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The Spoils of the Boom:

Incomes, profits and poverty in Alberta





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Parkland Institute

University of Alberta

11045 Saskatchewan Drive

Edmonton, Alberta T6G 2E1

Phone: (780) 492-8558 Fax: (780) 492-8738

Web site: www.ualberta.ca/parkland

E-mail: parkland@ualberta.ca

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About the Author

Diana Gibson is the Research Director for the Parkland Institute, a public policy research center based at the University of Alberta. She has an extensive background in social policy research and has engaged nationally and internationally on topics ranging from health care and education to energy and international trade agreements. Prior to joining the Parkland, Diana was on faculty at Capilano College before which she worked in labour relations for a number of years in Ontario, B.C. and Alberta.

About the Parkland Institute

Parkland Institute is an Alberta research network that examines public policy issues. We are based in the Faculty of Arts at the University of Alberta and our research network includes members from most of Alberta's academic institutions as well as other organizations involved in public policy research. Parkland Institute was founded in 1996 and its mandate is to:

- conduct research on economic, social, cultural, and political issues facing Albertans and Canadians.
- publish research and provide informed comment on current policy issues to the media and the public.
- sponsor conferences and public forums on issues facing Albertans.
- bring together academic and non-academic communities.

Executive Summary

Alberta has been experiencing a boom, and yet many Albertans feel they are being passed by. Though unemployment levels are at all time lows, inflation rates are also running at national highs, leaving many Albertans literally out in the cold. Unfortunately, these impacts are not isolated to a small group of Albertans. When surveyed, over half of Albertans said they were not benefiting from the boom.

The Parkland Institute undertook this study to explore that dynamic. The study profiles a cross-section of Alberta's economy to illustrate how the dramatic economic growth is being distributed. The findings reveal that middle income Albertans are no better off due to the boom while low income Albertans are worse off. The data also reveals that the benefits of Alberta's boom are trickling up to corporations and Alberta's wealthy and high income earners.

Low Income Albertans are Worse off

With unemployment at such low levels, there are fewer Albertans living below the low income cut off. However, for those on a fixed income or who were already employed, the picture is not as rosy. There are still over 56,000 Albertans on social assistance. A look at homelessness, social assistance incomes and minimum wages reveals that many are worse off because of the boom.

A rapidly expanding economy, a tight labour market and strong immigration are putting increased pressure on housing prices and rental markets across the province. Over 2006 and the first half of 2007, new homes in Calgary increased by 65 percent while the average single family home and condo selling price jumped 52 percent in Edmonton. Vacancy rates are also falling. Of Alberta's 11 census jurisdictions, seven saw their vacancy rates fall below one percent, while two recorded a rate of zero percent. This is causing rent increases far in excess of inflation. Between October 2005 and October 2006 the average rent for a two bedroom apartment increased by 10.4 percent in Edmonton and 18.3 percent in Calgary.

This has caused a crisis in homelessness across Alberta. In 2006 homelessness in Edmonton increased by 19 percent while in Calgary there has been 458 percent growth in the number of homeless people since 1996. There has also been a rise in the numbers of Albertans at risk of homelessness. For example, in Calgary, there are at least 20,000 people with a family income of less than \$15,000 who are paying more than 50 percent of their income for housing.

In spite of the record wealth being created in Alberta, and a recent increase in minimum wages, Albertans are still earning the lowest minimum wage in the nation. Alberta's minimum wage has not been keeping up with inflation. In fact, the 2005 increase in no way brings the minimum wage in line with the booming economy; it only just captured the inflationary loss of the previous few years. For comparison, the minimum wage was almost 50 percent higher during the boom of the 1970s.

Another area where the benefits of the boom are not being seen is in social assistance rates. Again, those rates are not indexed to inflation and, like minimum wages; their value is constantly being eroded. According to the National Council on Welfare, "Lone parent families in Alberta, Canada's richest province, received just \$12,326-only 48 percent of the poverty line." These individuals and families are being hit hard by the boom as rent increases and inflation eat away at their limited incomes.

The Squeezed Middle

This study found that the benefits of the boom are disproportionately going to high income Albertans, most notably the top income bracket. Middle income Albertans have seen a small increase in incomes. However, to explain why so many Albertans say they have not benefited from the boom, the income data is set into the context of working hours. A notable increase in working hours confirms that it is not the benefits of the boom we are seeing but families working harder to maintain their standard of living. This is also supported by data on hourly wages which have not been keeping pace with the high levels of inflation.

Alberta's Wealth is Trickleing up not Down

An examination of profits and corporate revenues reveals that high income Albertans are not getting all of the benefits of the boom. Much of the economic growth is going to corporate profits, increases for corporate executives and dividends to shareholders, mostly foreign.

Alberta's strong economic growth has been closely paralleled by a steep growth in corporate profits. In February, 2007 Statistics Canada released a report that corporate operating profits had reached their second consecutive record high in 2005. The oil and gas sector has led this growth. The bulk of this is benefiting foreign corporations and foreign shareholders. According to Statistics Canada, close to half of the assets and over half of the revenue in oil and gas extraction in Canada are foreign-owned.

To get a sense of the Alberta context, Parkland conducted an analysis of ten Alberta based oil and gas corporations. Average revenues in 2005 for the ten companies considered were \$5.2 billion each, an increase of 26.5% over average revenues in 2004. The average return on investment increased over the period from 21.7% in 2003, to 23.1% in 2005. Consistent with the trickle up trend, executives have seen their salaries and bonuses increase over the last few years, especially when stock options of up to \$7.4 million are included. Dividends are also up. Average dividends were \$213 million in 2005, an increase of 28.6% over 2004.

Conclusions and Recommendations

The province has been experiencing dramatic uncontrolled growth. However, this report has shown that the boom is passing the average Albertan by and lower income Albertans are falling farther behind. Where incomes for middle class Albertans rose, it was mostly due to working more hours, not higher wages. For those Albertans at the bottom, their incomes are falling; social assistance rates are at 50% of the levels of the 1980s, and minimum wages are not keeping up with inflation and are still amongst the lowest in the country. Homelessness rates have also been skyrocketing and increasing numbers of Albertans are at risk of homelessness.

The strong GDP growth Alberta has been experiencing is trickling up not down. Only Alberta's richest 10% of families saw their incomes rise significantly. Alberta's boom is being seen mainly by corporate executives in the form of salary increases and bonuses, high income earners, corporations in the form of unearned profits, and foreign shareholders.

Mechanisms need to be put into place to ensure that average Albertans actually benefit from the boom. Without these, the bulk of the gains will continue to go to the top ten percent of Albertans and mostly foreign corporations.

While immediate measures are needed to address poverty and homelessness, a broader and more comprehensive poverty elimination strategy is needed. Such a strategy could include: indexing social assistance rates and minimum wage to inflation and increasing those rates to above the poverty line; ensuring a living wage; implementing rent controls and an affordable housing strategy; ensuring well funded, public or non-profit childcare is accessible to all; and ensuring adequately funded education is accessible and affordable for all. Achieving this strategy will necessitate that labour rights are strengthened including better conditions for organizing and

achieving collective agreements. Other elements of ensuring a better distribution of the boom in the province include ensuring better mechanisms for guaranteeing democracy, improving the mechanisms for capturing extraordinary or unearned profits (such as royalty rates and corporate profits), and reinstating progressive taxes.

