

## DEFICIT AND DEBT:

Alberta's financial woes due to ill-conceived attempts at economic development

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During the Alberta provincial election campaign of spring 1993, deficits and debt became the primary issue. The Progressive Conservatives, with a new leader in Ralph Klein, ran a campaign geared to eliminating recurring provincial deficits.

In this proposal they had little opposition.

After winning the election, Premier Klein argued that the budget problem was government expenditures, not insufficient revenue.

His government embarked upon a severe deficit reduction plan, to trim 20 to 30 per cent of government expenditures across virtually all government departments.

Given the extent of deficit spending by the Conservatives since 1985-86, it is not surprising that many Albertans have supported the government, assuming we should "live within our means."

The surprise has been the absence of discussion about why deficit spending occurred. Budget cuts are occurring but the delivery of government services is also being restructured.

In short, the budget problem is being used as a reason to impose a radical change in the delivery of public services. These proposed changes will alter significantly the nature of the service delivery process that began in the 1950s.

In fact, it was not excessive spending within major government departments that caused the deficit. And the current budget problems do not call for a radical change in the delivery of essential services to Albertans.

It is the other expenditures undertaken by the government in the 1980s and 1990s -- "industrial development" -- that contributed greatly to the deficits. It is wrong to suggest that hospitals, school boards, universities and colleges, social services, and municipalities were spending wildly, creating deficits.

If the government had not embarked on all its economic schemes, we would be a debt-free province.

In reviewing the fiscal history of the province, Alberta basically balanced its budget up to the early 1970s.

Then dramatic changes to Alberta finances occurred with the rise in oil and gas

prices.

Revenues exceeded expenditures from 1973-74 through to 1985 (the Lougheed years), resulting in large surpluses, even as expenditures also increased dramatically. Much of this surplus was put in the Alberta Heritage Savings Trust Fund.

Albertans enjoyed high public service spending relative to other Canadians and lower taxes. Starting in 1985-86 chronic deficits developed (the Getty years) that quickly wiped out the accumulated surplus of the previous decade.

The sum of the deficits from 1986-87 to 1993-94 was \$2 billion.

Deficit spending was the result of three factors:

- \* Oil prices fell and natural resource revenues dropped.
- \* Royalty reductions and holidays were granted by the government.
- \* Public spending continued to rise despite the decline in revenue.

For example, natural resource revenues fell from \$4.3 billion to \$1.6 billion between 1985-86 and 1986-87.

Tax increases in 1987 helped offset this drop while still keeping Alberta taxes the lowest in Canada.

What explains the rise in government spending?

With the rising resource revenue in the 1970s, the Alberta government found itself under greater pressure to provide public services and decrease taxes; the government did both.

Alberta became an attractive destination for immigrants given a growing economy with high employment and a higher public service/tax ratio than other parts of Canada.

The sum of these events also required an increased investment in public infrastructure, such as roads, hospitals and schools.

There are good arguments for distributing public resource wealth through the provision of public services. Doing so has given the people of Alberta the best services and opportunities in Canada, in, for example, education.

Even with increases in public services the government could not spend all of the revenue, and in 1976 it created the trust fund in order to hold a portion of the resource wealth for the inevitable ``rainy day."

This move helped balance the budget over time, but as revenues levelled off after

1986, total expenditures continued to increase, particularly economic development expenditures, creating significant deficit spending after 1987. As expenditures caught up with revenues in the mid-1980s, three things occurred:

- \* Heritage fund transfers diminished and ceased after 1987. It made no sense to continue contributions to the heritage fund when the province was operating in the red.

- \* Secondly, debt-servicing costs began to rise, eating up a significant part of departmental expenditures. Currently about one of every ten dollars spent goes to debt servicing.

- \* Third, expenses over and above traditional departmental expenses, for example economic development, began to grow substantially. An underlying assumption was that government expenditures could get the economy moving.

It was not excessive spending in major government departments that caused the deficit, which have been attributed to Albertans living beyond their means, using too much of publicly funded services -- health care, education (primary, secondary and post-secondary) and too great a reliance on social services for income.

The best way to consider the expenditures in these areas is to consider per capita expenditures in constant or real dollars. Both total annual revenues and expenditures have grown dramatically in total current dollars, but this is misleading for two reasons -- the population of Alberta has grown over the same period and inflation has reduced the value of each dollar over this period.

The constant or real dollar revenue and expenditure per capita provides a more accurate picture. Government per capita expenditures rose steadily, from about \$1,000/person in 1965-66 to a high of \$5,300/person in the early 1980s and then leveled off to about \$4,800/person.

Revenues per capita were higher than expenditures up to 1984-85 and then fell to about \$4,000/person in 1987-88. Per capita total expenditures did rise substantially from 1965-66 to 1980-81 but revenues per capita exceeded this expenditure increase. From this perspective, government spending on public services was not excessive over the years.

The sum of expenditures on health, social services, transportation and communication, and education rose with the revenue increases and gross domestic product to about \$3,000 in 1983-84 and levelled off there.

The greatest contributors to this increase in the level of expenditure are health and social services. The rise in social services expenditures occurred with the recession of the early 1980s and remained there with the chronic ally high levels of unemployment that have persisted since.

The sum of these public service expenditures is well below the total provincial per capita revenue. It is only within the last number of years that our total expenditure was not supported by the given revenue. In the 15 years between 1978 and 1993, departmental expenditures exceeded revenues only three times -- 1986-87, 1991-92, 1992-93. Program spending did not exceed revenues. Debt service charges have also become a major expenditure. Without them, the sum of departmental expenditures is supportable within the current government revenues.

Of course, these debt charges are the result of recent deficits that would not have occurred in Alberta with proper fiscal management. The indication is that all traditional government services are and have been affordable in Alberta, even though Albertans have the lowest tax rates in Canada.

Then what explains the recent deficits? In the mid-1980s, the government began a policy of expansion of the economy through a system of grants, subsidies and loan guarantees to businesses and individuals. The more dramatic results of this policy have been obvious -- the failures of the Principal Group, Gainers, NovAtel, and MagCan. Less obvious is the large sum of numerous small grants to a huge number of businesses across the province. This policy was poorly planned and executed and has not been successful.

We are not opposed to government assistance for the development of the economy. But for a development policy to be successful, the government investment needs to generate a return, through tax revenues or other spinoffs, greater than the initial expenditure. This has clearly not happened. Spending on resource conservation and industrial development in Alberta grew from \$35 million in 1965-66 to a high of \$3 billion in 1986-87 -- an 85-fold increase that is between three and five times higher than other provinces in Canada.

Subsequently this expenditure has levelled out at about \$2 billion per year over the period 1988-1993. Over the past decade, about two of every 10 dollars spent by the provincial government have been in this category. When one sees the rapid growth of the deficit between 1985 and 1993, the impression is that all government departments were on a spending frenzy.

On the contrary, a good part of the deficit resulted from a huge commitment by the government to provide grants and loans made to individuals and corporations. The current deficit does not call for a radical change in the delivery of essential services to Albertans. Traditional expenditures of government, those that have supported people and given them opportunities to develop, are not out of line. They are no greater, and sometimes less, than they have been in the history of Alberta, though the demands for these services have never been greater. Stopping expenditures on ill-conceived attempts at economic development could solve the budget problem. This would allow for properly funded education, health and social service functions for government.

We support balancing the provincial budget.

However, given the financial record in the province, it seems unnecessary for Albertans to have to accept second-rate education, health and social services.

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[Illustration]

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