# Post-boom Spending in Alberta:
## A $41 Billion Splurge and Lost Opportunities

by Mark Milke

# Contents

# Executive summary

The province of Alberta substantially increased program spending after 2004/05, beyond the combined effect of inflation plus population growth. The result was that in subsequent years (2005/06 to 2012/13 inclusive), the province spent $300.5 billion—$41 billion more on programs beyond what was necessary to keep up with population growth and inflation.

It is not clear that such extra program spending had to occur. By 2004/05, program spending in Alberta, on a per-capita basis, had already returned to where it was in the early 1990s. Specifically, program spending amounted to $8,978 in 1993/94, declined to $6,828 by 1996/97, and rose to $8,965 by 2004/05. (In subsequent years, per-capita program spending rose even higher, to $10,672 by 2012/13.) Thus, by 2004/05, Alberta once again spent as much per capita on programs as it did before provincial government budget reductions in the mid-1990s. In other words, Alberta's era of austerity was long over.

Given that there is always competition for tax dollars, this report asks what fiscal room might have been created had the province of Alberta only increased program spending in line with inflation and population growth since 2004/05. It then demonstrates what such fiscal prudence would have meant for other opportunities, such as capital spending, tax relief, and deposits into the Alberta Heritage Savings Trust Fund.

On the first comparison, the provincial government spent $50 billion on capital projects between 2005/06 and 2012/13. The province has also asserted that more might have been needed, and might yet need, to be spent. Without analyzing that claim, even if wholly accurate, it is clear that the province missed an opportunity to spend more on capital projects when it instead spent the extra $41 billion on programs.

In a second comparison, personal income tax collections amounted to $67.5 billion between 2005/06 and 2012/13. Thus, 61 percent (i.e., $41 billion) of all the personal income tax collected from Albertans in that period went to program spending that was in excess of population growth and inflation. The province missed an opportunity for tax relief.

In a third comparison, between 2005/06 and 2012/13, the province deposited just $4.5 billion into the Alberta Heritage Savings Trust Fund. The province could have deposited nine times that amount ($41 billion) had it not engaged in above-inflation, above-population growth extra spending on the program side of the provincial budget.

In summary, had the province not spent the extra $41 billion on programs—in a manner that far exceeded what was necessary to account for the combined effect of population growth and inflation—then significant funds would have been available for capital expenditures, or personal income tax relief, or extra deposits into the Alberta Heritage Savings Trust Fund, or some combination of the three opportunities.

In past reports from this author, the question of the budgetary balance was analyzed. This was done with an eye to calculating how restrained program spending would have affected the budget balance (i.e., by adding to an existing surplus or avoiding a deficit year). In contrast, the assumption in this report is that all $41 billion in fiscal room might and would have been used in some fashion other than for additional program spending beyond inflation and population growth. That means that regardless of how the $41 billion was divvied up—extra capital spending, or tax relief, or extra deposits into the Heritage Fund—the underlying balance in each year would have remained the same.

Ultimately, regarding allocations between the aforementioned options, the comparative benefits of one over another will be analyzed and presumably debated. Previous Fraser Institute reports as well as those from other organizations have done just that. In this report, though, which is meant to illustrate at least a few options vis-à-vis Alberta's chosen fiscal course, one recommendation flows from an examination of past practices by the provincial government: If the province of Alberta wishes to create extra fiscal room for additional capital expenditures, tax relief, additional deposits into the Heritage Savings Trust Fund, or some combination of the three options, restraining program expenditures would allow for such fiscal flexibility.

# The focus of the study: Alberta's missed opportunities

This report will look at Alberta's past program spending to see if fiscal room could have been carved out to make room for other priorities, namely capital spending, tax relief, deposits into the Alberta Heritage Savings Trust Fund ("Heritage Fund"), or some combination of the three opportunities. It will first assess program spending by illustrating its two-decade trajectory (all figures adjusted for inflation) in total and in per-capita terms.[1] It will then compare such spending with capital spending. This comparison will be followed by two more: with personal income tax collections, and with Heritage Fund deposits.

