

# Race to the Bottom: Comparing the Recent Deficits of Alberta and Ontario

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## SUMMARY

■ Alberta's public finances are deteriorating rapidly, with the provincial government set to run a cumulative budget deficit of \$27.6 billion over the three-year period from 2015/16 to 2017/18.

■ Until recently, by far the largest deficits of any province since the turn of the century were those run by Ontario in the years during and following the financial crisis of 2008/09. From 2009/10 to 2011/12, Ontario ran a cumulative budget deficit of \$3,864 per person (in 2015 dollars).

■ Alberta's current string of budget deficits are substantially larger than Ontario's during that period. Between 2015/16 and 2017/18, Alberta's cumulative budget deficit will be \$6,385 per person (\$2015 dollars).

■ When we compare the budget deficits relative to the size of the provincial economies, Alberta's current deficits are still larger than those run by Ontario during the years following the financial crisis.

■ Alberta entered 2015/16 with no net debt at all. However, due to the size of current budget deficits and the resulting rate of debt accumulation, Alberta's debt levels are rapidly converging with Ontario's. In 2014/15, Ontario's net debt per person was \$24,256 larger than Alberta's. In 2018/19, that gap is expected to have shrunk to \$14,597 (both in 2015 dollars). In other words, about 40 percent of the per-capita debt gap between Alberta and highly indebted Ontario will have been wiped out in just five years.

# Comparing Recent Deficits of Alberta and Ontario

## Introduction

It is widely known that Alberta is currently running large budget deficits. In fiscal year 2015/16, the province ran a \$6.4 billion operating deficit. The recently released provincial budget showed that Alberta ran a deficit of \$10.8 billion in 2016/17 and is projected to run another deficit of \$10.3 billion in 2017/18. This means that over the first three fiscal years of the new government, the province will have run a cumulative budget deficit of \$27.6 billion.

This paper provides some historical context for understanding the size of Alberta's current deficits and the severity of the resulting fiscal challenges by comparing them with budget deficits incurred by other Canadian provinces in recent years.

Specifically, we compare the forecasted cumulative budget deficit in Alberta for the period ending in 2017/18 to the worst three-year cumulative budget deficits incurred by all other large Canadian provinces since 2000. The year 2000 is chosen as the starting point for this analysis because it was by that point that the provincial governments of Canada had essentially completed the fiscal consolidation process of the 1990s, and cumulatively, the provincial governments had returned to a balanced budget.

The paper begins by providing a brief overview of recent Canadian fiscal history, quickly summarizing the steps taken in the 1990s by provincial governments to eliminate large budget deficits. Until recently, these fiscal consolidations have been understood as a turning point in Canadian history—the point at which large, sustained budget deficits became a thing of the past.

The fiscal consolidations of the 1990s did not, however, altogether mark the end of budget deficits at the provincial level. Provinces have continued to run deficits (although smaller

ones than in the years prior to the consolidation) at various points, particularly during economic downturns. In the second section of this report, we present the largest three-year cumulative deficit for each of the large Canadian provinces. This section provides context on the recent fiscal history of the Canadian provinces, showing the size of typical budget deficits during economic downturns in the years following the fiscal consolidations of the 1990s.

In the next section, the paper compares the current run of deficits in Alberta to the most severe run of deficits previously experienced by any large province since the fiscal consolidation of the 1990s—Ontario in the years during and after the financial crisis of 2008/09.

Finally, before briefly concluding, the paper discusses how the province's persistent deficits have led to substantial debt accumulation, and how accumulating provincial debt can harm the long-term prospects of Alberta's economy.

## How provinces tackled their fiscal challenges during the 1990s

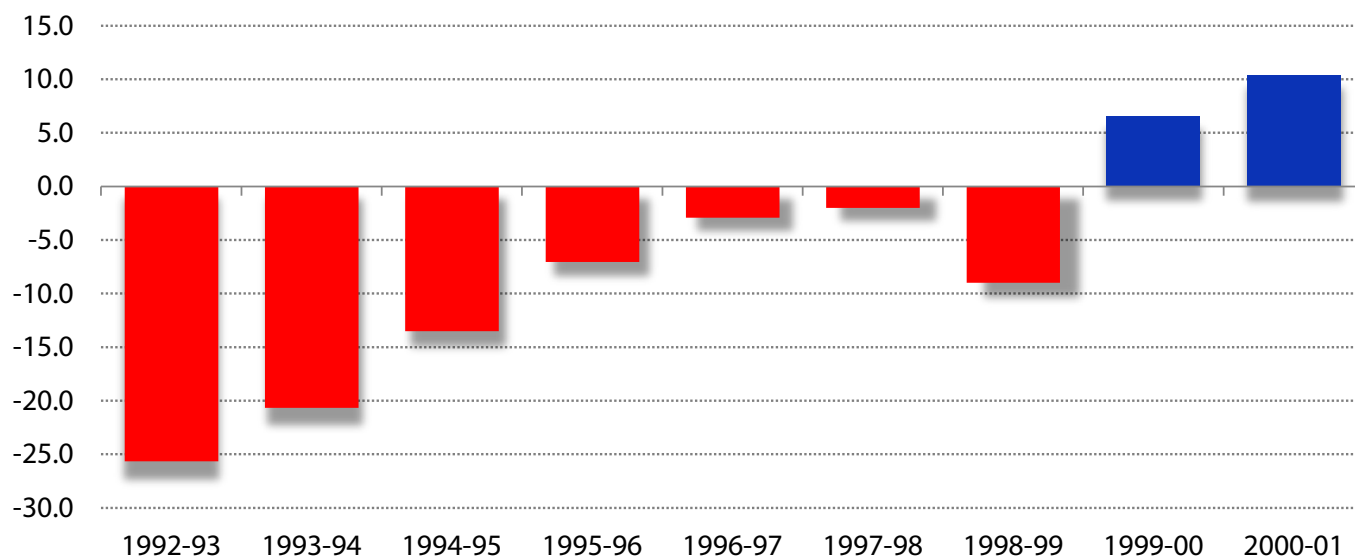
Many Canadian provinces experienced significant financial distress during the 1990s, marked by persistent deficits. The total net operating deficit for all provinces peaked at \$25.7 billion in the 1992/93 fiscal year (Statistics Canada, 2017g). Deficits at both the provincial and federal levels took a substantial toll on Canada's public finances. By 1995, combined provincial/federal net government debt in Canada hit 99.6 percent of GDP, totaling \$825.5 billion (Canada, Department of Finance, 2016; Statistics Canada, 2017e).<sup>1</sup> Provinces were dealing with credit downgrades and rapidly rising interest payments.

