part one

The Context of Democracy in an Oil Economy
The Many Modes of Liberal Democracy

The political history of our world could well be written as a continuing struggle to define and refine democracy—from its limited beginnings in the republics of India and the city-states of Greece in the seventh and sixth centuries BC, to the Magna Carta and the French Revolution, and finally to the emergence of so-called liberal democracy, in its many iterations, as the predominant political system throughout the world in the twentieth century. Most often described as a representative form of government that operates according to the principles of liberty and equality first articulated by John Locke and other philosophers of the Enlightenment, liberal democracy seeks to protect basic human rights, civil liberties, and political freedoms for all persons, including minorities. It is characterized by attributes that include fair, free, and competitive elections between multiple distinct political parties, a separation of power into different branches of government, and the rule of law. Liberal democracies often rely on a constitution to delineate the powers of the government and to enshrine the social contract—the legitimacy of the authority of the state over the individual (see Beetham 1992; Macpherson 1977).

Although expressed in widely varying manifestations, first in different parts of Europe, then in the Americas, and finally in the former colonies in the Global South, notions of widespread social, economic, and political equality have formed the basis of the quest for democracy over the past two centuries. However, the path to democracy is fraught with many obstacles in all parts of the world, as is evident from growing income and political inequality in both hemispheres and from the rise of movements such as the Arab Spring in the Middle East, Occupy in North America, Indignados in Spain, Aganaktismenoi
in Greece, Movimento dos Trabalhadores Sem Terra (MST) in Brazil, and Naxal in India, among others.

Indeed, historically the vast spectrum of democracy ranges from minimalist, electoral, and polyarchical to many direct and representative types of democracies (Schmidt 2002). Clearly, the term democracy is a highly contested one, and much has been written within the field of democratization studies to try to define it. In the twenty-first century, the global financial crisis that began in 2008, the wars in Iraq and Afghanistan, the economic success of authoritarian China, and increasing inequality in all parts of the world, among other trends and events, have rekindled the debate about threats to democratization and about the probability of a “reverse wave” bringing a revival of authoritarianism (Carothers 2007; Diamond 2008; Krugman 2009, 181–96). Interestingly, despite these global warnings, the vast majority of comparative studies of democracy continue to focus on the reasons for and quality of democratization in the Global South. A quick survey of the most influential journal in this area, Journal of Democracy, reveals a continuing focus on the trends and causes of the emergence or reversal of democratization in the regions of the Global South (e.g., Puddington 2010). This focus appears to presume that democracy and its institutions are sound in the Global North. As recently as 2013, Jørgen Møller and Svend-Erik Skaaning, in their comprehensive analysis of the three waves of democratization, challenged common assumptions about the reversal of democratization, describing the situation as a “trendless fluctuation” (Doorenspleet 2000, quoted in Møller and Skaaning 2013, 105). They correctly acknowledge the inaccuracy of Samuel Huntington’s (1991) description of a “second reverse wave of democratization” occurring between 1958 and 1975, which does not take into account the rise of democratic regimes after the decolonization of Africa in the 1960s (Møller and Skaaning 2013, 105–7). However, Møller and Skaaning’s analysis of democratization trends in the world suffers from a blind spot of its own by only focusing on the non-OECD regions of the world.

Yet the notion that the countries in the Global North are immune from a democratic deficit is questionable, given both growing inequality and restive protests against government austerity measures in various OECD countries (OECD 2008, 2011). Although it is too early to predict their impacts, the ongoing popular movements inspired by increasing income and political inequality are indeed challenging the “authorized” site of politics (political parties, the electoral system, and other formal mechanisms of government), questioning the limits of political representation, and shifting the question of the survival of
the economic system to the survival of democracy itself, in both the North and the South.

Ironically, while there has been a steady stream of writing on the relationship between democracy and inequality (Savoia, Easaw, and McKay 2010), as well as on a perceived democratic deficit in OECD countries such as the United States, Canada, and countries in the European Union (Bexell and Mörth 2010; Krugman 2007; Lenard and Simeon 2012; Lindgren and Persson 2011; Norris 2011; Tamas 2011), the insights from these studies have been slow to inform large-scale comparative studies of democratization spanning various regions. This may be the consequence of a world view that continues to conceptualize the globe as divided into North/South silos that are perceived as static social, economic, and political spheres rather than as dynamic and uneven constructions that interact, collide, and overlap unpredictably in a deeply connected international system. Additionally, the tendency of comparative studies to focus on the Global South can be seen as a reflection of the discrepancy between liberal democratic theory and its application—in other words, as ignoring the disjuncture between the principles and the practice of liberal democracy in various parts of the world. In this context, the worldwide trend toward economism—the theoretical separation of economic activity from a social and political ensemble and, specifically, the reduction of this ensemble to its economic causes (Gramsci 1971, 369–84)—has emerged as a particularly significant paradox of liberal democracies, inasmuch as giving primacy to the economic over the political has marginalized issues of justice and equality.

As demonstrated by a number of studies (e.g., Herb 2005; Karl 1997; Lowi 2004; Mahdavy 1970; Ross 2001, 2009; Shaxson 2007; Shrivastava and Stefanick 2012; Tsui 2011; Wantchekon 2002), oil-exporting countries of the world are at a particularly crucial juncture of economism and politics, since the tensions between the two core assumptions of liberal democratic theory—capitalist market relations and developmental liberalism—are heightened further in a resource-driven economy. The role of the state in providing the conditions for and thus the possibility of economic development underlies the concept of developmental liberalism within a liberal democratic framework (Chan 2002). The financial crisis of 2008–9, in particular, not only accentuated the virtues of state regulation of financial sectors but also brought back focus on the role of equality in ensuring economic stability. A recent report (G20 2012) notes the growing disparities in earnings and working conditions in the G20 countries, inequities that are undermining social cohesion, economic performance,
and political legitimacy. This joint report identifies labour market and social protection policies, tax policies, and regulatory measures as the tools needed to reverse income inequality and ensure sustainable economic growth (9–13). This re-emphasis of the role of state policies in ensuring economic development, which used to be a staple of development studies literature focused on the Global South, is now experiencing a global resurgence of sorts in the context of the growth and assertiveness of emerging economies and the slowing economic growth in the Global North (Cammack 2012).

In the context of oil and democracy, another set of literature has emerged that incorporates the concerns of developmental liberalism, highlighting that it is not oil but the vast wealth that it generates in a short span that depletes democracy by tipping the balance too far away from the principles of liberal democracy, such as economic and political equality (e.g., Boschini, Pettersson, and Roine 2007; Gylfason 2001, 2006; Mitchell 2011; Rosser 2006). These studies emphasize the crucial role of economic and political institutions in successfully appropriating rent gains and countering any negative effects of reliance on resource exploitation.

Consequently, for the purposes of analyzing the practice of democracy in Canada as an oil-exporting country, I will use the term liberal democracy to refer to a mode of governing economic and political institutions and neoliberalism to refer to a political ideology that affects the mode of governing by increasing economic and political inequality. As an OECD and G8 country ranking high on the Human Development Index, Canada is also among those industrialized countries in which inequality is growing even faster than in the United States (Conference Board of Canada 2011, 10), providing a compelling example of a country that manifests the contradictions of a complex international system. Not unlike most developed nations, the largest share of Canada's GDP is provided by the service industry. However, Canada is unusual among these countries in that the primary sector, particularly lumber, minerals, agriculture, and energy, constitutes a significant bulk of Canadian exports. Along with Norway and the United States, Canada is one of the few OECD nations that are among the top ten producers and exporters of oil (IEA 2013, 479–83). Therefore, I also consider in this chapter trends in global oil markets as they pertain to Canadian political economy, since staples or natural resources have been central to Canada's economy since its inception (Innis [1930] 1977).

