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

JUNE 2015

Ben Eisen, Charles Lammam and Jason Clemens

FRASER INSTITUTE

Contents

Executive summary

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 turndown 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 record-setting 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 spending, 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.

Introduction

Rachel Notley's New Democratic government in Alberta takes office facing significant fiscal and economic challenges. The fiscal policy choices it makes in response to these challenges will help 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 fiscal policy simply by observing its political label. In fact, political branding is a poor predictor of what type of approach a new government will take to fiscal policy and how successful it will be in managing government finances. Each of Canada's three major national parties have produced governments, either at the federal or provincial levels, that have pursued prudent and successful fiscal policy strategies. Each has also produced governments that have failed to manage government finances successfully, with painful economic consequences for their jurisdictions.

This paper demonstrates this aspect of Canadian politics and policy development by looking at the fiscal track records of different governments that have represented each of Canada's major national political parties, demonstrating the wide range of approaches to fiscal policy that each is capable of delivering. Special attention is paid to Rachel Notley's own New Democratic Party. By examining the fiscal policy approaches taken by Bob Rae's NDP government in Ontario and Roy Romanow's in Saskatchewan during the early 1990s, we show that there are multiple models of New Democratic fiscal governance from which Premier Notley's new government can draw lessons.

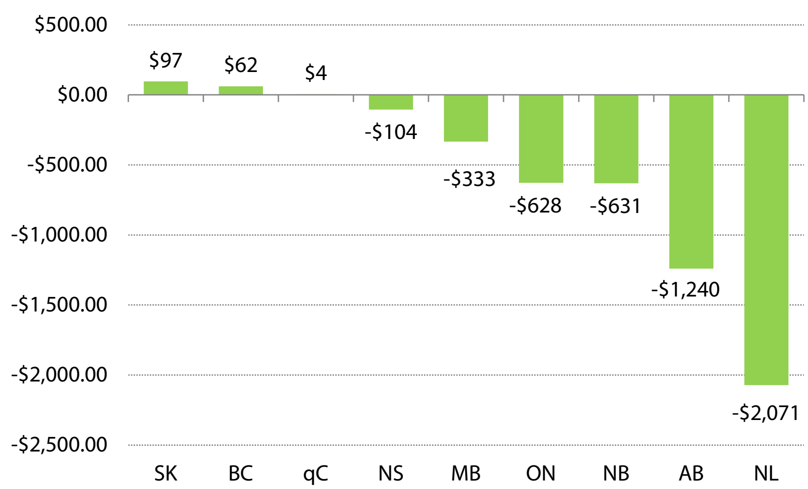
All three of Canada's major national parties have shown themselves capable of producing governments that deliver sound policies that deliver desirable fiscal and economic outcomes. Premier Notley's new team need look no further than the history of their own party's provincial governments in different jurisdictions for examples of both highly successful and unsuccessful approaches to financial management. By studying the successes of Saskatchewan's NDP government during the early 1990s, the new government in Alberta can identify policy strategies that will help lay the foundation for a fiscally sustainable and prosperous Alberta. Sound policies based on solid evidence and real-world experiences can lead to prudent policymaking, regardless of political stripe.

The challenge facing Rachel Notley's NDP government in Alberta

Rachel Notley's recently elected NDP government comes into office facing significant fiscal challenges. Low energy prices and rapid growth in government spending have left the province's finances in a bleak condition. Alberta now confronts a multi-billion dollar budget deficit and a likely end to the province's "debt-free" status.

Alberta's operating deficit for the current fiscal year (2015-2016) is projected to be $5.0 billion (Alberta, 2015a: 107). As figure 1 illustrates, Alberta's per capita deficit this year is projected to be the second highest in Canada, behind only Newfoundland & Labrador. Alberta's per-capita deficit is projected to be approximately twice as large those in Ontario and New Brunswick, two provinces that are widely recognized to be facing se-

Figure 1: 2015-2016 projected per capita surplus or deficit by province



Source: Royal Bank of Canada (2014), Fiscal Reference Tables; Statistics Canada (2014); and calculations by authors.

vere public finance challenges (Murrell and Fantauzzo, 2014; and Murphy et al., 2014).

Government spending in Alberta has increased rapidly in recent years, and at a significantly faster pace than would be required by the combined effects of population growth and inflation. One recent analysis showed that if growth in program spending had been held to the rate of population growth plus inflation since the 2004-2005 fiscal year, program spending in the most recent fiscal year (2013-2014) would have been $8 billion lower than was in fact the case (Milke and Palacios, 2015). As a result of this rapid and sustained spending growth, Alberta's per-capita program spending is now among the highest in the country, reaching $10,919 in the 2013-2014 fiscal year, roughly $1,300 above the national average (Alberta, 2015b). These data confirm past analyses that have suggested the province's fiscal challenges must be addressed on the spending rather than the tax side of the province's fiscal ledger (Boessenkool, 2010).

The question is whether the new Notley government will succeed at reforming and restraining provincial spending, eliminating the budget deficit, and restoring a sound approach to financial management to Alberta's provincial government while maintaining the tax advantage Alberta enjoys over competing jurisdictions.

Political brands are poor predictors of fiscal prudence

Simply looking at a party's political brand does not accurately predict whether a new government will delivery prudent fiscal policy. In fact, recent Canadian history suggests that political labels are an unreliable indicator of whether or not a particular government will pursue sound fiscal policy. The evidence suggests that Canada's major political parties are all capable of producing governments that deliver either prudent financial management or economically harmful fiscal policy.

For instance, between 1995 and 2002, the Liberal Party of Canada delivered one of the most fiscally prudent federal governments in modern history. That government, facing unsustainable deficits and a public debt load that threatened economic growth, implemented significant spending reductions and program reforms, ultimately returning Canada's federal government to surplus for the first time in decades. The federal Liberal party's successful approach to fiscal consolidation was based primarily on spending reductions over a three-year period followed by general restraint, and thereby largely avoided growth-restricting tax increases. All told, the ratio of spending reductions to tax increases during the consolidation period was approximately 5-to-1 (Murphy, 2013), and the result was a return to fiscal stability which laid the foundation for continued economic growth and prosperity in subsequent years.

