting political histories, has had on their economic development.

Laurier's boundary decision can be considered "a natural experiment" to the extent that the location of the border was set to equalize endowments and in 1905 it was not known that Alberta had most of the endowment of oil, natural gas and coal and Saskatchewan had all of the endowment of potash. Unlike comparative studies of national economies, there is a larger set of conditions satisfying the ceteris paribus assumption. The provinces share common languages, currency, financial systems, international trade policies and general structures of governance. The two economies are also integrated with free mobility of capital, mobility and goods. Thus, despite the focus on sub-national economies, this work contributes to the literature on growth and convergence that addresses the relative importance of institutions versus endowments for explaining economic outcomes (e.g. North, Diamond, Olson Jr., Landes, Pomeranz).

A common perception has been that with the election of Tommy Douglas' CCF government in 1944, Saskatchewan's "socialists" have pursued public entrepreneurship through attempted "nationalizations" of its natural resources, promotion of crown corporations, and consequent high taxes (particularly on corporations), while Alberta's "populist" Social Credit governments were content to be passive rentiers with regards to their resource endowments. This ideological and policy divergence after the Depression has been alleged to have resulted in the economic rise of Alberta (Tyre 1962), the "under-performance" of Saskatchewan's economy and the reason why there are no large corporations in Saskatchewan. MacKinnon (2003) suggests that many business people and right of centre politicians, feel that the socialists in Regina rather than oil in Alberta, have had more to do with Saskatchewan's perceived under-performance. Our analysis shows that while the rhetoric of the leaders of the two provinces may have differed, in practice, there is little difference in the policies pursued. Financial constraints and market forces limit the ability of "socialist" governments to be public entrepreneurs while times of abundance result in even right wing governments moving into the role of public entrepreneur. While the perception exists that Saskatchewan Socialism "caused" Alberta's eventual dominant position, ultimately, Saskatchewan's fate is really one of natural economic evolution in the presence of falling transport costs and agglomeration economies. Alberta's early lead in manufacturing development, and mineral endowments, were the seeds of its economic leadership. We also assess that it is not obvious that Saskatchewan is an economic under-performer. If anything, Saskatchewan should be treated as a "growth miracle" given its endowments.

1. The Boundary Decision: The origin of our natural experiment

By 1897 Canada's population was expanding through the territories west of the Province of Manitoba. Immigration policy, which was the jurisdiction of the Federal Government, contributed to this population growth but the responsibility for providing "local works and improvements" was the responsibility of the territorial government. Predictably, a growing population created financial problems for the territorial government that along with a larger population led the territories to pursue provincial status (Lingard 1946, Nicholson 1954). There were proposals for the creation of one, two, three, and even four, provinces considered by the Dominion government (See Figure 0). The creation of one province was rejected on the grounds that it would have been "too big" to maintain political balances within Confederation and to efficiently administer. In addition, one province was thought to be problematic given the diversity of interests within the Territories. Not surprisingly, for proposals for two or more provinces, the proposed boundaries reflected the natural geographic boundaries that existed on the western plains that delineated boundaries of economic activities. While the expected costly duplication of administrative and legislative machinery was well recognized, many residents of the Territories felt their interests were best represented in smaller but more homogeneous political entities. Thus, from the outset, the establishment of the new provinces reflected two competing principles; efficiency in administration versus the separation of diversified interests. In 1905, Wilfrid Laurier's boundary decision was somewhat remarkable in that in choosing to create two "equal sized" provinces he seemed to have put little weight on both administrative efficiency and in delineating the boundaries of economic interests.

While the economy of the Territories was agricultural, considerable diversity in agricultural activity and economic interests existed across the plains. At the risk of over-simplifying, the southern part of the territories was largely flat, treeless prairie suited to large scale grain growing and ranching, whereas the "parkbelt" land north of this area is rolling, treed, well-watered and suitable to mixed farming and smaller farms. Not surprisingly, such a clear delineation of economic interests by geography resulted in a proposal for the creation of two provinces with a border running east and west. Supporting this proposal was the observation that with the Canadian Pacific Railway in the south, and the Canadian Northern Railway in the north, operating transcontinental rail lines, each province would have its own rail services within one provincial jurisdiction.

Not all groups in the Territories were comfortable with the creation of a north and south province and consequently an alternative boundary that ran north and south was proposed to create an eastern and western province.[1] This division of the territories into two provinces would support the ambitions of Calgary and Edmonton to be provincial capitals. Ranching interests in the southwest portion of the Territories were also concerned that legislation that benefited the eastern and northern parts of the Territories where the growing of cereal crops was the dominant activity would be harmful to cattle and horse ranchers in the southwest. Thus these interests sought the complete severance of the stock country in the southwest and the mixed farming country of northern Alberta from the grain farming area of Assiniboia and Saskatchewan. Unlike where the border was ultimately set, the economic/geographic boundary that was proposed for the creation of an east and west province would have been somewhere between Moose Jaw and Swift Current, and at the most, no further west than Maple Creek.

Another variant of the two-province proposal came from Manitoba that sought to have some of the territories annexed into Manitoba to extend the province as far west as Regina. A single province would then have been created for the balance of territory remaining. In 1901 and 1902, the Manitoba Legislature passed resolutions requesting, "the extension of the province into adjacent districts that possessed agricultural, commercial and educational interests `in a great measure common' to its own, and including as much of the territory as might be consistent with economical and efficient government" (Nicholson 1954, 79). This was rejected by the population of the territories, at least in part, on the grounds that Manitoba's municipal system was patterned on Ontario's, which was seen as "cumbersome", "expensive", and not suitable for western settlement. The local institutions had evolved in the territories in line with local needs. In addition, in 1901 Frederick Haultain, Premier of the Territories, highlighted that Manitoba had debt and it was not obviously in the best interests of residents of the Northwest Territories to take on a share of that debt when the alternative was to be part of a newly established debt-free province.

Haultain favoured the creation of a single province west out of the territories to the west of Manitoba. The idea of a single political unit between the Great Lakes and British Columbia had been around since long before Confederation (Lingard 1946). The logic behind the establishment of only one province held that as a single government had administered, effectively, the entire area of the Northwest Territories from 1897 to 1905, there was no reason that the territory could not continue to be efficiently managed without division. Haultain held the opinion that with the aid of telegraph, telephone and railway, a single government could administer all points in the Territories. The Regina Leader (Nov. 21, 1901) argued that the most efficient and economically governed province in Canada was Ontario, which also had the largest uninhabited area. In Haultain's mind, the establishment of two provinces would "simply double the government, double the legislature, and double every expense as it would be necessary to double all the institutions which we need at the present time…" (Owram 1979, 185). According to Lingard (1946), a majority of the people in the territories could not understand why the few additions to the powers of the governing body that would come with Province status should necessitate the division of the Territories into two or more provinces and the incurrence of greater government expenses.

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[1] For example, in 1902 Reverend A.E. Smith of the Methodist Church feared that as non-Anglo-Saxon immigrants, or "aliens", were eligible for Canadian citizenship after three years of residence, they were a political threat if the Northwest Territories were divided along an east-west line. Smith argued that such a division would "throw the whole foreign population into the northern province" and "give the foreigners a controlling influence." (Emery 2001, page 11).

In addition to raising administrative costs, establishing more than one province also meant potentially conflicting policies and regulations. For example, Haultain pointed out the advantages for business of a single government, rather than several governments, controlling freight rates; “you can imagine the `fist’ they will make of it” (Owram 1979, 183). Haultain recognized the geographic, and consequent, economic and social diversity that existed in the Territories but he argued that such diversity did not create unmanageable problems and was potentially an advantage. One big province with many industries meant a diversified and wealthy economy. Haultain argued that despite only having a single federal government, Canada effectively governed diverse regional and industrial interests. On a more concrete level, Lingard (1946) describes how differences in interests between grain growers and ranchers were recognized by the Territorial assembly and addressed by applying ordinances specific to different areas of the Territories. For example, fence and herding laws in the Territories prohibited cattle running at large in the eastern portion of the Territories, while in the ranching districts in the west, grain growers were required to protect their fields with a lawful fence. In Haultain’s opinion, the proposals to divide the territories into more than one province reflected nothing more than ambition of certain cities to be provincial capitals and that “a mistake will be made if more than one province is carved out of the territories.”

