

ORANGE CHINOOK: Politics in the New Alberta

Edited by Duane Bratt, Keith Brownsey,
Richard Sutherland, and David Taras

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Fiscal Constraints on the Orange Chinook

Ron Kneebone and Jennifer Zwicker

The ambitions of any government are constrained by the fiscal conditions in which they must operate during their term of office. Winning office during a period of economic expansion yields a great many more policy options than doing so during a period of contraction. The severity of the restraints on policy choices depends as well on the extent to which previous governments have “left the cupboards bare,” and to what extent they may have made spending and tax obligations that tie the hands of the incoming government.

The purpose of this chapter is to provide some context, using historical budget data, to understand the political, social, and other choices with which the newly elected NDP government was confronted. We begin with a brief historical overview of the government of Alberta’s fiscal decisions from 1905 to 2016. In so doing, we highlight decisions made by previous governments with the hope of better informing the discussions carried out in other chapters about how future choices by the current government might be constrained and what choices might be considered.

To this end, we highlight several key issues, including the growth in health-care spending and its implications for taxes and the other spending programs, and the implications for social programs of an overreliance on borrowing (deficits) and energy revenues. The NDP government faces serious financial constraints, and while for the most part, these constraints are not of the government’s making, they must nonetheless deal with them, and this will constrain, at least to some extent, their policy options.

A Short Budgetary History, 1905–2016

The defining characteristic of the government of Alberta's finances is its heavy reliance on the revenue it receives from the production and sale of non-renewable resources, in particular oil, natural gas, and coal. Although the provincial government has received revenue from non-renewable resources nearly from the start of its entry into Confederation in 1905, it was only with the discovery of a major pool of oil near Leduc in 1947 that these revenues began to make a noticeable contribution to the provincial treasury.

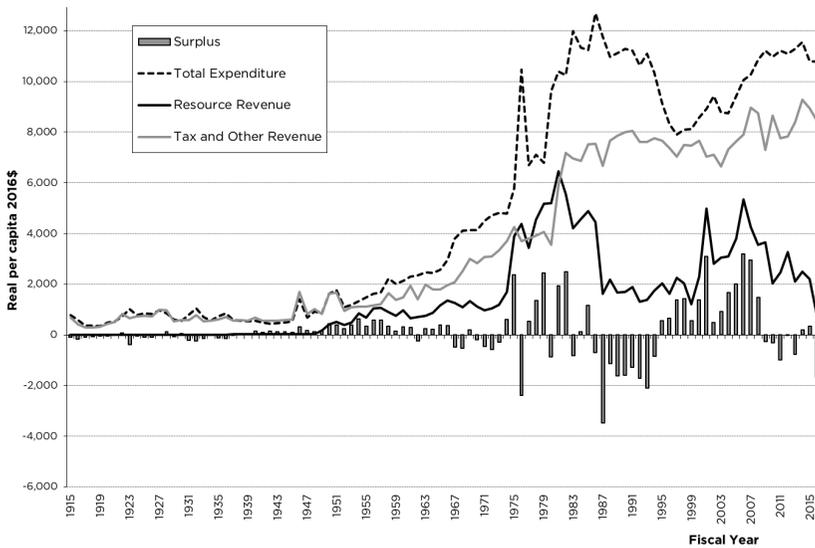
Figure 10.1 presents data on key elements of the provincial budget spanning the period 1915 to 2016. The data is presented in real per capita terms, which is to say that they have been adjusted for both population growth and inflation.

The dashed line shows values of total provincial government spending per person measured in 2016 dollars. This includes spending on programs (health, education, and social services) and the spending required to pay interest on the government's outstanding debt. The light grey line shows values of taxes (personal and corporate income tax) paid to the government by Albertans, as well as investment income earned on savings and the value of federal government transfers. The solid black line shows the real per capita value of non-renewable resource revenues received by the government. Subtracting the height of the dashed line (total expenditures) from the vertical sum of the light grey and black lines (which identify the sum of taxes, investment income, federal transfers, and non-renewable resource revenues available to the government) defines the government's surplus. This amount is represented by the height of the grey bars. Positive values of the grey bars identify a budget surplus while negative values identify a budget deficit.

Pre-Leduc, 1905–47

In the years prior to 1947, the provincial government maintained more or less balanced budgets. That is to say, total expenditures were closely matched by total revenues, resulting in very small budget imbalances—both positive (surpluses) and negative (deficits). This pattern reflects a policy preference during this period for matching requests or needs for new spending with new taxation.

Figure 10.1. Key Components of the Alberta Budget, 1915–2016



Sources: Data on Alberta government finances spanning the period 1905 to 1990 are from Paul Boothe (1995). Data since 1990 are from Government of Alberta Public Accounts (various years). Nominal values are deflated using estimates of the Canadian Consumer Price Index (1914-78) and the CPI for Alberta (1979-2015). These data are from CANSIM database, series v41693271 and v41694625, respectively. Population data is from Boothe (1914-1970) and from CANSIM series v469503 (1970-2015).

