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The Rhetoric and the Reality of Alberta's Deficits in the 1980s, 1990s, and Now

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Key Conclusions

- Alberta entered nine years of deficits in 1985. As of the 2011 budget, Alberta is fully three years into deficits, with forecasts for another two. Yet the political rhetoric sidesteps this problem. Rhetoric matters because it conditions taxpayers on the range of choices available to governments and the costs of those choices, costs inevitably borne by taxpayers.

- Capital and operating spending was then, and is now, seen as sacrosanct.

- In 1990-91, a rise in energy prices due to the Gulf War led politicians to claim they could achieve a balanced budget within the original timeframe. Likewise, citing higher energy prices today, political leaders hope they can balance the budget as previously promised.

- The study recommends that Albertans acknowledge in political rhetoric the tendency toward overspending; create a Financial Review Commission to identify tax and spending reforms; rein in provincial salaries and benefits; enshrine into law a new balanced-budget plan; and once the budget is balanced, institute past recommendations to deposit more revenues into the Alberta Heritage and Savings Trust Fund.

Brief summary

Almost one-quarter of Alberta's current population either was not born or did not live in Alberta during the previous deficit era (1985-1994). As a result, these new Albertans may take Alberta's prosperity and recent balanced budgets for granted, or assume that deficits are a temporary problem caused by the recession. In reality, this is a longer-term phenomenon created by shortsighted spending choices—no matter how the politicians spin it.

This paper reviews political rhetoric from the previous deficit era and compares it with the present, revealing important parallels. Between 1985-86 and 1993-94, Alberta ran nine consecutive deficits. As a consequence, Canada's wealthiest province saw its financial position deteriorate into net debt; deficits diverted tax dollars into interest; and taxes were raised to finance the growing debt. Yet the political rhetoric sidestepped these problems.

Early signs indicate optimistic expectations about Alberta's current finances are again in error. Alberta already faces deficits of a magnitude similar to those of the mid-1980s to early 1990s. As before, the province's net financial position has deteriorated rapidly. And predictably, the rhetoric and rationalizations sound familiar.

For instance: In the 1980s and more recently, the political rhetoric emphasized that Alberta could "afford" deficits given its overall net asset position. In both eras, there was a net decline in provincial assets. Capital and operating spending was then, and is now, seen as untouchable. In the 1980s and again recently, politicians promised balanced budgets but didn't deliver. In both deficit eras, politicians counted on rising energy prices to balance the budget for them. In both eras, program growth outpaced revenue growth. And both eras saw a significant rise in real per capita government spending.

Pointing out these parallels helps inform Alberta's ever-changing taxpayer base, and it reminds the people of Alberta that political rhetoric cannot change fiscal reality.

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Executive brief

Between 1985/86 and 1993/94, Alberta ran nine consecutive deficits, which had several consequences. First, Canada's wealthiest province saw its financial position deteriorate into net debt by the end of that deficit era; second, the deficits created a significant, ongoing diversion of tax dollars from other purposes in order to finance interest costs, the amounts of which were substantial; third, to finance the growing provincial debt, existing taxes were raised and new taxes imposed which raised barriers to investment, income growth, and job creation in Alberta.

History may not repeat itself, but early signs and actions indicate that optimistic expectations about the province's current finances are likely again in error. At present, Alberta already faces deficits of a magnitude similar to that which occurred in the mid-1980s to early 1990s. Similarly, and as a result, the province's net financial position has deteriorated rapidly.

This paper reviews the rhetoric in Alberta's previous deficit era and compares it with the present because modern parallels exist. It is clear from past research that fiscal history is repeating itself in Alberta. This paper seeks to answer the additional query of whether *rhetorical* history is repeating itself.

The rhetoric and other comparisons: The 1980s, 1990s and now

Here are some similarities between the two deficit eras:

- "Alberta is not in debt": In the 1980s and more recently, the political rhetoric initially emphasized that Alberta could "afford" deficits given its overall net asset position.
- In both eras, there was a net decline in provincial assets
- Capital and operating spending was then, and is now, seen as sacrosanct
- In the 1980s and again recently, the provincial government promised a balanced budget in four years
- The four-year budget target is missed: By June 1989, the Alberta government admitted its initial deficit estimates were low, and that its forecast of a balanced budget would be delayed one year. In a late 2010 interview, Premier Stelmach announced a four-year balanced budget deadline would be pushed off further into the future, and in his 2011

budget speech, Finance Minister Lloyd Snelgrove, also confirmed the previous four-year balanced budget target would not be met.

- (Another) false start on balanced books? In 1990 and 1991, a rise in energy prices due to the Gulf war led politicians to think a balanced budget might actually be accomplished within the original four-year time frame. In May 2011, Premier Stelmach hinted the off-again four-year target for balanced books might be "on" again, citing higher oil and gas prices.
- Program expenditure growth outpaces revenue growth: In the 1980s and in the most recent deficit era, the first deficit year was preceded by years of growth in program spending which far outpaced the growth in revenues.
- A significant rise in real per capita spending: In the 1990s, Alberta's chronic deficits were only addressed once real per capita program spending was significantly cut. More recently, since 1996/97, real per capita program spending has been mostly higher.

By 1993, the provincial government decided a balanced budget would not occur unless a determined effort was made to rein in current political assumptions and then act on program expenditures. Attempts were made to balance the books before expenditure cuts were considered. The provincial government reduced, and then entirely stopped, resource revenue transfers to the Alberta Heritage Savings Trust Fund and also re-directed investment income earned on the fund to general revenues. The second significant attempt to eliminate the deficit came in the form of tax increases, which included an increase in the existing provincial personal income tax rate, a new eight per cent surtax on high incomes, a new "flat tax" on all incomes of one percent, an increase in tobacco taxes and liquor mark-ups, an increase in license registration fees, a new hotel room tax of five percent, a new fuel tax of five cents per litre on gasoline and diesel fuel, higher taxes for fuel used by airplanes and locomotives, a one-third increase in the corporate tax rate, and an increase in the tax on insurance premiums. Despite the end of transfers to the Heritage Fund and the $1 billion in extra taxes, the province still incurred a deficit of almost $1.4 billion in 1987/88.

In Budget 2011, the new target for a balanced budget was predicated upon significantly higher revenues between 2010/11 and 2013/14—an $8-billion increase in total revenues, or 23.6%. On the spending side, Budget 2011 forecasts spending to increase only marginally in three years by $1.8 billion or 4.7%. However, if history is any indication, three-year budget targets are unreliable guides as to how much money the province will eventually spend. Thus, the result is that the balanced budget target for 2013/14 is subject to a high-risk strategy, and thus to another possible delay.

Recommendations

- The reality of overspending beyond the province's means should be acknowledged in political rhetoric
- The government should create an Alberta Financial Review Commission to review the province's finances
- The province must examine the wage and benefits side of the budget to arrive at a balanced budget
- The government must institute a legislated plan to arrive at a balanced budget
- It must also institute past recommendations on future savings plans

Introduction

Between 1985/86 and 1993/94, the province of Alberta ran nine consecutive deficits which led to several consequences: First, Canada's wealthiest province—with significant net assets in the mid-1980s—saw its financial position deteriorate into net debt by the end of that deficit era; second, the costs of the continual "red ink" extended beyond even the return of surplus years. The deficits created a significant, ongoing diversion of tax dollars from other purposes in order to finance interest costs, the amounts of which were substantial (see appendix 1); third, to finance the growing provincial debt, existing taxes were raised and new taxes imposed which raised barriers to investment, income growth, and job creation in the province. Also, the provincial government first reduced and then later ceased transfers to the Alberta Heritage and Savings Trust Fund (AHSTF) in an attempt to garner more revenue for the province's main set of books, the General Revenue Fund (see Appendix 2).

The 1985/86-1993/94[1] deficits are not so far removed from the memory of those who then lived in Alberta. However, since 1994, Alberta's population has grown to 3.8 million from just over three million in 2004 (Statistics Canada, 2010; Alberta, 2009a). The result is that almost one-quarter of Alberta's current population either was not born or did not live in Alberta prior to 1994. As a result, they may take Alberta's prosperity and (recent) balanced budgets for granted and assume deficits are a temporary phenomenon. They may assume deficits are only the result of the recent recession and its concurrent drop in revenues, this as opposed to a longer-term phenomenon created by earlier spending choices that assumed boom-time years and revenues could be extrapolated endlessly into the future. They might also assume extraordinary resource revenue growth will soon rescue Alberta's budgetary balance and that little attention needs to be paid the spending side of the government ledger. Such an assumption is a triumph of hope over past fiscal patterns.

1 Alberta's fiscal years begin on April 1 and end on March 31, i.e., the 1993/94 fiscal year is between April 1, 1993 and March 31, 1994.

The purpose of this paper

To avoid a long-term repeat of the last deficit period and the previous net debt financial position, the public, press, civil servants, and elected officials would do well to reacquaint themselves with the choices and rhetoric[2] of an earlier deficit era. Rhetoric matters as it conditions voters on the range of choices available to governments and the costs of those choices, costs inevitably borne by voters themselves. As it is, Alberta is already headed down a similar path to the mid-to-late 1980s period. As Premier Ed Stelmach revealed in a late 2010 interview and which was confirmed in the province's 2011 Budget, a minimum of five deficit years is now a given (Fekete, 2010: A1).

Thus, the purpose of this paper is to review the rhetoric in Alberta's previous deficit era and compare it with that used today, because modern parallels exist. This paper will, as part of that review, note the fiscal status of the province and similarities to past patterns. However, as that fiscal ground has been well-covered by others,[3] this review will concentrate mainly on the rhetoric and the problem such rhetoric inevitably presents for restoring fiscal balance in Alberta. It is already clear from past research that *fiscal* history is repeating itself in Alberta. What this paper seeks to answer is this related question: Is *rhetorical* history repeating itself?

Also, as a secondary goal, this study aims to serve as a reminder that choices are not unlimited and that borrowing has consequences. Tax dollars spent on debt interest in the 1980s and 1990s was money unavailable for tax relief or program spending—and the unavailable money was substantial. In the current deficit era, the longer a balanced budget is delayed, the more options are foregone, ranging from sacrificed investment income (from money not deposited in various government savings funds) to foregone program spending options and tax relief. At present, Alberta has had the luxury of financing deficits with transfers from the Sustainability Fund. But the province's financial assets are quickly eroding and, if corrective actions are not taken, a return to borrowing for even general expenditures will soon be next.[4]

2 To be clear on the definition of rhetoric, I mean it in its non-pejorative sense. Webster's (1989) defines rhetoric as "the art of influencing the thought and conduct of one's hearers" and is the meaning used here.