On program spending, the initial look back over twenty years places present per-capita program spending in some historical context. After that, the 2005/06 to 2012/13 years are chosen for a comparison between program spending and other possible budget choices because by the base year in this analysis (2004/05), Alberta once again spent as much per capita on programs as it did before provincial government budget reductions in the mid-1990s. The era of austerity was, empirically, demonstrably over by 2004/05.

The years chosen for analysis also allow for a "what if?" comparison on spending trajectories just as the provincial government was about to peak in terms of resource and own-source revenues (Milke 2013a).[2] So it is helpful to inquire in this manner: What if the province had increased program spending *after* 2004/05 (i.e., between 2005/06 and 2012/13) but *only* for the combined effect of inflation plus population growth?

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1. Readers unfamiliar with per-capita measurements should understand that such measurements account for population growth and, when combined with inflation adjustments, allow for apple-to-apple measurements over the period surveyed. Thus, with regards to program spending, such a measurement addresses the assertion that because a province has a growing population, spending "of course" must increase, given the need for more teachers, doctors and the like. Indeed, and the per-capita measurement (adjusted for inflation) reveals if spending has lagged or leapfrogged population growth in the jurisdiction that is measured.
2. Provincial fiscal years run from April 1 to March 31.

As this is not a value-for-money study, it should not be assumed that the growth in tax dollars spent on programs over and above population growth and inflation during the period examined was "wasted" or did not have some beneficial effect. This report makes no such judgment call. Ultimately, in order to allocate between the various fiscal options, their comparative benefits are useful to analyze. The critical point is that choices are not unlimited, and thus spending one taxpayer dollar in one place prevents a different expenditure choice—capital spending, or tax relief, or a Heritage Fund deposit—somewhere else. The point of a retrospective analysis is that it helps to consider the cost of past choices in attempts to inform future fiscal priorities.

## Data sources

The data for this report is drawn mostly from Alberta government annual reports and Alberta Heritage Savings Trust Fund annual reports (Alberta 2011, 2013, 2014a, 2014b). All numbers have been adjusted for inflation and, where applicable, for population growth, in order to make apple-to-apple comparisons. The data for those calculations came from Statistics Canada (2014a, 2014b). Thus, the sources for most of the data within this report will not be repeated after this point, as the above citations apply to the entire report. Other citations in addition to the above will be noted in the report as needed.

## The study in context: past work on Alberta's fiscal record

This study is the latest in a series of reports published by the Fraser Institute that examine how the Alberta government has prioritized and could yet prioritize its spending. In 2011, the Institute published an analysis that examined the rhetoric surrounding Alberta's budgets. The analysis concluded that in the recent discourse over budgets, justifications for above-inflation and above-population growth program spending, increased capital spending, borrowing, and deficits were similar to the discourse in the later 1980s and early 1990s, when the last string of budget deficits appeared (Milke, 2011). In 2012, Alberta's net financial assets were examined and the findings were that the province had experienced a decline of $17.7 billion over the previous four-year period (Angevine and Milke, 2012).

In 2013, the Institute published a report that concluded that, had Alberta's provincial government held program spending increases to the rate of inflation plus population growth since 2005/06, the province would have spent $22.1 billion less cumulatively than it did (Milke 2013a); that between the 2006/07 fiscal year and 2012/13, Alberta's net fiscal position had declined by $22.4 billion (Milke, 2013b); and that, over the previous decade, Alberta public sector pension plans—where the employer portion was funded in part or wholly by the provincial government—resorted to continual hikes in contribution rates for employers and employees rather than reforming the benefit side of defined benefit pensions in the wider public sector (Milke and Lang, 2013: 20–22).[3]

Finally, also in 2013, and also relevant to the provincial budget, public sector compensation was examined. The analysis found that the average public sector wage in Alberta was 10.3 percent higher than the compensation for comparable private sector occupations, after controlling for relevant factors such as age, gender, marital status, education, tenure, size of firm, type of job, and industry (Clemens and Karabegovic, 2013).

