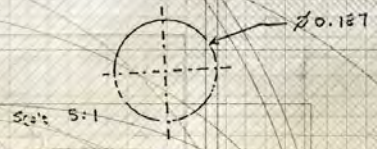


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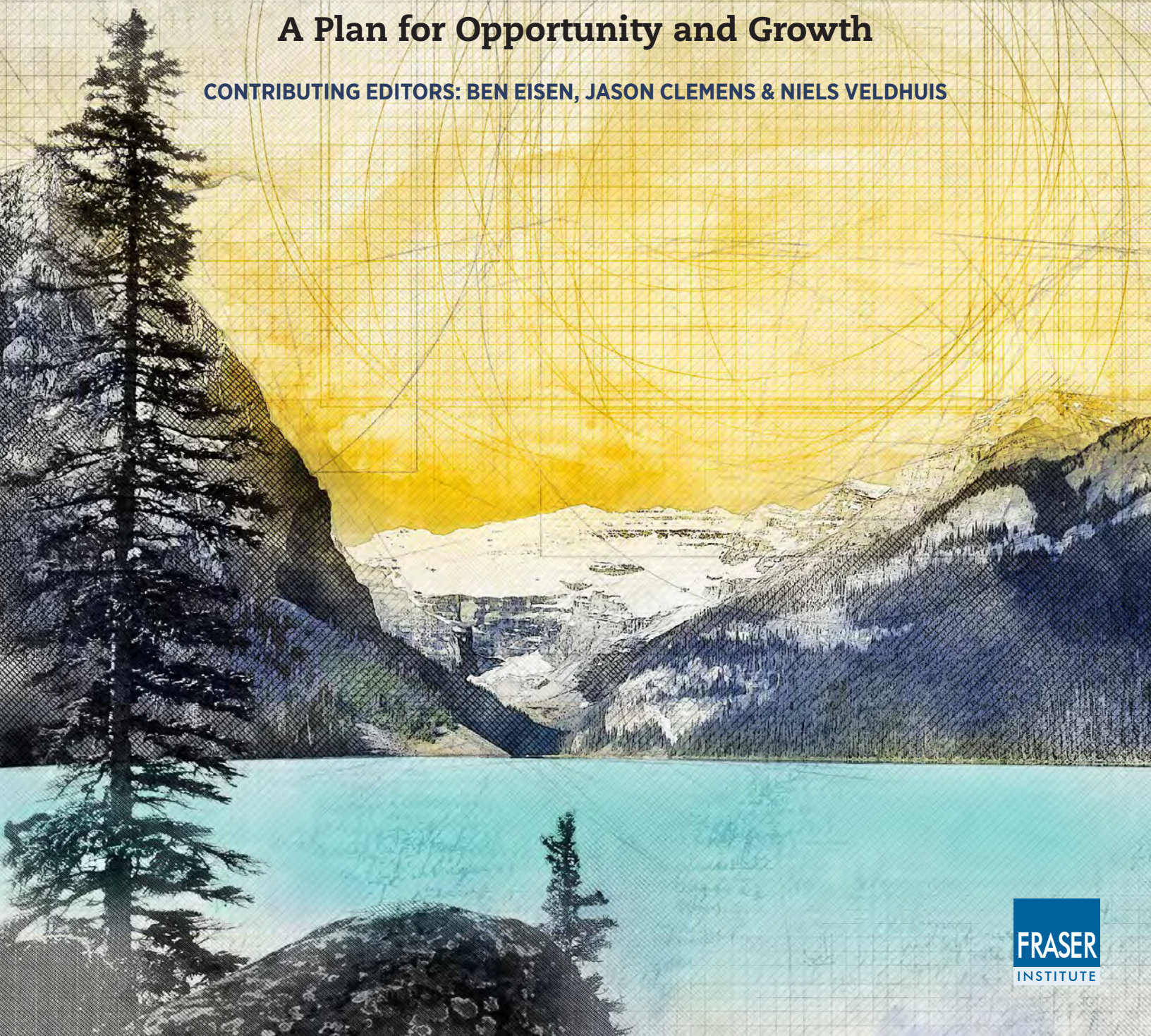
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ALBERTA PROSPERITY

A Plan for Opportunity and Growth

CONTRIBUTING EDITORS: BEN EISEN, JASON CLEMENS & NIELS VELDHIJS



CONTENT

Executive Summary	4
Introduction	6
Understanding the Origins Of Alberta’s Current Economic And Fiscal Challenges	7
Section 1: Restoring and Enhancing Alberta’s Tax Advantage	13
Achieving Competitive Personal & Business Income Taxes Again	14
Why Alberta’s Carbon Tax Needs To Be Scrapped	16
Reforming Capital Gains Taxes In Alberta	18
Section 2: Reforming Government Spending Is Key	21
A Plan To Achieve A Balanced Budget While Reducing Taxes	22
Health Care Reform Options For Alberta	24
K–12 Education Reform Options in Alberta	26
Savings From Rationalizing Government Compensation Based On Private Sector Equivalents	28
Section 3: Smarter Regulations For A Stronger Alberta	31
Why Alberta Needs Competitive Labour Regulations	32
Energy Regulation Reform Badly Needed In Alberta	34
How To Reform Regulations In Alberta	36
Endnotes	38
Acknowledgements	38
References	39
About the Authors	40



EXECUTIVE SUMMARY

Alberta faces substantial fiscal and economic challenges. The downturn in commodity prices that began in 2014 triggered a severe recession and exacerbated pre-existing fiscal challenges. Unfortunately, provincial government policy has made matters worse and severely impeded genuine recovery in several important ways. The deficit remains stubbornly high due to continued growth in government spending, substantial tax increases have undermined economic competitiveness, and Alberta has generally found it harder to attract investment because a growing regulatory burden has created additional costs and uncertainty.

For decades, Alberta has been one of the most prosperous jurisdictions in the world. To maximize its prospects for a prosperous future, the province needs a robust, comprehensive policy response commensurate to the magnitude of the challenges it faces. This publication summarizes a series of research papers conducted over the past three years that shed light on just what that policy response should be.

Before turning to solutions, it is important to answer the question: “How did we get here?” The Introduction explains the extent of the economic and fiscal challenges facing Alberta and shows how public policy choices have contributed to them over time. More specifically, it shows that rapid spending growth during better economic times and continued spending growth following the commodity price downturn are responsible for Alberta’s daunting budget deficit.

The rest of the essays in this collected series detail the policy road map Alberta needs to follow to return to economic prosperity. For instance, it’s clear that Alberta’s overall tax competitiveness has declined, which has negative implications for the province’s attractiveness as a destination for investment, entrepreneurs, and skilled professionals. The tax policy essays explain how and why personal and business income taxes should be reduced, the provincial carbon tax eliminated, and how personal capital gains can be eliminated at the provincial level.

The essays in Section 1 show how the province can balance its budget over a three-year period while offering substantial tax relief as summarized above. Specifically, the province will have to reduce nominal program spending by 10.9 percent over the next three years to achieve a balanced budget while implementing tax reductions. The spending cuts will likely be less than 10.9 percent as entrepreneurs, business owners, investors, and workers respond to the new economic incentives linked with lower taxes, which would improve economic growth and thus government revenues.



As the experience of the 1990s demonstrated, spending cuts coupled with reforms offer an opportunity to achieve more with less by thinking more innovatively about program delivery and better prioritizing existing spending. Currently, for instance, Alberta is a high spender on health care but its performance is modest, at best. Reforms such as contracting out services, pooled referrals, facilitating a parallel private system to alleviate stress on the public health system, and allowing physicians to work in both the private and public sectors, to name a few of the reforms discussed, offer real opportunities to improve the health care system based on observed policies in other successful industrialized countries that maintain universal health care.

Similarly, the essay on K-12 education policy reform shows how Alberta can improve its relatively expensive K-12 education system by expanding the use of charter schools, experimenting with teacher incentive pay, ensuring open enrolment between school boundaries, increasing subsidies for lower-income families to attend independent schools based on the Australian experience, and changing eligibility rules for independent schools to include for-profit schools as Sweden did in the 1990s. In addition, the essay outlines lessons Alberta could replicate from British Columbia, which has one of the country's most successful provincial K-12 education systems.

Finally, the essays in Section 2 also document the continued compensation premium between government workers and comparable private sector workers for both wages and benefits. Given that over one-third of provincial spending is consumed by compensation costs, any spending reduction plan should include consideration of closing this gap.

Section 3 examines regulatory reform and how it can contribute to Alberta's growth and prosperity. Worryingly, in their responses to the Fraser Institute's annual Global Petroleum Survey, investors in the petroleum industry are now expressing a great deal of concern about the province's policy environment and regulatory practices. The essays in Section 3 draw on insights from empirical evidence from around the world to illuminate best practices, showing how smarter regulation can produce a stronger, more prosperous Alberta.

Alberta's challenges are daunting and require a comprehensive and energetic policy response. The research summarized in this publication shows the extent of the problems, analyzes their causes, and points the way towards a public policy framework that can contribute to growth and prosperity for Alberta's current residents and for future generations ♦

INTRODUCTION



UNDERSTANDING THE ORIGINS OF ALBERTA'S CURRENT ECONOMIC AND FISCAL CHALLENGES

JASON CLEMENS AND NIELS VELDHUIS

For most of its recent history, Alberta maintained one of the most positive investment climates in Canada and, indeed, in North America. The Alberta Advantage—an advantage based on a host of economic policies including having Canada's smallest government, the country's lowest tax rates, and streamlined regulations—created an environment that was conducive to business investment, entrepreneurship, and hard work. This advantage helped Alberta become an economic powerhouse—a province integral to Canada's overall economic success.

Unfortunately, over the past several years, policy changes have undermined the province's investment climate and competitiveness, eroding the Alberta Advantage. These changes include undisciplined growth in government spending financed by both large budget deficits and significant increases in personal and business taxes. In addition, the government has introduced and then expanded a carbon tax that was unique among energy-producing provinces and states in North America. Further, the government introduced a number of costly, growth-impeding regulatory changes.

While there is no question that the substantial downturn in commodity prices that began nearly five years ago has made for an incredibly challenging economic environment, its policy direction over the last few years has made Alberta's difficult situation markedly worse.

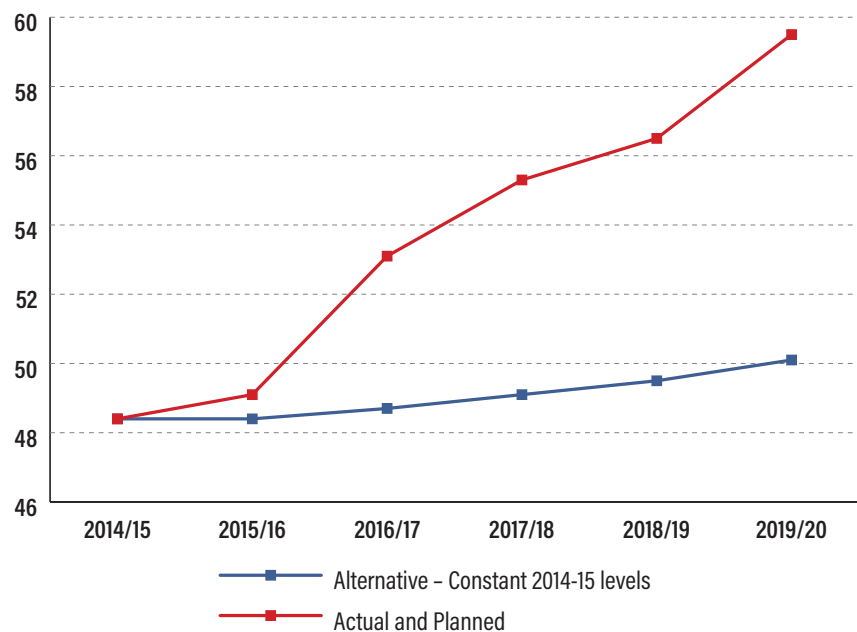
Alberta's grim economic circumstances require a robust, comprehensive policy response. Instead, the provincial government has done the exact opposite, making harmful changes to many of the province's fiscal and regulatory policies at exactly the wrong time, thereby impeding rather than assisting the recovery.