Conversely, the Liberal Party of Ontario has in recent years, under the leadership of Premiers McGuinty and Wynne,[1] failed to adopt a prudent approach to fiscal policy, despite facing a significantly worse public debt burden than the state of California, a jurisdiction widely recognized to be facing severe budgetary challenges (Murphy et al., 2014). Despite the province's fiscal position, the Ontario Liberals have increased spending levels significantly in recent years. For instance, Ontario's program spending increased by 17.1 percent over a two-year period between fiscal years

[1] Spending growth has been much more restrained under Premier Wynne than was the case under Premier McGuinty. However, the Wynne government has not taken meaningful steps to roll back the McGuinty era spending increases.

2008-09 and 2010-11, with no comparable spending cuts in the years following the recession (Finance Canada, 2014). Stimulus-era spending levels have become the new baseline for public expenditures in Ontario, resulting in sustained budget deficits. The government has attempted to pay for some of its spending increases through an array of tax increases, but sluggish economic performance has limited the resulting revenue increases. As a result, Ontario has incurred cumulative budget deficits of over $65 billion between the 2009-2010 and 2013-14 fiscal years (Finance Canada, 2014). Troublingly, a 2015 analysis showed that the growth in Ontario's debt load since the recession is primarily attributable to operating deficits rather than capital investments (Wen, 2015). Clearly, governments carrying the same political brand are capable of providing very different levels of financial prudence and very different economic and fiscal results for taxpayers.

Similarly, the Progressive Conservative brand has a mixed record in delivering fiscally prudent governance to the jurisdictions where they are elected. Some Progressive Conservative governments, including the Harris government in Ontario and the Klein government in Alberta, successfully reformed public spending and eliminated daunting budget deficits. Conversely, some governments carrying the same brand, including the Stelmach/Redford Progressive Conservatives in Alberta, failed to restrain spending and actually turned surpluses into deficits.

These examples demonstrate that political brands are not a useful predictor of fiscal probity. Reviewing the history of Rachel Notley's own New Democratic Party confirms this fact of Canadian politics. Although the NDP has never won a federal election, it has formed the government in several provinces. These provincial NDP governments have pursued markedly different approaches to public spending, with the result being very different fiscal outcomes. Past history provides at least two different models of New Democratic Party governance from which Premier Notley can draw lessons. The balance of this paper will illustrate this point by examining the records of the NDP governments of Roy Romanow and Lorne Calvert in Saskatchewan and Bob Rae in Ontario during the early 1990s, a period during which both NDP governments faced fiscal challenges even more daunting than those facing Premier Notley's NDP today.

The Alberta NDP takes office facing a faltering economy, multi-billion dollar deficits, and the prospect of a return to provincial (net) debt in a province that has been debt-free since fiscal year 2000-2001 (Finance Canada, 2014). The government's policy choices in the years ahead will be crucial in determining whether the province is able to eliminate deficits, prevent the accumulation of a significant public debt load, maintain Alberta's tax advantage, and create fiscal conditions conducive to economic growth in the years ahead.

Path 1: Higher spending and taxes under the Ontario NDP in the early 1990s

The experiences of past provincial NDP governments in other jurisdictions provide at least two different models of NDP governance that Alberta's new government can consider in its efforts to develop strategies to address the fiscal and economic challenges they face. The first of these models is represented by the Ontario NDP of the early 1990s, which was elected in October 1990 under the leadership of Bob Rae.

Like Alberta today, Ontario faced difficult economic circumstances when the Rae government was elected in the autumn of 1990 as the province was entering a deep recession. The Ontario NDP followed a traditional Keynesian approach to battling the recession by aggressively increasing government spending. Premier Rae defended the large debt-financed spending increases, explicitly stating that deficit control was not a top priority of his first budget; the government had a choice to "fight the deficit, or fight the recession, and we choose to fight the recession" (Paiken, 2012).

In 1990-1991, the fiscal year during which Rae's government took power, nominal program spending increased by 11.6 percent. In the following fiscal year, the NDP government's first full year in power, the Rae government significantly increased spending again by enacting a stimulus budget, increasing nominal spending by another 11.9 percent from the previous year (CANSIM Table 385-001). In total, nominal provincial spending increased by 24.8 percent over a two-year span due to the combined policy choices of David Peterson's Liberal government and Bob Rae's new NDP government.[2] In 1989-1990, Ontario's program spending was equal to 15.8 percent of GDP. Just two years later, in fiscal year 1991-1992, program spending had climbed to 19.3 percent of GDP (Statistics Canada Tables 385-0001 and 384-0038).

[2] Inflation averaged 3.8 percent during this period, meaning that real spending increased by 15.6 percent over this two-year period.

In the second half of the NDP's mandate, having seen the province's credit rating downgraded (Kneebone, 1994: 159) and facing the prospect of further downgrades, the Rae government started to restrain spending growth, but did not attempt to pare program spending down significantly from the stimulus-level peak. During the final years of the NDP mandate, nominal spending was essentially flat, remaining at or near the record-high levels reached in fiscal year 1991-1992. In inflation-adjusted per-capita terms, spending in Ontario did begin to come down in the later years of the Rae government but not nearly enough to balance the budget following two consecutive years of spending growth above 11 percent under David Peterson in the 1990-91 fiscal year and then under Bob Rae in the 1991-92 fiscal year.

Compounding the problem of the NDP's aggressive expansion of government spending and intervention in the provincial economy was the government's near relentless array of tax increases. Table 1 summarizes of the tax increases implemented during the NDP era in Ontario.