Opponents of the proposal for the establishment of a single province argued that a single province would be “too large” to efficiently manage, to maintain balance across the provinces in federal affairs, and that interests across the vast territory were too diverse. Clifford Sifton, the recently resigned Minister of the Interior in 1905, suggested in his comments on the Alberta and Saskatchewan Autonomy Bills, that to make one province of a vast territory with a much greater capacity for sustaining population than any of the other provinces “would certainly and obviously unwise.” (Second Reading of the Autonomy Bill, March 24, 1905; Owram 1979, 315). The Macleod Gazette (Jan. 10, 1902) expressed the view that the diversity of interests in the Territories was the strongest argument against the establishment of a single province. What they were not convinced of was Haultain’s view that diversity of interests was not “hostility of interests” as it still remained to be shown that diversity of interests, particularly across farmers and ranchers, could be harmonized rather than antagonized by legislation. Clifford Sifton believed that the western and eastern portions of the territory resulted in different industrial conditions, hence the territory would be best served by two local governments and two legislatures. Sifton argued “that arrangement which is suggested will give the surest guarantee that the future development of these territories will be best facilitated” (Owram 1979, 316). In 1905, the Liberal Members of Parliament from the North-West favoured the creation of two provinces in part since they felt that the Territories suffered from “too much centralization from Regina” (Lingard 1946).

In February 1905, Wilfrid Laurier introduced legislation that created two provinces out of the Territories. The federal government held the view that the Northwest Territories were “altogether too large an area to be made into one single province according to the size of the other provinces.” (Owram 1979, 277). Despite the fact that there was considerable variation in the geographic sizes of the existing seven provinces in 1905, Laurier argued that where the federal government had control over the creation of new provinces, it should endeavour to make the new provinces about the same size as existing provinces (Lingard 1946, 199). Laurier chose a north/south border that was positioned at the fourth meridian, to the west of Maple Creek, so as to create two provinces roughly equal in size by area (275,000 square miles each) and population (about 250,000 each in 1905). By dividing the area into two, the two provinces were the size of Ontario with its 1905 boundaries. The pace of population growth in the Territories after 1896 contributed to concerns over the balance of political power across provinces, or perhaps even the maintenance of political power in the existing provinces. A Quebec Member of Parliament in 1905 argued that the division of the Territories into two was what Canadians supported since two provinces in the North-West would maintain the balance of power among the members of Confederation more equally than would a single new province. The MP expressed the fear that one province extending from Manitoba to the Rocky Mountains would "soon become overgrown and devour its creator" (Lingard 1946, 202).[2] In this sense, the creation of two smaller political entities was reminiscent of British colonial policy after the American Revolution that maintained the view that small, separate colonies would show less independence than large ones.[3]

Lingard (1946) argues that the majority of people residing in the Northwest Territories were indifferent between having one or two provinces established. From the outset, however, the arbitrarily placed border was criticized for having divided the ranching country in the south (Nicholson 1954, Owram 1979). Stockmen expressed that they would be very annoyed if the two provinces adopted different sets of brand and stock laws. The Calgary Herald on February 23, 1905 expressed that the "dividing line… is wrong, placed there evidently in an arbitrary manner without consideration and without regard to the physical features of the country or its agricultural and grazing qualities." To the extent the Territories had been divided to better serve the diverse interests that existed in the west, the placement of the border was somewhat remarkable in that it created two provinces with roughly equal acreages suitable for grain growing, ranching and irrigation farming (Lingard 1946). Finally, to the extent that the border was placed to create provinces as near as possible to the same size as other provinces in 1905 and that a single province in the Territories with an area of 506,985 square miles was too large for a single province, the subsequent extension of the provinces of Quebec and Ontario in 1912 to include areas of 594,534 and 412,582 square miles respectively were somewhat hypocritical decisions (Lingard 1946).

2. Rentiers and Public Entrepreneurs

Gibbins (2001) stresses that the two provinces began in very similar fashions and were "divided more by a political line on the map than anything else." Nicholson (1954, 84) contends that it is doubtful that the boundary's position has caused any "permanent hardship". Nicholson's observation was made at a time when the economies of the two provinces were still largely agricultural and the incomes and populations of the two provinces were roughly equal. In the latter half of the century, that situation changed with the rise of Alberta's oil economy. What effect, if any, did this political line on the map have on the economic development of these two provinces?

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[2]Regarding the view that a single western province would have too much power in Confederation, in a February 1905 press interview, Frederick Haultain commented that no one ever heard of anyone from Ontario or Quebec complaining about the "preponderant influence and balance of power which those provinces exercised." (Lingard 1946, 203).

[3] Nicholson (1954, 20) provides the quote about the creation of the Loyalist colonies that "The object … was to govern by means of division, to break them down as much as possible into petty, isolated communities, incapable of combination, and possessing no sufficient strength for individual resistance to the Empire."

In studies of the historical determinants of public policy choices in Alberta and Saskatchewan, analysts (see for example, Richards and Pratt (1979), Wiseman (1991), Lipset (1968), and Gibbins (2001)) emphasize the role of early immigration flows to the western territories and after 1905 the two provinces. In both provinces the electoral system would be biased toward rewarding greater representation for rural as opposed to urban areas. In Saskatchewan, relatively large numbers of eastern European and British Fabians settled in rural areas and hence their socialist sympathies would embed a provincial political culture that provided support for an interventionist provincial government. The flow of eastern European and British Fabian socialists to rural areas was much smaller in Alberta. Instead it was fundamentalist Christians, Ontario Tories and Americans who settled in Alberta's rural areas and it was these groups who would consequently play a large role in determining the political culture of the province. These immigrant groups stressed to a greater degree those in Saskatchewan the role of the individual over the state. For these analysts then, the establishment of two provinces from one territory would enable these two groups to find expression in public policy for their different beliefs, biases and principles.

The period leading up to the Great Depression was a relatively prosperous one for the two new provinces. Population was growing at better than 3.5% per year suggesting substantial in-migration. Agriculture was still the dominant economic pursuit and rural interests held sway in both provinces not only due to the relative small urban populations but also because the electoral system favoured (and does to this day) greater representation of rural areas. In these early years the dominant economic interests in the two provinces would differ in their choice of how to assert their influence on public policy. In Saskatchewan, the powerful Saskatchewan Grain Growers' Association (SGGA) preferred to act as a lobby group rather than enter politics directly. The SGGA supported a commitment to public ownership of resources and utilities and a preference for cooperation. Alberta agricultural producers were represented by two organizations with differing philosophies on political action. One, the Alberta Farmers' Union (AFU) was organized to provide a united front to protect the economic interests of the agricultural community and encourage cooperation and like the SGGA, limited its political role to lobbying rather than political participation. The other organization, the United Farmers of Alberta (UFA), that also sought to encourage cooperation and protect the interests of agricultural producers, played a direct role in provincial politics and in fact governed Alberta from 1921 to 1935 (Jaques 2001). Although in these early years the politics of the two provinces would be similar, these similarities in politics would be tested, and differences in political and social ideology and principles would be revealed, as a result of the experience of the Great Depression.

Political histories of the two provinces allege that the reactions to the Great Depression reflected the biases and principles of the immigrants who settled the rural areas of the two provinces. The devastation wrought by the Depression, while severe in both provinces, was particularly so in Saskatchewan. In Saskatchewan, the Depression showed that outside forces – both economic (the collapse of world trade and grain prices) and natural (drought) -- were largely responsible for individual circumstances and this reinforced the judgement that a collective approach was required to answer them. In Alberta, while a similar experience was had, the conclusion was different: The problem of the Depression was the failure of economic institutions, in particular the financial system. The emphasis on individual responsibility in Alberta required that the Depression be explained by a failure of institutions, not the need for collective action. The fact these failed institutions were federal and 'eastern' (central Canada) would also play a role as it reinforced the sense of betrayal caused by the fact the federal government chose to withhold from Alberta and Saskatchewan (and Manitoba), until 1930, what had been extended to all other provinces; control over natural resources.