What follows is a detailed explanation of the policies that have eroded the Alberta Advantage by reducing the province's competitiveness and attractiveness to entrepreneurs, investors, and skilled labour.

Large-scale increases in deficit-financed government spending

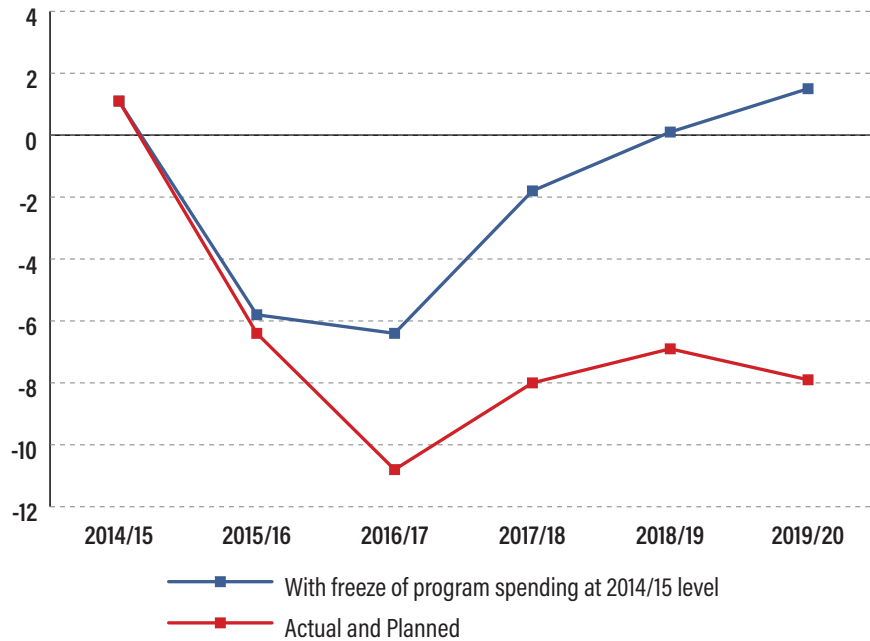
Perhaps nowhere is the government's failure to respond appropriately to the challenges posed by the difficult economic conditions in Alberta more apparent than in the area of fiscal policy, specifically, deficit-financed spending. When Alberta's current government was elected in May 2015, it inherited a small surplus but faced an environment of falling commodity prices and a weakening economy. Those conditions resulted in a large decline in provincial revenues in the government's first year in office. It could have learned from the past experiences of other provincial governments that reduced and reformed spending to balance

ACTUAL AND PLANNED PROGRAM SPENDING VS. ALTERNATIVE (BILLIONS \$)



their budgets, including the NDP government in Saskatchewan led by former Premier Roy Romanow. In the 1990s, the Romanow government was the first Canadian government to seriously and genuinely tackle its deficit. In fact, it was the first government to reduce nominal spending so it could balance its budget in just three years. Instead of following this and other proven successful lessons from the past, Alberta's government pushed ahead with spending increases that exacerbated the deficit problem.

ANNUAL BALANCE (\$ BILLIONS) UNDER TWO PROGRAM SPENDING SCENARIOS, 2014/15 - 2019/20



The nearby figure shows the significant increase in government spending since 2014/15 and, alternatively, how spending levels would have evolved had the NDP government frozen rather than increased program spending. All told, the current government has increased program spending in nominal terms by over 14 percent since taking office in 2015.

Not surprisingly, given the depressed economic conditions in Alberta, this spending growth has meant that the province has made almost no progress on reducing the size of its budget deficit, even as provincial revenue has recovered from the declines of 2015 and 2016.

implications not just for the size of this year's deficit, but also for the timeline in which the government is likely to return to balance. Had the government frozen nominal program spending, it would have returned to a modest surplus by 2018/19, rather than a projected \$6.9 billion deficit.

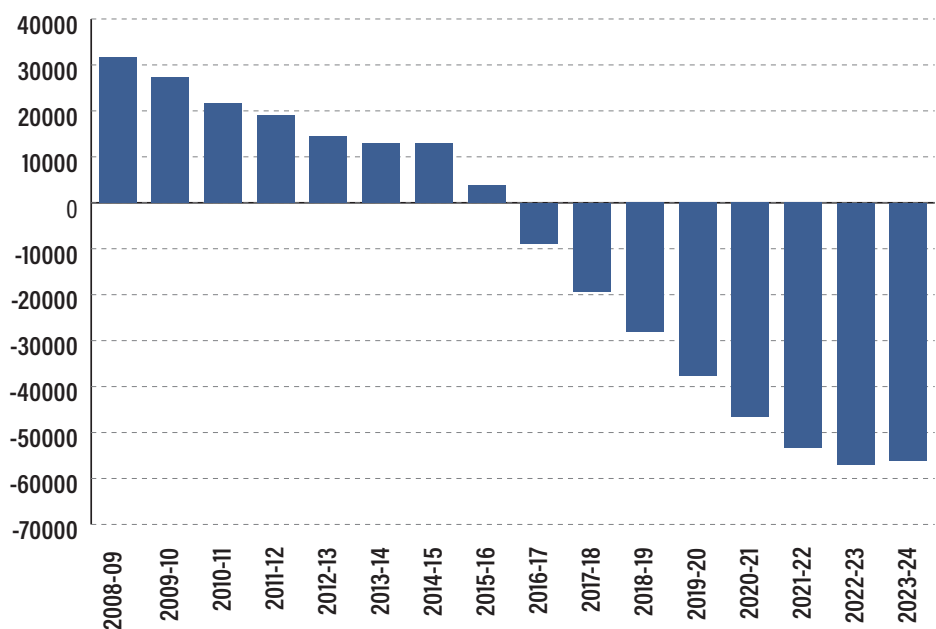
As will be explained in more detail in the next section, consistent spending-induced budget deficits in Alberta have led to growing government debt and have created great uncertainty for Albertan households and businesses about additional future tax increases.

Increased government debt and mounting interest costs

With an unwillingness to restrain spending and a

The current government's spending choices have far-reaching

ALBERTA'S NET FINANCIAL ASSETS, 2008/2009 - 2023/24 (MILLIONS)





long string of budget deficits, Alberta's government has overseen a distressing reversal in its fiscal position. In 2007/08, not only was Alberta alone among the provinces in having no net debt, but it had accumulated a \$35 billion net financial asset position—it owned \$35 billion more in financial assets than it owed in debt. Thanks to budget deficits along with significant debt-financed capital spending, Alberta is now indebted to the tune of \$28.1 billion, and is projected to have net debt totaling \$56.1 billion by 2023/24 (see the associated figure).

One consequence of this rapid increase in provincial government debt has been, and will continue to be, rapid growth in the debt interest costs that the provincial government pays each year. For context, consider that in

2008/09, debt service costs in Alberta were negligible—the provincial government spent just \$58 per person on debt interest payments. By comparison, the other provinces were spending between \$496 and \$1,456 per person on debt service payments. This fiscal advantage was saving Albertans billions of dollars each year compared to what the province would have had to pay had its interest costs had been more closely aligned with those of other provinces.

Since then, debt interest payments have climbed quickly. In 2018/19, debt service costs were forecasted to reach \$435 per person. By 2020/21, that number is forecasted to reach \$661 per person. What was once a negligible expense in Alberta's budget is now climbing to consume substantial revenue that would otherwise be available for other important priorities like public services or tax reduction.

Losing Alberta's tax competitiveness

Among the most damaging policy changes in recent years has been the significant increase in personal and business taxes in Alberta. The province once had a powerful tax advantage compared to other provinces and US states—one that was premised on the recognition that low taxes provided positive encouragement to entrepreneurs, business owners, and workers. That advantage has been quickly undermined which has contributed significantly to Alberta's economic woes.

Specifically, in 2015 the new provincial government ended Alberta's 10 percent, single-rate personal and business income tax rate. Prior to the reform, Alberta's top rate was the lowest combined federal-provincial/state personal income tax rate in all of Canada or the United States for entrepreneurs, professionals, business owners, and others facing the top tax rate. This rate went a long way to ensuring that Alberta was an extremely attractive place to do business in North America.

The single-rate tax was replaced by a five-bracket personal income tax system with a top provincial rate of 15 percent and a 12 percent corporate income tax rate. The increase meant that the provincial income tax rate on entrepreneurs, professionals, and business owners was increased by 50 percent while the tax rate on medium to large companies was increased by 20 percent.

Further, Alberta introduced or raised a number of other taxes and fees that have taken money out of the private economy and inhibited economic recovery. Most notable has been the introduction of a broad carbon levy despite the fact that the US federal government and governments in many key US states with whom we compete have signaled they will not move in the same direction for the foreseeable future. The personal income tax increases in Alberta also meant that capital gains taxes, to which entrepreneurs and investors are particularly sensitive, were also raised.



These changes marked a stunning reversal in Alberta's tax competitiveness. Just when the province needed to attract and retain entrepreneurs, business owners, investors, professionals, and skilled labour, it introduced policies making it less competitive for these highly mobile and sought-after contributors.

Damaging regulatory changes

In the midst of a substantial downturn in commodity prices and an incredibly difficult and challenging economic environment, and on top of the tax changes noted above, the Alberta government unwisely chose to implement a host of regulatory changes that materially reduced competitiveness and made doing business in the province significantly more expensive. This was particularly true for the backbone of Alberta's economy, the oil and gas industry.

Indeed, almost immediately after the 2015 election the Alberta government instituted a lengthy and damaging review of the province's oil and gas royalties, and then implemented a new slate of new or expanded environmental taxes and regulations.

For example, the government introduced its Climate Leadership Plan which included, among other measures, several new regulations including even more stringent regulations on sulfur emissions from the oil and gas sector and a new cap on total development of the oil sands that limited its potential future growth to 100 megatons. These measures were enacted despite the introduction of a significant carbon tax, which economic theory suggests if set at the right level should obviate the need for regulation.

Given these regulatory and tax policy changes, it is understandable that investor confidence in the sector dropped. The Fraser Institute's 2018 Global Petroleum Survey has shown a marked increase in the number of investor respondents stating that they would be deterred from investing in Alberta due to the province's policy environment. Alberta ranked 43rd in the 2018 survey, a significant drop from its 2014 ranking of 14th worldwide. Even since 2017 the province's rank has deteriorated: it ranked 33rd that year. Specifically, more than 70 percent of respondents cited Alberta's high cost of regulatory compliance and environmental regulations as deterrents to investment.

In addition to increased regulations on the energy sector, the government also implemented changes to labour market regulations which were felt economy wide. For example, Alberta enacted a large increase in the minimum wage such that the province's minimum wage is now among the highest in North America. This was done despite a weak labour market and a large number of Albertans struggling to find work.

Conclusion: Restoring the Alberta Advantage

While many of Alberta's challenges are of the government's own making, there is reason for optimism. That policy choices have helped create the problems at least suggests that policy choices can help ameliorate them. The evidence suggests that this is indeed the case. The rest of this volume is dedicated to identifying the policy options that can help restore Alberta's prosperity by repairing the province's finances, restoring its provincial tax advantages, improving government services, and adopting a pro-growth and pro-investment approach to regulatory reform.

