

The Parkland Institute: an alternative perspective on priorities and policies for Alberta

U of A think-tank's executive director speaks at an ESN-sponsored community meeting

by Allan Sheppard

Ricardo Acuna says Ed Stelmach and his predecessor as premier of Alberta, Ralph Klein, have fallen far short of the vision and precedents for good governance and financial management set Party to its long reign of power in 1971. They also failed spectacularly, when compared to Norway, in following former premier Lougheed's strategy for saving and investing a significant portion of windfall revenues from Alberta's non-renewable oil, gas, and oil sands resources.

The result, Acuna contends, has been an unsustainable dependence on inherently cyclical international energy markets leading to inflated costs for eroding public services and infrastructure, and a persistent inability or refusal to take a prudent, long-term approach to paying for Albertans' basic and long-term education, health care, social, infrastructure, and other needs.

Acuna spoke on March 7 at a public meeting organized by ESN's board of directors as part of a program to encourage public education and discussion on issues that affect Edmonton's marginalized communities, particularly the poor and homeless.

Acuna is executive director of the Parkland Institute at the University of Alberta. He told his audience that the institute was established in 1996 to conduct research, awareness, and community education programs that show there are more alternatives for governing and financing government in Alberta than were then being considered by the Klein government and reported in the mainstream media.

In the first part of his presentation, Acuna gave a historical overview of Alberta governments and their policies since the PCs were first elected under Lougheed in 1971. He said that while Lougheed's government and his policies until his retirement in 1985 may have been conservative, they were enlightened, prudent, and forward-thinking compared to those of Ralph Klein, who followed Lougheed's successor, Don Getty in 1992, and Klein's successor since 2006 and current premier Ed Stelmach.

Acuna characterized the alternatives he says were not being considered by the Klein government in 1996 by saying, "The...purpose of our economics and the purpose of our economy is to serve our needs. That's why we have economies...not to create a positive investment climate, so a very few people can get very rich (but) to provide the goods and services that we rely on and to do that in some kind of orderly fashion."

Lougheed, according to Acuna, met that standard—in a manner that was consistent with a vision of how development of Alberta's resources and economy had to be managed for the current *and* long-term benefit of Albertans.

Acuna pointed out that Lougheed won election in 1971 by campaigning against the previous Social Credit government on a platform that included a promise to raise royalties for the province's gas and oil, a policy that has been decisively repudiated by Klein and Stelmach. Lougheed also promised to diversify Alberta's industrial base by keeping more value-added

processing of Alberta's oil and gas production in the province and by developing other resources, such as forestry. He kept both promises.

In Acuna's view, Lougheed kept the province's finances stable and sustainable by resisting the temptation to rely heavily on royalties for revenue and by maintaining a tax structure that was progressive. Though modest compared to other Canadian jurisdiction, personal and corporate taxes under Lougheed brought significant revenues to the government and insulated its budgets against wild boom-and-bust cycles in international oil-and-gas prices and related exploration and production in Alberta. Nevertheless, the international oil glut that began in 1986 led to a recession that dramatically reduced the government's revenues and produced a series of deficits and growing debt under Premier Don Getty.

The international market had begun to recover when Ralph Klein became premier in 1991, and Acuna suggests there was good reason to believe that government revenues would have recovered and the province would have returned to balanced budgets and balanced development of its oil-and-gas resources in due course.

Acuna says that Klein used Albertans experiences during the recession to argue that the problem was debt: "Alberta (did) not have a revenue problem, it had a spending problem." He used this argument to justify pursuing an extreme economic policy that emphasized drastically cutting costs, rather than using taxes and other fiscal means to eliminate deficits and debt. Instead, Klein introduced a flat tax of 10 per cent for all Albertans, regardless of income; reduced corporate taxes; reduced conventional oil-and-gas royalties; and (in collaboration with the Liberal federal government of the day) introduced a one-per-cent royalty rate for oil-sands production until companies developing the oil sands paid off their costs; and stopped efforts to diversify Alberta's economy away from oil and gas.

Klein and his government said the intent of these changes was to stimulate development and generate revenues by growing the economy. The result, according to Acuna, was to continue cutting away at government revenues (forcing cuts in services and programs) and to generate an overheated economy that inflated public- and private-sector costs dramatically, again forcing the government to cut staff and programs because, along with reducing taxes and royalties, it had made it illegal for Alberta governments to pass deficit budgets.