I. Introduction

Alberta has been experiencing a boom, and yet many Albertans feel that boom is passing them by. Though unemployment levels are at all time lows, inflation rates are also running at national highs, leaving many Albertans literally out in the cold. Alberta's population has been growing annually at rates of up to three times the national average. This is putting incredible pressure on already under-funded and poorly maintained infrastructure and social services across the province. It is also putting serious pressure on housing markets.

Population growth and the construction boom are driving up inflation rates. In March 2007 the every year inflation rate reached 5.5 %. With homelessness rates rising year over year in all major urban centres, and calls for rent control measures featuring regularly in the news, the impacts of that inflation are obvious. Though inflation is high across the economy, it is in housing that its impacts have been most dramatic. Everywhere in Alberta housing prices have been skyrocketing, rental supplies falling and rents rising steeply.

Unfortunately, these impacts are not isolated to a small group of Albertans. When surveyed, over half of Albertans said they, themselves were not benefiting from the boom. According to an Environics survey, one-half either feel worse off (17%) or "about the same" (34%).¹ This is a surprising result given the incredible wealth being generated by Alberta's natural resources. In 2005/2006 resource revenues alone brought in over \$14 billion and in 2006/2007 those revenues were expected to reach over 11 billion. A quick correlation of economic growth and average incomes clearly illustrates that this is not their imagination; the average Albertan is not benefiting from the boom. As a standard measure of the economy, Alberta's Gross Domestic Product (GDP) illustrates clearly the steep growth the province has been experiencing. GDP increased by approximately one third between 1991 and 2003 while average incomes stayed the same. This immediately begs the question of where the wealth is going, if not to the average Albertan.

The Parkland Institute undertook this study to explore that dynamic. The study profiles a cross-section of Alberta's economy to illustrate the distribution of the dramatic economic growth being experienced by the province. The report examines in detail the real experience of middle and low income Albertans. To complete the picture, the report looks at the higher income Albertans and corporations, detailing how

¹ Environics Research Group, "Focus Alberta Survey March 2007," (Environics Research Group, 2007), http://erg.environics.net/media_room/default.asp?aID=629, (accessed April 24, 2007).

they are benefiting from the boom and contrasting that with the experience of the middle and low income Albertans.

The report begins with an exploration of income levels and poverty indicators for those in the lowest income levels. Trends in homelessness, social assistance rates, and minimum wage are explored. The second section looks at the incomes for those in the middle and high income brackets. Trends in incomes and working hours are contrasted. Finally, the third section explores how the boom is benefiting corporations. This analysis includes a look at corporate profits, dividends, salaries for corporate executives and foreign ownership. It includes a detailed case study of ten corporations in the oil and gas sector.

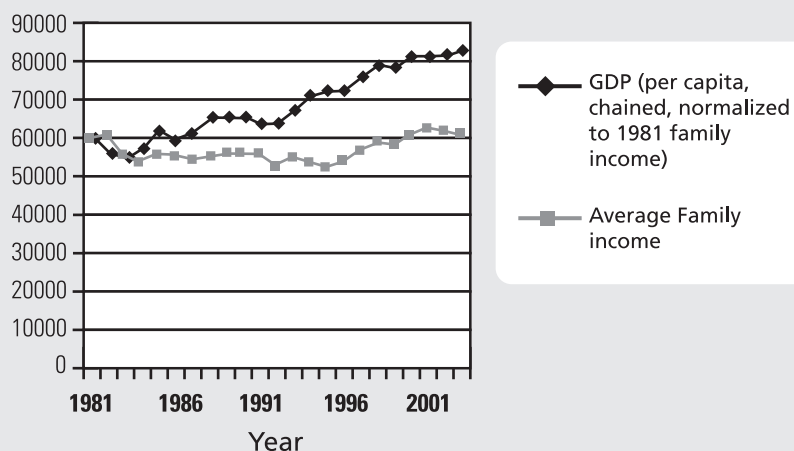
Alberta's GDP: An overview

Figure 1 illustrates GDP.² The dark line shows that GDP has been increasing steeply even when controlled for population growth and inflation. GDP increased by approximately one third between 1991 and 2003. Translated, this means that Alberta's economy has been generating more income per person on a mean average basis. The grey line, in contrast, hasn't risen over the same period. This line represents average family income. Thus, the strong income growth the province has been experiencing has not been reflected in the incomes of the average Alberta family.

2 The graphs in figures one and two were first created for Parkland Institute's report "Toward an Energy Security Strategy for Canada: A Discussion Paper" (Edmonton: Parkland Institute, University of Alberta, December, 2005).

FIGURE 1

Average GDP vs. Average Family income



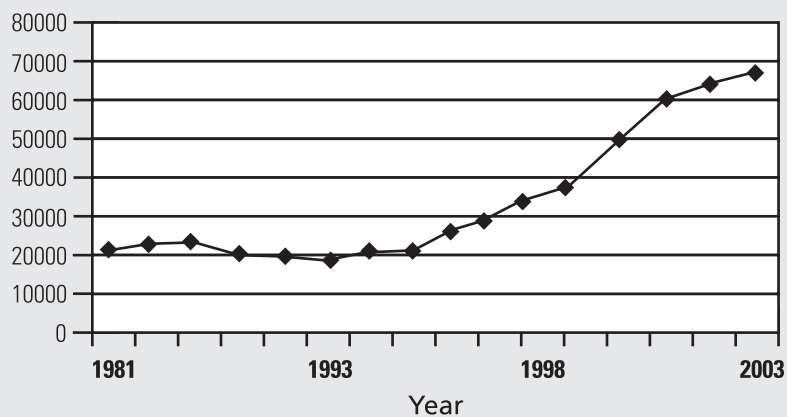
Sources: Statistics Canada CANSIM Tables Table 384-0013 (GDP) and 202-0403 (Family Income)

How can mean average GDP increase so dramatically on a per person basis while families are not experiencing income growth? The answer: record amounts of GDP are going to corporations. Figure 2 shows that corporations are socking away large surpluses. Statistics Canada data reveals that nationally, operating profits reached all time highs in 2005, \$249.9 billion, an increase of 14.9 % over the previous year.³ Not surprisingly, the same report stated that this is being led by the energy based industries - oil and gas extraction and support activities, utilities operators and petroleum and coal product manufacturers - with profits of \$54.5 billion.

3 Statistics Canada, "Corporate profits hit record high, surge from oil and gas", The Daily (Ottawa: Statistics Canada, February 7, 2007).

FIGURE 2

Corporate Equity Oil, Gas and Coal Extraction Corporations in Canada



Sources: Statistics Canada CANSIM Table 187-00011 (Equity) and 326-00011 (Inflation)

II. Worse Off Because of the Boom

One way that Albertans are benefiting from the boom is in increased levels of employment. With unemployment at such low levels, there are fewer Albertans living below the low income cut off. Those who are no longer unemployed are obviously benefiting from the boom. However, for those on a fixed income or who were already employed, the picture is not as rosy.

This section will examine a number of different indicators of poverty and income for those in the lowest income category. These include homelessness, social assistance income and minimum wages. We also place these figures in a national context to compare the figures for wealthy Alberta with other provinces.