Table 1: Summary of tax increases implemented by the Ontario NDP

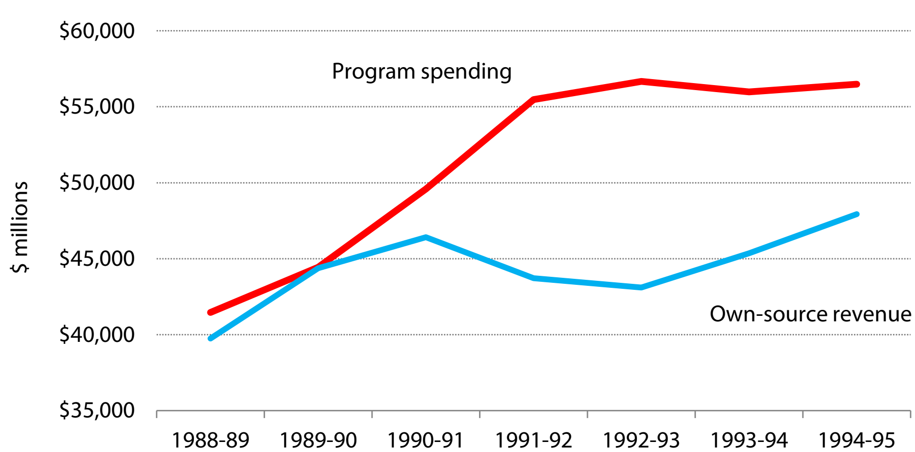
1991	• Surtax on provincial income tax payable in excess of $10 ,000 increased to 12 percent, and scheduled to increase to 14 percent in 1992 • Gasoline, diesel fuel and tobacco increased • Mark-up on alcohol products increased • Surtax of 3.7% applied to small business income above $200, 000 • Capital tax for financial institutions increased from 0.8% to 1%.
1992	• Ontario personal income tax (PIT) increased to 54.5% of federal tax,* further increase to 55 % scheduled for 1993 • New tiered system of income surtaxes applied to the PIT, with increases to the surtax announced for 1993 • Taxes and levies on beer and alcohol increased. • Capital taxes for financial institutions increased to 1.12 % • Temporary surtax on financial institutions' income tax payable implemented
1993	• PIT rate increased to 58 % of basic federal rate. • Both tiers of PIT surtax increased • Corporate Minimum Tax of 4 % created • Several tax deductions for businesses reduced or eliminated

*At the time, provincial income taxes were calculated as a percentage of the total amount of federal income tax paid by individuals.
Source: Clemens et al, 2003: 63 (Appendix A)

Table 1 shows that Ontario`s NDP government implemented a wide range of tax increases during the early 1990s. These tax increases were intended to increase revenue to offset some of the spending increases and keep deficits in check, but may have weakened economic growth in the province, partially undermining this objective. Several of the taxes that were increased, including taxes on personal income and corporate capital, are among the most economically harmful types of taxes commonly used in advanced economies (Johansson et al., 2008). Furthermore, the Rae government's tax increases were imposed on top of a set of increases to the same taxes that had been implemented by the Liberal government that preceded it, potentially compounding their harmful economic effects (Clemens et al., 2003).

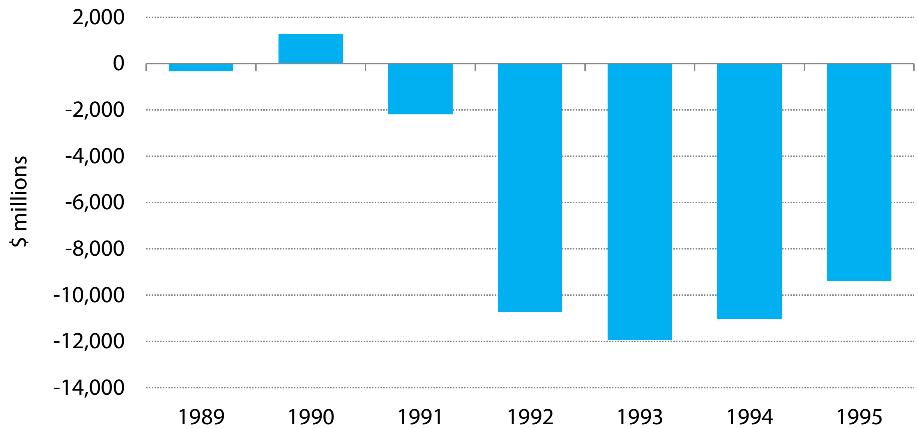
Regardless of the extent to which the tax increases were responsible, the Ontario economy continued to struggle throughout the remainder of the Rae government's term in office. As a result of this sluggish economic performance, own-source government revenue did not increase significantly during the NDP's term despite the higher tax rates. Between the 1990 and 1995 fiscal years, nominal own-source revenue increased by a total of only 8 percent. By comparison, program expenditures grew more than three times as much during the same period, by a total of 27.1 percent (Statistics Canada, 2015). Figure 2 shows the sharp increase in Ontario program spending during the final years of the Peterson government and the first year of the Rae government, the flattening out of spending growth in subsequent

Figure 2: Ontario program spending and own-source revenue ($ millions) in the 1989-1995 fiscal years



Source: Statistics Canada, CANSIM Table 385-0001; and calculations by authors.

Figure 3: Ontario's surplus or deficit ($ millions) in the 1989-1995 fiscal years



Source: Statistics Canada, CANSIM Table 385-0001.

