

Fiscal Policy Lessons for Alberta's New Government from other NDP Governments

by Ben Eisen, Charles Lammam, and Jason Clemens

Rachel Notley's New Democratic government in Alberta takes office facing significant fiscal and economic challenges. The fiscal policy choices the new government makes will play an important role in shaping the future fiscal health and economic prospects of Alberta.

Too often, people believe it is possible to accurately predict a new government's approach to policy simply by observing its political label. In fact, political branding is a poor predictor of how successful it will be in managing government finances.

This paper demonstrates this fact of Canadian fiscal policy by looking at the fiscal track records of different governments that have represented each of Canada's major national political parties. The paper pays special attention to Rachel Notley's own New Democratic Party. It examines the fiscal policy approaches taken by Bob Rae's NDP government in Ontario and Roy Romanow's NDP in Saskatchewan during the early 1990s to show that there are multiple models of New Democratic fiscal governance from which Premier Notley's government can draw lessons.

The Ontario NDP of the early 1990s, led by Bob Rae, represents one of these models. Like Notley's new NDP government, Rae's took power in Ontario during an economic downturn and faced significant fiscal challenges. The Rae government's approach was to immediately and significantly increase provincial government spending, enacting a stimulus budget that increased nominal program spending

by 11.9 percent, on top of an 11.6 percent increase that had occurred in the preceding year under the Liberal government of David Peterson. In subsequent years, under pressure from credit markets, the Rae government held nominal spending flat, keeping spending near the stimulus-era peak.

Bob Rae's NDP government tried to pay for some of this new spending through an array of tax increases, but sluggish economic performance (to which the tax increases on personal income and corporate capital likely contributed) undermined this objective. The combined effect of spending increases and poor economic performance was the emergence of recordsetting budget deficits, which exceeded \$9 billion in each fiscal year from 1992 to 1995. The predictable result of these large budget deficits was a rapid expansion in the province's net debt, which more than doubled from 14 percent of GDP in the 1990-1991 fiscal year to 29 percent of GDP in the 1995-1996 fiscal year.

The NDP government in Saskatchewan under Premier Roy Romanow, who took office in November of 1991, offered a stark contrast to the Ontario experience. Romanow delivered one of the more fiscally prudent and successful provincial governments in recent Canadian history, restraining spend-

ing, keeping deficits in check, and laying the foundation for the relative prosperity the province has enjoyed since. Romanow's government cut nominal program spending by approximately three percent during each of its first three years in office, resulting in a 10 percent spending reduction over a three-year period between the 1991 and 1994 fiscal years.

The Romanow government's approach delivered impressive fiscal outcomes. The government erased an \$845 million budget deficit in just three years, returning to a budget surplus in fiscal year 1994-1995. The return to budget surpluses allowed the government to significantly reduce the province's net debt from 28.3 percent of GDP in 1992 to 23.5 percent of GDP in the 2000 fiscal year. This reduction in net debt, combined with falling interest rates, brought significant relief to Saskatchewan taxpayers in the form of reduced debt service payments, which peaked at 25.4 percent of own-source revenue in fiscal year 1993-1994 before falling to 11.3 percent of own-source revenue in fiscal year 2000-2001. The fiscal prudence shown by the Romanow government established the foundation for successive NDP governments to reduce and reform both personal and business income taxes, which were key in establishing the competitive business environment the province currently enjoys.

As Premier Notley and her cabinet work to develop their fiscal policy strategy, they would be well advised to follow the model of New Democratic governance provided by their Saskatchewan neighbours during the early 1990s. If, instead, they emulate the Ontario NDP model from the same period, the result will likely be increased spending, higher taxes, growing deficits, and reduced prosperity for Albertans in the years ahead.



Fiscal Policy Lessons for Alberta's New Government from other NDP Governments

by Ben Eisen,
Charles Lammam, and
Jason Clemens

[Click here to read the full report](#)



Provincial budget deficits as a share of GDP in Ontario and Saskatchewan from fiscal years 1990 to 1995