Homelessness

In spite of and because of the dramatic growth in Alberta's economy and the wealth at the top end, Alberta is experiencing a housing crisis. A rapidly expanding economy, a tight labour market, and strong immigration are putting increased pressure on housing prices and rental markets across the province. Alberta has experienced a population increase of approximately 46,500 persons yearly since April 1, 2004.⁴ As a result, demand for housing has been high. In 2006, housing prices across the province increased by a record 31% and, though projected to slow slightly, are still predicted to increase by a figure of 26% over the year in 2007.⁵ Over 2006 and the first half of 2007, Calgary's New House Price Index alone increased by 65% while the average single family home and condo average selling price jumped 52% in Edmonton in 2006.⁶

This population pressure, combined with the skyrocketing housing markets, has caused a crisis in homelessness. In 2006 homelessness in Edmonton increased by 19% while in Calgary there has been 458 % growth in the number of homeless people since 1996.⁷

It is not just absolute homelessness that is increasing. There has also been a rise in the numbers of Albertans at risk of homelessness. The definition of those at risk of homelessness is defined by the Royal Bank of Canada (RBC) as those paying more than 32 % of a household's annual gross income for housing. RBC calculates this as an "affordability measure" that looks at the %age of median gross household income needed to own a home.⁸ The measure includes costs like mortgage payments, taxes and utility bills. At the end of 2006, the % of household income needed to own a two-storey home

- 4 Government of Alberta, About Alberta website, http://www.gov.ab.ca/home/about_alberta.cfm (accessed May 2007).
- 5 Canadian Mortgage and Housing Corporation, "Housing Market Outlook, Prairie Region Highlights", (CMHC, Second Quarter, 2007).
- 6 Real Estate News, "Year starts quickly for resale home sellers", Thursday, February 08 2007. <http://www.realedmonton.com/news/index.php?page=4> (accessed May 24, 2007).
- 7 "Results of the 2005 Count of Homeless Persons in Calgary," (City of Calgary, May 16, 2006), http://calgary.ca/docgallery/bu/cns/homelessness/2006_calgary_homeless_count.pdf, (accessed April 30, 2007) and Edmonton Joint Planning Council on Housing, "Out in the Cold: Edmonton Homeless Count 2006," (Edmonton: Edmonton Joint Planning Council on Housing, October 2006), <http://www.moresafehomes.net/Homeless%20Count%202006%20Report.pdf>, (accessed April 30, 2007).
- 8 Alexandra Zabjek, "Everyone is asking, 'What's yours worth?' But better questions might be: 'How'd this happen?' and 'Where will it stop?'" The Edmonton Journal, (Edmonton, Edmonton Journal, Friday, May 18, 2007), <http://www.connect2edmonton.ca/forum/viewtopic.php?t=3237> (accessed May 30, 2007).

according to RBC's affordability measure was 37 %. That's a significant jump from the 29-per-cent affordability measure at the end of 2005 and more than the 32 % that is considered affordable. As an indication of how housing affordability is being eroded in Calgary, there are at least 20,000 people with a family income of less than \$15,000 who are paying more than 50% of their income for housing.⁹

There has also been a significant change in the face of the homeless. Where front line workers previously reported that the majority of the homeless using their facilities or programs were those with mental health issues, those workers now report that increasing numbers are employed and even families. There were 276 homeless children under the age of 17 counted in Edmonton alone. Diana Segboer, the Executive Director of Calgary shelter Inn from the Cold classifies most of her clients as working poor - those who have jobs but can't keep up with the increasing cost of living in the city.¹⁰ The same trends are being reported in food banks.

These housing prices as well as population pressures are spilling over into the rental markets. According to the results of Canada Mortgage and Housing Corporation's (CMHC) annual Rental Market Survey, all of Alberta's 13 major urban centres reported a decrease in apartment vacancies in October 2006.¹¹ The vacancy rate in privately initiated rental apartments in Alberta centres with population of 10,000 or more declined from 3.1 % in October 2005 to 0.9 % in October 2006. Following a moderate decline of 0.8 %age points in 2005, apartment vacancies in Edmonton have tumbled from 4.5 % in 2005 to 1.2 % this year, the lowest rate since 2001. This is not unique to the large urban centres. In the same survey, CMHC found that among Alberta's 11 census jurisdictions seven saw their vacancy rates fall below one %, while two of these centres recorded a vacancy rate of zero %.

Of course, the falling vacancy rates have opened the door for landlords to start increasing their prices. The level of desperation and lack of alternatives allows landlords to dramatically increase rents without fear of losing the tenants or of vacancies. The tenants have few options. In Edmonton, over 70% of households experiencing difficulty with housing costs are renters. For Edmonton, the average rent for a two bedroom apartment in existing structures increased by 10.4 % in October 2006 compared to a year prior. Over the same period, the increase was 18.3 % in Calgary. Without rent controls, anecdotes of rent increases range as high as \$900 to \$1000 in one year.¹² For Edmonton, the Canadian Mortgage and Housing Corporation predicts that the tight rental market will result in rent

⁹ United Way of Calgary and Area, the YWCA of Calgary and the Calgary Homeless Foundation, The Alberta Advantage to Low-Income Albertans, Recommendations to the Alberta Government Low-Income Program Review Task Force, (Calgary, United Way of Calgary and Area, the YWCA of Calgary and the Calgary Homeless Foundation), <http://www.ywcaofcalgary.com/pdf/TaskForce.pdf> (accessed May 30, 2007).

¹⁰ Kim Guttormson, "New workers swamp Calgary's homeless agencies in Calgary Families drawn by the economic boom can't find housing" Vancouver Sun (Vancouver, CanWest News Service, Saturday, July 08, 2006) <http://www.canada.com/vancouversun/news/working/story.html?id=89020da4-c032-404a-88cd-3cf2f518b5bd> (accessed May 29, 2007).

¹¹ Canadian Mortgage and Housing Corporation, "Housing Market Information, Rental Market Information, Alberta Highlights", (CMHC, 2006), https://www03.cmhc-schl.gc.ca/b2c/b2c/init.do?language=en&z_category=0/0000000059 (accessed May 2007).

increases of \$162 per month for the average two bedroom rental in 2007, and \$130 per month in 2008, reaching an average of \$1115 per month.¹³

To be able to afford the average two bedroom apartment (at the 30% of income range) a single parent would need to earn \$3667 per month. This translates into required earnings of over \$20 per hour. This is difficult to achieve since the majority of employment in Edmonton is found in the retail trade industry where a high %age of people earn the minimum wage.¹⁴

¹² Calgary Herald, "Rental Increases in Alberta", (Calgary, Calgary Herald, March, 8, 2006). <http://communities.canada.com/calgaryherald/forums/thread/16694.aspx> (accessed May 2007).

¹³ CMHC, Housing Market Outlook, Edmonton, (CMHC, 2007). <http://www.glennsimoninc.com/PDF/CMHC%20Edmonton%20Market%20Spring%20Report%202007.pdf> (accessed May 30, 2007).

