



# ALBERTA 2023 and beyond

**Fiscal policy, health care  
and federal-provincial relations**

Janice MacKinnon and Jack Mintz

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## Executive summary | *sommaire*

**The Alberta government has made** important and sometimes challenging decisions to position the province well for the future. Spending has been reduced, health care and post-secondary education have been restructured and a mix of tax cuts, regulatory reform, and innovative training and retraining initiatives have led to economic growth, diversification of the economy and high levels of in-migration into the province.

However, more needs to be done. In health care, proposed changes include revamping seniors care, moving more procedures to clinics, encouraging more virtual care, and making changes to the funding of health care. In post-secondary education, Alberta needs to take full advantage of having the youngest population in Canada by encouraging more young people to remain in the province for post-secondary education. It also needs to enhance training and retraining programs and reduce barriers to in-migration by doing more to recognize professional credentials.

A major challenge for the province is addressing federal government climate change policies. Since both federal and provincial governments have jurisdiction over climate change, cooperative federalism, in which the two levels of government respect each other's jurisdiction and work together on common goals – is required to make progress on reducing emissions. However, as the case of reducing emissions in the oil sands shows, the federal government often acts unilaterally, does not respect provincial jurisdiction, and establishes unrealistic and unachievable targets. The paper recommends ways in which Alberta can challenge federal actions as well as assert its provincial jurisdiction by developing its own climate change plans.

The distinctive feature of Alberta's finances is the remarkable swings in revenues the province must deal with due to volatile oil and gas prices. To help counter that volatility and to control spending, the province must develop "fiscal anchors" whereby both politicians and the public understand: no deficits, a target level of debt relative to GDP and limiting growth in spending to population and prices. Further, the province's government should reduce volatility in its budgeting by paying down debt or investing its non-renewable resource revenues into an Alberta Health Plan that would operate similarly to an endowment fund with a fixed percentage of assets distributed to the provincial budget.

The province must also address its high personal income tax rates, which discourage work effort, investment, and risk-taking, all of which are particularly important for an economy that relies on entrepreneurship and highly skilled labour. Alberta has made strides in improving corporate tax competitiveness, but personal tax competitiveness has been eroded by higher the rates that the federal government and the province introduced in 2015, which has in turn led to the disappearance of many of Alberta's high-income taxpayers and discouraged low-income Albertans from working. Without compromising its fiscal anchors, the province could reform its taxes by repatriating the federal fuel charge and levying its own made-in-Alberta carbon pricing system. The alternative would be to raise revenues by levying a health premium or an Alberta sales tax harmonized with the GST.

In this decade, Alberta will need to confront many new realities to maintain its high standard of living. The fiscal decisions that the provincial government makes in the next several years will have a significant impact on Alberta's prosperity in decades to come. **MLI**

**Le gouvernement de l'Alberta** a pris des décisions importantes et parfois difficiles afin d'assurer à la province une bonne position dans l'avenir. La réduction des dépenses, la restructuration des services de santé et de l'enseignement postsecondaire et un ensemble de réductions d'impôts, de réformes réglementaires et d'initiatives novatrices en matière de formation et de recyclage ont favorisé la croissance économique, une diversification de l'économie et un solde migratoire élevé.

Toutefois, il faut en faire plus. En santé, les modifications proposées prévoient la restructuration des soins aux personnes âgées, plus de transferts d'actes médicaux vers les cliniques, plus de soins virtuels et des changements dans le financement. En éducation postsecondaire, l'Alberta doit encourager la jeune génération à étudier dans la province afin de profiter pleinement du fait que sa population est la plus jeune au pays. Elle doit également améliorer les programmes de formation et de recyclage et réduire les obstacles à l'immigration en décuplant les efforts en faveur de la reconnaissance des titres professionnels.

Les politiques fédérales en matière de changements climatiques posent un défi majeur pour la province. Puisque tant l'ordre fédéral que provincial de gouvernement a compétence en la matière, tout progrès dans la réduction des émissions nécessite la pratique d'un fédéralisme coopératif – au sein duquel chacun doit respecter la compétence de l'autre et travailler avec lui à l'atteinte d'objectifs communs. Toutefois, comme l'illustre l'exemple des sables bitumineux, souvent, le fédéral agit de façon unilatérale, ne respecte pas les compétences provinciales et fixe des cibles irréalistes et impossibles à atteindre. Dans ce document, on recommande certains moyens par lesquels l'Alberta peut contester les actions fédérales tout en affirmant son champ de compétence par l'intermédiaire de son propre programme de lutte.

*Les revirements spectaculaires dans les recettes provinciales dus à la volatilité des prix du pétrole et du gaz sont un trait distinctif des finances albertaines. Pour aider à pallier ces variations extrêmes et à contrôler les dépenses, l'Alberta doit fixer et permettre aux politiciens et au public de comprendre les « points d'ancrage budgétaires » que voici : un déficit nul, un ratio dette/PIB cible et une croissance des dépenses en adéquation avec celle de la population et des prix. De plus, elle doit atténuer l'instabilité budgétaire en remboursant la dette ou en investissant les recettes tirées des ressources non renouvelables dans un régime fonctionnant de manière similaire à un fonds de dotation dont les actifs sont affectés au budget provincial à un taux uniforme.*

*La province doit également réduire ses taux élevés d'impôt sur le revenu des particuliers, qui découragent le travail, l'investissement et la prise de risque, autant d'éléments particulièrement importants pour une économie qui repose sur l'entrepreneuriat et une main-d'œuvre hautement qualifiée. L'Alberta a beaucoup amélioré la compétitivité de l'impôt des sociétés. Toutefois, celle des particuliers a été érodée par les hausses des taux décrétées par le gouvernement fédéral et la province en 2015, ce qui a entraîné le départ de nombreux contribuables albertains à revenu élevé et a dissuadé les Albertains à faible revenu de travailler. La province pourrait réformer son régime de fiscalité en rapatriant la taxe fédérale sur les carburants et en adoptant son propre système de tarification du carbone made in Alberta, et ce, sans compromettre ses points d'ancrage budgétaires. L'alternative serait d'augmenter les revenus en prélevant une prime de santé ou une taxe de vente de l'Alberta harmonisée avec la TPS.*

*Au cours de la présente décennie, l'Alberta devra faire face à de nombreuses nouvelles réalités pour maintenir son niveau de vie élevé. Les décisions financières du gouvernement provincial au cours des prochaines années auront une incidence importante sur sa prospérité pour les décennies à venir. **MLI***

## Introduction<sup>1</sup>

**The Alberta government has made** some important and often difficult decisions needed to position the province well for the next decade. It has reduced spending to levels comparable with the three other large provinces, helping to produce a balanced budget and reduce its debt burden to the lowest of any provincial government in Canada. It has restructured post-secondary education and health care to bring spending more in line with comparable provinces and better align those systems with the shifting 21st century demands. An aggressive plan that includes tax reductions, regulatory reform, and innovative training and retraining, is supporting economic growth and diversification, as well as the transition to a low carbon economy. Hence, Alberta is experiencing lower unemployment, favourable net inflow of migrants, and growing private sector investment.

However, the province needs to do more to ensure even greater prosperity. While the province has its spending under control, it will be important for it to look for efficiencies and improve public service productivity, and not simply spend its surpluses. In health care, the pandemic worsened already long wait times for care, increased the cost of an already expensive system, and laid bare the limitations of seniors' care. Skilled and unskilled labour shortages, coupled with long-term unemployment for some Albertans, means the province must do more to bring people into the workforce and to ensure that Alberta, which has the youngest population in Canada, makes the most of its demographic advantage. Skyrocketing oil prices have increased government revenue and surpluses but have also raised age-old concerns about the need to diversify the province's revenue sources to provide stable and predictable funding. Alberta needs to address competitiveness and fairness in the tax regime. As well, the surpluses beg the question: how can they be managed to both benefit current taxpayers and lay a solid foundation for the future?

A key issue for the province will be how its next budget identifies and sets its “fiscal anchors.” The province had three previous fiscal anchors: balancing the budget, reducing per capita spending to match the other three largest provinces in Canada, and keeping net (financial) debt below 30 percent of GDP – all of which have now been largely achieved. Besides balancing the budget, the next fiscal anchors should, in our view, focus on constraining spending (ensuring, for instance, that it rises no faster than population and prices<sup>2</sup>). The province should also reduce net debt further since a resource-rich jurisdiction should save its resource revenues to reduce public debt charges or build up savings.



*A key issue for the province will be how its next budget identifies and sets its “fiscal anchors.”*

A focus on these fiscal anchors may imply that undertaking health and revenue reforms would be impossible. However, that is not the case. Spending efficiencies, productivity improvements, and tax rebalancing are all possible if new revenue sources become available. In particular, we focus on other revenue options including a made-in-Alberta carbon levy (cap-and-trade or carbon tax) that would generate substantial revenues for Alberta in this decade.

In this paper, we provide several policy recommendations for the forthcoming and future Alberta budgets. In the first section, we focus on program spending including health, education, labour markets, and federal-provincial relations. We follow this with recommendations for revenue reforms and savings or debt reduction. We also analyse and make recommendations regarding federal-provincial jurisdiction in resource development and climate change.