Taken together, the reforms presented in this volume hold the potential to build a stronger, more prosperous Alberta, with solid public finances, financially and sustainable world-class public services, and a robust, growing economy that can create good jobs and rising incomes for this and future generations of Albertans ♦





SECTION 1: RESTORING AND ENHANCING ALBERTA'S TAX ADVANTAGE

For much of the past two decades, Alberta enjoyed a powerful tax advantage over other provinces and US states. The Alberta Advantage was premised on the recognition that to attract entrepreneurs, investment, business owners, skilled labour, and those who wanted to build businesses, Alberta had to maintain a competitive tax regime along with other policy advantages. The Alberta Advantage was committed to having a markedly competitive tax regime. Changes over the last few years including aggressive increases to personal income taxes, capital gains taxes, and business income taxes, and the introduction of a carbon tax, have effectively eliminated the Alberta Advantage. The following three essays explain how and why the province must not just restore, but enhance the former Alberta Advantage to ensure it is a cornerstone policy that will enable Alberta to regain its economic prosperity ♦

ACHIEVING COMPETITIVE PERSONAL & BUSINESS INCOME TAXES AGAIN

BY BEN EISEN AND STEVE LAFLEUR

Until recently, Alberta benefitted from one of the most pro-growth tax policy environments in North America. As recently as 2014, the province had the lowest top statutory combined federal and provincial or state personal income tax (PIT) and corporate income tax (CIT) rates of any Canadian province or American state. Unfortunately, recent changes have substantially undermined Alberta's tax competitiveness. This essay explains what Alberta needs to do to restore its competitiveness on personal and business income tax rates.

Developments have significantly eroded Alberta's tax competitiveness

Three recent sets of developments have significantly eroded Alberta's tax competitiveness. These include changes to provincial tax policy, changes to federal tax policy, and rate reductions in the United States.

First, in 2015, the provincial government ended the 10 percent, single-rate personal and business income tax rate. Prior to the reform, Alberta's top rate was the lowest combined federal-provincial/state personal income tax rate for entrepreneurs, professionals, business owners and other facing the top tax rate in all of Canada or the United States. This in large measure made Alberta an extremely attractive place to do business in North America.

The single rate tax was replaced by a five bracket personal income tax system with a top provincial rate of 15 percent and a 12 percent corporate income tax rate. Put differently, the provincial income tax rate on entrepreneurs, professionals, and business owners was increased by 50 percent while the tax rate on medium to large companies



was increased by 20 percent. These moves pushed Alberta out of first place on both tax rates. Indeed, as the accompany figure shows, Alberta had one of the highest top combined federal-provincial/state personal income tax rates in 2018.

Second, in 2016, the Canadian federal government increased its top personal income tax rate from 29 to 33 percent. That brought Alberta’s combined top personal income tax rate from 39 percent in 2014 to 48 percent—a 23.1 percent increase in just two years.

Finally, in 2018, the US federal government reduced both its top personal income tax rate and its corporate tax rate. As a result, Alberta now has the 10th highest combined top personal income tax rate of any Canadian province or American state and has gone from the bottom to the middle of the pack on statutory corporate income tax rates (see nearby figure).

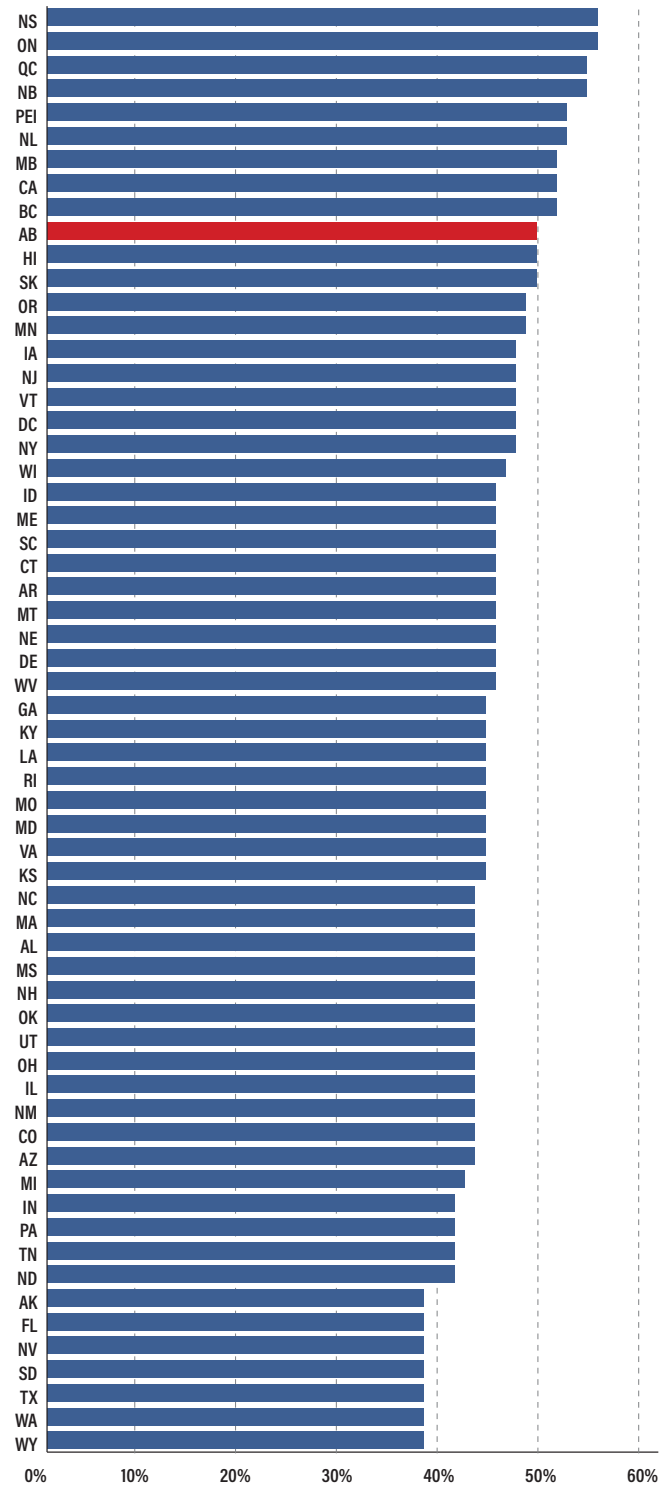
Given all these changes, this essay examines what type of reforms would be needed to restore Alberta to its position as a North American jurisdiction with highly competitive statutory personal and corporate income tax rates.

We find that given federal, provincial, and American tax policy changes, Alberta needs to make significant tax reforms to accomplish this objective. Specifically, we find that cutting the corporate income tax rate in half—from today’s 12 percent to 6 percent—would move Alberta from its current mid-pack position into a tie for having the lowest combined CIT rate in Canada and the United States.

Alberta could also largely restore its personal income tax advantage by returning to a single-rate income tax system and setting the PIT rate at 6 percent (down from a current top rate of 15 percent) to match the new CIT rate. This reform would leave Alberta with the lowest top combined PIT rate in Canada by far, and bring the province two within two percentage points of the US states with the lowest combined top income tax rate.

Alberta faces significant fiscal challenges, which makes restoring its tax advantage on key rates more difficult. However, restoring Alberta’s tax competitiveness is essential if the province is to recapture its former prosperity. The reality is that Alberta is not currently an attractive place to do business compared to many other jurisdictions in North America. Reducing personal and business income taxes in order to regain the province’s previous tax advantages is a key ingredient in restoring a hospitable and competitive environment for entrepreneurship, business development, and investment, which are the short and long-run keys to economic success ♦

COMBINED TOP FEDERAL - PROVINCIAL/STATE STATUTORY PERSONAL INCOME TAX RATES, 2018





WHY ALBERTA'S CARBON TAX NEEDS TO BE SCRAPPED

BY ROBERT P. MURPHY

Alberta has had carbon pricing in some form since 2007 when the Specified Gas Emitters Regulation (SGER) framework required that all large emitters make reductions in emissions intensity. In November 2015 the government of Alberta introduced the Climate Leadership Plan (CLP), which broadened the scope of the provincial carbon tax, and contained specific objectives on emissions and electricity generation.

Although there is justifiable concern over the potential harms from climate change, policymakers and the public should also be aware of the economic consequences of carbon pricing. The potential environmental benefits of reduced carbon dioxide emissions should be considered in the context of their economic cost. Unfortunately, carbon pricing implemented in less-than-global jurisdictions—such as individual countries or even more so, individual provinces—suffers from the problem of “leakage,” in which some of the avoided emissions are merely displaced to other, less regulated jurisdictions. Thus, the jurisdiction with the carbon price suffers from reduced economic activity but emissions do not drop by a corresponding amount.

Jurisdiction with the carbon price suffers from reduced economic activity but emissions do not drop by a corresponding amount

Carbon tax replaces existing regulations rather than being layered on top of existing ones

Besides the limitations of carbon pricing at the provincial level, the specific details of the CLP ignore some of the basic lessons from economic research. For example, the CLP combines a carbon tax with specific objectives, such as an annual cap (100 megatonnes) on oil sands emissions, and the goal of phasing out coal-fired electrical generation by 2030. This combination of a carbon price with new and existing regulations runs counter to the maximally efficient design for carbon pricing programs, in which the carbon tax replaces existing regulations rather than being layered on top of existing ones. In other words, if a jurisdiction introduces a price on carbon, the idea is to rely on the price mechanism rather than regulations to manage emissions. It is not meant as an additional policy but rather a replacement for regulations.

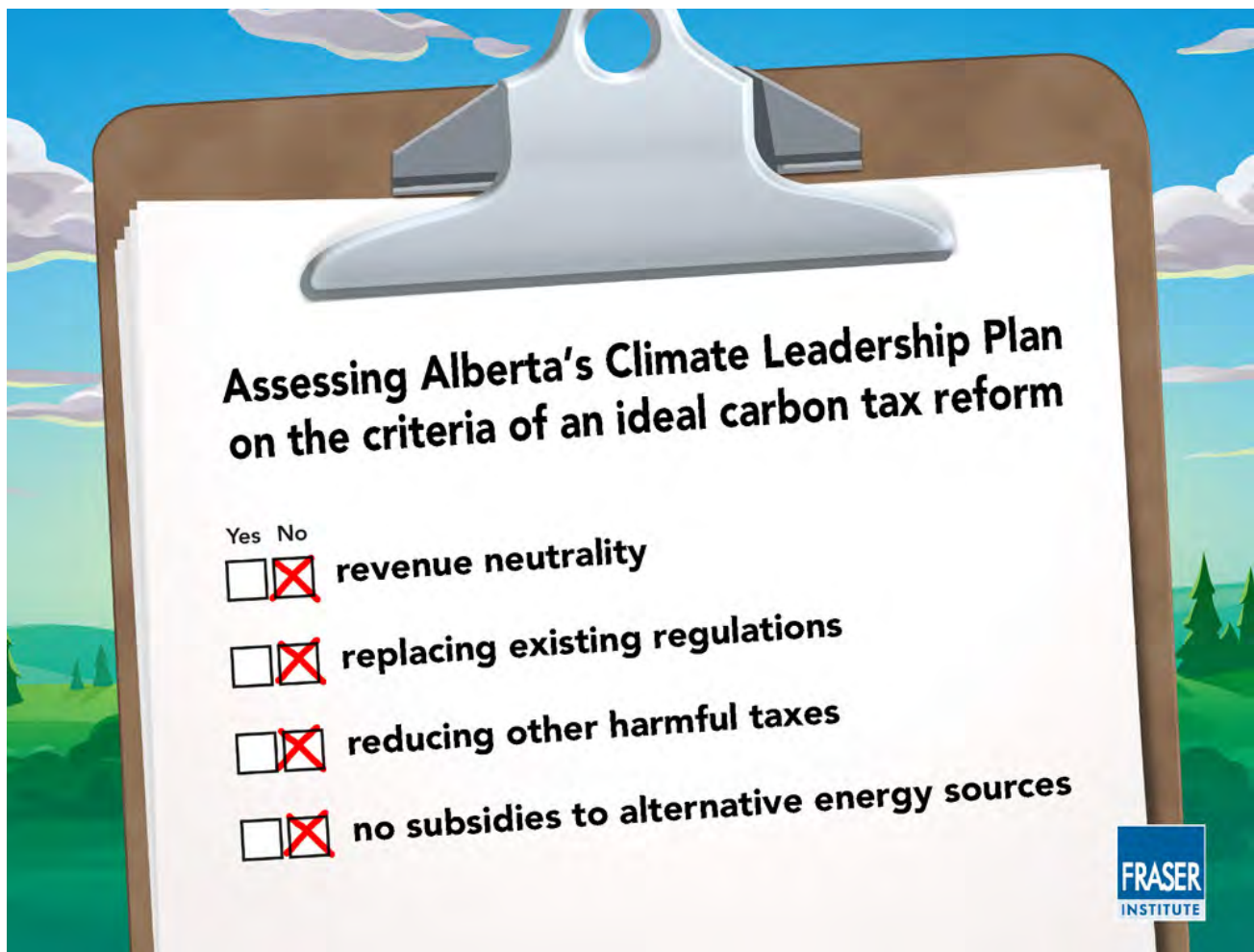
Another characteristic of an effective carbon tax that is absent in the CLP in Alberta is that it is revenue neutral, meaning that the revenues collected from the carbon tax are recycled back into the economy by reducing other taxes. Specifically, the idea is to use carbon tax revenues to reduce other, more economically harmful and costly taxes such as capital-based taxes as well as personal income and business income taxes. To the extent that the CLP

does include tax reductions, they are largely limited to rebates to help poorer households and other vulnerable groups cope with the impact of a carbon tax by providing lump-sum payments. The standard findings in the research are that such payments do not mitigate the effects of the carbon tax, which means reducing conventional GDP below what it would otherwise be in the absence of a carbon tax.