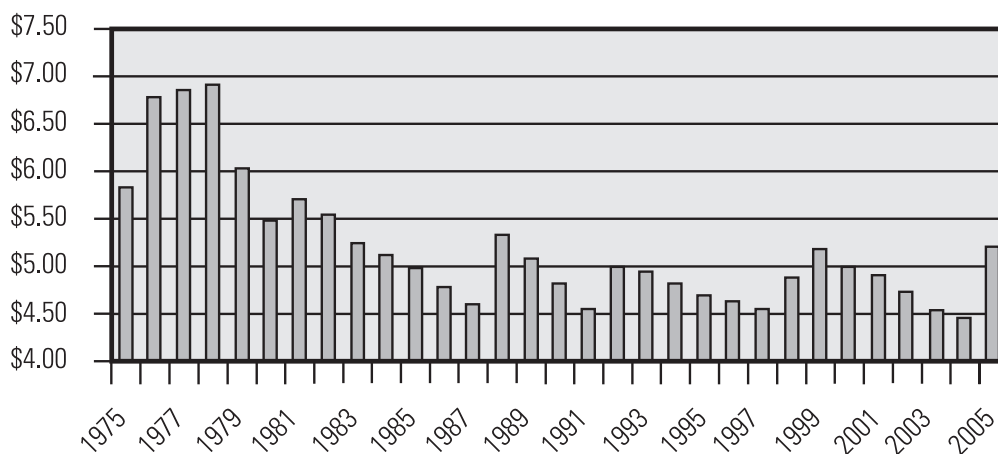
¹⁴ Vibrant communities Edmonton, About building family economic success in Edmonton <http://tamarackcommunity.ca/g2s23.html>

Minimum Wages

The chart in Figure 3 reveals that Alberta's minimum wage has not been keeping up with inflation. In fact, the 2005 increase only just captured the inflationary loss of the previous few years, and in no way brings the minimum wage in line with the booming economy, as the government alleges. The boom and higher levels of per capita wealth being generated in Alberta's GDP are not being reflected in the province's minimum wage. In fact, the graph shows that the minimum wage was almost one-third higher during the boom of the 1970s.

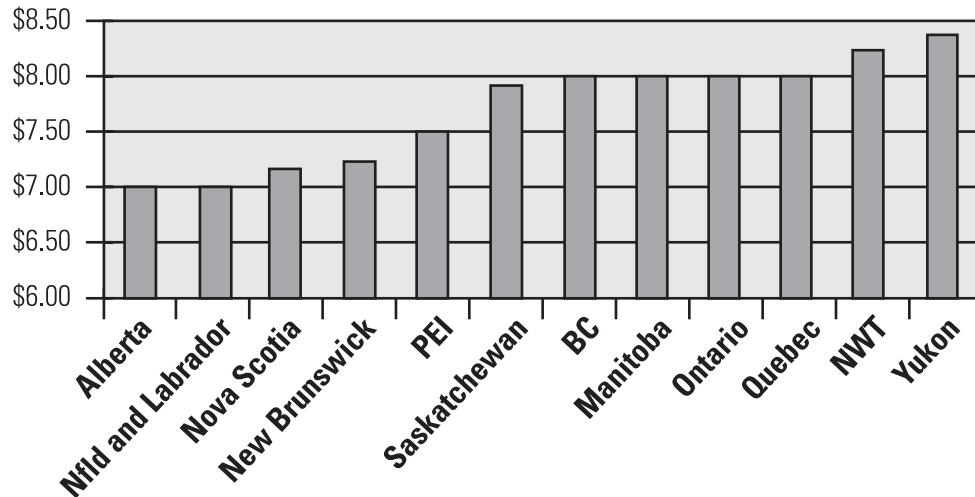
FIGURE 3

Alberta Minimum Wage (inflation-adjusted)



Source: Minimum wage data from Human Resources and Social Development, *Hourly Minimum Wages in Canada for Adult Workers*, <http://srv116.services.gc.ca/wid-dimt/mwalindex.aspx?report=report2&dec=5>. Inflation figures from Alberta Government, *Agriculture and Food, Economic Indicators*, [http://www.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/sdd0287/\\$file/economicindicators.pdf?OpenElement](http://www.agric.gov.ab.ca/$department/deptdocs.nsf/all/sdd0287/$file/economicindicators.pdf?OpenElement). Note 1975-78 inflation figures for Canada, not Alberta.

FIGURE 4

National Minimum Wage Comparison

Sources: Human Resource and Employment, *Alberta Minimum Wage Profile 12 Month Average* (July 2005 - June 2006) http://employment.alberta.ca/documents/LMI/LMI-WSI_minwageprofile.pdf

Figure 4 compares Alberta's minimum wage with other provinces and shows that, in spite of the record wealth being created in Alberta, and a recent increase in minimum wages, Albertans are still earning the lowest minimum wage in the nation.

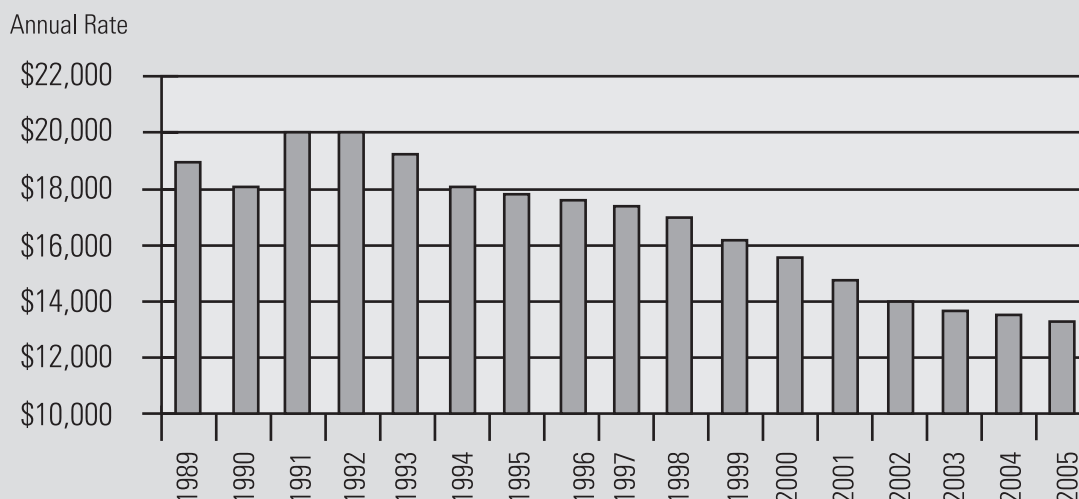
Social Assistance Rates in Alberta

Another area where the benefits of the boom are not being seen is in social assistance rates. Again, those rates are not indexed to inflation and, like minimum wages, their value is constantly being eroded.

Figure 5 (next page) shows the provincial social assistance rates adjusted for inflation for a couple with two children. What can be seen in this chart is a sharp decline in the value of the income in real dollars. In spite of higher levels of employment, there are still over 56,000 Albertans on social assistance. These individuals and families are being hit hard by the boom as rent increases and inflation eat away at their limited incomes.

FIGURE 5

Provincial Welfare Income 1999 to 2005 for an Alberta Couple with Two Children



Sources: National Council on Welfare, *Welfare Incomes 2005*, P. 81
<http://www.ncwcnbes.net/htmldocument/reportWelfareIncomes2005/WI2005ENG.pdf>

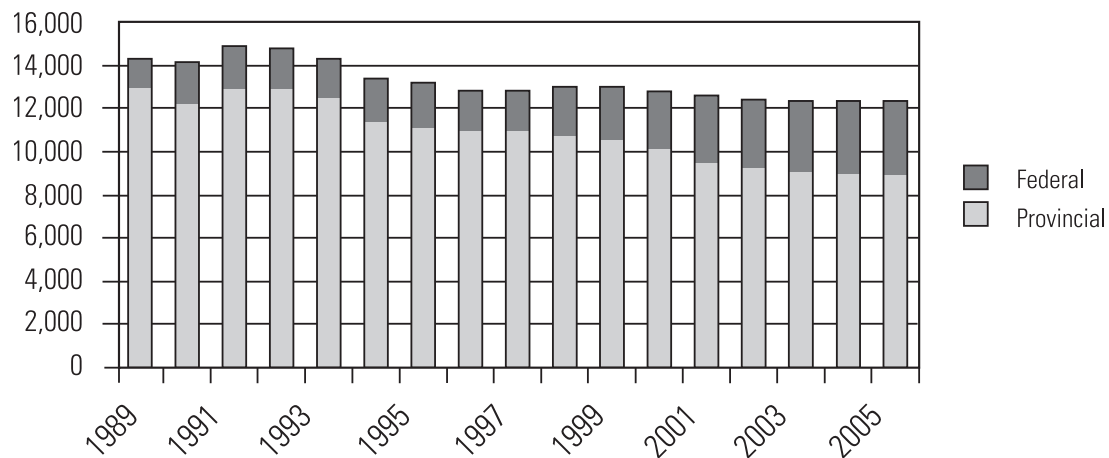
As mentioned earlier, the average rent for a two bedroom in Edmonton is predicted to reach over \$1100. For that amount to be 30% of income, the income would need to be \$3,667 per month or \$44,000 per year. Figure 5 shows that the rates for a couple with two children fall far short of that figure, less than half of what is needed to assure rental affordability.