## Spending reforms

**The Alberta government has made** significant progress in controlling spending since 2019, when the Blue Ribbon Panel reported that “Alberta’s annual expenditures would be \$10.4 billion less if its per capita spending simply matched the average of spending in Canada’s three largest provinces” (Blue Ribbon Panel 2019, 4).<sup>3</sup> In its 2022 budget, the government of Alberta reported that “since 2018-19 operating expense increased by only 3.6%” and that by 2022-2023 Alberta will be within the “projected spending range for comparator provinces” with more progress projected for 2024 (Alberta 2022a, 12-13). Public sector compensation, the biggest single government expenditure, declined by 3.7 percent from 2018 to 2020, and by 2020 it was only 6 percent higher than that of the other three largest provinces (Alberta 2022a, 147).

While reductions in spending were important, the dramatic increase in the price of oil and strong demand for other commodities enabled the Alberta government to balance its budget in 2022 and to project that in 2022-23 its net debt-to-GDP ratio would be 9.9 percent (Alberta 2022b; Alberta 2022c, 3). In the coming years, the government should continue to seek efficiencies and improve productivity in areas like procurement, information technology, administration, and the delivery of services.

### Health care

In health care, the largest single provincial expense, Alberta has made progress in restructuring the system. The government should continue to outsource non-clinical support services, following the examples of provinces like Ontario and British Columbia that outsourced their food services to third-party vendors, resulting in an increase of between 5 and 15 percent in patient satisfaction and cost reductions of between 5 and 20 percent (Ernst and Young 2019, 71).

However, the pandemic and the challenges posed by the structure of Medicare have limited the pace and scope of change. The pandemic worsened wait times for care and added significant costs to health care budgets. The Conference Board of Canada projected that total health care expenditures for governments would increase “by between 20.9 per cent and 27.5 per cent from 2019-20 to 2022-23, or by an average annual pace of between 6.5 per cent and 8.4 per cent” (Conference Board of Canada 2020, 2). The study also projected

that per person spending on health care would rise from \$4656 in 2018-19 to an inflation-adjusted \$7039 by 2040-41 (2020, 4).

As well as increasing costs, the pandemic stretched health care systems to the limit, leading to calls for the reform of Medicare with the onus on the provinces, which are responsible for administering health care, to make the changes. For years, international comparisons of health care systems have shown that Medicare is expensive and wait times for care are longer than in other comparable countries,<sup>4</sup> so it is tempting to conclude that if provinces only reformed Medicare the costs and wait times would be reduced dramatically. What is overlooked in that assumption is that it is the structure of Medicare that leads to high costs and long wait times.

The federal government designed Medicare in the 1960s when health care focused on treating not preventing illness; hence, the most expensive parts of the system – doctor and hospital services – are fully covered by Medicare while many less expensive preventative services are not covered. Thus, the incentive is for patients to access the fully covered and expensive doctor and hospital services, and the high demand for these services means that provinces struggle to fund other preventative services that would prevent illness and reduce long-term costs. Moreover, when the Canadian government created Medicare, it ignored reports and advice recommending that patients should pay part of the costs of doctor and hospital services.<sup>5</sup> While other developed countries have parallel private systems and fees for some doctor and hospital services, only Canada relies solely on government revenue for these expensive services.

In 2001, the Mazankowski report on Alberta health care stated, “If we depend only on provincial and federal general revenues to support health care, we have few options other than rationing” (Alberta 2001, 7), which in turn produces long wait times for care. As well as designing Medicare the federal government has limited provincial powers to raise revenue by banning user fees and extra billing in the *Canada Health Act*. Considering the role that the federal government has played in structuring Medicare and limiting options to reform it, either the federal government should loosen some restrictions to give provinces more scope to reform the system or it should significantly increase its contribution to the health care system that it created.

Despite the constraints, Alberta has made changes to reduce costs and provide more effective and timely health care. In 2018 Alberta’s per-capita health care spending was higher than that in Ontario, Quebec, and British Columbia.

**TABLE 1: PER CAPITA HEALTH CARE SPENDING FOR THE FOUR LARGEST PROVINCES 2018 AND 2022.**

	<b>Alberta</b>	<b>BC</b>	<b>Ontario</b>	<b>Quebec</b>
<b>2018</b>	\$5077	\$4276	\$4080	\$4370
<b>2022</b>	\$5394	\$5644	\$5379	\$5878

Source: CIHI 2022

By 2022 Alberta’s per-capita spending was less than that in Quebec and British Columbia and close to Ontario’s (Table 1). Moreover, to narrow the gap further, the province set itself a target to keep the annual rate of growth in health care operating expense below the combined rate of growth of population plus inflation (Alberta, Ministry of Health 2022).<sup>6</sup> Given Alberta’s younger population, there is greater scope to bring per capita spending below other provinces.

To narrow the spending gap with other large provinces, Alberta had to find effective alternatives to hospital and doctor services, the most expensive parts of the health care system. The average daily cost of a hospital bed in 2016 was over \$1000, while a bed in a long-term care facility was \$203 and homecare cost \$50.<sup>7</sup> The Alberta government decreased hospital costs by reducing the number of patients who remained in hospital because other facilities were not available; by investing in facility-based beds in the community and by providing more funding for community care, continuing care, and home care.<sup>8</sup>

The biggest expense in health care is human resources and Alberta saved money without compromising care by using the skills of health professionals to the fullest. The province hired more Nurse Practitioners (NPs), highly trained nurses with average annual salaries of \$92,569, who can perform some of the duties of Family Medicine physicians, whose average annual salary is \$391,539 (Blue Ribbon Panel 2019, 29). It also hired more Licensed Practical Nurses, with an average annual salary of \$53,371, who can perform some of the duties of Registered Nurses, whose average annual salary is \$80,129 (Blue Ribbon Panel 2019, 29). Mental health and addiction services have received more funding and the province has created new targets to measure health outcomes.<sup>9</sup>

The province also made progress in moving doctors away from fee-for-service compensation, in which doctors are the gatekeepers of the system. The

fee-for-service approach to compensation makes it challenging to move to a primary health care model in which a team of medical professionals provides a more holistic approach to care. Besides benefiting patients, team-based medicine and alternative methods of compensation reduce administrative work for doctors, thereby helping alleviate the shortage of family physicians.<sup>10</sup>

Though the changes in health care are noteworthy, the province needs to make other innovative and bold reforms. In seniors' care the pandemic revealed serious problems. For instance, as of October 2021, almost one of every 20 people over the age of 80 had been infected with COVID-19 and about 1 percent had died (Wyonch 2021, 5). In seniors' care homes there were immediate problems resulting from room sharing, staff shortages, and poor working conditions for staff. Moreover, relative to international averages, Canada has fewer home care providers and long-term care (LTC) facilities (Wyonch 2021, 1).



*A significant shift from institutional care to home- and community-based care will be essential.*

A report done for the Alberta government recommended improvements to LTC facilities such as increasing standards, regulation, and staff, and ending shared rooms. However, the report also projected that the demand for continuing care services will grow by 62 percent by the year 2030 (MNP 2021, iv). Such a dramatic increase in the already high demand for continuing care services means that were no changes to be made, the costs of accommodating seniors needing care in institutional settings would be astronomical.<sup>11</sup> Thus, Alberta – and Canada – need to find innovative alternatives to institutional care.

A significant shift from institutional care to home- and community-based care will be essential and largely desirable for many seniors who prefer to stay at home. Moreover, during such a transition there are innovative models Alberta can follow. Some jurisdictions provide 24-hour home care, others assess seniors' needs and modify their homes to allow those seniors to remain in them, and still others build more accommodation suitable for aging seniors (MNP 2021, 35, 45; Wyonch 2021, 1). Another innovative concept is self-directed care, in



which seniors who are “assessed as needing continuing care” can either wait for institutional care or receive a cash subsidy so they can arrange for their own care (MNP 2021, 61). Not only is care improved under such models, but low-cost alternatives help ease the growing budgetary cost.

Alberta also needs to make innovative changes to address the escalating costs of health care and the long wait times for care. Relative to comparable countries, Canada’s health care system is expensive and suffers from long wait times (see Commonwealth Fund 2021), both of which are serious problems. Wait times having adverse effects on patients’ health were documented in the 2005 Supreme Court *Chaoulli* decision that stated, “Delays in the public system are widespread and have serious, sometimes grave, consequences” (*Chaoulli v. Quebec* (Attorney General), [2005], 1 S.C.R. 791, 2005 SCC 35, para 112). It is important to contain costs since the increases in health care spending mean that health care is taking up a bigger chunk of provincial operating budgets, thereby squeezing out funding for education, poverty reduction, and other social programs – areas that also have an impact on health outcomes. In fact, only 25 percent of a person’s health status depends on the health care system; 50 percent is associated with living conditions related to income, education, diet, and housing (Dodge and Dion 2011; Conference Board of Canada 2020, 15; Brown 2012).

Wait times and costs can be reduced by increasing the use of telehealth, virtual care, and digital technology, which also improve access to health care in rural and remote communities (Conference Board of Canada 2021). The pandemic necessitated the use of various kinds of virtual care, and the change was embraced by physicians, patients, and the Alberta government, which has provided funding for virtual care and digitization of health information with Connect Care (Alberta 2022a, 127). The Canadian Medical Association took a poll in 2020 that showed that 47 percent of Canadians accessed health care using phone calls, emails, texts, and videos; 91 percent expressed satisfaction with the care and 46 percent who used virtual care stated that they would prefer to use virtual options for their first point of contact with their doctor (CMA 2020).