The provinces' shared experiences of economic devastation, drought and out-migration during the Great Depression also impressed upon them the need to diversify their economies away from agriculture. Their approaches towards economic diversification would prove to be very different however, and the border was alleged to have enabled these different responses to the Great Depression to be exercised. Saskatchewan would respond by electing the CCF and embarking on an economic program favouring nationalization and public ownership. The resources of the province were to be developed to benefit the citizens of Saskatchewan, rather than capitalists. Alberta would respond by ensuring the tools of capitalism would better serve Albertans by favouring policies to encourage private capital to locate in the province. Nowhere were these different approaches better revealed than with respect to public policy toward the emerging oil and gas industry.

Prior to the discovery of the large oil pool at Leduc in 1947 relatively little crude oil was produced in Alberta and virtually none in Saskatchewan.[4] Natural gas was produced in small quantity in Alberta but gas would not be produced in quantity in Saskatchewan until the mid 1950s. The prolonged battle with the federal government to gain control over natural resources in 1930 impressed upon both provinces the need to assert their authority over this emerging industry. In Alberta the Social Credit government, newly formed and newly elected in 1935, sought to diversify the economy by building upon the nascent oil industry that had been established as a result of the small, and by then declining, production of oil in Turner Valley. To do so, it sent assurances to the financial sector and the oil industry that the province would provide every incentive to risk capital and it established a regulatory regime that emphasized private property rights and a generous royalty regime (Richards and Pratt 1979). The failure of the Canadian financial sector, centred in central Canada, to finance local firms in the hunt for oil and gas, thereby forcing the province to seek out the major oil companies, would reinforce the sense that the Canadian financial sector and Canadian institutions were failing Alberta and that the provincial government would need to be at the vanguard of protecting Alberta's economic interests. The province then, advanced a two-prong attack. In one it would entice private firms to drill for oil and gas in Alberta and in the other it would defend itself from federal intrusion.

When the size of the Leduc and the other oil pools that were discovered soon after became apparent, the Social Credit government moved quickly to impose provincial jurisdiction. In 1949 it established the Petroleum and Natural Gas Conservation Board whose purpose it was to regulate the removal of oil and gas from the province. In the same year it passed the Mines and Mineral Act in which royalty rates on petroleum and natural gas were established. An important element of the Act was to commit the provincial government to a relatively low maximum royalty rate equal to just 16.67% of gross production (Doern and Toner 1984).[5] When the 1950s

[4] In 1947, one million cubic metres of oil were produced in Alberta, mainly from the Turner Valley area. This was less than 6% of the amount produced in 1955. In 1947 only 83,000 cubic metres of oil was produced in Saskatchewan. *Statistical Handbook*, Canadian Association of Petroleum Producers.

[5] Interestingly, it was not until 1971 after the election of a new government following the end of the 36-year reign of the Social Credit party that this low maximum royalty rate was raised. Great effort was made to maintain the sanctity of the original contract agreed to by the Social Credit government of 1949 and the industry by changing the maximum royalty rate only on remaining oil reserves. This had the effect of raising the royalty rate to 23% of gross

saw a glut on world oil markets, with the result that Alberta's oil industry was producing at less than 50% of potential, these legislative efforts were supplemented by exhortations from the Premier to the international community that unlike the Middle East, Alberta was a stable place for long-term investment in oil and gas (Richards and Pratt 1979).[6] To prevent the establishment of federally incorporated pipeline companies in the province, Alberta established in 1954 a joint public/private enterprise – Alberta Gas Trunk Line (AGTL) – to gather and distribute gas to export companies at the provincial border. The mix of private and public ownership of AGTL reflected a conscious decision to reject complete public ownership in the form of a crown corporation.

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

From 1944 to 1948 the newly elected CCF sought to promote Saskatchewan's economic diversification through nationalization and promotion of secondary manufacturing and natural resources. Shortly after winning election, the CCF government was approached by Imperial Oil with a proposal for a long-term contract giving the company exclusive exploration rights over a large section of the province should it find commercial volumes of oil. While the government was advised that turning down the offer would delay exploration and possible industrial development for many years and that the risks inherent in oil and gas exploration were inappropriate for a provincial government to take on, it nonetheless refused the offer (Richards and Pratt 1979). Imperial responded by boycotting the province as a region for exploration. This left exploration efforts to smaller independent firms far less able to undertake the extensive exploration efforts of which Imperial Oil was capable. Tyre (1962, 196) provides an example of the CCF government's "treat-'em-rough" attitude towards oil companies via a quote from Russ Brown a CCF member of the legislature who in 1953 said "We did frighten the oil companies a little. We set them back on their heels. They expected the same deal from us that they got from the Liberals but we said they could come in on our terms. We are not handing over our resources for the oil companies to exploit."

Aggressive moves designed to limit private exploitation of natural resources followed. In 1944, the Mineral Taxation Act imposed a tax on undeveloped freehold mineral rights in an effort to cause the Hudson Bay Company and the CPR to allow mineral rights granted to them by the federal government to revert to the province.[7] In 1945, in a prescient move given there were at that time no known reserves of crude oil or potash in the province and only tiny known gas reserves, the province issued a statement in which it outlined its plan to gain eventual complete social ownership and management of key industries in the development of its natural resources.

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production (Doern and Toner (1984)). Dramatic increases in oil prices would soon cause the government to abandon this agreement and tie royalties to the price of oil.

[6] Similar statements are still being made today in the face of political uncertainty in the Middle East, Venezuela, and elsewhere.

[7] See Richards and Pratt (1979, 109-110) for discussion. An eight-year legal challenge followed at the end of which the act was declared to be within the jurisdiction of the province. By 1952, however, the province was backing away from this goal of the act.

In 1948, following the Leduc and Redwater discoveries in Alberta and sensitive to criticism about the relatively slow pace of oil exploration in Saskatchewan, the CCF contacted Imperial about returning to the province. Aware that concessions would need to be made to bring the oil majors back to the province the Premier (T.C. Douglas) sent letters to majors and independents indicating the province "has no intention of either expropriating or socializing the oil industry." (Richards and Pratt 1979, 136). In 1954 the CCF formally abandoned the nationalization option when it succumbed to a threat from those oil companies that remained in the province to move out if the government went through with an agreement over the leasing of Crown reserves that the industry saw as putting the government in the oil business. By this time too the failure of the publicly owned firms established by the CCF government in 1945 and 1946, firms that competed with existing private firms, had become apparent.[8] By the mid 1950s then, the oil polices of the CCF had largely converged with those of the Social Credit government in Alberta.

Did the CCF's policies retard economic development of Saskatchewan's oil resources and consequent economic development? The story goes that the CCF factories failed and Imperial Oil retreated to Alberta leading to the view that the CCF's anti-business stance drove capital away and into business friendly Alberta where the Social Credit government was content to play the role of passive rentier. Robert Tyre (1962, 210) argues that "Compulsion, control and innate hostility of Socialism to free enterprise have had the effect of turning Saskatchewan into an island of economic blight in a prairie region where neighbouring provinces have made tremendous progress in their industrialization." Alex Cameron, a Liberal member of the Saskatchewan Legislature in 1950 alleged that "The major oil companies have been stung by government bureaucracy, loaded with excessive taxation and having to carry these leeches (CCF patronage land controllers) on their backs, have thrown in the sponge." Cameron said that exploration for oil and gas had ground to a virtual halt in Saskatchewan and no new gas wells had been brought into production since 1946 (Tyre 1962, 201). The exit of Imperial Oil from Saskatchewan in the 1940s is the highest profile example of the alleged negative effects of CCF policies. Tyre argues that Imperial Oil took its money and equipment into the "free enterprise climate of Alberta and made petroleum history. It discovered the rich Leduc field and this was the start of a flow of oil revenues to the provincial treasury which any other Western province might well envy and hope to duplicate from whatever oil potential it possessed."

