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IMAGINING ALBERTA

A SYMPOSIUM ON ALBERTA'S ECONOMIC FUTURE: A SUMMARY

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Robert Ascah
Institute for Public Economics
Department of Economics, University of Alberta
Edmonton, Canada
www.ipe.ualberta.ca

Western Centre for Economic Research
School of Business, University of Alberta
Edmonton, Canada T6G 2R6
www.business.ualberta.ca/WCER

UNIVERSITY OF ALBERTA SCHOOL of BUSINESS
Western Centre for Economic Research
www.business.ualberta.ca/wcer
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IMAGINING ALBERTA: A SYMPOSIUM ON ALBERTA'S ECONOMIC FUTURE A SUMMARY

On October 14, 2011, the Western Centre for Economic Research and the Institute for Public Economics hosted the Imagining Alberta Symposium on Alberta's Economic Future at the Stollery Centre. The conference attracted over 100 participants and registrants from different levels of government (including elected officials), academics, students and the business community. Financial support for the conference was provided by Alberta Treasury Board and Enterprise, Edmonton Economic Development Corporation and the Alberta School of Business.

This Information Bulletin contains a summary of presentations by Mel McMillan, Ergete Ferede, John Helliwell, Stuart Landon and Constance Smith, Andrew Sharpe, Joseph Doucet, and the Honourable Anne McLellan.

The Symposium summary below is divided into two sections: Section 1 examines the policy issues canvassed at the conference. Section 2 highlights some of the policy recommendations as well as the "big picture" polarities inherent in the policy discussion.

Presentations made at the Symposium may be found at http://www.business.ualberta.ca/en/Conferences/ImaginingAlberta.aspx

1. POLICY ISSUES

Federal-Provincial Fiscal Arrangements

Presenter: Mel McMillan

An underlying assumption in Alberta politics is that Alberta is not getting a "fair shake" from confederation, specifically the equalization formula. But how does one define "fair" or "equitable"? The equalization formula attempts to ensure that provinces levying average tax rates will realize, from taxes and equalization payments, the same revenue per capita as the average province. The equalization program allows the recipient provinces to maintain a reasonable level of public services. The Alberta public is often confused in the belief that Alberta taxes are shipped directly through the Alberta government to recipient governments. McMillan notes that all provinces (taxpayers) pay federal taxes and, therefore, contribute to equalization. Hence it is important to examine the net payments. While Ontario has become a recent recipient of equalization, a status that has stirred controversy, in 2011 Ontario still contributed more to federal revenues than the province received in per capita payments.

McMillan also finds little evidence to suggest that neither has equalization created dependence on the part of the recipient provinces, nor have equalization payments increased as a percentage of federal expenditures. Indeed, economic growth in the recipient regions, measured in per capita GDPP, improved relative to national average (excluding Alberta) over the past three decades. He also notes that without equalization, differences in fiscal capacity may distort capital and labour markets inducing movements of labour and capital into regions where capital and labour would be less productive.

Professor McMillan demonstrates that, over a lengthy period, the contribution by Alberta taxpayers (individuals and corporations, PIT, CIT, excise, GST) are significantly higher than federal expenditures in Alberta (transfers to individuals, purchases of goods and services, transfers to provincial and municipal governments). That said, Albertans enjoy significantly higher incomes than other Canadians, and Alberta's corporate tax base yields higher per capita returns than in other provinces. McMillan observes that the equalization system achieves the goal of enabling recipient provinces to provide "reasonably comparable" public services at average tax rates (equalizing upward). Nevertheless, provinces like Alberta and other non-recipient provinces are still able to fund public services with lower tax rates.

The Marginal Cost of Raising Tax Revenue – Implications for Tax Options in Alberta

Presenter: Ergete Ferede

Imposition of taxes affects the allocation of economic activity. Therefore, the imposition of taxes, in a manner that lessens distortion, is a gain to society. The "Marginal Cost of Funds" model used by Ferede measures the loss incurred by society in raising an additional dollar to finance government spending. This measure is analogous to the marginal cost of production. In comparing the marginal cost of funds across provinces, Ferede finds that it is highest for the corporate income tax and lowest for the sales tax. It is estimated that a reduction in the Alberta CIT would increase long-run (150 years) output per capita by 18 per cent if financed by other taxes, and by 48 per cent (or $19,300 per capita) if financed by a harmonized sales tax. The distributional impact from a sales tax was not considered.

