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Review of "Strength in Adversity: A Study of the Alberta Economy" by Robert L. Mansell and Michael B. Percy

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Strength in Adversity: A Study of the Alberta Economy. Robert L. Mansell and Michael B. Percy. Publication No. 1 in the Series: Western Studies in Economic Policy, a joint series of the Western Centre for Economic Research at the University of Alberta and the C. D. Howe Institute. Edmonton, Alberta: University of Alberta Press, 1990. xi + 154 pp. Figures, tables, and references. \$C16.95 paper (ISBN 0-88864-232-6).

This review of Alberta's economic fortunes in the early and mid-1980s by two of Alberta's best academic economists will interest economists concerned either with western Canada in particular or with the problems of non-very-diversified regional economies in general.

The book's first two substantive chapters consist of a data-laden review of Alberta's protracted economic downturn in the early 1980s and its recovery following 1985. Using simulations with a computer model of the Alberta economy, the authors find that the provincial economy's performance was worse in the early 1980s and better in the middle 1980s than it would have been had "natural" factors alone, such as changes in resource prices and economic activity in customer markets, been the sole influences on output. The main "non-natural" influences were government policies and Mansell and Percy find that these made matters worse in the early 1980s and better after 1985.

The principal such influence was the federal government's National Energy Policy, which included price controls on oil and gas that transferred billions of dollars of energy rents from Alberta to the rest of Canada, principally Ontario and Quebec, where most Canadians live. After 1984, however, the new (Progressive Conservative) federal government's abandonment of the National Energy Policy and provision of substantial subsidies to agriculture substantially reduced Ottawa's net fiscal transfer out of Alberta, though even so in 1985 it was the only province in which Ottawa taxed more than it spent.

The book's second half is given over to a discussion of economic instability. Using a variety of measures, the authors show that Alberta's economy is both the most variable in Canada and considerably more variable than the economies of Texas and Oklahoma, the two American states with the most similar industrial makeup. (One shortcoming of this section is that it spends little time on whether Alberta's instability results mainly from the 1980s experience, which might be regarded as exceptional.) After describing the results of a poll in which Albertans indicated a strong preference for greater stability in the province's economic performance, even at the expense of reduced incomes, the authors move on to a discussion of ways in which stability can be fostered.

Quite sensibly, they are not enthusiastic about traditional diversification, in which governments support new industries whose cycle is thought to run counter to the cycle of the province's dominant industries. Rather, they favour policies that would smooth income flows and public revenues by, for instance, establishing other funds like the Alberta Heritage Savings Fund and taxing corporations on their cash flow and personal incomes on a longer-than-annual cycle. To the extent that government support for industry may be required, the authors favour what they (perhaps wisely) call a "shotgun" approach, in which the overall business climate is improved, rather than a "forced growth" approach, in which public support focuses sharply on particular industries. Recognizing that Canadian governments, at least, have been unable to resist the latter approach, they also provide a set of rules that might guide forced growth policies. Unfortunately, the thrust of many of these rules is to get patronage politics out of the allocation of industrial subsidies, which seems unlikely since this is probably one of their main attractions as far as many governments are concerned. In general, however, the discussion of desired policies should be required reading for anyone interested in regional economic development. William Watson, *Department of Economics, Simon Fraser University*.