Tyre is correct that the CCF government in Saskatchewan hoped to duplicate Alberta's success. After the Leduc discovery, the CCF encouraged Imperial oil to return. According to Richards and Pratt (1978), by 1950, there was effectively a unified policy regime in Alberta and Saskatchewan with regards to oil and gas. The CCF experiment with public entrepreneurship was short-lived as most of its policy experimentation occurred in the first two years of the Douglas government's mandate, 1944-46. By 1950, capital market forces and moderates within the CCF had moved Saskatchewan into the same passive rentier role as Alberta. The big differences that would emerge between the provinces were in the areas of social policy, health insurance in 1962 in particular, and levels of taxation (personal and corporate income taxes and a sales tax).

[8] In two years following its election in 1944, the CCF government established a brick manufacturing plant, a shoe factory, a tannery, a fish processing and marketing board, a timber board, a fur marketing service, a box factory, a provincial bus company, and a sodium sulphate mine (Richards and Pratt 1979, 112).

How important was Imperial Oil's departure from Saskatchewan in the 1940s? The suggestion from Tyre (1962) is that had the CCF government been "business friendly", Imperial would have located in Regina and created Saskatchewan as the center of the prairie oil and gas economy. This is a peculiar interpretation to make. It ignores the fact that Imperial Oil already had a presence in Calgary by 1944 due to its operations in nearby Turner Valley Alberta. Even with Imperial Oil's oil discoveries in Alberta, its head office has been in Toronto. Further, even if Imperial had remained in Saskatchewan, the major discovery of the Leduc field would not have happened in Saskatchewan, nor would the royalties from that field's production have accrued to Saskatchewan. According to Richards and Pratt (1978, 134), Imperial Oil had approached the CCF government proposing a long term agreement that would have given the company exclusive exploration rights and leasing rights if it found commercial volumes of oil over most of west central Saskatchewan. While the lack of public capital for developing the oil and gas resources, and the highly speculative nature of exploration, justified the reliance on private capital for developing the oil and gas reserves, it is not obvious that the private capital had to be Imperial Oil's. After 1950, despite the earlier abandonment by Imperial Oil, oil and gas exploration was underway in the province by smaller independent companies but the resource was not developed at the same pace as that for Alberta. The slower growth of the oil and gas sector again was argued to be the result of the "threat of nationalization" from the Fabians in the CCF but Richards and Pratt indicate that oil and gas firms did not consider there to be a serious threat of nationalization as the CCF government had credibly established itself as a rentier after 1948. The relatively slower development of the oil and gas resources of Saskatchewan could reflect its smaller endowment; 4/5 of the proven reserves of conventional oil are in Alberta. With Alberta booming in the late 1940s, exploration in Saskatchewan may have held less appeal for oil companies. Consider that with the discovery of oil in Alaska's Prud'homme Bay in 1968, exploration for oil and gas in Alberta slowed dramatically.

Until the early 1970s, US oil and gas firms as developers and producers of oil had all of the bargaining power. The provincial governments lacked the necessary public capital to develop the resource on their own. Further, the risks inherent in oil and gas exploration proved unpalatable for provinces emerging from the debt problems of the 1930s. Finally, oil and gas were commodities that were in "surplus" and as such, greater revenues for the treasury emerged from greater production. As domestic sources of capital were not well developed, external private capital that produced the oil had credible exit threats. By the late 1960s, the OPEC countries were able to wrest control of the resource from the large oil companies, as oil became a commodity associated with increasing scarcity. Under conditions of scarcity, the focus for the owner of a resource is to conserve as the value of the resource in the ground continues to grow. Coincident with this shift, when he became Premier of Alberta in 1971, Peter Lougheed was able to enact radical changes to Alberta's royalty structure so that Alberta could capture a greater share of resource rent. Further he promoted public entrepreneurship in the oil and gas sector. Thus, even if we are to believe that the post-1968 NDP/CCF governments in Saskatchewan were threatening nationalization of key resources, it was not the case that Alberta remained in a passive rentier role. Finally, it is informative to note that Saskatchewan was converging towards Alberta's per capita income level in the 1960s around exports of potash; the industry had cartelized and raised prices and agricultural demands for fertilizers were high. When world potash demand weakened, Saskatchewan fell back towards a lower income level.

While both provinces had passive rentier governments until the late 1960s, how the provinces have used their resource wealth for economic development may be important for understanding the differing fates of the provinces. Alberta has been perceived to have invested its resource wealth. On election night in 1971, Peter Lougheed said that his most important objective was to take control of Alberta's resources so that resource royalties could finance his "province building" agenda. Lougheed's government promoted the development of forward processing of oil and gas into petrochemicals and it saved 30% of government oil revenues in the Alberta Heritage Savings and Trust Fund. Lougheed's governments created and owned significant shares of the Alberta Energy Corp, AGTL (now Nova Chemical) and Syncrude to encourage the creation of local capital and to aid the development of oil and gas entrepreneurial talent in Alberta. In the early 1970s, ¾ of Canadian petroleum production was foreign controlled. By 1999, only 35 percent of petroleum production was foreign controlled (Emery 2002). In 1974 Lougheed's government also acquired controlling interest in Pacific Western Airlines amid rumours that the NDP government in BC planned to take the airline over. Lougheed moved PWA's head office jobs to Calgary, and the maintenance jobs to Edmonton. In 1973, the government announced that it would acquire 20% of the Regina based IPSCO (Inter-provincial Steel Company), a producer of steel pipe used for constructing oil and gas pipelines.

In contrast to Lougheed's Alberta where resource rents are perceived to have been used productively, Richards and Pratt (1979, 273) argue that "To the extent Saskatchewan's resource rents are used to augment public consumption and not as a source of investment funds, the government may merely be retarding an inevitable process of contraction of provincial population and infrastructure as agricultural employment continues to decline." Between 1970 and 1980, Saskatchewan established several Crown Corporations such as SaskOil and the Potash Corporation of Saskatchewan. SaskOil was created to retain refining capacity in the province when private sector oil refiners announced their intention to close down refining capacity in Saskatchewan and Manitoba and expand refining capacity in Alberta. Alberta's reputation for not consuming its public revenues from oil and gas are also overstated. To the extent that resource royalties have been used to reduce income taxes and allow Alberta to carry on as a "sales tax free" province, all the while maintaining per capita public spending levels comparable to those in Saskatchewan, it would appear that the main role for resource rents in Alberta has also been to augment private and public consumption. Consider also that by 1983, Alberta was including interest income from the Heritage Fund in general revenues and after the collapse of the price of oil in 1986, the Government of Alberta no oil and gas royalty income was saved in the Heritage Fund.

The Lougheed government's activist role in the Alberta economy was a dramatic departure from that of the passive role pursued by the Social Credit party between World War II and 1971. Lougheed's approach was criticized by "pro-free enterprise" conservatives in Alberta as his government promoted ownership in companies that competed with existing and flourishing private firms in the economy. Two days after he was elected, Peter Lougheed stated that "We stand for free enterprise – not socialism. We stand for social reform and individual rights – not big government control." (Alberta in the Twentieth Century, Volume 11, page 49). Lougheed's interventionist approach has been described as "state capitalist" rather than as "outright socialist" since he did not nationalize entire industries, nor did he redistribute or suppress profits (Alberta in the Twentieth Century, Volume 11, page 55). From a comparative perspective, Peter Lougheed also suggests that Alan Blakeney's NDP government's participation in the economy made Lougheed's own government look "laissez-faire" in comparison (Alberta in the Twentieth Century, Vol. 11, page 57). In practice, however, the Lougheed governments actions do not seem radically different from the resource based public entrepreneurship ideas and policies of the

Saskatchewan CCF before 1950. Both Lougheed after 1971 and Douglas in Saskatchewan after 1944 believed that resource rents could be used to aid the development of other industries to diversify the economies. The differences between Lougheed's success and accolades and Douglas' failure and the criticisms of he and his government, are the product of time and bargaining power. Where Imperial Oil left Saskatchewan in response to the potential of public confiscation of resource rents, Lougheed unilaterally re-wrote Alberta's royalty policies to capture more of the resource rents, and aggressively developed a public presence in the resource industry, prompting oil producers in Alberta to engage in a "capital strike" protesting higher royalties and taxes. Lougheed responded to the strike by reducing the royalty. An indebted Saskatchewan in 1944 attempted its public entrepreneurship before capital had installed itself, before reserves of oil and gas were proven, when public capital and domestic industrial expertise were short in supply and when capital had a credible exit threat when oil was a commodity in surplus. Lougheed inherited a debt free province when he came to power. Lougheed's initiatives took place at a time when reserves were proven, capital was installed and production was underway, and oil was a scarce commodity all of which reduced the credibility of capital's exit threat. Further, the enormous resource rents captured by the Alberta government meant that the supply of public capital was abundant. By the 1970s, considerable local expertise for the oil and gas sector had developed as well.

