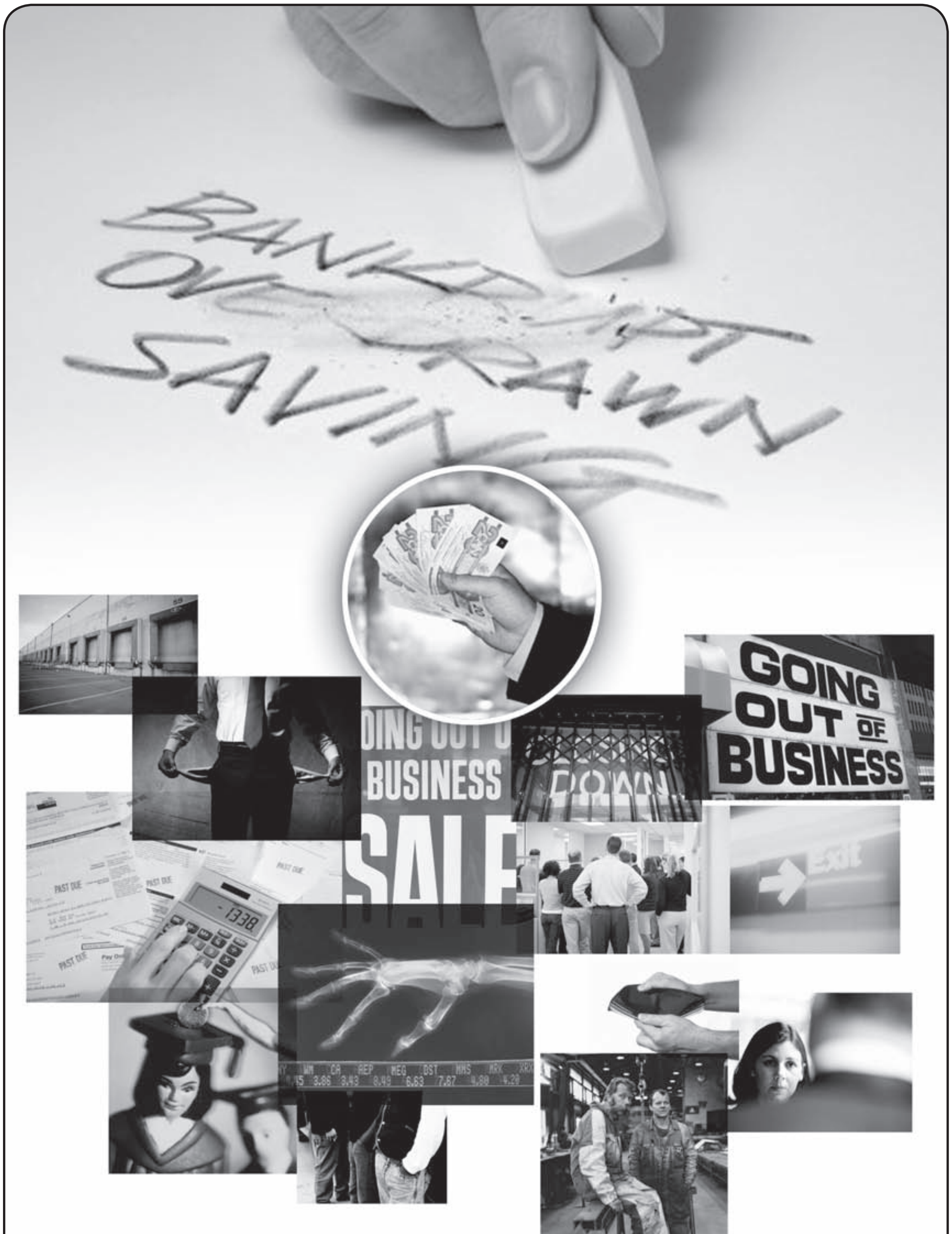

Breaking the Cycle:

Stimulus with responsibility, stewardship and sustainability

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Stimulus with responsibility, stewardship and sustainability

by Greg Flanagan and Diana Gibson
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Contents

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SECTION ONE: Introduction

With the global recession, and oil prices in a slump, Alberta is facing a challenging economic climate. Alberta's 2009 budget will be a critical one for the province and the nation. Governments around the world are taking measures to fight the recession with stimulus packages. South of the border, President Obama has inspired hope with strategic and visionary reforms. The Stelmach government is in a strong position to make this budget a historic one – a stimulus budget with carefully targeted spending, aimed at creating the most possible long-term jobs, and helping those who will be hurt by the recession. The province also cannot afford to miss the opportunity to make this budget one that helps Alberta jump start a new economy, getting Albertans off the roller-coaster ride our oil and gas economy creates.

This report explores how Alberta has already been hit by the recession and what the implications are for the budget. It exposes the challenges the government will face as the recession plays out. Though the report reveals that Alberta is particularly vulnerable to the recession, it also identifies the opportunities Alberta has which position the province exceptionally well to introduce a bold and visionary stimulus plan – in fact, it illustrates why the government can afford to do nothing less.

The report begins by mapping out important aspects of Alberta's economy that have implications for stimulus spending. It looks at trends in GDP, detailing the province's over-reliance on construction, oil and gas, and exports as drivers. It details where the recession is already impacting Alberta, including bankruptcies, retail sales and construction losses. This section also explores the details of real job losses across the province, revealing disturbing trends in part-time versus full-time and goods producing versus services producing.

With the economy mapped out, the report moves on to provide an overview of economic stimulus concepts. This includes a clear definition of stimulus instruments, descriptions of stimulus options and an analysis of stimulus examples. The details of stimulus packages are varied and the components highly controversial. There is a brief summary of advice from key opinion leaders. The report high-lights the general consensus that economic leaders have converged on regarding deficit spending, tax cuts and social spending. This section also describes what the public wants to see in an Alberta stimulus plan.

The report then answers some key questions: What can be done? What should be done? What should not be done? In answering these questions, the report illustrates Alberta's ability to finance a stimulus package. Employment multipliers are examined to identify where stimulus spending will be most effective in job creation. Oil and gas extraction spending is contrasted with spending in other areas to compare for job creation impacts. Finally, drilling incentives, health care cuts and public-private partnerships (P3s) are specifically critiqued as poor policy choices.

The final section outlines a vision for Alberta's stimulus plan. It offers the key elements of a strategy that would put Albertans back to work and help those impacted by the recession while at the same greening the economy and kick-starting a new economy. It strikes a careful balance between infrastructure spending and social spending. It also shifts the emphasis from highways to social infrastructure. It is a stimulus plan that puts money into the hands of those most likely to spend it, creates long-term jobs for those who most need them and expands social programs when they are most critical. Finally, it is a stimulus plan that Alberta can afford.

Government has a responsibility to diminish recessionary effects - unemployment, idle resources and lost wealth. Most importantly recessions offer governments the opportunity to improve social services, particularly health and education, renew and expand infrastructure, and improve redistribution systems to help the unemployed, those with low income, the homeless and those in danger of being so. In the face of what is shaping up to be the worst recession since the Great Depression, Alberta's government cannot afford to miss the mark.

The global crisis

A recession is defined as a consecutive decline in real gross domestic product (GDP) over two or more quarters.[1] A market economy is susceptible to recessions, the most recent period of economic growth being more the exception than the rule.

There is no doubt that the world has fallen into a severe recession. In the United States, where the recession began with the sub-prime mortgage meltdown, GDP has fallen 6.2 percent this year.[2] The world's major economies have followed suit as follows: Great Britain -2.8 percent, Germany -2.6 percent, France and Italy each approximately -2 percent, and Japan -2.5 percent.[3] In China, according to February 2009 data, economic growth slowed to 6.8 percent in the year to the fourth quarter of 2008, down from 9 percent in the third quarter and just half the 13 percent rate of growth in 2007.[4] More ominously *The Economist* notes:

1 Real dollar values are calculated taking current dollar data and deflating using a price index to eliminate the effects of pure price increase on GDP.

2 Alia McMullen, "U.S. GDP data points to yet more pain," Financial Post, February 27, 2009.

3 The Economist, "Britain's fallen star," February 12, 2009.

4 The Economist, "How much worse will it get?" February 3, 2009.

> Industrial production fell in the latest three months by 3.6% and 4.4% respectively in America and Britain (equivalent to annual declines of 13.8% and 16.4%). But the collapse is much worse in countries more dependent on manufacturing exports, which have come to rely on consumers in debtor countries. Germany's industrial production in the fourth quarter fell by 6.8%; Taiwan's by 21.7%; Japan's by 12%. ... Industrial production is volatile, but the world has not seen a contraction like this since the first oil shock in the 1970s - and even that was not so widespread. Industry is collapsing in Eastern Europe, as it is in Brazil, Malaysia and Turkey. Thousands of factories in southern China are now abandoned. Their workers went home to the countryside for the new year in January. Millions never came back.[5]

Canada, although in better financial shape than most countries around the world and in particular the USA, is not immune, and the recession is now hitting Canada hard. Although GDP growth for 2008 was positive at 0.5 percent, this was a considerable drop from the 2.7 percent growth in GDP in 2007. GDP fell 3.4 percent on an annualized basis in the fourth quarter of 2008, the largest single decline since the 1990 recession.[6] Employment fell by 129,000 in January with another 83,000 jobs lost in February.[7] This drop in employment is greater than was seen during the previous economic downturns of the 1980s and 1990s.

Most of the countries in the global economy are implementing fiscal stimulus, some with tax cuts, most with infrastructure and other spending programs.

5 The Economist, The collapse of manufacturing," February 19, 2009.

6 Statistics Canada, The Daily, March 2, 2009 and March 13, 2009, Catalogue 11-001-XIE.

7 Statistics Canada, "Labour Force Survey," The Daily, February 6, 2009, catalogue 71-001-XWE.

SECTION TWO: Alberta: The Impacts of the Recession

Accurately targeting a stimulus package for the province requires clear profiling of key aspects of the economy. This section will map economic trends in Alberta's economy, breaking out construction, oil and gas, and exports as critical economic drivers, and looking at recent changes in retail sales and bankruptcies. Trends in employment and unemployment will be explored to identify what sectors are being hardest hit by the recession, along with important trends in job losses.

Alberta's economy has been the strongest in Canada in the last number of years. Of course, Alberta's economy is heavily driven by construction and specifically oil and gas developments. Ironically, demand has been considered too high by many, with overheated labour markets, oil exploration - particularly excessive tar sands development - and high inflation. Alberta is not immune to recession, and in fact is likely to be affected the most severely of any Canadian province. According to Statistics Canada, a slowdown in manufacturing, construction and consumer spending led to a 3.4 percent contraction in the economy in the last three months of 2008.[8] And Alberta's flagging energy sector - which previously offset slowdowns in other sectors - is becoming a bigger contributor to the decline. "We know it's hitting Alberta disproportionately harder. A lot of that deceleration that we're seeing in GDP is coming from Alberta," said Todd Hirsch, chief economist for ATB Financial.[9]

Construction

Construction is extremely important to the Alberta economy. Figure 1 shows the percentage of GDP accounted for by total construction expenditures between 1989 and 2007, the last year for which we have data. In 2007 construction climbed to 22.5 percent of GDP for Alberta, with most of this coming from private investment in residential and non-residential construction. This sector is one of the most influenced by an economic downturn, as evidenced by recent data.

Construction falls into three main areas: private residential, private non-residential, and public. The vast majority of construction investment in Alberta is in the second category, specifically, the oil and gas sector. In July 2008, the energy sector accounted for almost 64 percent of the total major Alberta projects. This is up from 49.9 percent in 1998.[10] Residential construction was forecast to be approximately 13 percent of total investment in 2008.[11]

8 Statistics Canada, "Canadian Economic Accounts," The Daily, March 2, 2009.

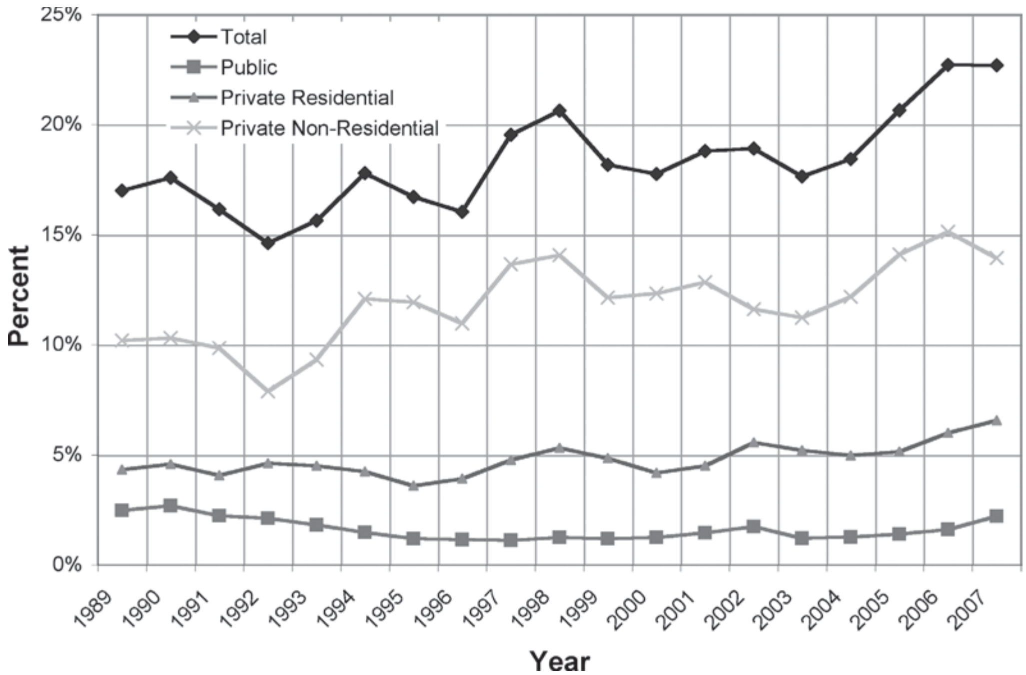
9 Lisa Schmidt, "Canada's decline worst in 20 years," Calgary Herald, March 3, 2009.