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<sup>1</sup> Unless otherwise stated, all data are presented in real (inflation adjusted) 2015 dollars.

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Figure 1: Aggregate Net Operating Balance, Provincial and Territorial Governments, 1992-2000 (\$billions)



Source: Statistics Canada, Government Finance Statistics, CANSIM Table 385-0032.

This led most provincial governments (and the federal government) to undertake significant reforms in order to rein in deficits, with Roy Romanow's Saskatchewan NDP leading the way, cutting spending by 10 percent over three fiscal years to eliminate the deficit (Eisen et al., 2015). The Klein government also aggressively reduced spending in a successful effort to eliminate Alberta's persistent deficits, followed by the Harris government in Ontario.

Figure 1 shows the cumulative effect of the provincial deficit taming efforts beginning in 1992.<sup>2</sup>

<sup>2</sup> Figures presented in this bulletin come from the federal department of finance's Fiscal Reference Tables, unless otherwise stated. The Fiscal Reference Tables provide annual data on the financial position of the federal and provincial and territorial governments. The data are presented on Public Accounts basis, corresponding to the accounting

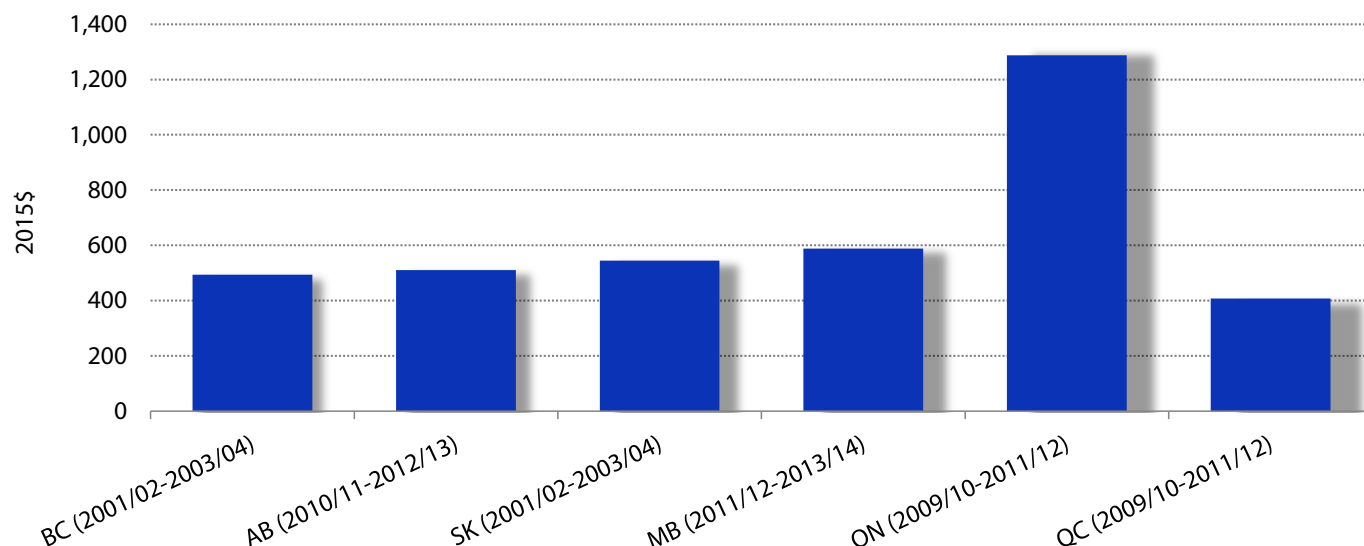
By 1999, the total cumulative provincial budget balance was positive for the first time in more than a decade.

conventions used to report financial information to the respective legislatures. Due to differences in accounting and reporting practices, figures are not strictly comparable between provinces.

One may question our use of data from provincial Public Accounts (presented in the Fiscal Reference Tables) and Budgets, which are not strictly comparable across provinces, rather than data from Statistics Canada based on the Government Finance Statistics (GFS), which are comparable. In spite of this shortcoming, we decided to use data from the provincial Public Accounts and Budgets for two reasons. First, provincial Public Accounts and Budgets provide more timely data. Much more importantly, Statistics Canada's GFS data, broken down by province, are only available from 2007 and onwards. Data before 2007 are only provided for Canada as a whole and not for individual provinces. This report's conclusions are robust, and hold regardless of the data set chosen.

# Comparing Recent Deficits of Alberta and Ontario

Figure 2: Average Deficit per Capita Over the Three-Year Period With the Highest Cumulative Deficits Between 2000/01 and 2014/15



Sources: Provincial Public Accounts; Statistics Canada, CANSIM Table 051-0001 and 326-0020; calculations by authors.