It would seem that a province's endowment of "ideology" does not provide a compelling explanation for the differences in the outcomes between provinces, nor even for policies enacted. Douglas in Saskatchewan and Manning in Alberta enacted similar policies from 1950 to the 1960s. In the 1970s, both provinces had interventionist governments, and since 1985, governments in both provinces have returned towards acting as rentiers rather than entrepreneurs as the Conservative Devine government, and Ralph Klein's Conservative government in Alberta both embarked on privatization of government businesses and an abrupt movement away from Province Building. Roy Romanow's NDP government after 1993 behaved more conservatively than Conservative governments when the province's debt crisis created by the Conservative Devine government, had to be addressed (MacKinnon 2003). Figure 1 shows the levels of public investment per capita in Alberta, Saskatchewan and Ontario from 1961 to 2000. This figure confirms that there is little to distinguish the behaviours of governments espousing different ideologies at a given point in time. What appears to matter is time itself in terms of the value of resource endowments. Financial market constraints and bargaining power that favours private capital over government owners of resources, result in governments of any ideological perspective behaving conservatively. In times of abundant public revenues, and improved bargaining power for the Crown who owns resources, all governments behave liberally.

3. Economic Evolution and Economic Performance

On balance it would appear that differential growth of the two economies after 1950 when policy regimes were comparable is explained by differences in endowments. After 1973, the divergence between the economies is greater. While there are some differences in policies between the two provinces, they pale in comparison to the differences in endowments and the divergent fates of the dominant natural resources potash and oil. Thus, the rise of Alberta relative to Saskatchewan was an inevitable product of resource endowments and not the result of policy superiority of Alberta over Saskatchewan. This all suggests that as natural resource policies and regimes have been comparable, they are not compelling explanations for the differences in growth.

At the time of the border decision, the new provinces of Alberta and Saskatchewan were remarkably similar with respect to population and geographic area. The Department of the Interior at the time reported Alberta possessing 80,000 square miles suitable for grain growing and 114,000 square miles for ranching while the corresponding figures for Saskatchewan were 86,000 and 107,000 square miles respectively (Lingard, page 205). While natural resource endowments would prove to be markedly different across the two provinces -- the border decision put most of the conventional crude oil and tar sands on the Alberta side and all potash on the Saskatchewan side -- this was not known in 1905 and indeed would not be known until a string of discoveries of large oil pools, beginning with the 1947 Leduc strike, confirmed that Alberta held by far the largest share of the oil and gas wealth.

The fact that far larger pools of oil and gas would be found in Alberta meant that that province would realize the larger share of economic benefits from energy resources. The discovery of large pools of oil and gas in the two provinces had much different economic impact. Mansell (1987) stresses that Alberta would benefit from the fact the oil and gas industries are characterized by high capital intensity, specialized technology, strong forward and backward linkages and hence large inter-industry multiplier effects. These industries demand massive amounts of capital, a highly skilled workforce and supply large revenues to government that in turn enables the provision of social infrastructure without a high tax burden. Non-oil and gas industries would necessarily remain small due to the geographic isolation of both Alberta and Saskatchewan from large population centres. The development of oil and gas enabled Alberta to develop economically in ways that Saskatchewan never could. In Alberta, population exploded particularly in urban centres. In the 1950s, net in-migration replaced the net out-migration experienced during the previous 20 years. In Saskatchewan, population remained stagnant. In fact, by 1951, each of Edmonton and of Calgary was larger than the combined populations of the two largest cities in Saskatchewan (Regina and Saskatoon) and this would remain so thereafter. After 1951 net out-migration from Saskatchewan, very large over the previous 20 years, slowed but would remain significant.

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

It would appear that Alberta had some important advantages in initial endowments. Table 1[9] shows that in 1910 Saskatchewan had the larger economy and population. Alberta's population, however, had the higher income per person. By 1929, the wealth of Alberta's endowments compared to Saskatchewan's was clear. In current dollars, the total incomes of the two provinces were equal but adjusting for cost of living reveals that Alberta had the higher real income. Alberta's population was 200,000 persons less than Saskatchewan's hence the per capita incomes of Albertans was one-third higher. Table 2 shows that a larger mining and manufacturing sector explain Alberta's income advantage in this early period. Alan Green's (1971) estimates of Gross Value Added by sector show that in 1910, the gap in total GVA between the two provinces is due to the gap in incomes generated in agriculture. Alberta made up a portion of the agricultural gap through larger mining and manufacturing sectors. Across all remaining sectors, the two provinces generated equal incomes. By 1929, Alberta's advantage and importance of manufacturing was substantial and was large enough to offset the higher income from agriculture generated in Saskatchewan. These observations reveal an important but over-looked aspect of the economic development of the two provinces. Alberta's advantages in mining and manufacturing were present from the outset and not solely the product of the post-1947 oil boom.

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

From 1947 to 1970, Alberta and Saskatchewan were both outposts for American and British corporations. In the 1970s, that changed as domestic control of the oilpatch and potash production took place. Alberta became home to many large corporations while Saskatchewan created Crown Corporations like Potash Corp. and Saskoil. Of the 800 largest (ranked by revenue) corporations in Canada in 2002, 205 of the largest 800 corporations have their headquarters in one of the four western provinces with 90 located in Alberta, 76 in British

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

Columbia, 15 in Saskatchewan and 24 in Manitoba.[10] Alberta's large corporations are dominated by the oil and gas sectors with Energy (28), Utilities (10) and Oil Field Service (10) accounting for over half of Alberta's large corporations.[11]. Saskatchewan has very few large corporations and amongst the five largest that it has, two are Potash/Fertilizer producers, one of which was a Crown Corporation until it was privatized by the Devine government in the 1980s. The largest corporation in Saskatchewan is Federated Cooperatives Ltd., and the third largest is the Saskatchewan Wheat Pool. Saskatchewan also lacks large subsidiaries with no entries in the Top 100 Subsidiaries in the National Post FP500 rankings , while Alberta has 8 entries, BC 5 and Manitoba 4. Consider the claim presented earlier that Saskatchewan's high taxes discourages the attraction and/or development of firms in that province. What is hard to assess is the importance of the tax rate for discouraging large corporations from choosing to locate in Saskatchewan as this would have to be disentangled from the effects of Saskatchewan's small local markets, its distance from external markets and other locational factors.