10 Alberta Finance and Enterprise, "Alberta economic outlook - mid-year update," August 2008, p. 9.

11 Alberta Employment and Immigration, Industry profiles: Construction industry, September 2008, http://employment.alberta.ca/documents/LMI/LMI-IP_construction.pdf.

Figure 1

Alberta construction as a percent of GDP



Source: Statistics Canada CANSIM, Alberta, Series: Current prices: v687647 Gross domestic product (GDP), v687655 Gov. Structures, Private: v687659 Residential structures, v687660 Non-residential structures

The residential housing side has seen a dramatic change in investment levels. Across Canada, the most significant decreases in building permits occurred in Alberta and British Columbia in December 2008. Table 1 shows a comparison of the declines in permits for Canada and Alberta, with a breakdown for Edmonton and Calgary and for residential and non-residential (commercial). In Alberta, the value of building permits fell 27.0 percent to $761 million as a result of declines in all components of the residential and non-residential sectors. Alberta's permit values have fallen nearly seven times that of Canada as a whole.

New housing price indexes for 2008 have also fallen considerably, with prices down in Calgary by 6.5 percent and in Edmonton by 10.4 percent.[12] TD Bank predicts this trend to continue for homeowners, projecting prices to fall 14.6 percent in Alberta in 2009, and then edging up by just 0.5 percent in 2010.[13]

12 Statistics Canada, The Daily, March 11, 2009, Catalogue 11-001-XIE.

13 Pascal Gauthier, "O growth where art thou?" Provincial Economic Outlook, TD Bank, December 23, 2008. http://www.td.com/economics/qef/prov1208.jsp.

Table 1

Value of building permits, by census metropolitan area (seasonally adjusted)						
	Aug 08	Sep 08	Oct 08	Nov 08[r]	Dec 08[p]	Nov to Dec 08
	$millions					% change
Total (Canada)	4, 094.3	4, 357.3	3, 881.1	3, 500.5	3, 448.9	-1.5
Edmonton	240.7	349.3	273.7	293.5	286.1	-2.5
Calgary	315	271.9	316.7	458.7	199.8	-56.4
Value of building permits, by province and territory						
Canada	5, 723.80	6, 437.60	5, 436.60	4, 821.00	4, 632.10	-3.9
Residential	3, 472.40	3, 263.50	3, 017.00	2, 728.80	2, 641.70	-3.2
Non-residential	2, 251.40	3, 174.10	2, 419.60	2, 092.30	1, 990.40	-4.9
Alberta	917.2	1, 023.40	841.7	1, 042.60	760.9	-27.0
Residential	428.4	433.9	427.4	442.2	364.3	-17.6
Non-residential	488.8	589.5	414.3	600.3	396.6	-33.9

r revised, p preliminary
Source: Statistics Canada, The Daily, February 5, 2009, Catalogue 11-001-XIE.

Oil and gas

Using data from the Canadian Association of Petroleum Producers (CAPP) the government projects that drilling activity will drop by 27 percent and investment in non-conventional oil will drop by 50 percent in 2009.[14] This level of investment is lower than seen in any of the past ten years. According to the Canadian Energy Research Institute (CERI), "What is clear to us is that, over the next few years, oil sands production growth will be almost at a stand still, and new capital investment will collapse to levels not seen since before the turn of the century (in 2000 oil sands investment was just over 4 billion dollars)."[15]

Despite dramatic drop-offs in investment and construction of new projects, oil production is still projected to increase as prior investments come on-stream. Oil production data in Table 2 show the current situation. Production was up slightly over the year November 2007 to November 2008. Imported oil was also up, however, refinery volume is down while exports are up in volume. Natural gas production, imports, and domestic and export sales are all down.

14 Alberta Finance and Enterprise, Economic Update: February 2009, p.5.

15 David McColl, "The Eye of the Beholder: Oil Sands Calamity or Golden Opportunity?" Oilsands Briefing, Canadian Energy Research Institute (CERI) February 2009.

Table 2

Crude oil and natiral gas: supply and disposition			
	Nov 07	Nov 08	
Crude oil and equivalent hydrocarbons	thousands of cubic metres		% change
Suppy[1]			
Production	13 467.0	13 478.8	0.1
Imports[2]	3 818.7	3 936.2	3.1
Disposition Refinery receipts[3]	8 673.5	8 467.6	-2.4
Exports	8 877.7	9 781.4	10.2
Natural gas	millions of cubic metres		% change
Supply[4]			
Marketable production[5]	13 530.6	12 675.7	-6.3
Imports	1 628.0	972.9	-40.3
Disposition			
Domestic sales[6]	7 566.6	6 575.5	-13.1
Exports	8 996.0	8 530.2	-5.2

p preliminary E use with caution
1. Disposition may differ from supply because of inventory change, own consumption, losses and adjustments.
2. Data may differ from International Trade Division estimates because of timing and the inclusion of crude oil landed in Canada for future re-export.
3. Volumetric receipts at refineries of all domestic and imported crude oils for refinery processing or storage.
4. Disposition may differ from supply because of inventory change, usage as pipeline fuel, pipeline losses, line-pack fluctuations.
5. Receipts from fields after processing for the removal or partial removal of some constituents and impurities and that meet specifications for residential, commercial and industrial use; and including other adjustments.
6. Domestic sales includes residential, commercial, industrial and direct sales (for example direct, non-utility, sales for consumption where the utility acts solely as transporter).

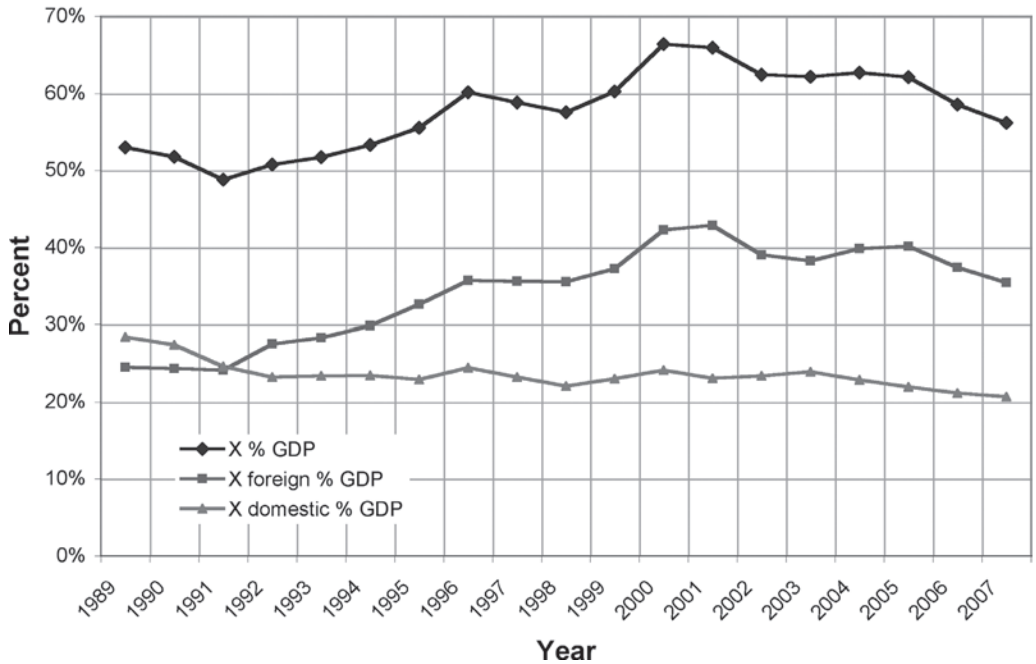
Source: Statistics Canada, The Daily, January 30, 2009, Catalogue 11-001-XIE.

Exports

Exports, especially oil and gas exports, are also vital to the Albertan economy. Figure 2 shows exports as a percentage of Alberta's GDP. In 2007 exports accounted for 55 percent of the Alberta economy and were over 65 percent in the early 2000s. This figure also illustrates the increasing proportion of exports to foreign countries while the proportion to the rest of Canada declines.

Figure 2

Alberta Exports to Foreign and Domestic Markets



Source: Statistics Canada CANSIM, Alberta, Series, Exports and imports of goods and services to other countries other provinces: v31249659-66.

Statistics Canada's Merchandise Trade update in December revealed that Canadian exports and imports dropped in December 2008, with exports falling greater than imports. This resulted in the first Canadian trade deficit since March 1976, of $458 million, compared with a trade surplus of $1.2 billion in November.[16] The report shows that exports dropped 9.7 percent to $35.3 billion, as both prices and volumes declined. This marked the largest month-over-month percentage decrease since October 1982. Overall, exports have been trending downwards since July 2008. Imports also declined, falling 5.7 percent to $35.8 billion.

The same report showed that although Alberta exported more oil for the year 2008, the slump in exports in December was led by crude petroleum. Exports of energy products dropped 19.4 percent to $6.8 billion between November and December 2008. The bulk of this was driven by crude petroleum, which declined by 29.1 percent to $2.8 billion, the lowest level since March 2006. The decrease in crude petroleum exports was mostly the result of a 25 percent drop in prices.[17]

16 Statistics Canada, The Daily, February 11, 2009, Catalogue 11-001-XIE.

17 Ibid.

Retail sales

Retail sales fell by at least three percent in all provinces in December, 2008. The largest decline among all provinces was a 6.2 percent drop in sales in Alberta. Alberta retail sales were down by 10.2 percent over the year between December 2007 and December 2008. Alberta and B.C. were the only provinces to go into to a double digit decline with B.C. at an 11.3 percent decline.[18] Though sales were up slightly in January over December, the numbers are still down from the prior year. Also, the slight increase in January did not offset the larger losses in December.[19]

Personal net worth, bankruptcies, and foreclosures

Across Canada household net worth fell for two consecutive quarters at the end of 2008, declining $252 billion, or 4.4 percent, in the fourth quarter. On a per capita basis, household average net worth fell from $179,300 in the second quarter of 2008 to $165,300 in the fourth quarter, a $14,000 decrease.[20] Alberta has led the nation in per capita foreclosures on residential mortgages, which have more than doubled from 2500 to 5300 in the last two years.[21]

Data released by the Office of the Superintendent of Bankruptcies revealed that across Canada personal bankruptcies shot up in December; the filings were up 50 percent compared with December, 2007.[22] Alberta was one of the nation's leaders, with almost double the number year over year (a 98.1 percent increase). Though Alberta businesses had one of the lowest increases nationally, consumer filings were amongst the highest. Consumer bankruptcies more than doubled for December 2008 compared to December 2007.

Employment

Unemployment in Alberta rose the fastest of all the provinces in December 2008, increasing to 4.1 percent from 3.4 percent the previous month. Alberta has gone in three months from having the lowest unemployment rate in the nation to having the third lowest, behind Saskatchewan and Manitoba.[23] In February 2009, the unemployment rate sat at 5.4 percent. In February, Alberta was second only to Ontario for jobs loss, shedding 24,000 jobs.[24] In December 2008, the TD Bank forecast that Alberta would see its jobless rate rise to around 6 percent.[25] Table 3 shows the employment data for January 2009. The unemployment rate increased 37 percent over the year January 2008 to January 2009.

18 Statistics Canada, The Daily, February 23, 2009, Catalogue 11-001-XIE.

19 Statistics Canada, "Retail Trade," The Daily, March 20, 2009, Catalogue 63-005-XWE.

20 Statistics Canada, "National balance sheet accounts -fourth quarter 2008," The Daily, March 16, 2009.

21 Greg McArthur and Jacquie McNish, "Canada's dirty subprime secret," The Globe and Mail, March 14, 2009.

22 Office of the Superintendent of Bankruptcy, "Insolvency Statistics in Canada - December 2008," Industry Canada, February, 2009, http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02112.html.