Crucially, these deficit cutting efforts weren't driven by one political party. The need to eliminate deficits became a cross-partisan focus, with provincial NDP and PC premiers and a Liberal prime minister presiding over significant deficit cutting efforts. This approach to fiscal policy focused on the prevention or elimination of large deficits along with competitive taxes and smaller, smarter government. It has been labelled "the Chretien Consensus" and is so named because the policies of this cross-partisan approach were successfully implemented at the federal level by the Liberal government of Jean Chretien and his finance minister, Paul Martin.

Largely as a result of the policies of the Chretien Consensus, by the time Canada rang in the new millennium, the fiscal consolidations of the 1990s had dramatically improved the country's fiscal outlook from coast to coast, and the country's fiscal crisis had been essentially resolved.

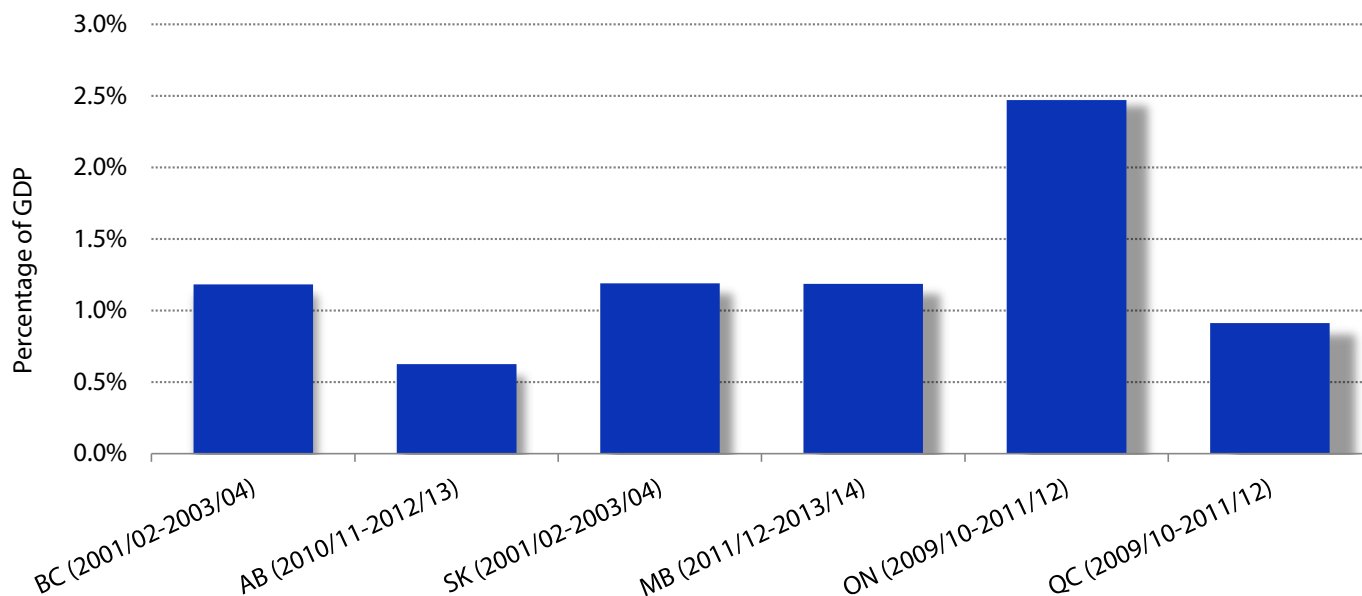
## Provincial deficits since 2000

Canada's provinces entered the 2000s with their finances in dramatically better condition than when they entered the 1990s. As importantly, governments across the country entered the new millennium with a new mindset about budget deficits. Provincial governments generally understood that budget deficits should occur only during recessions or economic downturns, should be kept to a modest size to the extent possible, and should be eliminated quickly when economic growth returned. In short, the Chretien Consensus that had taken shape during the previous decade held that the large, persistent budget deficits of the 1980s and early 1990s and the rapid run-up in debt associated with them should be things of the past.<sup>3</sup>

<sup>3</sup> For further discussion, see Clemens et al., *End of the Chretien Consensus?* (2017).

# Comparing Recent Deficits of Alberta and Ontario

**Figure 3: Average Deficit as a Percent of GDP Over the Three-Year Period with the Highest Cumulative Deficits Between 2000/01 and 2014/15**



Sources: Provincial Public Accounts; Statistics Canada, CANSIM Table 384-0038; calculations by authors.

This is not to say that provincial governments consistently avoided deficit spending following the fiscal consolidations of the 1990s. Indeed, every provincial government in Canada has run deficits at one point or another since then. However, until very recently, those deficits were almost always relatively modest in size and short-lived. Figures 2 and 3 demonstrate the first of these two points by showing the largest three-year average deficits per-capita and as a share of GDP in every large Canadian province between 2000/01 and 2014/15.<sup>4</sup>

<sup>4</sup> Only provinces with populations exceeding one million residents were included. None of the Atlantic provinces meet this criteria. When the Atlantic provinces are included, Newfoundland & Labrador has the largest three year cumulative deficit of any province.

At some point since the year 2000, every province has had a three-year series of deficits, but in the wake of the global financial crisis Ontario's deficits stand out as being by far the largest.<sup>5</sup>

Between 2009/10 and 2011/12, Ontario's average budget deficit was \$1,288 per person—more than triple the size of Quebec's deficits during those same years (which were also the years in which Quebec recorded its largest deficits since the fiscal consolidation of the 1990s). Ontario's average budget deficit over this period was approximately 2.5 percent of GDP. During

<sup>5</sup> This bulletin was completed prior to the publication of Ontario's 2017/18 budget in April. The new budget makes very slight changes to Ontario's debt forecasts from what is presented here, but those changes do not significantly effect any results or conclusions in this report.

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these years, Quebec's deficits averaged \$407 per capita, and less than 1 percent of GDP.