Another fundamental change involves the role of hospitals in the health care system. Hospitals were the centre of health care when Medicare was created in the 1960s and today governments still announce the building of new hospitals as good news. In Alberta, over 80 percent of surgeries are performed in hospitals. But a recent Ontario Medical Association report argued that re-

ducing surgical wait times and costs requires that procedures be moved out of hospitals. The report states, “The current hospital-based care delivery model creates constant and inevitable competition between acute and non-acute care, which is problematic for the delivery of timely care” (OMA 2022, 5).

Instead, less complex and non-acute procedures – like same-day surgical care, diagnostics, and preventative procedures – should be performed in free-standing facilities that are operationally separate from hospitals. “Compared to inpatient settings,” the report states, these free-standing centres “can provide surgery or procedure times that are shorter, with faster recoveries, lower infection rates and efficiency gains ranging from 20 to 30 per cent” (OMA 2022, 4). Another benefit of moving these procedures out of hospitals is freeing up hospital beds and operating rooms, allowing them to focus on more complex, acute and emergency patients and procedures and reduce wait times.<sup>12</sup>



*Reducing surgical wait times and costs requires that procedures be moved out of hospitals.*

The Alberta government has set targets to increase non-hospital surgical facilities by 30 percent by 2022-23 (Alberta, Ministry of Health 2020, 87). The Alberta plan relies heavily on the use of private clinics, which can provide governments with several advantages. Contracts between the government and clinics can specify the number of procedures to be performed, the time frame, and the costs; the clinics also can provide the facilities and hire the staff. Moreover, the clinics can operate more efficiently since they are focused on specific procedures and are not encumbered by collective bargaining agreements that add costs and complexity to delivering services in a unionized workplace.<sup>13</sup> The other advantage to contracting out service delivery is better accountability; governments can focus on their appropriate roles of providing strategic oversight, regulation, and holding those who deliver services to account for providing quality, timely services at a competitive cost.

Finally, reducing costs and wait times means addressing the problem the Mazankowski report highlighted: relying solely on government funding for

health care means rationing services and long wait times for care. In assessing possible alternative sources of revenue, it is important to ensure that they are not collected at the point of service since this can discourage people from seeking treatment; they should be equitable in the sense that they are geared to income; and they should be easy and inexpensive to administer.

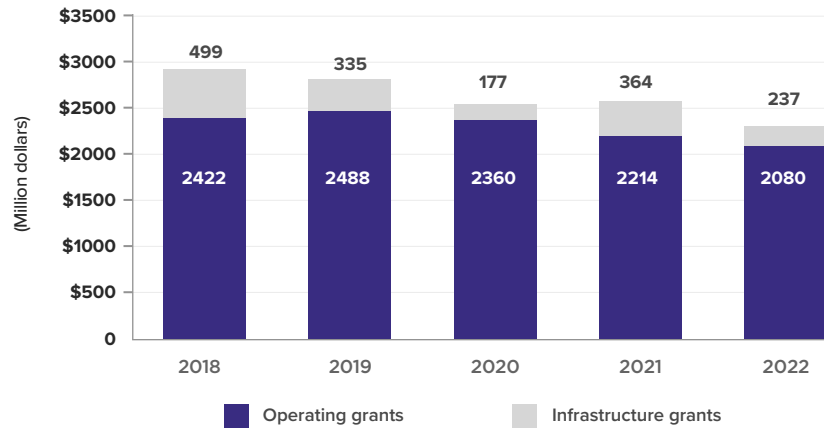
One option that satisfies these criteria is a co-payment system in which patients pay part of the cost of publicly funded health care services with the amount paid capped at a certain percentage of the patients' income. The co-payment would be easily and inexpensively administered by the income tax system, which means that patients would not pay for the services when they seek care, and fairness would be achieved by linking the amount paid to income, with lower income people being exempt. There could also be exemptions for people with chronic conditions, the elderly, and children.

The co-payment system could also address three of the structural shortcomings of Medicare. There would be a link between patients and the costs of the system. Moreover, the incentives in the system could be changed; for instance, some doctor and hospital services could be subject to a co-payment, while primary health care and preventative services could be "free," so patients would have an incentive to use the less expensive and often more effective preventative services. Third, the system would require governments to develop accounting systems to measure the costs associated with different procedures. A Canadian model using a cap of 3 percent of income estimated that the revenue collected would pay about 16 percent of the costs of hospital, doctor, and other health care institution costs. The model also estimated that the reduction in use would result in savings of 13.5 percent of doctor and hospital services (Aba, Goodman, and Mintz 2002). If the co-payment model were adopted, then the revenue raised or saved could be dedicated to reducing wait times for care.

### **Advanced education**

As well as changing health care, the Alberta government has restructured advanced education to align spending on it with that in other large provinces and to meet the changing realities of the 21st century. The 2019 Blue Ribbon Panel found that Alberta spent significantly more per full-time equivalent student (FTE) than did the three other large provinces.<sup>14</sup> The report also found that "Alberta universities and colleges depend far more on government grants and

**FIGURE 1: ADVANCED EDUCATION FUNDING TO POST-SECONDARY INSTITUTIONS (NOMINAL DOLLARS)**



rely far less on tuition as a share of revenue compared to their British Columbia and Ontario counterparts while Quebec provides more in grant support” (Blue Ribbon Panel 2019, 40).

To better align Alberta with the other large provinces, the government reduced funding for post-secondary education institutions between 2019 and 2022 (Figure 1), removed the cap on tuition increases so that tuition could be raised, and committed to “reduce financial controls to provide institutions with greater financial flexibility to grow their own-source revenues and enable financial deconsolidation of some institutions from government” (Alberta 2021, 29). It should be noted that, in fact, the government has not yet reduced financial controls and implemented deconsolidation to give universities the flexibility needed to increase their own-source revenue.

Alberta’s government also developed a 10-year strategy for advanced education, focusing on getting people back to work and diversifying the province’s economy. The plan incorporated performance indicators for proposed changes and a performance-based funding model to link funding with the strategy’s outcomes (Alberta 2021, 5). Key performance indicators included tracking how many students and apprentices were employed soon after graduation (Alberta 2022e, 3). The government also cited the strong research record of



the province's post-secondary institutions and the growing alignment of their investments in research areas like energy, agriculture, health, and technology with the province's economic diversification goals (Alberta 2021, 24).

The strategy proposed to capitalize on the strong research record of Alberta's post-secondary institutions by encouraging the commercialization of innovations made in them, with a commitment to "set a national standard for policies and practices that foster commercialization" (Alberta 2021, 25). The strategy also built on the increase in remote learning that took place during the pandemic by committing to expand access to digital infrastructure for online learning in rural and remote communities, as well as committing to both "strengthen the inclusion of indigenous learners," and provide high quality and up-to-date labour market data, important information that can help institutions and students make informed decisions about course offerings and career choices (Alberta 2021, 21, 23).<sup>15</sup>

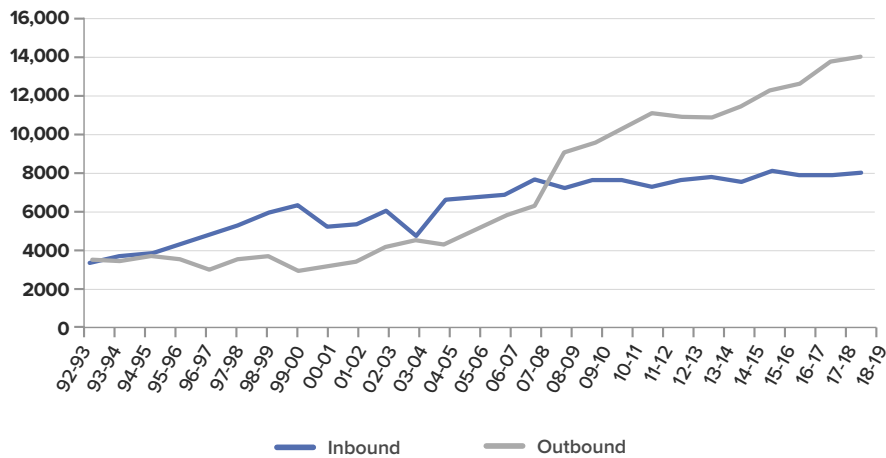


*The reality is that many talented young Albertans leave the province for post-secondary education.*

There are, however, two other main areas that require more attention. One of Alberta's greatest assets is its young population. While other provinces grapple with the fiscal and economic costs of an aging population, the average age in Alberta in 2021 was 38.9, almost 3 years below the national average (Alberta 2022a, 29). Also, the number of Albertans aged 18-24, which has been flat for about 15 years, will increase by one-third over the next decade. It is critical that the Alberta government act decisively and quickly to take advantage of the projected 100,000 increase in 18-24-year-olds.<sup>16</sup>

What policies are in place to encourage young Albertans to remain in the province? One positive initiative is the requirement that all post-secondary institutions increase their "work-integrated learning" offerings, with the goal being to make Alberta the "first province in Canada to offer access to work-integrated learning to 100% of students" (Alberta 2022a, 23). Work-integrated learning allows students to get work experience in their field of study, and it

**FIGURE 2: INBOUND AND OUTBOUND POST-SECONDARY STUDENTS, ALBERTA, 1992-93 TO 2018-19**



Source: Usher 2022.

builds relationships between employers and students that can lead to long-term employment opportunities for students. It can also be argued that the commitment to “build, fund, and establish policy to support apprenticeship-style programs in a wide range of occupations” can also help to keep young Albertans in the province (Alberta 2021, 23).