23 Statistics Canada, The Daily, Latest release from the Labour Force Survey, Friday, March 13, 2009 Catalogue 11-001-XIE.

24 Statistics Canada, The Daily, March 1, 2009, Catalogue 11-001-XIE.

25 Pascal Gauthier, op.cit.

Table 3

Labour force characteristics by province Alberta (Seasonally adjusted)						
	Dec 08	Jan 09	Dec 08 - Jan 09	Jan 08 - Jan 09	Dec 08 - Jan 09	Jan 08 - Jan 09
	thousand		change in thousands		% change	
Working age population	2,823.70	2,830.10	6.4	57.1	0.2	2.1
Labour force	2,110.20	2,119.30	9.1	51.8	0.4	2.5
Employment	2,022.50	2,025.80	3.3	26.5	0.2	1.3
Full-time	1,680.80	1,680.60	-0.2	-3.7	0	-0.2
Part-time	341.7	345.3	3.6	30.3	1.1	9.6
Unemployment	87.8	93.5	5.7	25.3	6.5	37.1
Participation rate	74.7	74.9	0.2	0.3	---	---
Unemployment rate	4.2	4.4	0.2	1.1	---	---
Employment rate	71.6	71.6	0	-0.5	---	---

Source: Statistics Canada, The Daily, February 6, 2009.

Where are Albertans employed?

To gauge the potential impact of the recession, a breakdown of the labour force is illustrative. Table 4 shows the breakdown by goods and service industries for 2008. Over two million Albertans were employed, with 29 percent producing goods and 71 percent employed producing services.

Alberta's dependence on construction as an economic driver is reflected in the employment profile for the province. Construction employment amounts to over 10 percent of Alberta's workforce. For comparison, the national level is at 7.4 percent, the highest it has been since the 1970s.[26] Table 4 shows that construction is the second largest portion of the workforce at 205 thousand workers, slightly below retail at 230 thousand, followed by health care and social assistance at 190 thousand. With 64 percent of construction in oil and gas, more than 130,000 construction workers could be working directly in oil and gas related construction. As 50 percent of projects will likely be placed on hold, the job losses in that category could be dramatic.

26 Statistics Canada CANSIM Table 282-0008, Labour force survey estimates (LFS), by North American Industry Classification System (NAICS), Alberta, 2008.

Table 4

Alberta Employment 2008			
Industry	**Employment**	**Percent**	
Goods	577,100	28.66%	
Agriculture	61,000		3.03%
Forestry and Logging and support activities	149,200		0.18%
Mining, Oil, and Gas extraction	145,500		7.23%
Utilities	17,500		0.87%
Construction	205,300		10.20%
Manufacturing	144,100		7.16%
Services	1,436,200	71.34%	
Retail trade	229,700		11.41%
Transportation & Warehousing	102,200		5.08%
Finance, Insurance, Real Estate & Leasing	111,700		5.55%
Professional, Scientific and Technical	164,200		8.16%
Business, Building, and other support	63,900		3.17%
Education	126,800		6.30%
Health care & Social Assistance	190,200		9.45%
Information, Culture, and Recreation	71,600		3.56%
Accomodation & Food	113,900		5.66%
Public Administration	83,400		4.14%
Other	91,200		4.53%
Total	**2,013,300**	**100%**	

Source: Calculated from Statistics Canada CANSIM Table 282-0008, Labour force survey estimates (LFS), by North American Industry Classification System (NAICS), Alberta, 2008.

Migrant workers

Another important part of the employment picture in Alberta is that of migrant workers. Inter-provincial migration inflow and temporary foreign workers was used to bolster Alberta's workforce while the labour market was tight. As a result, Alberta employs many foreign workers and workers from other parts of Canada, particularly Atlantic Canada. As these trends reverse, Alberta may export much of its unemployment.

The number of temporary foreign workers in Alberta doubled during the last two years of the boom, reaching 57,843 in December 2008.[27] Though attracted to the province due to labour shortages in the oil sands and other boom-related growth, these workers are not concentrated in the oil sands. The largest concentrations are in Edmonton (13,007) and Calgary (17,810). As Canadian and Alberta unemployment rates rise the fate of these workers in Alberta

27 Citizenship and Immigration Canada, "Facts and figures 2008 - Immigration overview: Permanent and temporary. Residentship."

is troubling (most are on two-year contracts in jobs ranging from engineers to welders and coffee-shop servers).

Details show deeper job losses

Not all jobs are equal, therefore it is important to consider Alberta's job loss picture in more detail. Total job figures fail to take into consideration issues of full-time versus part-time and goods producing versus service sector. For example, in December, the provincial economy saw a net loss of 15,800 positions, but actually lost 19,900 full-time jobs.[28] The 4,100 jobs gained were all part-time. Again in January there was a net gain of 3,300 positions. However, the goods-producing sector shed 15,500 jobs while the service sector added 18,900 jobs.[29] Another aspect of the employment picture that many of the job-loss figures are glossing over is the seasonality of some jobs. This is especially the case for construction employment, which generally sees a fall off in employment over the winter.

Table 5 shows a breakdown of job losses and gains by sector, with the final columns adjusting for seasonality. The details of where jobs are being lost and gained are critical for informing policy decisions related to stimulus spending and job creation. Real job-loss figures help to ensure that job creation is targeted at appropriate skill sets and salary expectations. Also, net job-loss figures will gloss over structural unemployment created by a mismatch between jobs and skill sets in the unemployed workforce.

This table reveals that in the fall of 2008 more than twice as many construction jobs were lost as in 2007. According to Statistics Canada adjustments, the real job-loss figure for construction, as recorded to the end of February, is 16,900 jobs.

Manufacturing is another area where jobs losses were significant, amounting to a total of 15,800 by the end of February, 2009. Also worthy of note is the general trend in manufacturing job losses. This fall's losses follow a loss of 14,900 in 2007, which was only partially offset by a gain of 6,200 in 2008.

Another trend that is important to note is the shift from goods producing to service producing jobs. Even after adjusting for seasonality, there were 33,400 jobs lost in the goods producing sector this fall while 28,500 jobs were added in the service sector. The bulk of these new jobs were gained in accommodation and food services and transportation and warehousing. The service sector jobs, especially accommodation and food services, are typified by low wages and do not replace lost construction and manufacturing jobs.

28 Todd Hirsch and Dan Sumner, Weekly Economic Bulletin, ATB Financial, January 9, 2009.

29 Statistics Canada, Cansim table 282-0007, Labour force survey estimates by NAICS.

Table 5

Job losses and gains by sector – net change						
	Jan 07 – Jan 08 Not adjusted		Jan 08 – Jan 09 Not adjusted		Feb 08 – Feb 09 Seasonally adjusted	
	Year	Aug	Year	Aug	Year	Aug
Goods producing	5,800	-38,700	8,100	-57,200	-11,000	-33,400
Agriculture	6,000	-2,800	-1,900	-12,700	-1,800	-4,100
Forestry and Logging and support activities	0	0	-1,300	-1,000	-100	200
Mining, Oil, and Gas extraction	-800	-7,300	7,000	6,300	-500	-1,200
Utilities	-2,300	-3,600	-1200	-2,200	1,200	200
Construction	17,100	-15,300	-1,000	-35,400	-8,400	-16,900
Manufacturing	-14,900	-7,400	6,200	-12,100	-3,000	-15,800
Services producing	62,900	14,300	15,400	18,800	13,900	28,500
Retail trade	34,400	7,800	9,700	-6,900	3,800	-4,000
Transportation & Warehousing	2,400	7,500	-3,900	5,600	200	9,700
Finance, Insurance, Real Estate & Leasing	11,100	13,200	4,500	9,200	1,600	4,100
Professional, Scientific and Technical	7,600	3,400	11,400	-900	9,800	-2,500
Business, Building, and other support	-1,200	-15,800	-6,000	-4,500	-7,000	2,800
Education services	-19,600	17,900	15,000	41,000	1,500	3,000
Health care & Social Assistance	18,600	-5,800	-12,100	-5,800	-5,600	700
Information, Culture, and Recreation	3,900	-3,000	-4,300	-4,900	-100	7,200
Accomodation & Food	-6,800	-6,100	9,100	1,700	10,900	8,500
Other services	-100	-6,900	-1,700	-9,000	3,600	-3,700
Public administration	12,600	2,200	-6,300	-6,700	-4,900	2,700

Source: Based on data from Cansim Labour Force Survey Estimates (LFS); Table 282-0007, by North American Industry Classification System (NAICS).

Shift from full-time to part-time

Across Canada Statistics Canada noted a downward trend in full-time employment between October, 2008 and October 2009. Part-time employment has shown only a marginal increase over the same period. All of the employment losses in February were in full-time work (-111,000), while part-time employment edged up slightly.[30] In Alberta this trend was magnified. This can be seen quite dramatically in Table 6. Part-time gains mask large full-time employment losses.

30 Statistics Canada, "Labour Force Survey," The Daily, Friday, March 13, 2009, Catalogue 71-001-XWE.

Table 6

Changes in Employment August 08 to February 09	
Labour force	16,700
Full-time	158,700
Part-time	104,200
Unemployed	37,200

Source: Statistics Canada, Cansim Table 282-000711, 13 Labour force survey estimates (LFS), by North American Industry Classification System (NAICS).

Employment Insurance will not be enough

The other side of unemployment is Employment Insurance. In January 2009, 560,400 Canadians received regular Employment Insurance (EI) benefits. This was an increase from December of approximately 23,670 persons, or 4.4 percent. The number of regular beneficiaries was up in all provinces and territories compared with the same month a year earlier, with the largest increases occurring in British Columbia (up 47.7 percent), Alberta (up 46.1 percent), and Ontario (up 43 percent).[31]

As the recession deepens, increasing numbers of unemployed will need income assistance. In recognition of this, the federal government increased the length of benefits coverage for those covered by Employment Insurance. Unfortunately, this will not be protection enough for many. Employment Insurance has been seriously eroded. In 2007, only 70 percent of the one million unemployed Canadians had contributed to the Employment Insurance program.[32] This reflects the shift towards self-employment for many workers, rendering them ineligible for EI. The percentage of unemployed Canadians who either received or were to have received benefits was disturbingly low at a mere 41 percent.[33] As of October 2008, only 17,160, or 21.92 percent, of the 78,300 Albertans unemployed (seasonally adjusted) were actually receiving regular benefits.[34]

31 Statistics Canada, "Employment Insurance January 2009," The Daily, March 24, 2009.

32 Statistics Canada, "Employment Insurance Coverage Survey," The Daily, July 24, 2008.

33 Ibid.

34 Employment insurance figures are from Statistics Canada, "Number of beneficiaries receiving regular benefits," the Daily, December 19, 2008. Total unemployed is from Alberta labour force statistics, Alberta government, October 2008.

SECTION THREE: Stimulus: An Overview

The outline of Alberta's economy presented above has illustrated the impacts already being felt from the recession across Alberta. It has also identified key trends that Alberta's stimulus package will need to target. However, the much over-used term "stimulus" requires definition. This section will set out a clear definition of the different aspects of the economy that can be manipulated, and the tools that can be used to lever them.

Gross domestic product is the sum of expenditures of the major players in the economy. These include consumer expenditures on domestic final goods and services (C), businesses investment expenditures (I), consumer and business expenditures on imports (M), foreign purchases of Canadian or Albertan (depending on the jurisdictional point of view) goods and services (X), and government expenditures or provision of services (G). Where do taxes and savings enter into this picture? Taxes are a withdrawal, reducing potential C and I. On the other side, taxes are the means to finance G. Savings are a withdrawal from GDP by reducing C, but provide the funds to finance I, Table 4 summarizes these components. The relative size of these components for both Alberta and Canada for 2007 is shown in Table 8. Details on the Alberta GDP are provided in Appendix 1.