All of these studies highlighted the choices available to the provincial government over recent years. They also drew attention to the side of the budget ledger often overlooked by the provincial government in its public discourse and in public debates over balance: the spending side.

This study continues on that path. It will look at the relationship between provincial government program spending and other choices: capital spending, tax relief, and deposits into the Heritage Fund. It will examine fiscal resources that might have been available for these other options had program spending risen over the years but with growth limited to the combined effect of population growth plus inflation.

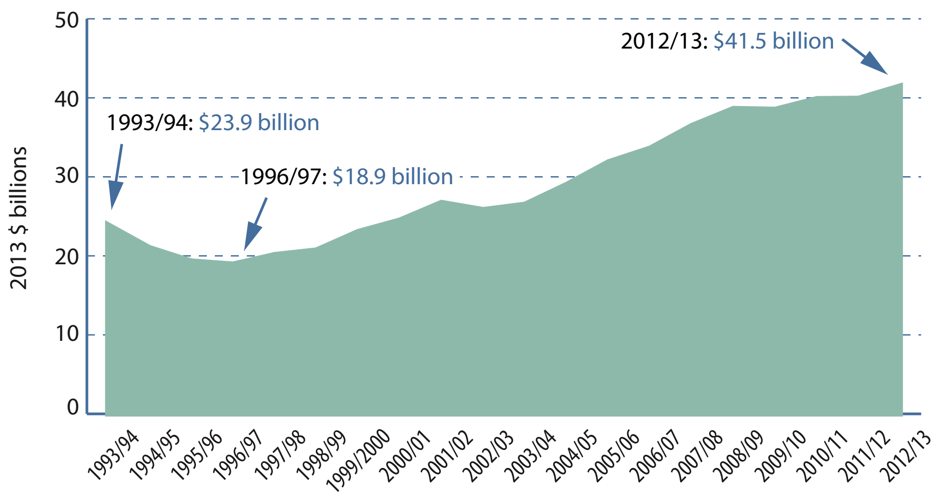
3. The end result in terms of above-inflation and above-population growth figures will vary depending on the base year chosen for analysis. In the previous study, 2005/06 was chosen as the base year for comparisons, so calculations of "what if" projections for spending with inflation and population thus had an effect on the data in 2006/07. In this report, 2004/05 is chosen for reasons noted in the main text (on a per-capita basis, Alberta was back to pre-restraint program spending), and thus the first hypothetical year is 2005/06.

# Findings

- Adjusted for inflation, total provincial program spending was $23.9 billion in 1993/94. That declined to $18.9 billion by 1996/97 and rose to $41.5 billion by 2012/13 (**figure 1**).[4]

- Adjusted for inflation, total provincial program spending *per capita* amounted to $8,978 in 1993/94, declined to $6,828 by 1996/97, and rose to $8,965 by 2004/05 and to $10,672 by 2012/13 (**figure 2**).

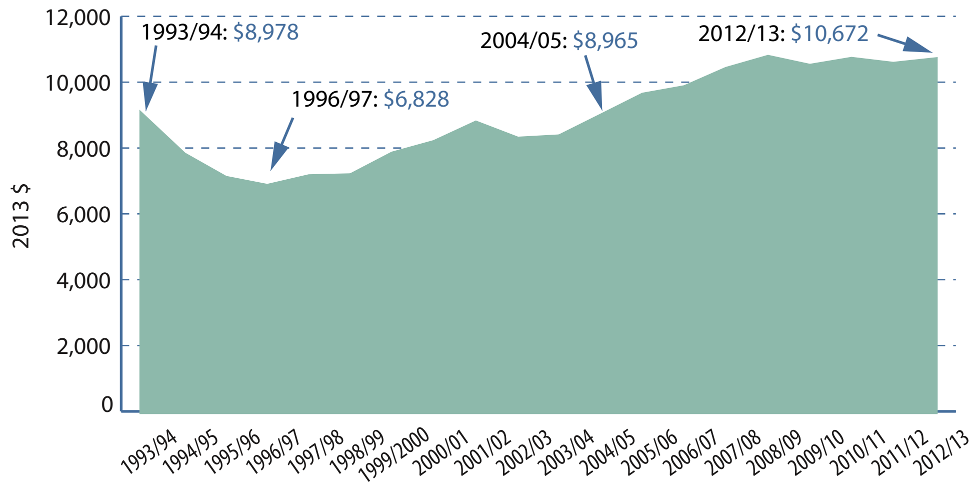
**Figure 1: Alberta program spending, 1993/94–2012/13**