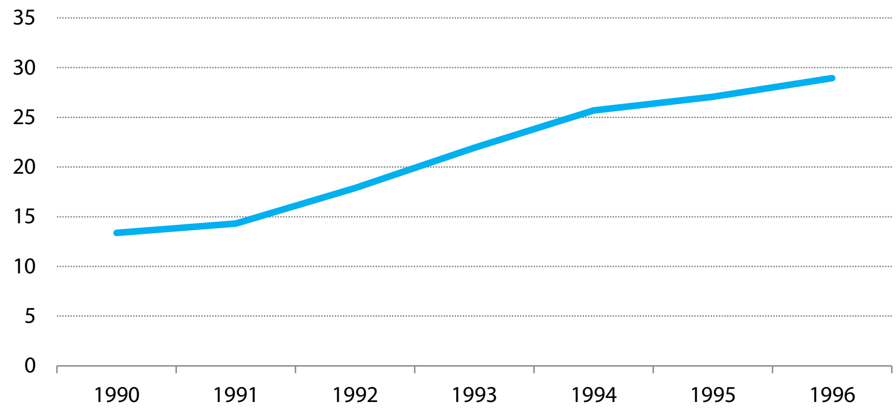
years, and the slow growth in own-source revenues throughout the government's term in office.

The combination of large spending increases and slow economic growth resulted in unprecedentedly large budget deficits in Ontario. As figure 3 illustrates, Ontario ran a small surplus in fiscal year 1989-90. In 1990-1991, Ontario returned to deficit spending, running a budget deficit of more than $2 billion. In the following year, the deficit increased substantially, totaling $10.9 billion and it remained above $9 billion each year for the rest of the NDP government's mandate.

Of course, the result of several large consecutive budget deficits was a marked increase in the province's net debt (a measure of indebtedness that adjusts for a province's financial assets), which grew from $37.7 billion in the 1990 fiscal year to over $86 billion in the 1995 fiscal year. The rising stock of debt combined with rising interest rates caused annual debt charges to increase, growing from $5.5 billion in the 1990-91 fiscal year to $9.7 billion in 1995-96. The much higher debt charges significantly increased the amount of money Ontario taxpayers paid to service the debt rather than to fund provide public services. By fiscal year 1996-97, interest payments were equal to 17.5 percent of all own-source revenues collected from Ontario taxpayers (Veldhuis and Palacios, 2012).

An alternative measure of debt is to compare the stock of net debt relative to the province's GDP. Figure 4 shows the run-up in Ontario's debt as a share of the provincial economy. Ontario's net debt-to-GDP ratio grew

Figure 4: Ontario net debt as a percentage of GDP



Sources: Statistics Canada, CANSIM Tables 385-0014 and 384-0038; and calculations by authors.

steadily throughout the NDP's term in office, increasing from 13.4 percent of GDP in fiscal year 1989-90 to 28.9 percent of GDP in fiscal year 1995-96.

The Ontario NDP's policy approach of high spending and tax increases during the early 1990s did not produce positive fiscal or economic outcomes for the province. To the contrary: the provincial government's policy choices resulted in poor economic performance which, in turn, led to anemic revenue growth. Fortunately, the Ontario NDP does not represent the only model of NDP fiscal management from which the new government in Alberta can draw.

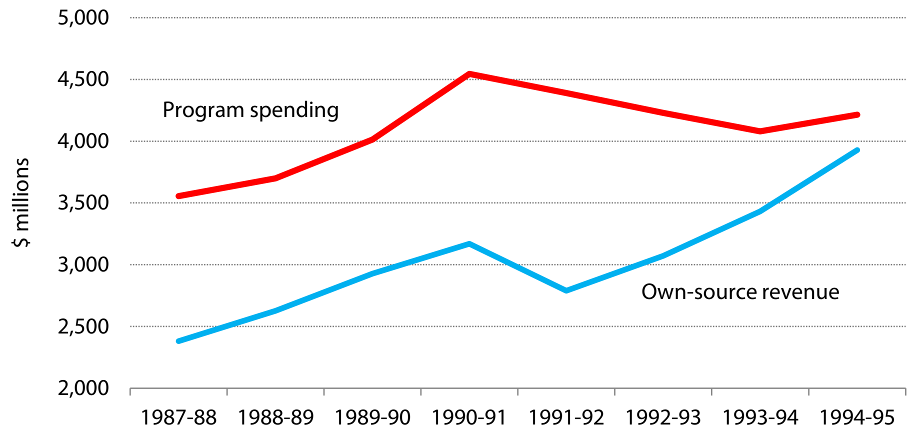
Path 2: Spending reductions and fiscal discipline under the Saskatchewan NDP in the early 1990s

In the early 1990s, the NDP government in Saskatchewan under Premier Roy Romanow, who took office in November of 1991, delivered one of the more fiscally prudent and successful provincial governments in recent Canadian history. His government restrained spending, kept deficits in check, and laid the foundation for the relative prosperity the province has enjoyed since. In fact, Romanow's NDP was the first government in the country to seriously respond to the public finance crisis that faced governments across the country during the early 1990s (Crowley et al., 2011). The Romanow government's successful spending reform efforts paved the way for other successful reform-minded governments during the decade, including those of Ralph Klein in Alberta, Mike Harris in Ontario, and Jean Chretien in Ottawa. Roy Romanow's NDP government provides the new NDP administration in Alberta with an alternative approach to fiscal management to consider.[3]

Saskatchewan's fiscal position at the start of its consolidation period was even worse than Ontario's at the same time (Drummond, 2011: ch. 2). The provincial net debt had reached 28 percent of GDP in fiscal year 1991-1992, an alarming increase of 11 percentage points from the previous year

[3] The NDP government in Saskatchewan in the early 1990s does not provide the only example of a fiscally prudent New Democratic provincial government. Gary Doer's NDP government in Manitoba also had a strong record in this area. Doer's government reduced taxes slightly while exercising greater spending restraint than most provinces were providing at the time. Doer maintained an average budget surplus of .05 percent of GDP during his tenure, contributing to a reduction in Manitoba's net debt from 31.4 percent of GDP when he took office to 24.2 percent of GDP at the end of his tenure. Doer's strong fiscal record was documented in a 2010 analysis ranking the fiscal performance of Canada's premiers. It placed Doer in 2nd place, behind only BC's Gordon Campbell (Lammam et al., 2010: 2).