Figure 6 shows the social assistance rates for single parent families. The lighter portion of the bars in the graph represents the provincial social assistance payments. The black portion of the graph lines represents the contribution by the federal government. This would include federal benefits such as the child tax credit and the child care benefit. This graph clearly illustrates that those families would have been much worse off without the federal contributions, the black portion on the graph. As provincial support payments have fallen, those federal contributions are making up an increasingly important portion of the income for those families. Without those federal benefits, the cuts in social assistance rates would be much more dramatic. However, even those federal programs are not enough to keep those families out of poverty. According to the National Council on Welfare, "Lone parent families in Alberta, Canada's richest province, received just \$12,326-only 48 % of the poverty line."¹⁵

¹⁵ National Council on Welfare, *Welfare Incomes 2005*, (National Council on Welfare, summer, 2006). <http://www.ncwcnbes.net/htmldocument/reportWelfareIncomes2005/WI2005ENG.pdf> (accessed March 27, 2007). More information on cost trends and social incomes is available from the Edmonton Social Planning Council report, "Tracking the Trends" (Edmonton, ESPC, 2007). http://www.edmspc.com/Uploads/Tracking%20the%20TRENDS_Part%201%20%20Sec%20C.pdf.

FIGURE 6

**Total Welfare Incomes 1989 to 2005
Lone Parent One Child**

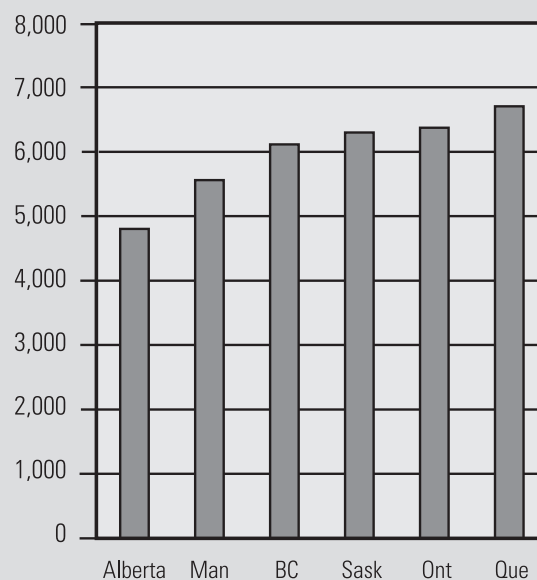


*Sources: National Council on Welfare, Welfare Incomes 2005, P. 81
<http://www.ncwcnbes.net/htmldocument/reportWelfareIncomes2005/IW12005ENG.pdf>*

Figure 7 shows provincial welfare incomes for single employable adults in 2005. The chart reveals that Alberta's rates for this category are the lowest of the provinces. Alberta also has the lowest rates for a lone parent with one child. Alberta's welfare incomes as a %age of median incomes were also the lowest in the nation for all four household types. In general, like the minimum wage, Alberta's rates are generally at the low end, if not the lowest, of the provinces- in spite of being the richest province. ¹⁶

FIGURE 7

**Provincial Welfare Incomes
Comparative Rates for a Single Employable Adult**



*Source: National Council on Welfare, Welfare Incomes 2005
 (National Council on Welfare, summer, 2006) <http://dsp-psd.pwgsc.gc.ca/Collection/SD25-2-2005E.pdf>*

¹⁶ Ibid.

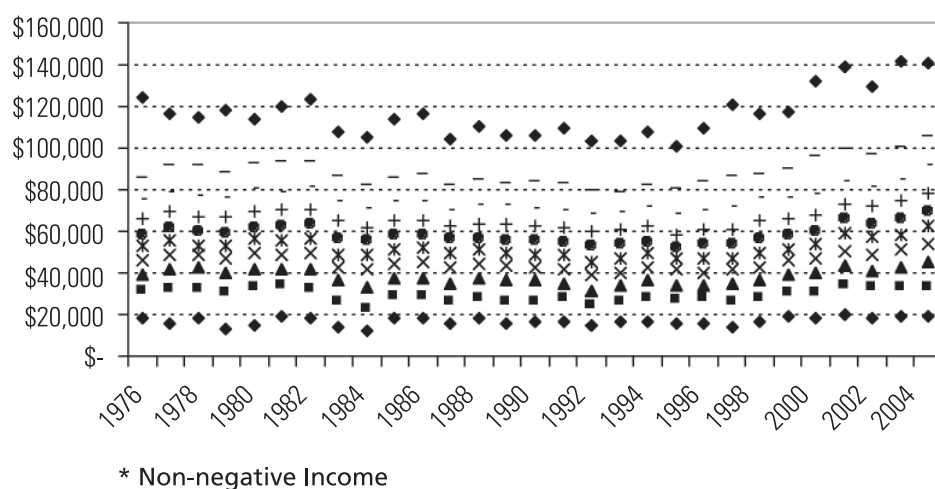
III. The Squeezed Middle

Early in the report, the chart on GDP (Figure 1) showed that Alberta's growth was not being distributed into average incomes. As this is average incomes, it does not tell a very detailed story. To better explain how most people are experiencing the boom in Alberta, Parkland Institute and the Canadian Centre for Policy Alternatives undertook a sister study to this one which focuses specifically on income distribution and inequality in Alberta. That study, written by Armine Yalnizyan, titled *Alberta's Forgotten Families: They Work Hard for their Money* profiles what is happening to middle income Albertans.¹⁷ Much of this section is based on that report.

Figure 8, a graph from the report, shows income for Albertans, broken into ten income groups (deciles). The income is measured as median income and after tax figures are used to depict the income families have at their disposal. These figures are controlled for inflation and represent 'real' dollars. This graph shows that the GDP growth line seen in Figure 1 is reflected in the incomes chart. However, it is mostly going to the top income deciles. The benefits of the boom are disproportionately going to high income Albertans, most notably the top income bracket. That income bracket has seen increases far in excess of those being seen by the rest of Albertans.

17 Armine Yalnizyan, *Alberta's Forgotten Families: They Work Hard for Their Money*, (Canadian Centre for Policy Alternatives and Parkland Institute, forthcoming publication).

FIGURE 8 **Median Income After Tax* (2004 \$'s) by Decile**
1976-2004; Economic Families with Children. Alberta



Source: Statistics Canada unpublished data excerpted from Armine Yalnizyan, *Alberta's Forgotten Families: they work hard for their money*, forthcoming report from the Canadian Policy Alternatives and Parkland Institute, 2007.

According to this graph, those in the lower income bracket are not better off at all, and middle income Albertans are only slightly better off than they were in 1998. However, to explain why so many Albertans say they have not benefited from the boom, this graph needs to be considered in the context of working hours. If those income increases have been paralleled by an increase in working hours, it is not the benefits of the boom we are seeing but families working harder to maintain their standard of living.