Use carbon tax revenues to reduce other, more economically harmful and costly taxes

Another problem with the specific design of the CLP in Alberta is that it uses some of the receipts of its carbon tax to fund “green” projects, rather than using the funds to minimize the impact of higher prices on consumers. Another central characteristic of an efficient carbon tax is that it is revenue neutral, which prevents funds from the tax being used to fund energy substitutes. Remember that one of the main points of the carbon tax is to introduce a pricing system on carbon such that market participants are provided information and signals in the form of carbon pricing to make decisions. Using funds from the carbon tax to subsidize energy substitutes defeat or at least mitigate one of the main strengths of a carbon tax, which relying on prices to help people make economic decisions. This is yet another serious design flaw in Alberta’s CLP.

In its current form, Alberta’s CLP will reduce the province’s economic growth at a far higher cost than necessary. As such, the best option is to eliminate carbon pricing at the provincial level altogether. However, especially in the context of a federal “backstop” carbon price, at the very least the Alberta government should revise its approach to carbon pricing to eliminate the most economically destructive elements of the CLP. Specifically, any carbon tax should be revenue-neutral (i.e., with no additional spending on programs, even if designated as “green”), with the receipts used to reduce the marginal rates on other taxes. Furthermore, a carbon price ostensibly corrects for any “market failure” in business and household decisions, and therefore it should not be supplemented with additional targets for emissions or renewable energy ♦



REFORMING CAPITAL GAINS TAXES IN ALBERTA

BY NIELS VELDHUIS, JOEL EMES, TAYLOR JACKSON, AND JASON CLEMENS

Tax reform should go beyond simply reversing the tax increases of recent years; policymakers should be working to identify additional ways to restore Alberta’s tax advantage and help make the province one of the most attractive tax regimes in North America. One option lies in capital gains tax reform. Currently, the province has a unique opportunity to create a distinct advantage as the only Canadian province that does not tax capital gains.

A capital gain occurs when property is sold for more than its original nominal purchase price. Under a capital gains tax, normal income taxes are levied on a portion of the capital gain upon its sale—in Canada, half the value of the nominal appreciation is included as regular income and personal income taxes apply.

The problem is that capital gains taxes impose comparatively large costs on the economy by discouraging needed activities such as entrepreneurship, investment, and savings. More specifically, capital gains taxes have the effect of “locking in” capital to less productive purposes by discouraging owners from selling that asset in order to purchase a more productive one. Largely due to these problems, a number of industrialized countries such

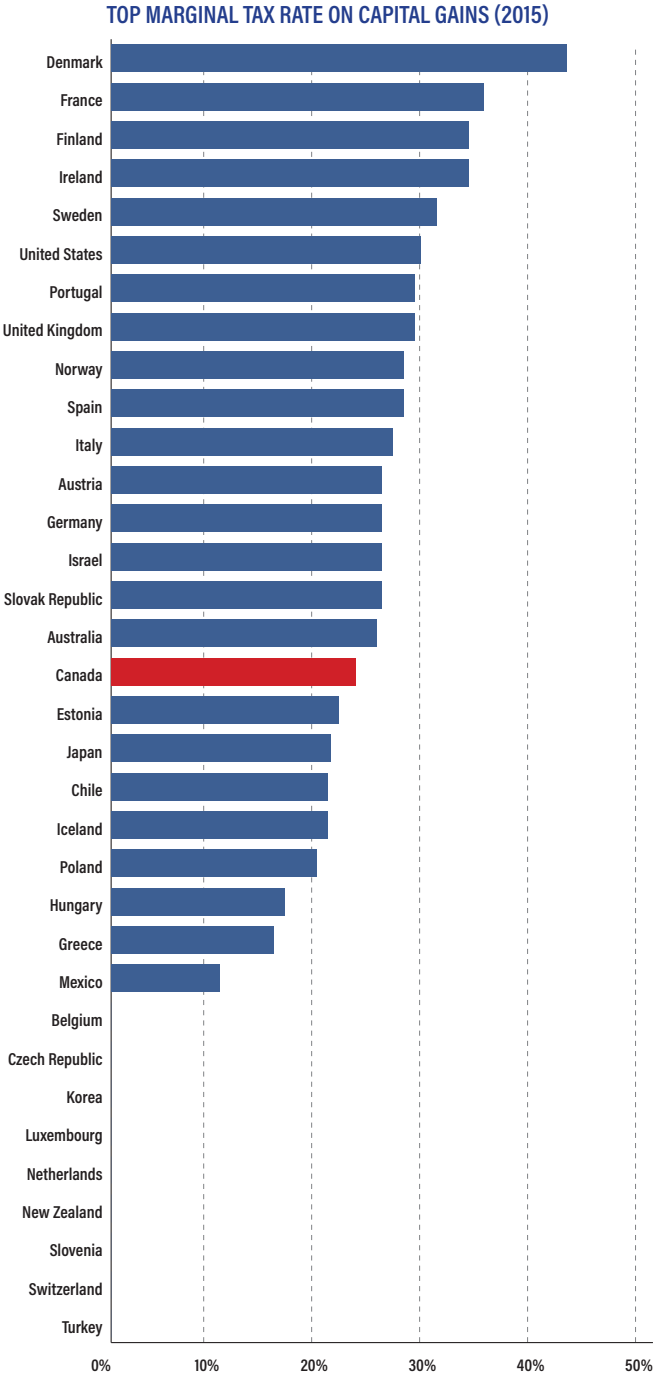
The province has a unique opportunity to create a distinct advantage as the only Canadian province that does not tax capital gains

as Switzerland, New Zealand, the Netherlands, and Belgium impose no capital gains taxes.

While the capital gains tax is a federal tax, there is a method by which to exempt capital gains income from provincial income taxes, and therein lies an opportunity for Alberta to enhance its tax competitiveness. Tax reforms in the 1990s provided the provinces greater latitude to set tax policy. Currently the federal government defines what constitutes income for tax purposes. It would be fairly simple for the Alberta government to add a step in the tax return process whereby capital gains were removed from calculating income for provincial income tax purposes. By doing so, the province would effectively exempt capital gains from personal income taxes.

The result of such a change would mean that capital gains in Alberta would only face federal taxation. The current Alberta tax rate of 24.0 percent would drop dramatically to 16.5 percent. As the nearby figure shows, Alberta would easily have the lowest rate in the country.

By reforming its capital gains taxes, Alberta would also enhance its competitiveness with peer jurisdictions in the United States. Nine US states exempt capital gains from state-level income taxes: Alaska, Florida, Nevada,







SECTION 2: REFORMING GOVERNMENT SPENDING IS KEY

It's clear that Alberta will have to reduce spending in order to balance its budget and, as Section 1 explained, introduce tax relief as a foundation for greater prosperity. This section explains specifically what spending reductions are necessary over the next three years to achieve a balanced budget. However, the key to reducing spending, as previous experiences in Canada have demonstrated, is to couple reforms with reductions. In other words, Alberta has an opportunity to do more with less by fundamentally reforming programs and services. The set of essays in this section explore much needed reforms in both K-12 education and health care. The essays also detail the large gaps between the compensation of government employees compared to equivalent private sector workers, which should be another source of savings ♦

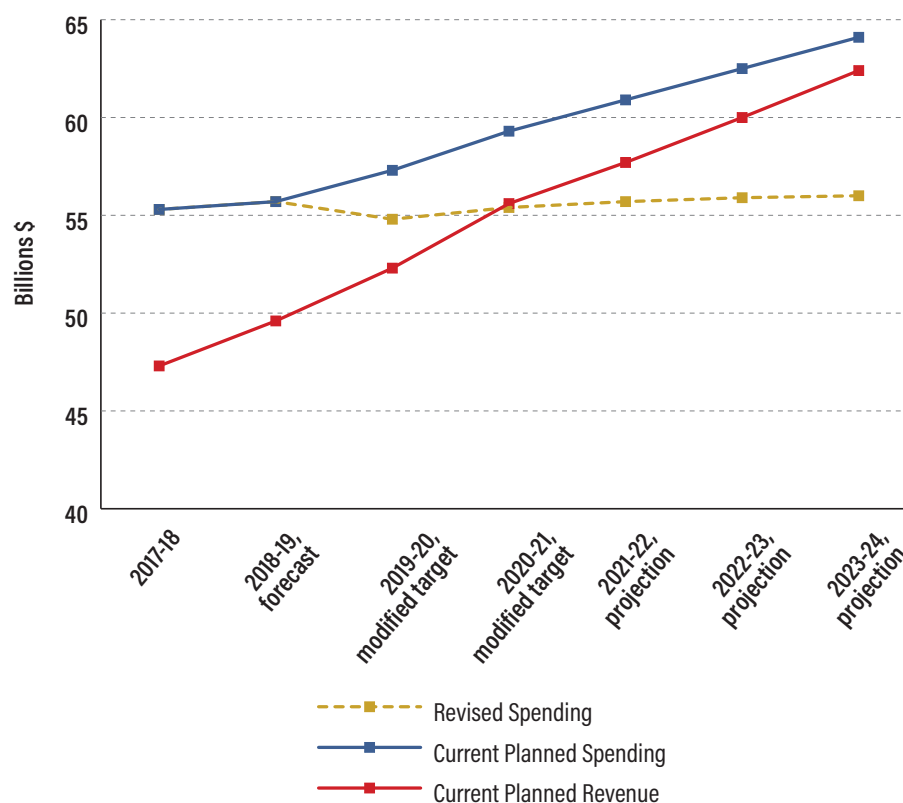
A PLAN TO ACHIEVE A BALANCED BUDGET WHILE REDUCING TAXES

BEN EISEN, JOEL EMES, AND STEVE LAFLEUR

As the introduction to this collected series explains, stemming the accumulation of debt and the rising interest payments associated with increasing debt must be a paramount reform goal for Alberta. And as Section 1 describes in more detail, the province should solve the deficit and mounting debt problem through spending reductions and reform while also ensuring that it can enact competitive tax rates that will promote entrepreneurship, investment, and ultimately economic growth. This essay summarizes the spending plan that is necessary for the province to execute in order to both balance its budget and implement pro-economic-growth tax relief over the next three years (to fiscal 2021/22).