Leduc to OPEC, 1947–72

For twenty-five years after the discovery of oil near Leduc, the provincial government enjoyed the advantage of receiving an average of \$800 per person in non-renewable resource revenue. This enabled the government to expand spending from less than \$700 per person in 1947 to \$4,700 per person in 1972. It was during this period that spending lost what had been its previously close connection to tax revenue. By 1972, tax revenue was \$3,100 per person, leaving a \$1,600-per-person gap between what taxpayers received by way of government spending and what they paid for in taxes. For most of this period, the gap between spending and taxes was more than filled by resource revenue, which allowed the government to report budget surpluses.

The Oil Price Shocks of the 1970s

OPEC's attempt to raise world oil prices proved successful beginning in 1973, with a second large price increase coming in 1979, and the government of Alberta benefitted enormously. Resource revenues increased dramatically, reaching a peak of \$7,200 per person in 1982.¹ This dramatic increase in revenue prompted a similarly dramatic increase in spending and a widening in the gap between spending and the taxes Albertans were required to pay. The dependence on resource revenues to pay for spending was therefore growing. By the late 1970s, resource revenues were capable of financing two-thirds of provincial government programs. Revenues were so strong during this period that the government introduced the Alberta Heritage and Savings Trust Fund in 1976, with an initial endowment of \$1.5 billion (the equivalent of \$6 billion in 2016 dollars) and a commitment to directly divert 30 per cent of resource revenues to that fund and away from the treasury. As the decade came to an end, the provincial treasurer, noting satisfaction with low levels of taxation, high levels of government services, and successive budget surpluses, could afford to raise the possibility of increasing the share of resource revenue committed to the AHSTF.²

The End of the First Boom

The early 1980s saw Alberta confront two events that severely impacted the province and the provincial government's finances. The first was a policy-induced change that dramatically impacted the energy sector: the National Energy Program, introduced in October 1980 by the federal government. The second was a deep recession that struck the Canadian economy in 1981. The NEP slowed the growth in resource revenues to the province and prompted the government to increase spending in the form of support to the energy industry.³ To mitigate the effect on the budget of this new spending and the loss of revenue, the government reduced the flow of funds into the AHSTF from 30 to 15 per cent of resource revenues, and it diverted all investment income earned on the fund to the treasury. These two fiscal adjustments, the impact of which can be observed in Figure 10.1 by the large upward adjustment in the "tax and other revenue" line in 1982, were envisioned at the time to be temporary measures lasting only for two fiscal years. These measures, plus a gradual increase in Canadian oil prices,⁴

enabled the provincial government to remain in budgetary surplus for most of the period to 1985.

A Second Shock

A sudden fall in oil prices in 1986 saw the government lose 40 per cent of its resource revenues and a third of its total revenue. In response, the government completely abandoned contributions to the AHSTF and directed all energy revenues to the treasury. Despite this, and despite efforts to curtail spending that saw real capita spending fall from over \$12,500 per person in 1986 to \$11,000 per person in 1993, the failure of oil prices to recover meant the government realized very large deficits from 1987 to 1993. During this period the government saw its net asset position dissolve into a significant net debt.⁵

The Klein Revolution

The 1993 provincial election was fought over how to respond to the rapid accumulation of debt that had occurred since 1986. All three major political parties—Liberal, Progressive Conservative, and New Democrat—supported taking strong steps to eliminate the deficit, and both the Liberal and Progressive Conservative Parties advocated deep cuts to government spending in order to achieve this. The PCs, led by new leader Ralph Klein, were elected to a majority government in June 1993 on a platform that included a 20 per cent cut to spending.

As can be seen in Figure 10.1, Klein was true to his word and real per capita spending was reduced from \$11,000 in 1993 to just under \$8,000 by 1997. The gap between spending and tax and other revenue was at a level not seen since the early 1960s. The gap was now small enough that even with low energy prices the government was able to maintain large budget surpluses beginning in 1996.

Back on the Royalty Rollercoaster

Unfortunately, the government returned to its dependence on energy royalties after 1997. This was followed by a sharp increase in energy prices in 2001. For the next seven years, resource revenues were twice what they were in the preceding decade. Unfortunately, spending increased faster than

energy revenues, and so the dependence on royalties returned. By 2009, the gap between spending and tax revenue was nearly \$4,000 per person, and with the fall in energy prices in 2010 deficits returned as well.

As shown in Figure 10.1, when the New Democrats won the 2015 election they inherited a budget with near record spending and tax revenues and low resource revenues. Then it got worse. In 2016, real per capita resource revenues collapsed to a level not seen since the 1950s, and the deficit increased to a level last seen before the election of Ralph Klein.