I begin by contextualizing the debates on the nature and evolution of the liberal democratic model, noting the discrepancy between liberal democratic
theory and its application. I delineate a relationship between economistic con-
ceptions of liberal democracy and the entrenchment of neoliberalism, arguing
that an economistic application of liberal democracy has directly contributed
to decreasing democratic engagement and increasing inequality in many coun-
tries of the world. Additionally, I provide an overview of the energy sector in
Canada and situate bitumen oil in the context of the shifting global oil market.
While the so-called oil curse literature points the causal arrow from oil depend-
ence to democratic deficit, the following discussion includes staples theory, a
Canadian theory of political economy, in order to examine the possibility that it
is actually the rise of political and economic inequality that is fuelling a democ-
tratic deficit in Canada. Ultimately, it is not the commodity of oil itself that
is the culprit, but the exacerbation of the tension between the individualist
and collectivist assumptions underlying liberal democracy, an amplification
brought on by the great wealth generated in a short span of time in a neoliberal
context. This tension between the core assumptions of democracy is evident in
the theoretical debates on liberal democracy and is explored in the next section.

Liberal Democratic Theory and Application: Two Sides of Different Coins

The ongoing debate on the nature and components of liberal democracy appears
to be happening on two largely unconnected planes. On one plane are the polit-
ical theorists and social philosophers who have been assessing the failures of the
liberal or economic models of democracy in order to do justice to the ideals of
democratic legitimacy (e.g., Beetham 1992; Benhabib 1996; Cunningham 2002;
Macpherson 1985; Polanyi [1944] 2001). Theoretically, the contested boundary
between the “economic” and the “political” in a liberal democratic system is the
most critical issue in this discussion. According to Gramsci (1971), positing the
existence of an apolitical economic sphere—the stance referred to as “econo-
mism”—is problematic in a number of respects. For one, the subjugation of pol-
itics to economics privileges the transformation of economic production over
the transformation of the state as the lever for creating a democratic society. At
the same time, the separation of the economic sphere from the political encour-
ages a view of the economy as a self-regulatory space of individual enterprise
immune to the interventions of the state.

Many critical international political economy (IPE) scholars have used
the Gramscian position on economism to explore the constitution of such
dichotomous boundaries and their impact on democracy in the context of
transnational capitalism (e.g., Cox 1992; Gill 1998; Teivainen 2002; Wallerstein 1995). They have shown that both the economic/political boundary and the domestic/external boundary are socially constructed and interconnected in many ways. Moreover, since the economic rendering of issues and processes changes the boundaries of the political sphere, activities situated within a socially constructed “economic sphere” are defined as nonpolitical or private, which denies the possibility of democratic consultation to socially significant activities. According to these scholars, the late-twentieth-century redefinition of politics based on the metaphysical separation of politics and economy could well be seen as producing limits to democracy domestically and internationally. In Canada, this has manifested in the erosion of social citizenship rights through neoliberal governing practices, which has negatively affected national identity and social solidarity (Brodie 2002).

In sharp contrast to the critical IPE scholarship is the application-oriented group of scholars who focus on identifiable practices and quantifiable measurement of the tenets of liberal democracy (e.g., Alvarez et al. 1996; Cheibub, Gandhi, and Vreeland 2010). The approach of this group overlaps significantly with that of the prolific and influential “ranking industry,” which comprises intergovernmental organizations (such as the World Bank, the United Nations Development Program, and the International Monetary Fund) and nongovernmental institutions (such as Freedom House, the Economist Intelligence Unit, and the Centre for Systemic Peace). These organizations generally support the application of both liberal and democratic principles of the state, but they only apply the principle of liberalism to what is defined as the “economy.” This limited application of liberal principles is essentially an economistic solution to the dilemma of democratic liberalism, but it provides no coherent justification for the asymmetric treatment of the state and the economy. According to this solution, also referred to as neoliberalism, activities situated within the economic sphere should not be under democratic control since the “invisible hand” of the market will ensure (in varying degrees) that the pursuit of private needs leads to the common good. This disjuncture between democratic ideals and the economist context is largely ignored in studies informed by the neoliberal perspective. In the process, this separation justifies the transformation of public and political activities into a private and apolitical realm.

Therefore, at the same time that liberal democracy was emerging as the dominant political paradigm in the international system, we were also witnessing the rise of another political and economic ideology—neoliberalism, the
prime belief system driving and justifying economic globalization as well as the financialization of the national and international economy. Neoliberalism is the discourse of governance that informs the economistic separation of democratic spheres and only allows for minimalistic conceptions of liberal democratic theory. In this discourse, key institutions operating in the economic sphere are represented as nonpolitical or beyond politics (Plattner 2013). In practice, of course, policies affecting economic institutions such as central banks and business corporations involve a combination of public and private power and have deep implications for questions of social justice, distribution, and economic performance, all of which are deeply political questions.

**Neoliberalism, Financialization, and Inequality: A Causal Relationship**

The meaning of the term *neoliberalism* has changed over time: it has at times meant something quite different from the free market radicalism with which it is usually associated today. An analysis of leading scholars who have written on neoliberalism—such as Friedrich Hayek (1960), Noam Chomsky (1999), David Harvey (2007), Milton Friedman (2008), and Gérard Duménil and Dominique Lévy (2011)—shows a range of differences in the meaning and application of the concept. In fact, according to the Boas and Gans-Morse (2009) study of 148 journal articles, the word *neoliberalism* is used to describe an ideology, an economic theory, a development theory, or an economic reform policy. In the contemporary era, the term most commonly refers to economic reform measures such as eliminating price controls, deregulating capital markets, lowering trade barriers, and reducing state influence on the economy, especially through privatization, fiscal austerity, and financialization.

For the purposes of this chapter, neoliberalism will be understood as a political ideology—that is, as a belief system that explains and justifies a preferred economic and governmental order for society, offers strategies for its maintenance or attainment, and helps give meaning to public events, personalities, and policies (Knight 2006). Specific ideologies crystallize and communicate the widely shared beliefs, opinions, and values of an identifiable group, class, constituency, or society. In response to the resurgence of ideologically inspired political conflict and polarization in the current era, John Jost, Christopher Federico, and Jaime Napier (2009) reviewed recent scholarship on political ideology as a social psychological phenomenon. Their analysis focuses primarily on liberal versus conservative ideology and the two core aspects of Left–Right
ideology—resistance to change and acceptance of inequality. It shows ideology not merely as an organizing device or a shortcut for making experiential judgments about various political objects but also as a device for explaining and even rationalizing the way things are or, alternatively, how things should be different than they are. Jost, Federico, and Napier argue that “the power of ideology to explain and justify discrepancies between the current social order and some alternative not only maintains support for the status quo, but also serves for its adherents the palliative function of alleviating dissonance or discomfort associated with the awareness of systemic injustice or inequality” (313) For instance, in attempting to understand why conservatives report being happier than liberals, the authors found that the association between political ideology and subjective well-being was explained by the degree to which respondents rationalized inequality in society. In other words, conservatives were better at rationalizing inequality than liberals (326–27). These two aspects of political ideology, resistance to change and acceptance of inequality, are important to bear in mind as we explore the impact of neoliberal ideology on the liberal democratic system of governance.