Table 7

Broad Components of Gross Domestic Product	
C	Consumer expenditure
I	Expenditures on investments
X	Exports outside jurisdiction
M	Imports from countries or regions outside jurisdiction
G	Expenditures by government
	GDP = C + I + X – M + G

Table 8

Shares of Gross Domestic Product (2007 current $)				
2007	**Canada**		**Alberta**	
	Billion $	**Percent**	**Billion $**	**Percent**
C	794.82	60.3%	105.87	40.8%
I	287.88	21.8%	78.01	30.1%
X	513.16	38.9%	145.37	56.1%
M	-578.26	-43.9%	-109.90	-42.4%
G	299.98	22.8%	39.97	15.4%
GDP	1,317.58	100.0%	259.32	100.0%

A few things in Table 7 need to be noted. Imports are a withdrawal from the GDP and therefore are a negative number in Table 8. This fact is behind "buy domestic" programs. However, retaliation also reduces exports (an injection) as imports decline. Domestic consumption is the largest share of GDP nationally at 60 percent, but less important in Alberta at approximately 41 percent. Exports are much more important to Alberta at 56[35] percent compared to Canada at about 39 percent. However, Alberta's "exports" are products leaving Alberta to other provinces as well as to countries outside Canada. In 1981, 42 percent of Alberta exports went to foreign countries and 58 percent went to the rest of Canada (ROC). In 1991 foreign and ROC were at approximately a 50/50 split. By 2007, 63 percent was foreign and 37 percent was to ROC.[36] This reflects the change from East-West trade to North-South trade with the implementation of the North American Free Trade Agreement (NAFTA). Alberta exports are now increasingly dependant on trade with other countries, especially the US, and therefore much more at risk of global recession (and buy-domestic programs). Programs centered on construction, social services, and the environment are by their nature local in stimulus.

Similarly, Alberta's "imports" come from any jurisdiction outside Alberta, although at approximately the same percentage as Canada. Alberta imports totaled 42 percent of the GDP in 2007 with a mean of 47 percent over the last 26 years. Alberta has a considerable trade surplus.

Government expenditure in Alberta at approximately 15 percent (total) is much less important to GDP than it is to Canada as a whole at approximately 23 percent.

Confidence is key

The vicious circle effect of any recession, and this current one in particular, is exacerbated by the public's expectations or confidence. The financial meltdown in the US led to panic selling in the public corporate stock markets, to which Canada was not immune despite having a somewhat more regulated banking system. The financial crisis created a difficult credit market for business investment and also reduced consumption expenditures. Of specific importance to Alberta, the price of oil and gas also fell from previous highs due to decreased international demand. As businesses contract, employment falls, reducing household incomes. And as asset values fall, household wealth falls, and consumers reduce expenditures more. This reduces consumer and investor confidence even more and so on and so on. The cycle spirals down.

35 The mean over 26 years of exports as a percentage of GDP for Alberta is 57.7 percent.

36 Statistics Canada, CANSIM series: v687647 Gross domestic product, v687666 Exports to other countries, v687669 Exports to other provinces.

Government needs to break the cycle through fiscal and monetary stimulus, thus raising confidence. Fiscal stimulus comes in the form of direct expenditures, tax rate reductions, and automatic stabilizers. Monetary stimulus constitutes changing the credit markets through manipulating the interest rate and credit conditions. Each of these policies will be considered in detail in light of the components of GDP shown in Table 7.

Public policy

There are a number of variables that can be manipulated by government policy to affect components of GDP total expenditures.

Consumption expenditures depend on income minus household savings, and personal and business taxes. Household consumption depends then on income, wealth, credit conditions, including lending interest rates, tax rates, and expectations (consumer confidence). Business Investment depends on prices, revenue, profit, interest rate, tax rates, and expectations. Imports are affected by the same variables as C & I. Exports depend on outsiders' demand, where the interest rate, exchange rate, and trade policy can be used to effect.

Government expenditure varies with GDP and population but much of it is considered to be discretionary, decided through the budget process. Similarly, legislation can change the tax system in order to affect taxes collected. However, some government expenditure automatically varies with changes in the economy, as do tax revenues. When the economy is weak some social program expenditures automatically increase as income supports kick in. And tax revenues automatically fall (at given tax rates) as household incomes and business profits fall. These automatic fiscal stabilizers work since they are counter to the business cycle.

Monetary policy manipulates credit conditions and the interest rate. If credit is more available and the interest rate is low, firms will borrow more to invest and consumers will borrow to buy houses and other durable goods, such as automobiles, appliances, and furniture. However, if confidence in the future strength of the economy is low, available credit at low interest rates will not overcome these expectations. A particular fear is deflation. If individuals think prices may fall they will defer these large purchases in the current period. In the current economic environment, federal monetary policy is having little effect on current demand.

Monetary policy is generally the purview of the federal government through the Bank of Canada, with private commercial banks regulated under the Bank Act. The Bank of Canada has been lowering the bank rate and promoting lending in an effort to stimulate the economy. However, the commercial banks' interest rate policies are only loosely affected by the bank rate set by the Bank of Canada. As business profits are falling, household debt is high and debt defaults are on the increase, banks are reluctant to lend to anyone but the best credit risks. If banks are reluctant to lend due to risk and uncertainty in the economy, then driving the interest rate down will not help. The old adage that "you can't push on a rope" appears to be true. However, the Alberta government owns the Alberta Treasury Branch, which it could direct to support greater risk-taking and easier credit conditions. The government could also guarantee corporate loans with the commercial banking system.

Fiscal policy includes both government expenditure and tax policy. Taxes work through consumer and business expenditures. The lower the tax rates, the greater money these agents have to spend, potentially expanding GDP. However, with a tax decrease, savings are an alternative to spending for households and businesses. To the degree savings absorb tax reductions there is no stimulus effect. Empirical evidence indicates that this is largely the case. When confidence is low consumers will pay down debt or increase savings before they will increase spending when they receive a tax break. This will be explored further in Section 4.

There is little room in Alberta to decrease income taxes since they are currently very low, the lowest in Canada. As well, with no sales tax there is no option to reduce it. Starting January 1, 2009 health care premiums were eliminated in Alberta, constituting at least a billion dollar reduction in taxes.

In jurisdictions where there are debt and deficit situations, a tax decrease worsens the budget balance and, if financed by the sale of government bonds, will only give private individuals the opportunity to save by buying these bonds. This will have little or no stimulus effect while increasing deficits and future debts. Also, tax cuts only benefit individuals earning taxable incomes - those least hurt by a recession. Increasing income support to low-income families and the unemployed has the greatest stimulus effect, as these people spend most of their income. As redistribution helps the least well-off it also spreads the pain of a recession more fairly.

This leaves government expenditures as the only really effective choice for stimulus in Alberta in the current international recession. A few examples of fiscal stimulus are outlined in Appendix 2.

SECTION FOUR: What Economists and Leaders Are Saying

Stimulus packages are being talked about everywhere. The International Monetary Fund (IMF) has called on nations to spend 2 percent of their GDP to stem the tide of the global recession.[37] However, though the need for stimulus is obvious, the elements of those packages are very controversial. Tax cuts, social spending, and deficits have been trigger points for debate. Unlikely voices have converged on these points, consistently recommending increased public spending to offset this recession. They are also advising that spending will be far more effective than tax cuts for stimulating jobs and the economy, and are recommending that governments run deficits.

Not only spending but deficit spending

The deficit slaying rhetoric of the 1990s is truly behind us. The general consensus is to 1) increase public spending, 2) run a deficit, and 3) not cut taxes.

Thomas D'Aquino, chief executive and president of the Canadian Council of Chief Executives advises that "The gravity of Canada's economic situation justifies a substantial increase in public spending even if this leads to temporary deficits."[38]

The chief economist at the Conference Board makes the same point, saying, "By achieving fiscal surpluses during good economic times, our governments now have the capacity to offer fiscal stimulus through deficit spending when it is sorely needed - like now."[39] Further, the Conference Board says to "avoid mention of belt-tightening, which sends the wrong signal at a time when economic stimulus is needed."[40]

Like Alberta, British Columbia also has a no-deficit law. However, Gordon Campbell, the premier of British Columbia, has chosen to run a deficit. He stated that the BC government could still deliver a balanced budget, but said that it would be one that "hurts more than it helps" by requiring cuts to health care and education. He added, "The only thing worse than a deficit budget, is a duplicitous budget."[41]

37 Dominique Strauss-Kahn, "Addressing Global Economic Challenges" Luncheon Remarks to the Private Sector Organization of Jamaica, Kingston, Jamaica, December 10, 2008. http://www.imf.org/external/np/speeches/2008/121008.htm.

38 Thomas D'Aquino, "Key Short-Term and Long-Term Priorities For Canada," Speech to the New Year Members' Meeting of the Canadian Council of Chief Executives (CCCE) in Toronto, http://www.ceocouncil.ca/en/view/?area_id=1&document_id=1305. Accessed February 3, 2009.

39 Conference Board of Canada, "Fending Off a Canadian Recession What More Can Be Done?" November 2008.

40 Ibid.

41 Gordon Campbell, "State of the Economy Update," Speech, February 2, 2009.

Even Conservative Prime Minister Stephen Harper appeared on CNN's Fareed Zakaria GPS and stated, "I happen to believe that fiscal stimulus measures right now are essential. I'm not generally a Keynesian. But when you have the kind of drops in economic activity we're having... you have no choice but to have the government move in, absorb those funds and put them to work."

Alberta is the province in Canada with the most capacity to implement a stimulus package. Nonetheless, in her February financial update, Minister of Finance Iris Evans indicated that the province planned to cut expenses.[42] This is directly in contradiction to the advice of the economic leaders. However, on a more promising note, the same fiscal update indicated a move away from balanced budgets.

Tax reductions are not an effective stimulus

Tax reductions are considered stimulatory in conventional theory of fiscal policy. It is obviously true that if taxes are reduced consumers have more money to allocate to spending and savings. The empirical evidence, however, suggests that the propensity to spend from tax reductions is low. For example, a recent National Bureau of Economic Research (NBER) paper looked at the tax cuts in the United States. Survey responses imply that the aggregate propensity to spend from the rebate was about one-third, and that there would not be substantially more spending as a lagged effect of the rebates. Because of the low spending propensity, the rebates in 2008 provided low "bang for the buck" as economic stimulus. Putting cash into the hands of the consumers who use it to save or pay off debt boosts their well-being, but it does not necessarily make them spend.

Another recent NBER paper by distinguished American economist Martin Feldstein estimates the spending rate of a tax reduction to be only .13 compared to a consumption expenditure rate of .70 from a usual increase in income. That means only 13 cents of a dollar in tax reduction will be spent.[43]

In Canada, a recent Scotiabank report indicates that Canadians, especially Albertans, also plan to save any tax refunds. It states, "almost one-quarter of Canadians are planning to either deposit or invest their tax refunds this year, while about one-fifth expect to pay down debt. Results of the survey released Monday - the deadline for making RRSP contributions eligible for the 2008 tax year - showed savings and investments (24 per cent) and debt payments (21 per cent) the most popular options for income-tax refunds, while 20 per cent did not even expect a refund. Alberta's respondents, at 27 per cent, were most

42 Government of Alberta, "Third Quarter Fiscal Update," February 2009.

43 Matthew D. Shapiro, Joel B. Sherrod, "Did the 2008 Tax Rebates Stimulate Spending?" working paper #14753, National Bureau of Economic Research, Cambridge, MA, March 2009.

likely to put tax refunds toward debt. British Columbians were most likely to want to save or invest their refunds at 32 per cent, followed by respondents in Ontario at 28 per cent. Harris/Decima gathered this information by surveying 1,020 Canadians between Feb. 12 and 15."[44]

The stimulus impact of tax cuts is further compromised by Alberta's high import ratio. The impact of the small portion of the tax cuts that is spent is undermined when imports are purchased.[45]

The infrastructure economic multiplier is significant. When it comes to creating jobs and stimulating activity, infrastructure spending is a much more effective tool than tax cuts. In the US, the impact of economic growth of infrastructure spending worth 1 percent of GDP is more than double the impact of tax cuts.[46] According to CIBC World Markets, in Canada, $10 billion of infrastructure spending can potentially create 110,000 jobs and lift economic growth by close to 1.5 percentage points - well above the stimulus effect of a tax cut of a similar size.[47]

What do Canadians and westerners think need to be done?

Nanos Research ran a telephone survey of 1,003 Canadians in early January 2009. They conclude that "Canadians expect a severe economic downturn lasting into 2010 rather than a mild recession ending by the summer of this year. A majority of Canadians also support federal and provincial governments going into deficit to stimulate the economy, with infrastructure spending and personal tax cuts being the preferred course of action to jump start the economy. There is very little support in the country for industry bailout programs."[48] Nanos found that 56.6 percent of Canadians support deficit spending to stimulate the economy, while only 37.9 percent oppose or somewhat oppose it. Infrastructure spending is supported by 75 percent as their first or second choice. The next preferred option is personal tax cuts to stimulate consumer spending, with 50 percent of Canadians' support. Canadians' third choice, from the menu offered by Nanos, was investment tax incentives for industry to create jobs, which gained approval by nearly half the population. The least popular option, by far, is rescue packages for industries, which was the first choice of only 12.8 percent and the second choice for 17.8 percent.

The study participants were identified by region with approximately one-third coming from the West. In the West over 55 percent supported deficit financing and over two-thirds support as very

44 "Tax refunds to go to debt, investments, suggests poll", Financial Post Ottawa, March 3, 2009.