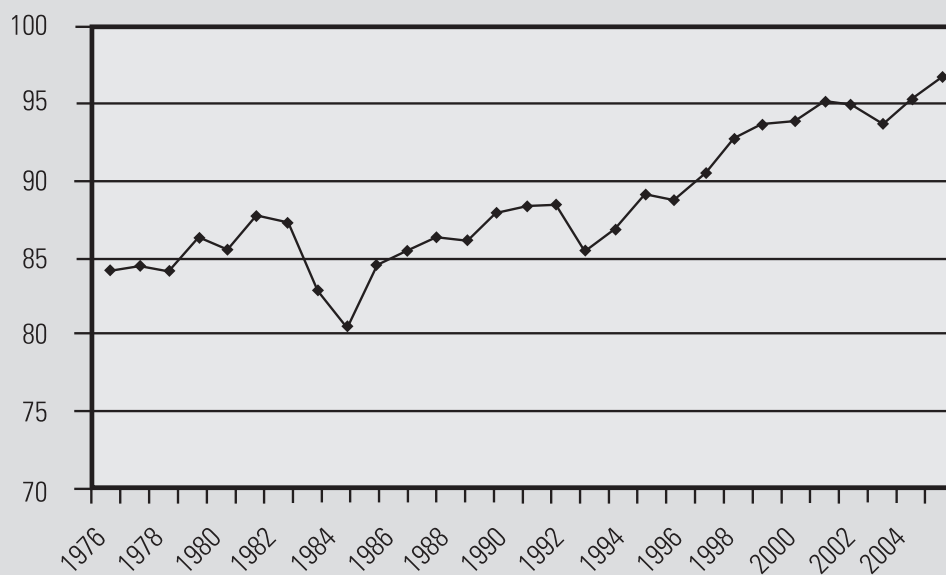
Working Harder

When the above chart is considered in conjunction with the hours worked by Alberta's families (Figure 9), it becomes clear that Albertans are earning those higher incomes, for the most part, through working harder, not by earning more. And Albertans already work hard by comparison. In January 2007 Statistics Canada announced that Albertans were working harder than any other Canadians. Workers in Alberta averaged 1,880 hours a year, the highest in the country. This is the equivalent of 36 hours a week for a full-year worker.¹⁸

18 Statistics Canada, "Understanding regional differences in work hours," the Daily (Ottawa: Statistics Canada, Monday January 22, 2007), <http://www.statcan.ca/login.ezproxy.library.ualberta.ca/Daily/English/070122/d070122a.htm> (accessed May 24, 2007).

FIGURE 9

Average Annual Weeks of Employment, Families with Earnings, with Children Under 18, Alberta, 1976-2004

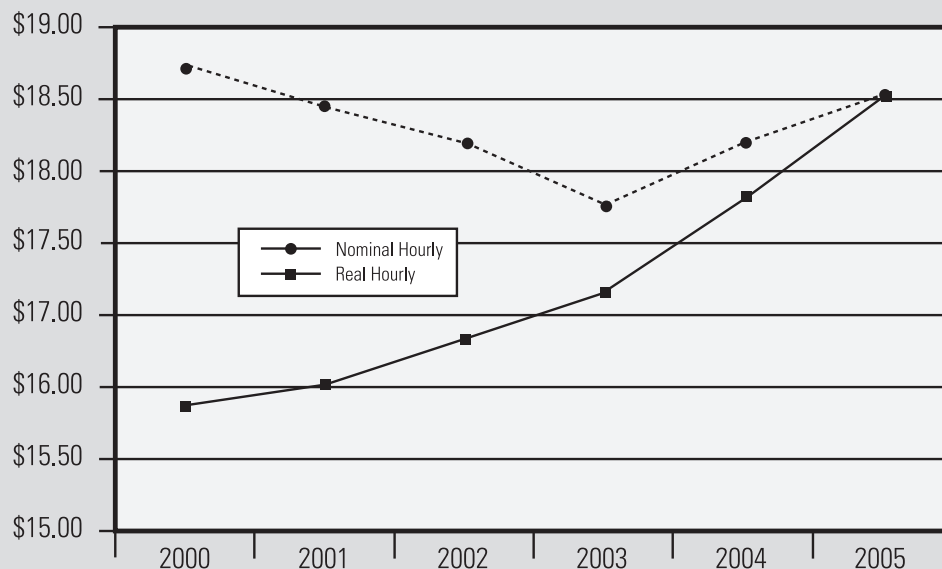


Source: Statistics Canada unpublished data excerpted from Armine Yalnizyan, *Albertan's Forgotten Families: they work hard for their money*, forthcoming report from the Canadian Policy Alternatives and Parkland Institute, 2007.

A look at hourly wages helps to illustrate the dynamic between working hours and income. Figure 10 shows hourly wages before and after they are adjusted for inflation.¹⁹ This graph reveals that hourly wages in Alberta have not been keeping pace with the high levels of inflation. Figure 10 shows that wages did increase between 2000 and 2005 (nominal wages) but that after inflation is accounted for, actual wages (real wages) fell over the same period. This trend affirms that hourly wages do not account for the growth in incomes for the average Albertan and that what income gains they have made have been instead through working more.

FIGURE 10

Nominal and Hourly Wages in Alberta



Source: Chart based on data from Statistics Canada, Cansim Database, Table #281-0300, real hourly rates calculated using the Consumer Price Index (1992 = 100)

This section confirms that the boom is passing lower and middle income Albertans by. It also clearly illustrates that those in the top end are reaping the benefits of the steep growth in GDP. Middle income Albertans are being squeezed, working harder to get ahead. The next section explores where the benefits of the boom are going by analyzing the experience of corporations in Alberta's boom.

IV. Where is the Money Going?

Though the income graph reveals that some of the growth in GDP in Alberta is being shared with the top income level, this does not tell the whole story on where Alberta's wealth is going. An examination of profits and corporate revenues reveals the other side of the story. The trend towards the wealth trickling up was alluded to in the section on GDP with Figure 2 on corporate equity. This section explores that story in more depth, first through a general discussion of profit levels in the energy sector, and then through a more detailed case study of ten corporations involved in Alberta's oil and gas industries.

Corporate Profits

A study by well known energy industry economist and author Peter Tertzakian points out that between February 2003 and March 2006 crude oil and natural gas prices rose 80% and 60% respectively. The study concludes that, "Such dramatic price appreciation, in a short period of time, has substantially jolted the normal course fiscal dynamics of the Canadian oil and gas industry, and given momentum to trends like oilsands and unconventional gas development, constrained services and cost inflation."²⁰

Those dramatic price increases have also led to record high profits in the industry. In February, 2007 Statistics Canada released a report that corporate operating profits had reached their second consecutive record high in 2005. At \$249.9 billion, profits had increased 14.9 % over previous year. Energy based industries - oil and gas extraction and support activities, utilities operators, and petroleum and coal product manufacturers - led with profits of \$54.5 billion.²¹ These high profits have also led to very high returns on investment in the oil and gas sector. As mentioned earlier, returns on equity for Canadian upstream oil and gas have risen from the high level of 15.4 % in 2001 to 22.4 % in 2005.²²

¹⁹ This chart uses data from Statistics Canada as analyzed by the Alberta Federation of Labour (AFL) in a 2007 report, *Anatomy of a Boom*, (Edmonton, AFL, May, 2007).