3 In particular, see Bruce and Kneebone, 1997; Booth, 1995; Kneebone, 2002; Kneebone, 2006; Alberta, 2007; Emery and Kneebone, 2009.

4 The province has already begun borrowing for capital expenditures. Budget 2011 noted that $1.463 billion had been borrowed for capital purposes in 2009/10, another $1.1 billion was planned for 2010/11, and $737 million more in debt borrowing planned for 2011/12 (Alberta 2011d, 21).

The outline of this paper

This paper will, first, summarize the previous deficit era; second, it will present a detailed review of rhetoric from the 1980s, 1990s, and more recent years to illustrate the rhetorical similarities and differences; third, it will give a detailed analysis of recent and initial spending projections (versus actual results); fourth and last, it will provide a conclusion and recommendations. Two addendums, one on the choices foregone by interest costs in the last deficit era, and the attempt to balance the budget through tax increases, appear at the end of the study.

A short history of the last, long deficit era

In the 1980s, similar to the modern deficit era, the first deficits in Alberta were assumed to be temporary.[5] This was somewhat understandable as the province incurred its first deficit in 1982/83 but followed it up with two surpluses before another deficit occurred in 1985/86. Thus, the latter deficit was assumed to be a rarity (see Alberta, 2001: 58.).[6] As it turned out, it was the first of nine.

Was the last deficit era caused by a decrease in oil prices (and the accompanying collapse in resource revenues), the introduction of the National Energy Program (NEP), a rise in spending, or all three? The answer depends on the year analyzed.

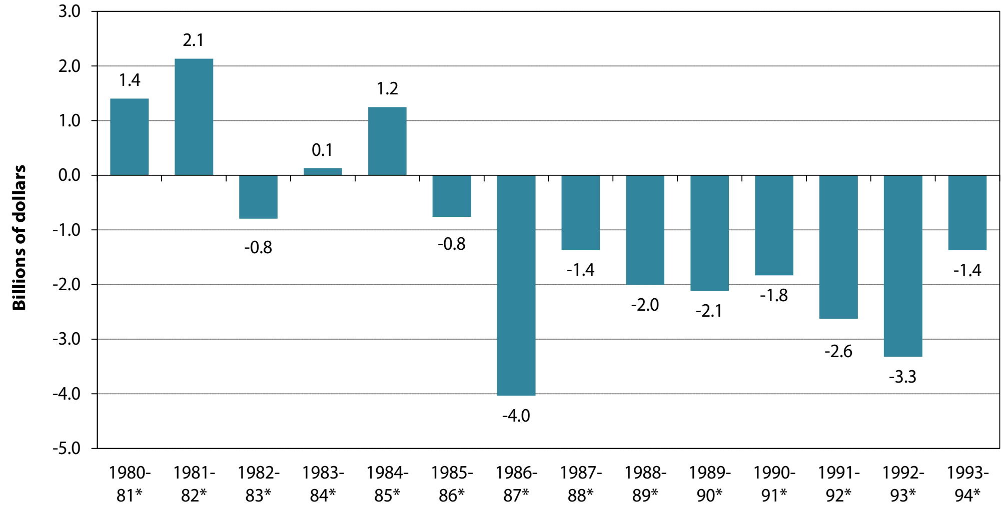
University of Calgary economics professor Ronald Kneebone points to various causes for Alberta's fiscal deterioration in the 1980s. He notes how the "deep recession during fiscal years 1982 and 1983, in conjunction with the effects of the National Energy Program (NEP)[7] introduced in fiscal 1981, combined to produce new challenges to provincial budget makers" (Kneebone, 2006: 4). Thus, in selected years, provincial revenues were adversely affected.

5 Numbers used in this study are from the federal Department of Finance (2000 and 2010) and Alberta's Historical Fiscal Summary (also known as the Historical Consolidated Fiscal Summary, depending on the budget year) (Alberta, 2001; 2011a), available in each provincial budget. Note that early budget documents, i.e., from 1985 and until the early 1990s, may have different numbers. Major revisions to Alberta's budget accounting methods were part of 1993 budget reforms introduced by the Ralph Klein government. They were more comprehensive and accurate and thus are used here as the main basis for comparisons in all years. Also, it should be noted that prior to 1992/93, "spending was recorded on an expenditure basis, using actual capital spending rather than capital amortization costs" (Alberta, 2001: 58). Other more minor changes also occurred around that time.

6 Budget documents from those years show an increase in program spending, but due to different accounting methods, the increase, though still significant, is not as large as the amounts noted in the 2001 *Historical Consolidated Fiscal Summary* (Alberta, 2001: 58). In 1984/85, expenditures amounted to $9 billion (Alberta, 1986b: 13). In 1985/86, expenditures amounted to $10.3 billion (Alberta, 1987: 30), an increase of $1.3 billion or 14.7 percent in just one year. Debt servicing costs are excluded in all calculations.

7 The 1980 National Energy Program (NEP) was, as Toner and Doern (1986: 477) describe it, a "comprehensive and politically aggressive policy whose stated goals were to achieve greater security of supply, including self-sufficiency by 1990; increased Canadian participation, including 50 percent Canadian ownership by 1990, and fairness, including an increased federal share of revenues." In practice, this led to discouraged foreign investment and discriminatory pricing for a consumer good from Alberta where oil for consumers in Canada was not allowed to be set at the world price. Those and other measures led to less investment in the Alberta energy industry, higher unemployment, and less revenue for the government of Alberta.

Figure 1: Alberta's deficits and surpluses, 1980/81 to 1993/94



*Fiscal years April to March 31.
Source: Department of Finance, 2001; 2010a.

In the first half of that decade, revenues were flat between 1981/82 and 1982/83, and again between 1984/85 and 1985/86. Revenues rose, sometimes significantly, in other years. By 1985/86 though, provincial revenues were almost $4.4 billion higher (49% higher) than in 1980/81. By 1986/87 however, revenues declined dramatically (by $3.7 billion or 28%), due to a severe correction in oil prices the year previous and with consequences for the province's energy revenues.

On the other side of the fiscal ledger, spending certainly rose during the first half of the 1980s, substantially so in some years.[8] One important reason, as Glen Toner and Bruce Doern note, is how in April 1982 "the Alberta government announced a $5.4 billion package of fiscal incentives for the industry consisting of royalty reductions and special grants and credits, with the objective of increasing revenue flows to the industry" (Toner and Doern, 1986: 478).

Whatever the reasons were for increased spending in other years, the first year in the nine-year string of deficits (the 1985/86 deficit) resulted from higher spending built up in the first half of the 1980s. It wasn't until 1986/87 that the deficit could be attributed to the sudden drop in oil prices and thus in revenue streams (see figure 1). Moreover, while program spending was reduced in the two-year period between 1985/86 and 1987/88, a move that somewhat ameliorated the effect of dramatically higher spending in the first half of the decade, after reductions in those two years, pro-

8 More detail on how program expenditures ran ahead of revenues in the 1980s will be given in Parallel #6, later in this paper.

gram spending again rose to a new high by 1992/93 and on the assumption the economy and resource revenues were recovering.

Thus, beyond the specifics of any individual budget year, over the longer term, higher program spending set the stage for chronic deficits. The overall trend in the 1980s was one where expenditures grew quicker than revenues. It was not until such unsustainable spending began to be ratcheted back under then Premier Ralph Klein and his new Finance Minister, Jim Dinning, beginning in the 1993 calendar year (and reflected in the 1994 budget year), that Alberta was on track to produce a surplus, which it finally did in 1994/95.

Deficit rhetoric in the 1980s, 1990s, and now: A comparison

This section will introduce some of the political and policy debates that surrounded Alberta's finances from the mid-1980s to the mid-1990s. It is organized by claim, with the rhetoric from the *earlier* deficit era presented first and then a modern example given. The rhetoric from the earlier deficit era is roughly chronological; subsequent references from the *present* deficit era are contrasted where appropriate. Direct quotations are from budget documents and media reports.[9]

The rhetoric of the earlier deficit period reveals certain policy assumptions. Such assumptions were built upon the booming resource revenues prevalent in the late 1970s and early 1980s. Boom-era energy revenues were assumed to be the permanent state of affairs. Spending patterns followed such ever-higher expectations both overall and in real per capita terms.

As with the previous deficit era, the first years in the latest deficit era have followed the same pattern: A boom in resource revenues followed by expectations of permanent and significantly higher spending and provincial budgets predicated on the same. Meanwhile, the political rhetoric acted as a feedback loop to reinforce all of the foregoing. Similarly, the present era consistently matches the 1980s and early 1990s in the denial that overspending is a problem to be addressed. The missing comparison, obviously, is the provincial government's course from here forward; such future choices remain to be seen.

The result of unsustainable spending increases in the first half of the 1980s was that when oil prices declined significantly in 1986, provincial finances were left with a significant "overhang" of expenditures over revenues, a state that would take nine years from which to recover in annual fiscal balance terms and nearly 20 years for the

9 For those unfamiliar with the politicians from the 1980s and early 1990s, Alberta's three premiers were Peter Lougheed (who served from 1971 until 1985), Donald (Don) Getty (1985 to 1992), and Ralph Klein (1992 until 2006) (Legislative Assembly of Alberta, undated). Prior to 1993, an Alberta finance minister was known as the provincial treasurer, and the treasurers/finance ministers surveyed here include Lou Hyndman (for the 1985 and 1986 budget), Dick Johnston (from the 1986 budget update until 1992), and Jim Dinning (after 1993). In recent years, Ed Stelmach has served as Alberta's premier since 2006, while the finance ministers since 2008 have been Iris Evans (2008 and 2009), Ted Morton (2010), and Lloyd Snelgrove (2011).

(nominal) financial position of the province to recover.[10] Both restorations—the budget balance and built-up assets—only occurred after much rhetorical denial about the province's chronic overspending was overcome.

Perhaps two of the most striking attributes of the rhetorical comments reviewed in this section are, first, the chronic delay in reducing historically high and unsustainable program spending and repeated "misses" on when the budget would be balanced. As of 2011, history does seem be repeating itself in Alberta.

Parallel #1: "Alberta is not in debt"

In the 1980s and recently, the political rhetoric initially emphasized that Alberta could "afford" deficits given its overall net asset position. In 1985, Treasurer Lou Hyndman noted the net asset position of the general revenue fund as well as the positive balance in the Alberta Heritage Savings and Trust Fund. "There are few governments in the world that can match the financial strength of the province of Alberta," said Hyndman in his March 1985 budget speech (Alberta, 1985: 12).