Saskatchewan had a larger population than Alberta as late as 1951. From 1951 to 1971, Saskatchewan's population grew from 900,000 to 950,000 while Alberta's grew from 900,000 to 1.6 million. From 1971 to 2003, Saskatchwan only gained 50,000 more in population while Alberta's population increased from 1.6 million to 3 million. The lower line of Figure 2 shows the ratio of Saskatchwan's per capita GDP to Alberta's from 1910 to 2001. From 1929 to 1956, Green's (1971) GVA numbers suggest a slight decline in Alberta's income advantage. Provincial GDP estimates from Statistics Canada suggest that Saskatchewan continued to make gains on Alberta as late as 1971. Thus, it would appear that Alberta's expansion around its early oil boom was resulting in extensive growth, but whatever productivity gains were driving increases in per capita incomes were shared by Saskatchewan. The significant divergence between the two provinces does not occur until after 1971 with OPEC oil boom and the Peter Lougheed era in Alberta. As shown above, Alberta's population increased dramatically but, so did per capita incomes. Saskatchewan had reached 80% of Alberta's per capita income in 1971, but by 1980, it only had 2/3 of Alberta's per capita income. With the collapse of oil prices in 1986, Saskatchewan's per capita GDP gained relative to Alberta's reaching 80% in 1996. With the resumption of rising oil prices, and natural gas prices after 1996, the ratio again deteriorated. Thus, unlike the first oil boom, the post-1971 energy booms were resulting in intensive growth for Alberta, at least over the short run.

Figure 3 shows the per capita levels of private investment in Alberta, Saskatchewan and Ontario. If Saskatchewan's policies discouraged investment, then we would expect to see unusually low levels of investment in Saskatchewan. The level of per capita investment in Saskatchewan up to 1969 is comparable for the other two provinces suggesting that Tommy Douglas' "socialism" had not had an obvious negative influence. Investment in per capita fell precipitously after 1969 with the collapse of potash prices due to declining world demand for potash and the disintegration of the potash cartel that had maintained high potash prices with pro-rationed production across members.[12] In addition, in the early 1970s, private sector oil refiners

[10] Source: "FP500: The Rankings", *Nation Post Business*, June 2003. The 100 largest Corporations had revenues from \$2.76 billion to \$37 billion in 2002; the 101st to 200th largest had revenues between \$1.2 billion and \$2.76 billion and the 201st to 800th ranked corporations had revenues between \$0.269 billion and \$1.2 billion.

[11] In BC, Forestry (12) and Services (9) are the dominant sectors for head offices. In Manitoba, Farm (6) is the largest single sector.

[12] Saskatchewan's government was named as a co-defendant in antitrust action in the US.

announced that they would be removing operations from Saskatchewan and Manitoba and expanding in Alberta to rationalize production. For Alberta, the impact of the OPEC oil shock shows up as an enormous capital boom for the province that collapsed precipitously with the 1982 recession. What is interesting to see, is that other than the early 1970s, Saskatchewan has generated the comparable levels of per capita investment to Ontario. Figure 4 show the ratio of the value of the capital stock per worker in Alberta and Saskatchewan. From 1961 to 1971, there is little difference between the provinces. Saskatchewan's K/L ratio stagnates for the first half of the 1970s, whereas Alberta shows slight growth. From 1974 on, the K/L ratios diverge with Alberta's capital boom. With the collapse in oil prices after 1985, the K/L ratios of both provinces have different levels but comparable growth rates.

The incomes of the two provinces may reflect differences in the demographics of the two populations. Alberta has had higher labour force participation rates and lower dependency ratios over time. Thus, adjusting per capita GDPs to account for demographic differences in the population produces the upper line of Figure 1. Interpreting this ratio as reflecting the productivity of the working population shows no trend in Alberta's advantage through either the 1950 to 1970 and 1970 to 2001 periods. The gains made by Alberta between 1971 and 1986, were offset by deteriorations in its position from 1986 to 1996. The conclusion to be drawn from Figure 1, is that Alberta's apparent gains in per capita incomes relative to Saskatchewan reflect a well established outcome of resource booms; high participation rates in the economy and relatively young populations. Saskatchewan's disadvantage in per capita GDP comparisons reflects its higher dependency ratio. Adjusting for this fact, yields the information that the productivity of labour employed in the two provinces has remain unchanged over the long run. This would suggest that Saskatchewan's "socialist" policies may have resulted in a higher dependency ratio, but they have not in any obvious way, undermined the economy's productive capacity.

Table 3 shows the contributions of input accumulation and Total Factor Productivity growth to growth of the two economies. From 1962 to 2001, Alberta's real GDP grew at 5.4% per year while Saskatchewan's grew at 3.4% per year. What really has been strong growth rates for Saskatchewan has largely been interpreted as poor growth compared to that experienced in Alberta. There is also little difference in the sources of growth for the two provinces. For Alberta, input accumulation accounts for 75% to 80% of the economy's growth while in Saskatchewan input accumulation accounts for 70% to 75% of growth. Thus, both economies have shown comparable rates of "technical progress" since 1960. Given the timing of Alberta's capital deepening relative to Saskatchewan's in the 1970s when the growth rate of Alberta's capital stock was 5.4% per year and Saskatchewan's was 2.4% per year, the differences in the two economies were most likely the product of differences in endowments of oil and natural gas. As the provinces show no difference in sources of growth, the maintenance of Alberta's economic advantage will depend upon that province's ability to attract capital. With projections that Alberta's endowment of conventional crude oil and natural gas has been depleted by 50% between 1970 and 2000, Alberta may only have 30 years or less to live off of its energy resources (Conference Board of Canada 2003).

While it is tempting for some to conclude that Saskatchewan's collectivist policies of the past created Alberta's prosperity, a more important explanation is that Alberta's rise to prominence was due to its endowments of mineral resources and early leadership in manufacturing. Overall, it would appear that the divergence between the provincial economies is the result of the OPEC oil boom as opposed to policies and ideologies of the CCF and Social Credit governments. While Saskatchewan did not close the income gap with Alberta, the existence of which pre-dated Tommy Douglas's government, it's growth rate kept pace with Alberta until 1973. This suggests that it is the endowments of the provinces rather than the institutions or ideologies that explain the differences in the evolutions of the two economies.

3. Conclusion

In 1905 Wilfrid Laurier's government established the provinces of Saskatchewan and Alberta with a border running north/south and drawn so as to create two provinces approximately equal in area, population and economy. Over time, the effect of the political boundary has delineated two increasingly unequal economies. In this paper we have examined the impact of the Alberta-Saskatchewan border on the economic development of the two provinces and we have investigated the possible benefits of a range of changes from greater policy coordination between the provinces to a political merger of Alberta and Saskatchewan into a single unified province.

Although the discovery of large pools of oil in 1947 and in the years following would be the key source of the more rapid economic growth of Alberta relative to Saskatchewan, Alberta's advantages were present from the outset. Initial advantages in mining and manufacturing planted the seeds for agglomeration economies that would accelerate the dramatic growth in the economic gap between Alberta and Saskatchewan after 1947. The demands of the oil and gas industry for large amounts of capital, its demand for a skilled workforce, and its ability to generate large royalty revenues that allows the provision of social infrastructure without a high tax burden, enabled Alberta to overcome the economic disadvantage of being geographically isolated from large population centres. It was the nature of its resource endowment that enabled Alberta to develop economically in ways that Saskatchewan could not. The provincial border had little effect on this.

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Table 1: Gross Value Added, Current and Constant Dollars

		Price Index (Toronto 1913=100)	GVA (millions $)			Per Capita GVA ($)	
			Current	Constant	Population	Current	Constant
1910	Saskatchewan	113.1	$121.4	$107.3	487,100	$249	$220
	Alberta	104	98.7	94.9	369,200	267	257
1929	Saskatchewan	156.8	415	264.7	921,900	450	287
	Alberta	146.4	411	280.7	731,600	562	384

Table 2: Gross Value Added by Selected Sectors

Current Dollar GVA:		Total	Mining	Manufacturing	Agriculture
1910	Saskatchewan	$121.4	$0.3	$3.0	$74.9
	Alberta	98.7	7.4	7.2	34.0
1929	Saskatchewan	415.0	2.0	18.0	157.0
	Alberta	411.0	31.0	34.0	120.0
Percentage Distribution:			Mining	Manufacturing	Agriculture
1910	Saskatchewan		0.2%	2.5%	61.7%
	Alberta		7.5	7.3	34.4
1929	Saskatchewan		0.5	4.3	37.8
	Alberta		7.5	8.3	29.2

Table 3: Input and Total Factor Productivity Growth rates for Alberta and Saskatchewan