Stabilization Funds – Do They Make Us Better Off?

Presenters: Stuart Landon and Connie Smith

An important policy issue for Alberta is what to do with all or a portion of its non-renewable resource revenue. Non-renewable resource revenue (NRRR) is volatile. Increases and decreases in oil and natural gas prices are known to be persistent with abrupt changes. The existence of these funds to stabilize expenditure patterns begs the question of how, if at all, is "social welfare" improved. The paper by Professors Connie Smith and Stuart Landon assessed different rules for depositing and spending non-renewable resource revenue. The authors assume that individuals would be willing to give up a portion of current government spending in exchange for a more stable spending path over the long term. The modeling assumptions underline the continual struggle of Alberta politicians to balance current service demands of citizens with the needs of future taxpayers.

The authors set out six different model funds based on how much NRRR is put into the fund and how much money is taken from the fund and placed into government expenditures. Each of these scenarios is "back-tested" to commence in 1976 with different parameters (i.e. different durations for moving averages) yielding about 1000 scenarios. The decision rule with the highest social welfare is where 50 percent of natural resource revenues is deposited in the fund each year, and 25 percent of the assets withdrawn. The authors note that social welfare is not maximized with the biggest fund, as this means giving up a larger portion of current government spending that adds welfare. "Rainy day" funds, where all NRRR is spent except a fixed percentage, tend to lead to large accumulated deficits.

Good Government and Well Being – Can They Coexist?

Presenter: John Helliwell

Are personal income and Gross Domestic Product suitable measures for gauging the health of an economy or the effectiveness of government? Professor Helliwell makes the case that "subjective well-being" be an explicit goal for public policy. Assessing subjective well-being is complex and draws on life circumstances rather than short-term moods. More statistical agencies are beginning to examine well-being as another means of correlating well-being with policy outcomes. Helliwell cites studies showing that human beings are inherently social and altruistic, and generosity rewards the giver more than the recipient. Social well-being can be enhanced through building trust and building relationships that are local and immediate (sense of community).

The discussant Mark Anielski noted that there is a positive correlation between higher levels of social well-being and municipal taxes. Well-being and the size of government are not correlated. A key factor of well-being is how citizens help themselves as opposed to being in situations of dependency, i.e., it is better to help others help themselves. Societies where well-being is more broadly distributed (see, for example, the "GINI index" for social well-being) tend to be more healthy and prosperous.

Five Themes in Premier's Council on Economic Strategy

Presenter: Anne McLellan

The Report of the Premier's Council for Economic Strategy sought to answer the question, "What must Albertans do now to sustain prosperity through the next three decades and beyond?" Today's key environmental factors are a shift in power to Asia; growing demand for energy; highly integrated communication networks, and rapidly changing technology. Five themes developed in the report were: 1) maximize value of energy resources; 2) broaden the economic base; 3) prepare Albertans to succeed in the global economy; 4) build a strong infrastructure (land, water, transport, communications); and 5) a strategic focus on managing and investing Alberta's resource wealth.

The Council's report emphasized the importance of Alberta's government acting with intent to fulfill the province's potential. "Alberta is living beyond its means," said McLellan, "because the province is funding operating expenses by selling its energy resources." Discussant Mike Percy lamented that the Council chose not to directly recommend a sales tax to improve the fiscal sustainability of the province. Roger Gibbins of the Canada West Foundation felt the council "did not speak truth to power" but rather "whispered" its advice to the provincial government. Communication of the report seemed to be fragmented, and the response of leadership candidates to the report was regrettably limited.

Productivity and Competitiveness – Challenges for Alberta and Canada"

Presenter: Andrew Sharpe

Over the long-term, progress in the standard of living depends on productivity. Labour productivity is measured by the value of output divided by hours of work. Canada's productivity relative to its principal trading partner, the U.S., has been falling since the 1970s. While Canada's GDP growth over the past ten years is ranked at the low end of OECD countries, many countries at the lower end are viewed as desirable places to live (e.g. Switzerland, Germany, France). Alberta enjoys the highest productivity level in Canada. However, Alberta's position relative to the national average has been falling over the past 15 years. While capital intensity has improved productivity, "multi-factor" productivity has fallen and labour quality has increased only marginally. Areas of weakness by industry include construction (capital intensity a negative), mining, oil and gas extraction (multi-factor productivity a negative), and agriculture.

