Petropolitics: Petroleum Markets and Regulations, Alberta as an Illustrative History

by Alan J. MacFadyen and G. Campbell Watkins
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In Petropolitics, former U of C economists Alan MacFadyen and the late G. Campbell Watkins offer a detailed examination of Alberta’s petroleum industry from a historical, economic and public-policy perspective. Although intended for business and economics experts, Petropolitics will also appeal to those familiar with the industry and those interested in a closer study of it.

Alberta’s oil production was negligible until the late 1930s and did not increase significantly until the late 1940s, when in the authors’ words, “Gross production in Alberta grew more rapidly than the Canadian average, as did employment and the population.” MacFadyen and Watkins disdain government policies that interfere in the market, but betray hypocrisy in their support for the dramatic increases in crude oil prices in the 1970s by the governments of the Organization of Petroleum Exporting Countries, which spurred increased economic growth in Alberta. They also criticize Ottawa’s National Energy Program (1980–1985), which held the domestic price below world price—but I remain convinced that Trudeau’s intention of fairness for all Canadians was sound. The authors also fail to address the fact that high oil prices accelerate and magnify economic problems, and that unemployment was widespread in the eastern provinces where the Trudeau government had much of its political support.

Debatable too is the authors’ view that the deregulation of Canadian crude oil prices in 1985 and the commitment to free markets implied by the Canada-US Free Trade Agreement and NAFTA were “eminently sensible policies.” They contradict themselves, acknowledging “the variability of oil and gas prices has led to greater instability in the Alberta economy.” Indeed, a sharp decline in oil prices after 1985, price rises from 2004 to 2008 and a quick rebound following a price collapse after 2008 all subjected Alberta’s economy to bust and boom cycles.

Former premiers Ralph Klein’s and Ed Stelmach’s drastic reductions in oil and gas royalty rates are overlooked: the former from 40 per cent to 20 per cent and the latter to 10 per cent. These changes have deprived our province of billions of dollars needed for a rainy-day fund. MacFadyen and Watkins also fail to address the pressing environmental issues (e.g., climate change) inseparable from rapid oil sands development. The reluctance of our provincial and federal Conservative leaders to slow the pace of oil sands development is shameful.

Despite its shortcomings, Petropolitics is a worthwhile read. Its wealth of information enables readers to better understand energy issues dominating today’s headlines in our province.

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