Expectations—and promises—of balanced budgets were a regular pattern in the 1980s[11] In 1985, in an economy recovering from the early 1980s recession, Treasurer Lou Hyndman said that "on an aggregate basis, this province is not in debt" and that "less than one cent of every dollar we receive in revenue will be required pay the interest on our debt" (Alberta, 1985: 27). Thus, the tone, given the memory of more prosperous times, was one of lack of concern with the then relatively small provincial debt given that the net position of the province was still positive.

In June 1986, in a budget update after the provincial election, and using similar rhetoric to that of Hyndman the year previous, a new Treasurer, Dick Johnston, told Albertans that, "our per capita debt is by far the lowest of any Canadian government" (Alberta, 1986b: 9). In other words, deficits and debt were still seen as manageable.

The rhetoric remained the same as late as 1988. That year, Premier Getty still downplayed the significance of the deficit, at least when contrasted with the province's net asset position. *Calgary Herald* columnist Don Braid noted how the then premier focused on Alberta's net financial position instead of the annual deficit:

10 See Appendix 2 for a discussion of the attempt to balance the books through tax increases and Alberta Heritage Savings and Trust Fund transfers in this period.

11 Budget documents from 1985 record small deficits in 1984 and predicted the same for 1985. These were recorded due to different accounting methods (Alberta, 1985: 34). In hindsight, only one deficit year was recorded, that of 1982/83 (Alberta, 2001: 58).

> Premier Getty was berating reporters Wednesday for recording these facts. Alberta is really "debt- free," he said, if you total up the province's assets and liabilities. Technically, he's probably right. The province could likely raise $13 billion by selling off some hospitals, parks, and public buildings. The opulent Calgary Premier's Office would raise a few bucks, and the legislature would make a dandy loss leader. None of that will happen, of course. The thing that really matters is getting rid of annual deficits, and then the accumulated debt. Johnston still hopes that revenues will again equal expenses by 1990. After that, he says, the province can begin whittling down the long-term debt. (Braid, 1988: A3)

Modern parallels

In more recent times, the rhetoric has returned: Net assets are noted so as to deflect concern over the ongoing deficits. In February 2009, Finance Minister Iris Evans noted that, "Alberta has absolutely got more resources available to it than anybody else facing a decline" (O'Neill and Walton, 2009).

Later that same year, in early April 2009, Premier Ed Stelmach rejected a University of Calgary report that warned the provincial government that it faced a 1980s-style quagmire on public finances[12] and called it "nonsense." "Look at our balance sheet. We're the only jurisdiction in North America that has cash in the bank—liquid" (Fekete, 2009: A1). In 2010, in his first budget speech as finance minister, Ted Morton trumpeted how, over the previous 16 years, Alberta had "paid down $23 billion in debt [and] saved nearly $25 billion" (Alberta, 2010f: 2). In 2011, another new Finance Minister, Lloyd Snelgrove, also boasted about how the province had paid down debt and saved billions of dollars (Alberta, 2011b: 2).

The claims from Evans, Stelmach, Morton, and Snelgrove were correct, just as they were when uttered by Hyndman, Johnston, and Getty. However, what mattered and what was not addressed in the initial deficit years, in both eras, was and is the fact that Alberta's net assets were in decline precisely because of chronic and large deficits. It was the trend that mattered then, and matters now, which leads to a second observation and parallel.

12 The reference was to the then just-released paper by University of Calgary economists J.C. Herbert Emery and Ronald D. Kneebone, *Will It Be Déjà Vu All Over Again?* (2009).

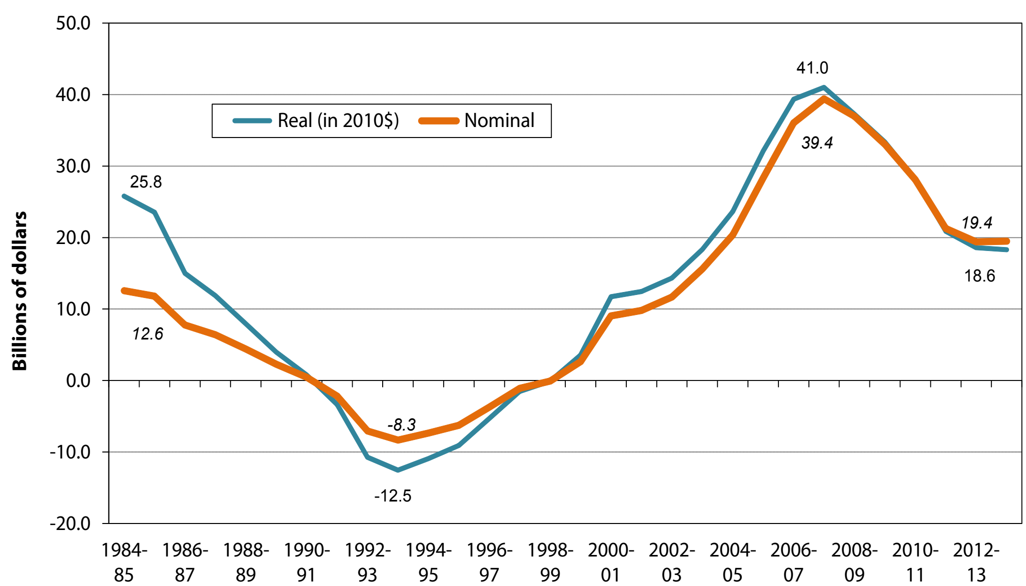
Parallel #2: Both eras saw a net decline in provincial assets

As accurate as the claims of a debt-free Alberta were in the mid-1980s (and at present), the province proceeded to incur nine successive deficits starting in 1985/86. The result was that the province's net financial assets, which stood at $12.6 billion in 1984/85, declined to a net debt position of $8.3 billion (in nominal terms) by 1993/94. The overall (nominal) decline was a $20.9 billion in the province's position over nine years (Alberta, 2001: 58).

Modern parallel

The pattern from the 1980s and early 1990s of deteriorating asset conditions has lately been repeated. In 2007/08, Alberta's net financial assets were at an all-time high of $39.4 billion (in nominal terms). Since then, the decline has been as dramatic as the 1980s/1990s deterioration. As of Budget 2011, the province forecasts that net financial

Figure 2: Alberta's net financial assets, 1984/85 to 2013/14 (est.)



Sources: Alberta, 2001; 2011e.

assets will reach a low of $19.4 billion in 2012/13—a $20 billion decline[13] in nominal terms over that five-year period.[14]

If, as of 2011, the province's target of a balanced budget for the 2013/14 budget year is not achieved, the net financial assets of the province will decline even further. In 1985, Treasurer Hyndman could not have foreseen the nine years of deficits that the Alberta eventually incurred. At present, and as of Budget 2011—fully three years into deficits[15]—with forecasts for another two, the pattern is unmistakable: Alberta is rapidly drawing down its savings as it did in the 1980s and early 1990s, and is in a deteriorating net asset position.

Parallel #3: Capital and operating spending are seen as sacrosanct

In his 1985 speech, Treasurer Lou Hyndman claimed that a "massive capital budget of nearly $1.7 billion [would] maintain existing jobs and create employment" (Alberta, 1985: 29), i.e., that such capital spending would keep the economy in healthier shape than it would be otherwise. Also, spending reductions were seen as anathema:

> High quality people programs are sustained; there are no cutbacks. Fiscal responsibility is maintained. A massive capital works program is provided while at the same time taxes, the deficit, and borrowing are held down. (Alberta, 1985: 29)

In April 1986 and just before an election, Treasurer Dick Johnston introduced a budget that pledged an additional nine percent boost in program spending, and continued capital spending at roughly the same levels as the previous two years. His justification was that such initiatives were "job-creating" (Alberta, 1986a: 19, 22, and 26). The higher spending came despite the government's forecast that the General Revenue fund would run a $2.1 billion deficit (Alberta, 1986a: 33). There was also no analysis of the opportunity cost of such extra spending, i.e., that the money had to come

13 In fact, the picture is even worse: pension liabilities are not included in the foregoing numbers and are forecast to be $10.2 billion in 2012/13 (Alberta, 2011a: 88).

14 The inflation-adjusted decline in Alberta's net financial position is even more dramatic. In 2010 dollars, the net asset position declined from $25.8 billion in 1984/84 to a debt of $12.5 billion in 1993/94, a real decline of $38.3 billion. In the recent deficit environment, in 2010 dollars, the province's net financial assets, which stood at $41 billion in 2007/08, are forecast to decline to $18.6 billion by 2012/13, a real decline of $22.4 billion (Source: Alberta, 2001 and 2011e; inflation calculations from Milagros Palacios).

15 The years 2008/09, 2009/10 and 2010/11.

from somewhere, either borrowed or taxed away, and thus had its own consequences for the future economic health of the province and employment creation.

Just two months later in June 1986, after the provincial election, the treasurer introduced a budget update and the rhetoric was the same. In his update, Johnston proposed a further spending increase and more capital expenditures, even though the province was now forecasting a $2.5 billion deficit for 1986/87 (Alberta, 1986b: 5 and 13). (The eventual deficit turned out to be $4 billion (Alberta, 2001: 58)). Such measures, the Treasurer again assured Albertans, would “stimulate job creation” and “broaden our economic base” (Alberta, 1986b: 5).

Modern parallels

In Alberta's most recent balanced budget (2007/08), significantly higher spending was accompanied by a frank admission as to its possible undesirability, but there was no plan to change the pattern. The dramatic boost in spending was accompanied by a rhetorical acknowledgement that spending could one day be a problem, but no action was proposed, only a call to “hope”:

> It is a spending budget, admittedly... going forward, we are very hopeful that this can be corralled somewhat,” Finance Minister Iris Evans told reporters yesterday before tabling a budget that recommends an increase in spending of almost 12 percent from last year. (O‘Neill and Walton, 2008: A 10)

In January 2009, Premier Ed Stelmach hinted that fiscal prudence might be in order: “I don‘t want to underestimate the difficulties we‘re going to face as Albertans.... We may go back to the same strategies we used in the early 1990s” (Fekete and Martin, 2009: A1). However, in the same month, the premier appeared to retreat from this position. He instead endorsed the notion that government spending was critical to the economic recovery and to the employment prospects of Albertans, as this *Calgary Herald* story from January 2009 notes:

> I never used the word cuts. I said we will go, we'll look at every available way of, any place that we can reduce some of our spending.... Are there programs that, or things we‘re doing today as government that we can save a few million dollars? Maybe there‘s [sic] things we can delay in terms of expenditures.... But again, the principle here is to keep Albertans working. (DiAlieso, 2009: A3)

In April 2009, in a budget speech that reviewed the previous fiscal year (and the surprise deficit) and which also looked ahead, Finance Minister Iris Evans made comments similar to those given by Treasurer Lou Hyndman in 1985. In her 2009 address, Evans emphasized that existing capital and program expenditures were critical to

Alberta's recovery: "We also know that government must maintain its support for the economy. Albertans could experience even more turmoil if we failed to do so" (Alberta, 2009b). The Minister also defended existing levels of program spending: "We will maintain and enhance the services Albertans need… we will keep taxes low… and we will make investments to keep Albertans working" (Alberta, 2009b; ellipsis in original).