	Alberta	Alberta	Alberta	Alberta	Alberta	Alberta	Alberta
	GDP	L	K	TFP2/3	TFP .55	TFP2/3 to GDP	TFP .55 to GDP
1962-1970	6.1%	3.2%	9.5%	0.8%	0.1%	13.3%	1.0%
1971-1980	11.0%	5.4%	8.0%	4.8%	4.5%	43.4%	40.6%
1981-1990	-0.5%	1.5%	3.0%	-2.5%	-2.7%	479.6%	511.6%
1991-2001	5.1%	2.3%	4.6%	2.1%	1.8%	40.4%	34.8%
1962-2001	5.4%	3.1%	6.1%	1.3%	0.9%	24.3%	17.4%
1971-1985	7.7%	4.0%	6.8%	2.7%	2.4%	35.6%	31.2%
1986-2001	2.9%	2.1%	3.6%	0.3%	0.1%	8.8%	2.5%
	Sask	Sask	Sask	Sask	Sask	Sask	Sask
	GDP	L	K	TFP2/3	TFP .55	TFP2/3 to GDP	TFP .55 to GDP
1962-1970	4.9%	1.4%	7.2%	1.6%	0.9%	25.9%	14.5%
1971-1980	6.8%	1.3%	2.4%	5.1%	5.0%	46.2%	45.0%
1981-1990	-0.5%	0.7%	2.1%	-1.7%	-1.9%	325.6%	356.6%
1991-2001	2.5%	0.4%	2.8%	1.3%	1.0%	26.2%	20.5%
1962-2001	3.4%	0.9%	3.5%	1.6%	1.3%	29.0%	23.2%
1971-1985	4.6%	1.3%	2.4%	2.9%	2.7%	37.3%	35.7%
1986-2001	1.3%	0.3%	2.5%	0.3%	0.1%	11.7%	2.4%

Provincial GDP numbers for 1961 to 2001 from CANSIM. L is the size of the working population. For each province K is calculated is 95% of the previous period's K plus total expenditures on capital (CANSIM). The initial capital stock for each province was obtained by attributing a share of the estimated capital stock for Canada in 1956 equal to the province's share of GVA in 1956. The estimate of the capital stock for Canada is from the Historical Statistics of Canada and its value is converted into 1960 dollars, and the 1960 capital stocks are equal to the 1956 capital stock compounded at 2.86% per year to 1960 according to Lithwick's (1970) estimate of the annual growth rate of Canada's capital stock for 1929 to 1956. TFP 2/3 refers to TFP calculated with Labour's share of income equal to 2/3. TFP .55 is the calculation using the Conference Board of Canada's estimate of Labour's share of national income of 0.55.

Figure 0: Boundary Proposals, 1905

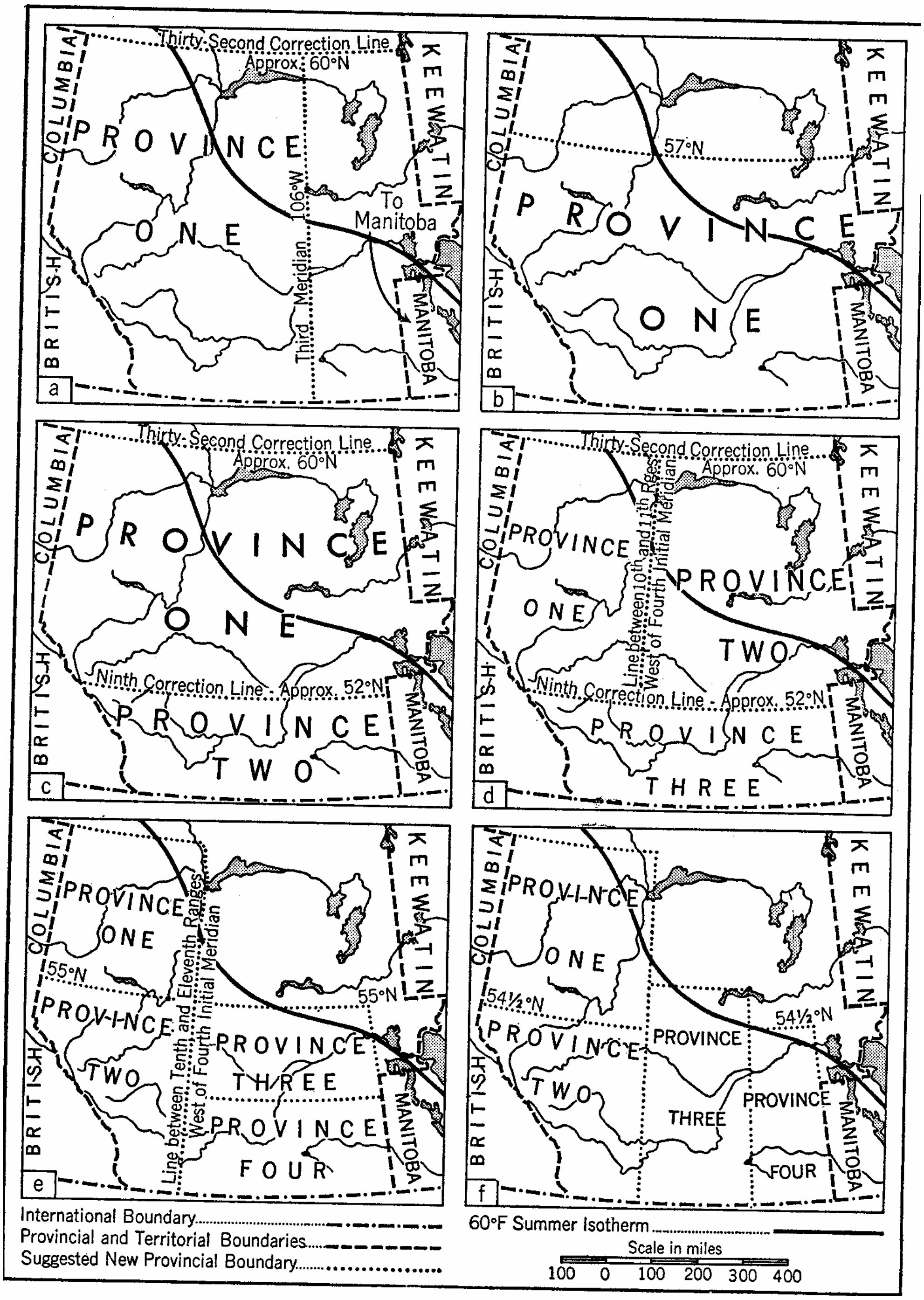

Figure 20. Suggested new provinces in western Canada prior to 1905.

Source: Norman L. Nicholson (1954) *The Boundaries of Canada, Its Provinces and Territories*, Canada. Department of Mines and Technical Surveys. Geographical Branch Memoir 2 (Ottawa: Queen's Printer).

Figure 1: Per Capita Public Investment (Constant 1992 $), Sask, Alberta and Ontario