45 Glen Hodgson, "Permanent tax cuts are no panacea," Globe and Mail, January 12, 2009.

46 CIBC World Markets, January 2009. op.cit.

47 Ibid.

48 Nick Nanos, "Canadians see Recession lasting into 2010; Support Deficits and Infrastructure Spending," Policy Options, February 2009.

important or important "... that the government increase investment in public services like healthcare, social services, the justice system and education during a downturn." In addition, 71.1 percent of participants from the West chose "Government investing in healthcare, social services and education," over the 19.9 percent who chose "Government financial support for businesses in the automotive, forestry or mining industries."[49]

Another 2009 poll by the Ipsos Reid and the Alberta Council for Environmental Education found that 78 per cent of Albertans prefer subsides for renewable and clean energy options while only 11 per cent prefer subsidies for oil and gas development.

SECTION FIVE: What Can Be Done?

The recession in Canada is going to get much worse before it gets better. Although the Alberta economy has been the strongest in Canada, the recession is likely to hit Alberta more than other provinces due to its larger reliance on exports, construction, and a smaller government share of GDP. On a positive note, this section will illustrate that Alberta is in the most favourable financial condition to offset the downturn in the private components of GDP.

Alberta, whose economy has been the best in the Canada, may initially appear to be less affected by recession, however, Alberta will ultimately be affected to the greatest degree.

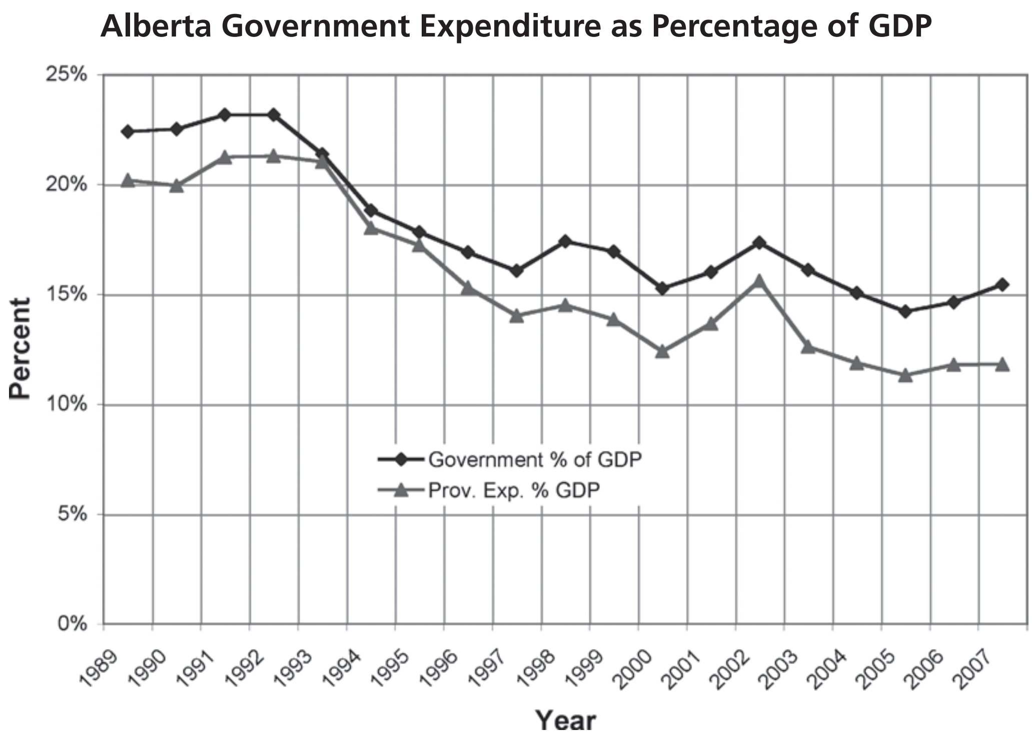
The province does have the greatest opportunity for government intervention, as it in the best fiscal shape of any province. Alberta also has the smallest proportion of government expenditure to GDP, allowing it to expand government stimulus to a greater degree than any other province in Canada, or for that matter most jurisdictions in the world.

Alberta's expenditures on public services are a small percentage of GDP. Figure 3 illustrates that expenditure by all governments is only 15.4 percent of GDP, having been diminished from a high of 23 percent in 1991-93. Small government provides less of an expenditure base and is relatively less capable of replacing the (larger) fluctuations in the private sector. Plus, already large per-capita expenditure on social programs means modest expansion of government will be that much less effective in stimulating the economy. Therefore, it is even more contingent in Alberta for the government to provide a relatively large visionary stimulus to the economy. As the provincial

49 Ibid.

government's expenditures are less than 12 percent of GDP in 2007. Alberta has much room for greater public investment and social service expenditure.

Figure 3



Source: Source: Statistics Canada, CANSIM series v687647 Gross domestic product (GDP), v687653 Net government current expenditure on goods and services, v687654 Government gross fixed capital formation, V207034 Total expenditures, provincial general government revenue/expenditure; Alberta.

Alberta, more than any North American jurisdiction and most other nations, has the financial assets to afford greater fiscal stimulus. Alberta has been accumulating budget surpluses over the last decade (see Figure 4) to the point where the sum is almost $45 billion. This wealth is now held in various savings/investment accounts, including the Heritage Trust Fund, the Education Fund, the Capital Fund, and the Stabilization Fund.[50] The major trust accounts are enumerated in Table 9. Increased government expenditures, even deficit budgeting, can be financed by funds from these accounts, providing the maximum direct stimulus effect, as there would be no loss through sale of government bonds or tax reductions.

50 The amounts of these funds may be (are likely) less than the sum of the surpluses due to losses in the stock and bond markets.

Table 9

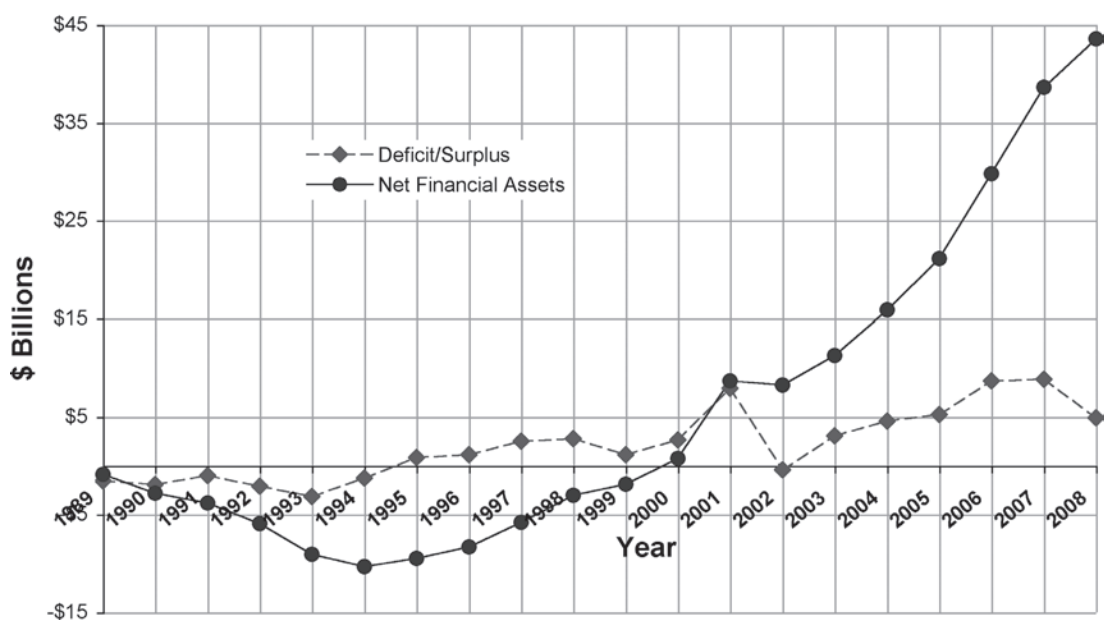
Alberta Financial Assets, Major Funds, estimate 2009 (billion $)	
Major funds	**Billion $**
Heritage Fund	13,927
Alberta Sustainability Fund	7,653
Edowment and other funds	3,084
Capital Account	6,974
Carbon Capture and Storage	2,000
Green TRIP	195
Other financial assets	7,325

Source: Alberta, Budget 2008, Third Quarter Fiscal Update, February 2009.

The Capital Fund and Stabilization Fund together account for $14.64 billion in available funds. Without having to touch long-term savings in the Heritage Fund, the province has plenty of financial assets at its disposal for stimulus spending.

Figure 4

Surplus/Deficit and Net Asset/Debt



Source: Statistics Canada, CANSIM series v207066 Surplus (deficit), Table 385-0029, Alberta; Financial assets.

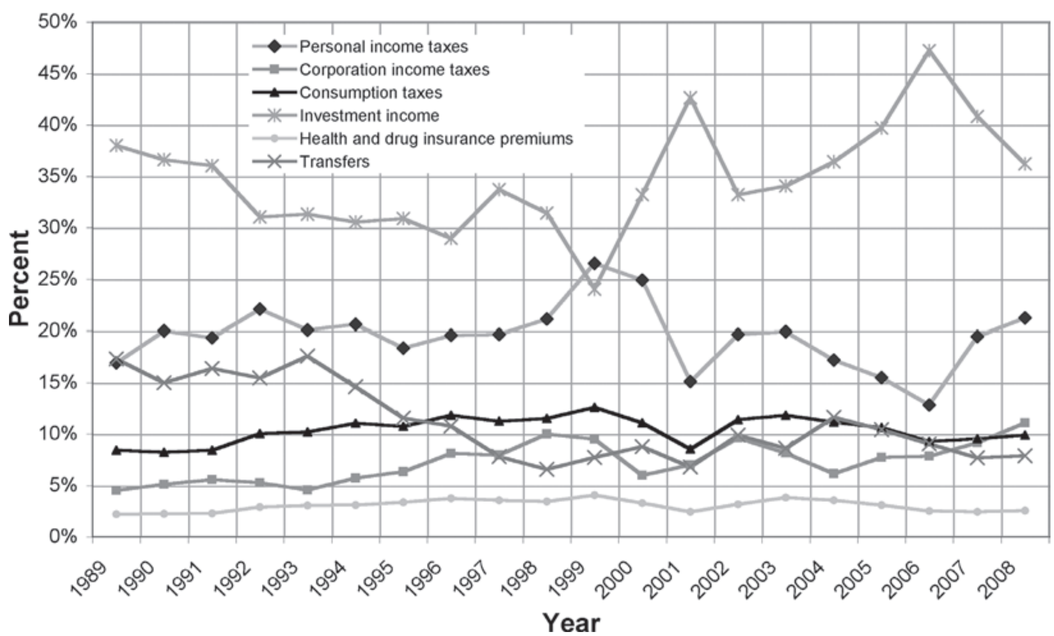
On the revenue side, Alberta's budget will be adversely affected by the recession and the drop in oil prices from last year's highs. Figure 5 shows Alberta's major revenue sources. Income tax, both corporate and personal, usually the bread and butter of government revenue, has become less significant to overall revenue. These will fall with the decrease in economic activity and falling personal incomes. According to Alberta government calculations, if Alberta had the same tax system as any other province, Albertans and Alberta businesses would pay between $10 billion and $18 billion more in taxes each year, after the elimination of health care premiums.[51]

Consumption taxes, including gaming profits, and liquor and tobacco excise taxes, have been an increasing factor in financing Alberta's public sector. These taxes may or may not fall off as there is ambiguous evidence with regard to whether gambling, smoking and drinking increases or decreases during economic uncertain times. Health premiums were eliminated as of January 1, 2009 and, therefore, this revenue will fall to zero for 2009. This constitutes a tax reduction and will stimulate the economy somewhat, keeping in mind the caveats earlier presented about the effectiveness of tax cuts to spending.

The most significant revenue stream comes from "investment" revenue, mostly from oil and gas royalties and land sales.

51 Government of Alberta, "Budget 2008, What's in the budget for Albertans?" Summary, http://www.gov.ab.ca/budget2008/index.cfm.

Figure 5 **Major Revenue Sources as Percentage of Total Revenue**



Source: Statistics Canada, CANSIM series v207005 Personal income taxes, v207006 Corporation income taxes, v207010 Consumption taxes, v207032 General purpose and v207033 Specific purpose transfers from other government subsectors, v207027 Health and drug insurance premiums, v207030 Investment income.

SECTION SIX: What Should Be Done?

In mapping trends in Alberta and impacts of the recession, this report has already illustrated that Alberta will be hard hit. A strong stimulus plan will be needed. It will need to target the creation of full-time employment and goods-producing employment to offset the losses in those areas. It will also need to address the heavy reliance on construction both in terms of employment and GDP. The plan will also need to be targeted strategically at sectors where the most job creation impacts can be achieved. The stimulus will also need to address the shortfall of federal Employment Insurance and the lack of adequate help for Alberta's unemployed. This section will use federal government multipliers to analyze how stimulus spending can be made most effective.