In each of the other provinces, the worst three-year budget deficit periods since the fiscal consolidation of the 1990s was still very modest compared to Ontario's from 2009/10 to 2011/12. The largest average three-year deficit in the four other provinces analyzed was less than half as large as Ontario's worst three-year deficit, both per-capita and relative to the size of the provincial economy.

Manitoba's worst three year deficit occurred from 2011/12 to 2013/14. Over that period, the province's annual deficits averaged \$589 per person, or 1.2 percent of GDP. Saskatchewan's largest deficits since the fiscal consolidation were also from 2011/12 to 2013/14. Its deficits averaged \$545 per person, or 1.2 percent of GDP.

British Columbia's largest deficits since fiscal consolidation were from 2001/02 to 2003/04 and were approximately half as large as Ontario's deficits during the period following the recession. In those years, BC's deficits averaged \$494 per capita, or 1.2 percent of provincial GDP.

Finally, Alberta's largest three-year deficit occurred from 2010/11 to 2012/13. During that time, Alberta's annual deficits averaged \$511 per person, or 0.6 percent of GDP. Once again, Ontario's deficit in the wake of the financial crisis stands out as being particularly large at 2.5 percent of GDP annually—more than twice the level of the next three highest provinces, BC, Saskatchewan, and Manitoba (which came in at 1.2 percent of GDP), and almost four times as high as the 0.6 percent of GDP average in Alberta during its three worst years in the period.

While all provinces ran deficits at one point or another between 2000/01 and 2014/15, among the larger provinces analyzed in this report,

Ontario's deficits from 2009/10 to 2011/12 stand out as by far the largest—approximately two to three times larger than the largest three-year deficit period in all of the other provinces examined.

## Alberta's deficits today compared to Ontario following the 2009 recession

We have seen that in the years between 2000/01 and 2014/15, Ontario had the largest three-year budget deficit of any large province—and by a significant margin. The budget deficits in Ontario in the years during and following the 2008/09 recession dwarfed even the largest deficits run by other large provinces since the fiscal consolidations of the 1990s.

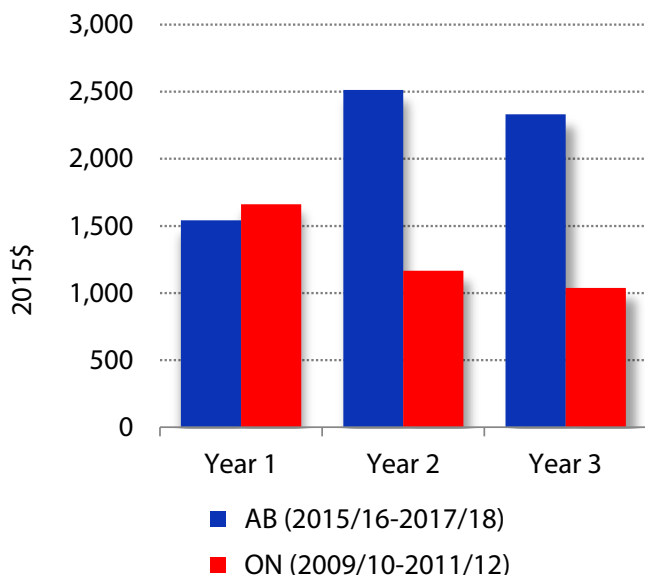
In recent years, however, Alberta has begun to run very large operating deficits. In 2015/16, following a substantial downturn in energy prices, the province ran a \$6.4 billion deficit—at that time the province's largest deficit since the 1980s by far. Then in 2016/17, the deficit grew even larger, to \$10.8 billion. The recently tabled provincial budget shows that in 2017/18, the deficit will be approximately as large again—it is forecasted to be \$10.3 billion.

Figures 4 and 5 show that the budget deficits being run in Alberta during the three-year period ending this year are expected to be significantly larger, on average, than the deficits run by Ontario during the 2009/10 to 2011/12 period.

Figure 4 shows the annual deficits in real per capita terms for the respective three-year periods in each province. It shows that the per-capita deficits in the first year of both the Alberta and Ontario deficits were comparable, with Alberta coming in just under \$100 per person than Ontario. But despite the slightly smaller deficit in the first year of Alberta's slide into

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**Figure 4: Deficit per Capita by Year of Deficit, 2015\$**

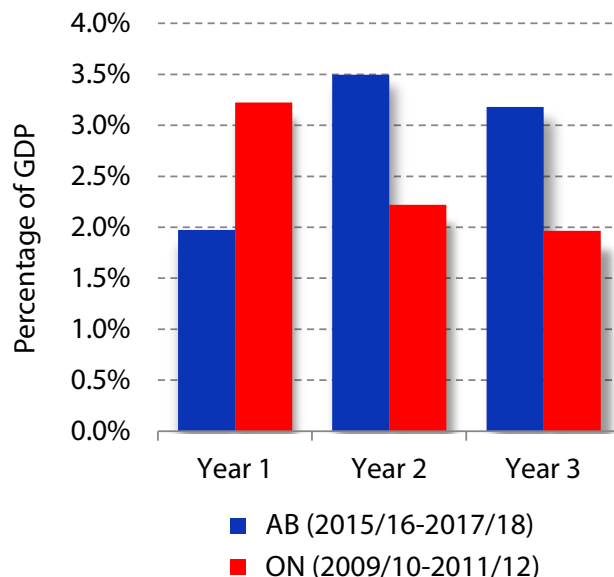


**Notes:**

- (i) For Alberta, year 1, 2 and 3 correspond from 2015/16 to 2017/18. For Ontario, these years correspond from 2009/10 to 2011/12.
- (ii) For Alberta, data for 2016/17 and 2017/18 come from the 2017 Budget (March).