As explained elsewhere, the deterioration of Alberta's fiscal situation has been rapid, with the province going from a \$31.7 billion net financial asset position in 2008/09 to having a \$28.1 billion net financial debt this fiscal year. This means that the total net assets of the province have declined by \$59.8 billion. All this new debt is leading to higher debt service costs. The province's once negligible debt servicing costs are estimated to hit \$442 per person by 2018/19, reducing the province's ability to fund important priorities. It is important that the province return to a balanced budget sooner rather than later.

**ALBERTA REVENUE AND EXPENSE,
2017/18 - 2022/23, EXCLUDING TAX RELIEF**



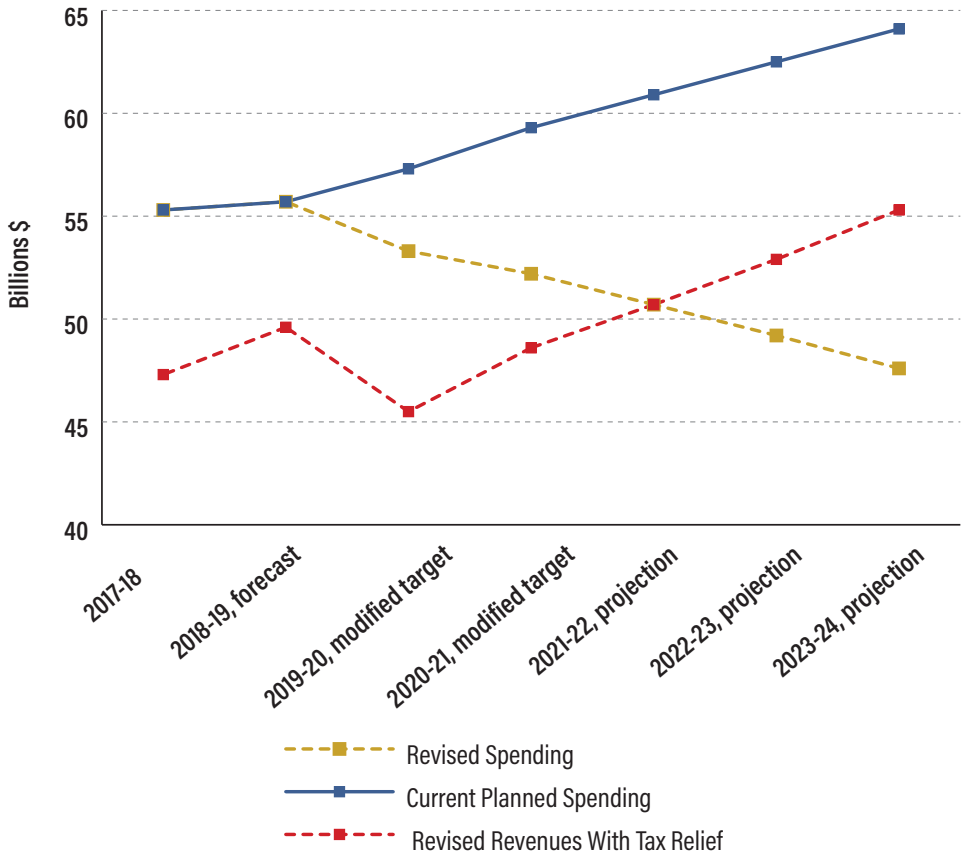
The nearby figure illustrates that the current spending trajectory will not allow the government to balance its budget over the next three years. The three-year period used to achieve a balanced budget is based on the successful fiscal consolidation experiences of the 1990s, which included Alberta. Specifically, holding total nominal spending at the current expected level for 2018/19 would essentially balance the budget a year early, in 2020/21. This assumes no tax relief or reform.

However, as the previous section has explained, Alberta's tax system is markedly less competitive than it was just a few years ago. For the province to recapture and extend its previous level of prosperity, it will have to introduce tax relief and reform alongside

For the province to recapture and extend its previous level of prosperity, it will have to introduce tax relief alongside spending reductions

the spending reductions. Assuming the province introduced all of the tax reductions and reforms suggested in the essays in Section 1 (specifically, marked reductions in both personal and business income taxes, the elimination of provincial personal capital gains taxes, and ending the province's carbon pricing system), it would

ALBERTA REVENUE AND EXPENSE, 2017/18 - 2022/23, INCLUDING TAX RELIEF



have to reduce nominal program spending by 10.9 percent over the next three years to achieve a balanced budget by 2021/22. The second figure illustrates the additional spending reductions Alberta will have to make relative to the current plans for spending in order to both introduce tax relief and balance the budget over three years.

It is important to recognize that the spending reduction of 10.9 percent required to achieve a balanced budget assumes no change in the underlying economy from tax relief. In other words, the fiscal plan does not include the higher revenues that would materialize were the economy to respond as expected from lower tax rates and tax reform—by

leading to higher rates of entrepreneurship, investment, and work effort. Such economic responses would increase revenues and thus require smaller spending reductions over the three-year period. This assumption is, therefore, quite conservative in terms of the likely size of spending reductions that would be required to balance the budget in 2021/22 and provide tax relief.

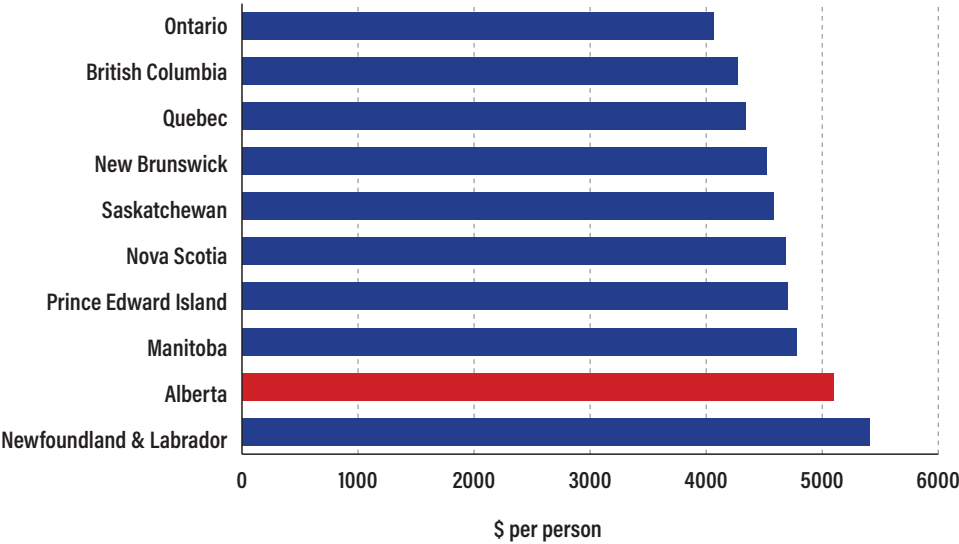
This plan obviously represents a sizeable fiscal consolidation. However, there is historical precedent for consolidations on a similar scale. The spending reductions achieved under the Klein government in the 1990s were substantially larger. It reduced nominal program spending by 21.6 percent over three years in the early 1990s in order to achieve a balanced budget. Further, current program spending in Alberta is 21.5 percent higher than in neighbouring British Columbia, a province whose public services in key areas including health and education are currently outperforming Alberta.

Eliminating the province’s substantial budget deficit while also creating the room for tax relief and reform will not be easy. However, this study shows that it is possible if the government is willing to undertake the major reforms that will substantially reduce provincial government spending in Alberta ◆

HEALTH CARE REFORM OPTIONS FOR ALBERTA

BACCHUS BARUA, JASON CLEMENS, AND TAYLOR JACKSON

PROVINCIAL GOVERNMENT HEALTH SPENDING PER PERSON, 2018



Alberta is a relatively high spender on health care yet achieves only modest results

Canada is a comparatively high spender among countries with universal health care but achieves only a modest to average rating on measures of performance. Within

Canada, Alberta is a relatively high spender on health care yet achieves only modest results. The nearby figure shows that Alberta’s per person provincial spending on health care is second only to Newfoundland & Labrador.

In performance, however, Alberta ranks 5th for physicians per capita, 7th for nurses, 6th (out of nine) for hospital beds, 5th for MRI units, 8th for CT Scanners, and 6th for wait times for medically necessary care. The combination of high spending and modest results mean that Alberta must review current spending with a focus on reforms to achieve better results.

Potential reforms that should be considered, based on their successful use in other universal health care countries

Although the Canada Health Act (CHA) has both explicit and implicit limiting effects on a province’s ability to reform health care through potentially large financial penalties, there are nonetheless a number of potential reforms that should be considered, based on their successful use in other universal health care countries. The following provides a brief summary of the reforms discussed at length in the study.

Expand capacity and promote competition by using private providers. The Canada Health Act (CHA) does not prohibit private firms from delivering publicly funded health care services, so long as the firms are not charging additional fees and generally adhere to the principles of the CHA. In fact, Saskatchewan successfully reduced wait times by, in large part, using third-party private clinics within the public system. Alberta made some progress on the use of private providers in the early 2000s with the introduction of Bill 11, but there are several limitations in the Bill that should be eliminated or revised. Specifically, the ban on the operation of private hospitals and the requirement that all major surgical services be delivered in a public hospitals should be eliminated.

Encourage competition among public and private providers by remunerating hospitals through activity-based funding. Like most provinces in Canada, Alberta primarily funds hospitals by using prospective global budgets wherein grants are provided to a hospital irrespective of its activity in that particular year; the hospital’s resources are not directly linked to the services provided. Such a system imbeds incentives for hospitals to provide fewer services, facilitate quicker releases of patients, avoid costly patients, and where possible shift patients to outside providers since they are seen as costs rather than sources of revenues. By contrast, high performing universal health care

systems like Australia, France, Germany, the Netherlands, Sweden, Switzerland, and the United Kingdom generally fund hospitals based on some measure of activity. Moving towards activity-based funding has the potential to encourage competition, increase the volume of services provided, improve quality and reduce wait times.

Increase efficiency by creating a centralized surgical registry and pooling referrals. Canada requires patients to first visit a primary care physician for a referral to a specialist. The creation of a central, province-wide standard for assessing and prioritizing patients on wait lists and pooled referrals for specialists has been quite successful in Saskatchewan. While Alberta has made some strides in this direction with the Closed Loop Referral Management Program, the Medical Access to Service program, and the Alberta Netcare eReferral tool, more should be done to replicate the success in Saskatchewan.

Remove provincial restrictions on private parallel financing and delivery of medically necessary services. One area of existing activity that could be extended is the province’s private parallel system of health care wherein Albertans pay out of pocket or obtain private insurance for the full cost of services. Such a system is the norm in countries such as Australia, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. As part of a health care reform, Alberta should consider a fully private parallel sector, where private finances—either private insurance or direct payment—are used to acquire the same medically necessary care from private providers as are funded and provided by the public system.

Saskatchewan successfully reduced wait times by, in large part, using third-party private clinics within the public system

Allow dual-practice for physicians. Dual practice permits physicians and other health professionals to work in both the private and public sectors. While current regulations and, particularly, the CHA does not prohibit dual practice, Canada’s use of dual practice is quite constrained compared to practice in other countries—primarily as a result of provincial legislation. Alberta, for instance, only allows fully opted-out physicians to charge fees above the provincial rates. As a result, provincial legislation effectively encourages physicians to choose either the public or the private sector. Allowing physicians to practice in both settings has the potential to use scarce and highly skilled medical resources more effectively, and does not force physicians to leave the public system in order to take up private practice.

Revisit what the public system covers. Provinces have considerable latitude in prescribing what is covered by the public system. While the Canada Health Act pertains to medically necessary services, there is currently no clear definition of “medical necessity.” Narrowing and better focusing on what constitutes medical necessity could be a constructive part of a broader set of reforms.