Within a liberal democratic framework, then, the phenomenon of financialization can be considered as neoliberalism’s most powerful tool to entrench the separation of the political and economic spheres. Financialization refers to the vastly expanded role of financial motives, market institutions, and elites in the operation of governing institutions (Epstein 2006) at the international, national, and subnational levels. According to Krippner (2005, 181–82), the finance industry, as it becomes increasingly dominant, takes over the primary economic, cultural, and political role in a national economy. This is manifested in the inflated roles of financial controllers, financial assets, and marketized securities in determining corporate strategies, as well as in the fluctuations of the stock market as a determinant of business cycles in an economy. The entrenchment of financialization is most evident in the United States, where the share of the financial sector in corporate profit rose from just a few percent in the 1960s to over 30 percent in 2004. Financial sector profits as a percentage of the total dipped to -10 percent during the crisis of 2008/9; however, with further deregulations and government support, by 2011, financial profits once again accounted for a third of all profits in the United States (Madigan 2011).

The consequences of financialization have not only led to national and international financial crises but have also had a deflationary impact on real economic activity, major social effects in terms of loss of employment, and
more volatile material conditions for most citizens. This phenomenon is not confined to the Global South (Chomsky 2010), as exemplified by the Indignados movement in Spain, the Occupy movement in nearly eighty-two countries (Adam 2011), and the rising crescendo of anti-austerity protests in Europe (Lichfield 2012). Furthermore, the Organisation for Economic Co-operation and Development (OECD) report titled Divided We Stand: Why Inequality Keeps Rising highlights trends from 1980 to 2008, showing that most OECD countries carried out regulatory reforms to strengthen competition in the markets for goods and services and to make labour markets more adaptable. The report notes that during this period, nearly all OECD countries significantly relaxed anticompetitive product-market regulations, loosened employment protection legislation for workers with temporary contracts, reduced unemployment benefit replacement rates, and changed wage-setting mechanisms leading to a decrease in the share of union members among workers across most countries. Consequent to these regulatory reforms and institutional changes, minimum wages declined relative to median wages in a number of OECD countries, contributing to widening wage disparities (OECD 2011, 30–33).

Despite the sporadic revisions of neoliberal orthodoxy, many advocates of neoliberal macroeconomic reforms have argued that the welfare costs of higher volatility are negligible since the negative effect on income distribution is probably outweighed by its contribution to growth (Hoxha, Kalemli-Ozcan, and Vollrath 2009; Lucas 1987). However, this is not borne out by trends in the era of financialization. The United States, in particular, provides a good example of the parallel growth of financialization and extreme economic disparity. During the era of financialization, the top four hundred earners in the United States saw their income increase 392 percent and their average tax rate reduce by 37 percent from 1992 to 2007. The share of total US income going to the top 1 percent of American households (also after federal taxes and income transfers) increased from 11.3 percent in 1979 to 20.9 percent in 2007 and 22.5 percent in 2012 (Domhoff 2013).

There is overwhelming evidence that income inequality is bad for the individual, the society at large, and for the economy. For instance, income inequality has been shown to exert a significant drag on effective demand (Rajan 2010). Reducing inequality could reduce consumer debt; indeed, as Paul Krugman (n.d.) suggests, the Great Divergence—the period, beginning in the late 1970s, when inequality grew dramatically in the United States—may have helped cause the recession of 2008 by pushing middle-income Americans into debt.
Krugman shows that the growth of household debt has followed a pattern strikingly similar to the growth in income inequality and suggests that political shifts may have led both to rising inequality and to a more vulnerable financial system. Similarly, two recent OECD reports note that while rising income inequality creates economic, social, and political challenges, there is nothing inevitable about growing inequalities (OECD 2008, 2011). Arguing that the social contract is starting to unravel in many countries, the reports also note that tax and benefit systems have become less redistributive in many countries since the mid-1990s.

Ironically, income inequality has been rising in Canada even more rapidly than in the United States since the mid-1990s. The richest 1 percent of Canadians saw their share of total income increase from 7.1 percent in 1982 to 13.3 percent in 2011 (OECD 2011, table 9.1; Wolfson, Veall, and Brooks 2014, 10). At the same time, the top federal marginal income tax rates saw a marked decline, dropping from 43 percent in 1981 to 29 percent in 2010 and 20.8 percent in 2012 (Grant 2013). According to the OECD study, prior to the mid-1990s, the Canadian tax-benefit system was as effective as those of the Nordic countries in stabilizing inequality, offsetting more than 70 percent of the rise in market income inequality. The effect of redistribution has declined since then: therefore, in 2011, taxes and benefits only offset less than 40 percent of the rise in inequality. This downward trend in redistribution can be directly linked to three factors: the entrenchment of the neoliberal view of the role of the state, which is manifested in the “reduced role of means-tested transfers, as benefit rates fell and benefits became less targeted” (OECD 2011, 37–40); the effects of institutional shifts such as dwindling unionization rates and stagnating minimum wages (Conference Board of Canada 2015); and falling top marginal tax rates (Yalnizyan 2010).

While the use of neoliberal policies for “fiscal consolidation” started under the Liberal Party regime in the 1990s (Posner and Sommerfeld 2013, 149–52), the Conservative Party regime in Canada, since its rise to power in 2006, has further emphasized the economistic conception of the role of government through the policies of fiscal restraint via social spending cuts and tax cuts. Furthermore, in terms of liberal democratic theory and its core assumption of the separation of the political system from its environment, Canada is experiencing an unprecedented wave of market values, norms, and ideals from the private sector successfully penetrating the state. The separation of powers (between different government agencies like the legislature, the executive, and
the judiciary) in a liberal democracy is supposed to protect the governing elite and their institutions from societal encroachment, and vice versa, in the interest of both state and society. Yet the significant inroads of market interests into the very locus of the powers from which they are to be protected blurs the boundaries with respect to the exercise of political power.

Oil Versus Democracy?

The disconnect between the critical theorists and the quantitative analysts noted above is particularly relevant for studies of oil and democracy, since such studies are often at the cusp of the theoretical and applied approaches to liberal democracy. While most of the oil and democracy studies are concerned with the theoretical assumptions of liberal democracy—political legitimacy and broad-based economic development—they generally use the measures and indicators of those who apply the theory. For instance, Polity scores are frequently used in studies of regime change and the effects of regime authority to evaluate a country’s degree of democracy. According to the Center for Systemic Peace, “The Polity conceptual scheme is unique in that it examines concomitant qualities of democratic and autocratic authority in governing institutions, rather than discrete and mutually exclusive forms of governance.” Employing six measures that capture “key qualities of executive recruitment, constraints on executive authority, and political competition,” the scheme evaluates countries along “a spectrum of governing authority that spans from fully institutionalized autocracies through mixed, or incoherent, authority regimes (termed ‘anocracies’) to fully institutionalized democracies.”\(^2\) The Polity approach has been criticized for relying on a minimalistic definition of democracy and for not offering a theoretical justification for the way the component variables are aggregated into a single regime index (Munck and Verkuilen 2002). Such indicators, which are based on subjective and narrow interpretations of democracy, could be considered uncertain and contested.