The Current Fiscal Situation

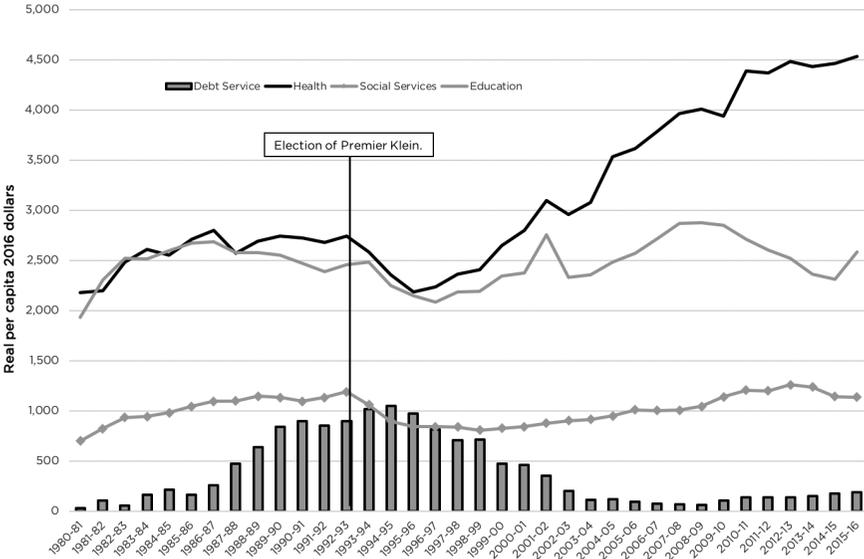
To understand the current fiscal situation, and to appreciate what fiscal options are available to respond to that situation, it is helpful to take a closer look at recent spending and revenue choices.

Spending Choices

The provincial government's three largest expenditures are, typically, those in support of health care, education, and social services, and so we focus on those categories. Because of the role it has played in the fiscal decisions made by previous governments, we also look at the amount the government has spent servicing its outstanding debt. Figure 10.2 presents data on these four expenditure categories since the 1980–81 fiscal year. As in Figure 10.1, the data are measured in inflation-adjusted dollars per capita.

The rapid increase in debt following the oil price shock of 1986 saw a rapid rise in debt-servicing costs. By 1994–5, the servicing of the outstanding debt bypassed spending on social services as the third largest spending category. Analysts of that period highlighted the fact that the need to pay debt holders was threatening to crowd out spending on services to Albertans as a reason why drastic budgetary action was required. Premier Klein and those who voted for his platform chose to respond with spending cuts. In the three years following Klein's election, real per capita spending on health by the province fell by 20 per cent. Over the same period, spending on education and social services fell by 13 per cent and 29 per cent, respectively.⁶ The cuts left Alberta's real per capita spending on health care 12 per cent below that of other provinces.⁷ After 1995, the provincial government began compensating for its earlier restraint on health spending. Between 2000

Figure 10.2. Key Spending Categories, 1980–81 to 2015–16



Sources: Government expenditure data are from Government of Alberta Public Accounts (various years). Nominal values are deflated using the CPI for Alberta (CANSIM series v41694625). Population data is from CANSIM series v469503.

and 2008, Alberta’s real per capita expenditure on health doubled, with the result that in 2008 spending was 15 per cent higher than in other provinces.⁸ Over the entire period since 1995, real per capita health spending has increased 114 per cent (from \$2,100 in 1995–6 to \$4,500 in 2015–16). Notably, Alberta in 2015 had the highest level of expenditure per adjusted capita (\$4805), with expenditure on physicians and hospitals as cost drivers.

Alberta’s per capita provincial health spending in 2016 was the second highest in the country after Newfoundland and Labrador. Family physicians in Alberta paid under the fee-for-service model earned 35 per cent more than the national average, and in 2014–15 they were the highest paid in Canada.⁹ Alberta’s specialists under fee-for-service were also among the highest paid in Canada in 2014–15, earning 24 per cent more than the national average.¹⁰ Spending on health care, then, has been a long-standing

priority, with the result that by 2015–16 it was consuming 45 per cent of total revenue, up from 18 per cent in 1980–81.

The ratio of social to health spending is a potential avenue through which the government can impact population health outcomes. The literature suggests that additional spending on health does not necessarily impact population health outcomes,¹¹ yet in all provinces, health spending increased rapidly after a drop in the mid-1990s while social spending remained relatively flat. As shown in Figure 10.2, spending on education and social services in Alberta has not increased at nearly the rate of health spending. This is despite recent work by Elizabeth Bradley and colleagues suggesting that an exclusive focus on health-care expenditures in the health-care reform discussion is misleading.¹² Their argument, backed by comparative data from thirty industrialized countries, is that health outcomes are influenced by the total amount spent on both health *and* social programs.

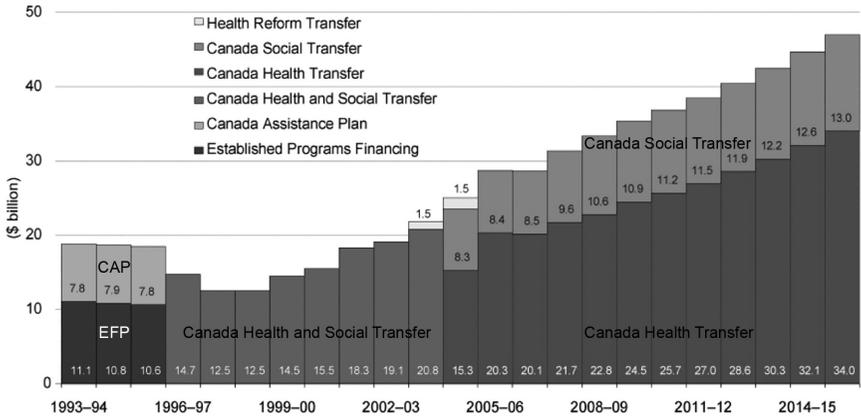
Sources of Revenue

Real per capita revenue in Alberta has trended upward since 1980–81 (as seen in Figure 10.1). Major provincial revenue categories include corporate and personal income tax, natural resource revenue, federal transfers for health and social programs, and other revenue.