However, the reality is that many talented young Albertans leave the province for post-secondary education, even as there has been little increase in the number of non-resident students attending post-secondary schools in Alberta. As Figure 2 shows, prior to 2007 more students from other parts of Canada came to Alberta for post-secondary education than has been the case in more recent years, and since 2007 a sizeable and growing number of Albertans have left the province to pursue post-secondary education. The concern is that students who leave the province may never come back.

This could be a significant loss in human capital even if many students who are learning at the best post-secondary institutions in the world return to the province in later years for family and other reasons. So long as Alberta is also attracting top students to its universities, of which many may stay in the province, such ebbs and flows may not be a negative to the province. Nonetheless, we really do not know much about the long-run career trajectories of those who leave or come to the province for education. The Alberta govern-

ment needs to work with post-secondary institutions and other stakeholders to find out why so many Alberta students are leaving the province for post-secondary education relative to the number of non-resident students coming to learn in Alberta institutions, so that strategies to address the problem can be developed.<sup>17</sup> The province should also ensure that its post-secondary institutions attract students from other provinces or abroad.

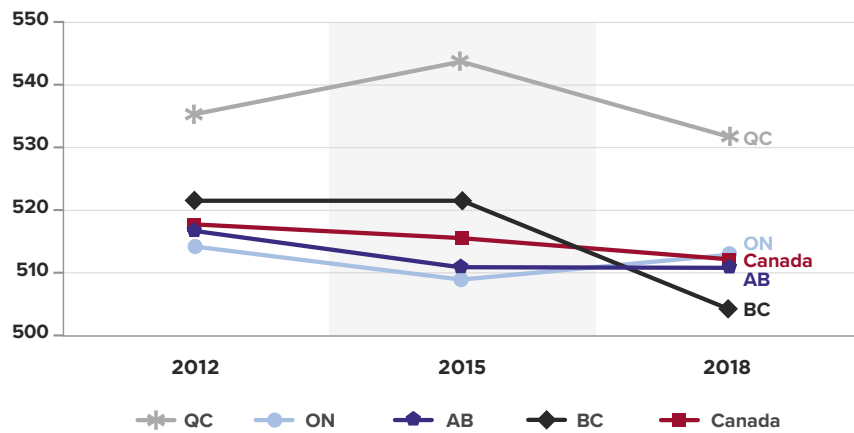
The 2022 provincial budget allocated \$171 million over three years to increase enrolment in targeted sectors – technology, agriculture, financial services, and aviation (Nicolaides 2022). However, the province needs to do more: the post-secondary institutions receiving the additional funding should be required to develop strategies to recruit more Alberta and non-resident students. Also, in future the government should review the data to determine if the additional funding for enrolment has resulted in more students remaining in the province for post-secondary education. Another alternative that the province should consider is providing the funding directly to Alberta students: for example, scholarships, bursaries, and other government funding could be made available for students to attend post-secondary institutions in the province, with funding to post-secondary institutions increasing for the additional Alberta students.

Post-secondary institutions are critical not only for training students for the workforce but also providing research that contributes to an innovative regional economy (Brekke 2021). Institutional relationships include mechanisms for knowledge transfer such as university spin-offs, research collaboration, licensing, and science parks. Top faculty are well connected globally, enabling local businesses to connect to ideas being developed elsewhere. Alberta should develop more research funding for post-secondary institutions that currently rely heavily on the federal research agenda. It is important that the Alberta government reward institutions that hire the best teaching and research faculty. This will also help attract top graduate and undergraduate students.

### **Education, skills training, and labour markets**

Another major issue the province needs to address is the labour market's multifaceted challenges. Those challenges include an uneven economic recovery with almost 47,000 Albertans experiencing long-term unemployment (Alberta 2022a, 25), the employment transitions that technological changes will require,

**FIGURE 3: PERFORMANCE BY STUDENTS IN ALBERTA, BRITISH COLUMBIA, ONTARIO, AND QUEBEC, AND CANADA ON PISA TESTS (AGE 15) FOR MATHEMATICS**



Source: Program for International Student Assessment (PISA), various years.

and the need to better align the education and skills of workers with the needs of employers to address the conundrum of significant levels of unemployment and shortages of skilled workers. The government has already begun the process by introducing innovative programs that fund employer-based training, that provide funding to businesses to hire unemployed or underemployed Albertans, and that support post-secondary institutions in increasing their micro-credential programs, which can assist in upskilling or reskilling people.<sup>18</sup>

However, more needs to be done to improve the basic literacy and numeracy skills that will be “critical in enabling individuals to adapt to the changing workplace” (Conference Board of Canada 2018). PISA is an Organization for Economic Cooperation and Development (OECD) program for international student assessment that “measures 15-year-olds’ ability to use their reading, mathematics, and science knowledge skills to meet real-life challenges” (OECD Undated). Alberta students performed well in science and reasonably well in reading (see the Appendix) but their performance in mathematics is well below other comparable provinces (Figure 3). Thus, the K-12 curriculum needs to be reformed to focus on upgrading the mathematical skills of Alberta’s students.

Alberta has also relied on in-migration from other parts of Canada to address its skilled labour shortages and while it has made significant achievements



to date, more needs to be done. Relative to other provinces Alberta has benefited from in-migration. For example, “Between 2011 and 2016, some 67,000 more individuals moved into the province than out to other provinces. This was nearly twice the net inflow as BC, the second largest net inflow province” (Tombe and Schwanen 2020, 6).<sup>19</sup> Alberta has launched a very effective advertising campaign, “Alberta Is Calling,” to lure people from other parts of Canada (Alberta 2022f). And the fall 2022 Business Council of Alberta report stated that “Net migration to Alberta is the highest it has been in eight years” (Business Council of Alberta 2022, 2). Despite a record of success, Alberta needs to continue to reduce barriers, such as recognizing the credentials of those trained in other provinces, to benefit fully from in-migration (Tombe and Schwanen 2020).

The province must also do more to address barriers to entry into the job market for under-represented groups and those with elevated levels of long-term unemployment (Alberta 2022a, 8). Both those under-represented in the work force and the long-term unemployed have the potential to contribute to the economy and it is worth investing in programs targeted to their specific needs. As one recent study put it, “the wider social returns from lifelong learning for adults with low qualifications can be high because it improves their employability, reduces their dependency on unemployment benefits and other targeted transfer spending and boosts inclusive growth” (Mahboubi and Mokaya 2021, 1).

Besides restructuring health care and post-secondary education, Alberta has made significant progress in diversifying its economy. For instance, “there have been several high-profile announcements of new investments in aerospace, tech, and manufacturing, helping to grow and diversify the provincial economy” (Business Council of Alberta 2022). However, oil and gas are still key economic and fiscal engines for the province and there is a need to address the ongoing challenges of federal-provincial relations with respect to climate change and resource development.

## **Resource development, climate policy, and federal-provincial relations**

In Canada both the federal and provincial governments have significant jurisdiction over climate change policy as it affects natural resources. Both levels of government share jurisdiction over the environment. The federal government has significant capacity to implement policies deemed in the national interest using its peace, order, and good government powers. Equally important though,

natural resources, including oil and gas, are under provincial jurisdiction. Thus, successfully reducing emissions requires cooperative federalism, whereby both levels of government work together to achieve common goals and respect each other's jurisdiction.

While there are some examples of federal-provincial agreement on climate change initiatives that affect natural resources, such as the increase in Alberta's tax on industrial carbon emissions to meet the Canadian carbon tax standard (Potkins 2022), the more common pattern is for the federal government to act unilaterally rather than collaborating with provinces.

What does it say about the state of cooperative federalism in Canada when all 10 provinces are supporting a legal challenge to the federal government's Bill C-69 on the grounds that in the *Impact Assessment Act* (IAA), "the federal government has unilaterally declared responsibility for all emissions regulation that overrides provincial jurisdiction" over areas such as resources (Mar and Black 2022). On May 10, 2022, the Alberta Court of Appeal released its decision that the IAA was unconstitutional and represented "a breathtaking pre-emption of provincial legislative authority" (Reference re *Impact Assessment Act*, 2022 ABCA 165). The court found that Parliament is not entitled to require federal oversight and approval of intra-provincial activities (activities that occur within one province) that otherwise lie within provincial jurisdiction (Orenstein and Collins 2022).

The court battles, along with the IAA and Canada's cumbersome regulatory processes for approving projects, have been significant hurdles to approving and completing major projects in Canada, which is very problematic for a country that has seen declining business investment and low growth projections relative to comparable countries (Bazel and Mintz 2021; Robson and Bafale 2022). As well as court challenges, the provinces could seek changes to the Constitution. This would require the federal government and seven provinces representing 50 percent of the population to agree to a constitutional change that would strengthen provincial control over resources and prevent any future federal government from intruding into provincial jurisdiction over resources.

