

SHAPING ALBERTA'S FUTURE



**A glimpse into the Premier's Council
for Economic Strategy final report**



THE PREMIER'S CHALLENGE TO THE COUNCIL

- > What must Albertans begin to do now to sustain prosperity through the next three decades and beyond?
- > How can we ensure our children and grandchildren enjoy even greater opportunity than we have – that we hand future generations a legacy of “a better Alberta”?
- > What will it take to make the Alberta of 2040 *the* place for creative and committed citizens to live, work, raise families, contribute to and enjoy society?

**For a copy of the full report, go to <http://premier.alberta.ca/PlansInitiatives/economic/index.cfm>
or call 780-427-5524.**



EXPLORING NEW FRONTIERS

This conversation about the province's future continues a long Alberta tradition of successful adaptation to changed circumstances.

The pioneers who began to build new lives here in the nineteenth century found that much of the knowledge they brought from their homeland about how the world worked no longer held true. Farming was different. Social norms were different. Ukrainian Catholics and Scottish Protestants whose differing views might have led to friction under other circumstances learned they had common cause and worked together. The early entrepreneurs who built the energy sector took huge risks, pouring substantial resources into creating a new industry. More recent immigrants from every corner of the globe all have stories about how their world changed when they settled in Alberta – most for the better.

Circumstances are changing again, not because Albertans have migrated elsewhere, but because the world is changing. It works differently than it did even a decade ago. There are seismic shifts underway that we can use to our advantage if we are smart about doing so. But they could equally pose risks to our prosperity if we don't begin planning for the long term and acting now. Consider that...

> **The world's economic and intellectual centre of gravity is shifting.** In 2000, the countries we knew as "developing" or "emerging" were home to 56% of the global middle class. By 2030, that figure is expected to reach 93%. Much of that increase will be in Asia. These countries are transforming their economies from producers of low-cost goods to serious players in an increasingly high-tech world. They have become both aggressive competitors and potential partners in research or business – as well as customers for the goods Alberta exports.

> **Demand for energy is growing – but so is concern about its environmental impact.** Most experts predict conservation and efficiency measures will slow the rate at which energy demand is growing – but will not actually stop demand from growing for some time. The price of oil is widely expected to remain high, keeping Alberta's high-cost oil sands production profitable. At the same time, high prices combined with increasing public concern about environmental impact will speed up development of substitute transportation fuels (most oil is used for transportation). The creation of an affordable, environmentally friendly alternative to oil would be a great thing for the world. It could be economically devastating for Alberta if, when it happens, we are still heavily dependent on oil exports.

> **A tidal wave of advances in knowledge is changing how the world does business.** Developments in robotics/artificial intelligence and genomics are fundamentally changing medicine, agriculture, forestry and energy. Well-paying jobs in fields that didn't exist a decade ago are being created every day. We see great opportunities for Albertans to invent new products, processes and services that build on our strengths while taking the province in exciting new directions. At the same time, we must recognize that more than 99% of the world's innovation originates outside Alberta. We need to forge linkages and get connected into global networks.

Throughout my lifetime it seems Alberta has been an economy of circumstance. Do we now need to become an economy of intent?

Question posed by Stephen Jull, Principal at Kinase Strategy (and a young Albertan currently working in the U.K.) at the Council's London outreach session

> **The world is looking more and more like a highly interconnected global grid.** A crisis in one financial market is quickly felt by markets around the world. The virtual community of Facebook has more “inhabitants” than all but a few countries on earth. By 2040, the internet will be the vehicle for the vast majority of the world’s commercial activity. Products are invented and designed in one part of the world, and assembled in another – from parts purchased from multiple suppliers around the globe. Success in this economy is less a matter of going head-to-head against stronger competitors than of finding the “sweet spots” where Alberta can participate in global supply chains and wealth-creating partnerships.

We cannot afford to shut our eyes to these and other changes now underway in the world. Over the next three decades, they will fundamentally reshape Alberta’s economy. We are a small province in a global context, and we rely on exports for our prosperity. Choices made by others will affect our future. We need a new sense of geography and a new way of engaging with our country, our neighbours and the world.

Rivalries among cities, tensions among federal and provincial governments are a serious distraction from competing and prospering in the global economy. It’s time to put these aside and pull together to build a strong Alberta in a strong Canada in a

strong North America. From this North American platform, we will be better positioned to pursue opportunities further afield – in the growing economies of Central and South America, and especially in Asia.