Nevertheless, Polity scores continue to be among the most widely used indices of democracy, as seen in the extensive cross-national studies by Ross (2001) and Tsui (2011), which examine the impact of oil wealth on democracy as measured by the Polity index. Both studies note the antidemocratic effect of oil wealth on states, even when other factors are accounted for. However, while Ross focuses on the role of dependence on oil and other minerals in an economy that fails to bring about the social and cultural changes needed to produce democratic
government, Tsui proposes a theory of endogenous barriers to political entry to explain democratic deficits in oil-rich states. The quantitative measures of such studies, however, have not gone unchallenged. Questioning the validity of regressions centred on cross-sectional analysis, Haber and Menaldo (2011) show that resource dependence is not necessarily associated with the undermining of democracy. The authors do a thorough job of critically evaluating the quantitative parameters of studies like those of Ross (2001), Mahdavy (1970), Huntington (1991), and others who claim a causal relationship between natural-resource reliance and authoritarianism. Their analysis, however, uncritically accepts the indicators of democracy as proposed by the Polity index.

The debate around using these indicators continues, as is evident in Ross’s “Oil and Democracy Revisited” (2009), where he responds to his critics by using a more exogenous measure of oil wealth, separating democratic transitions from democratic survival, adding new robustness tests, and employing a dataset that extends from 1960 to 2002 and covers 170 states. In this new study, Ross still finds evidence that, regardless of any possible countervailing pro-democracy effects, the net impact of the dependence on oil revenue on democratic transitions in authoritarian states is strongly negative. Additionally, he finds that undemocratic effects fuelled by oil dependence are uneven but are growing stronger over time, which he argues is due to the rising prevalence of state ownership. Nevertheless, much like his detractors, Ross does not concern himself with the limited application of the principles of democracy in “measuring” it.

Despite their narrow use of the liberal democratic framework, many of the studies on oil and democracy provide valuable insights into the dangers of an economistic conception of liberal democracy in oil-exporting economies. The most pertinent pattern noted in these studies is the “rentier effect,” which suggests that resource-rich governments use low tax rates and patronage to dampen democratic pressures (Feldman 2003; Ross 2001, 2009; Wantchekon 2002). According to these studies, the explanation for the rentier effect lies in the loss of fiscal connection between the government and the people in a state that derives all or a substantial portion of its national revenue from the rent of resources rather than taxes. In this scenario, the incumbent elite’s power over rent distribution enables it to use resource revenue to favour one or more groups in the society at the expense of others. Using the measures of Polity IV, this trend is clearly shown in the oil-exporting countries in the Middle East and North Africa and is regarded as evidence of the negative impact of oil dependence on democratic transition in oil-exporting countries in the Global South.
Considering the vast array of variants of democracy, the standardized measures of democracy are contentious in themselves; moreover, such measures fall short in exploring the health of democracy in countries in the Global North that are regarded as “established democracies.”

For instance, Norway could be seen as the model of a highly functioning democracy despite being a major oil-exporting country. The fifth-largest oil exporter in the world (compared to the ninth position held by Canada), Norway is the fourteenth-largest producer of oil, compared to the sixth position held by Canada (Campbell 2013, 10). Norway is the world’s largest producer of oil and natural gas outside the Middle East, and it also holds the top spot in the Democracy Index (EIU 2013, 3). However, narrowly defined democracy indices and categories such as “electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture” (EIU 2013, 1) are unlikely to explain the role of the egalitarian welfare-state model. Neither is this limited framework likely to explain the impacts in Norway of the adoption of soft neoliberal policies during the 1980s and 1990s; the extensive program of privatization and deregulation since 2000–2001; unpopular restructuring, commercialization, and privatization of the public sector, including health, pension, and labour law; weakening of the trade unions; rising social and income inequality; and the recent ascendance of an economically neoliberal and right-wing populist coalition (Wahl 2011; Wahl and Pedersen 2013). Despite the rise of right-wing politics recently, Norway’s high taxes continue to fund its welfare model, while almost all of the oil revenue goes into the Norwegian sovereign wealth fund. In contrast to this approach of sharing the resource rent with future generations, Alberta’s low tax rate ensures that it must use oil royalties to fund current government expenditures, enabling the entrenchment of neoliberal policies and the chronic boom-bust economic cycles.

These trends are much more central to critical theoretical debates on the nature and dilemmas of liberal democracy and are likely to raise questions such as these: Why is the political-economic impact of oil dependence different in Norway, compared to other oil-exporting countries? What is the relationship among neoliberalism, income inequality, and democratic engagement? How do these factors affect the political-economic outcomes in various oil-exporting countries? These are questions worth asking in the context of oil-exporting countries in not only the Global South but also the Global North, especially since the list of top twenty oil-producing countries in the world in 2014 already included eight OECD countries. Additionally, the discovery of recoverable resources...
shale oil deposits of 4.8 trillion barrels (2010 estimate) in the western United States, China, the Russian Federation, the Democratic Republic of the Congo, Brazil, Italy, Morocco, Jordan, Estonia, and South Australia (WEC 2010, 97–99) is likely to fundamentally alter global oil supply and, consequently, the political economy of oil-producing and -exporting countries.

Returning our focus to Canada, the next section explores the political economy of Canada, as a country with a resource-exporting economy, through the most consistent theoretical lens used to examine the evolution of political and economic trends in Canada. Broadly defined as a theory of unbalanced export-led growth (Watkins 1977, 2007), staples theory is more than an approach to economic history. It emphasizes the longer-term developmental questions related to policy, infrastructure, and redistribution linkages. In other words, the application of staples theory goes into the realm of a policy-oriented approach that describes the likely developmental accompaniments, positive or negative, of alternative export “choices” (where choices exist) and a policy-oriented solution to the inherent deficiencies in these choices. Thus, staples theory is uniquely complementary to the vast literature on the resource curse that mainly focuses on the interplay of resource rents, overvalued currencies, and their economic and political manifestations.

Staples Theory and Canada’s Resource Economy

The staples thesis of economic development emerged in the 1930s through the work of Harold Innis ([1930] 1977) and W. A. Mackintosh (1936) on the evolution of the Canadian state, and the relationship between the nation and its regions, on the basis of its staple commodities such as fish, fur, lumber, agricultural products, and minerals. While the trading links cemented Canada’s cultural connections to Europe, the search for and exploitation of these staples led to the creation of unique regional economic and political institutions within Canada. In addition, Innis and Macintosh argued that the nature of the staples was responsible for the unique regional political and economic developments. For instance, according to Innis, the independent nature of wheat farming in Western Canada led to a history of distrust of government and corporations in that part of the country (386–93). In Central Canada, the main staple was fur, controlled by large firms such as the Hudson’s Bay Company. The fur trade produced the centralized, business-oriented society in that region. Furthermore, Innis depicts the relationship between the nation and the regions of Canada as
one of “heartland/core” and “hinterland/periphery,” with the core seeking to gain economic and political power over the periphery, since the staples are located in the hinterland. While Mackintosh suggests that staples export could be the positive path to more diversified development (459–60), Innis emphasizes the significance of the characteristics of the commodity itself and cautions against the tendency toward wildly fluctuating economic activity (396–402).