As well as concern about Bill C-69, western provinces are concerned about the lack of federal support for liquified natural gas (LNG) export terminals since currently Canada's natural gas is only sold internally or to the United States. Given the priorities to supply LNG to Europe and future energy security needs, as the energy transition continues in the decades to come, it is

no surprise that the United States has seven operating LNG export terminals and three more under construction (EIA 2022).<sup>20</sup> Canada, on the other hand, has not yet completed even one (the Kitimat export terminal is expected to ship LNG by 2025 at the earliest). Instead, the federal government has pushed green hydrogen which, in August 2022, it said would be sold to energy-starved Germany, even though it is well recognized that hydrogen will not be a major source of energy for a decade or two to come (Canada 2022). Notably, Germany later announced a 15-year contract to purchase LNG from Qatar beginning in 2026.



*Western provinces are concerned about the lack of federal support for LNG export terminals.*

Canada is missing a golden opportunity not only to sell more natural resources at higher prices but also potentially to reduce global emissions. For example, LNG exports from Canada to Asia, particularly China, is not only cost competitive but also would reduce global emissions if Canadian natural gas were to replace Chinese coal as a source of energy (Nie, Zhang, and Liu, et al. 2020). Instead, the western provinces are selling their natural gas at a discounted price to the United States, which in turn exports it abroad.

An excellent example of the lack of collaboration and cooperation between the two levels of government is the federal decision to cap and reduce greenhouse gas (GHG) emissions in the oil sands. There is a consensus among the industry and the provincial and federal governments that emissions in the oil sands need to be reduced. The major oil sands producers understand that achieving high standards on environment, social, and governance (ESG) metrics and on decarbonization are essential to their industry's future global competitiveness.

Hence, the oil sands companies have formed the Pathways Alliance to enable them to work together to reduce their emissions; they are proposing to invest \$24 billion by 2030 to reduce emissions, including \$16 billion to fund a “massive carbon capture and storage (CCS) network in northern Alberta”

(Graney 2022). They are also creating low-carbon fuels and investing in hydrogen developments. Similarly, the province supports decarbonization of the sector as part of its case that Alberta should be a supplier of choice for clean and secure energy. There is, then, a foundation for the three parties to work together to achieve the common goal of reducing emissions in the oil sands.

However, instead of seeking collaboration with the province, the federal government has acted unilaterally. The federal government's decision to impose a cap on oil sands emissions was announced with no consultation with the province, a decision that was criticized by both the Alberta premier and the leader of the opposition. Then Alberta Premier Jason Kenney said, "I don't know why they would make an announcement like this without consulting the province that actually owns the overwhelming majority of Canada's oil and gas reserves" (Weber 2021). The federal government's decision to establish differing emissions reduction targets and time frames for various sectors of the economy is also problematic. Norway, a major oil producing country with stringent targets and programs to reduce GHG emissions, does not "cherry pick" sectors, but has the same reduction targets for oil and gas as for other sectors (Orenstein and Robinson 2022).

While it is true that the oil and gas sector produces the most emissions, transportation is not far behind and the oil and gas sector has done a much better job of increasing production while keeping emissions flat.<sup>21</sup> The federal government's decision to impose specific emissions targets and reductions on oil and gas without consulting with the province feeds into historic concerns that federal governments with virtually no representation in the region impose policies on Alberta (and Saskatchewan) that are contrary to their interests. Currently, the federal government has two out of 48 seats in Alberta and Saskatchewan and has little to lose by trying to impose policies that are harmful to the region.<sup>22</sup>

In terms of the targets, the major oil sands producers committed to reducing their emissions by 30 percent by 2030. The federal government had an opportunity to embrace that target and call on the province to work together on the plans and the investments in technologies, like carbon capture, to make the target a reality. Instead, the federal government decided on an emissions reduction target of 42 percent, a goal that even a federal government analysis found was not feasible (Walsh 2022). Thus, when the federal government provided a tax credit for carbon capture technology, and it was suggested that Alberta should add to the funding, Alberta's finance minister stated: "These were federal

emissions targets and the federal government needed to ante up and ensure that this (investment tax credit) was calibrated appropriately” (Varcoe 2022).

The Alberta government should challenge unilateral federal decisions that adversely affect Alberta’s natural resources, over which the province has constitutional jurisdiction. One option would be for Alberta to initiate a court challenge to the constitutionality of the federal government imposing differing emissions reduction targets and time frames on various sectors of the economy, especially regarding natural resources. The Supreme Court decision in support of the carbon tax stated that the federal government “had the jurisdiction to provide for a regime to provide minimum greenhouse gas prices across the country (Collins and Emery 2022, 4). A rationale for an “economywide carbon price” was that “a kilogram of carbon dioxide has the same atmospheric effect whether emitted from a Hamilton steel mill, Saguenay smelter, Vancouver Island pulp plant or the tailpipe of your SUV.” In the Supreme Court’s decision, the dissenting judges “worried that regulations for pricing industrial emissions could be used to privilege or penalize different industries” and “the court’s majority... left open the idea that ‘industrial favouritism’ in any regulations could be challenged as unconstitutionally encroaching on provincial jurisdiction” (Bishop 2022).

Alberta could also consider asserting its provincial jurisdiction to counter federal measures as Saskatchewan did under the NDP government of Premier Roy Romanow. In the 1990s the Romanow government confronted a federal government committed to expanding gun control by requiring the registration of firearms. The legislation was popular in urban centres in Ontario and Quebec where guns were associated with violence. However, on the prairies most guns were used by farmers, Indigenous people for hunting, and by sportsmen (Nemeth 1995). Despite intense opposition to the legislation in Saskatchewan and other prairie provinces, the federal government passed the legislation, rekindling concerns that a federal government with few seats in the region was prepared to impose legislation supported by more populous provinces, irrespective of the serious problems created in Saskatchewan. Enforcing the legislation meant sending law enforcement onto Indigenous reserves or farms to enforce a federal law that made no sense in the region. Hence, while the federal government asserted its jurisdiction to pass the legislation, the province asserted its power over law enforcement to not enforce that legislation.

Alberta could follow the Saskatchewan example by exercising its control over natural resources in response to unilateral and unrealistic federal climate

change targets. Canada has had nine climate plans since 1990 and has failed to hit any of the targets in them (Thurton 2022). However, the targets, especially for oil and gas, have discouraged investment and added to the global problem of skyrocketing energy prices. Alberta should make it clear that it will participate in any realistic plans to reduce GHG emissions from the oil and gas industry so long as they do not result in production cuts, which would merely shift oil and gas production from Canada to countries with lower ESG and decarbonization standards. Alberta should also make it clear that if the federal government tries to impose unilateral and unachievable targets, the province will use its jurisdiction over natural resources to prevent the implementation of the federal targets.



*Canada has had nine climate plans since 1990 and has failed to hit any of the targets in them.*

Former Supreme Court Justice Jack Major recently supported the right of a province to refuse to implement measures that were “adverse to Alberta without consulting the province.” As Major explained, rather than the province taking the federal government to court to challenge legislation that the province deems unconstitutional, the “onus is reversed, and the federal government would have to bring the matter before the court.” Major concluded: “What’s so terrible about the province saying if you want to impose on us, you better be sure you’re doing it constitutionally”? (Gollom 2022).

A final and perhaps preferable option would be for the provincial government to pass legislation detailing its own plan to reduce its GHG emissions in the oil sands. It could, for example, support the targets set by the Pathways Alliance to reduce emissions by 30 percent by 2030 and specify the necessary actions it will take to begin achieving results. For example, in other oil producing countries the national government provides generous financial support for carbon capture technology that reduces emissions. The Norwegian government pays two-thirds of the costs of emissions-reducing “carbon capture projects such as Northern Lights – the first open-source carbon capture project in



Europe, which will come online in 2024” (Orenstein and Robinson 2022, 2). The American federal government in its recent *Inflation Reduction Act* significantly increased financial support for carbon capture technology, which the Pathways Alliance believes is twice as generous as the financial support provided by the Canadian government (von Scheel 2022). Alberta could join with other stakeholders to press the urgency on the federal government of acting quickly to increase its current tax credit for carbon capture, which covers only 50 percent of the costs, to make it competitive with other oil producing countries. The Alberta government could also provide leadership to expedite regulatory processes to take advantage of the Pathways Alliance proposal to make major investments in emissions-reducing technology.

The legislative option would allow the province to move from a defensive position to one of leadership. The Alberta government could provide the strategic direction for the province to reduce its emissions while at the same time providing the world with clean, secure, and affordable energy.

If Alberta had its own plan to reduce oil sands emissions, then, its case in any legal challenge may be strengthened. A key part of the federal government’s argument in support of the carbon tax was that a national price on carbon was required because emissions cross provincial borders. However, if Alberta had its own emissions reduction plan, it could argue that emissions are being reduced and the more aggressive federal plan would lead to production cuts. Just as emissions cross provincial borders, they also cross international borders and production cuts in Canada would merely shift production to other countries. If the federal emissions reduction plan were implemented, there would be no reduction in global emissions, but the loss of billions of dollars in tax revenue, jobs and other economic benefits in Canada.

The goal of the court challenges and the assertion of provincial jurisdiction over natural resources is not to build roadblocks to action on climate change. Quite the contrary. One of the many reasons why the federal government failed to achieve its many emissions reduction targets is that it often acts unilaterally and ignores the benefits of working collaboratively with provinces and stakeholders. The provinces need to push back to force the federal government to understand that the only way to achieve significant reductions in GHG emissions is through cooperative federalism, with both levels of government respecting each other’s jurisdiction and working together to achieve common economic and environmental goals.

