Why Alberta can't export the Klein budget-cutting model

Much is made of the way Ralph Klein has tamed Alberta's deficit. However, the situation is specific enough to that province that others would have trouble following suit

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ALBERTA's deficit-reduction policies have received considerable press of late. The extensive budget-cutting process has been called the Klein Revolution, after Premier Ralph Klein, and voices from many corners of North America have suggested that other deficit-cutters should follow his example. The National Citizens Coalition awarded him a plaque for "advancement and defence of basic political and economic freedoms," the Young Entrepreneurs named him "political leader of the year," and the Fraser Institute gave him a new award after, in its view, Alberta topped all other provinces and 43 U.S. states in fiscal performance.

Can Alberta's budget-cutting process be applied elsewhere in Canada? For that matter, can it be applied to any other Western government? We think not. At least five factors make Alberta's case almost unique.

First: Alberta has enjoyed high revenues from its oil and natural-gas production. Natural-resource revenues have been as high as 55 per cent of total provincial revenue and, even over the leaner past five years, have averaged 21 per cent of the province's total public revenues. Albertans have used the rents and royalties to avoid a sales tax in the province, to pay lower personal and corporate income taxes, and to enjoy a relatively high level of public services.

In the 1980s, when provinces such as Quebec, Manitoba and Saskatchewan were particularly hard hit by high interest rates, Alberta earned high rates from its investments in financial assets in the Heritage Fund. Thus, although we have a gross debt that requires interest payments - $1.86- billion in 1993-94 - we also have large financial assets bringing interest revenue - $1.8-billion in 1993-94. Since these levels of resource revenues haven't been available to other jurisdictions in Canada, many government officials might argue that balancing the budget in Alberta is a cinch compared with the way it must be done elsewhere.

Second: Alberta's per-capita spending, buoyed by its resource revenues, was high in comparison with other jurisdictions, thus making it easier for it to cut spending. From the mid-1970s to the mid-1980s, money from the Heritage Trust Fund was invested, lent to Crown corporations or other governments, and spent on special projects such as provincial parks. When oil prices and revenues dropped in the mid-1980s, Alberta's spending continued regardless: In a short period, it went from having large budget surpluses to carrying one of the highest deficits among Canadian provinces.

The government of then-premier Don Getty spent extensively to "diversify" the Alberta economy. For instance, it guaranteed loans and provided infrastructure support for (principally foreign) pulp-and-paper companies to harvest Alberta's forests - support that amounted to $1.2- billion. Other "investments," some of them dismal failures, included financial support for Novatel, Alberta Special Waste Management System, Gainers Meat Packers, the Lloydminster upgrader, and the Magnesium Company of Canada.

Alberta spent far more than other provinces on these projects - classified by Statistics Canada under Industrial Development and Resource Conservation expenditures. In 1991, it spent $846 per person while the Canadian average (including Alberta) was $287. Simply by cutting its rather excessive spending on "economic development," it could almost balance its current program budget without jeopardizing essential program spending - a luxury not available to other Canadian governments.

Third: The Alberta government has had a relatively large bureaucracy. In 1991, there were about 28 civil-service workers per 1,000 people in Alberta; the national average was 20. True, we have to recognize economies of scale: Small Atlantic provinces are in the 40 range, while Ontario has only 14. But Manitoba, with less than half Alberta's population, was at 18, and British Columbia, with 25 per cent more people, was at only 15.

The Klein government is trying to bring its public service more into line with those in other provinces, and will save in the neighbourhood of $400-million. But again, this is a luxury that other provinces, with civil services already trimmed, don't have.

Fourth: Alberta's capacity to balance the budget has much to do with its political culture. It is a conservative province that elects populist leaders, and voters have been disinclined to support opposition political parties. The Social Credit government remained in power from 1935 to 1971; the Conservatives have held substantial majorities ever since. In attacking the deficit, Premier Klein knew he could count on voters' conservative propensities.

His response might also have to do with the Reform Party's success in the province; in the 1993 federal election, it won 22 of Alberta's 26 seats. While Reform Leader Preston Manning has focused his party's efforts at the federal level, some Reformers have discussed running provincially - a move that would split the Conservative Party's support. The claim has been made that Mr. Klein's fiscal conservatism was developed in response to this threat of being outflanked by people more committed to cutting the deficit.

Fifth: Alberta has attacked its deficit partly through major cuts to social services. It has "exported" its problems to other provinces, cutting its welfare caseload by 40,000 and giving 6,000 individuals one- way tickets to Vancouver. This is a game any province can play, but they can't all play at once. All provinces can't export their poor to other provinces.

MR. Klein and his government have broken the cycle of deficit-spending in Alberta. They have faced the tough political task of cutting public spending, and, thanks to a number of good signs in the economy, can probably balance the budget in the 1995-96 fiscal year. But even in Alberta, this has created some disruption.

A promotional brochure from the Hume Publishing Company states: "Get rich slowly - forget the hype of get-rich-quick schemes. The surest, safest way is to get rich gradually, easily, day by day, and never by risking everything you've worked for." Replace the word "rich" with "out of debt," and you have the essence of our suggestion to governments: Rather than follow the Klein "get-out-of-debt-quick" scheme that has risked decades of work in building a first-rate system of education, health and social services, proceed cautiously.

Alberta is in a unique situation. For all the reasons cited above, it's unlikely the Alberta model can be exported to other jurisdictions in Canada. Nor should it be.

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