Over time, the composition of total tax revenue (which is mainly in the form of the personal and corporate income tax) has grown, slowly, as a percentage of total revenue. Notably, these tax revenue sources combined contribute to total revenue more than twice what they did in 1980–81. In contrast to the steady upward trend in the share of total revenue provided by taxes, resource revenues have been volatile. By 2015–16, resource revenue contributed the smallest percentage of total revenue since 1980, which is in stark contrast to the early 1980s, when resource revenue contributed over half of total revenue.

Another source of revenue volatility, and one that is not often recognized, is federal transfers. Federal transfers fell as a percentage of total revenue in the mid-1990s. This was the result of the federal government trying to get its own fiscal house in order by cutting spending in the form of transfers to the provinces. Since that time federal transfers have stabilized, but the earlier experience of the federal government solving its fiscal issues on the back of provincial finances should serve as a cautionary tale.

Figure 10.3. Federal Government Transfers to the Government of Alberta



Source: <https://www.fin.gc.ca/fedprov/his-eng.asp>

The recession of the 1990s saw significant fiscal restraint at both the federal and provincial/territorial levels, as well as a gradual shift away from cost-sharing arrangements towards provincial block grants for health and social services (see Figure 10.3). Federal-provincial fiscal arrangements impacted the politics of health care and social services when federal transfers were shifted from Established Program Financing and the Canada Assistance Plan to the Canada Health and Social Transfer (CHST). The shift to the CHST marked a reduction of transfers of \$2.5 billion in 1996-7 and \$4.5 billion in 1997-8.¹³ This combined funding, allocated on an equal per capita basis, was intended for the provision of health care, post-secondary education, social assistance, and social services. With economic growth on the upswing at the end of the decade and concerns about access and wait times for health care growing, provincial governments mainly used transfers to reinvest in the provision of health care. As is clear from Figure 10.2, provincial spending on education and social services has been noticeably less sensitive to the growth in federal transfers.

The focus on health in the growth in federal transfers is the result of the federal government using its spending power to increase its involvement in this area of provincial jurisdiction. By 2002, both the Kirby Report and the Romanow Commission advocated for increased federal spending accompanied with greater accountability from provinces and health care providers.¹⁴ In response, the 2003 First Ministers' Accord on Health Care Renewal restructured the CHST, with 62 per cent going to the Canada Health Transfer (CHT) and 38 per cent to the Canada Social Transfer (CST) to be spent on post-secondary education, programs for children, and other social programs.¹⁵ The CHT are block grants provided by the federal government to fund health care under terms governed by the Canada Health Act. This transfer is provided on a "no-strings-attached" basis, and there are no cost-sharing provisions (i.e., a provision intended to discourage provinces from freely spending "50 cent dollars"). An additional \$16 billion over five years was provided through a new Health Reform Transfer targeting primary health care, home care, and catastrophic drug coverage.¹⁶

In 2004, a ten-year, \$41-billion health accord was signed that promised to be the "fix for a generation."¹⁷ The goal was to strengthen health care by improving access to care and diagnostic services, reducing wait times for surgical interventions, roll out electronic health records, alleviate health human resource shortages, reform primary health care, investments in home care, and implementation of a national pharmaceutical strategy.¹⁸ This additional funding commitment to provinces and territories for health included increases to the CHT through a base adjustment and an annual 6 per cent escalator. The health-reform transfer was consolidated into the CHT in 2005. Alberta recently experienced a large growth in federal transfers due to a change in the formula used to calculate CHT payments that occurred in 2014–15, when the program became a pure per capita transfer (Di Matteo, 2012).¹⁹ Transfers to Alberta subsequently increased by 33 per cent from the previous year's level, due to the policy change and rapid population growth.

More recently, federal transfers have been in the spotlight again as a result of the 2016–17 health accord negotiations. The "no-strings-attached" policy with a 6 per cent escalator was extended by Prime Minister Stephen Harper until 2017. Unless another deal was negotiated, the CHT would grow in line with a three-year moving average of nominal GDP growth, with funding guaranteed to increase by at least 3 per cent per year. Discussions

around a pan-Canadian agreement fell apart at the end of 2016. Health Minister Jane Philpott then negotiated separate transfer agreements with each province. At the time of our writing this chapter, twelve provinces and territories have accepted the \$11-billion deal on top of \$37 billion in annual funding through the CHT. The negotiated CHT in 2017–18 ranged per province from a 3.5 per cent escalator for Alberta to a 2 per cent escalator for New Brunswick. Alberta negotiated new targeted funding over ten years for investments in home care and mental health care.²⁰