In the 1960s and 1970s, the staples thesis was revived by Melville H. Watkins (1963, 1977) through his work on resource capitalism and Canadian political economy. Innis’s analysis had pointed to the vagaries of international commodity markets, which tend to witness violent fluctuations and where any decline in demand or increase in supply can have drastic consequences for the staples-exporting economy. Watkins refers to this vulnerability to broader economic trends as the “staples trap,” arguing that a resource-exporting economy is poorly placed to respond to the challenge of finding a new economic base. Watkins proposes creating linkages that produce economic spinoffs for the region and the country (backward, forward, final demand linkages) in order to plan for growth and economic stability and to avoid the staples trap. He argues that public policy could strengthen linkages and thus help to tame the volatility of a staples economy and change the “boom-and-bust psychology” of staples-export development. Watkins’s analysis is supported by studies such as those by Peter A. Hall and David Soskice, which classify Canada as a successful “coordinated market economy” (2001, 8). According to Hall and Soskice, Canada’s unique model of a growth strategy founded on the export of natural resources blended the dynamism of a powerful export sector with elements such as skilled human resources, a high-wage manufacturing sector, modern public infrastructure, a robust financial sector, macro-economic stability, and a relatively unionized workforce. Arguably, under the ongoing neoliberal economic restructuring in Canada, wages are declining, collective bargaining is being suppressed, and public investments in infrastructure related to education, health and social service are declining significantly—a pattern that is likely to fundamentally alter the basis of the Canadian resource economy model as perceived by Hall and Soskice.

On the basis of the declining percentage share of natural resources relative to other sectors in the GDP, however, some commentators contend that Canada has entered a “post-staples” political economy. Two decades ago, Thomas A. Hutton, in Visions of a “Post-Staples” Economy (1994), argued that some regions were showing signs of the emergence of a post-staples economy, signs such as
industrialization and urbanization, resources depletion, the regionalization of markets, and industrial restructuring. At that time, these elements were seen by some as driving the Canadian political economy in a new, post-staples direction, as illustrated by the apparent importance of manufacturing and tertiary activities, the rise of social movements, the importance of knowledge elites, urbanization, and increasingly disconnected regional politics (Howlett and Brownsey 1996; Howlett and Ramesh 1992; Hutton 1994). However, Canada’s enduring reliance on international trade, the consistently high interprovincial trade in natural resources and related sectors (Wellstead 2007), and the recent emergence of Canada as a major oil-exporting country confirm the continuing significance of the natural resources sector for the Canadian economy. In terms of the energy sector, Watkins (2007, 215) argues that Canadian “oil and gas in particular, which flows heavily to American markets, are much closer to being simple staples exports—which suggests a regression to a staples economy,” or to a neostaples economy (Mills and Sweeney 2013, 7).

Undeniably, the most recent resource-commodity boom involving bitumen oil has been accompanied by neoliberal cutbacks and the shrinking of redistributive policies and programs, both provincially and federally. Moreover, many of these policies have effectively removed resource rents from the control of the state, workers, and resource-dependent communities. Without the earlier mix of goods and social programs for working families and individuals or the regulatory role of the state, “rowing and steering” the economy, the bitumen boom has led to an unprecedented degree of wealth creation for some and rising income inequality for the majority. Undoubtedly, this inequality further restricts the Canadian state’s ability to attain an economic trajectory that is socially and environmentally sustainable, giving credence to the assertions of a regression into a neostaples economy made by analysts such as Stanford (2013), Drache (2013), and Mills and Sweeney (2013).

From this perspective, the staples theory of economic development remains critical to understanding questions of public policy in Canada, including those regarding resource development; industrial, fiscal, and social policy; and federal-provincial relations. Despite its limited use of the liberal democracy framework and its dominant focus on the transformation of economic and political institutions in the Global South, the oil and democracy literature provides many useful insights for oil-exporting jurisdictions. These insights can be complemented rather neatly by the staples theory of economic development, which has been used to study the economies of many nations that are dependent
upon resource extraction and/or primary industries (e.g., Helleiner 1994; Levitt 2004). Indeed, the theoretical frameworks of liberal democracy and staples theory can be seen as largely complementary: while the “oil versus democracy” analysis highlights the mechanisms through which resource dependence leads to a democratic deficit, staples theory points to policy mechanisms to avoid the resource curse and the staples trap.

Interestingly, the rise of the Conservative regime in the country has coincided with the rise of Canada as a major oil-exporting country. The upswing in oil prices that began in 2005 led to a peak of $147 per barrel in summer of 2008, heralding a phase of unprecedented profits of hundreds of billions of dollars for the oil industry (see Cattaneo 2013; Tertzakian 2013; Weiss, Weidman, and Leber 2012) and creating the opportunity for unconventional oil field expansions in North America. After spending most of the past few decades as one of the top ten consumers and producers of oil, Canada entered the list of top ten oil-exporting nations in the world at number eight in 2007 (while the United States was at number sixteen). Despite the short-term price setbacks of 2008–9, while the high oil prices enabled Canada to rise to number six in the list of oil-producing countries, across the border, the production of shale oil and other tight oil allowed the United States to climb to number one in 2014 (USEIA 2015; Lane 2015, 5–6). As Canada becomes firmly established in the list of the top ten oil-exporting nations in the world (while it is estimated that the United States will be energy self-sufficient within a decade and a net exporter of energy by 2035 [British Petroleum 2014, 23–50]), it is important to examine the nature and impact of what is repeatedly dubbed the “driver of Canadian economy”—the oil industry (see Canada, NRC 2010; Canadian Press 2013a; Krugel 2012). The next section, therefore, provides a broad overview of the complicated world of the global oil industry before we contextualize its role in the Canadian political economy.

Global Oil Deposits, Oil Markets, and the Canadian Context

To begin with, it is important to recognize the very complicated world of different types of crude oils. Hydrocarbons such as coal, petroleum, and natural gas—and their derivatives such as plastics, paraffin, waxes, solvents, and oils—are economically the most significant commodities since the late nineteenth century. Of these, petroleum in particular is used for producing petroleum-based fuels, including petrol, diesel, jet, heating, other fuel oils, and liquefied
petroleum gas. The petroleum industry generally classifies crude oil by the geographic location where it is produced, its API gravity or measure of density, and its sulphur content. Crude oil is considered “light” if it has low density or “heavy” if it has high density; it is referred to as “sweet” if it contains relatively little sulphur or “sour” if it contains substantial amounts of sulphur (Alboudwarej et al. 2006). Light crude oil is more desirable than heavy oil since it produces a higher yield of petrol, while sweet oil commands a higher price than sour oil because it creates fewer environmental problems and requires less refining to meet sulphur standards imposed on fuels in consuming countries. The price per barrel is determined by these characteristics, in addition to the geographic location of the wells, which affects the cost of transportation to the refinery. The lighter grades of crude oil produce the best yields of petroleum products, but as the world’s reserves of light and medium oil are depleted, oil refineries are increasingly processing heavy oil, bitumen, and tight oil, and use more complex and expensive methods to produce the required products. Because heavier crude oils have too much carbon and not enough hydrogen, processing them generally involves removing carbon from or adding hydrogen to the molecules and using the process of fluid catalytic cracking to convert the longer, more complex molecules in the oil to the shorter, simpler ones in the fuels.