Require individuals to share in the costs of treatment (with means-tested protections for vulnerable groups). Of all the potential reforms, only cost sharing is expressly prohibited by the Canada Health Act. Cost sharing, which comes in a variety of forms and can cover a wide range of services, is a standard feature of most industrialized countries’ universal access health care systems. Cost sharing involves having the patient pay some portion of the costs of their health services.

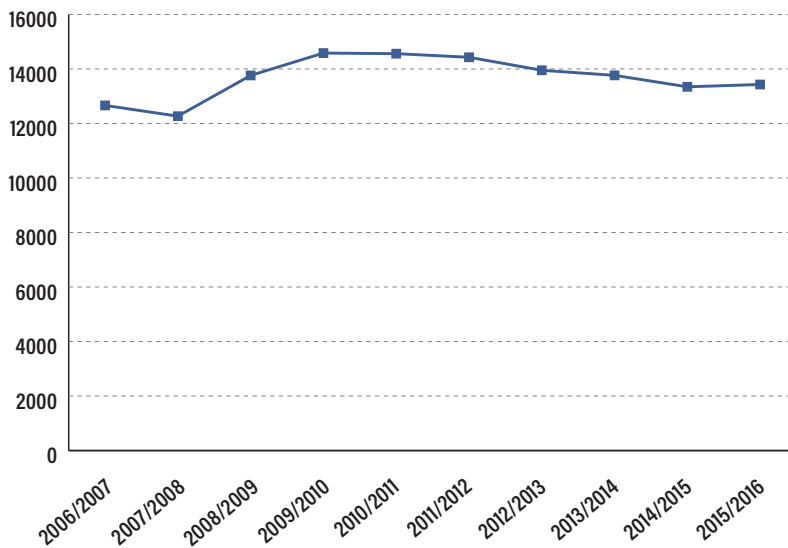
Canada, and Alberta in particular, are comparatively high spenders on health care but at best modest performers within the group of countries and sub-national jurisdictions that maintain universal access to health care. The policy reforms outlined above can help contain costs while enabling the province’s health care system to serve patients better ◆

K-12 EDUCATION REFORM IN ALBERTA

JASON CLEMENS, JOEL EMES, AND ANGELA MACLEOD

Primary and secondary (K-12) education is the second largest area of provincial program spending, second only to health care. K-12 education is critically important because access to high-quality education help ensure that the next generation of Albertans has the knowledge, skills, and aptitude to succeed and prosper. Thus, making sure that families have access to an excellent education delivered in a fiscally responsible manner is an important public policy goal for all provincial governments.

PER-STUDENT SPENDING PUBLIC SCHOOLS IN ALBERTA, ADJUSTED FOR PRICE CHANGES (\$2016)



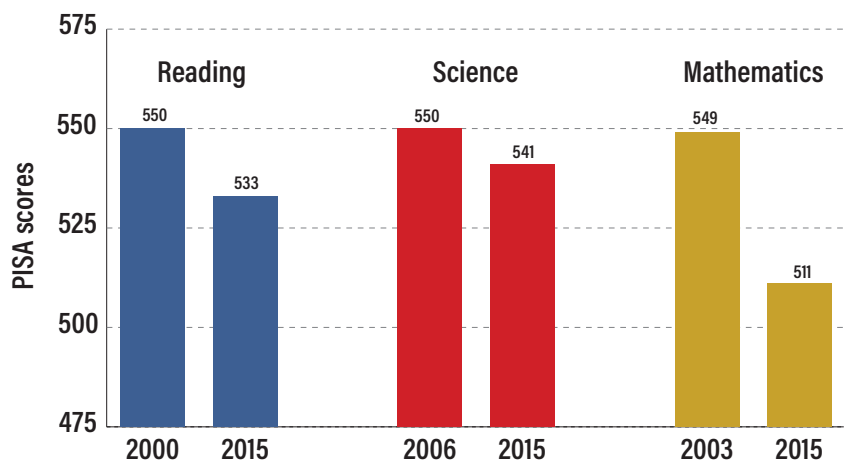
The status quo of K-12 education in Alberta is concerning. As depicted in the nearby figure, Alberta's inflation-adjusted per-student spending in government schools grew 17.5 percent between 2005/06 and 2014/15 (the latest year of comparable data). Per-student spending in Alberta is above the national average (\$13,115 compared to \$12,646) and well above neighbouring British Columbia (\$11,216).

At the same time, international test scores such as PISA show performance declines. As illustrated in the two figures showing PISA results, Alberta's scores across all three test areas have decline and in mathematics the province's score has declined in both comparative and absolute terms. Whereas Alberta used to outperform both, it now ranks below British Columbia and is essentially tied with Ontario.

In short, spending is up but student outcomes are down. There are a number of policy reforms that can help reverse these trends. The reforms fall into two broad categories: those primarily related to government schools and those primarily related to independent schools.

There are three reforms in the first category. The first relates to teacher incentive pay. Recent research has concluded that when teacher incentive pay systems are structured correctly, including clear expectations, a focus on real improvement rather than simply higher test scores, and a long-term commitment to maintaining an incentive pay system, gains in educational performance can be achieved. Introducing pilot programs for incentive-based compensation is a suggested first step in a larger process of improving incentives for teachers.

PISA SCORES FOR ALBERTA, SELECTED YEARS

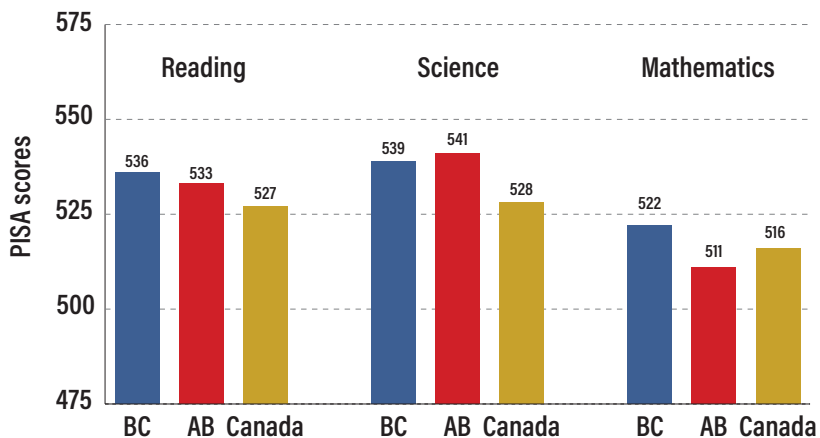


The second reform focuses on how to expand the role of charter schools. Research demonstrates that charter schools are particularly effective at improving the performance of “underserved” groups such as lower-income students and ethnic minorities. The suggested reforms include removing the discretionary authority of local school boards to reject charter school applications, eliminating the cap on the number of charters, and clarifying criteria for ministerial approval.

The final area of reform within the government sector relates to open enrolment, which is the ability of families to easily choose schools outside their attendance or catchment area. Alberta already has a certain degree of open enrolment. Maintaining and expanding the commitment to open enrolment is critical given the success of the existing policy.

The second broad category is that relating to independent schools—private institutions that exist outside the government system. Alberta currently provides families who choose to educate their children at an independent school with grants of either 60 percent or 70 percent of the per-student operating amount provided to government schools. One suggested reform, based on recent innovations introduced in Australia, is to provide larger grants to lower-income families to improve financial accessibility to independent schools. Specifically, the recommendation is to introduce a scaled grant from 70 percent to 90 percent depending on household income.

PISA SCORES READING, SCIENCE, AND MATHEMATICS FOR BRITISH COLUMBIA, ALBERTA, AND CANADA, 2015



Provide larger grants to lower-income families to improve accessibility to independent schools

The next recommendation is to change the eligibility regulation for independent schools to include for-profit schools. This reform is based on Sweden’s experience: as part of an overhaul of its education system, Sweden expanded the use of independent schools and included for-profit providers. For-profit schools, and in particular chains, are now

the dominant provider of independent K-12 education in Sweden.

The final recommendation, which also has implications for the government school sector, calls for competition in curriculum. Under current regulations, independent schools receiving grants must adhere to the provincial curriculum. A more productive approach would be to focus on common learning outcomes and allow greater diversity (that is, competition) in the curriculum and content used to achieve those outcomes.

Allow greater diversity (that is, competition) in the curriculum

Given the gap between spending and performance, the reforms outlined in this paper for both the government and independent education sectors offer the opportunity to improve the performance and cost-effectiveness of Alberta’s schools ◆



SAVINGS FROM RATIONALIZING GOVERNMENT COMPENSATION BASED ON PRIVATE SECTOR EQUIVALENTS¹

MILAGROS PALACIOS, DAVID JACQUES, CHARLES LAMMAM, AND STEVE LAFLEUR

As earlier essays have explained, Alberta's public finances are in rough shape. If the province is to achieve a balanced budget while enacting much needed tax relief, it will have to reduce spending. An important area of spending to scrutinize is the salaries, wages, and benefits of government employees as well as employment contracts, all of which consume a sizeable portion of Alberta government's annual program spending. At a minimum, compensation for government workers and contractors consumed 39 percent of provincial program spending.

There's ample evidence suggesting that there is scope to better control future compensation costs. Research consistently shows that the wages and benefits of government employees tend to eclipse those for comparable private-sector positions.

The 2018 study *Comparing Government and Private Sector Compensation in Alberta, 2018*, for instance, provides the latest estimates of the government wage premium in Alberta. Using Statistics Canada data, the study finds that government employees (federal, provincial, and local) receive, on average, 9.6 percent higher wages than comparable workers in the private sector.

This wage premium accounts for differences between workers in the two sectors such as their age, gender, education, tenure, experience, and type of work. Put simply, to the degree possible, other explanations for differences in compensation, such as education and tenure, are controlled for so that we better understand the effect of working in the government sector versus the private sector. The finding that, on average, government sector employees enjoy a wage premium has been a fairly consistent finding in the research for the better part of three decades.

Governments need to provide competitive compensation to attract qualified employees, but the fact is that wages and benefits in the government sector are out of step with their private sector equivalents

But wages are just one component of total compensation, which also includes pensions, early retirement, and job security. Once various non-wage benefits are factored in, the available data from Statistics Canada suggests that government employees come out even further ahead.

First, consider the imbalance on pensions, one of the costliest benefits provided to workers in both sectors. In 2017, 72.0 percent of government workers in Alberta were covered by a registered pension plan compared to 24.2 percent of private sector workers in the province. Among those covered, virtually all in the government sector (95.3 percent) had a defined benefit pension—which guarantees a level of benefits in retirement—versus just 29.3 percent of workers in the private sector in the province.

Government-sector workers in Alberta also retired 1.7 years earlier, on average, compared to private-sector workers

Government-sector workers in Alberta also retired 1.7 years earlier, on average, compared to private-sector workers and they are away from their jobs for personal reasons 11.8 days per year compared to 6.5 days for private sector workers.

When it comes to job security, another non-wage benefit, government workers have a distinct advantage. In 2017, 4.2 percent of private-sector employees in Alberta experienced job loss—roughly six times higher than the 0.7 percent of government-sector employees.

Of course, governments need to provide competitive compensation to attract qualified employees, but the fact is that wages and benefits in the government sector are out of step with their private sector equivalents.

One important reason for the government wage premium is that in the government sector, political factors largely determine the wage-setting process, while economic realities—such as productivity concerns, profitability, and resource constraints—guide the process in the private sector. Moreover, the monopoly environment of the government sector amplifies these differences compared to the competitive environment of the private sector.