As mentioned earlier, the International Monetary Fund has recommended that countries spend 2 percent of their GDP on stimulus measures.[52] For Alberta, with GDP at $259 billion in 2007, this amounts to just over $5 billion. In order for this funding to have a stimulus effect, it would need to be in addition to already budgeted spending. Thus, this would need to be in excess of the funds already budgeted for the year in the capital plan. With $8.5 billion in infrastructure spending by the province last year, the $7.5 billion allocated for the 2009-10 capital plan is already less capital spending that last year. To maximize the employment creation in the stimulus, new spending will be needed to put construction workers from the oil and gas and residential housing sectors back to work.

A careful balance will need to be struck within this stimulus package between infrastructure and social spending. Given that the automatic stabilizers such as unemployment insurance have been compromised, programs aimed at unemployed and low-income Albertans will be key. To have a stimulus effect, social spending will also have to be over and above regular operating spending, including increases to account for inflation and population growth.

Virtually every other government is thinking stimulus spending with emphasis on infrastructure. In the US, the Obama administration will spend $787 billion on its fiscal stimulus package. Overall, globally it is expected that there will be an additional $650 billion in global infrastructure spending during the course of the coming two years.[53]

52 Camilla Andersen, "IMF Spells out Need for Global Fiscal Stimulus," IMF Survey Magazine, December 29, 2008

53 Benjamin Tal, "Capitalizing on the upcoming infrastructure stimulus," Occasional Report #66, CIBC World Markets, January 26, 2009.

The Canadian federal government, under pressure from the opposition parties in Parliament, tabled a stimulus budget in late January 2009. The major points include:

- $40 billion over two years, which counts on a $6.5 billion contribution from the provinces and some municipalities. This includes a “use it or lose it” threat. If the provinces don’t come up with the funds, the proposed infrastructure spending will go back into the federal treasury.
- Five percent of stimulus aimed for green jobs. For comparison, President Obama’s stimulus package includes four times more per capita, or at least $55 billion for clean energy over the next 18 months or so. This has come under criticism for including Carbon Capture and Storage, which is not considered by many to be green as it supports the continued development of fossil fuels and is an expensive and relatively untested technology.
- Tax cuts totalling over $20 billion over five years.
- $1.5 billion for job training and a five-week extension on employment insurance benefits for two years, with the EI premium frozen during that period as well.
- Ominously, the commitment to balance the books in five years includes conducting a review of corporate assets, from Crown corporations to Crown land, to see what could be sold to the private sector.

Alberta will be responsible for coming up with a portion of the $6.5 billion for infrastructure programs.

Stimulus spending and job creation: government multipliers

Given that economies (local, regional, provincial, national, etc.) are interconnected and interdependent, a change in one aspect will have a ripple effect. The concept of economic multipliers captures this through measuring direct and indirect impacts across the economy, including GDP and employment. Using this type of measure, the Alberta government has created a provincial set of models and tables for determining the different economic impacts of investments in different sectors of Alberta’s economy.[54] The tables show both the economic stimulus (GDP) and the number of jobs created.

54 Government of Alberta, Alberta Economic Multipliers 2003, July 2007

In the case of jobs, this ripple can be captured by measuring direct and indirect jobs created across the economy. For example, building a school would create direct jobs with the construction workers and then ongoing direct jobs with teachers and maintenance workers when the school opens. Indirect jobs would be created in other industries by the buying of materials for construction. Further (induced) jobs would be created by the spending of salaries by workers in local communities, creating jobs in retail and services.

There are a number of different ways to calculate the multiplier effects of an economic change, including the direct impacts, the indirect impacts, and the induced impacts. Generally these are referred to as the open model, including direct and indirect effects, and the closed model, which also includes induced effects.[55] Due to the specific focus of this analysis on the oil and gas extraction sector, which is especially characterized by profit and is relatively low on labour intensity, the open model is used here. Although this is the more conservative approach, the use of the open model avoids potential criticism of bias towards the labour-intensive sectors.

It should also be noted that multipliers have limitations. They are based on industry input-output models and industry averages and thus, limited in their ability to predict absolute impacts. They are much more useful for assessing relative impact. For that reason, the multipliers are used in this report for comparative purposes to indicate the relative job intensity of different industries.

An analysis of the Alberta government's multipliers for different industries allows comparisons of the GDP and employment impacts of dollars invested. Table 10 shows the different GDP and employment intensity ratios for selected industries. The employment figure is on the basis of person years of employment per $10,000.

55 There is some controversy about which model is appropriate. The open model is used for this analysis because the closed model has had some criticism for capturing induced jobs for household spending but not for profits.

Table 10

Alberta Industry Employment and GDP Ration (open model)		
Industry	**GDP**	**Employment**
Oil and gas extraction	0.885	0.024
Support activities for oil and gas	0.803	0.077
Construction	0.725	0.082
Petroleum and coal products manufacturing	0.842	0.029
Health care and social assistance	0.885	0.166
Arts entertainment and recreation	0.810	0.298
Hospitals and residential care facilities	0.837	0.156
Education	0.905	0.133
Transit and ground passenger transportation	1.059	0.211
Non-profit	0.856	0.208

Source: Government of Alberta, Alberta Economic Multipliers 2003, July, 2007, Table 1: Alberta Industry Intensity Ratios (Open Model - Direct and Indirect Impacts), p.13.

Table 11 compares the relative intensity of GDP and employment for selected industries with oil and gas extraction. It reveals that all selected industries have higher GDP and employment impacts than the same amount spent on oil and gas extraction.

Table 11

Alberta Industry Ratios Comparison		
Industry	**GDP**	**Employment**
Oil and gas extraction	1	1
Support activities for oil and gas	0.91	3.21
Construction	0.82	3.42
Petroleum and coal products manufacturing	0.95	1.21
Health care and social assistance	1.00	6.92
Arts entertainment and recreation	0.92	12.42
Hospitals and residential care facilities	0.95	6.50
Education	1.02	5.54
Transit and ground passenger transportation	1.20	8.79
Non-profit	0.97	8.67

Source: Calculations based on data from Government of Alberta, Alberta Economic Multipliers 2003, July 2007, p.13. Using oil and gas extraction as a base, other sectors are compared with for relative intensity values.

Oil and gas extraction actually has the lowest multiplier for job creation. This is not surprising as it is very capital intensive. It does have a relatively high multiplier for GDP, but no higher than health care and, in fact, lower than education. To translate that, for every dollar invested, health care can deliver as much GDP stimulus as oil and gas with almost seven times the jobs. Spending in education can actually deliver a better GDP effect with five and a half times the jobs.

High jobs impact with low wages

Other areas with high GDP and job effects are the non-profit sector, and arts and recreation. These sectors are characterized by low wages which causes the employment creation effect to be higher per dollar invested. This is not necessarily desirable. This conundrum can be addressed by tying incentive spending packages to job quality standards. Given the extremely high multipliers for these categories could still be an excellent investment in terms of job and GDP stimulus even with a job quality provision.

SECTION SEVEN: What Should Not Be Done?

The Alberta government has already indicated the direction it plans to go in this budget with the announcement of new drilling incentives and potential health care cuts. There has also been a consistently strong focus on P3 financing for infrastructure, especially schools and highways. These directions will be analyzed in the context of the recession and the stimulus definitions outlines earlier.

Drilling incentives not a stimulus plan

On March 4, 2009, Alberta Energy Minister Mel Knight announced the fourth major subsidy to Alberta's energy sector in a year. The March changes alone amount to $1.51 billion in reduced royalty rates and royalty credits for oil companies embarking on new drilling projects over the next year. Other industry breaks in the past year included: November 2008 drilling incentives of $1.8 billion over five years, $2 billion in promised new spending for carbon capture and storage, and a $1 billion break on royalties, offered last April to spur drilling for deeper wells. This amounts to a total of over $6 billion in incentives and subsidies announced for the industry in just the last year.

According to the press release accompanying the government's most recent announcement, this money is intended to "encourage new investment and help keep Albertans at work." However, Table 10 clearly illustrates that subsidizing oil and gas extraction is not a job creation strategy. These incentives will also likely miss the mark in sparking drilling. The two key problems facing the industry are access to capital and commodity prices, and these royalty subsidies do not address either.[56]

Additionally, those jobs are not sustainable. Oil and gas drilling in Alberta is a sunset industry. Alberta's crude oil production peaked in 1973 and natural gas production peaked in 2001. Thus, directing large subsidies at drilling in Alberta is only staving off the inevitable. The province should instead be investing in creating jobs (for drilling workers) in other sectors. All of the other industrial sectors in Table 10 create more jobs per dollar invested and all of them will be around in the long term. Therefore, the way to protect government revenues is to put as many people as possible back to work in good, well-paying jobs in sectors like health, social services, education, transportation, arts and recreation, and renewable energy (See Tables 10 and 11).

Health care cuts not stimulus plan

As part of its stimulus plan, China announced in January that it would spend $123 billion by 2011 to establish universal health care for the country's 1.3 billion people. China's initial stimulus plan of 2008 was criticized for being short on social spending, with too much emphasis on infrastructure. Critics argued for more social investment such as health care, housing, education, and other programs on the premise that that spending would put more money directly in Chinese consumers' pockets.[57] The stimulus plan was then changed in early 2009 to increase the portion spent on social programs, including the dramatically expanded health care package.[58]

Alberta is heading the opposite direction. Alberta's government has hinted at plans to de-list as many as 30 more services. The government has also said it may be backing off on $4 billion in health care infrastructure spending, including hospitals and long-term care beds. This will have the effect of countering stimulus spending plans.

Using the CIBC World Markets figure that a targeted $10 billion can create 110,000 jobs,[59] $4 billion in health care capital spending translates into 44,000 construction jobs. Additionally, there is still a significant infrastructure deficit in health care, where a shortage of long-term beds is still creating critical backlogs in hospitals and emergency rooms.[60]

56 AJM Petroleum Consultants, "Royalty Incentives Alone Won't Save Alberta's Oil and Gas Industry," March 4, 2009.

57 Andrew Batson, "China's Stimulus Slights Human Capital," Wall Street Journal, Monday December 8, 2008.

58 Andrew Batson, Wall Street Journal, bog article, March 9, 2009, China Stimulus Tweaks Don't Redress Imbalances. http://blogs.wsj.com/economics/2009/03/09/china-stimulus-tweaks-dont-redress-imbalances/

59 CIBC World Markets, op cit.

60 Jodie Cinema, "Hospital patients dying for help," The Edmonton Journal, Thursday, March 05, 2009. See also Greg Flanagan, Sustainable Healthcare for Seniors: Keeping it Public is available, Parkland Institute, September 2008.

The de-insuring of health services will also counter the government's stimulus effort. It will take money from individuals and businesses and amounts to a direct transfer of costs out of the health minister's budget and onto businesses and individuals. Any service that is de-insured will be added to the long, growing roster of privately insured services paid for by employers, which will cause premium rates to go up. Private insurance costs are already skyrocketing, rising at rates far in excess of inflation.[61]

It would also take money from consumers. Only about half of Albertans are covered by workplace health benefits. For those who are not covered, costs will also shoot up. The public cap will be taken off of what professionals can charge and they will raise fees to cover the loss of patients. Vision care is one of the services that have already been de-insured. This resulted in a 17 percent jump in vision care costs in one year alone.[62]

Public-private partnerships are no longer viable

The government has placed a heavy reliance on public-private partnerships (P3s) which may not be viable given the lack of liquidity in credit markets. The federal budget funnels a significant portion of the funds through the Building Canada Fund, which requires P3s to be used for larger projects. The Crown corporation to advance P3s, the PPP Canada Inc. is also getting off the ground. Alberta has done the same with major highway projects and school construction being developed under P3 contracts.

With private capital unavailable or available only at high premiums, P3s are not cost effective. The spread between government and private borrowing costs has grown. Investors are seeking safe havens, placing government bonds at a premium. For example, the Auditor General of Ontario found that going the P3 route for the Brampton Civic Hospital project cost Ontario taxpayers $194 million more than if the hospital had been built and run publicly. Financing the construction cost added a further $200 million in interest charges because government can borrow money at a lower rate than private business.[63]

Consequently, the government can access capital at rates far lower than the private sector, where the private sector can access capital at all. Already the Port Mann bridge P3 in British Columbia has been cancelled and the government has announced that the traditional financing model is the better way to proceed at this time.[64] This may also leave the government a serious headache.[65]

61 Diana Gibson and Colleen Fuller, The Bottom Line: The Truth behind Private Health Insurance in Canada, Newest Press, Edmonton, February 2006, p.31.

62 Gibson and Fuller, 2006. Op Cit.

63 Andre Picard, "In this PPP, taxpayers are the ones who paid ", The Globe and Mail, February 5, 2009.

64 Richard Gilbert, "Port Mann P3 deal falls through as province turns to design-build contract," Journal of Commerce, March 4, 2009.