In February 2010, Treasury Board President Lloyd Snelgrove continued to argue that the only two choices were deficits, or poor health care, no road construction, and highly crowded classrooms: "See if Albertans support longer waiting lists, no roads, 60 people in the classroom" (Vanderklippe, 2010: A1). Snelgrove's rhetoric ignored other options, including a smaller civil service, or changes to wages, benefits, and pension provisions in the public sector, among other possibilities.

In late 2010, Alberta's finances had deteriorated once again and similar to certain years in the 1980s, the premier and finance minister said spending must be "controlled" and also indicated that that didn't mean "cuts." Then-Finance Minister Ted Morton in November 2010 confirmed that spending reductions were not a serious option, though he still talked about balancing the budget. He continued to assert that boom-era revenues would return and rescue the government from its financial predicament, as per the rhetorical assumptions in the 1980s:

> Finance and Enterprise Minister Ted Morton said he was more like a "fiscal mallard" than a fiscal hawk on Monday in announcing new financial results that show the province's yearly deficit inching over $5 billion. Morton made the comments to suggest his government was eschewing a predatory approach to financial planning, avoiding deep cuts to core services and infrastructure and instead using the province's sustainability fund as a shield until the economy picks up. (Gerein, 2010: A6)

Similarly, there has been little sustained rhetorical acknowledgement that spending financed out of future tax revenues borrows from the choices available to future Albertans. Future constricted choices include using tax dollars to pay for debt interest (capital spending borrowing), or losing investment income by whittling away at the financial assets of the province.

In defending the government's most recent deficit spending, Treasury Board President Snelgrove (and finance minister as of 2011) has again argued that the only choice is between deficits or cuts in public services. There has been rare mention and no significant action on the possibility of a freeze or reduction in overall wage and benefits packages for the public sector—the reality for the private sector in lean times. Such action does have the potential to affect public services, but so too does running continual deficits and thus "kicking" the problem down the fiscal road and incurring greater interest costs.

Thus, in the latter part of the most recent decade, the reality and the rhetoric from the provincial government was similar to that from the mid-to late 1980s on capital and program spending. Moreover, in 2010, there was again no willingness to revisit assumptions created when Alberta was at the height of a boom (when, for example, in 2008, the average annual price of oil was $100.06 WTI (West Texas Intermediate) and the average annual price of natural gas was $8.61/mcf (thousand cubic feet of natural gas) (BP, 2010: 16, 31).[16] Alberta's government has again, for years, budgeted on a permanently higher "plane" with the expectation that the exception of boom-era revenue prices, and thus boom-era tax revenues, were to be construed as the rule. Alberta has also again fallen victim to the errant notion that government spending is the cure for many of the private and public problems that Albertans face.

Thus, as in 1985 and in the subsequent years until 1993, existing spending plans for both capital and operating budgets were seen as integral to public well-being. No doubt some government expenditures were and are; however, in both eras, little attempt was or has been given to a re-examination of programs that might no longer serve their original purpose. Nor has there been a review of which programs and methods of delivery might be revisited with the goal of smarter, more efficient and more effective government. Nor were there serious plans to address boom-year expectations.

Parallel #4: Promises of a balanced budget in four years

In his March 1988 budget speech, Johnston proclaimed that a "solid recovery" had begun the year before (Alberta, 1988: 5). The treasurer credited previous spending: "This government's fiscal strategy of providing major stimulus worked. Our economy is growing again" (Alberta, 1988: 10). Still, the treasurer yet forecast a deficit for the upcoming year and still insisted a balanced budget would occur by 1990/91 (Alberta, 1988: 10, 30)—the original four-year target assumed by Budget 1987[17] (Alberta, 1987: 13).

16 At various points in 2008, oil and natural gas prices were both significantly higher than noted here. The prices quoted are the annual averages.

17 Thus, four fiscal years of deficits—1986/87, 1987/88, 1988/89 and 1989/90—with the promised balanced budget in 1990/91.

Modern parallel

In 2009, Finance Minister Evans predicted a balanced budget by 2012/13, and thus four years of deficits in the interim,[18] (Alberta, 2009b: 3) thereby paralleling the four-year balanced budget promises from the mid- to late-1980s. Similarly, in February 2010, the newest Alberta Finance Minister, Ted Morton, repeated the previous year's pledge from Evans of a surplus after four years of deficits. He also defended existing program and capital spending levels:

> Budget 2010 strikes the right balance between fiscal discipline and protecting core programs. It enhances our competitiveness by keeping taxes low and investing in infrastructure for the future, and positions us to be back in the black within three years (Alberta, 2010c).

Parallel #5: The four-year budget target is missed

By the late 1980s, Alberta Premier Don Getty and Treasurer Dick Johnston cemented their reputations as politicians who would continually set, and then miss, their targets for balancing the books. However, at one point in 1989, it appeared the government might be closer to "black" than initially forecast. The expectation was short-lived, as the *Edmonton Journal* noted:

> Back in the spring of 1987, Johnston put together a plan to reduce the budgetary shortfall…. Last year, thanks to stronger than expected economic growth, the plan leaped ahead of schedule…. In December, Johnston was forced to revise his deficit projection to $1.37 billion. That figure now seems certain to zoom higher. (*Edmonton Journal,* 1989: A1)

By June 1989, in a post-election budget, the government was forced to admit its initial deficit estimates were low, and that its forecast of a balanced budget would be delayed one year. The four-year target would be missed. Treasurer Dick Johnston said in a newspaper report that year:

> "Clearly this is a setback to our plan to move steadily toward a balanced budget by 1991… I am disappointed in the 1988-89 results." Johnston now insists the deficit will be eliminated by 1991-92, a year later than projected… Johnston in-

18 Thus, four fiscal years of deficits—2008/09, 2009/10, 2010/11 and 2011/12—with the promised balanced budget in 2012/13.

> sisted the government hasn't abandoned its plan to balance the budget. "You watch and see." (Geddes, 1989: A10)

By the spring of 1992, and with its latest balanced budget target again missed, even the provincial government publicly admitted balanced budgets were still years away. But the province again pinned its hopes on higher energy prices and thus higher royalty and tax revenues: "Unless energy prices climb sharply, the earliest balanced budget will be 1996-97" said Treasurer Dick Johnston in his budget speech in April 1992 (Crockatt, 1992: A1). In predicting a $2.3 billion deficit for fiscal 1993, Johnston again acknowledged the deficit was a "very serious problem," but after six years of deficits he was still avoiding difficult choices, instead yet putting them off by arguing that "the problem cannot be solved overnight" (Alberta, 1992: 21).

Modern parallel

Similar to the missed balanced budget target in the later 1980s and early 1990s, in a late 2010 interview, Premier Stelmach again gave contradictory signals on spending reductions, both hinting at budget cuts and yet eschewing them at the same time. And he announced, akin to the 1991 and 1992 reversals by the then government that a balanced budget deadline would be pushed off further into the future:

> "We're going to trend toward a balanced (budget). But what I'm hearing from many Albertans is 'be careful (about steep cuts).'"… Stelmach maintained his government will continue to spend billions on necessary capital projects, even if it takes longer to balance the books and forces the province to dip further into savings or borrow cash. (Fekete, 2010: A1)

Moreover, in his 2011 budget speech, the newest Finance Minister, Lloyd Snelgrove, confirmed the previous four-year balanced budget target would not be met. Snelgrove offered the public only an either/or scenario in reference to plans to continue to spend at the same levels as before: "Do we stop investing in the future? Do we abandon our priorities?" (Alberta, 2011b: 12).

But Snelgrove's Manichean rhetoric simplified the choices and implied Albertans could only choose between the already-planned level of government spending on social programs or capital projects, or none. Of course, the trade-offs faced by governments are between *some* level of expenditures versus another—not unlimited spending or its utter absence. Snelgrove also again ignored the deleterious effects that chronic deficits have on *future* choices for Albertans—on capital spending, program spending and the tax burden.

Parallel #6: (Another) false start on balanced books?

In 1990 and 1991, a fiscal "head-fake" occurred that led the politicians of the day to think a balanced budget might actually be accomplished within the original four-year time frame.

In later 1990, after Iraq invaded Kuwait and oil prices were given a temporary boost, it appeared that the province's books might indeed soon be in the black. Publicly, Premier Getty mused about the sooner-than-expected balanced budget, yet cautioned that this wouldn't change the government's ostensible commitment to holding the line on spending: "The Alberta government will continue to hold the line on spending in next year's budget despite windfall oil revenues, Premier Don Getty says" read one headline that year (Cook, 1990). In another news report, the premier was quoted as saying: "Whether there are more dollars won't change that plan. I'm trying to restrict expenditures, not just when we find some more money, spend it… Our plans are to maintain the type of expenditure control that we have maintained" (Geddes, 1990).

At budget time in 1991, where a $33 million surplus was forecast for the next budget year, the premier said that "Albertans shouldn't be surprised if a projected budget surplus of $33 million ends up being a lot larger," (Laghi, 1991: A1). The premier turned out to be very optimistic: the projected surplus turned out to be a $2.6 billion deficit (Alberta, 2001: 58).

Modern parallel

By May 2011, the rhetoric in the latest deficit era shifted once again, and in a manner that also paralleled the previous deficit era. In a speech to the Alberta Weekly Newspaper Association, Premier Stelmach hinted that the off-again four-year target for balanced books might be on again, citing higher oil and gas prices (Henton, 2011: A4). The premier also pledged that ostensible existing spending restraint wouldn't change should the province find more revenue had accrued than originally planned for in the February 2011 budget. "It will help the bottom line, but it doesn't mean we'll increase spending or change any of the long-term plans," said Stelmach (Henton, 2011: A4).