Bringing government employee compensation more in line with private-sector equivalents is one way the provincial government could reduce spending to facilitate a balanced budget while introducing much needed tax relief ♦







SECTION 3: SMARTER REGULATIONS FOR A STRONGER ALBERTA

In addition to regaining tax competitiveness, Alberta must also pursue meaningful regulatory reform. Regulations play a significant role in economically developed countries. New regulations have been implemented in several areas in Alberta and there is worrying evidence that in key industries, investor confidence in the attractiveness of the province for investment and entrepreneurship has declined. Alberta would benefit greatly from a comprehensive review of its approach to regulatory policy with an eye to lightening the regulatory burden where possible and making sure policy in the province is consistent with international best practices. Essays in this section highlight needed reforms in labour and energy-related regulations as well as the best practices for regulatory reform ◆

WHY ALBERTA NEEDS COMPETITIVE LABOUR REGULATIONS

ROBERT P. MURPHY

As previous essays have explained, beginning in 2015 Alberta embarked on significant tax increases at a time when the economy was already struggling, making a difficult situation worse. On top of these tax increases, the province also introduced a number of new labour regulations that raised costs and made Alberta an even less competitive place in which to do business. In addition, the province continued to ignore labour reforms taking place south of the border, particularly in energy-producing states.

Many of Alberta's key US competitors have long maintained Right-to-Work (RTW) laws, or what is more commonly referred to in Canada as worker choice laws. Specifically, Texas, North Dakota, New Mexico (in some of its counties), and Oklahoma, as well as smaller energy-producing states such as Wyoming and Louisiana, have all adopted RTW legislation. RTW simply means that workers cannot be forced to join a union or pay union dues as a condition of their employment. It does not, as some proponents of unionization falsely claim, ban or otherwise preclude unions. Especially against the backdrop of regulations compelling employers to follow strict procedures when dealing with unions, RTW legislation provides a more open, flexible labour market in which workers cannot be compelled to be either members or dues paying when a workplace becomes unionized.

The US experience has given us increasing data that show that RTW states perform significantly better than non-RTW states, including energy-producing states. For instance, between 2001 and 2013, private sector employment growth in RTW states was more than double the rate experienced in non-RTW states: 17.4 percent versus 8.2 percent. Similarly, the growth in real personal incomes was almost double the rate in RTW states (27.7 percent) compared to the rate in non-RTW states (15.3 percent). Interestingly, the economic indicator with the greatest variance was the change in the number of firms, which indicates both the level of entrepreneurship and general economic conditions. RTW states enjoyed a 5.6 percent increase in the total number of firms while non-RTW states experienced a 0.8 percent decline. As always, correlation does not necessarily mean causation, but the superior economic growth in RTW states lines up with the theoretical case for more competitive labour markets.

RTW states perform significantly better than non-RTW states

Simply put, there are two reasons Alberta should consider worker choice or RTW-like regulations. First is the simple fact that many of its energy-producing competitors in the US maintain such laws. In addition, however, there also appears to be basic economic reasons for such regulations; in the US they have tended to attract more investment and entrepreneurship than in states without such laws, meaning that Alberta policymakers should consider them as a way to help the province's citizens aside from any consideration of the outside competitive pressure.

In addition to the provincial government's increased regulatory activity and a failure to reform labour regulations along competitive lines such as RTW, Alberta's government substantially increased the minimum wage despite elevated unemployment levels. Alberta's minimum wage increased every year since 2015 and had risen to \$15 per hour by 2018, the highest rate in the country.

For context, the minimum wage in 2015 was \$10.20 per hour, which means it rose by almost 50 percent in just a few years. Indeed, the increase in Alberta's minimum wage has made it an outlier among energy jurisdictions in Canada and the United States. Neighbouring Saskatchewan, for instance, has a minimum wage of \$11.35. Perhaps more concerning is the wage differential between Alberta and energy-producing US states. Alberta's minimum wage in US dollars is \$11.40. Texas and North Dakota have a \$7.25 minimum wage. Alaska (\$9.84), New Mexico (\$7.50), Oklahoma (\$7.25), Colorado (\$10.20), and Wyoming (\$7.25) all have lower minimum wages than Alberta.

Standard economic theory shows that the problem with Alberta's wage policy is intuitive: minimum wage hikes raise the price of labour and so tend to reduce the amount of employment offered to young and/or unskilled workers. Simply put, if a worker in Alberta only has the productivity to generate, say, \$13 worth of output per hour for his employer, then a minimum wage floor of \$15 per hour renders that worker unprofitable. The preponderance of the economic evidence available—especially the studies focusing on the Canadian experience—strongly suggests that minimum wages impose adverse effects on low-skilled and inexperienced workers in the form of lower employment levels, less on-the-job training, and/or lower benefits.

Minimum wages impose adverse effects on low-skilled and inexperienced workers in the form of lower employment levels, less on-the-job training, and/or lower benefits

If Alberta is to restore its previous competitive position amongst energy-producing provinces and US states, it must make a host of reforms across many policy areas needed. While tax cuts and reforms may be the highest profile changes the province can make, improving regulations is equally important. Ensuring competitive labour market regulations in the context of minimum wages and worker choice laws is an important aspect of broader reform ♦



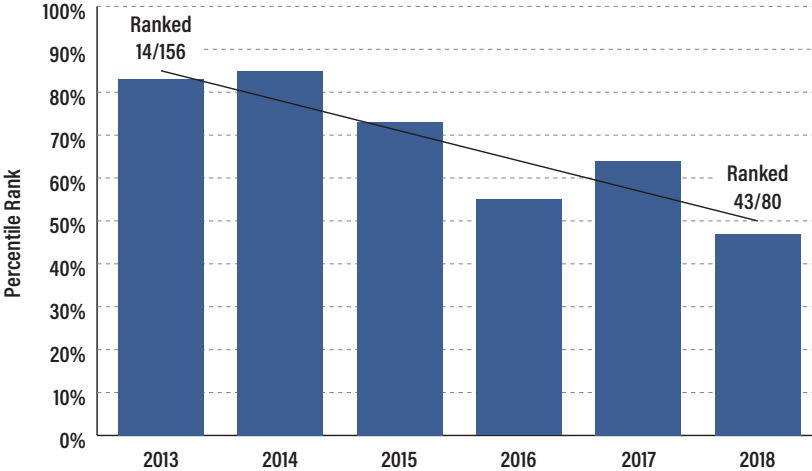
ENERGY REGULATION REFORM BADLY NEEDED IN ALBERTA

KENNETH P. GREEN, ASHLEY STEDMAN, AND ELMIRA ALIAKBARI



Alberta’s energy industry faces a number of self-imposed regulatory challenges including policy changes that have resulted in a less competitive regulatory environment and the ongoing pipeline constraints. The Fraser Institute’s annual Global Petroleum Survey offers a unique perspective on both the state of the investment climate in Alberta’s petroleum industry and how it has changed over time.

**GLOBAL PETROLEUM SURVEY RESULTS (2018):
POLICY ATTRACTIVENESS**



The Fraser Institute Global Petroleum Survey tracks the perceptions of oil and gas investors by spotlighting policies that affect investment attractiveness, including royalties, taxes, and regulations. A total of 256 respondents participated in the 2018 survey, providing sufficient data to evaluate 80 jurisdictions that hold 53 percent of proven global oil and gas reserves and account for 68 percent of global oil and gas production.

According to the survey’s participants, Alberta is becoming increasingly less attractive for oil and gas investment.

As the first of the associated figures shows, Alberta ranked 43rd in the 2018 survey—a significant drop from its ranking of 14th place worldwide in 2014.

The second figure highlights the share of respondents to the 2018 petroleum survey that indicated which different policy areas pose significant challenges for Alberta. Those areas include the cost of regulatory compliance (73 percent), environmental regulations (71 percent), political stability (60 percent), taxation (59 percent) and uncertainty concerning protected areas (59 percent).

Put simply, in the eyes of investors, the key policy areas where Alberta has declined are regulatory. In particular, respondents pointed to the high cost of regulatory compliance and uncertainty concerning environmental regulations as areas of increasing concern. Specifically, 73 percent of respondents identified the cost of regulatory compliance as a deterrent to investment in 2018 compared to 45 percent in 2014. This represents a staggering 62 percent increase in respondents who view regulatory compliance as a deterrent to investment.

Concerns over environmental regulations have also increased, as the percentage of respondents deterred by this factor increased from 38 percent in 2014 to 71 percent in 2018.

In 2014, only 5 percent of respondents indicated that political stability in Alberta was a deterrent to investment; the proportion who indicated it was an issue rose to almost 60 percent in 2018. Similarly, with regard to taxation in general in Alberta, there was a decline in the perception by investors of the province’s investment attractiveness from only 19 percent of respondents indicating taxation in general was a deterrent in 2014 to 59 percent of respondents in 2018.

Concerns over what areas will be protected as wilderness or parks, marine life preserves, or archeological sites, etc., also increased, rising from 27 percent in 2014 to 59 percent in 2018.

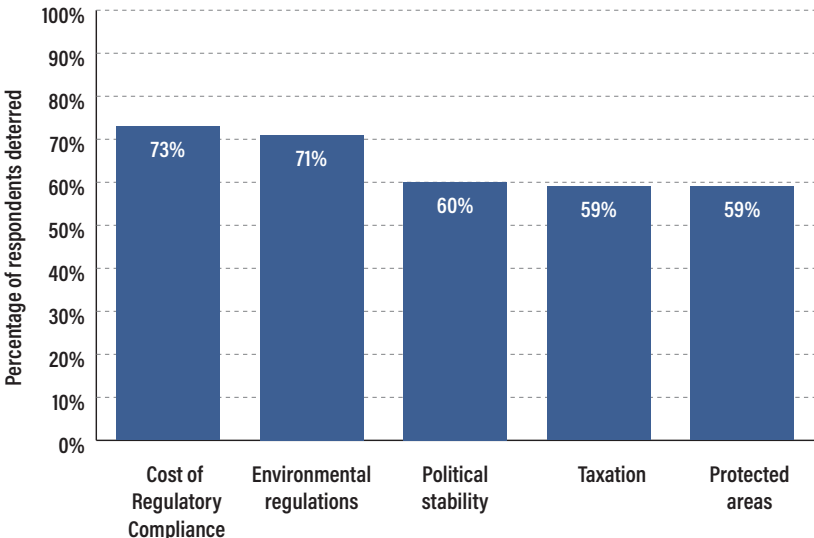
There are many potential reasons for investors to perceive Alberta’s investment attractiveness as declining. Care must be taken in attributing the decline to any specific action. That said, since 2014 there have been a steady stream of announcements (both provincially and federally) that have shaken the confidence of investors. Examples of the province’s policies that have weakened its competitiveness and affected its investment attractiveness include broadening and then raising the carbon tax, imposing a 100Mt cap on greenhouse gas emissions from oil sands, committing to further regulate methane emissions from the oil and gas sector, and enacting a far-reaching Climate Leadership Plan that extends into virtually every sector of Alberta’s economy.

The cancellation of several proposed pipeline projects including the Northern Gateway Pipeline and the Energy East pipeline is another potential reason behind declining investor confidence in Canada’s energy sector. Those pipelines were intended to transport Alberta bitumen and upgraded oil to tidewaters and from there to markets abroad where the oil would receive higher prices.

Alberta’s economy is reeling from a combination of insufficient pipeline capacity and a barrage of new or expanded regulations and taxes. Easing the double burdens of taxes and excessive regulation should be a top priority

for Alberta’s government if its goal is to return the province to a position of competitiveness ♦

**GLOBAL PETROLEUM SURVEY RESULTS (2018):
POLICY CHALLENGES FOR AB**



HOW TO REFORM REGULATIONS IN ALBERTA

STEVEN GLOBERMAN AND KENNETH GREEN



Part of the province's return to competitiveness, and ultimately its renewed prosperity, will be based on its reform of regulations

As outlined in the two previous essays in this section, Alberta's decline in competitiveness is partly due to increasing and often onerous regulations. Part of the province's return to competitiveness, and ultimately its renewed prosperity, will be based on its reform of regulations with a clearer understanding about the costs and benefits of each.