The inflation-adjusted price of a barrel of light crude oil remained under $25 per barrel from 1980 to September 2003. In late 2003, the price rose above $50; it reached $60 in August 2005 and peaked at $147.30 in July 2008. Commentators attributed these price increases to many factors, including the falling value of the US dollar, reports of a decline in petroleum reserves, worries over peak oil, Middle East tensions, and oil price speculations (Sieminski 2012). Geopolitical events and natural disasters indirectly related to the global oil market also had strong short-term impact on oil prices, hiking demand and threatening oil supply until the onset of the global recession in late 2008. The 2008–9 financial crisis led to the ongoing global recession, causing demand for energy to shrink and oil prices to fall from $147 in the summer of 2008 to $32 in December 2008. Oil prices stabilized in 2009 and established a trading range between $60 and $80. At the time of writing, while the economic recession continues to affect the world economy and oil production in the United States has climbed to a twenty-year high, the price of oil per barrel has slid to below $50 per barrel, posing new challenges to the unconventional oil industry and leading to worldwide job losses for an estimated 100,000 oil workers.4
Although Canada consistently appeared in the list of top ten producers and consumers of petroleum because of its conventional oil reserves and high per capita consumption, it was the dramatic increase in oil prices, beginning in 2005, that made the production of bitumen oil economically viable for global export. Consequently, despite the high costs of extraction and transport of bitumen oil, estimates of which range from $30 to $80 per barrel, by 2007, 64 percent of Canada’s petroleum production of 1.86 million barrels per day was from bitumen oil rather than conventional oil fields (ERCB 2008). Total crude oil production in Canada rose by an average of 8.6 percent per year from 2008 to 2011 (Canada, NEB 2011a, 2011b), prompting the Canadian Oil Sands Industry Review (COSIR 2011) to proclaim:

Once a footnote in the story of world oil production, Canada’s oil sands are part of the solution to declining conventional oil reserves elsewhere in the world. Canada has approximately 175 billion barrels of oil that can be recovered with today’s technology. Of that number, 170 billion are located in the oil sands. There are an estimated 2.5 trillion barrels of bitumen in the Canadian resources. That is more than enough to supply all of Canada’s needs and make a significant contribution to America, China and other oil importers for generations to come.

By 2013, the share of bitumen oil in Canada’s total oil production stood at 82 percent (see Canada, NEB 2013a), enabling Canada to emerge as the sixth-largest crude oil producer in the world. Canada has also become the largest source of crude oil for the United States, supplying more than 20 percent of the US’s import volumes in the past decade. The world at large consumes 32 billion barrels of oil per year, and the United States is the top oil consumer, accounting for 24 percent of world consumption in 2004, dropping to 21 percent by 2007, and stabilizing at 22 percent for 2010 and 2011. The slowing of the US economy, as well as advances in energy-efficient technology, are possible reasons for the declining share of US consumption of oil between 2004 and 2011. However, this decline was more than offset by the nearly 12 percent per annum rise of consumption in China and the steady rise in oil consumption in other “emerging economies” (Rapier 2012; USEIA 2012).

Canadian bitumen oil certainly filled an important gap created by declining conventional oil production in all the major OECD producers—the United States, the United Kingdom, Norway, Mexico, and Canada—and by the national security rhetoric in the post-9/11 era. However, the dramatic rise of oil prices from 2005 to 2008 led not only to the expansion of bitumen oil in Canada
but also to a rash of investments in shale oil and other tight oil projects in the United States.\textsuperscript{6} Shale oil drilling intensity in the United States skyrocketed from a few hundred wells brought online (becoming productive) before 2011 to more than four thousand in 2012 (Maugeri 2013, 1). By April 2013, US crude production was at nearly 7.2 million barrels per day, higher than it had been in more than twenty years. The shale oil production boom, particularly from sites in North Dakota and Montana, has allowed the United States to further decrease its reliance on oil imports and to emerge as the third-largest producer of oil in the world, preceded only by Saudi Arabia and Russia (IEA 2013), and overtaking them by June 2014 (Smith 2014).

The success of horizontal drilling and multistage fracturing to exploit tight shale formations is expected to catapult the United States into energy self-sufficiency within this decade, probably making it a net exporter of oil by 2035 (IEA 2012). The likelihood of this trend is confirmed by the 12 percent decline in US crude oil imports since 2005 (USEIA 2015). In other words, although the United States is importing more crude oil from Canada, the total amount of crude oil imported from foreign suppliers is falling in that country. With the cost of developing the tight oil trapped in unconventional rock formations estimated to be dropping below $50 a barrel—making it more competitive than Canadian bitumen oil or ultra-deepwater crude—recent price levels are spurring substantial investment in tight oil explorations (IEA 2012). As the United States has traditionally absorbed 95 percent of Canada’s crude oil exports, rising US shale oil production stands to jeopardize a significant portion of Canada’s future potential exports.

A recent study by Leonardo Maugeri (2013, 25–26) mentions two main reasons for this scenario. First, Canadian oil exports already compete for transportation capacity, particularly via pipeline, with North Dakota’s surging production. Furthermore, both producing areas rely on the same trading and storage hub, the already overburdened Cushing, Oklahoma. But while North Dakota is finding alternative takeaway options because of rail transportation, a significant part of future Canadian oil production risks being landlocked without the availability of new pipelines, such as the much debated Keystone XL. Second, marginal production costs for a substantial amount of Canadian crude are the highest in the world, with several oil sands projects presenting a break-even of more than $90 per barrel. Conversely, the price for West Canadian Select, a large heavy crude oil stream and the benchmark for Canadian heavy crude derived from oil sands, hit a six-year low in March 2015 at $29.54 per
barrel, or less than half of the price of Brent crude (Tuttle 2015), thus making bitumen oil the cheapest crude oil on the planet, even though it continues to be the most expensive oil to produce and transport. Maugeri’s analysis does not bode well for the future of bitumen oil and is supported by the fact that several Canadian oil sands companies have slashed their investment budgets and are posting losses (Lewis 2015).

Although the unique characteristics of shale oil in terms of drilling intensity makes it extremely vulnerable to a drop in oil price, as well as to environmental opposition, the shale oil boom in North America is massive in scope. According to Leonardo Maugeri (2012), the United States averaged 1,919 active drilling rigs in 2012 alone, which is just below 60 percent of worldwide activity and vastly more intense than that of Canada, with 356 active drilling rigs. Moreover, in 2011, roughly 90 percent of the US drilling rigs were equipped for horizontal hydraulic drilling, significantly contributing to shale oil production and to the revival of production in mature conventional oil fields (Maugeri 2013, 21). Additionally, on the basis of a comprehensive field-by-field analysis of oil exploration and development projects in the world, Maugeri (2012, 1) suggests that an unrestricted production and supply capacity “is growing worldwide at such an unprecedented level that it might outpace consumption,” leading to “a glut of overproduction and a steep dip in oil prices” in the near future.