65 Wendy Stueck, "Province to pay full $2.5-billion after P3 deal collapses Port Mann bridge was to have been co-financed by public-private partnership", Globe and Mail, February 28, 2009 By

SECTION EIGHT: Vision and Recommendation

Alberta does have a much greater opportunity to offset the effects of the recession than other jurisdictions in Canada. What will be needed is a vision for the future economy. It is important to reiterate here that government has a responsibility to diminish recessionary effects - unemployment, idle resources, and lost wealth. Also, the recession offers governments the opportunity to improve social services, particularly health and education, renew and expand infrastructure, and improve redistribution systems to help the unemployed, those with low income, the homeless and those in danger of being so. It is also a time to increase environmental reclamation and enhance environmental protection. Finally, this recession offers Alberta the breathing room needed to break our unhealthy dependence on fossil fuels and look to the opportunities of the new economy before it is too late. It is time for Alberta to get off of the roller-coaster that comes with tying our economy almost completely to oil and gas prices.

The Alberta government will need to break its habit of pro-cyclical policies. First off, the tendency to curtail expenditures in light of declining government revenue must be resisted. A reduction in government expenditures will only accentuate the reduction in consumer and investment expenditures, and exacerbate the vicious cycle of recession. This reprieve from the breakneck speed of growth in Alberta has given the province a moment to reorganize. It is critical that the provincial government show some stewardship in this process. The province needs a thoughtful strategy, not a knee-jerk reaction of random cuts.

The province is in desperate need of both short-term and long-term economic vision. In the short term there is a need for a vision that puts the most Albertans possible back to work building a new economy. The stimulus spending should be well targeted at areas where job creation impacts are highest and should strike a careful balance between infrastructure spending and social spending.

In the longer term, the province needs a vision that eliminates its dependence on oil and gas revenues to fund social programs and other government operations, a vision which includes a much more diverse economy. This set of recommendations lays the foundation for that vision.

Key principles that should drive the stimulus plan are:

- Use a counter-cyclical strategy including deficit spending with a window for balancing the budget that is based on the economic cycle.
- Meet the IMF targets for 2 percent of GDP for stimulus spending.
- Maintain social program spending and increase it in key areas.
- Target spending to the areas where it will create maximum jobs per dollar invested and where it will help build a more sustainable economy.
- Renewable energy and green building should guide all infrastructure spending.[66]
- P3 models should be abandoned, as they will be far more expensive than public financing models.
- Incentives aimed at expanding oil and gas drilling, including funds for carbon capture and storage, should be redirected to creating green jobs in construction and renewable energy.

To achieve these goals, the stimulus plan should include:

A. Addressing the infrastructure deficit,

B. Greening the economy,

C. Diversifying the economy, and

D. Social infrastructure stimulus.

A. Addressing the infrastructure deficit

Target spending in order to get construction workers back on the job.

It is critical that the government stay the course on spending related to the infrastructure deficit but use a green filter for approval of funding. In order to be most effective, the timing, labour availability, and long-term value should be considered. Capital expenditures planned and ready to go should be maintained and accelerated where possible.

66 For an explanation of the feasibility and cost of renewable energy options, see Pembina Institute report "Greening the Grid: Powering Alberta's future with renewable energy" by Jeff Bell and Tim Weiss, January 2009.

This applies to the Capital Plan 2008 to 2011, which has $7.5 billion budgeted for the 2009/10 year.[67] This capital plan was designed to targeted priority areas of the existing infrastructure deficit. Critical areas of that deficit include schools, long-term care facilities, hospitals, and affordable housing. A green audit of that capital plan is necessary to limit the amount being spent on highways, currently budgeted at over $5 billion.

The federal budget initiatives in infrastructure and renovation grants with shared funding requirements should be facilitated by matching provincial and municipal funds. A number of the federal budget funds for infrastructure are predicated on leveraging funds from the provinces, municipalities and post-secondary institutions. Alberta's municipalities and post-secondary institutions are cash strapped and will have difficulty generating new infrastructure spending. The provincial government should provide the funding to meet those matching requirements.

B. Greening the economy

Put construction workers back to work on green retrofits and transit.

Reallocating a portion of the over $4 billion in drilling subsidies announced this year to a green retrofit and transit fund could create much needed construction jobs while significantly reducing demand for fossil fuels in the province. According to the Alberta government's multipliers (Tables 10 and 11) mentioned above, investing those same funds instead in upgrading the energy efficiency of homes and commercial buildings and public transit construction could create almost four times the jobs.

C. Diversifying the economy

Target spending and regulation for building the infrastructure necessary to become a leader in solar and wind manufacturing and generation.

The government could stimulate jobs by introducing regulatory measures such as feed in tariffs to encourage investment in renewable energy. These tariffs are generally structured such that utilities are required to purchase a portion of renewable energy off the grid at a higher rate than that of other sources. This would stimulate investment in renewable energy by creating a larger and guaranteed

67 Government of Alberta, Budget 2008, 2008-11 Capital Plan, p. 98.

market. Some spending may be necessary to offset the fees for lower-income households.

The stimulus package should also target new infrastructure spending for building manufacturing and generating capacity in solar and wind power. Building this type of fund could be done immediately by transferring over drilling subsidies as well as reallocating the $2 billion currently budgeted for carbon capture and storage technology. Putting those revenues instead into concrete projects for renewable energy will contribute more securely to carbon emissions reduction while also diversifying the province's economy and putting a much greater number of Albertans back to work.

D. Social infrastructure stimulus

The advice of the leading economists is to use deficit spending to maintain employment and stimulate the economy. Even the International Monetary Fund has recommended that stimulus packages include expanding social safety nets.[68] Public opinion also favours this path, as seen in the poll results discussed above, where two-thirds of westerners surveyed supported increased investment in public services including health care, education, social services, and the justice system, during the downturn.

Alberta is already facing serious job losses, especially in the construction and manufacturing sectors. Maintaining public sector employment is a critical element in any counter-cyclical strategy. In order to maintain current employment levels, spending levels need to be maintained in real dollars - with increases for population growth and inflation. This includes continuing long-term funding commitments to municipalities under the ten year program for transferring $1.4 billion every year.

As seen in the section on job multipliers, these sectors are labour-intensive and give a very good job creation return for every dollar invested. As mentioned previously, for every dollar invested, health care can deliver as much GDP stimulus as oil and gas, with almost seven times the jobs. Spending in education can actually deliver better GDP effect with five and a half times the jobs.

68 Camilla Andersen, "IMF Spells out Need for Global Fiscal Stimulus," IMF Survey Magazine, December 29, 2008.

There are a few program areas where funding will need to be increased in real dollar terms (beyond that required for population growth and inflation). These include:

- Health care - where at least an additional 4 percent will be needed to meet the needs of the growing seniors' cohort.
- K-12 education - where the contract with the Alberta Teachers' Association includes salary increases based on the average weekly earnings index.[69] The salary increase for teachers, to be paid beginning September 2009, will be around 4.8 percent.[70]
- Social assistance and housing supports - where demand for services will be increasing due to the recessionary impacts.
- The voluntary sector - where there will be a double hit. Charitable organizations will see cuts from foundation and individual donations due to market losses. This will be compounded by increased demand for services by individuals and families impacted by the recession.
- Post-secondary education - where spaces and affordability should be expanded to encourage unemployed workers to retrain during the recession. Also, increases will be needed to offset the financial hit universities and colleges will be taking due to the market crash. Most post-secondary institutions are already facing 2 percent budget cuts because of their own investment losses. Also, dedicated government research foundation and trust funds will be hurt by the losses on the markets and research funding will also be facing cuts.
- The transition to a new economy in Alberta will require retraining. Targeted funding should be implemented for post-secondary spaces related to renewable energies. Additional funding should also be allocated for research in this area.
- Program spending will need to be increased in areas where infrastructure is being built. New long-term care facilities, schools and hospitals will require staffing and operating budgets.

69 The government has a contractual commitment to increase educational grant by the necessary amount. Last year the government elected to apply a 4.5 percent increase to all grant rates.

70 Government of Alberta, Finance and Enterprise, Weekly Economic Review, March 13, 2009, p. 3.

The recession is an opportunity for education

Alberta has a large number of students, primarily young males who left or opted against a post-secondary program in favour of high-paying jobs in the booming economy. Education is a great tool for mitigating unemployment. As Indira Samarasekera, president of the University of Alberta says:[71]

> This is really a generational opportunity. In Alberta, and in many parts of Canada, young men, particularly 18 to 22-year-olds, have chosen to go to work in areas like the oil sands instead of going to university. For the long-term future of Canada, young men - and young women - would benefit most by getting a university education and then going to work in the oils sands or wherever they might go.
>
> So I see this as a real opportunity for governments everywhere to invest in the human advantage, the human dividend - by recognizing that during this downturn, we can welcome back students into universities, much like the GI Bill in the United States after World War II. This is a moment that we cannot miss, because they don't come often.

SECTION NINE: Conclusions

Implementing these key elements of a stimulus plan will not only help to insulate Alberta from the worst of the recession, but will put the province on the path to a more sustainable economy. This report has shown that although the province will be among the worst hit by the recession, the province is also best positioned to implement a stimulus plan. It identified some key challenges facing Alberta as the province enters the recession, including an over-reliance on oil and gas revenues and construction as economic drivers. Alberta is already experiencing the brunt of the recession in the form of losses in full-time jobs and goods producing jobs, as well as jumps in bankruptcies and the fall off in retail sales.

The stimulus package needs to be targeted to these impacts. The advice of leading economist is for governments to focus in stimulus spending instead of tax cuts. Economists recommend strongly against cutting back on social spending and instead advise deficit spending on expanded social programs.

71 Gordon Pitts, "Trading in her hard hat to lead an institution," Globe and Mail, March 2, 2009.

This report recommends that Alberta meet the IMF target of 2 percent of GDP in stimulus spending. This amounts to at least $5 billion in stimulus spending. This would be beyond previously budgeted capital and social spending, including regular increases to maintain real spending on social programs. The report also recommends against spending on oil and gas drilling and advises that those monies be put to better use in areas where the jobs and stimulus effect will be greater and better guaranteed. The elements of the stimulus package are: address the infrastructure deficit, greening of the economy, diversifying the economy, and investing in social infrastructure.

The short-term measures included in this stimulus package will put those out of work back to work by targeting investment to areas where the most jobs are created. It will make homes and buildings more energy efficient and transit more accessible. It will ensure that social programs remain strong while Albertans need them most. It will begin the process of diversifying the economy off of oil and gas to end the cycle of booms and busts.

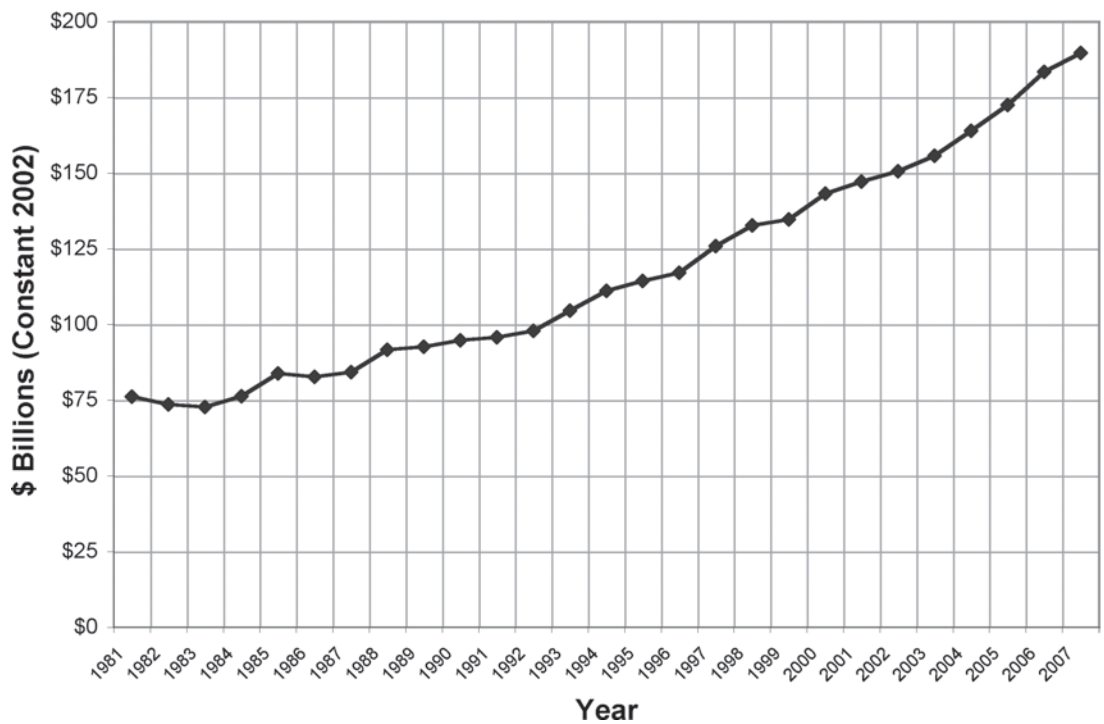
This vision lays the framework for a new economy in Alberta. However, longer-term vision and leadership will be needed to wean the province off unsustainable and volatile resource revenues. A complete change in the province's revenue structure will be necessary to build towards social and environmental sustainability. This report has shown, however, that not only is it possible to begin this transformation in a recession, it is critical that the government do so.