Parallel #7: Program expenditure growth outpaces revenue growth

In the 1980s and in the most recent deficit era, the first deficit year was preceded by years of growth in program spending which far outpaced the growth in revenues. In the 1980s, much of the growth in program expenditures took place in two "growth

Table 1: Alberta's fiscal history 1980/81 to 1985/86
Total revenue growth versus growth in total program expenditures

Year*	Total revenues ($ millions)	Year-over-year increase/ decrease (%)	Total program expenditures ($ millions)
1980-81	8,922		7,496
1981-82	10,871	21.8%	8,647
1982-83	10,963	0.8%	11,704
1983-84	11,953	9.0%	11,653
1984-85	13,283	11.1%	11,809
1985-86	**13,294**	**0.1%**	**13,873**
1980/81 to 1985/86 increase ($)	4,372		6,377
1980/81 to 1985/86 increase (%)	**49%**		**85%**

*Fiscal years April to March 31.
Sources: Department of Finance, 2000; calculations by author. First deficit year in **bold**.

spurts." The first was between 1980/81 and 1982/83, and then between 1983/84 and 1985/86, with expenditures roughly level in only 1982/83.

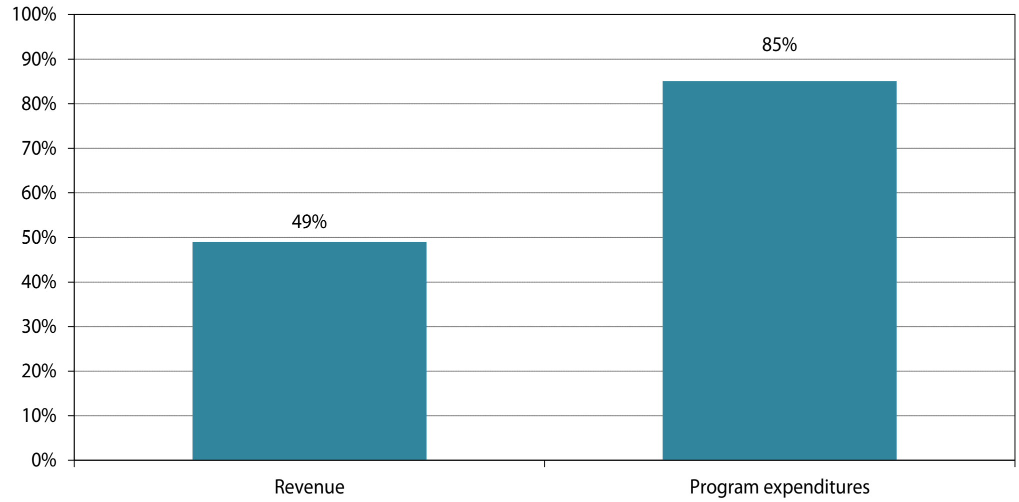
In a comparison of 1980/81 and 1985/86, program spending was 85 percent higher in the latter year—the first deficit year. In contrast, revenues were only 49% higher (Department of Finance, 2000, 2010).[19]

Overall, this dichotomy, where spending dramatically outpaced even a substantial growth in revenues, set the stage for what was about to come next: a nine-year-long string of deficits (see table 1 and figure 3).

19 For the record, it is impossible to assert that a drop in revenues was the cause of the 1985/86 deficit. In 1985/86, total revenues were the same as they had been the previous year, at $13.3 billion. Even natural resource revenues declined only marginally to $4.9 billion in 1985/86 from $5.2 billion in 1984/85 (all figures in nominal terms from Alberta, 2001: 58). Thus, in 1985/86, a significant rise in spending—over $2 billion— was the reason for that year's $761 million deficit. Without that dramatic increase, the provincial government would have run a sizable surplus that year.

In contrast to 1985/86, it was not until 1986/87, when total revenues plunged by almost $3.7 billion in one year due to a dramatic fall in oil prices (in 1986), that a drop in resource revenues could be identified as the reason for the budget deficit. Even then, the 1980/81-1985/86 spending pattern already set the stage for significant deficits in Alberta. The swift decline in oil prices (reflected in 1986/87 resource revenue numbers) only served to make clear the previous pattern of spending beyond the province's means.

Figure 3: Alberta's revenues versus program expenditures Growth between 1980/81 and 1985/86*



*Fiscal years April to March 31.
Sources: Department of Finance, 2000; 2010; and calculations by author.

Modern parallel

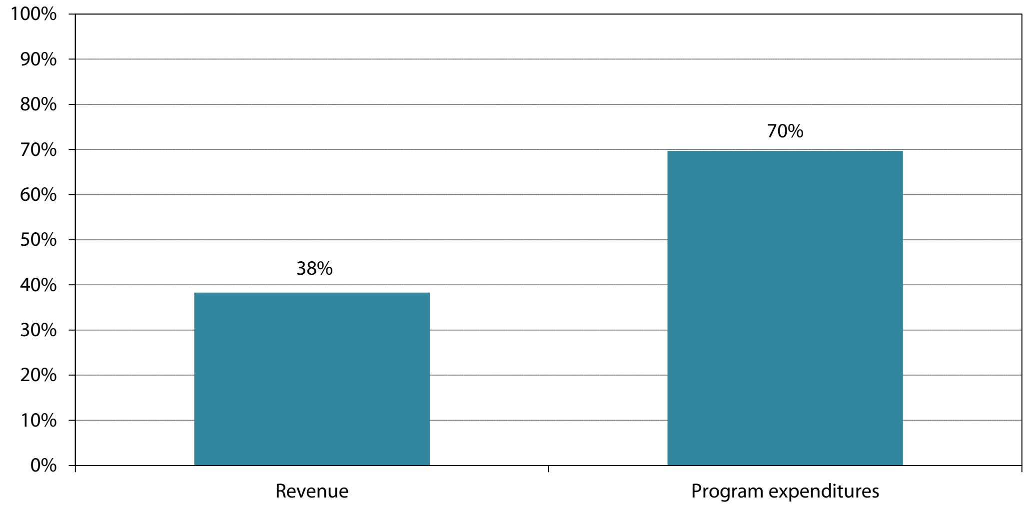
In August 2010, reporting on the final numbers for budget year 2009/10 (ending March 31, 2010), it turned out the initial deficit forecast deficit of $4.7 billion did come in at significantly less, at just $1 billion. Finance Minister Morton credited tight controls on spending:

> We had a plan to manage through these difficult times. We stuck to that plan and it has paid off… We kept a tight rein on spending and drew on the Sustainability Fund to protect vital public programs (Haggett, 2010: FP6).

But this claim was only partly accurate and only in the context of one year. It ignored the longer trend, one that produced significantly higher program expenditures that outpaced revenue growth. Thus, in the most recent deficit era, another similarity to the early and mid-1980s is found: increases in program spending significantly outpaced revenue growth. Such increases both preceded and were a cause of the deficits.

The result of the year-over-year increase in program spending beyond revenues meant that when revenues declined suddenly, the previous years' spending increases already set a substantially higher base on the other side of the fiscal ledger (see table 2 and figure 4). In a comparison between 2003/04 and 2008/09, program spending was

Figure 4: Alberta's revenues versus program expenditures Growth between 2003/04 and 2008/09*



*Fiscal years April to March 31.
Sources: Department of Finance 2000; 2010; and calculations by author.

Table 2: Alberta's fiscal history 2003/04 to 2008/09
Total revenue growth versus growth in total program expenditures

Year*	Total revenues ($ millions)	Year-over-year increase/ decrease (%)	Total program expenditures ($ millions)
2003-04	25,887		21,480
2004-05	29,328	13.3%	23,851
2005-06	35,542	21.2%	26,743
2006-07	38,017	7.0%	29,292
2007-08	38,169	0.4%	33,374
2008-09	**35,805**	**-6.2%**	**36,449**
2003-04 to 2008-09 increase ($)	9,918		14,969
2003-04 to 2008-09 increase (%)	**38%**		**70%**

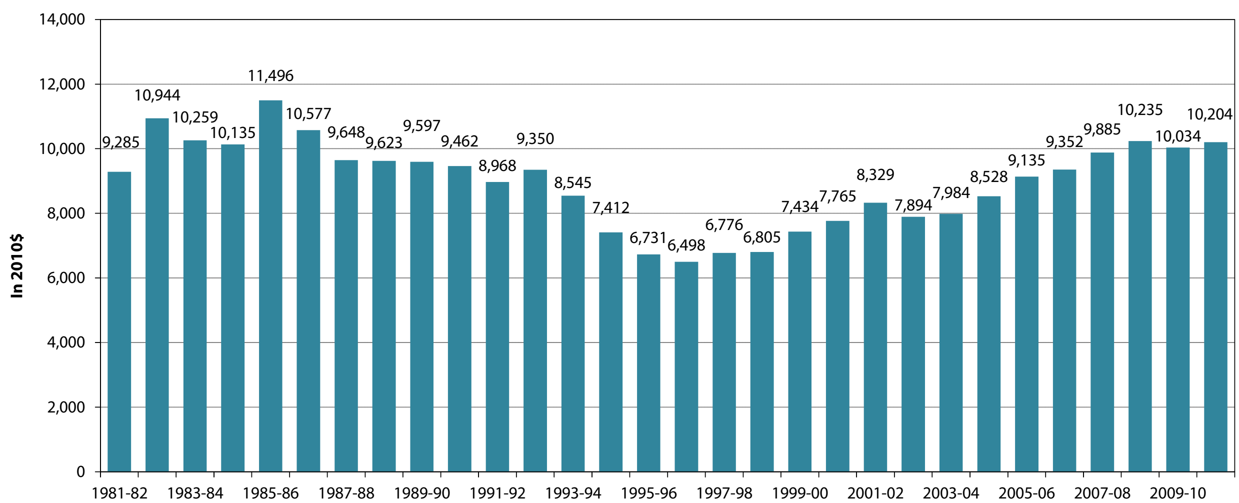
*Fiscal years April to March 31.
Sources: Alberta, 2011e; calculations by author. First deficit year in **bold**.

70% higher in the latter year—the first deficit year—when compared to 2003/04. In contrast, revenues were only 38 percent higher by that first deficit year (Alberta, 2011e: 20).[20]

Parallel #8: A significant rise in real per capita spending

In the 1990s, Alberta's chronic deficits were only addressed once real per capita program spending was significantly cut. There were marginal reductions in the later 1980s, but it would take more significant reductions (which began in the early and mid-1990s) to bring the books into balance. Even with those reductions, spending was still historically high.[21]

Figure 5: Alberta's per capita program spending (adjusted by inflation), 1981/82 to 2010/11



*Fiscal years April to March 31.
Sources: Canada, Department of Finance 2001; 2010a; Alberta, 2011e; Statistics Canada, CANSIM Table 326-0021 and 051-0005; and calculations by Milagros Palacios.