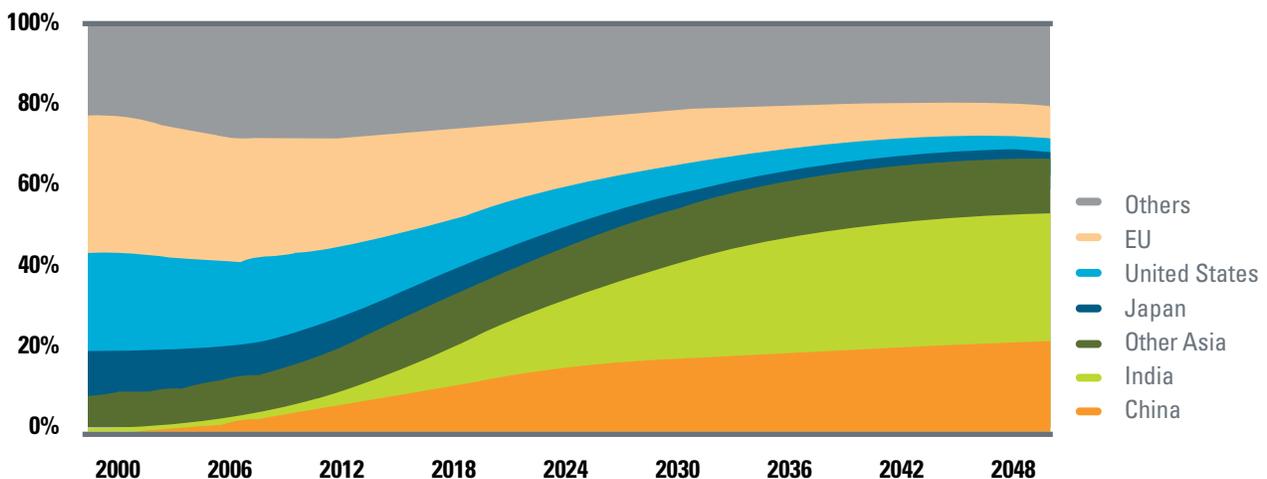
We have the means to do this. But history has shown natural resource wealth can be a curse as well as a blessing. It can breed complacency. It can lead people to overlook danger signals until it’s too late to take action to preserve the prosperity they take for granted. There is a real risk that thirty years from now Albertans will find ourselves watching the global economic game from the sidelines – because our resource wealth made us too comfortable, and we lost the drive to achieve and perform at a critical moment.

Whether or not we as a province avoid this fate depends on the choices individual Albertans make every day as to how we live our lives, invest our intelligence and energy and capital. We can choose to wait until circumstances change and then react as best we can – hoping it’s not too late. Or we can be proactive, making strategic investments to shape the Alberta we want.

The Council believes that choosing a path forward and acting with intent to shape the future is by far the better strategy. Albertans’ best chance for sustained prosperity will be to pioneer once again – to find common cause and explore new frontiers, as we have done successfully in the past.

INDIA AND CHINA MAKE WAVES IN THE GLOBAL MIDDLE CLASS

SHARES OF GLOBAL MIDDLE CLASS CONSUMPTION, 2000-2050



Source: “New global middle class,” 2008.



Charting the course

What must Albertans begin to do now to improve the chances that whatever the future holds, the citizens of Alberta will be thriving, enjoying a desirable quality of life? What steps can we take today to ensure that thirty years from now Alberta is resilient and outward-looking, with all citizens contributing to their full potential and ready to seize opportunities, a respected and strategic player in Canada and on the world stage?

Throughout the full report, the Council identifies what we see as priority starting points – critical actions we believe must begin now to set Alberta on a course to prosperity in 2040 and beyond. We group these under five themes:

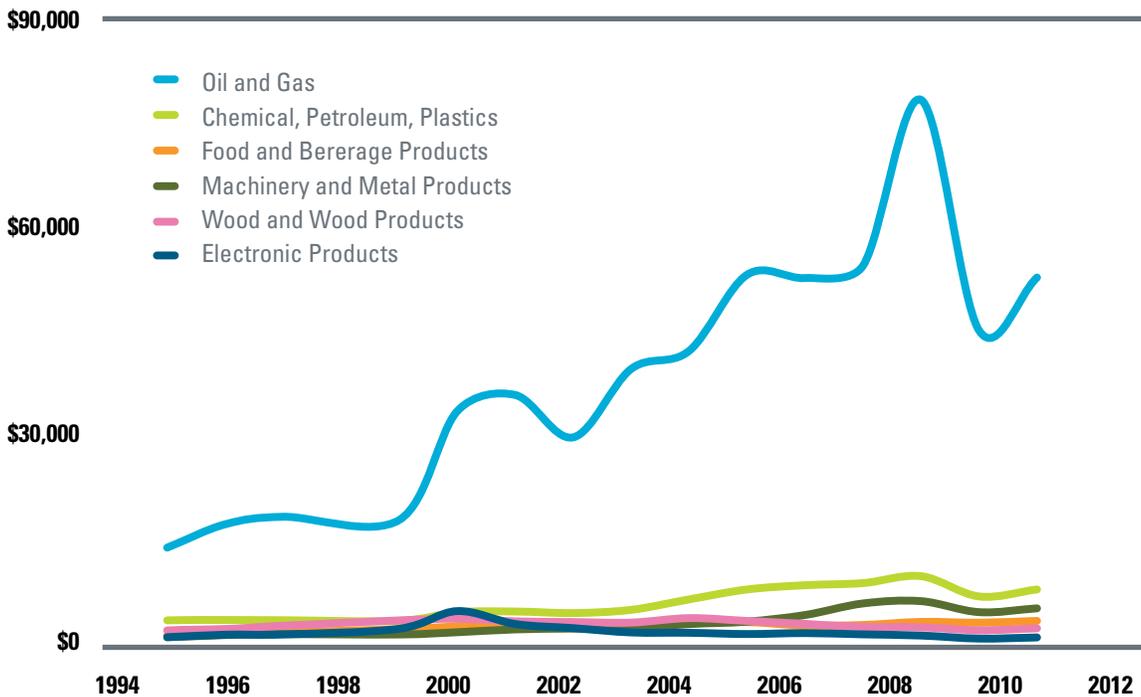
Theme 1 – Realizing the full potential of our energy resources:

We must take steps to ensure that Albertans and all Canadians benefit from development of our hydrocarbon energy resources as much as we can for as long as we can – addressing issues of environmental impact and cost of production, and entering new markets

Alberta’s prosperity currently depends on the sale of energy to the U.S., and increasingly on oil sands as the source of that energy. The province is vulnerable as a result. We say this not because there is a danger of running out of raw materials – Alberta’s energy resources are massive – but because the production costs of heavy oil from oil sands are among the highest in the world, and because our reputation for orderly and responsible development is under attack.



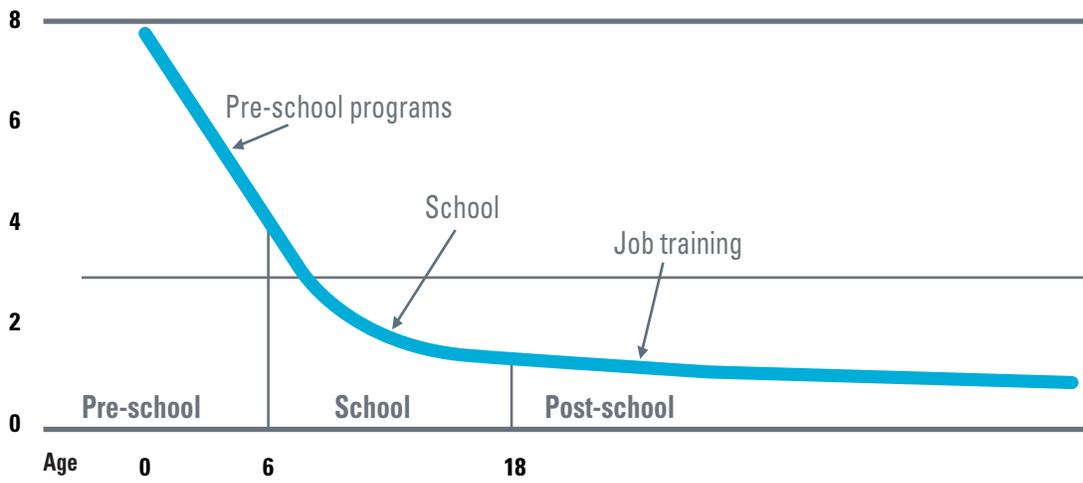
ALBERTA EXPORTS MILLIONS (CURRENT \$)



Data source: GoA, 2010a.