APPENDIX 1 Alberta's Gross Domestic Product and Other Income Measures

Figure A-1 shows the trend in GDP measured in 2002 constant dollars for Alberta over the last 26 years. GDP appears to have grown dramatically as a general trend. Figure A-2 shows the percentage year to year changes in real GDP over the same period. This figure emphasizes the severe downturns in the early 1980s and 1986 and the modest growth in the early 1990s and 1999. Figure A-3 puts GDP into a perspective that better reflects the economy by converting total constant dollar measures of GDP and adjusting for population changes using real GDP per capita. Although not without serious problems, this is a better measure of economic growth. In this figure we see that, although there have been some short drops in real GDP per capita over the last two decades, the overwhelming trend is one of phenomenal growth – 32 percent-in Alberta over the last 20 years.

Figure A-1

Gross Domestic Product (Alberta)

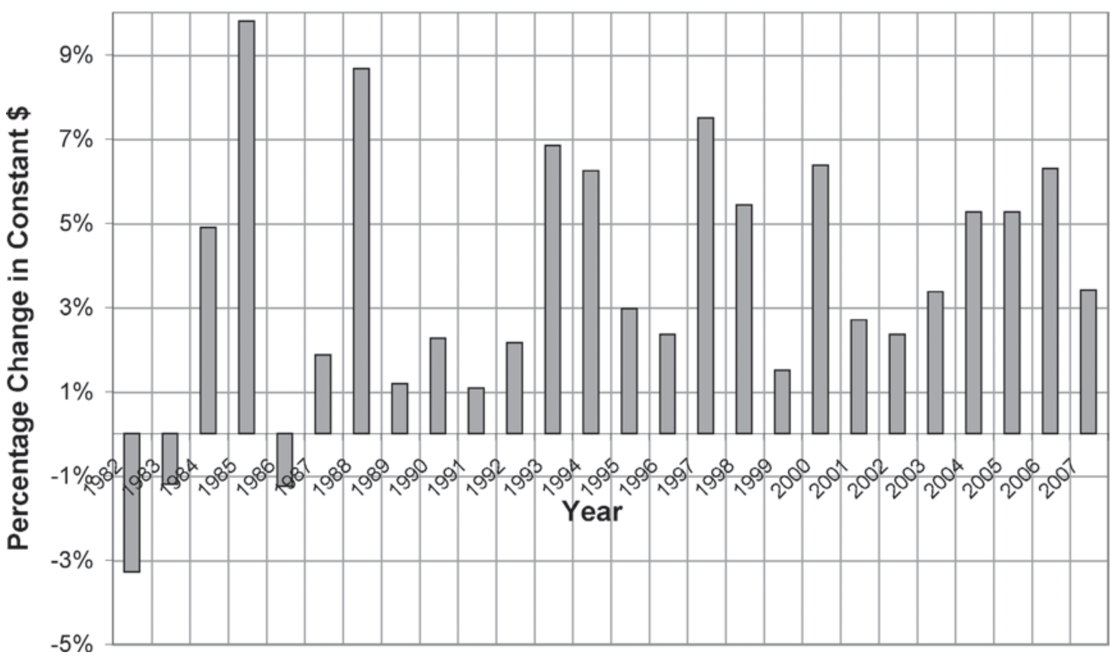


Source: Statistics Canada, CANSIM, Alberta (GDP) Constant 2002 prices, series v41975375.

Figure A-4 supplies a different measure of income to compare to the gross GDP measure. Wages and salaries have not grown as fast as GDP, and investment income has actually declined. It also must be noted that these measures do not consider the distribution of this "average" income. When broken out by income quintile, the wages for "middle-income Albertans" show a much flatter line and a much sharper difference from the GDP growth curve.[1] This GDP measure also fails to effectively include the negatives, for example, the major environmental degradation caused by much of this growth. The merits of economic growth, the major political objective of most countries today, should be more critically assessed.[2]

Figure A-2

Alberta Year-to-Year Change in GDP

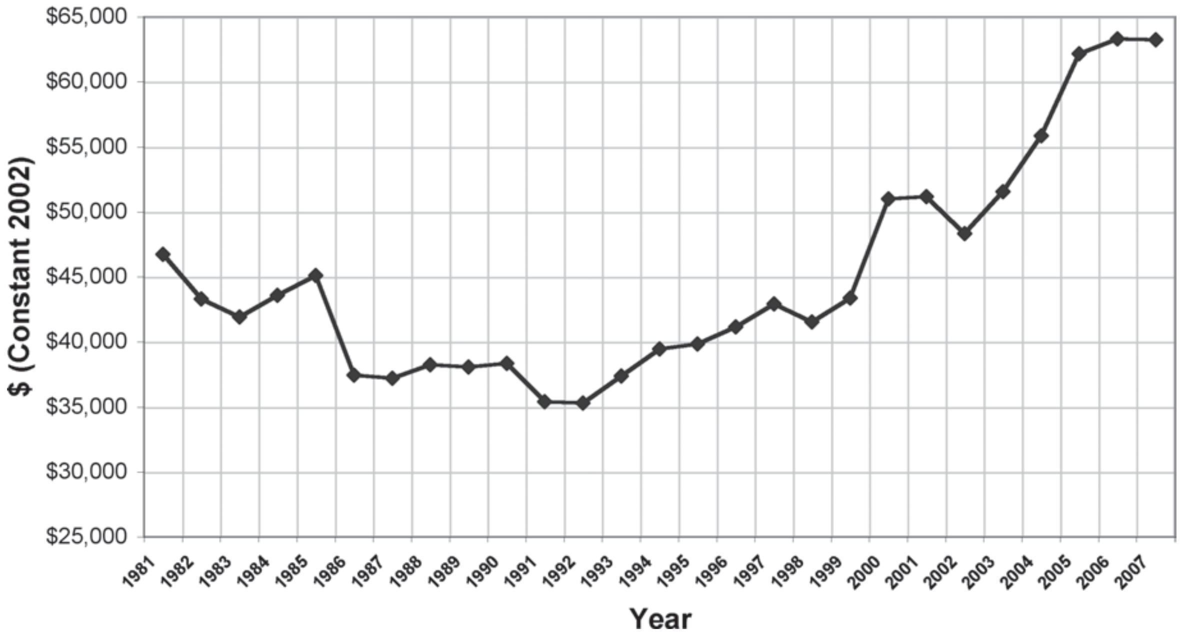


Source: Statistics Canada, CANSIM, Alberta (GDP) Constant 2002 prices, series v41975375 calculated.

1 For a detailed analysis of the distribution of incomes in the boom, see Diana Gibson, "Spoils of the Boom," Parkland Institute, June 2007.

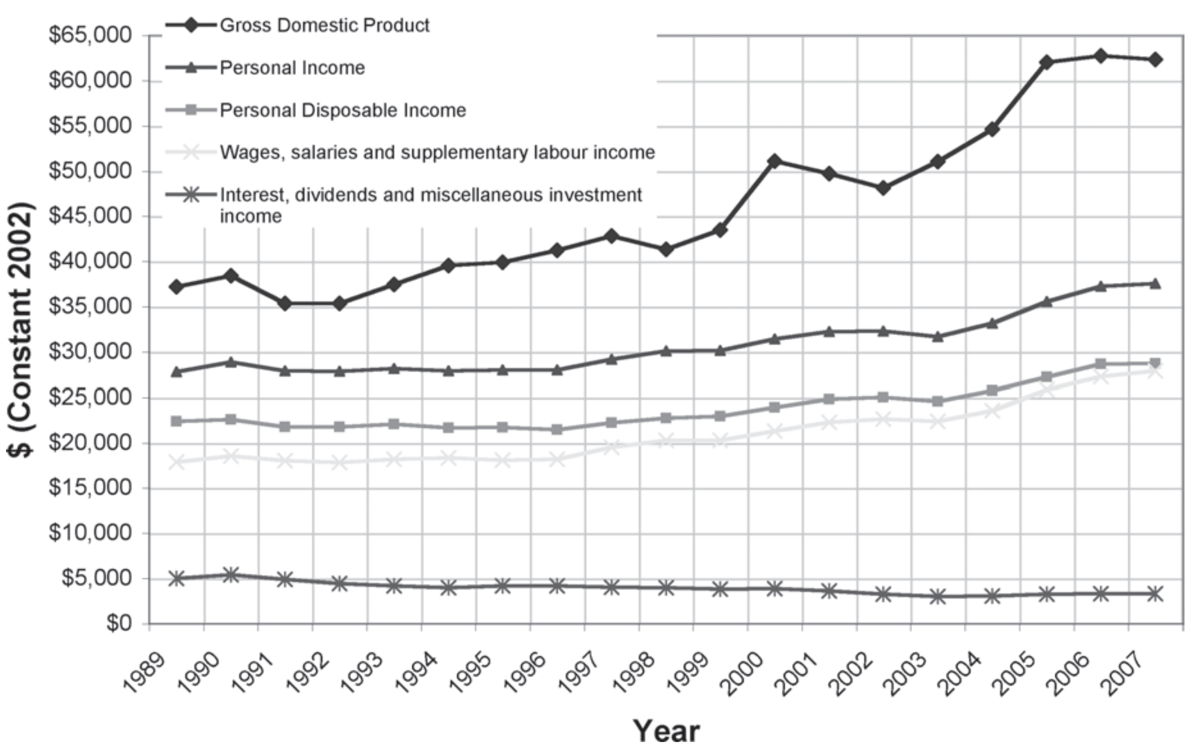
2 See Peter A. Victor, Managing without Growth, Slower by Design, Not Disaster, Cheltleham U, Edward Elger Publishing Ltd., 2008.

Figure A-3 **Alberta Gross Domestic Product Per Capita**



Source: Statistics Canada, CANSIM series v41975375Alberta (GDP) Constant 2002 prices; v469503, Alberta population, both sexes; all ages.

Figure A-4 **Alberta Income Measures Per Capita**



Source: Statistics Canada, CANSIM, Alberta (GDP) Table 3840012 - Sources and disposition of personal income, economic accounts, v41692327 CPI (2002) 2005 basket, v41975375; Alberta population, both sexes; all ages

APPENDIX 2 Examples of Fiscal Stimulus

Accidental: The preparation for the 1988 Calgary Winter Olympics was an excellent example of public spending (G) during a downturn. It was insufficient to overturn the economic downturn of 1985-86 but helped raise the economy into 1987-88. Ironically Ralph Klein, the future "king" of public service cuts as premier, was then mayor of Calgary and was a major contributor to this expansionist policy. However, it was pretty much an accidental or coincidental factor to the economic downturn since as winning the games and planning and implementing the development of facilities was not dependent on the point on the economic cycle that might be in place. In hindsight the Olympic fiscal stimulus was visionary. It achieved three major benefits; it absorbed otherwise idle labour, the capital structures were brought in well below budget, and it left a large legacy of first class public infrastructure including the Calgary Transit LRT. Residually it put Calgary on the international map advancing ongoing investments in tourism and culture and has sustained a pride in Calgary

Too little too late: President Franklin Roosevelt's 1933 "New Deal" was also visionary. It promoted useful public work for an "army" of unemployed youth mostly men. These men learned new trades, earned extra money to send home, and left a legacy of national parks and monuments throughout the US, still much admired and in use today. This stimulus amounted to 5.9 percent of GDP in 1933 and 6.7 percent of GDP in 1934, and yet is generally acknowledged as much too little too late to offset the huge economic losses of the Great Depression. It took the massive expenditures by government during the Second World War to bring the economy to its full capacity and full employment. Unfortunately, this expansion in production was for destruction in a war effort.

Planned: The general recognition and acceptance in western nations of John Maynard Keynes insights put forth in *The General Theory of Employment, Interest, and Money* (1935) led to planned action to offset an expected post-war economic downturn. These actions included massive housing and education investments under the *Servicemen's Readjustment Act, the GI Bill*, etc. in the US, and additionally the Marshall Plan in Europe. The *National Housing Act* and the creation of the Canadian Mortgage and Housing Corporation in Canada were for similar purposes. This planned expansion of considerable fiscal stimulus was extremely effective and also visionary, contributing to the development of a large educated and housed middleclass in Canada and the US.

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