Sources: Alberta (2011, 2013); Statistics Canada (2014a, 2014b).

4. A previous report (Milke, 2013a) showed that social service and health care costs exceeded inflation and population growth by 26.1 percent and 25.3 percent respectively and were the two main drivers of the budget increases.

**Figure 2: Alberta per-capita program spending, 1993/94–2012/13**




Sources: Alberta (2011, 2013); Statistics Canada (2014a, 2014b).

## What if program spending was held to population growth and inflation since 2004/05?

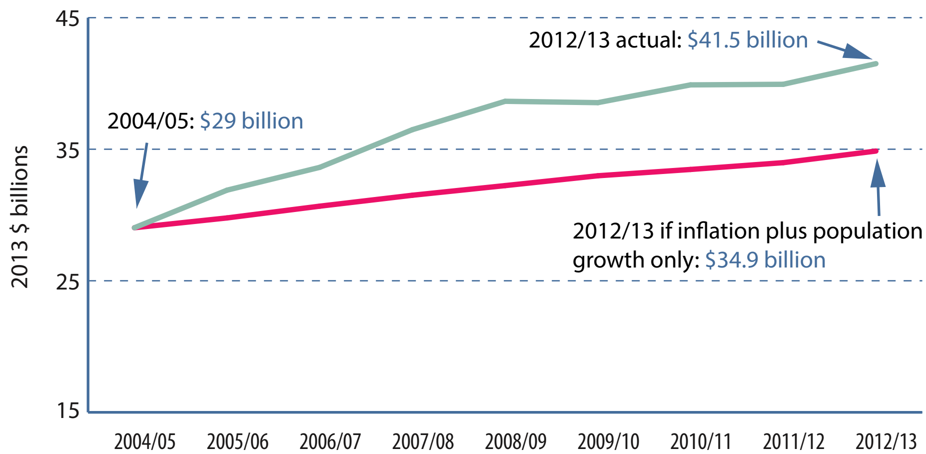
The provincial government reduced program spending in the mid-to-late 1990s under then-Premier Ralph Klein. However, after the lowest year for such expenditures (1996/97), measured either in total dollars spent or in per-capita dollars, spending increased, after accounting for inflation and population, i.e., in real dollars. By 2004/05, the province was spending annually, in real per-capita terms, what it spent in Alberta's pre-restraint days.

Thus a useful question to ask and analyze is: What would Alberta's program spending look like had the government increased spending after 2004/05 but restricted those spending increases to the combined effect of inflation plus population growth ever since?

Program spending amounted to $29.0 billion in 2004/05 (**figure 3**). Had the government increased spending since that year in line with inflation and population growth, the provincial government would have spent $34.9 billion in 2012/13. In reality, during this period the province spent significantly more than what the combination of inflation and population growth would require. By 2012/13, the province was spending $41.5 annually on programs. The difference between what was necessary to keep up with inflation and population growth and what was being spent amounted to $6.6 billion annually as of 2012/13.