20 Note that the six-year period compared in the most recent deficit era was chosen to correlate with the initial six-year analysis chosen from the 1980s; in both cases, the choice enabled an analysis of the five-year period immediately preceding the first deficit year.

21 In one sense, high per capita levels of spending made it more possible to bring the books into balance; it was not as if the province was starting from historically low levels of per capita spending. Restructuring any corporate entity with existing commitments and expectations is not without controversy and opposition; nevertheless, it is more difficult the closer a government's spending patterns are to low historical averages than when such averages are at or near all-time highs, as were Alberta's in the early 1990s and now.

In the 1980s and '90s, real per capita program spending hit a high of $11,496 in 1985/86 and was predicated upon earlier mistaken assumptions that boom-era revenues would continue. Real per capita program spending declined to a low of $6,498 in 1996/97 (see figure 5).

Modern parallel

More recently, since 1996/97, the trend for program spending has been mostly higher. Real per capita program spending hit $10,235 in 2008/09, dipped slightly the next year, and rose again to $10,204 in 2010/11 (Department of Finance, 2000 and 2011a; Alberta, 2011e; Statistics Canada, 2011; and calculations by Milagros Palacios).

Alberta is now consistently back to the historically high spending levels it last reached in the 1980s, when spending was similarly predicated on resource revenue "boom" years, not years in which revenues were moderate. The pattern of the 1980s is very much in evidence.

In the later 1980s, the political rhetoric begins to change

In his March 1987 budget speech, the provincial treasurer's tone changed from that used in previous budget speeches: "We must take action now to realign the government's finances," said Dick Johnston (Alberta, 1987: 13).

> Deficits in the order of $3 billion cannot be allowed to continue. If not checked, Alberta would find itself with more and more tax dollars diverted from services for Albertans to paying interest on debt. We would be passing to our children and grandchildren the responsibility of paying bills for the services we enjoy today… We must discard many of the solutions from the past and think anew and act anew. (Alberta, 1987: 13 and 25)

So as of 1987, the rhetoric changed. But problematically, the budgets of 1985 and 1986 contained the exact *opposite* rhetoric and thus had ill-prepared the public for what had long been the fiscal reality, but one only recognized publicly and late by the provincial treasurer.

Four years later, by 1991, Treasurer Johnston introduced a budget that (mistakenly as it turned out) forecast a $33 million surplus *in the following fiscal year* (1992/93). No forecast was provided beyond that next year (Alberta, 1991: 32) and the projection of a surplus budget turned out to be incorrect. (A deficit of $3.3 billion was incurred (Alberta, 2001: 58).)

In the years between 1987 and 1991, there was some spending control. On an inflation-adjusted basis, Alberta's per capita program spending had been held constant between 1988 and 1990 and even declined, slightly. Inflation-adjusted per capita spending was $9,648 in 1988 but $8,968 by 1992 (Department of Finance, 2000; 2010).

Still, in 1992, the newest budget was about to boost spending again by almost $400 per capita, thus undoing in one year much of the previous progress in whittling expenditures closer to more affordable levels. As late as 1992, although the rhetoric on balanced budgets was there, there was still no willingness to revisit the flawed assumptions in play since the late 1970s and the ramp-up in spending that resulted from the same.

The treasurer still saw significant reductions in spending as unnecessary and undesirable. Expectations created by higher energy prices (and thus revenues) in the late 1970s and early 1980s was coupled with a belief that government expenditures were the cure for many public and private problems and a concurrent belief that program spending was sacrosanct. A more permanent adjustment to the post-1986 realities had not yet been made.

The 1993 sea-change in rhetoric and action

By 1993, the provincial government decided that a balanced budget would not occur unless a determined effort was made to rein in current political assumptions and then act on the changed rhetoric by reining in program expenditures. In May 1993, in new Premier Ralph Klein and new Finance Minister Jim Dinning's first budget, and shortly before an election, spending reductions were the main tool employed to cut the deficit (along with a rise in health care premiums, one of the few taxes raised). A newspaper report from the time described the new approach:

> Premier Ralph Klein's pre-election budget slashed spending by $703 million, raised health care premiums and eliminated 700 more civil service positions. Provincial Treasurer Jim Dinning announced Thursday no tax increases, no new taxes and "no giveaways." Despite the belt-tightening, the province is left with a deficit of $2.47 billion for the 1993-94 fiscal year and record debt-servicing payments of $1.4 billion. Last year the deficit was $3.2 billion.
>
> But Dinning promises to balance the books in the fiscal year of 1996-97 with more severe budget cuts to come in the next three years. "The expenditure cuts will have to go deeper… our work has just begun," said Dinning. (Crockatt, 1993: A1)

Similarly, in a move that paralleled the sacrifice the private sector regularly experiences when expenditures exceed revenues, the premier asked government workers to help balance the books. The premier called on employees "to be more productive and work with the government to find the best way to make cuts" (*Edmonton Journal*, 1993: A5).

The cuts were controversial in some circles and some expressed skepticism that the budget could be balanced without widespread tax increases. University of Alberta business professor Allan Warrack expressed doubt: "I have difficulty believing that the government actually believes it is going to remove the deficit through expenditure reduction" (Pedersen, 1993: A1). Some were apoplectic that budget reductions were chosen at all. A sociologist from the University of Alberta attacked the general lack of tax increases combined with spending cuts as "reprehensible" (Harrison, 1993: A11).

Opposition to spending reductions came not only from academics and the *Edmonton Journal*. The *Calgary Herald*, in a 1994 editorial, questioned the wisdom of spending reductions. It argued that "Klein was adamant that 'no society has ever taxed its way back to prosperity,' but he showed no evidence of any society which has created prosperity solely by spending reductions" (*Calgary Herald*, 1994: A4).

The critics were in error. Successive budgets in the 1980s had explicitly included spending as a strategy for economic recovery (Alberta, 1985: 29), but the recovery turned out to have been weaker than first trumpeted by Alberta's finance ministers (Alberta, 1988: 10). The result of attempts to stimulate the economy through more spending simply led to higher deficits. In contrast to the critics, Finance Minister Dinning called for acceptance that the previous approach had failed; Premier Klein called for government employees to help in the deficit reduction effort with cuts to salaries and increases in productivity:

> Dinning, in an interview, points to 1986 as the year it became apparent that Alberta had a spending problem. The bottom had fallen out of oil and gas revenues, the major source of government income. But spending continued. "It was at a time when we believed a problem could be solved by spending more money on it. We've learned, painfully, that that thinking was never very accurate," says Dinning, first elected in 1986 (Alberts and Pommer, 1993: A1).

Modern critics of spending reductions

Similar to the 1980s and 1990s where "stimulus" spending was initially favoured by some in the belief it could rescue the provincial economy, in the latest deficit era, some have also argued that deficit spending would contribute to an economic recovery. In August 2009, Canada West Foundation President Roger Gibbins rejected spending cuts as an option in the short-term.

> Roger Gibbins, president of the Canada West Foundation, is more optimistic about the province's long-term economic outlook and suggested the government can ride out a short-term wave of deficits. He cautioned that deep government cuts could stall economic recovery. "My own inclination is to rely on deficit spending in the short term, partly because governments are a big contributor to the rebound of the provincial economy." (McLean, 2009: A1)

In 2010, the Edmonton Chamber of Commerce defended the deficit not only in the short-term; the Chamber also wanted the government to retain existing spending commitments in future years.

> The Edmonton Chamber of Commerce… has come to the government's defence, arguing that not only is the record spending justified, but that this year's

> deficit is easily absorbed by the province's $15 billion sustainability fund. "The Edmonton Chamber of Commerce believes that the revenue projections in the budget are for the most part reasonable, and relies on the government to keep its word in terms of further spending increases in the years ahead," said a statement from the chamber's chair, Carman McNary, on Wednesday. (Thomson, 2010: A17).

Both the historical and recent rhetoric include a plethora of claims that stimulus spending by government spending will benefit the economy. Such assumptions overlook how money spent by governments is not created out of thin air but instead must either be borrowed or taxed away from individuals and businesses. In their look at the recent federal government stimulus, my colleagues Niels Veldhuis and Charles Lamman have summarized the failure of stimulus programs in this manner:

> A vast body of academic research casts serious doubt on the ability of government stimulus spending to boost economic activity. Last October [2009], leading fiscal policy expert and Harvard University professor Alberto Alesina and his colleague Silvia Ardagna conducted a comprehensive analysis of stimulus initiatives in Canada and 20 other industrialized countries from 1970 to 2007 (Alesina and Ardagna, 2009). Their study identified 91 instances where governments tried to stimulate the economy and found that unsuccessful attempts were based on government spending. Alesina noted that "a one percentage point higher increase in the current [government] spending to GDP ratio is associated with a 0.75 percentage point lower growth." In plain English, increased government spending reduces, not increases, economic growth. (Veldhuis and Lamman, 2010: 20).

Alternately, insofar as governments borrow money, they borrow from the future, and future incomes are taxed for present purposes. In Alberta's case, new borrowing at present has been limited to selected capital expenditures. The remaining deficit gap has been financed by withdrawals from the province's Sustainability Fund. However, such withdrawals restrict future choices. Importantly, these future choices may be made in an economy where Alberta's natural resources have either substantially declined or are less valued by the marketplace.

Summary of the switch in rhetoric: then versus now

Initially, in the early 1980s, booming resource revenues (along with personal and corporate tax receipts that flowed in the wake of strong resource prices) led policymakers and the public to believe permanently higher spending could be sustained indefinitely. The rhetoric flowed from assumptions that revenues would always rise to compensate for the above-inflation and above-population growth in program spending. That left the province vulnerable to significant, chronic deficits once revenues did not match expectations. The government changed course in 1993.

In the more recent deficit era, successive finance ministers and the premier, while giving an occasional nod in the direction of balanced budgets, have done little to set Alberta's finances on the course to reach a surplus. Even the most recent budget, Budget 2011, which ostensibly moderates the spending increases in subsequent years (total program expenses are forecast to rise by only $69 million in 2011/12 from the previous year, $497 million from 2011/12 to 2012/13, and just $223 million from 2013/14—the year in which the budget will ostensibly balanced) is built upon questionable assumptions. Past provincial government spending patterns where such good intentions are later swept away by substantially higher spending, cast doubt on the likelihood of the latest balanced budget target. Unlike 1993, the recent rhetoric that does exist on the need to restore fiscal balance in Alberta has not been matched by the actions and plans necessary to reach that end.