Changes in Net Debt

The crash in energy prices in 1986 defined the beginning of a volatile period in Alberta's net financial position. The 1986 crash, combined with the disinclination on the part of the government to respond to the resulting loss of revenue, resulted in a very rapid accumulation of net debt. Between 1984–5 and 1993–4, each Albertan took on nearly \$15,000 in new debt. It was in part due to this rapid accumulation of debt that Albertans elected Premier Klein on a platform of spending cuts. The combination of spending cuts (initially) and revenue growth (later) enabled the government to run budget surpluses in every year from 1994–5 to 2007–8. The result was a rapid reduction in net debt. By 2004–5, Albertans had shed all of the net debt accumulated since 1984–5. The province's asset position continued to improve until 2007–8, after which net debt slowly increased as the government dealt with first the worldwide financial crisis of 2008–9 and then the collapse of energy prices beginning in 2015.

Fiscal Issues for the New Government

The impact of the Alberta government's dependence on resource revenue on the provincial budget is not a new concern. In the past, when resource revenues have fallen and remained low for prolonged periods, the government has had to choose between tough spending choices and considering new revenue sources. Those choices have historically tended to favour cuts to spending in order to protect the so-called Alberta Advantage of low tax rates and no provincial sales tax. The current government is faced with similar options for dealing with the loss of resource revenues, but it is not, of course, obligated to make the same choices. Maintaining or abandoning

the Alberta Advantage approach, like all policy choices, has pros and cons. Choices, though, need to be made.

Here we highlight some key expenditure and revenue issues that need to be addressed. On the revenue side, uncertain economic growth, reduced resource revenue, and likely reductions in federal health transfers suggest that policy shifts towards more sustainable revenue sources need to be made. While health-care costs continue to grow, income support caseloads are also increasing, as are debt-servicing costs, providing further illustration of the need to curb health spending in the face of increasing need.

Uncertainty Regarding Resource Revenue

Volatility in the resource revenues received by the government has been an enduring feature of provincial finances in Alberta. Booms and busts are a common feature of resource-based economies, and economists are unanimous in recommending to governments that they keep that volatility of the private sector from negatively effecting its fiscal position.²¹ The way to implement this recommendation is simple: save all or most of the revenue earned on the sale of non-renewable resources.

Unfortunately, governments in Alberta have tended not to heed this advice.²² The result has been wide swings in the government's net asset position and occasional deep cuts to spending (see Figure 10.2). The former response creates uncertainty with respect to future tax rates and so discourages private-sector investments, while the latter represents a direct harm to Albertans hoping to enjoy the benefits of securely funded health care, education, and social assistance programs. These are difficult choices involving trade-offs between conflicting goals.

To avoid these problems, the current government ran on a platform aimed at getting off what has been dubbed the "royalty rollercoaster." This is hard, of course. It involves reducing spending and/or increasing tax rates to levels that establish a tolerable budget balance even when energy prices are low. As noted earlier, this feat was accomplished in the mid-1990s under Premier Klein, mainly via the use of spending cuts. The choice of spending cuts is not inevitable, of course. Other options include raising tax rates and introducing new sources of tax revenue. Among these options is the choice to introduce a sales tax harmonized with the federal GST—a policy long advocated by economists. Like spending cuts, tax increases carry costs, both

political and economic. But if it is serious about weaning itself off its dependence on energy revenues, the NDP government, like all governments, must make hard decisions involving spending cuts and/or revenue increases.

Uncertainty Regarding Long-Term Economic Growth

The NDP won what might be considered a pyrrhic victory by winning an election just as energy prices collapsed, thereby throwing the economy into recession and the provincial budget into a deep deficit. Normally, governments console themselves by emphasizing that the economic situation is temporary—that a recession will be short-lived and that, when it ends, the province’s return to prosperity will mean a return to balanced budgets and strong job growth.

Alberta’s economic prosperity is closely tied to a robust energy industry, which in turn depends on high energy prices. Unfortunately, the current government cannot assume that the economic situation it finds itself in is a temporary one. There is little in the way of consensus among energy analysts that energy prices will return to the levels that fostered the high rates of growth and employment creation seen during the late 1990s and 2000s.²³ The risk faced by the current government is that rather than inheriting an economy in temporary recession, they have inherited an economy settling in to a “new normal” of lower economic growth. The implications of possibly permanent lower revenues and stubbornly persistent high deficits is a potential reality with which the government must come to grips.

Debt-Servicing Costs

With revenue sources being uncertain, the government’s budgetary response to the loss of revenue suffered because of the fall in energy prices has been limited to running very large budget deficits. The most recent budget suggests that the government plans to moderate spending increases but in the main to “hold the course.” It is adamant in refusing to consider spending cuts as it endeavours to protect so-called front-line workers from layoffs. It is also hesitant to raise taxes during a period of high unemployment. The fiscal plan, then, would appear to be to continue to run large deficits—and so accumulating significant new debt—while hoping for a return of high energy prices that will balance the budget.