In total, between 2005/06 and 2012/13 inclusive, the provincial government spent $300.5 billion—$41.0 billion more on programs than was warranted by population growth and inflation. Choices are not unlimited, and thus the spending that did occur foreclosed other opportunities. Those opportunities included capital spending, tax relief, Heritage Fund deposits, or some combination of the three; it is those other opportunities to which this report now turns.[5]

**Figure 3: Alberta program spending since 2004/05, actual versus held to population growth plus inflation**




Sources: Alberta (2011, 2013); Statistics Canada (2014a, 2014b).

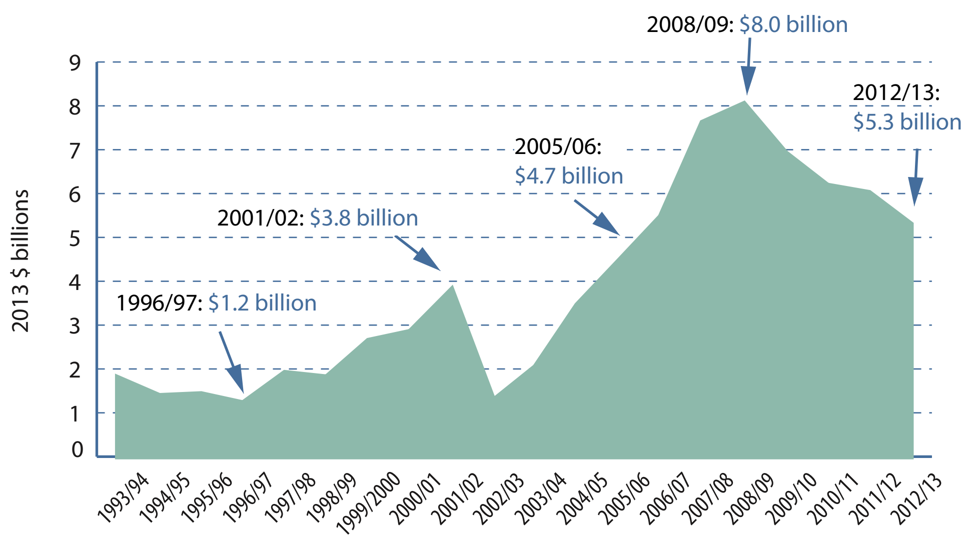
5. Again, the assumption in this report is that all $41-billion in fiscal room might and would have been used in some fashion other than for additional program spending beyond inflation and population growth. Thus, the underlying budgetary balance in each year would have remained the same.

## Capital spending[6]

Over the last several years, much attention has been paid to capital spending in Alberta, which is understandable given the high in-migration numbers from other Canadian provinces and abroad. Such in-migration has meant a need for additional schools, hospitals, and other infrastructure, the capital budgets of which are most often funded by the provincial government.

On capital spending, the late Premier Ralph Klein, who served from December 1992 to December 2006, has occasionally been cited as having left an "infrastructure deficit," an assertion that came from former premier Alison Redford (Wingrove, 2013). Provincial budget documents have made the same claim. Data from the province shows that the lowest year for capital spending in the last two decades occurred in 1996/97 ($1.2 billion) with the highest capital expense year in 2008/09 ($8.0 billion). In a 2012 *Backgrounder*, the province noted that, on average, $3 billion was spent annually on infrastructure over the previous two decades. (As of this report, the average annual

**Figure 4: Alberta capital spending, 1993/94–2012/13**




Sources: Alberta (2011, 2013); Statistics Canada (2014a, 2014b).