RATES OF RETURN TO HUMAN DEVELOPMENT INVESTMENT ACROSS ALL AGES (RETURN PER \$ INVESTED)



Source: Cunha et al., 2005.

A dollar invested in early childhood yields three times as much as a dollar invested in school-aged children, and eight times as much as a dollar for adult education

We must protect this revenue stream by addressing issues of cost and environmental impact. At the same time, we must plan for the eventuality that oil sands production will almost certainly be displaced at some point in the future by lower-cost and/or lower-emission alternatives. We may have heavy oil to sell, but few or no profitable markets wishing to buy.

Theme 2 – Broadening the economic base: We need to reduce the vulnerability that comes with heavy reliance on energy sales to only one market, the U.S. – by applying knowledge in new ways to get greater value from all our natural and human resources; delivering new products and services into new markets

Alberta has great strengths to leverage. We have a vast supply of natural resources and a history of resourceful pioneering to make the most of this gift. We have expertise in areas such as energy production and related environmental challenges, food and fibre, medical and biotechnology, information and communication technologies. We have capital to invest, educated people, a peaceful society, stable political and financial systems. We could be tapping into growing markets in Asia and South America for energy and other products. We could be deriving higher value from our human and natural resources by applying knowledge and technology in innovative ways.

Efforts over six decades to grow strong new sectors in Alberta have been hampered by cycles of “boom and bust” that have characterized the energy sector. During the busts, capital has dried up as investors retreated. During the booms, energy projects have attracted all available labour and capital to support massive construction efforts, driving up wages and materials costs. In either cycle, it has been difficult for other sectors to grow and establish a competitive position in international markets.

But developing profitable new revenue streams will be essential to sustaining prosperity over three decades and beyond. This is too important to be left to chance. We need the discipline to execute plans to broaden the economic base over the long term, starting now and staying the course consistently over many years.

Theme 3 – Preparing to prosper in a global economy: Alberta needs all its citizens to develop the mindset and skills to thrive in today’s world and drive economic growth – to be resilient, lifelong learners, healthy and productive, eager to achieve and perform, globally connected and informed

With a small population, and labour shortages already constraining growth, Alberta must ensure that every citizen has the drive and ability to contribute to his or her full potential. We need a healthy population, equipped with the knowledge and



contacts to prosper in a global economy, and committed to learning through life. We need to attract talent from around the world and make the best possible use of the skills and experience newcomers bring. We must accelerate action on ensuring the growing population of Aboriginal young people can benefit from the opportunities this province can offer and contribute to the province as skilled and productive workers, engaged citizens and future leaders.

Theme 4 – Providing a strong platform to sustain economic growth: We need wise management of our water and land, a reliable source of competitively priced electricity, transportation and communication systems to get products to market and support global interaction

Because the electricity system faces challenges related to transmission and greenhouse gas emissions, we must begin planning now for potential government engagement to ensure a reliable, cost-effective supply of electricity. We need a greater focus on land stewardship – balancing human and ecosystem needs in a context of competing demands. Success in broadening Alberta’s economic base will depend on more robust transportation and communication capability. We need new investment in stewarding water supplies – in getting the information we need to make sound decisions about water allocation and use, and in water management infrastructure.

Theme 5 – Investing in shaping the future: We need a more strategic and disciplined approach to managing our resource wealth and investing to shape the future – because it will take sustained commitment over the long term to secure prosperity for future generations of Albertans

The true Alberta advantage lies in our opportunity to use the proceeds from our natural resource wealth – in combination with our highly educated and skilled people – to intentionally invest in shaping an economy that is much less dependent on natural resources.

The Council believes the way Alberta is currently using funds the government receives (primarily in the form of royalties) from the sale of our non-renewable energy assets (bitumen, crude oil, coal, natural gas and byproducts) poses a serious risk to the province’s future prosperity. It now fills the gap between tax revenue and expenditures on public services.

That suggests we are thinking of this money as a recurring source of income – like a salary is for an individual or taxes and fees are for a government. We should be thinking of it as a one-time conversion of a capital asset into capital funds – more like the sale of a piece of land or a building. What we are doing now is a lot like selling our fields an acre at a time to cover daily grocery bills. If we continue on this path, someday we will have to explain to our children why we’ve spent their inheritance on today’s needs.