One consequence of this approach is that the government can expect a steady increase in the cost of servicing its growing debt. The government needs to be concerned that this may cause debt-servicing costs to begin to crowd out other spending. Figure 10.2 reminds us of this danger. As noted earlier, the rapid accumulation of debt in the late 1980s and early 1990s—when the government similarly ran large annual deficits hoping for a return to higher energy prices—resulted in very fast growth in debt-servicing costs that quickly bypassed spending on social services to become the third largest spending category. From Figure 10.2 we see a slow but steady increase in debt-servicing costs. If deficits remain large, this increase will accelerate under the current government.²⁴ If the current low interest rate environment changes, it will accelerate still faster.

Uncertainty Regarding Federal Transfers and the Implications for Health Spending

The negotiations between the provinces and the federal government in 2016–17 have highlighted what one writer calls the “sick politics of health-care.”²⁵ The federal government’s offer to the provinces was that the CHT would drop from a 6 per cent annual escalator to 3.5 per cent, with an additional \$11.5 billion over five years for home care and mental health. Intent on a higher escalator, the provinces rejected the deal at the end of 2016. By August 2017, a precedent was set for province-by-province (and territorial) negotiations. Individual agreements with the federal government for different growth rates and dedicated funding to home care and mental health were reached, with growth in CHT ranging from a high of 3.5 per cent in Alberta to a low of 2 per cent in New Brunswick.²⁶ From 2017 to 2027, the federal government will provide Alberta with an additional \$1.3 billion, which will include funding for home care and mental health initiatives.

The signing of the new federal transfer agreements will provide some degree of certainty to the provincial budget. However, the growth in the federal transfer will be slower than the growth in health spending, resulting in several difficult choices for the provincial government: to raise taxes, to cut spending in other areas, or to re-evaluate how it spends on health care. If additional revenue is not raised, then as health spending grows, expenditures on social services and education are likely to decline. This is despite international research highlighting the importance of both social

and health spending when trying to improve health outcomes. The NDP government will need to make spending choices in the face of the ever-increasing chronic care demands present in the system.

Rising Health-Care Costs and Rising Income Support Caseloads

Where to spend the marginal dollar in health care, and who decides, are two of the most important and pressing questions in health policy. As noted in a recent OECD report, “Healthcare costs are rising so fast in advanced economies that they will become unaffordable by mid-century without reforms.”²⁷ As seen in the expenditure data shown in Figure 10.2, Alberta is no exception to this. But while some studies suggest that additional health-care spending does not correlate with health outcomes, social policy is becoming a legitimate consideration for major health stakeholders.²⁸ Health outcomes respond to the socio-economic factors termed “the social determinants of health,” which include income, education, employment, and social support networks, among other factors. Our recent Canadian analysis suggests that health care is not the highest-return ministry to spend on to improve population health outcomes. Using provincial expenditure data in Canada, we found that more spending on social services per dollar spent on health-care services is associated with better health outcomes.²⁹ In other words, if a government had \$600 million dollars to spend (approximately the increase in health spending in Alberta this year), it might do more for population health to spend that money on social services than health care. This is because population health is measured in terms of outcomes like life expectancy and potentially avoidable mortality, and social services can mitigate the factors that lead to these poor health outcomes. By international standards, Canada spends the least on social programs as a percent of GDP compared to ten other high-income countries.³⁰ The CHT are not tied to health expenditures and there is potential to reallocate provincial spending. Despite our understanding of historical budget allocations, we lack evidence that supports the idea that additional spending on health care is the most efficient way to improve health outcomes.

Thinking carefully about how to spend health dollars is perhaps particularly appropriate when we consider that social assistance caseloads have ratcheted upward over the past fifteen years. From an average of about 25,000 caseloads per year in the early 2000s, the average jumped to 35,000

in the 2010s, and since 2015 has averaged over 50,000.³¹ While income support caseloads are sensitive to the state of the economy, the observation that they are not returning to pre-recession levels is cause to be concerned.

This social policy issue has health implications. Social policy in Canada can impact health in two complementary ways: by both reducing poverty (from welfare payments to old age security) and reducing social inequalities with measures and programs that encourage social mobility (e.g., subsidized university tuition), labour force participation (e.g., subsidized daycare), or good physical health (e.g., free and accessible medical care).

An interesting implication of these findings is that reigning in health spending may be possible without a negative impact on health outcomes—and without straining an already stretched budget—by reallocating program spending from health to social policy initiatives. This possibility presents interesting policy choices for social democratic governments, which traditionally favour social policy initiatives.

Conclusion

Historically, Alberta governments, with the support of voters, have employed a high-risk strategy wherein Alberta's economic success depends on high energy prices. This dependence on a source of revenue that is inherently volatile to fund public services such as health, social services, and education means that tough choices have to be made when energy prices are low. The budget deficit is available to act as a “buffer” to insulate program spending and tax rates from the effects of revenue fluctuations. However, as we saw in the mid-1990s, on occasion energy prices have remained low for so long that accumulated deficits—and the debt-servicing payments they require—have grown large enough to force difficult choices to eventually be made between tax increases or cuts to programs. As we have discussed, when they have been faced with this choice, Conservative governments have eventually responded with drastic cuts to spending in order to protect the Alberta Advantage of low taxes. Unfortunately, this choice involves cutting health and social programs even while the health and social problems that they are designed to alleviate persist.