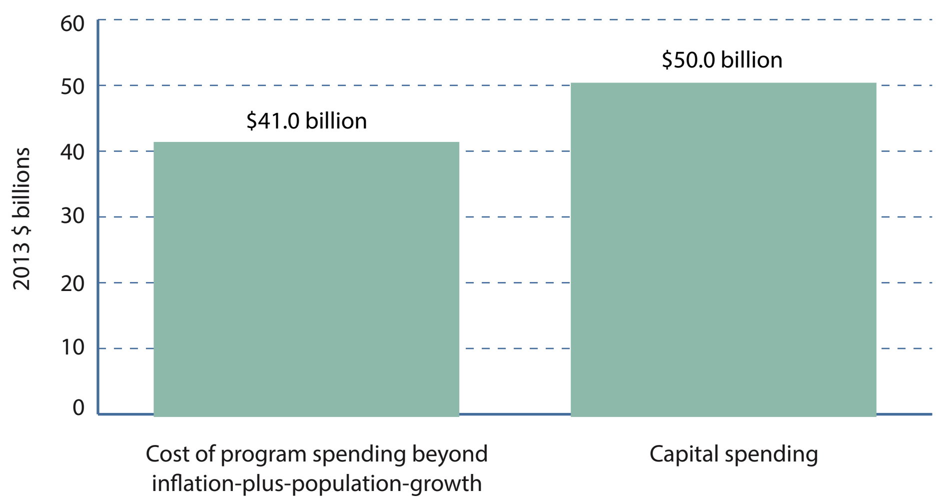
6. Provincial government capital spending in Alberta is accomplished through the Capital Plan which, as the province notes in its annual report, "[r]eflects capital grants and other support included in expense, and capital investment in government-owned assets not included in expense. Capital investment adds to capital assets, which are depreciated over time through amortization expense" (Alberta, 2013: 22). The province includes the following in its definition of capital: land; buildings; computer hardware and software; equipment; "other"; land improvements; provincial highways, roads and airstrips; bridges; and dams and water management structures (Alberta, 2013: 65).

expenditure incurred was $3.8 billion between 1993/94 and 2012/13.) The province has also noted that demands for capital spending will grow, and thus "It is uncertain whether Alberta's current capital plan targets will be sufficient to address all of these needs" (Alberta, 2012: 1).

## Program spending compared with capital spending

This report does not wade into the debate over the "proper" amount to be spent on capital projects. It instead focuses on foregone opportunities for the $41 billion extra in program spending. Thus, the first comparison is between program spending and capital spending. Between 2005/06 and 2012/13 inclusive, $50.0 billion was spent on capital projects (**figure 5**). Without analyzing whether the claim of even more needed capital spending was accurate, the province missed an opportunity to spend more on capital projects when it instead spent the extra $41 billion on programs.

**Figure 5: Extra program spending versus capital spending, 2005/06–2012/13**

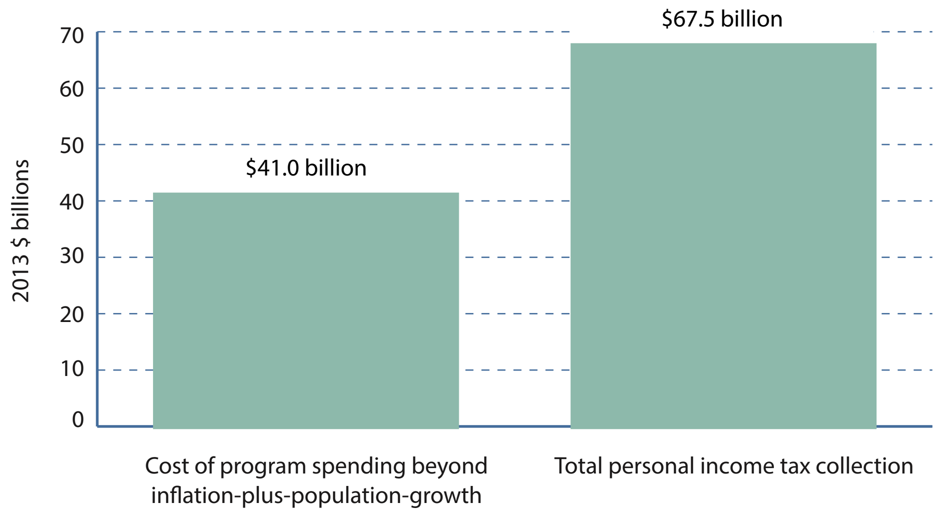



Sources: Alberta (2011, 2013); Statistics Canada (2014a, 2014b).