This does not mean turning Alberta into a high-tax regime or instituting draconian measures that prevent this generation of Albertans from enjoying quality public services. It does mean following some fundamental principles of sound financial planning: cover day-to-day operating expenses from regular income (individual/corporate taxes and user fees); treat money received from the sale of assets as capital to be put to work strategically to create greater income in the future.

In our report, we outline exciting opportunities for investment in shaping Alberta’s future, including five “flagship” initiatives. All have the potential to generate substantial returns to the province in the form of interesting well-paying jobs, more public revenues to fund the delivery of services, and a desirable quality of life – for this generation and for generations to come.

A call to action for all Albertans

Our report is written to all Albertans. The government of Alberta has an important role to play in securing Alberta's future prosperity, but government cannot do it alone. It will require leadership from all sectors of Alberta society and collaboration at the provincial, national and global levels.

We want this report to contribute to ongoing conversations and begin new ones. We call on the business community and industry associations, academic and research institutions, non-governmental organizations and social service agencies to take leadership and initiate action within their spheres of influence. We call on all citizens to get engaged. Many of the issues we explore can be addressed only through the personal choices of individual Albertans. Others require tough political decisions and voter support.

It will not be easy to create the future we envision, but Albertans have the resources to do it if we have the will and the drive. It will take leadership and patience, as well as a commitment to sustaining effort over decades. It will not happen by accident. We hope Albertans in every walk of life will find in our report at least one idea that will inspire them to take action.

We, the Premier's Council, are twelve individuals who are passionate about the future of this province and this country. Four of us live in Alberta; four in other parts of Canada; four in the U.S. or the U.K. We all have strong ties to Alberta and Canada. We are honoured to have been asked by the Premier to take on the challenge of inspiring dialogue and action to secure Alberta's future prosperity. We bring to the task our years of experience in business, academia, not-for-profit organizations and government. Many people have given us valuable insight and ideas that have influenced our report – to each we are grateful.

*David Emerson, Chair of the
Premier's Council for Economic Strategy*

<i>Elyse Allan</i>	<i>John Bell</i>	<i>Robert (Bob) Brawn</i>
<i>David Dodge</i>	<i>Juan Enriquez</i>	<i>James K. Gray</i>
<i>Clive Mather</i>	<i>Anne McLellan</i>	<i>Courtney Pratt</i>
<i>Lorne Taylor</i>	<i>Jennifer Welsh</i>	

May 2011

Thirty years from now, when I'll be 50, I know that the world will be different in some drastic ways. The baby boomers will be gone and my generation will pace corridors of power...I want to live in a province where everyone believes that we have more potential than we do oil. To make this happen, Albertans themselves need to embrace education as the key to unlocking this potential. If we can make that happen, it would be the best 50th birthday present I could imagine.

Submission to Council from Steven Kwasny, Chair, Alberta Students' Executive Council

Sources:

Cunha et al., 2005	Cunha, F, Heckman, J. J., Lochner, L., & Masterov, D. V. (2005). <i>Interpreting the evidence on life cycle skill formation</i> . In E. Hanushek & F. Welch (Eds.), <i>Handbook of the economics of education</i> . Retrieved from http://www.econ.jhu.edu/seminars/elylectures/2005/handbook_all_2005-03-31_mms.pdf
GoA, 2010	Government of Alberta. (2010). <i>Alberta international trade review 2009</i> . Retrieved from http://www.albertacanada.com/documents/Alberta_International_Trade_Review_2009.pdf
"New global middle class," 2008	<i>New global middle class: Potentially profitable - but also unpredictable</i> . (2008). Retrieved from Knowledge@Wharton: http://knowledge.wharton.upenn.edu/article.cfm?articleid=2011



FOR MORE INFORMATION OR TO PROVIDE FEEDBACK, CONTACT:

Premier's Council for Economic Strategy
11th floor, Legislature Annex Building
9718 – 107 Street
Edmonton, Alberta T5K 1E4

Email: pces@gov.ab.ca
Phone: 780-427-5524

This document contains highlights from *Shaping Alberta's Future: Report of the Premier's Council for Economic Strategy*. The full report is available at: <http://premier.alberta.ca/PlansInitiatives/economic/index.cfm>