Whereas exporting crude oil has always been a highly sensitive and heated issue both in the United States and Canada, increased production in the United States, largely from light tight oil in North Dakota and Montana, combined with steadily increasing imports from Canada has already led to a glut in the US Midwest. As this glut took hold, it led not only to a disconnection of the US mid-continent oil market from world markets but also to lower oil prices in Western Canada relative to both world prices and the price of West Texas Intermediate (WTI). Consequently, in the spring of 2012, “light oil at Edmonton was trading at a discount of almost $CDN 40 per barrel to Brent prices, and at a discount of almost $CDN 20/barrel to US mid-continent prices” (Leach 2013b). Moreover, Canada is the cheapest alternative destination for moving oil via vessel because of the effects of the Jones Act (1920), which makes it very expensive to ship goods between domestic ports. Therefore, in 2012 all exports of US crude oil went to Canada, the only destination to which approval for exports is easy under existing US laws (Clayton 2013; USEIA 2015). However, the growing surplus of domestic oil will probably catalyze a reassessment of US policies that were created in an era when domestic production was in decline and energy
security was a major concern. Clearly, the implications of the shale oil boom in the United States are likely to be significant for Canadian bitumen oil.

Within this complicated context of the unpredictable global oil market, let us now consider the Canadian oil sector. The energy sector in Canada is vast, comprising crude oil, petroleum, coal and coal products, natural gas, and electricity. Canadian energy exports alone contributed $107.6 billion to the economy in 2012, which amounted to 9.5 percent of Canada’s GDP that year. Within the energy sector, the share of crude oil, petroleum, and coal products is indeed the largest and growing. They contributed 77 percent of net energy export revenue in 2012, compared to 60 percent in 2009 and 42 percent in 2006. (Canada, NEB 2013b).

However, the real contribution of the energy sector to the national economy is likely to be significantly higher when we consider the direct and indirect investments, manufacturing, construction, services, and other factors that are associated with this industry. Additionally, as pointed out by Erin Weir (2006), transborder trade in exports and imports of manufactures between Canada and the United States has increased considerably since the North American Free Trade Agreement (NAFTA) came into force, creating trade statistics that can be interpreted as showing manufacturing to be a rising share, and resources a falling share, of exports. Weir argues that this is an illusion that comes from relying on gross figures of exports and imports. The movement of components back and forth across the border is heavily concentrated in the manufacturing sector, which leads to an overestimation of the actual share of the manufacturing sector relative to exports of services and natural resources. While such a correction is beyond the scope of this chapter, it is indeed a useful reminder to bear in mind in an analysis of the nature of Canada’s political economy.

Canadian energy production increased in 2012 by about 2 percent, with growth in petroleum production and a decline in natural gas production. As mentioned earlier, the glut of supply in the American Midwest caused oil prices in Western Canada to be discounted by nearly 20 percent, which is “estimated to have reduced annualized Gross Domestic Product (GDP) growth by 0.4 percentage points in the second half of 2012. Canadian GDP increased by 1.8 percent in 2012 after growing by 2.6 percent in 2011” (Canada, NEB 2013b, 3). The National Energy Board report confirms the pessimistic outlook due to the impact of the shale boom, noting that “after a very active 2011, the leasing of petroleum rights in Western Canada fell to its lowest level since 2002” (3). Additionally, “Alberta’s revenue from the sale of petroleum rights fell from
a record $3.59 billion in 2011 to $1.12 billion in 2012” (3). In 2013, the Alberta government blamed the “bitumen bubble” for the loss of $6 billion in royalties (Bennett 2013). Alberta’s proposed solution is to get more of its oil to tidewater ports for shipment overseas, where it will potentially fetch a higher price. However, this strategy does not take into account the realities of oil supply, particularly in terms of the shale oil boom, which is likely to include other big oil exporters such as Russia, China, and possibly Australia, where the second-largest shale oil reserves have been identified (Linc Energy 2013; Maugeri 2012). Nor does it take into account the realities of demand in terms of the impending energy self-sufficiency of its biggest market, the United States, or the complexities of energy markets elsewhere. For instance, as the OPEC countries lose their shares of the US market, they are more likely to turn to Asian markets to offset potential losses. Given the high cost of production and transportation of bitumen oil, it is quite unlikely that heavy crude from Alberta will prove to be competitive with significantly cheaper conventional oil in regions where the markets and the suppliers are in closer proximity.

Despite the inevitable uncertainties and clear trends in the oil markets, the policy direction in Alberta appears to be driven by the short-term priorities of the bitumen oil industry, as evidenced by the premiers of Alberta travelling overseas to sell the virtues of bitumen oil (Canadian Press 2015; Lye 2013), the dismantling of the Environment Department to advance oil-industry activity (Pratt 2013), and the curtailment of union activity (CBC News 2013) in a province that already has the lowest minimum wage in the country and the highest income disparity in Canada (Gibson 2012, 7–8). Nationally, the federal government’s position on climate change, the muzzling of scientists working on climate change, and the shutting down of research and scientific facilities related to the environment and other data collection are seen as examples of the oil industry’s very significant influence over the government (Homer-Dixon 2013). Such trends have led to claims by commentators that both Alberta and Canada are beginning to exhibit the economic and political characteristics of a petro-state in terms of environmental consequences, boom-bust economic cycles, investment imbalances, and the undermining of the institutions and practice of democracy in Canada (Hoberg 2014; Homer-Dixon 2013; Nikiforuk 2010, 2012).

Typically, petro-state is a derogatory term for a state that relies on oil revenue rather than on taxes and has weak political and economic institutions, and where power is concentrated in the hands of an elite minority (Karl 2007,
Some critics object to using this term for Canada since only the province of Alberta has exceeded the 20 percent mark for oil revenue as a share of the GDP, while the national share for oil revenue remains under 10 percent of the GDP (Leach 2013a). Setting aside polemical and rhetorical statements, the significance of bitumen oil in the Canadian economy remains undeniable for two reasons: first, underestimating the real contribution of the energy sector to the national economy is a statistical possibility, as noted earlier, and second, despite vociferous environmental opposition domestically and abroad (Rabson 2013; Wotherspoon and Hansen 2013), the federal Conservative government (and not the oil industry) spent $40 million in 2013–14 to advertise the importance and environmental responsibility of Canada’s resource sector (Canadian Press 2013b), and talk of pipeline politics has dominated the governing agenda (Canadian Press 2013a).

While most recent writing on the impact of bitumen oil extraction is concerned with the economic and environmental consequences (e.g., Davidson and Gismondi 2011; Marsden 2010; Nikiforuk 2010, 2012; Taft, MacMillan, and Jahangir 2012), there is also growing concern about the rising democratic deficit in Canada, along with the recognition that dependence on natural resource rents produces political problems (Homer-Dixon 2013). For instance, Trevor Harrison and Harvey Krahn, in Governing Alberta: Citizens’ Views (2013), note high levels of public concern over issues such as reform to systems of taxation and royalty collection, economic diversification, and the need for environmental protection (18). In another survey, Harrison and Krahn (2014, 1–4) found a continuation of high levels of political alienation and a declining voting trend among Albertans. Even the electoral victory of the New Democratic Party (NDP) in May 2015, while being a symbolic shift of seismic proportions in Alberta politics, came about with only 53.7 percent of eligible voters casting their vote (Elections Alberta 2015). Indeed, political alienation that perpetuates over time is corrosive to democracy and the legitimacy of government institutions. Concerns regarding opportunities for and degree of citizenship engagement are not limited to the provincial level, where the long-ruling Progressive Conservative Party as well as the opposition Wildrose Party were perceived as beholden to the powerful bitumen oil lobby in Alberta (Campanella and Stunden Bower 2013, 3–6). Samara, a private think tank, conducted a national public opinion survey in 2013 asking politically disengaged Canadians about the barriers they face to being politically active. While the most frequently cited barrier was a lack of political role models, the research also indicates that
two-thirds of Canadians believe that members of Parliament are not representing their interests in Ottawa (Samara 2013, 2–3). Additionally, regardless of province of residence, only 55 percent of Canadians reported being satisfied with the way democracy works in Canada, down from 75 percent in 2004 (Samara 2012, 1). These trends are undeniably critical in understanding the ongoing transformation of the economic and political institutions in Canada, since they significantly affect the practice of liberal democracy provincially and federally.