## Program spending compared with income tax collections

Another missed opportunity was personal tax relief. The province collected $67.5 billion in personal income tax over that eight-year period (**figure 6**). The above-population and above-inflation program spending ($41.0 billion) then was equivalent to 61 percent of all provincial personal income tax revenues during that period. Redirecting part of that extra $41 billion to tax relief was thus another policy road not taken.

**Figure 6: Extra program spending versus personal tax receipts, 2005/06–2012/13**

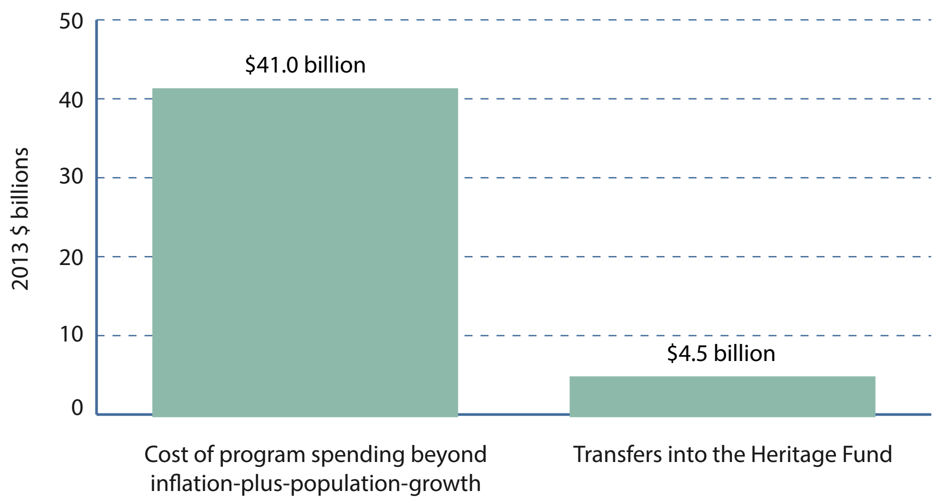



Sources: Alberta (2011, 2013); Statistics Canada (2014a, 2014b).

## Program spending compared with deposits into the Heritage Fund

Regular deposits into the Alberta Heritage Savings Trust Fund were yet another opportunity foregone in recent years. Between 2005/06 and 2012/13, the province deposited $4.5 billion into the Heritage Fund (including regular deposits and Advanced Education endowments).[7] In this example, had the province not engaged in above-population and above-inflation program spending since the mid-point of the last decade, the province could have deposited more than nine times ($41 billion) the amount it did deposit into the Heritage Fund ($4.5 billion) in the same period (**figure 7**). It is yet another example of a foregone opportunity.

**Figure 7: Extra program spending versus transfers to Heritage Fund, 2005/06–2012/13**




Sources: Alberta (2011, 2013); Statistics Canada (2014a, 2014b).

7. The province also withdrew money from the Heritage Fund and transferred it to general revenues—$7.4 billion over the same period, which more than nullified the $4.5 billion in deposits. The province also allows the Fund to retain some earnings (enough to inflation-proof the Fund). However, given that the money allowed to be retained is already in the Heritage Fund it cannot be counted as a deposit.

# How the province might have curbed spending: lessons for the future

The three examples—capital spending, tax relief, and Heritage Fund deposits—are all illustrations of opportunities foregone by the province. The provincial government chose to spend in excess of the combined effect of inflation and population growth and so sacrificed options for more capital spending, tax relief, or Heritage Fund deposits.

As for how the province might have spent less during that period, several answers are available, found in past choices. They are relevant to future budget choices yet to be made by the provincial government. It seems clear that much of the above-inflation, above-population growth in spending can be traced to the public sector and how it has swallowed extra revenues available to the province.