Figure 5: Saskatchewan program spending and own-source revenue ($ millions) in the 1989-1995 fiscal years



Source: Finance Canada, F*iscal Reference Tables,* 2014.

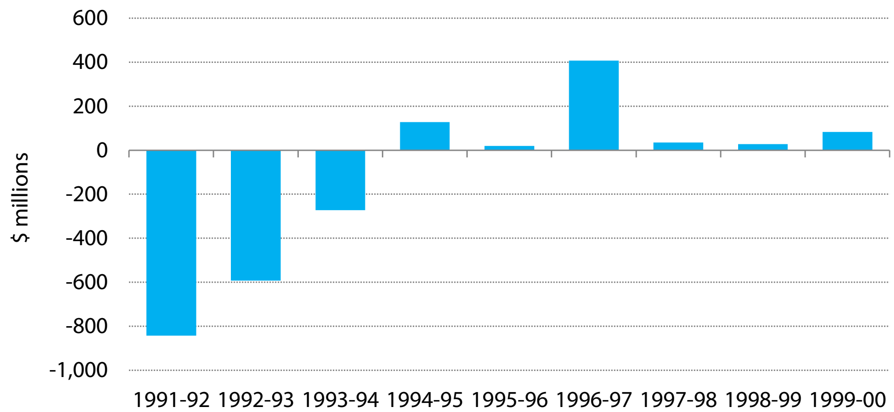
(Statistics Canada, 2015). The province was at the brink of insolvency and contingency plans were created in the event that the province was unable to raise money in foreign bond markets (Drummond, 2011: ch. 2).

Unlike the NDP in Ontario, however, the NDP government in Saskatchewan addressed the budget deficit immediately. It delivered year-to-year nominal spending cuts in three consecutive years, ultimately restoring the province to a balanced budget in fiscal year 1994-1995 for the first time since the 1981-1982 fiscal year. Figure 5 shows the run-up in nominal program spending in the province during the late 1980s and early 1990s, followed by the years of spending reductions and restraint in the early years of the NDP administration.

In each of the 1991-92, 1992-93, and 1993-94 fiscal years, nominal program spending in Saskatchewan fell by approximately three percent from the preceding year's level. By the 1993-94 fiscal year, spending had decreased by 10 percent from 1990-1991 levels. The government continued to exercise spending restraint in the following years, maintaining relatively modest levels of spending growth. As a result, Saskatchewan managed to hold nominal spending below the levels of the 1991 fiscal year for a full 7 years, finally exceeding 1991 program spending for the first time in the 1999 fiscal year (Finance Canada, 2014).

The NDP government used a wide range of tactics to restrain spending. In its first budget, the government enacted policies that led to the outright elimination of 20 programs and reduced public sector employment in the province by nearly 3 percent (Crowley et al., 2011). The government also reduced spending on social assistance by pursuing a new approach to

Figure 6: Saskatchewan deficit or surplus ($ millions) in the 1992-2000 fiscal years



Source: Finance Canada, F*iscal Reference Tables,* 2014.

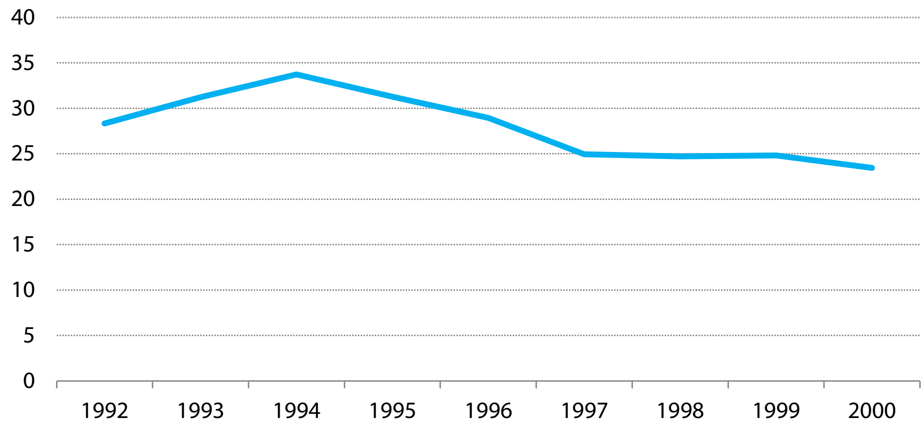
welfare policy, using earned income supplements and training initiatives to encourage social assistance recipients to re-enter the labour market (Drummond, 2011).

The government's spending reductions along with a series of tax increases[4] resulted in the elimination of an $845 million dollar budget deficit in just three years, two years ahead of the government's own timetable (see figure 6). The meaningful spending cuts in the early years of Roy Romanow's term, combined with the lengthy period of relatively restrained spending growth in the subsequent years, helped lay the foundation for the relative fiscal stability and prosperity that the province has enjoyed ever since. The spending reforms and restraint was sufficient to enable the province to continue to run surpluses throughout the rest of the decade, despite the fact that the federal government significantly reduced transfers to the province in the 1995-1996 fiscal year.

The effect of the NDP's fiscal restraint, coupled with strong economic performance, was a significant reduction in the province's dangerous public debt load over the course of their time in government. In the 1991-1992 fiscal year, the province's net debt as a percentage of GDP stood

[4] Roy Romanow referred to the combination of spending cuts and tax increases that were enacted as a deficit reduction strategy as "the Saskatchewan Way." However, although the government did raise taxes under Romanow, its restrained approach to spending and the resultant return to surpluses helped create the fiscal conditions that made possible the tax reforms of the late 1990s and early 2000s, which significantly reduced taxes in the province.