Sources: Alberta Treasury Board and Finance; Ontario Ministry of Finance; Statistics Canada, CANSIM Tables 051-0001 and 326-0020; calculations by authors.

**Figure 5: Annual deficit as a Percent of GDP**



**Notes:**

- (i) For Alberta, year 1, 2 and 3 correspond from 2015/16 to 2017/18. For Ontario, these years correspond from 2009/10 to 2011/12.
- (ii) For Alberta, data for 2016/17 and 2017/18 come from the 2017 Budget (March).

Sources: Alberta Treasury Board and Finance; Ontario Ministry of Finance; Statistics Canada, CANSIM Table 384-0038; calculations by authors.

deficit, the two subsequent deficits were more than twice as large per person as those in the last two years examined for Ontario.

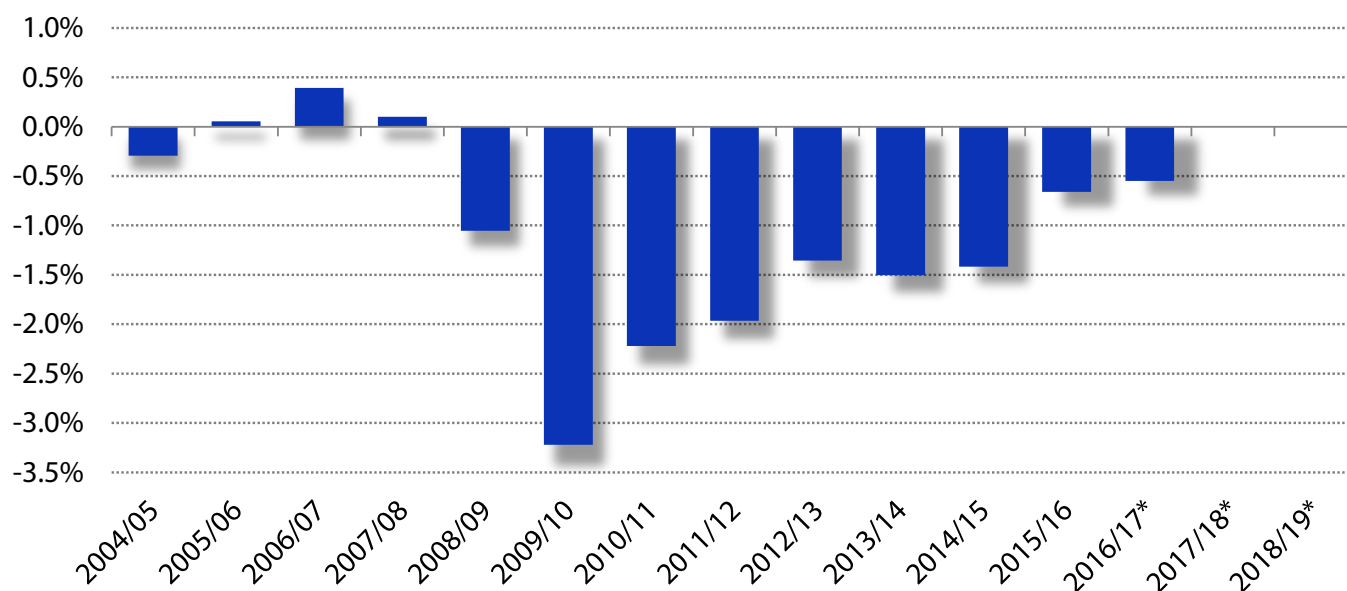
Between 2015/16 and 2017/18, the total real per-person deficit in Alberta is projected to be \$6,385, far outstripping Ontario's \$3,864 per-person accumulated deficit between 2009/10 and 2011/12. In fact, the average per-capita annual budget deficit in Alberta during the three year period ending this year is expected to be approximately 65 percent larger than the aver-

age per-capita deficit run by Ontario between 2009/10 and 2011/12.<sup>6</sup>

<sup>6</sup> In some respects, this comparison understates the relative size of Alberta's current deficit position relative to Ontario's in the years during and following the 2008/09 crisis. This is because the first year included in the Alberta calculation, 2015/16, was when Alberta's steep economic downturn began and the effects of the fiscal shock were still ramping up. The analysis period in Ontario begins in 2009/10, the second year of the province's fiscal shock, by which

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Figure 6: Ontario Fiscal Balance as a Percent of GDP, 2008/09 – 2018/19



Note: Ontario data from 2016/17 to 2018/19 is based on the 2016 *Ontario Economic Outlook and Fiscal Review*.

Sources: Ontario Ministry of Finance; Statistics Canada, CANSIM Table 384-0038; calculations by authors

Figure 5 compares Alberta's current run of large deficits to Ontario's worst recent years relative to the size of their provincial economies. Again, in two out of the three years, Alberta's average budget deficit during this period is larger than Ontario's during the post-2009 recession period using this metric.

In the first year of the comparison, Ontario's budget deficit was 3.2 percent of provincial GDP, compared to 2.0 percent in Alberta. In the sub-

sequent two years these numbers essentially flipped. In 2016/17 and 2017/18, Alberta's budget deficit is projected to be 3.5 percent and 3.2 percent of GDP respectively. In Ontario, the last two years of the analysis period resulted in budget deficits of 2.2 and 2.0 percent of GDP.