Kenneth Boessenkool and Ben Eisen (2012) found that since 2000, increases in public sector compensation costs consumed "95 percent of the increase in provincial revenues over the past decade." They concluded that public sector wages previously at par with such wages across the country "are now higher (in many cases very substantially) across all public sector categories" (Boessenkool and Eisen, 2012: 1).

As noted by Amela Karabegovic and Jason Clemens, public sector workers located in Alberta enjoyed, on average, a 10.3 percent wage premium over private sector colleagues,[8] based on Labour Force Survey data from Statistics Canada and once relevant factors (such as education, length of time in the workforce, and others) were controlled for (Karabegovic and Clemens, 2013).

This matters because there are other costs associated with the public sector, and factors which are more prevalent in that sector. In Alberta, public sector workers retire two years earlier on average than private sector workers. They are also more likely to be covered by a registered pension plan—81

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8. Note that the wage premium is an average across the entire public sector in Alberta—federal, provincial, and municipal. Figures for just provincial public sector workers were not available from Statistics Canada.

percent in the public sector compared to just 21 percent in the private sector (Karabegovic and Clemens, 2013: 18).

Importantly, for those who look towards future budgets, such plans are normally of the defined benefit variety[9] and thus can require additional and special contributions from taxpayers. In the past, increasing liabilities have had consequences. For example, in 2002/03, the province made what was supposed to be a one-time payment of $60-million (in nominal dollars) towards what is known as the “pre-1992” Teachers’ Pension Plan (the Teachers’ Pension Plan is in two separate entities—pre and post-1992) (Alberta, 2003: 42). However, in 2009/10, the Alberta government paid another $1.2 billion (nominal) in a special payment towards the unfunded pre-1992 shortfall in the Teachers’ Pension Plan (Alberta, 2010: 61).

## Implications for spending

Such figures matter, as program spending is difficult to rein in given that a substantial portion of it is tied closely to wages, salaries, benefits, and pensions in the broad public sector, which are often negotiated on a multi-year basis.

In Alberta, the province has not estimated the cost of compensation (wages, salaries, benefits, and pensions) in the entire (broader) public sector as a percentage of program spending. However, some insight into the probable weight that public sector compensation imposes on overall spending can be gleaned by looking at Ontario. The Commission on the Reform of Ontario’s Public Services has noted that “labour costs account for about half of all Ontario government program spending” across the broader public sector (Ontario, 2012: 52). Assuming some comparability between provinces with respect to the portion of spending consumed by compensation, roughly half of Alberta’s program spending could be comprised of public sector worker pay and benefits.

Ultimately, to choose among the options noted in this report (as well as others not cited), it is useful for the comparative benefits of one option over another to be analyzed, a process performed in past reports by the Fraser Institute as well as others. One recommendation does flow from an examination of the past fiscal choices chronicled here: If the province wishes to spend more on capital projects in the future, or offer tax relief, or make substantial deposits into the Heritage Fund, or some combination of the three, more carefully controlled program expenditures would allow for such choices—such fiscal flexibility, in future years.

9. In Alberta, of those who have a registered pension plans, 97 percent of public sector plans are defined benefit plans whereas just 43 percent of private sector plans are defined benefit plans (Karabegovic and Clemens, 2013: 18).

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Mr. Milke is a Saturday columnist for the *Calgary Herald* and his columns also appear in the *National Post*, *Globe and Mail*, *Reader's Digest*, *Edmonton Journal*, *Montreal Gazette*, *Vancouver Sun*, BC's *The Province*, Victoria's *Times Colonist*, and the Sun newspaper chain. Mr. Milke has a Master's degree from the University of Alberta, where his M.A. thesis analyzed human rights in East Asia; he also has a Ph.D. in Political Science from the University of Calgary, where his doctoral dissertation analyzed the rhetoric of Canadian-American relations. Mr. Milke is chairman of the editorial board of Canada's Journal of Ideas *C2C Journal*, president of Civitas, and a past lecturer in Political Philosophy and International Relations at the University of Calgary.

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