## Revenue priorities

**In this section we turn** to revenue priorities for Alberta’s budget. Some are more immediate; others are critical to consider in the medium-term. The distinctive feature of Alberta’s finances is the remarkable swings in revenues the province must deal with due to volatile oil and gas prices. Those swings result in large surpluses during booms, which have enabled the province to increase spending rather than save more. During downturns like the pandemic year, 2020, the province can quickly go deep into the red. For years, politicians have declared that the province needs to get off the roller-coaster and stop volatile spending swinging with revenues. Yet the province has failed to ensure stable funding for spending in its budget. This not only leads to unpredictable government spending but also uncertainty for households and businesses that face unstable spending and tax levels.

### Goals for a tax system

Volatility is not the only revenue issue facing the province. Alberta has been historically concerned about the competitiveness of its tax regime to attract skilled labour and the investment that will diversify its economy. The problem is not solved just by lowering tax rates. The solution also includes shifting reliance from economically harmful taxes to those that are less harmful. As countless economic studies have shown, the most harmful taxes are those levied on work effort, investment, and risk taking, of which the income tax is one obvious example. Taxes that have a lower economic cost are consumption taxes, user fees, and property taxes.<sup>23</sup>

Overall, the best tax structure for raising a given level of revenue has three properties: minimal distortions on the allocation of resources in the economy according to their best economic use (economic efficiency), minimal compliance and administrative costs, and fairness (treating people with similar resources alike – horizontal equity – and levying taxes according to ability to pay – vertical equity). As Table 2 shows, Alberta has substantially relied on resource revenue from oil and gas (\$28.1 billion of its \$76.9 billion projected for 2022-23) (Alberta 2022c), which is similar to a “user fee” charged for the extraction of resources owned by province. The next largest sources of revenue are corporate and personal income taxes (\$19.6 billion) followed by federal

transfers (\$12.5 billion). As is well known, the province does not have a general sales tax although it does levy several consumption taxes on specific goods and services (insurance, alcohol, tobacco, and gambling).

### Alberta’s fiscal anchors

A critical step in fiscal planning is to develop a “fiscal anchor,” whereby both politicians and the public understand that there must be specific limits on spending, debt, and deficits. Otherwise, as seen in the United States recently with its massive spending bills, the absence of a fiscal anchor makes it harder for governments to control spending.

This issue is important to Alberta for another reason. Non-renewable sources of revenue are not permanent – once assets in the ground are sold, they cannot be replaced. For this reason, past Alberta governments introduced savings rules to reduce debt or invest savings in the Alberta Heritage Fund and other saving funds. Economists have long argued that governments should ensure permanent long-term funding by investing non-renewable resource revenues into an endowment fund with a distribution made each year to fund the provincial budget (Hartwick 1977).<sup>24</sup> The Government of Norway Pension fund, for example, has used this disciplined approach to accumulate \$1.73 trillion in savings from natural resource revenues, but many resource-rich jurisdictions also adhere to this the principle including the Gulf states in the Middle East, Russia, Trinidad and Tobago, Kazakhstan, and Chile.

**TABLE 2: DISTRIBUTION OF ALBERTA REVENUES AS PROJECTED FOR 2022/23**

	Forecasted Revenue (\$billion)	Percentage Share of Total
Resource Revenues	\$28.1	36.5%
Personal Taxes	\$13.3	17.3%
Corporate Taxes	\$6.3	8.2%
Federal Transfers	\$12.5	16.3%
Premiums, Fees Licenses	\$4.8	6.2%
Other Revenues	\$11.9	15.5%
<b>Total Revenues</b>	<b>\$76.9</b>	<b>100%</b>

The Lougheed government in the 1970s began a process of saving 30 percent of oil and gas revenues in “rainy day” funds, which includes the Alberta Heritage Fund that now stands at \$22 billion. The alternative is to use oil and gas revenues to pay down debt. Once accounting for risk, it does not matter whether the government reduces debt or puts money in a financial fund – the financial consequences are the same.<sup>25</sup>

In 2007, Alberta’s Financial Investment and Saving Panel estimated that 30 percent of non-renewable resource revenues were either saved in financial funds or went to paying down debt between 1993 and 2007. It also estimated that a fiscal anchor capping growth in spending at population and prices (with a one-point addition to health care given population aging) would enable the province to avoid deficits and grow the Alberta Heritage Fund to \$100 billion by 2030.

Instead, the opposite happened; deficits followed for the next decade and a half. In 2007, the Alberta government had \$36 billion in net financial assets after eliminating its debt by 2005 (except for some long-term debt still held to maturity). Even though oil and gas prices were strong until 2014, the province’s net financial assets fell to \$13 billion by 2015 and *negative* \$27 billion by 2019. With the pandemic, net financial debt grew further to \$56 billion. Thus, instead of accumulating more net assets, the province’s net assets fell by \$92 billion in a decade and half. The picture changed in 2022 with surging oil and gas prices. Alberta is expecting a \$12.3 billion fiscal surplus for the 2022-23 fiscal year that could be used to reduce debt or be invested in the Alberta Heritage Fund. If the surplus was applied to reduce net debt, Alberta estimates that net debt would fall to \$46 billion by March 2023 (about 11 percent of GDP).

Alberta has not had a fiscal plan that has been able to “get it off the roller-coaster”; it has relied on volatile resource revenues to fund its budget from one year to the next. If the province tried to move away from its reliance on volatile resource revenues in next few years, it would require steep tax increases or deep spending cuts to do so. For example, if none of the \$28 billion in 2022/23 resource revenues were used to balance the budget but instead was used to reduce debt or invested in a savings fund, the province would operate with a \$16 billion deficit. To balance the books, taxes and other own-source revenues would increase from \$34 billion to almost \$50 billion or about 50 percent. Or spending would be reduced 30 percent from \$65 billion to \$50

billion. Both “getting off the roller coaster” policies would come with hardship for many Albertans.

Instead, it will take years of financial discipline for Alberta to “get off the roller coaster,” which is unlikely for any government with short-term political horizons. For example, if the province were completely off the roller coaster today, it would need a savings fund of \$450 billion to provide \$16 billion in funding to balance the budget in 2022/23.<sup>26</sup> Instead, it can only meet its interim fiscal targets and must keep the goal of achieving fiscal sustainability for future years.

There are four other reasons for Alberta to focus on some debt limitation. First, debt finance results in an unfair liability left to future generations who have no say in fiscal decisions made by current voters. Second, a low or zero net debt will reduce risks to fiscal sustainability during the likely periodic recessions in years ahead. Alberta faced such pressures during the pandemic, which was ameliorated by Bank of Canada support. Third, even if spending is constrained, a second anchor focused on debt would ensure that new spending cuts will not be disguised as tax cuts. Fourth, with capital budgeting, governments have an incentive to spend on debt-financed infrastructure, which is not treated as an operating cost (depreciation *is* included as an operating expense). Under the latter consideration, governments like the United Kingdom and New Zealand have had a debt target as well as a budget balance target as fiscal anchors.

We argue that Alberta should continue with its existing fiscal anchors to start a process to establish long-run fiscal sustainability. Specifically, it should:

1. **Control program spending.** One constraint would be to keep spending increases on par with those made by other provinces, but uncontrolled budgeting in other provinces may not be suitable for Alberta. Another anchor would be to limit spending so it rises no faster than population and prices. However, with an aging population, some adjustment may be needed to allow for higher growth in age-related health care expenditures. The province should look for productivity improvements in the public sector so that public services are sustainable.
2. **Refresh its net debt target.** The province should reduce its maximum net financial debt ratio from 30 percent of GDP to a level re-

flective of its current net debt position (11 percent at the end of this fiscal year). Another option is to select a target net debt level, which could be accomplished on an interim basis. For example, the target might be 5 percent of GDP in the next mandate or zero net debt by 2030, depending on feasibility.

In the past, concerns have been raised that given a large financial fund, a government might use the funds on pet projects. However, if the fund is dedicated to specific operating and capital expenditures critical to public needs, it would put some constraint on the use of funds. For example, given that health care funding (including hospitals, physicians, home care, continuing care, drugs, and dental care) accounts for almost 40 percent of the budget, Albertans may want to make sure that resource revenues saved guarantee provincial support for future public health spending. As an option the Alberta Heritage Fund could be renamed the *Alberta Health Fund*. Given the energy transition and less oil and gas revenues for the province to rely on in the future, it is important for Alberta to ensure its fiscal sustainability. Alberta would be the first province to establish a health care fund to ensure future health spending.

### **Alberta's tax competitiveness**

Alberta has long had a policy of tax competitiveness intended to attract investment and workers to the province. It is the only province without a general sales tax and typically its income tax rates have been held below those of other provinces in past years. However, competitiveness is not just determined by tax rates. It is also related to the mix of taxes and the tax bases. Tax competitiveness is undermined when a jurisdiction relies more heavily on taxes that are harmful to work and investment, especially the income tax. Also, targeted tax preferences, especially those related to business taxation, can distort the allocation of resources from their most profitable use.