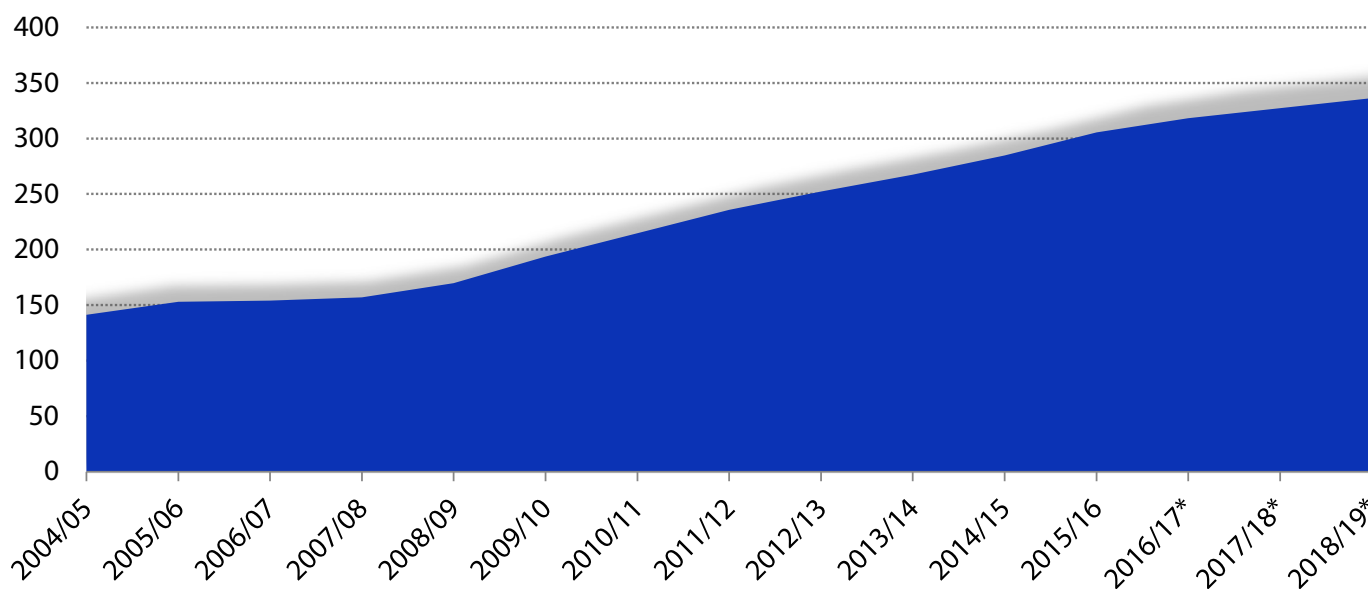
On average, over the course of the three-year period examined, Alberta is forecasted to run deficits equivalent to 2.9 percent of GDP. By comparison, Ontario's average budget deficit from 2009/10 to 2011/12 was 2.5 percent of GDP. Troublingly, while Ontario's deficit fell significantly the year after the three-year cycle examined, Alberta is expected to run two comparably large deficits beyond 2017/18. In fact, current forecasts suggest that the deficit for 2018/19 will be larger than the deficit was in the first year being analyzed here, such that if the 2016/17–2018/19 period were examined, the

time the full effects were being felt. Alberta is expecting a larger deficit in 2018/19 than it experienced in 2015/16, meaning that current projections suggest the comparison would be even more unfavourable for Alberta looking at an analysis period one year later. The three-year analysis period starting in 2015/16 for Alberta was chosen because of the uncertainty of budget projections two years into the future.



# Comparing Recent Deficits of Alberta and Ontario

Figure 7: Ontario Net Debt, 2008/09 – 2018/19 (\$billions)



Note: Ontario data from 2016/17 to 2018/19 is based on the 2016 Ontario Economic Outlook and Fiscal Review.

Sources: Canada, Department of Finance; Ontario Ministry of Finance.

province's three-year average deficit is forecasted to rise to 3.2 percent of GDP.

These data show that Alberta's current run of large deficits, relative to provincial GDP, are significantly larger than the deficits run during the worst three-year period of Ontario's recent fiscal history.

## Post-recession debt accumulation in Ontario: A cautionary tale for Alberta

We have seen that the current provincial budget deficit in Alberta is substantially larger than the worst deficits run in Ontario during the years following the 2008/09 financial crisis.

Given fiscal developments in Ontario in the years following the 2008/09 recession, Ontario's recent history provides important lessons for policymakers in Alberta.

In Ontario, the provincial government took a "go slow" approach to deficit reduction, laying out a plan in its 2009 budget to run deficits for the next 8 years before finally balancing the budget in 2017/18, as it is currently forecasted to do. Figure 6 illustrates the evolution of Ontario's budget deficit relative to provincial GDP.

Figure 6 demonstrates that in Ontario, substantial budget deficits remained long after the financial crisis of 2008/09 and the resulting recession. In total, the province has run nine straight budget deficits and is finally forecasted to balance its budget in 2017/18.

The consequence of these large, persistent budget deficits many years into the province's post-recession economic expansion has been a dramatic run-up in provincial government debt. Annual operating deficits were not responsible for the entirety of the run-up in provincial debt

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over the past decade, as debt-financed capital spending also played a role.<sup>7</sup> However, a recent study shows that approximately two thirds of the debt accumulated since 2007/08 has been the result of the province's operating deficits. In short, the big deficits documented here are the primary cause of Ontario's growing mountain of debt (Wen, 2015).

Figure 7 illustrates this fact by showing the growth in the province's net debt in recent years. Figure 7 shows that since the province first began running budget deficits again in 2008/09, Ontario's debt burden has approximately doubled, rising to \$317.9 billion in 2016/17. For context, that equates to approximately \$22,000 for every resident of the province.

This run-up in debt has led to credit downgrades for the province and recent increases in debt charges, which leaves less money available for other priorities. Because of concerns such as these, the provincial government has itself recognized that the province's large debt burden is a big problem for the province and has committed bringing the province's debt-to-GDP levels back to pre-recession levels.