Figure 7: Saskatchewan's net debt as a percentage of GDP in the 1992-2000 fiscal years



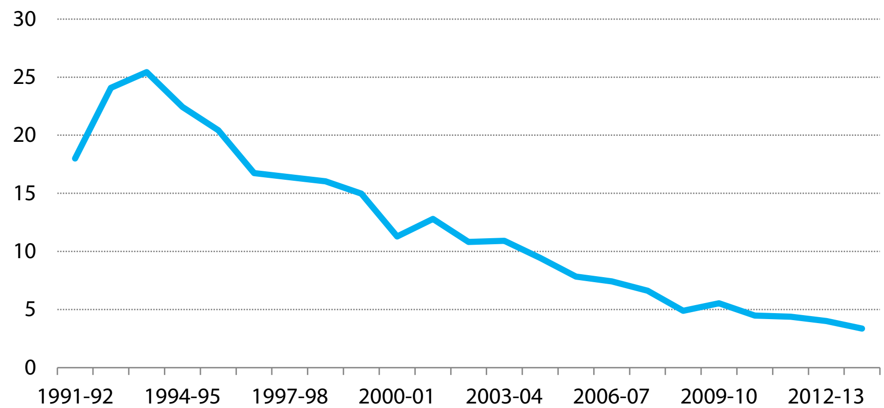
Sources: Finance Canada, *Fiscal Reference Tables*, 2014; FMS data; and calculations by authors.

at 28.3 percent of GDP. As the deficit shrank and eventually turned into a surplus, and as the economy grew, the province's net debt also began to drop to less precarious levels. As figure 7 illustrates, by fiscal year 2000, net debt as a percentage of GDP had shrunk to 23.5 percent.

This marked decrease in net debt has brought tangible benefits to Saskatchewan taxpayers, who have seen far fewer of their tax dollars spent on debt service payments than would have been the case in the absence of fiscal restraint in the early 1990s. In the 1992 fiscal year, debt servicing charges in Saskatchewan were equal to 18 percent of all own-source revenue collected in the province. By fiscal year 2001, thanks to a reduced debt load and lower interest rates, that figure had been reduced to 11.3 percent of own-source revenue (figure 8). In the 2013-2014 fiscal year, debt service charges were equal to just 3.4 percent of own-source revenues in Saskatchewan, reducing the burden of public debt for taxpayers and leaving more money available for public services. To put these figures in context, if debt services costs as a share of own-source revenue in 2013-2014 were at the same level as they were in fiscal year 1991-1992, those costs would have been approximately $1.4 billion more than was in fact the case ($331 million). The reduction in debt servicing costs relative to own-source revenue therefore saves approximately $1,120 annually for every resident of the province each year.

The Saskatchewan NDP's approach in the early 1990s of significant, repeated cuts in nominal spending followed by a sustained period of spending restraint represented a prudent approach to fiscal policy in the

Figure 8: Debt charges as a percentage of own-source revenue in Saskatchewan in the 1992-2014 fiscal years



Source: Finance Canada, F*iscal Reference Tables,* 2014.

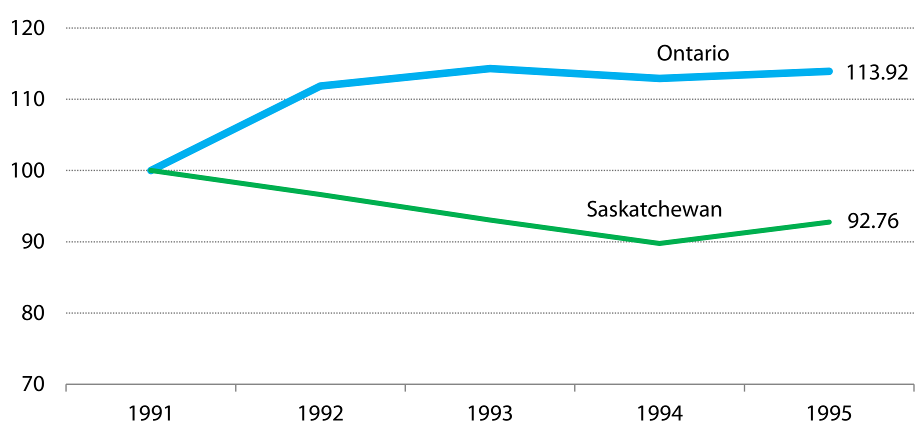
face of challenging financial circumstances. The result was a swift return to fiscal balance, a marked decline in net debt, and a reduction in the amount of money spent each year on debt service payments.

Directly comparing spending trajectories in Ontario and Saskatchewan in the early 1990s

Clearly, the New Democratic governments in Ontario and Saskatchewan took markedly different approaches to fiscal policy during the early 1990s, with markedly different outcomes. Figure 9 highlights the fundamental difference between the two approaches by comparing the trajectory of indexed nominal spending in the two provinces during this time period. The figure begins in fiscal year 1990-1991, with spending levels in that year set to an indexed level of 100. Spending in each subsequent year is shown relative to spending levels in the 1990 fiscal year.

Figure 9 shows that, despite entering office on the heels of an expansionary budget that increased spending substantially, nominal spending in Ontario increased by 14 percent between fiscal years 1991 and 1995. By comparison, in Saskatchewan, nominal spending decreased by 7.3 percent during the same period.

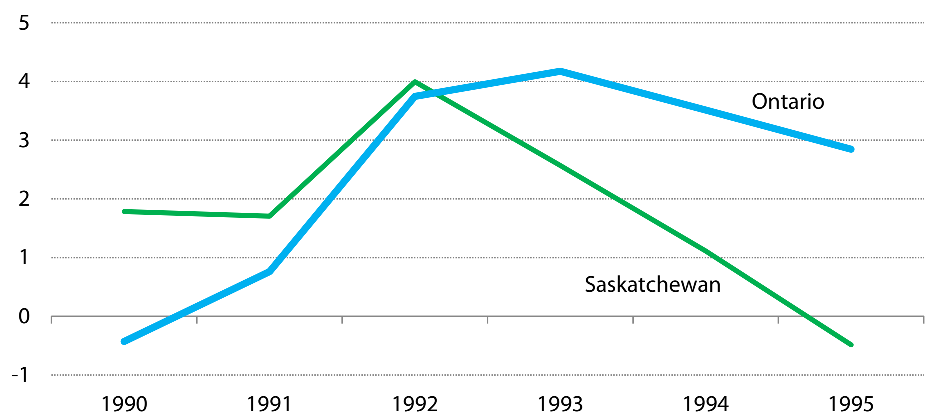
Figure 9: Indexed nominal spending in Saskatchewan and Ontario in the 1991-95 fiscal years



Sources: CANSIM Table 385-0001; Finance Canada, 2014; calculations by authors.