Since 2019, the province has reduced corporate taxes, arguably its most economically damaging tax. The corporate income tax rate has fallen from 12 to 8 percent since that year to spur investment, more than reversing the 2015 NDP hike in corporate income tax rates by two percentage points. Reducing the corporate tax rate had two other impacts: it encouraged diversified investment in all sectors, and it made it more attractive to keep profits in the province, thereby reducing the revenue cost from a lower corporate income tax rate.



Although the corporate tax cut reduced economic distortions, the Kenney government was less consistent when it came to broadening the tax base. The province wisely eliminated the investor tax credit, which is not only ineffective in encouraging entrepreneurship but also harms capital markets by encouraging investors to fund poorly performing companies.<sup>27</sup> On the other hand, the province introduced a tax credit for incremental research, a grant for film production, incentive grants for petrochemical plants of at least \$50 million in size, and a further one-point increase in the small business deduction. The research credit is more defensible since companies tend to underinvest in innovation given their inability to fully appropriate returns as other companies benefit from the innovation (unless fully patented) (Appelt, Bajgar, Criscuolo, and Galindo-Rueda 2016). Otherwise, business incentives favour only certain sectors, drawing resources away from others. The incentives are often awarded even if the company plans to undertake the activity anyway. Compared to other provinces, though, Alberta maintains a more neutral corporate tax base.



*High personal income tax rates discourage work effort, investment, and risk-taking.*

Where the province has lost considerable competitiveness in recent years is on personal income taxation. High personal income tax rates discourage work effort, investment, and risk-taking, which is particularly important for an economy that relies on entrepreneurship and highly skilled labour. High tax rates also make it more difficult to import skilled labour since tax equalization is added to the payroll cost to attract workers from the United States to Canada.

Prior to 2015, Alberta had a “flat” personal income tax rate of 10 percent added to the top federal rate of 29 percent, resulting in a combined top rate of 39 percent, which was not only the lowest in Canada but also in North America (the top US federal rate was 39.6 percent in 2014). In 2015, the NDP government levied four new personal income tax rates on incomes above \$125,000 with a top rate of 15 percent on incomes above \$300,000. As announced in December 2015, the federal government raised its top rate from

**TABLE 3: TOP PERSONAL INCOME TAX RATES BY MAJOR PROVINCE, 2014 AND 2022**

	2022 (%)	2014 (%)
British Columbia	53.5	45.8
Alberta	48.0	39.0
Ontario	53.53	49.53
Quebec	53.31	49.97
<b>Simple Average (Excluding Alberta)</b>	<b>53.44</b>	<b>48.43</b>

Source: KPMG Tax Facts 2022-23.

29 to 33 percent (beginning January 1, 2016). Both changes resulted in a nine-point increase in the top rate in one year. As Table 3 shows, by 2022 Alberta had lost almost half of its 2014 advantage on top personal income tax rates.

Did the personal income tax hikes on high income household increase revenues? Comparing Alberta income tax returns from 2019 (the latest year available) with 2014, total personal income tax revenues fell by \$219 million for all income groups. The loss, however, was entirely due to a \$312 million reduction in personal income taxes paid by taxpayers with more than \$250,000 in annual income. For this group, the number of returns fell by 8.7 percent and per capita taxable income fell by 9.2 percent, resulting in a total loss of \$5 billion in taxable income.

So why have high-income taxpayers disappeared in Alberta? First, the Alberta economy faced a difficult economic climate with a sharp drop in oil and gas prices after 2014, leading to lower per capita income. This resulted in people falling from the top income groups into lower income categories. Second, high-income taxpayers engaged in tax avoidance such as holding assets longer to avoid capital gains taxes or leaving income in a private corporation. Third, the dramatic increase in the top rates encouraged high-income taxpayers to retire early or leave the province or Canada altogether.

Studies that separate tax effects from other economic factors on the amount of tax paid suggest that higher tax rates contribute to an erosion in personal income taxes. This will happen if there is a sufficiently strong loss

in the tax base either due to migration or tax avoidance (migration effects are more difficult to assess without better data although there are well-known cases of high-income taxpayers who moved out of Canada from Alberta after 2015). Dahlby and Ferede found that the one-point increase in the federal personal income tax rate reduced the personal income tax base by 2 percent (Dahlby and Ferede 2022). Given the fall of personal tax payments by the highest income group, Albertans should reconsider whether the province is forgoing too much economic growth by making its personal income tax more redistributive.

It is not just at the top end that personal income tax rates may be high. With income-tested social benefits, low-income taxpayers face high marginal tax rates if they earn additional income. For example, the average effective marginal tax rate for a worker can reach over 50 percent in Alberta for taxpayers with modest incomes (Canada, Department of Finance 2022).

While the Alberta government has made strides in improving corporate tax competitiveness, personal tax competitiveness has been eroded with higher rates introduced in 2015. Alberta's personal income tax is still somewhat competitive with other provinces, but it is less competitive with resource-intensive US states such as Texas where the top rate is 39.4 percent.

Although we put some stress on addressing personal tax competitiveness, it should also be remembered that the province will need to make considerable investments as the economy diversifies and energy markets decarbonize in the next several decades. Like other parts of the world, Alberta will need capital investment for generation, transmission, and distribution of electricity, for carbon sequestration, for manufacturing, mining, agriculture, and forestry, and for venture capital. Even though the province's corporate income tax is currently competitive, higher energy costs associated with tax and additional decarbonization policies will deter investment in energy-intensive industries such as forestry, mining, and manufacturing. Further, the United States has chosen to subsidize decarbonization rather than tax carbon so many goods-producing sectors of the economy might find that Alberta is not sufficiently competitive compared to some US states for investment. Corporate tax reform may be necessary in future after all. Given Alberta collects its own corporate income tax, it could consider a "big-bang" reform moving away from taxing shareholder income to another tax base like distributed profits or business rents (Mintz 2022).

## How to improve Alberta's revenue structure

We have laid out three priorities for Alberta's budgets in the coming years. The first is to fund efficient and effective public services with the aim of supporting both growth and the needs of all Albertans. The second is to support fiscal sustainability with meaningful fiscal anchors to determine how surpluses and non-renewable resource revenues are to be spent or saved. The third is to maintain tax competitiveness, which is critical to long-run economic growth. These priorities are important today and in the future. Alberta is undergoing significant structural change with an energy transition and industrial diversification that will impose new demands on the economy in the coming years.

How can all of this be squared? If Alberta were to reduce taxes to improve tax competitiveness, the province will run bigger deficits or smaller surpluses, resulting in a larger debt burden for future generations to carry. Lower taxes might lead to cuts to health, education, and other spending priorities if deficits are to be avoided. In other words, budgets are about trade-offs.

Tax policy, however, is not just about the level of taxes needed to fund public services. It is also about the best tax structure to support economic growth, fairness and ease of compliance, and administration for a given level of revenue. As stated above, Alberta relies to a greater extent than other provinces or US states on income taxes and resource revenues relative to consumption taxes and user fees. Even without gaining or losing revenue, a change in the tax mix or a restructuring of a particular tax can yield improvements in the growth, simplicity, and fairness of the tax system.

The province has options available to it that we will discuss here. These include tax options that would improve the competitiveness of the tax structure if the new revenues were used to reduce taxes that harm the economy. These include: (i) made-in-Alberta carbon pricing, (ii) a health premium, and (iii) an Alberta HST. These taxes not only could reduce the impact of taxation on work and investment but also support low-income Albertans who are coping with expenses such as health care.

### *Made-in-Alberta carbon pricing*

Albertans are subject two types of carbon levies. The first is a federal fuel charge (consumer carbon tax) at \$50 per tonne (\$65 in April 2023), rising to \$170 per tonne by 2030. The tax is applied to fossil fuel consumption including coal, natural gas, and petroleum products in transportation, heating, aviation, and

industrial uses. The federal fuel charge is backstop or minimum carbon tax on consumers in those provinces without an equivalent carbon pricing system. The amount collected in Alberta, about \$1.5 billion in 2021, is primarily returned as a quarterly rebate to households (with a modest remainder paid to small businesses and non-profit institutions).