²⁰ As quoted by Jim Bentein in "Oil & Gas Dynamo Drives Economy", MarketPlace, <http://www.nickles.com/MarketPlace/pdfs/OilGasDynamo-gps06.pdf> (accessed February 2007).

²¹ Statistics Canada, "Financial and Taxation Statistics for Enterprises", *The Daily*, (Ottawa: Statistics Canada, February 7, 2007).

²² Peter Tertzakian and Kara Baynton, *Canadian Upstream Oil and Gas Industry Financial Performance Outlook 2006-2008*, quoted in John W. Warnock, *Selling the Family Silver: Oil and Gas Royalties, Corporate Profits and the Disregarded Public*, (Edmonton: Parkland Institute and Canadian Centre for Policy Alternatives -Saskatchewan Office, 2006).

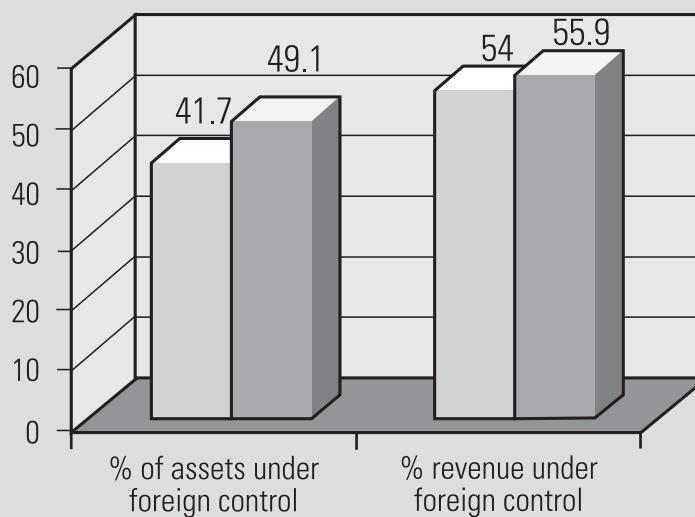
Foreign Ownership

A study of the wealth distribution in Alberta would be incomplete without an analysis of the level of foreign ownership. This analysis gives an indication of the extent to which the non-renewable resource development is benefiting those who live and work in Canada compared to shareholders from outside of the country. Unfortunately, though Statistics Canada collects data on foreign ownership levels in Alberta's oil and gas and related industries, they are not releasing that data due to potential breaches of confidentiality. Thus this report has had to rely on the national level figures which likely under-estimate the level of foreign ownership in Alberta.

Figure 11 shows Statistics Canada figures on assets and revenues under foreign control in the oil and gas extraction and support activities sector in Canada. It shows how those figures increased between 2000 and 2003. As can be seen, close to half of the assets and over half of the revenue is foreign owned.

FIGURE 11

Assets and Revenues under foreign control



Source: Statistics Canada data from "Changes in Foreign Control under Different Regulatory Climates: Multinationals in Canada", by John R. Baldwin, Guy Gellatly and David Sabourin, Statistics Canada, March 2006 Catalogue no. 11-624-MIE-N° 013.

Though this data is very general, it can be used to give some context to the earlier chart on corporate equity (Figure 2). Using the data in Figure 11 one can quantify the figures on corporate equity in oil and gas. Revisiting Figure 2, one can see that corporate equity in the oil and gas sector in Canada is approaching 70 billion. Using the foreign ownership chart, with ownership of assets at 49.1 %, this translates into \$34.37 billion worth of oil and gas assets in Canada that are foreign owned. Given the level of wealth being generated in Alberta and the lack of distribution to middle or lower income Albertans, this is a critical piece of the puzzle as to where that economic growth is going. The majority of the profits are being made by foreign shareholders, meaning that a significant portion of the wealth being generated in Alberta is leaving the country.

As noted in a recent Parkland publication, Canada is unique amongst developed nations in allowing this level of foreign ownership of such a strategic economic sector and enabling such a huge transfer of wealth outside the country.²³ This is further evidence of the colonial mentality that overshadows development policy in Canada. The energy sector is not unique; foreign ownership is high across the economy though especially so in the oil and gas sector. Altogether, some 36 different sectors of the Canadian economy are heavily or majority foreign-owned and/or controlled. In comparison, in the United States, there is not one major industry that is majority foreign-owned or controlled.²⁴

23 Diana Gibson, "Taming the Tempest: An Alternative Development Strategy for Alberta" (Edmonton: Parkland Institute, University of Alberta, May 2007).

24 Statistics Canada data as analyzed by Mel Hurtig, "Selling Off Our Country: Takeovers place key Canadian industries in foreign hands," The CCPA Monitor, (Canadian Centre for Policy Alternatives, April 2006), <http://policyalternatives.ca/MonitorIssues/2006/04/MonitorIssue1353/index.cfm?pa=DDC3F905>, (accessed April 25, 2007).

25 We selected major companies that had most of their oil and gas production in Canada, based on BusinessEdge, which reports Canadian and foreign production. To focus more precisely on Alberta, where possible we included only data that pertained to corporate performance that were associated with activities in Alberta. For example, we included a corporation's revenue from oil sands, and excluded its revenues from refining operations outside Alberta.

An Analysis of Alberta Corporations

Methodology

As mentioned earlier, the data available publicly on equity, ownership and profits are only made public on a national level. Though it was beyond the scope of this study to do a comprehensive analysis of Alberta's corporate performance, Parkland researchers were able to do a survey to bring those national figures into a provincial context. In order to get a more detailed picture of Alberta, Parkland conducted an analysis of ten major Alberta corporations. We focussed primarily on oil and gas companies as that sector is driving the growth of the Alberta's economy. We had two criteria for corporations to be included in our sample. First, the corporation had to derive the majority of its revenues and income from Canada, and Alberta in particular.²⁵ Second, we required financial information be publicly available.

From the annual reports and security filings of each company, we obtained data on corporate revenues, income, taxes paid, dividends paid, and other financial data. In addition, we obtained data on the ownership of corporations in our sample from public sources. We obtained data for the years 2003, 2004 and 2005, and believe our general results hold for 2006, as the corporate sector of Alberta continues to thrive. We analysed the data for trends and issues important to Albertans. We based our analysis on (unweighted) averages and year over year changes.

General Trends

We observed several important trends that are consistent with the national trends. In general, the corporations in our sample enjoyed strong performance. Corporate revenues and income, executive salaries, and dividends paid to shareholders (whom are typically outside Canada), all have increased. Capital spending has grown significantly. We discuss these and other trends in more detail below. All amounts are in millions of Canadian dollars unless otherwise indicated.

Revenues

In general, the corporations we analyzed have performed very well over the last few years. Average revenues in 2005 for the ten companies surveyed were \$5.2 billion each, an increase of 26.5% over average revenues in 2004 of \$4.1 billion. Corporations in our sample have significant cash resources. Average cash balances in 2005 were \$609 million, a 104% increase from \$297 million in 2004. While arguments can be made that expenses have also increased, our analysis shows corporate revenues are rising faster than expenses. Income after expenses, known as operating income, increased by 44.2% to \$1.4 billion for 2005.

Return on Equity

Return on equity (ROE) across our sample corporations averaged around 20% for the three years. It increased in 2004 and declined in 2005. However, the decline was primarily due to the petrochemical sector. Nova Chemicals, a corporation in our sample, had a negative ROE in 2005 of 7.7%. Excluding Nova, average ROE for the nine remaining corporations increased over the period from 21.7% in 2003, to 22% in 2004 and 23.1% for 2005.