At the height of the boom of the early 2000s, revenue surpluses enabled the government to keep up with urgent needs and even to set some money aside in a sustainability fund against possible unplanned deficits. But by 2008, when the international market system collapsed, the government saw its recent surpluses disappear, and it now tries to balance its budgets by using its sustainability fund and with self-imposed limits on its options. And it has chosen to reduce royalties in the hope of generating new oil-and-gas activity and another boom to feed its revenue needs.

Acuna says that, for ideological reasons, the Stelmach government refuses to consider dealing with the current recession the way most other governments around the world have done, by stimulus spending, even when that requires going into debt. The government also refuses to raise personal and corporate taxes and believes it cannot raise royalties to reasonable levels without thwarting investment and inviting challenges on its right by the Wildrose Alliance Party. It leaves itself in a double bind, with no real way out except to hope that its royalty policy will generate another inflationary boom that will help balance its budgets and restore its sustainability fund.

Acuna predicts that another boom will probably happen in an always volatile international market. But it will be followed by an inevitable cyclical bust and recession—and another financial crisis for the Alberta government and Albertans, who will be even more dependent on oil-and-gas development, and once more forced to consider reducing royalties.

The seeds of that future, Acuna says, are planted in the recent provincial budget. It includes significant cuts to most departments. And the departments said in government spin and reported in the mainstream media to have received significant increases (education and health care) have in fact received cuts when population growth and inflation are factored in. It contains no provisions—in fact it carefully excludes—any effort to raise revenues from a balanced menu of sources used by prudent governments in other parts of Canada and around the world to balance its budgets while providing for necessary and productive expenditures, including adequate provisions for the unemployed and working poor in Alberta.

And so, in Acuna's view, a uniquely Albertan boom-and-bust cycle seems fated to continue until someone in government is willing to look at the many alternative strategies that are available, practical, and effective.

The Parkland Institute's web site at parklandinstitute.ca includes research papers and commentary on issues raised in Ricardo Acuna's ESN presentation.

More observations by Ricardo Acuna

...on alternatives to the failed wisdom of the Klein and Stelmach Progressive Conservatives.

On saving for the future

“The Norwegians decided that they needed a government savings account (for) their energy and gas savings, just like Lougheed had done ten years earlier. So, we had had a ten-year and \$12-billion head start on them. By the height of the boom, our Heritage Trust Fund had grown to \$16 billion. By the height of the boom, the Norwegians had \$300 billion stashed away in their petroleum savings fund, because they kept investing it...They didn't cut taxes; they used taxes to pay for their public services...About 96 per cent of their oil-and-gas money was saved: \$300 billion. What that meant for Norway is that, at that point in time, their oil industry could have...come to a complete stop, and just the interest on their savings fund would have been enough to pay for their public services. What it meant for us is that \$16 billion, we really couldn't do anything with it, because maybe, if our oil industry stopped, it would get us through one or two years' worth of expenses in this province, and that was it.”

On the current budget and the future

“It doesn't look good...The impacts coming out of the last 15-to-20 years of economic management in Alberta, the impact coming out of this budget: again a greater dependence on oil-and-gas revenues; slower economic recovery, because we're putting people out of work in the public service; continued focus on low-job areas, like oil-and-gas construction; and no focus at all on higher-job areas like value-added, like economic diversification, and like public services. It keeps us entirely dependent for our well-being in the province on a ridiculously volatile international oil-and-gas market that we have no control over, whatsoever...No environmental sustainability, because we're going to reduce regulations to attract more businesses here. It will make the next boom worse, because it will be more focused on one industry. We're going out of our way to make sure that industry invests faster than they did during the last boom, and we're getting rid of any regulations that might protect us from the impact of the boom.

“And, because we're refusing to raise taxes, refusing to raise royalties, and refusing to save, it's going to leave even less long-term benefits for Albertans as a whole coming into the future.”

On the closure of inner-city schools

“In my kids' school, we invited the MLA and our school board rep to talk about the implications of the budget for the school, and school funding, and all of that. My kids are in Grade 7. They had 37 kids in the Grade 7 class (last year), which I can't fathom. I have a hard time with two of them; they had 37 kids...And it's going to get worse this year...This is one of the things (the school board rep talked about: (school closures are) the result of the government passing the buck. School boards just won't have the resources they need to do what they're doing now, and one of the ways that they cut is by cutting under-subscribed schools. We know what that does to communities...The schools are the heart of communities. The schools are a gathering place. And when you close those schools, yes it saves money for the school board, but what does it do for the development of that community? What does it do for the life of that community?

“Those are things that the school board is not going to consider because they're being forced by the government to focus on the bottom line. So who's focusing on those issues?”