In short, the combination of large budget deficits during a steep recession followed by a gradual approach to deficit reduction during the ensuing economic expansion has resulted in a big increase in provincial debt in Ontario. Given that Alberta's budget deficits are currently significantly larger than Ontario's were during the worst years of the financial crisis, it is clear that if Alberta takes a similar "go slow" approach to deficit reduction, it can expect a

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<sup>7</sup> Capital spending is not fully reflected in a province's operating budget, since it is amortized over many years. This means that provincial deficits do not fully reflect the decline in net financial assets in any given year.

run-up in provincial debt (relative to the size of the economy and population) that is as rapid and as large (or larger) as has occurred in Ontario over the past decade.

## Why worry about deficits and debt accumulation in Alberta?

Big budget deficits have resulted in rising debt charges for Ontario taxpayers in recent years. They have also led to a run-up in the province's debt-to-GDP ratio to new historic highs, prompting credit downgrades and expressions of concern from credit rating agencies about the affordability of planned infrastructure investments (Benzie, 2015).

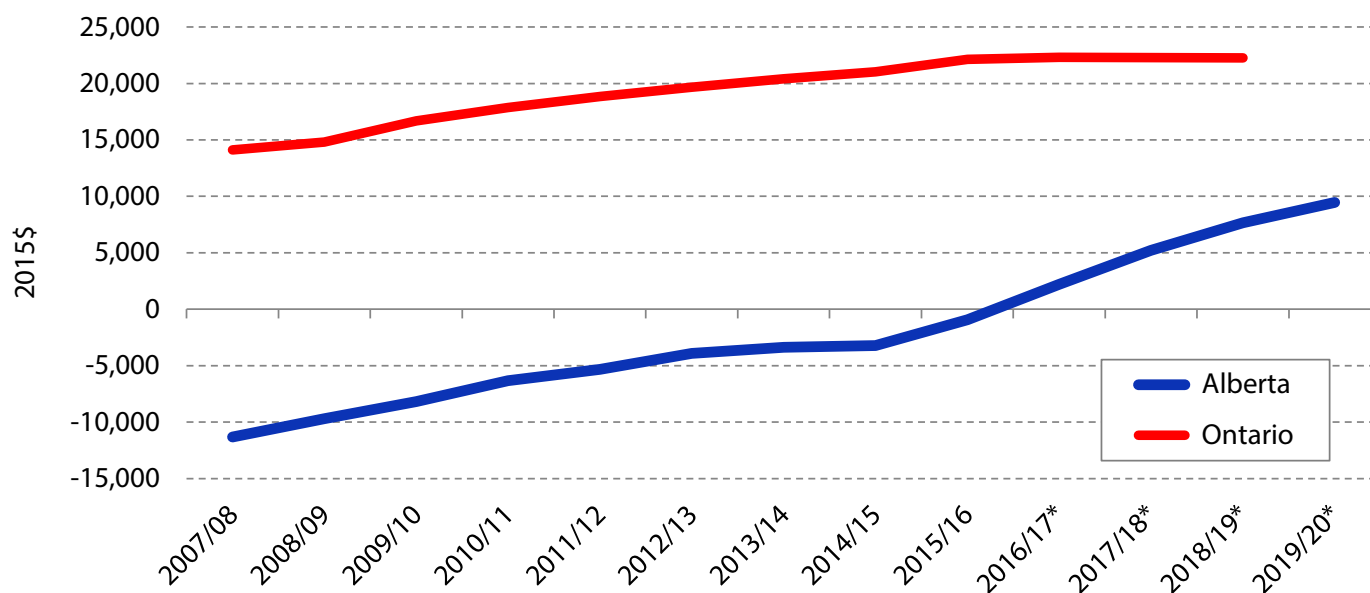
Some may suggest that concerns about similar developments occurring in Alberta are misguided because the province entered the fiscal crunch in 2015/16 with a dramatically stronger financial position than Ontario had in 2008/09 at the dawn of its most recent era of big deficits.

It is certainly true that Alberta was carrying less debt in 2014/15 than Ontario was in 2008/09. In fact, Alberta was still in a net asset position when the recent recession struck, meaning that its financial assets exceeded its debt. Alberta had been in this position, unique among Canadian provinces, since 2000/01 following the successful fiscal consolidation of the 1990s, which quickly eliminated large budget deficits, and, subsequently, the provincial debt itself.

Figure 8 compares net debt per capita between 2007/08 and 2018/19, which illustrates the difference in the debt starting point for two jurisdictions. Whereas Ontario entered its fiscal crunch already carrying net debt of approximately \$15,000 per person, Alberta entered the slump that started in 2014/15 with no net debt at all. As a result, despite its big deficits in recent years, Alberta still has a substantially smaller

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Figure 8: Net Debt per Capita, \$2015, 2007/08 – 2019/20



Notes:

(i) Alberta data from 2016/17 to 2019/20 is based on the 2017 Budget (March).

(ii) Ontario data from 2016/17 to 2018/19 is based on the 2016 Ontario Economic Outlook and Fiscal Review. Data for 2019/20 is not available.

Sources: Alberta Treasury Board and Finance; Ontario Ministry of Finance; Statistics Canada, CANSIM Table 051-0001 and 326-0020; calculations by authors.

debt burden than Ontario, both per capita and relative to the size of the economy. However, Alberta should not be complacent about this comparison with Ontario. Doing so would leave Albertans facing real costs and real risks.

While it is true that Alberta presently has less debt than Ontario, it is adding debt so rapidly that the gap could close surprisingly quickly. As figure 8 shows, the increase in per-capita net debt in Alberta is currently significantly greater than at any point in either Alberta or Ontario's recent history.