The new NDP government can make different fiscal choices, in terms of both revenue generation and expenditures, than those made in the past. In

particular, they could respond more quickly to the fall in energy prices than previous Conservative governments. Were they to do so, they could ease the budgetary adjustment to a new low-price environment without the need for the draconian cuts to spending that former governments eventually introduced after years of delay. That gradual adjustment to a low-energy-price environment could take the form of slowing the rate of spending growth, or a gradual increase in taxation. Or the adjustment could be more dramatic, for example by taking the advice of economists and introducing a sales tax harmonized to the federal GST, which would provide the government with a way to wean itself off its dependence on energy revenues. Different allocation decisions around expenditures to improve population health outcomes could also see an allocation of health budgets to social services and education, which can impact health outcomes through their influence on the social determinants of health.

However, the NDP government is following a similar path to that of previous governments: it is choosing to avoid dramatic changes to spending or revenue in the hope that high energy prices will return. As it waits, the deficit remains large and both the level of debt and the cost of servicing that debt climb. If, as suggested by many analysts and as evidenced by low prices in energy futures markets,³² high energy prices do not return, the new government will eventually need to make some hard fiscal choices. If this comes to pass, the price for delaying budget adjustments will be larger than if the government reacted more quickly, and the need among vulnerable populations will continue to grow. If, on the other hand, higher prices do return, a sigh of relief will be in order as the government once again has the time to consider whether it might be best to get off the energy rollercoaster once and for all.

NOTES

- 1 The treasury also benefited from the effort of the new premier, Peter Lougheed, to negotiate a new royalty-sharing agreement with the industry. Bruce Doern and Greg Toner, *The Politics of Energy: The Development and Implementation of the NEP* (London: Methuen Publications, 1985), 89–90.
- 2 1978 Alberta budget cited in Paul Boothe, “The Growth of Government Spending in Alberta,” in *Canadian Tax Paper No. 100* (Toronto: Canadian Tax Foundation), supra note 9, at p. 43.
- 3 Provincial support for the industry included a \$5.4 billion program, introduced in 1982, consisting of royalty reductions and grants designed to increase the flow of revenue to the industry. See Doern and Toner, *The Politics of Energy*, 114.
- 4 Following its introduction in October 1980, the NEP controlled oil prices in Canada. Through a series of negotiated settlements between the province of Alberta and the federal government, the prices for “old oil” (discovered prior to 1980) were set as a percentage of the world price. The price of “new oil” was allowed to rise to the world price in an agreement signed in 1983.
- 5 All governments hold both financial assets and financial liabilities. If the value of assets exceed liabilities, the government is said to be in a financial net asset position. If the opposite is true, the government is described as being in a net debt position.
- 6 Part of the fall in spending on social services was due to the economy recovering from the 1990–91 recession, which resulted in fewer people receiving social assistance. However, policy changes were the major reason for the fall in spending. The social assistance payment to a single person fell by 16 per cent from \$5,832 in 1992 to \$4,927 in 1994. These are nominal dollar values kindly provided by Sherri Tjorman, Anne Tweddle, and Ken Battle, and they are reported in real dollar terms in Tweddle, Battle, and Tjorman, *Welfare in Canada, 2016* (Ottawa: The Caledon Institute of Social Policy, 2017).
- 7 Greg P. Marchildon and Livio Di Matteo, *Bending the Cost Curve in Health Care: Canada’s Provinces in International Perspective* (Toronto: University of Toronto Press, 2014).
- 8 Ibid. With a younger population relative to other provinces, age and gender standardization only causes expenditures relative to other provinces to be more pronounced.
- 9 See Canadian Institute for Health Information, *Physicians in Canada, 2016: Summary Report* (Ottawa: CIHI, 2017), https://secure.cihi.ca/free_products/Physicians_in_Canada_2016.pdf and Alberta Health, “Physician payment and service comparisons,” 2016, <http://www.health.alberta.ca/health-info/health-economics-dashboard4.html> (accessed 31 January 2017).
- 10 Ibid.
- 11 R. Evans and G. Stoddart, “Consuming Health Care, Producing Health,” *Social Science and Medicine* 331, no. 12 (1990): 489–500.
- 12 See E. Bradley and L. Taylor, *The American health care paradox: Why spending more is getting us less* (New York: PublicAffairs, 2013); E. H. Bradley, M. Canavan, E. Rogan, K.