Looking ahead to a predicted balanced budget: The failure of past spending forecasts

In Budget 2011, Finance Minister Lloyd Snelgrove predicted a balanced budget by 2013/14 (Alberta, 2011b: 4) one year later than the target repeated by Premier Ed Stelmach over several years and as promised by former finance ministers Iris Evans in 2009 and Ted Morton in 2010 (Alberta, 2009a; 2010c). Problematically, however, in Budget 2011, the new target for a balanced budget was predicated upon significantly higher revenues between 2010/11 and 2013/14—an $8 billion increase in total revenues, or 23.6 percent. On the spending side, Budget 2011 forecasts spending to increase only marginally in three years—by $1.8 billion or 4.7 percent.

However, if history is any indication, three-year budget targets are unreliable guides as to how much money the province will eventually spend.

- In the case of three-year targets for program spending, only the 2008 budget came close to the original target for a budget year three years hence. When the books were closed on the 2010/11 year, only one percent more was spent relative to the original target (Alberta, 2008; 2011e). In all other years, actual program spending exceeded targets by ranges of 8.0 to 21.2 percent (see table 3) (Alberta, 2004; 2005; 2006; 2007b;

Table 3: Three-year forecasts on program spending—and results, 2004 to 2008 budgets

		Total program expense (in $ millions)			
	For:	Target	Actual	Difference	Difference (in %)
Budget 2004	2006/07	23,079	29,292	6,213	21.2%
Budget 2005	2007/08	26,589	33,374	6,785	20.3%
Budget 2006	2008/09	29,903	36,449	6,546	18.0%
Budget 2007	2009/10	33,567	36,470	2,903	8.0%
Budget 2008	2010/11	37,581	37,969	388	1.0%

Targets from annual provincial budgets.
Actual program expenses from Alberta 2011e.

Table 4: One-year forecasts on program spending—and results, 2004 to 2008 budgets

	For:	Total program expense (in $ millions) Forecast	Actual	Difference	Difference (in %)
Budget 2004	2004/05	22,286	23,851	1,565	6.6%
Budget 2005	2005/06	25,535	26,743	1,208	4.5%
Budget 2006	2006/07	28,067	29,292	1,225	4.2%
Budget 2007	2007/08	32,914	33,374	460	1.4%
Budget 2008	2008/09	36,783	36,449	-334	-0.9%
Budget 2009	2009/10	36,838	36,470	-368	-1.0%
Budget 2010	2010/11	38,376	37,969	-407	-1.1%

Estimates from annual provincial budgets.
Actual program expenses from Alberta 2011e.

2011e). In other words, in five out of five years, the province spent more—in most years, significantly more—than projected in its three-year plans.

- Alberta's one-year forecasts are a more reliable guide than the three-year targets, at least recently. In the seven most recent budget years for which a one-year forecast can be compared with actual results, three years came in under budget (at roughly one percent less than planned), while four were over budget by ranges of 1.4 to 6.6 percent (see table 4) (Alberta, 2004; 2005; 2006; 2007b; 2008; 2009c; 2010a; 2011e).

The conclusion is clear: three-year spending "targets" are an unreliable guide to future spending because they underestimate such spending.The result is that the balanced budget target for 2013/14 is subject to a high-risk strategy, and thus to another possible delay.

Conclusion: A caveat and a possibility—history is not guaranteed to repeat itself

In any attempt to remind policymakers, the public, and the media about the choices available to governments and historical mistakes to avoid, assumptions about history inevitably affect decision-making. Two historical orientations, one deterministic and one that provides for human freedom and action are relevant here. In 1832, the German philosopher Georg Wilhelm Friedrich Hegel asserted that, "What experience and history teach is this—that people and governments never have learned anything from history, or acted on any principle deduced from it" (Bartlett, 1992: 372). A less deterministic view of history came from George Santayana in a phrase that has now become a cliché. In 1905, he observed that, "Those who do not remember the past are condemned to relive it" (Shirer, 1960: viii). For those who would prefer to consider the Alberta government's financial situation in light of the latter observation, Santayana's caution may be less about not forgetting Alberta's past than about educating younger and newer Albertans about the province's history.

In the previous deficit era, Premier Don Getty and later Premier Ralph Klein presided over nine years of deficits. In the Getty years, forecasts for a balanced budget were continually pushed back. The same pattern has emerged now. As recently as November 2010, then Finance Minister Ted Morton predicted a balanced budget within a few years: "We will continue to control what we can and we are resolved to getting back in the black in 2012-13" (Alberta, 2010e).

However, one month later, Premier Ed Stelmach informed Albertans that the province's budget will not be balanced that year (Fekete, 2010: A1). In February 2011, new Finance Minister Lloyd Snelgrove confirmed the planned surplus would be delayed until 2013/14 (Alberta, 2011b: 4). In his Budget 2011 speech, the minister claimed that "because the recession hit Alberta harder than first thought, revenues are not projected to be as high, this year and next, as forecast a year ago," and thus implied the same reason for the delayed balanced budget (Alberta, 2011b: 4). Absent from his remarks was any historical understanding or analysis of how ever-rising real per capita spending played into the inevitably of Alberta's newest deficit era.

As a result, as of the 2010-2011 Annual Report released in June 2011, the province is still budgeting for a minimum of five deficit years (three already incurred). If present projections hold—and past multi-year targets on spending have underestimated spending—"red ink" during the five deficit years will total at least $9.4 billion. In

June, Finance Minister Snelgrove sounded a cautionary note remarking that, "The health of the world economy, particularly in the United States and Europe, remains uncertain," but he still went on to trumpet the net financial assets of the province (Alberta, 2011f). His rhetoric was similar to that of previous finance ministers and 1980s-era treasurers. All failed to mention the rapid decline of those same financial assets due to chronic deficits.

In contrast to 1993, the recent rhetoric on spending and deficit control is nowhere near as constant or as firm as that which began in the late 1980s and early 1990s under Premier Ralph Klein and Finance Minister Dinning. In today's climate, politicians and policymakers must recognize that earlier budget assumptions were built on inflexible approaches to revisiting selected government spending and on assumptions about extraordinary "boom" years, rather than on more reasonable revenue streams. It is essential that both current rhetoric and current spending be reformed to match actual budgetary realities and revenues.

Recommendations

Recommendation 1: The reality of overspending beyond the province's means should be acknowledged in political rhetoric

This study compares the political rhetoric in the previous deficit era with that in the present deficit years. Thus, the first recommendation is that the reality of overspending beyond the province's means be acknowledged in province's political rhetoric. Alberta's unsustainable spending is obvious from ever-increasing real per capita spending; program spending regularly outpaced revenue growth in the years leading up to Alberta's deficits; Alberta's deficits are thus chronic; the province's net financial assets are deteriorating; and lastly, such deficits will likely not be eliminated without spending reforms.

Recommendation 2: Create an Alberta Financial Review Commission to review the province's finances

Similar to 1993, the province should commission an Alberta Financial Review Commission to review the province's finances and recommend changes to Alberta's taxation and spending structure. This was also the course take in 1995 by federal Liberal Finance Minister Paul Martin, who initiated a thorough review of federal spending (Veldhuis, Clemens, and Palacios, 2011: 19-29). "We are acting on a new vision of the role of government… smaller government… smarter government," said Martin in 1995 when he made a non-ideological and non-partisan argument about the simple math of deficits that year: "The debt and deficit are not inventions of ideology. They are facts of arithmetic. The quicksand of compound interest is real" (Martin, 1995: 2).

Recommendation 3: Examine the wage and benefits side of the budget

Governments that wish to balance their budgets cannot ignore the fact that salaries and benefits are the largest part of any government's budget. In 1993, the province reduced the number of civil servants by 2,575 positions, or 7.6 percent of the civil service (Alberta, 1993b: 34). It also instituted an across-the-board wage reduction for all employees of 5 percent (Alberta, 1994: 10). If Alberta is to restore its budget balance, short-, medium-, and long-term reviews of that expense must be part of any balanced budget goal—if tax increases are to be avoided.

There are various ways to accomplish such an end with minimal disruption; they need not necessarily involve all the above actions or the degree to which they were necessary in the 1990s. Also, in the 1990s, much of the civil service reduction was accomplished through attrition (Alberta, 1993b: 34). Nevertheless, options for a balanced budget should include attrition, wage freezes or reductions, voluntary renegotiation of existing contracts if necessary, and longer-term changes to pension obligations which would move them from defined benefit plans (and their inherent liabilities) to defined contribution plans. While the government has initiated a hiring freeze, it has not made the structural changes to employment levels or to salary and pension obligations that would substantially lighten future fiscal obligations. All such options should be considered.

Recommendation 4: Institute a legislated plan to arrive at a balanced budget

In the 1993 budget, the government of the day set out a four-year plan to balance the books and it included a balanced budget law and a plan to reduce spending over four years by 20 percent, starting with a 5.5 percent reduction in the first year (Alberta, 1993b: 11). At present, based upon Budget 2011, no such plan exists. Also, in contrast to the 1993 budget, which set out a legislative guideline on spending targets (the Alberta Deficit Elimination Act (Alberta, 1993a: 10)), there are no legislated targets in Budget 2011 to arrive at a balanced ledger.

Recommendation 5: Institute past recommendations on future savings plans

Various analysts and organizations, including this author (Milke, 2006) have recommended that the province deposit significantly more of its resource revenues into the Alberta Heritage and Savings Trust Fund (AHSTF). The province itself commissioned a report on the matter and created the Alberta Financial Investment and Planning Advisory Commission for such purposes, which reported in 2007 (Alberta, 2007a). The provincial commission, chaired by Jack Mintz, recommended among other goals, a target of $100 billion in net financial assets to be put into a reinvigorated Alberta Heritage Fund by 2030; saving a fixed percentage of Alberta's total revenues each year as part of the budget, and instituting strong legislation to reinforce Alberta's commitment to saving (Alberta, 2007a). In short, once Alberta's budget is balanced, the government should take its own commissioned advice on such matters.