As discussed earlier, Alberta's current budget deficits are larger than any in Ontario's recent past, and figure 8 shows that the pace of debt

accumulation is significantly faster as well. This comparison of the changes in financial assets differs from the deficit projections presented earlier in the paper in that it includes changes caused both by the operating balance and the full effect of capital infrastructure spending in a given year. Consider that in the five-year period between 2014/15 and 2018/19, Alberta's net financial assets are expected to decline by nearly \$11,000 per person in 2015 dollars. By comparison, during the five-year period from 2007/08 to 2012/13, Ontario's debt increased by approximately \$5,500 in 2015 dollars—only about half as much.

Given Alberta's rate of debt accumulation of approximately \$2,700 per person per year (in

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2015 dollars), it is not difficult to see how the gap with Ontario could close relatively quickly. In fact, the gap in real per-capita debt between the two provinces is expected to shrink from \$24,256 in 2014/15 to \$14,597 in 2018/19. In other words, 40 percent of the large gap that existed between the two provinces in per-person debt in 2014/15 will have been closed in just 5 years. And while Ontario data for 2019/20 are not available at the time of writing, Alberta's real per-capita net debt is projected to increase by roughly \$1,800 in that year alone. Given that real per-person debt in Ontario has roughly plateaued, this additional debt accumulation in Alberta would almost certainly further close the gap between the two provinces.

An examination of the changes in the real debt-to-GDP ratio further confirms that Alberta is quickly closing the debt gap with Ontario. Between 2015/16 and 2019/20, Alberta's net debt-to-GDP ratio is expected to climb at an average annual rate of 3.4 percentage points, reaching 12.3 percent in 2019/20. The gap between Alberta and Ontario's net debt-to-GDP ratio is projected to decrease by 12.1 percentage points between 2015/16 to 2018/19. If Alberta continues this rate of debt accumulation, the gap between Alberta and highly indebted provinces like Ontario will quickly narrow.

The prospect of Alberta racking up debt in the future at a rate comparable to the past few years is not unrealistic. Alberta's recently tabled Budget projects substantial deficits and rapid debt accumulation throughout the rest of its fiscal plan, which runs until 2019/20. In fact, the fiscal plan calls for only very modest deficit reduction in the years ahead, with the province's deficit set to fall to \$7.2 billion by 2019/20. Furthermore, the pace of debt accumulation is not expected to fall meaningfully over the course of the government's fiscal plan.

Of perhaps greater concern, however, is that the province's fiscal plan relies on key optimistic assumptions which, if they do not come to pass, will likely lead to even bigger deficits and more debt accumulation than the government currently forecasts. One of these optimistic assumptions is that oil prices will climb by roughly \$20 per barrel to US\$68 between 2016/17 and 2018/19. This is crucially important, since according to the Budget estimates, a \$1 decrease in the per barrel price of West Texas Intermediate oil would reduce government revenue by roughly \$310 million (Alberta Treasury Board and Finance, 2017). Indeed, University of Calgary economist Trevor Tombe has pointed out that the budget projects higher oil prices than do the futures markets for every year between 2016/17 and 2019/20, culminating in a nearly \$20 per barrel gap in 2018/19 (Tombe, 2017). While it is conceivable that oil prices could outpace the prices predicted by futures markets, it is a risky bet that could lead to billions more in accumulated deficits over that short four-year time horizon.

Large and persistent deficits can inject investment uncertainty into any provincial economy, potentially discouraging growth-enhancing investment.<sup>8</sup> Given the recent increases to personal and corporate income taxes in Alberta, as well as its introduction of a broader carbon levy, the spectre of future tax increases to service a growing debt burden could be particularly off-putting to potential investors.

In addition to these broader economic risks, Alberta's current big deficits and rapid debt accumulation will also have more immediate, concrete costs for Albertans in the form of higher interest payments on government debt here

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<sup>8</sup> For a discussion of the impact of policy uncertainty on corporate investment, see Gulen and Ion (2016).

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and now. Specifically, the recent budget projects that the province's annual debt servicing costs will roughly triple from \$776 million in 2015/16 to just under \$2.3 billion annually in 2019/20 (Alberta Treasury Board and Finance, 2017). For context, that is roughly \$800 million more than the province plans to spend on children's services that year. The rising debt service costs will make it that much more difficult to balance the budget in the future, and will consume scarce resources that could otherwise be used for tax relief or public services.

## Conclusion

In the late 1990s and early 2000s, a near consensus took shape in Canada which held that budget deficits should generally be modest and temporary, and always be accompanied with a plan to return to balance.

Since then, only one large province has run substantial deficits of significantly more than one percent of GDP annually. That province is Ontario, in the years during and following the 2008/09 financial crisis. During that stretch, and for several years afterwards, Ontario ran large budget deficits leading to substantial debt accumulation.

This paper has compared Alberta's current run of budget deficits to those incurred by Ontario during that period, and found that Alberta's current operating deficits are substantially larger than those run in Ontario during the worst years of its fiscal crunch. Specifically, Ontario's largest three deficits during the financial crisis averaged 2.5 percent of GDP. By comparison, Alberta's three-year string of deficits ending this year is expected to average 2.9 percent of GDP. A per-capita comparison reveals a gap between the two provinces that is even larger.

It is certainly true that Alberta entered its current string of deficits with more "fiscal runway" than Ontario. When the recession began, Alberta was in a net asset position, whereas Ontario was already carrying substantial debt.

We have shown, however, that whatever fiscal runway Alberta is fortunate enough to have is being used up fast due to big deficits and rapid debt accumulation. The province's debt load is increasing quickly, and the government's plan to somewhat slow the pace of future debt accumulation relies on optimistic oil price projections. If those projections do not materialize and the province continues to add debt at its recent rate, the gap in the debt per-person and debt-to-GDP ratio between Alberta and highly indebted provinces such as Ontario will continue to close quickly. In the meantime, all of the added additional government debt will heap costs on taxpayers in the form of higher interest payments to service those debt costs.

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