Executive Salaries

Consistent with the trickle up trend, executives have seen their salaries increase over the last few years. The average CEO annual salary, including bonuses, for the corporations in our sample in 2005 was \$2.5 million, a 5.1% increase over 2004. We based our analysis on annual compensation, which does not include longer-term awards of stock options or pensions. However, stock options are an increasing part of executive pay, and often greater than salary. These longer-term awards do not necessarily represent cash immediately, and may decrease in value as shares of the corporations decline, but they are very substantial in many cases. For example, in 2005, the CEO of Suncor received stock-based compensation valued at \$2.3 million, and the CEO of Imperial Oil received stock-based compensation valued at \$7.4 million.

Dividends

Dividends represent payments to shareholders. Average dividends in our sample were \$213 million in 2005, an increase of 28.6% over 2004 dividends of \$182 million. Using the data on foreign ownership from Statistics Canada, it is possible to calculate the portion of dividends from the sample that is going to foreign shareholders. Dividends paid by the ten corporations surveyed were \$2.367 billion. At 55.9%, that means a rough estimate of \$1.323 billion leaving the country in dividends to foreign shareholders in one year from ten companies alone. As mentioned earlier, these figures are likely underestimated.

Summary

Though the data set was limited, this case study indicates trends in Alberta that correlate well with trends described by Statistics Canada at the national level. The case study indicates that Alberta based corporations have enjoyed increases in revenues and income over the last several years. Capital spending has increased, and corporations have increased the cash resources they have. As well, executive salaries and payments to shareholders have increased. Conversely, royalties, which represent payments to Albertans, have remained essentially unchanged. Furthermore, expenses, which represent payments for salaries, as well as other corporate expenses, have not increased at the same pace as corporate income.

V. Conclusions and Recommendations

The province has been experiencing dramatic uncontrolled growth. However, this report has shown that the boom is passing the average Albertan by and lower income Albertans are falling farther behind. The steep growth in the economy is not being reflected in the incomes of average Albertans and where their incomes rose, it was mostly due to working more hours, not higher wages. For those Albertans at the bottom, their incomes are falling; social assistance rates are at 50% of the levels of the 1980s, minimum wages are not keeping up with inflation and are still amongst the lowest in the country. Homelessness rates have been skyrocketing and increasing numbers of Albertans are at risk of homelessness. Middle income Albertans, already the hardest working families in the nation, had to work more hours to get ahead.

Only Alberta's richest 10% of families saw their incomes rise significantly. By-passing average Albertans, Alberta's boom is being seen mainly by corporate executives in the form of salary increases and bonuses, to high income earners, to corporations in the form of unearned profits, or out of the country through dividends to foreign shareholders. The strong GDP growth Alberta has been experiencing is trickling up not down.

There is no question that Alberta's current boom is being driven by high prices and investment levels in the fossil fuels sector - there is \$169 billion in development currently on the books in Alberta, \$100 billion of which is for the tar sands alone. This report's description of the limited distribution of the benefits of the boom begs the question of why Alberta is going down this path-the path of further fossil fuel extraction with rising environmental costs. If the average Albertan is not benefiting and many are worse off, why would the province go further down that path? The government is certainly not using the boom to build a future for the province. Savings are embarrassingly low and investments are not being made in sectors such as renewable energy.

It is taxpayers who will be picking up the tab for the environmental costs of the tar sands-average Albertans. It is average Albertans who bear the environmental costs already in the form of water shortages, water contamination, air quality concerns, etcetera. If those same Albertans are not benefiting from the boom, what makes those sacrifices worthwhile?

Recommendations:

It is beyond the scope of this report to provide in an in-depth set of policy recommendations to address all of the areas raised. However, there are many groups doing excellent work around the province on issues such as poverty alleviation, living wage and homelessness. It is hoped that this report will support those initiatives by illustrating their importance. However, the report does make a brief set of general recommendations as follows.

The current economic structures are redistributing income, just not to middle class or low income Albertans. To address this, mechanisms need to be put into place to ensure that average Albertans actually benefit from the boom. Without these, the bulk of the gains will continue to go to the top ten % of Albertans and mostly foreign corporations.

Addressing the crisis and working towards poverty elimination – While immediate measures are needed to address poverty and homelessness, a broader and more comprehensive poverty elimination strategy is needed. Such a strategy could include: ensuring well funded, public or non-profit childcare is accessible to all; indexing social assistance rates and minimum wage to inflation and increasing those rates to above the poverty line; ensuring a living wage; implementing rent controls and an affordable housing strategy; and ensuring adequately funded education is accessible and affordable for all. Achieving this strategy will necessitate that labour rights are strengthened including better conditions for organizing and achieving collective agreements.

Other elements of ensuring a better distribution of the boom in the province include ensuring better mechanisms for guaranteeing democracy, implementing rent controls, improving the mechanisms for capturing extraordinary or unearned profits, and reinstating progressive taxes.

Democratize – The influence of oil and gas extraction companies on government policy is strong. The counterbalances for this are not in place. A lobbyist registry, campaign donation limits, and all party committees are just a few mechanisms that would increase the level of democracy. Another instrument that would significantly change the political landscape in the province is proportional representation. This form of political structure would increase the representation of progressive elements in the province which would put pressure on the government to improve the province's record in areas such as minimum wages and social assistance.

Rent Controls – With the crisis levels of homeless and at risk of homelessness, it is obvious that action needs to be taken to protect lower income Albertans from the downsides of the boom. Part of this strategy needs to include pacing the development in such a way that growth in Alberta is slowed. However, the government failed to take measures soon enough on issues such as housing and is now at a crisis point. Relying on the construction of low income housing will not be enough, more immediate measures such as rent controls and income measures will be necessary. The current subsidy program is woefully inadequate and misdirected. It encourages landlords to gouge tenants on rent, knowing that the government will pick up their shortfall. Concerns about disincentives to building social housing should be addressed through caveats for new home construction costs within a rent control law, not used to prevent such a law altogether.

Capturing a greater share of unearned profits – Measures are also needed to capture and redistribute more of the extraordinary and unearned profits that are currently going to mostly foreign corporations. These include measures such as increased royalty rates with a windfall profits royalty, increased corporate taxes, and reinstating progressive taxes for high income earners. Additionally, measures to limit foreign ownership of the oil and gas sector would ensure that more of the profits made from Alberta's natural resources are used to the benefit of Canadians and at least are returned into the Canadian economy.

Progressive taxes and corporate taxes – The government's elimination of progressive taxes increased the province's reliance on volatile fossil fuel revenues for funding social programs. Reinstating those taxes would increase the reliability of those funding sources. Also, levels of income inequality and corporate profits discussed in this paper reveal that the government is remiss in not capturing more of the riches at the top end of the income scale. Inequality will only be reduced by such income redistribution mechanisms being used effectively to capture extraordinary profits and incomes.

Finally, the report highlights the need for the province to have a broad public debate about the purposes of the economic growth currently being experienced. Economic growth is meant to serve social goals and result in positive outcomes for the province. This report represents a cost-benefit analysis of the boom and for most Albertans the costs outweigh the benefits. Without significant changes to the policies for distribution of the spoils of the boom, such as those recommended in this report, this will continue to be the case. Parkland Institute hopes this report provides the information necessary to begin that discussion and change the path Alberta is on.



11045 Saskatchewan Drive,
Edmonton, Alberta
T6G 2E1
Phone: (780) 492-8558
Email: parkland@ualberta.ca
Website: www.ualberta.ca/parkland

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