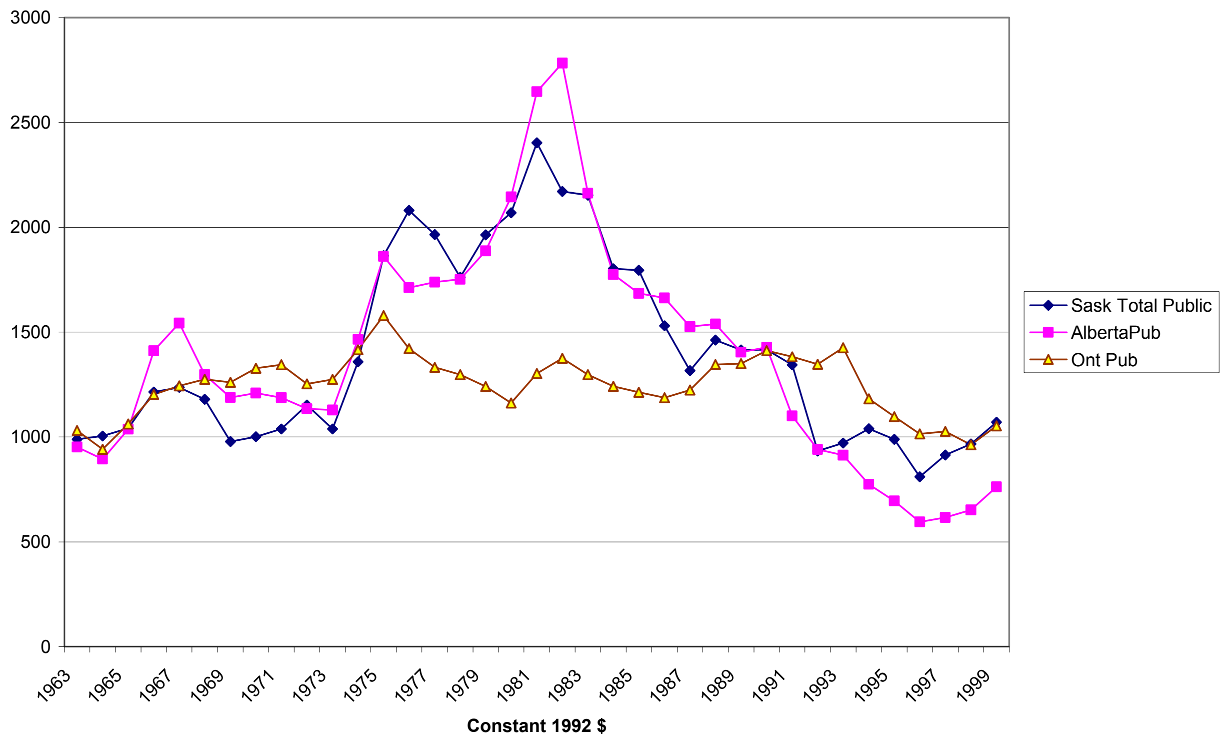

Figure 2: Ratios of Real Per Capita GDP, and Demographic Adjusted P.C. GDP, Alberta and Saskatchewan, 1910-2001

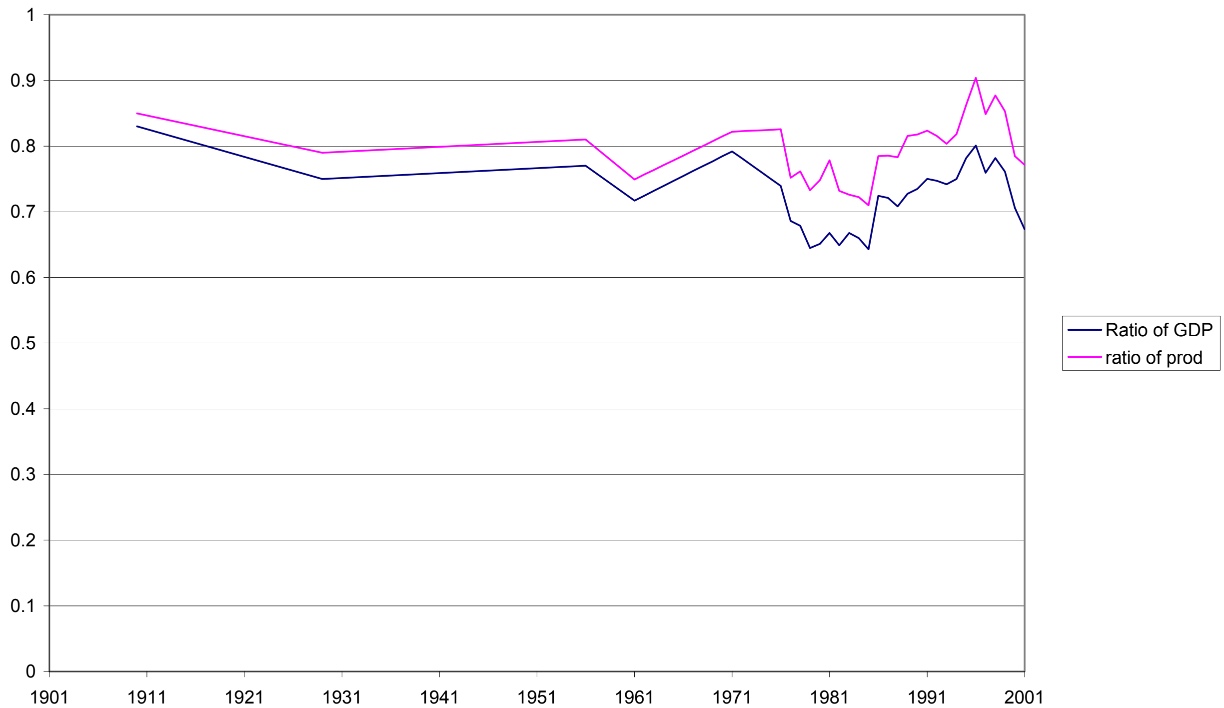

Figure 3: Per Capita Private Investment (Constant 1992 $), Sask, Alberta and Ontario

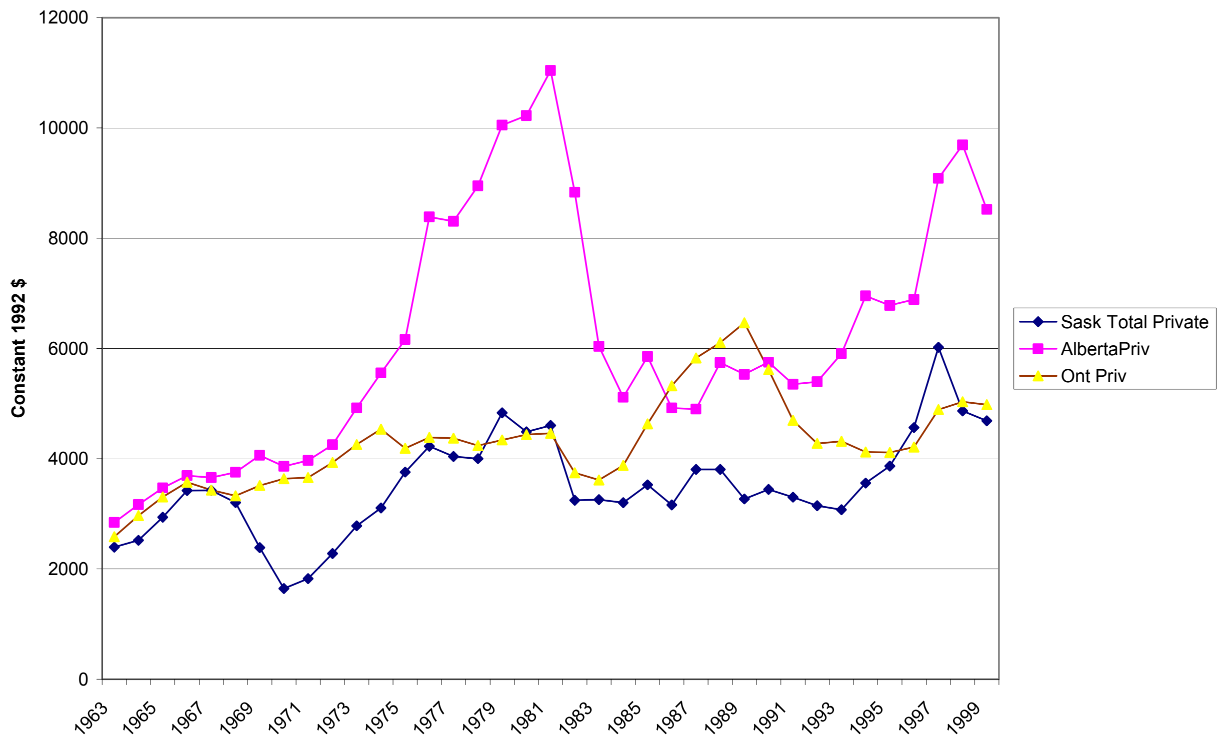

Figure 4: Capital to Labour Ratios for Saskatchewan and Alberta, 1961-2002 (millions of 1992 $)