These two approaches produced distinctly different economic and fiscal outcomes, which continue to be felt. Figure 10 shows the evolution of budget deficits as a share of GDP in the two provinces during the early 1990s. Whereas Saskatchewan was able to eliminate its budget deficit by the 1995 fiscal year, Ontario continued to run large deficits of approximately 3 percent of GDP or higher throughout this time period. Of course, a number of different factors influence budget deficits, including economic growth and federal transfers. However, the different approaches by the two governments to public spending were major contributors to the divergent fiscal outcomes that the two provinces experienced, as documented in Figure 10.

Figure 10: Provincial budget deficits as a share of GDP in Ontario and Saskatchewan from fiscal years 1990 to 1995



Sources: Finance Canada, 2014; CANSIM Tables 385-0001 and 383-0049; and calculations by author.

Conclusion

Political branding is not an accurate predictor of a particular government's fiscal prudence. We have shown that governments sharing the same political label are capable of delivering very different approaches to financial management—and producing very different outcomes for taxpayers.

The history of Premier Notley's own party, the NDP, clearly demonstrates this point. The record of Roy Romanow's Saskatchewan government in the 1990s shows that a provincial NDP government is capable of providing prudent and frugal public management, tackling daunting fiscal challenges through sustained spending restraint. In addition, the Saskatchewan NDP established a fairly competitive economic environment for investment and economic growth through its tax relief and reform measures of the late 1990s and early 2000s, from which the province continues to benefit.

The record of Bob Rae's government in Ontario demonstrates a second, less prudent model of New Democratic governance based on rapid spending growth and large tax increases.

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 neighbours in Saskatchewan 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, unsustainable deficits, and reduced prosperity for Albertans in the years ahead.

References

Alberta (2015a). *Budget 2015 Fiscal Plan*. Government of Alberta.

Alberta (2015b). *Backgrounder on Alberta's Fiscal Situation*. Alberta Department of Finance. <http://finance.alberta.ca/publications/fiscal/spotlights/2015-0115-Backgrounder-on-Alberta-Fiscal-Situation.pdf>, as of May 20, 2015.

Boessenkool, Kenneth (2010). *Does Alberta Have a Spending Problem?* University of Calgary School of Public Policy. <http://www.policyschool.ucalgary.ca/?q=content/does-alberta-have-spending-problemBoessenkool>, as of May 20, 2015.

Clemens, Jason, Amela Karabegović, and Niels Veldhuis (2003). O*ntario Prosperity: Is Best of Second Best Good Enough?* Studies in Economic Prosperity, Number 1 (April). <http://www.fraserinstitute.org/research-news/display.aspx?id=13268>, as of June 3, 2015.

Crowley, Brian Lee, Jason Clemens, and Niels Velduis (2011). *The Canadian Century: Moving Out of America's Shadow*. Macdonald-Laurier Institute.

Drummond, Don (2011). Chapter 2: The Fiscal Challenge in Context. *Report of the Commission on the Reform of Ontario's Public Services.* Government of Ontario. <http://www.fin.gov.on.ca/en/reformcommission/chapters/ch2.html>, as of June 3, 2015.

Finance Canada (2014). *Fiscal Reference Tables, 2013-2014*. Government of Canada. <http://www.fin.gc.ca/frt-trf/2014/frt-trf-14-eng.asp>, as of May 22, 2015.

Johansson, Asa, et al. (2008). *Tax and Economic Growth*. Economics Department Working Paper No. 620. Organisation for Economic Co-operation and Development. <http://www.oecd.org/tax/tax-policy/41000592.pdf>, as of June 3, 2015.

Kneebone, Ronald (1994). Deficits and Debt in Canada: Some Lessons from Recent History. *Canadian Public Policy* XX (2): 152-164. <http://qed.econ.queensu.ca/pub/cpp/June1994/Kneebone.pdf>, as of June 3, 2015.

Lammam, Charles, Milagros Palacios, Amela Karabegović, and Niels Veldhuis (2010). *Measuring the Fiscal Performance of Canada's Premiers.* Studies in Budget & Tax Policy. Fraser Institute. <https://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/measuring-fiscal-performance-of-Canadas-premiers.pdf>, as of May 22, 2015.

Milke, Mark, and Milagros Palacios (2015). *Fumbling the Alberta Advantage*. Research Bulletin. Fraser Institute. <http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/fumbling-the-alberta-advantage.pdf>, as of May 22, 2015.

Murphy, Robert P. (2013). *What Economic Research Says about Fiscal Austerity and Higher Tax Rates*. Library of Economics and Liberty. <http://www.econlib.org/library/Columns/y2013/Murphytaxrates.html>, as of June 3, 2015.

Murphy, Robert P., Milagros Palacios, Sean Speer, and Jason Clemens (2014). *Comparing the Debt Burdens of Ontario and California*. Ontario Prosperity Initiative. Fraser Institute. <https://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/comparing-the-debt-burdens-of-ontario-and-california.pdf>, as of May 20, 2015.

Murrell, David, and Shaun Fantauzzo (2014). *New Brunswick's Debt and Deficits: A Historical Look*. Atlantic Institute for Market Studies. <http://www.aims.ca/site/media/aims/AIMS2014-NB%20Debt%20Study,%20Final%20(prepared%20for%20publication)(1).pdf>, as of May 20, 2015.