- Talbert-Slagle, C. Ndumele, L. Taylor, and L. A. Curry, "Variation in Health Outcomes: The Role Of Spending On Social Services, Public Health, And Health Care, 2000–09," *Health Affairs* 35, no. 5 (2016): 760–8; and E. H. Bradley, B. R. Elkins, J. Herrin, and B. Elbel, "Health and social services expenditures: Associations with health outcomes," *BMJ Qual Saf* 20, no. 10 (2011): 826–31.
- 13 Gerard W. Boychuk, *The changing political and economic environment of health care in Canada* (Ottawa: Commission on the Future of Health Care in Canada, 2002).
 - 14 See M. J. Kirby and M. LeBreton, *The health of Canadians—the federal role*. Report of the Standing Senate Committee on Social Affairs, Science and Technology, 37th Parliament, 2nd Session, 8th report (Ottawa: Queen's Printer for Canada, 2002), and R. Romanow, *Building on Values: Report of the Commission on the Future of Health Care in Canada* (Ottawa: Privy Council Office, Government of Canada, 2002).
 - 15 Department of Finance, "History of Health and Social Transfers," (2014), <https://www.fin.gc.ca/fedprov/his-eng.asp> (accessed 31 January 2017).
 - 16 Ibid.
 - 17 See Government of Canada, "A 10-year plan to strengthen health care," 16 September 2004, <https://www.canada.ca/en/health-canada/services/health-care-system/health-care-system-delivery/federal-provincial-territorial-collaboration/first-ministers-meeting-year-plan-2004/10-year-plan-strengthen-health-care.html> (accessed 28 January 2017).
 - 18 Ibid.; D. Naylor, N. Fraser, F. Girard, T. Jenkins, J. Mintz, and C. Power, *Unleashing innovation: Excellent healthcare for Canada. Report of the Advisory Panel on Healthcare Innovation* (Ottawa: Health Canada, 2015).
 - 19 L. Di Matteo, "Canada Health Transfer Changes: The Devil Is in the Details," *Evidence Network*, 2012, <https://evidencenetwork.ca/changes-to-the-canada-health-transfer-mean-a-large-windfall-for-some-provinces-shortchange-for-others/> (accessed 20 January 2017).
 - 20 Health Canada, "Canada Reaches Health Funding Agreement with Alberta" (news release), 10 March 2017, https://www.canada.ca/en/health-canada/news/2017/03/canada_reaches_healthfundingagreementwithalberta.html (accessed 28 August 2018).
 - 21 In an article well known to economists ("Intergenerational Equity and the Investing of Rents from Exhaustible Resources," *American Economic Review* 67, no. 5 [1977]: 972–4), John Hartwick showed that the long-term success of an economy dependent upon the extraction of non-renewable resources is dependent on the government transforming the declining resource stock into a new, productive capital stock that will produce a perpetual stream of pay-offs to future generations. Application of the so-called Hartwick Rule has been recognized as requiring that governments save resource revenues and spend only the income generated by that saving. This advice, closely followed by the government of Norway, prevents resource revenues from entering the government's budget and so prevents their volatility from forcing periodic cuts to essential programs and/or rapid accumulations of debt.
 - 22 For a review of the on again, off again efforts made by governments in Alberta to commit to saving resource revenues, see Ronald Kneebone, "From Famine to Feast:

- The Evolution of Budgeting Rules in Alberta,” *Canadian Tax Journal* 54, no. 3 (2006): 657–73.
- 23 For an interesting review and comparison of the recent and past oil price shocks, see Robert Skinner “A Comparative Anatomy of Oil Price Routs: A Review of Four Oil Price Routs Between 1985 and 2014,” *SPP Research Papers* 8, no. 39 (November 2015): 1–33.
- 24 In the 2017 budget, the government reports that debt-servicing costs are expected to reach \$2.3 billion by 2020. This compares to \$0.8 billion in 2016 and \$0.2 billion in 2009.
- 25 E. Solomon, “The sick politics of a national health accord,” *Macleans*, 22 December 2016.
- 26 See R. Collier, “Health accord side deals bad for Canada, say doctors,” *CMAJ News*, 30 January 2017, <http://cmajnews.com/2017/01/05/health-accord-side-deals-bad-for-canada-say-doctors-cmaj-109-5381/> (accessed 13 February 2017).
- 27 OECD, *Fiscal Sustainability of Health Systems* (Paris: OECD Publishing, 2015).
- 28 See J. S. House, *Beyond Obamacare: Life, death, and social policy* (New York: Russell Sage Foundation, 2015).
- 29 D. J. Dutton, P. -G. Forest, R. D. Kneebone, and J. D. Zwicker, “Effect of provincial spending on social services and health care on health outcomes in Canada: An observational longitudinal study,” *Canadian Medical Association Journal* 190, no. 3 (2018): E66–E71.
- 30 See I. Papanicolas, L. R. Woskie, and A. K. Jha, “Health care spending in the united states and other high-income countries,” *Jama* 319, no. 10 (2018): 1024–39.
- 31 See “Income Support Caseloads in Alberta,” *Social Policy Trends, School of Public Policy* (2017), <https://www.policyschool.ca/wp-content/uploads/2016/02/Social-Trends-Income-Support-for-April-Issue.pdf> (accessed 28 August 2018). These are caseloads for individuals defined as “expected to work” by the provincial social assistance program. The data does not include caseloads of those on the Assured Income for the Severely Handicapped program.
- 32 Investors make bets on the future direction of commodity prices in what are called “futures markets.” Observing these bets are a useful way of determining what experts in energy markets believe will be the price of energy in the future. At the writing of this chapter, futures markets are very pessimistic about the price of oil rising above the level that is currently causing the government to suffer historically high budget deficits.