Discussant Larry Kaumeyer noted that Alberta businesses did not have time to slow down during the recession to reconsider the mix of human capital and physical capital. The labour supply in certain areas is tight. Businesses should attempt to take advantage of government programs such as the Industry Research Assistance Program.

Energy: Alberta's Competitive Advantage for How Long?

Presenter: Joseph Doucet

Drawing on Michael Porter's work, Professor Doucet examines Alberta's competitive advantages: resources, geography, and ability to produce. For oilsands, key questions are: market access and social license to produce and export. For electricity, the use of coal and transmission corridors poses environmental and political challenges. Costs of producing fossils fuels have escalated in Alberta, with impacts felt throughout the economy, e.g. hollowing out.

Other challenges facing Alberta policy-makers include: the impact of disruptive technologies (new drilling technologies); the ability of the Alberta economy to sustain high levels of investment; how to manage the trade-off between economic development of the resource base and responsible environmental stewardship; and how to add value to bitumen and other resources.

2. POLICY RECOMMENDATIONS

Equalization

Alberta policy-makers should review the detailed paper by McMillan. While the Canada Health Transfer will become equal per capita in 2014, Alberta's share of federal spending on goods and services per capita is 64 per cent of recipient provinces and 67 per cent of Ontario (the Ottawa factor). There may be valid reasons to expect that goods and services purchases reflect fairly the requirements of federal services provided, nevertheless, the difference in levels (although small in proportion to Alberta's GDP – $1 billion out of $300 billion) adds to questioning of the value returned to Albertans by the federal government.

Taxation

The higher marginal cost for Corporate Income Tax is intuitively reasonable, as large national firms seek to minimize taxes by moving business units or transactions into the lower cost jurisdictions. This may prompt a "race to the bottom" by provinces. The result might suggest that a federal CIT could be ceded by provinces in exchange for more room for consumption taxes. Consumption taxes levied at the retail level make it more difficult for individual taxpayers to "shop" for lower rates. In the case of Corporate Income Tax, the differences in tax rates must be "significant enough" (say more than 2-3 percent) to induce corporations to expend resources to make operational changes (moving capital and labour to lower tax jurisdiction).

Government Revenue Stabilization Funds

A key policy challenge of such funds is the discretion of governments to change the rules for short term political gain. This erodes trust in the functioning of the fund and may create a fiscal illusion that governments can insulate the economy and public services without fiscal adjustments (i.e. raise taxes or reduce spending).

Social Well-being

The quality of individuals' lives depends as much, or more, on the social fabric than the material standard of living. Policy analysis, such as cost-benefit analysis, should take into account the rise in trust and social linkages (measurement challenges notwithstanding) and the nature of interactions between public servants and their clients. A good example of attention to social well-being is the work Helliwell cites about the Singapore prison system that was transformed from a penal institution into a school.

Competitiveness and Productivity

Increased capital intensity and investment in information and communication technology (ICT) would enhance productivity. Governments may wish to reduce corporate income taxes, create incentives for ICT, and increase infrastructure spending. Government may also wish to consider matching the federal Industrial Research Assistance Program. Universities and small and medium sized businesses should co-operate more in research to improve productivity. Another question for government is whether they might play a role in *slowing down* the economy to allow businesses to invest strategically and time to train their workers properly on new equipment?

Is Alberta's Energy Strategy Sustainable?

For Canadian firms to gain market access, the social license of firms exporting must be obtained. Governments have a role to play in building a monitoring and reporting system that is credible and which takes into account the *cumulative effects* of the resource developments. A land use framework is also critical to addressing questions from environmental and other groups. Land is a scarce commodity and its use should be maximized in the public interest. The Alberta government may also wish to consider raising the carbon tax (currently $15 metric tonne of CO_2). The provincial government may also need to consider managing the scale and pace of development in the oilsands region. Such actions may be resisted by industry players but could lessen the social costs such as inadequate housing or traffic congestion.