Paiken, Steve (2012). Bob Rae Was Right (But Before His Time). T*he Inside Agenda Blog*. TV Ontario. <http://theagenda.tvo.org/blog/agenda-blogs/bob-rae-was-right-his-time>, as of June 3, 2015.

Royal Bank of Canada (2015). C*anadian Federal and Provincial Fiscal Tables*. Royal Bank of Canada. <http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf>, as of June 3, 2015.

Wen, Jean-François (2015). *Ontario's Debt Balloon: Source and Sustainability*. Fraser Institute. <http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/ontarios-debt-balloon-source-and-sustainability.pdf>, as of June 3, 2015.

Veldhuis, Niels, and Milagros Palacios (2012). More Rae Days Ahead? *Fraser Forum* (May/June). <http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/articles/more-rae-days-ahead.pdf>, as of June 3, 2015.

About the authors

Ben Eisen

Ben Eisen is Senior Policy Analyst 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. Prior to joining the Fraser Institute, Mr. Eisen was the Director of Research and Programmes at the Atlantic Institute for Market Studies in Halifax. He also worked for the Citizens Budget Commission in New York City, and in Winnipeg as the Assistant Research Director for the Frontier Centre for Public Policy. Mr. Eisen 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*, the *Chronicle Herald*, the *Winnipeg Free Press* and the *Calgary Herald*.

Charles Lammam

Charles Lammam is Director of Fiscal Studies at the Fraser Institute. He has published over 50 studies and 200 original articles on a wide range of economic policy issues including taxation, government finances, pensions, investment, income mobility, labour, entrepreneurship, public-private partnerships, and charitable giving. His articles have appeared in every major national and regional newspaper in Canada as well as prominent US-based publications. He holds an MA in public policy and a BA in economics with a minor in business administration from Simon Fraser University.

Jason Clemens

Jason Clemens is the Executive Vice President of the Fraser Institute. 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 in US, Canadian, and international newspapers.

Acknowledgments

The authors would like to thank Milagros Palacios for assistance with the data and two unidentified reviewers for comments and insights that improved the paper substantially. Any remaining errors or oversights are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

Publishing information

Distribution

These publications are available from <http://www.fraserinstitute.org> in Portable Document Format (PDF) and can be read with Adobe Acrobat® or Adobe Reader®, versions 7 or later. Adobe Reader® XI, the most recent version, is available free of charge from Adobe Systems Inc. at <http://get.adobe.com/reader/>. Readers having trouble viewing or printing our PDF files using applications from other manufacturers (e.g., Apple's Preview) should use Reader® or Acrobat®.

Ordering publications

To order printed publications from the Fraser Institute, please contact:

- e-mail: sales@fraserinstitute.org
- telephone: 604.688.0221 ext. 580 or, toll free, 1.800.665.3558 ext. 580
- fax: 604.688.8539.

Media

For media enquiries, please contact our Communications Department:

- 604.714.4582
- e-mail: communications@fraserinstitute.org.

Copyright

Date of issue

June 2015

ISBN

978-0-88975-359-4

Citation

Ben Eisen, Charles Lammam, and Jason Clemens (2015). *Fiscal Policy Lessons for Alberta's New Government from other NDP Governments*. Fraser Institute. <http://www.fraserinstitute.org>.

Cover design

Monica Thomas, Foothills Graphics

Supporting the Fraser Institute

To learn how to support the Fraser Institute, please contact

- Development Department, Fraser Institute
  Fourth Floor, 1770 Burrard Street
  Vancouver, British Columbia, V6J 3G7 Canada
- telephone, toll-free: 1.800.665.3558 ext. 586
- e-mail: development@fraserinstitute.org
- website: <http://www.fraserinstitute.org/support-us/overview.aspx>

Purpose, funding, and independence

The Fraser Institute provides a useful public service. We report objective information about the economic and social effects of current public policies, and we offer evidence-based research and education about policy options that can improve the quality of life.

The Institute is a non-profit organization. Our activities are funded by charitable donations, unrestricted grants, ticket sales, and sponsorships from events, the licensing of products for public distribution, and the sale of publications.

All research is subject to rigorous review by external experts, and is conducted and published separately from the Institute's Board of Trustees and its donors.

The opinions expressed by authors are their own, and do not necessarily reflect those of the Institute, its Board of Trustees, its donors and supporters, or its staff. This publication in no way implies that the Fraser Institute, its trustees, or staff are in favour of, or oppose the passage of, any bill; or that they support or oppose any particular political party or candidate.

As a healthy part of public discussion among fellow citizens who desire to improve the lives of people through better public policy, the Institute welcomes evidence-focused scrutiny of the research we publish, including verification of data sources, replication of analytical methods, and intelligent debate about the practical effects of policy recommendations.

About the Fraser Institute

Our mission is to improve the quality of life for Canadians, their families, and future generations by studying, measuring, and broadly communicating the effects of government policies, entrepreneurship, and choice on their well-being.

Notre mission consiste à améliorer la qualité de vie des Canadiens et des générations à venir en étudiant, en mesurant et en diffusant les effets des politiques gouvernementales, de l'entrepreneuriat et des choix sur leur bien-être.

Peer review—validating the accuracy of our research

The Fraser Institute maintains a rigorous peer review process for its research. New research, major research projects, and substantively modified research conducted by the Fraser Institute are reviewed by experts with a recognized expertise in the topic area being addressed. Whenever possible, external review is a blind process. Updates to previously reviewed research or new editions of previously reviewed research are not reviewed unless the update includes substantive or material changes in the methodology.

The review process is overseen by the directors of the Institute's research departments who are responsible for ensuring all research published by the Institute passes through the appropriate peer review. If a dispute about the recommendations of the reviewers should arise during the Institute's peer review process, the Institute has an Editorial Advisory Board, a panel of scholars from Canada, the United States, and Europe to whom it can turn for help in resolving the dispute.

Editorial Advisory Board