_Inequality: The New Trap in a Staples Economy_

Amartya Sen characterized liberal democracy in the twentieth century “as the preeminently acceptable form of governance” (Sen 1999, 4). While exceptions such as Islamic theocracy in the Middle East and the “China model” of growth-promoting authoritarian government with a partially marketized economy do exist, liberal democracy in its various manifestations appears to be the dominant political system in much of the world today. The creation of a vast middle class undermined the appeal of Marxism, and Marx’s socialist scenario was largely bypassed in most post-industrial societies (Moore 2003). Moreover, the growth of electoral democracies in the latter half of the twentieth century coincided with the emergence of new middle classes in countries such as Brazil, India, Indonesia, Malaysia, and South Africa. Significantly, as the middle class has expanded considerably in countries of the Global South, particularly in Asia (and most impressively in populous China and India), it has shrunk in the OECD countries, especially in the aftermath of the financial crisis of 2008–9. Given the experience of industrialized countries in the nineteenth and twentieth centuries, as well as that of “emerging economies” (with the possible exception of China) in more recent years, clearly there is a broad correlation among economic growth, socio-economic change, and the hegemony of liberal democratic ideology in the world today.

In this scenario, divorcing the measures of democracy from the theoretical underpinnings of the liberal democratic framework is particularly problematic since it undermines the role of the state in striking a fine balance between capitalist market relations and developmental liberalism. Even the World Bank has, for some time now, accepted the failure of the long-standing attempts to improve the prospects for development on the basis of econometric analysis of large cross-country data sets and the need to understand the role of state
agency in the processes that drive economic growth (World Bank 1992). These technical and methodological arguments, which are often focused on development processes in the Global South, are increasingly coinciding with a broader struggle against global capitalism (Little 2003), the moral and practical requirements of global justice (Cammack 2012), and the analysis of the drivers and impacts of inequality in the Global North (Krugman 2007; Norris 2011).

John Dryzek (1996) argues that historical conditions in the Western world made possible the theoretical separation of democratic rules from the social outcomes of political economic decisions, since economic rationality was used to battle the forces of entrenched hierarchy and religious privilege. In contemporary times, economic rationality is giving rise to an exclusionary approach to participation in economic policy making, with restricted public scrutiny or public accountability, nationally and internationally. Stephen Gill (1998) refers to this as “New Constitutionalism,” which, he argues, operates to confer privileged rights of citizenship and representation to corporate capital and large investors, serving to secure investor freedoms and property rights for transnational enterprises. “What is emerging within state forms (state and civil society complexes),” writes Gill, “is a pattern of authority in which capital has greater weight and representation, restraining the democratisation process that has involved centuries of struggle for representation—a development that is contested and contradictory” (23).

As shown by numerous studies, changing trade and tax policies inspired by the neoliberal prescriptions of political and economic organization have led to rising inequality. Particularly in the wake of the global financial crisis, it is now more widely acknowledged that inequality may promote inefficiency rather than growth. A recent IMF study noted:

When growth is looked at over the long term, the trade-off between efficiency and equality may not exist. In fact equality appears to be an important ingredient in promoting and sustaining growth. The difference between countries that can sustain rapid growth for many years or even decades and the many others that see growth spurts fade quickly may be the level of inequality. Countries may find that improving equality may also improve efficiency, understood as more sustainable long-run growth. (Berg and Ostry 2011, 13)

The political effects of increasing inequality should be considered equally significant. The unchallenged entrenchment of neoliberalism in Canada is likely to reduce further the role of the state as the provider of public and social
services to the general population and the marginalized, thus undermining one of the core assumptions of liberal democracy. Disturbingly, rather than contributing to a post-staples political economy, increasing social, political, and economic inequality has pushed Canada toward a neostaples economy functioning within a postdemocratic state, that is, one in which elected governments continue to operate within a framework of democratic processes, of the sort measured by indicators of democracy, while the application of the basic principles of democracy becomes increasingly limited, such that the apparatus of democracy serves to benefit a relatively small, but powerful, elite (Crouch 2004). Despite current talk of recession, Canada does not lack for wealth, but the concentration of this wealth in the hands of the few, consequent on the embrace of neoliberal policies, is only fuelling more inequality. Moreover, the spectre of unpredictable and widely fluctuating oil prices and the changing map of oil production in the world make the postdemocratic scenario even more problematic. Much is therefore at stake. We can work to revive the underlying principles of liberal democracy in Canada, or we can allow ourselves to be lulled into complacency by the apparent functionality of the democratic apparatus.

Notes

1 Compared to the United States, income inequality levels in absolute terms are certainly lower in Canada and the rate of change in the top 1 percent is comparable in the two countries. However, in terms of the distribution of income among the various income groups, the rate of change in inequality has been greater in Canada than in the US since the mid-1990s (OECD 2008). Canada’s Gini index (measure of inequality) rose from 0.293 in the mid-1990s to 0.320 in the late 2000s. During the same period, the US’s Gini index increased from 0.361 to 0.378 (Conference Board of Canada 2011).


3 This list includes Canada, Mexico, Netherlands, Norway, Singapore, South Korea, the United Kingdom, and the United States (IEA 2014, 11; OPEC 2014, 314–19).

4 The number of lay-offs is mentioned by Vanderbruck (2015) in the context of illustrating the capacity of nonconventional oil companies to use the price free fall as an opportunity for cheaper technology and automation.

5 Despite its headline, “Oil Sands Crude Not as Expensive to Produce as It Used to Be,” a Financial Post article quotes Jean-Michel Gires, former chief executive officer with the Canadian unit of France’s Total SA, stating that bitumen sands-derived crude is still “among the most expensive oil” in the world to produce. The article mentions
that the supply cost (i.e., recovery of costs, plus a 10% return on capital) for bitumen oil projects in the range of US$50 to US$90 per barrel. It is not clear if this estimate takes into account “a history rife with cost overruns on project expansions,” often as much as 40 percent above earlier estimates (Lewis 2013).

6 “Tight” oil refers to conventional light oil, with low sulphur content, trapped in unconventional formations of low permeability, often shale or tight sandstone, which requires hydraulic fracturing and/or horizontal well technology for extraction. Shale oil (a type of tight oil) should not be confused with oil shale, which is unconventional oil containing kerogen and is found in deposits closer to the surface than those containing shale oil. Estonia, China, and Brazil are the largest producers of oil shale (WEC 2010, 93).

7 The Merchant Marine Act (also called the Jones Act) of 1920 regulates the maritime transport of cargo between various points in the United States. It is criticized for, among other things, raising the cost of coastal shipping and distorting trade flows (Kemp 2013).

8 See Homi Kharas (2010) for a discussion of the many definitions of the “middle class” and of its political and economic impact, as well as for a quantification of trends in the growth of the middle class in the world.

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