Requiring value-added production is another controversial policy issue. The economics for project proponents depend on many factors including the cost of building the infrastructure (including finding the labour in a labour-constrained market) and fluctuating differentials adding risk to the investment. Additional upgrading would raise GHG emissions. However, Alberta would capture more value from the resource and increase temporary and permanent employment (i.e. higher personal and corporate income taxes).

CONCLUDING COMMENTS

Policy-making is about making choices based on a set of values and assumptions. The conference offered a forum for the exchange of ideas concerning public choices on alternative futures. While most agree that some redistribution of income and wealth by governments is appropriate, key questions remain. How much? To whom? What are the consequences? How much should society, through the government, save is premised on what relative weight should be given to consumption now versus sometime in the future. For persons living pay-cheque to pay-cheque these policy choices are difficult to fathom. For politicians seeking re-election, the notions of raising taxes or increased saving are confounding.

But it is not all about the money. Electors value government programs that work and are (hopefully) delivered efficiently. The public also values goods and services received from persons in their own communities where the quality of interaction and the power of community members assisting others (unmeasurable in dollars and cents) matters a great deal. The sense that government is effective, caring and proximate builds trust in political and bureaucratic leaders.

The conference covered a wide range of subjects and perspectives. The following are some "value sets" that can inform policy-making to align government actions on a continuum value choices.

Individual	vs.	Collective rights
Private property	vs.	Public ownership
Material Well-being	vs.	Social Well-being
Conservation	vs.	Consumption
Competition	vs.	Co-operation
Free Markets	vs.	Protected Markets

PROGRAM

8:00	**Coffee and Pastries**
8:30	**Welcome and Introductions: IPE and WCER Directors**

Morning Host - Jason Brisbois, WCER

8:40	***Alberta and Equalization - Separating Fact from Fiction*** Mel McMillan, Professor Emeritus, Department of Economics, University of Alberta Commentator: A.D. O'Brien, Former Deputy Provincial Treasurer, Government of Alberta
9:25	***The Marginal Cost of Raising Revenue—Implications for Tax Options in Alberta*** Ergete Ferede, Professor, Department of Economics, Grant MacEwan University Commentator: Michael Hoffman, Partner, KPMG
10:10	**Break**
10:30	***Stabilization Funds - Do They Make Us Better Off?*** Stuart Landon, Professor, Department of Economics, University of Alberta Connie Smith, Professor, Department of Economics, University of Alberta Commentator: Colin Busby, Senior Policy Analyst, CD Howe Institute
11:15	***Good Government and Well Being - Can They Coexist?*** John Helliwell, Fellow, Canadian Institute for Advanced Research and Professor, Department of Economics, University of British Columbia Commentator: Mark Anielski, President and CEO, Anielski Management Inc.
12:00	**Lunch** Jean de la Bruyère Lounge, Room 4-06, School of Business

Afternoon Host - Bob Ascah, IPE

1:00	*Premier's Council for Economic Strategy Report* Hon. A. Anne McLellan, P.C., O.C., Academic Director and Distinguished Scholar in Residence, Alberta Institute for American Studies, University of Alberta, and Former Deputy Prime Minister, Government of Canada Introduction: Ron Gilbertson, President and CEO of Edmonton Economic Development Corporation
1:30	*Commentary on Premier's Council Strategy* Commentator: Mike Percy, Professor and Dean Emeritus, Alberta School of Business, University of Alberta Commentator: Roger Gibbins, President and CEO, Canada West Foundation
2:15	*Productivity and Competitiveness - Challenges for Alberta and Canada* Andrew Sharpe, Executive Director, Centre for the Study of Living Standards Commentator: Larry Kaumeyer, CEO, Almita Manufacturing; Chair, Productivity Alberta
3:00	**Break**
3:15	*Energy: Alberta's Competitive Advantage for How Long?* Joseph Doucet, Enbridge Professor of Energy Policy, Alberta School of Business, University of Alberta Commentator: Simon Dyer, Policy Director, Pembina Institute
4:00	*Reflections on the Day from Policy Stakeholders:* Graham Thomson, Political Columnist, Edmonton Journal Justin Riemer, Assistant Deputy Minister, Alberta Finance and Enterprise Gil McGowan, President, Alberta Federation of Labour Pat Nelson, President, PLN Consulting; Vice Chair, In Situ Oil Sands Alliance
4:45	**Closing Remarks** Bob Ascah and Jason Brisbois