To that end, Alberta can learn important lessons from jurisdictions that have successfully introduced regulatory reforms. For instance, Alberta's neighbour to the west, British Columbia, is often seen as a model for regulatory reform due to its great success in the early 2000s. While specific ministries could and should undertake individual reforms, this essay focuses on the broader, longer-term regulatory reforms that the province should take and which are substantially based on British Columbia's successful approach along with the experiences of other jurisdictions such as the United Kingdom and the United States.

As Steven Globerman's recent paper *Strategies for Deregulation: Concepts and Evidence* points out, the first step in a successful regulatory reform process is to assign responsibility for deregulation to a senior government official, ideally a cabinet minister, who is involved in decisionmaking at the highest level of elected office. In 2001, the newly elected government in British Columbia appointed a minister of deregulation and gave him the mandate to reform the regulatory process and eliminate red tape.

The first step in a successful regulatory reform process is to assign responsibility for deregulation to a senior government official, ideally a cabinet minister

This senior governmental official should have a clear mandate for regulatory reform and be accountable for achieving specific goals. In her recent paper with James Broughel for the Mercatus Centre, *Effective Regulatory Reform: What the United States can Learn from British Columbia*, Laura Jones specifically identified this as a key factor in BC's success: there was a cabinet minister charged with deregulation with specific goals.

The appointment of a senior government official who has a mandate to reduce regulations, particularly those that fail benefit-cost tests, makes clear the locus of final responsibility for the relevant deregulation activities as

well as designating the person accountable for the outcome of those activities. Another key element of successful regulatory reforms based on real world successes is that a government department or commission should be tasked with working with the senior government official to identify and eliminate regulations. In BC’s case, ministries and departments were required to regularly report on their regulatory reforms.

Deregulation should also be open and transparent to the public. Globerman suggests that regulatory agencies should invite public comment on regulations being considered for elimination. Those agencies should also submit their recommendations to an independent commission or government department together with their rationale for choosing to eliminate or maintain specific regulations. In all cases, the burden of proof should be to show why a regulation should not be eliminated.

The burden of proof should be to show why a regulation should not be eliminated

Another important aspect of BC’s success is that the government articulated specific, measurable goals: there was to be a 30 percent reduction in existing regulations and a one-in-one-out limit on new regulations.

In addition, and as Jones pointed out, BC made a major innovation in the nature of regulatory measurement: instead of simply counting pages of regulations, the BC government decided to look at the number of “regulatory requirements.” This was a key innovation in the regulatory reform process. The first government-wide count revealed 382,139 regulatory *requirements* as compared to a less compelling count of 2,200 regulations. By counting requirements, the government ensured there were real reductions in the regulatory burden on the BC economy; it avoided superficial deregulation wherein old and perhaps even unenforced regulations were eliminated—removing those regulations provided little benefit to the economy.

Require that new regulations being implemented must be linked to the elimination of a specified number of existing regulations

A key aspect of regulatory reform is preventing the future proliferation of regulations that would ultimately undo the original reforms. One successful approach to mitigate and in some cases outright prevent the future proliferation of regulations is to introduce rules regarding new regulations. Specifically, one technique that a number of jurisdictions have successfully used to limit the advance of new regulations post-reform is to require that new regulations

being implemented by regulatory agencies must be linked to the elimination of a specified number of existing regulations. Researchers have observed that regulators themselves are reluctant to implement such procedures, which is why a requirement for issuing new regulations must come with the removal of at least the same number of regulations.

Ultimately, the aim of regulation reform and deregulation is to lower costs. It is simple to eliminate regulations that are obsolete and no longer impose any real costs. A two-for-one deregulatory swap must be based on the costs those regulations impose on the regulated activity rather than simply a regulatory count. In other words, the rules for new regulations must focus on the regulatory costs and requirements rather than simply counting how many new regulations are being imposed versus how many are being eliminated.

Ultimately, the aim of regulation reform and deregulation is to lower costs

Alberta’s path back to competitiveness and prosperity must include regulatory reform. The lessons of jurisdictions like British Columbia provide a pathway to successful regulatory reform that Alberta should follow and adjust to its own specific circumstances ◆



ENDNOTES

¹This summary is based on a combination of the study by Milagros Palacios, David Jacques, Charles Lammam, and Steve Lafleur (2018), *Comparing Government and Private Sector Compensation in Alberta, 2018*, Fraser Institute <<https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-alberta-2018.pdf>>, and a column by Charles Lammam and Steve Lafleur (2018, August 14), Restraining Government Employee Compensation would Help Repair Alberta Finances, *Edmonton Journal* <<https://www.fraserinstitute.org/article/restraining-government-employee-compensation-would-help-repair-alberta-finances>>. (The work completed by Charles Lammam was done during his tenure with the Fraser Institute before he left in late 2018.)

All charts are taken from the underlying studies.

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ABOUT THE AUTHORS



Bacchus Barua is Associate Director of the Fraser Institute's Centre for Health Policy Studies. He completed his BA (Honours) in Economics at the University of Delhi (Ramjas College) and received an MA in Economics from Simon Fraser University. Bacchus has conducted research on a range of key health care topics including hospital performance, access to new pharmaceuticals, the impact of aging on health care expenditures, and international comparisons of health care systems.



Jason Clemens is the Executive Vice President of the Fraser Institute and the President of the Fraser Institute Foundation. He has an Honors Bachelors Degree of Commerce and a Masters Degree in Business Administration from the University of Windsor as well as a Post Baccalaureate Degree in Economics from Simon Fraser University. He has published over 70 major studies on a wide range of topics, including taxation, government spending, labor market regulation, banking, welfare reform, health care, productivity, and entrepreneurship. He has published over 300 shorter articles, which have appeared in such newspapers as *The Wall Street Journal*, *Investor's Business Daily*, *Washington Post*, *Globe and Mail*, *National Post*, and a host of U.S., Canadian, and international newspapers.



Ben Eisen is a Senior Fellow in Fiscal and Provincial Prosperity Studies and former Director of Provincial Prosperity Studies at the Fraser Institute. He holds a BA from the University of Toronto and an MPP from the University of Toronto's School of Public Policy and Governance. He has published influential studies on several policy topics, including intergovernmental relations, public finance, and higher education policy. He has been widely quoted in major newspapers including the *National Post*, *Chronicle Herald*, *Winnipeg Free Press* and *Calgary Herald*.



Joel Emes is President of Abacus Economics and a Fraser Institute Senior Fellow who rejoined the Institute after a stint as a senior advisor to British Columbia's provincial government. He previously served as a senior analyst, then as acting executive director, at the BC Progress Board. Prior to that, Joel was a senior research economist at the Fraser Institute where he initiated and led several flagship projects in the areas of tax freedom and government performance, spending, debt, and unfunded liabilities. Joel holds a BA and an MA in economics from Simon Fraser University.



Taylor Jackson is an independent researcher and a former Senior Policy Analyst with the Fraser Institute. He holds a BA and an MA in Political Science from Simon Fraser University. He is the coauthor of a number of Fraser Institute studies on issues including energy, natural resources, electricity, and demographics. He is also the co-author of a book chapter on the past, present, and future of Canadian-American relations.



David Jacques is an economist at the Fraser Institute. He holds a BSc in Environmental Sciences from the University of Guelph and an MSc in Food, Agricultural, and Resource Economics from the University of Guelph.



Steve Lafleur is Senior Policy Analyst at the Fraser Institute. He holds an MA in Political Science from Wilfrid Laurier University and a BA from Laurentian University where he studied Political Science and Economics. His past work has focused primarily on housing, transportation, local government and inter-governmental fiscal relations. His current focus is on economic competitiveness of jurisdictions in the Prairie provinces. His writing has appeared in every major national and regional Canadian newspaper and his work has been cited by many sources including the Partnership for a New American Economy and the Reason Foundation.



Charles Lammam is the former Director of Fiscal Studies at the Fraser Institute. He holds an MA in Public Policy and a BA in Economics with a minor in Business Administration from Simon Fraser University.



Hugh MacIntyre is a Senior Policy Analyst at the Fraser Institute. He holds an MSc in Political Science from the University of Edinburgh, a Post Baccalaureate Diploma in Economics from Simon Fraser University, and an Honours BA from the University of Toronto.



Angela MacLeod is a Senior Policy Analyst at the Fraser Institute, conducting research for the Barbara Mitchell Centre for Improvement in Education, and the Centre for School Performance Studies. After completing a Bachelor of Business Administration from Acadia University she spent time working in banking and management before pursuing a Master of Public Policy from the University of Calgary. She is the co-author of numerous education policy studies including *Where our Students are Educated: Measuring Student Enrolment in Canada, 2017* and *Comparing the Family Income of Students in Alberta's Independent and Public Schools*.



Robert P. Murphy is a Senior Fellow at the Fraser Institute, Research Assistant Professor with the Free Market Institute at Texas Tech University, Research Fellow at the Independent Institute and author of the widely acclaimed book *Choice: Cooperation, Enterprise, and Human Action*. He is also Senior Economist for the Institute for Energy Research and a Senior Fellow with the Mises Institute. Murphy received his PhD in economics from New York University.



Steven Globerman is Resident Scholar and Addington Chair in Measurement at the Fraser Institute as well as Professor Emeritus at Western Washington University. Previously, he held tenured appointments at Simon Fraser University and York University and has been a visiting professor at the University of California, University of British Columbia, Stockholm School of Economics, Copenhagen School of Business, and the Helsinki School of Economics. He has published more than 150 articles and monographs. He earned his BA in economics from Brooklyn College, his MA from the University of California, Los Angeles, and his PhD from New York University.



Kenneth P. Green is Resident Scholar and Chair in Energy and Environmental Studies and former Senior Director of the Centre for Natural Resource Studies at the Fraser Institute. He received his doctorate in Environmental Science and Engineering from the University of California, Los Angeles (UCLA), an MS in Molecular Genetics from San Diego State University, and a BS in Biology from UCLA. Mr. Green has studied public policy involving energy, risk, regulation, and the environment for nearly 20 years at public policy research institutions across North America including the Reason Foundation, the Environmental Literacy Council, and the American Enterprise Institute.



Milagros Palacios is the Associate Director for the Addington Centre for Measurement at the Fraser Institute. She holds a BS in Industrial Engineering from the Pontifical Catholic University of Peru and an MSc in Economics from the University of Concepcion, Chile. Ms. Palacios has studied public policy involving taxation, government finances, investment, productivity, labour markets, and charitable giving, for nearly 10 years. Since joining the Institute, Ms. Palacios has authored or coauthored over 70 comprehensive research studies, 70 commentaries, and four books.



Niels Veldhuis is President of the Fraser Institute. He has written six books and more than 50 peer-reviewed studies on a wide range of economic topics. He has written more than 200 articles that have appeared in over 50 newspapers including the *Globe and Mail*, *Wall Street Journal*, *National Post*, and the *Economist*. He holds a Bachelor's Degree in Business Administration, with joint majors in business and economics, and a Master's Degree in Economics from Simon Fraser University.



Elmira Aliakbari is Associate Director of Natural Resource Studies at the Fraser Institute. She received a PhD in Economics from the University of Guelph, and MA and BS degrees in Economics, both from the University of Tehran in Iran. She has studied public policy involving energy and the environment for nearly eight years. Prior to joining the Fraser Institute, Ms. Aliakbari was Director of Research, Energy, Ecology and Prosperity with the Frontier Center for Public Policy. She has presented her work at many academic conferences and has been published in the prestigious academic journal *Energy Economics* and in many prominent media outlets.



Ashley Stedman is a senior policy analyst in the Centre for Natural Resources. She holds a BA (Honours) from Carleton University and a Master of Public Policy from the University of Calgary. Ms. Stedman is the co-author of a number of Fraser Institute studies, including the annual *Global Petroleum Survey* and *Survey of Mining Companies*. Ms. Stedman's research is frequently covered by prominent media outlets in the US and Canada.