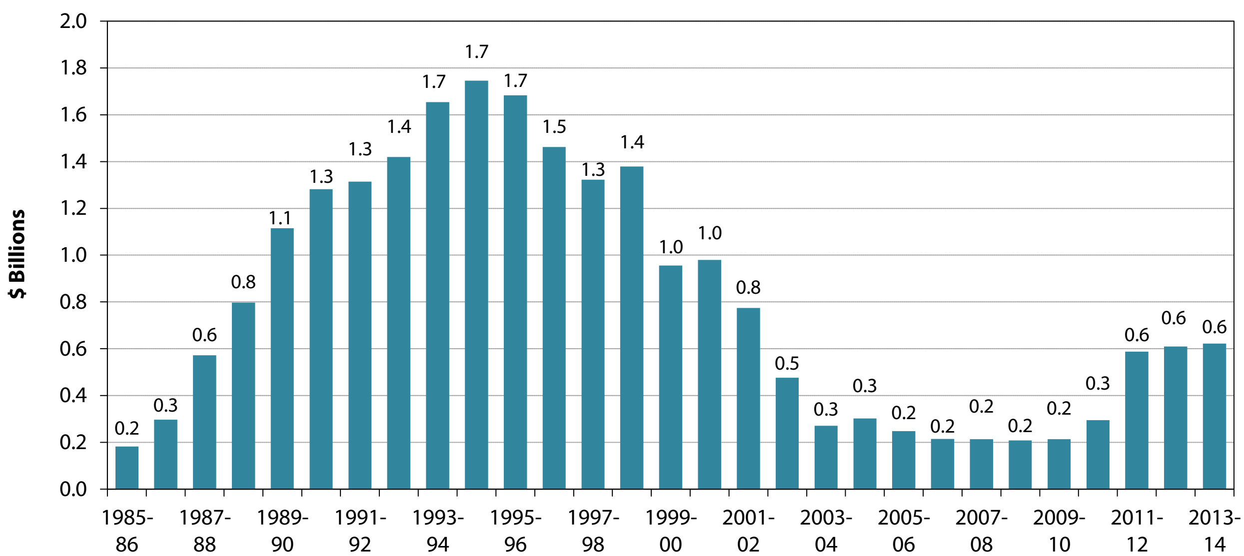
Appendix 1: Interest costs and Alberta's foregone choices

In the 1980s and 1990s, the result of nine consecutive deficit years meant that fiscal resources otherwise available for lowered taxes, or program and infrastructure spending, were instead directed to finance the debt (see figure 6). Annual debt servicing costs rose to over $1.7 billion by 1994/95 from $182 million in 1985/86 (Alberta, 2001: 58; Alberta, 2010a: 89; and calculations by author).

Alberta's taxpayers spent almost $19.7 billion in interest on the provincial debt between 1985/86 (Alberta's first deficit year) and 2003/04, (when the provincial debt was paid off). That $19.7 billion was equivalent to any one of the following (see figure 7):

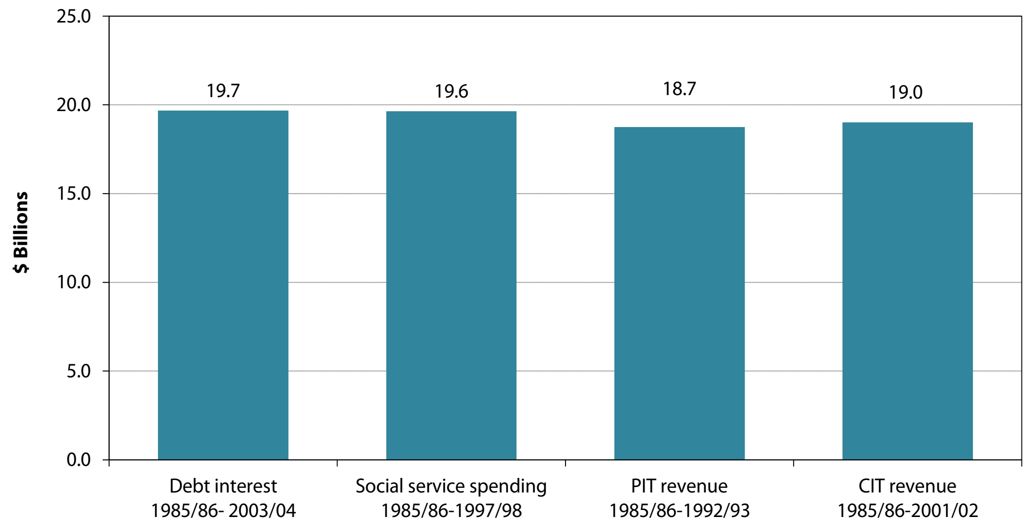
- More than *all* of the provincial personal income tax collected between 1985/86 and 1992/93 ($18.7 billion).
- More than *all* of the corporate income tax collected between 1985/86 and 2001/02 ($19 billion).
- More than the provincial government spent on social services between 1985/86 and 1997/98 (just over $19.6 billion) (calculations by author based on Alberta, 2001: 58; and Alberta, 2010a: 89)

Figure 6: Alberta's debt interest, 1985/86 to 2013/14 (estimate)



Source: Department of Finance, 2001; Alberta, 2011a; Alberta, 2011e.

Figure 7: Cost comparisons—interest on Alberta's debt 1985/86 to 2003/04



Sources: Alberta 2001; 2010a; calculations by author.

Policymakers, the public, the media, and politicians have legitimate disagreements with each other as to what constitutes prudent tax levels and prudent spending. What is inescapable is the math of chronic deficits: chronic deficits mortgage present and future generations and severely limit their choices. Insofar as debts are created, increasing numbers of tax dollars are used not for tax reductions, social programs, or capital projects, but simply to pay bondholders.

Some argue that chronic deficits are less problematic when interest rates are low and the growth of the tax base is high, as that combination results in a lower-debt-to-GDP ratio even without debt repayment. However, that scenario still leaves debt to be financed. Tax dollars used for that financing are diverted from either tax relief or spending.

With the exception of some borrowing for capital spending (Alberta, 2010b: 109), Alberta is not yet financing most of its spending through increased debt. However, if assumptions predicated on previous boom-era revenues persist, such a state of affairs will not last any more than they did in the 1980s. In the interim, other choices are foregone, including deposits into the Alberta Heritage Savings and Trust Fund which are meant to secure future generations and their choices when Alberta's resources are either no longer as valuable in the marketplace or when they have substantially declined.[22]

22 Several studies from the surplus years urged the province to build up its Heritage Fund (see Milke, 2006; Gibbins and Roach, 2006; and Alberta, 2007).

Appendix 2: The failed attempt to balance Alberta's books in the 1980s with tax increases and the weakening of the Alberta Heritage Savings and Trust Fund

In the 1980s, attempts were certainly made to balance the books before expenditure cuts were considered. Forswearing cuts in program expenditures, the province used two other measures to staunch the flow of red ink: It reduced and then entirely stopped resource revenue transfers to the Alberta Heritage Savings Trust Fund (AHSTF or "Heritage Fund") and also re-directed investment income earned on the fund to general revenues; it also increased taxes, significantly.[23]

The second significant attempt to eliminate the deficit came in the form of tax increases. "We will increase taxes substantially at the outset of this deficit reduction plan," said Treasurer Dick Johnston in his March 1987 budget address (Alberta, 1987: 13). Tax increases included an increase in the existing provincial personal income tax rate, a new eight percent surtax on high incomes, a new "flat tax" on all incomes of one percent, an increase in tobacco taxes and liquor mark-ups,[24] an increase in license registration fees, a new hotel room tax of five percent, a new fuel tax of five cents per litre on gasoline and diesel fuel, higher taxes for fuel used by airplanes and locomotives, a one-third increase in the corporate tax rate, and an increase in the tax on insurance

23 By way of background, the Heritage Fund was created in 1976 as a "savings account" for a portion of non-renewable resource revenues collected by the province. The practice prior to 1983/84 was to split natural resource revenues with 70 percent directed towards general revenues (i.e., the provincial budget) and 30 percent to the Heritage Fund. The Heritage Fund also retained all income created within the fund itself. After 1983/84, the province retained 85 percent of all resource revenues and thus transferred just 15 percent of those revenues to the Heritage Fund. Also, post-1983/84, all income created in the fund itself was now transferred to the General Revenue Fund (Alberta, 1986a: 11). As of 1987/88, the provincial government decided to retain 100 percent of resource revenues for the province's budget (Alberta, 1987: 14).

24 It is worth noting that while Alberta's privatization of all government liquor stores (begun in 1993 and completed by 1994) is well-known, less known is how Alberta continued to apply mark-ups beyond just liquor taxes to the retail sale of alcoholic beverages—a fact often overlooked by opponents of liquor store privatization elsewhere in Canada who wrongly inform the public and governments that privatization and revenue losses are synonymous. They are not, as Alberta's example demonstrates: mark-ups can stay even when such beverages are sold in private retail stores.

premiums. In total, the increased and new taxes were expected to bring in extra revenue of $1 billion in 1987/88 (Alberta, 1987: 20-22), or about 12.5 percent of all own-source revenues the province had accrued in the year previous (Alberta, 2001: 58).

Despite the end of transfers to the Heritage Fund and the $1 billion in extra taxes, the province still incurred a deficit of almost $1.4 billion in 1987/88 (Alberta, 2001: 58.) With the exception of 1985/86, that was the smallest deficit year among all of the nine continuous deficit years. The "elephant in the room" was a spending pattern built up in the boom years that was unsustainable and led to deficits. It was not until the underlying assumptions about spending were addressed (beginning much later, in 1993) that balanced budgets returned and then not until 1994/95 (Alberta, 2001).

That Alberta's boom-era spending pattern was the main reason for the province's deficits was not a surprise. Budget documents had long noted Alberta's above-provincial average spending on programs. In his 1988 budget speech, the provincial treasurer remarked that "even with the expenditure and tax measures implemented in the last budget, Alberta continues to have the highest per capita spending on services…"(Alberta, 1988: 11).

Similarly, but more critically, near the end of the first deficit era, the provincial government commissioned a review of the province's finances. In its 1993 report, the Alberta Financial Review Commission summarized the historic problem with Alberta's finances: "The province is spending more than it can afford, has done so every year for the last eight years, and the rate of overspending is increasing" (Alberta, 1993a: 8).

One cause of the overspending was the assumption already noted—that boom-era spending patterns would be sustained by boom-era revenues to match, even though over time the latter had never been able to fully support the former. A second assumption at play was that public (tax) dollars could solve any public or private problem if spent in great enough quantity and with the appropriate direction. The second assumption was implicit and explicit in the debates of the 1980s. Such an assumption was noted by the finance minister who eventually reined in Alberta's unsustainable spending. In a 1993 interview, Jim Dinning pointed to high government spending as the primary cause of successive deficits, a predicament caused by the second assumption: "It was at a time when we believed a problem could be solved by spending more money on it. We've learned, painfully, that that thinking was never very accurate" (Alberts and Pommer, 1993: A1).

The conclusions from Johnston, the Review Commission and Dinning were buttressed by a review of Alberta's spending patterns over three decades and measured in constant (2010) dollars. The provincial government spent $9,285 per person on programs in 1981/82 and substantially more by 1985/86 ($11,496). Even with subsequent decreases to $9,597 by 1989/90, real per capita program spending was still above where such spending had been at the beginning of the decade.

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