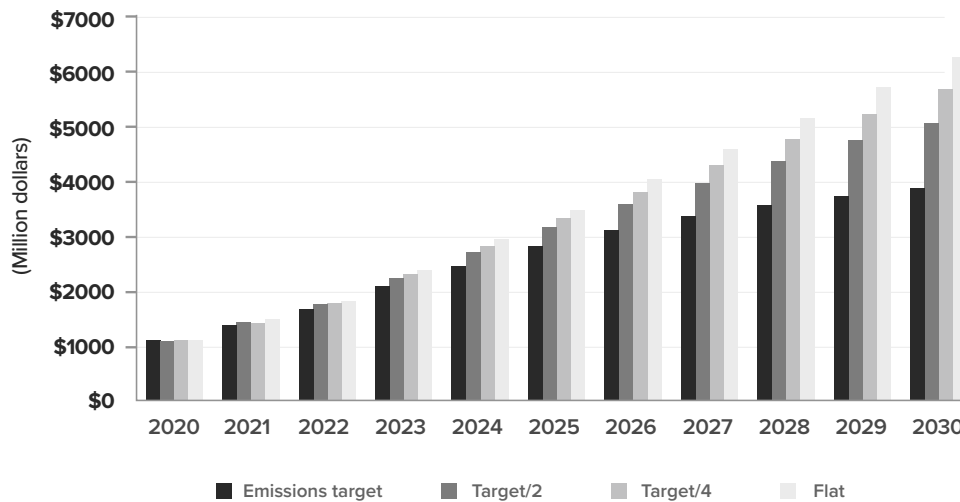
Those provinces that implement their own carbon tax or cap-and-trade system collect their own revenues and use them according to their own priorities. Currently, British Columbia, New Brunswick, Northwest Territories, and Quebec levy their own consumer carbon price system while other provinces including Alberta are subject to the federal levy. Quebec uses a cap-and-trade system that is linked to California's, so its carbon price depends on the price of allowances auctioned by the Quebec government. Quebec's carbon price has generally been lower than the federal carbon tax – the November 23, 2022, auction price was \$35.62 per tonne (Quebec 2022), well below the federal carbon price of \$50.<sup>28</sup>

“ *Indigenous governments should also seek to broaden greater cooperation among each other.* ”

The second is a made-in-Alberta \$50 per tonne carbon levy on large industrial emitters – the Technology Innovation and Emissions Reduction (TIER) charge, which is used to fund new technologies to reduce emissions (the province collected about \$500 million from this charge in 2021). The federal government also has its own Output-Base Pricing System (OBPS) but most provinces and territories except for Manitoba, Prince Edward Island, Yukon, and Nunavut operate their own system for large emitters. Recently, the federal government agreed that Alberta's TIER regime qualifies as an Output-Base Pricing system for large industrial emitters.

The federal carbon tax revenues collected in Alberta are expected to grow to \$6.3 billion assuming emissions remain flat.<sup>29</sup> If, however, emissions decline according to the federal target for Alberta (40 percent), the federal carbon tax will yield \$3.9 billion by 2030. In the next eight years (2023-2030), the accu-

**FIGURE 4: ALBERTA PAYMENTS UNDER THE FEDERAL CARBON TAX UNTIL 2030**



Source: Calculations by Philip Bazel based on estimates extrapolated from 2021 value, Table 3.

Fuel charge proceeds are derived from Environment and Climate Change Canada (2022).

“Flat” refers to no change in emissions. “Emissions target” refers to emission reductions falling according to the federal target. “Target/2” and “Target/4” are reductions that are 50 percent and 25 percent of the target, respectively.

Estimated federal carbon tax revenues collected in Alberta will total \$25 to \$35 billion depending on emission levels. Given the uncertainty around emission reductions in this decade, we provide four scenario estimates of the federal fuel charge depending on the level of emission reductions achieved over time (Figure 4). We neither expect emissions to remain flat nor to fall to 40 percent, but the estimates suggest Alberta would have a large amount of tax revenue if it collected its own carbon levy through a carbon tax or cap-and-trade system.

Alberta’s environment minister is developing a made-in-Alberta climate plan (Alberta, Office of the Premier 2022), which could include a repatriation of the federal carbon pricing system. Two important issues in such an initiative would be the choice of a carbon pricing system and the recycling of revenues.

Alberta could adopt a cap-and-trade approach to join Quebec and California or adopt a carbon tax similar to the federal fuel charge. The advantage of a cap-and-trade system is that it ensures a reduction in emissions as well as enabling Alberta to participate in a large carbon credit market. On the other hand, a consumer carbon tax with credits provides price certainty although



it does not ensure a reduction in emissions, which depends on other factors such as economic growth in incomes. Given that the US is providing a subsidy per carbon tonne (which may not be guaranteed in the future), a carbon tax is more appealing than cap-and-trade pricing to companies that must make large investments in new infrastructure such as electrification and carbon, capture, and sequestration. Further, carbon revenue will likely fall in decades to come as decarbonization efforts intensify unless offset by higher carbon prices. The issue requires careful study.

Alberta could, however, significantly improve upon revenue recycling. The current federal approach is to provide a grant based on household size (for 2022, that grant is \$600 for the first adult, \$300 for the second adult, and \$150 per child under 18). It does not differentiate between urban and rural families, even though rural families tend to consume more energy, especially for transportation. Nor does a lump-sum rebate provide incentives for work and investment compared to, for example, a reduction in personal and corporate income tax rates. The federal rebate also does not help strengthen the competitiveness of fuel-consuming businesses except for exemptions given to certain farming, fishing, aviation, and shipping interests, and those in remote areas.

Given the vast revenue involved for the remainder of this decade, the province has a tremendous opportunity to recycle the revenues to its advantage. Many options are available including a reduction in the personal and corporate income tax rates (similar to BC's approach when it introduced the carbon tax), investment tax credits to offset energy costs, a rural tax credit and a low-income tax credit for the carbon tax and perhaps for the fuel excise tax. The current TIER revenues – expected to reach \$1.6 to \$2.6 billion by 2030 – could continue be used to support new technologies, perhaps supplemented by the consumer carbon levy. The made-in-Alberta fuel charge revenues could also be used to support new investment and related infrastructure investments.

As electric vehicle (EV) sales rise replacing internal combustion automobiles as a carbon policy, it is expected that the demand for gasoline, diesel, and other fuels will decline this decade. This will have an impact on provincial fuel excise taxes that we estimate will fall from \$1040 million to a range of \$624 to \$832 million, depending on whether federal emission targets are either fully or half met by 2030. Alberta's fuel excise tax was the first in Canada (1922) though its objective is to fund roads and highways, so it is not a carbon tax.<sup>30</sup>

Like internal combustion vehicles, EVs cause road damage, even more so due to their weight.

While many countries currently subsidize EV purchases to encourage their adoption (including sales tax relief adopted in British Columbia in its 2022 budget), eventually many will develop new EV taxes to make up for losses in fuel excise taxes. A simple approach to capture these taxes is to apply a higher fee for EV license registration. A more complex but now feasible approach is to use metering technology (which some insurance companies currently use). As one option, Alberta could apply a levy on kilometres driven (similar to the New South Wales and South Australia 2021 levy). Another is to toll roads, although tolling would apply only to major roads; residential roads would be exempt.

### *An Alberta health premium*

Health care is a major priority for Albertans today. Even though reform proposals could improve the efficiency of Alberta's health care system, rapid population aging will result in health care demand outstripping economic growth. One stable and least economically damaging revenue source that can be used to fund health care is an Alberta health premium. Prior to 2009, the premium was assessed at a flat rate (\$1000 per family and \$500 per individual). Qualifying low-income households were exempt. In total, the health premium raised about \$1 billion in revenue until it was cancelled in 2009.

The Prentice government introduced a progressive health care premium in the March 2015 budget. Called the Health Care Contribution Levy, individuals with more than \$50,000 in income would pay increments of \$200 for each \$20,000 of income with a maximum payment of \$1000 for those with taxable income in excess of \$138,000. The levy was expected to raise \$530 million when fully implemented. The NDP cancelled the tax soon after it was elected May of 2015.

Other options for a health care premium are possible given experiences in other countries. The United States and several European countries levy payroll taxes dedicated to a fund to cover health insurance costs (if Alberta were to do so it would likely be an employer health tax). The US introduced premiums and co-payments under the *Affordable Care Act* to cover the cost of health insurance for those without a private plan. As discussed above, health insurance premiums could be related to health care benefits with income caps on amounts paid, potentially administered through the tax system.

A premium plan could also be accompanied by a health tax credit to cover the cost of out-of-pocket expenses for long-term care, drugs, home care, and dental care. A federal panel in 2015 recommended a 25 percent refundable tax credit that would cover qualifying out-of-pocket health expenditures (Advisory Panel on Healthcare Innovation 2015). The cost would be covered by eliminating the exemption for employer-provided health and dental plans under the personal income tax.

The concept of a refundable tax credit could be extended to a health account whereby each household would be given a fixed amount each year to cover out-of-pocket expenses (with unused credits carried forward to other years). Assuming that the credit would replace Alberta's medical expense credit, a refundable credit of \$1000 per individual would have a budgetary cost of \$570 million in 2021 (a \$500 refundable credit per individual would cost \$325 million).<sup>31</sup> About 55 percent of the credit would be paid to individuals with less than \$50,000 in taxable income. Other options could be considered such as income-testing the refundable credit so that only families with incomes below a given threshold would qualify for the credit.

### *An Alberta HST*

Another revenue field that Alberta currently does not use is a Harmonized Sales Tax (HST), which is effectively a surtax applied to the existing federal GST. For example, an 8 percent HST rate would have two components – the federal rate of 5 percent and the provincial rate of 3 percent applied to the same tax base. If Alberta entered into a tax collection agreement with the federal government similar to the personal income tax, the federal government would cover the cost of administration. Each HST point raises \$1.14 million in revenue.<sup>32</sup> The province would adopt the GST base although it could provide its own point-of-sale exemptions for the tax.

Alberta could use the revenues in a variety of ways. In the same way as the Canadian Pension Plan helps fund retirement incomes for Canadians, revenues could be dedicated to fund future health by endowing the funds. Alternatively, the revenues could be used to fund infrastructure and education to improve economic growth. Or, to avoid raising more taxes, the HST revenues could be used to reduce growth-detering taxes, particular the income tax.

If the HST is not used to raise revenues but instead lower other taxes, it could be designed to improve both the competitiveness and fairness of the

overall tax structure. By substituting less volatile HST revenues for personal income taxes, the harmonized tax would encourage both work effort and investment. Low-income Albertans would benefit from a refundable tax credit. The personal exemption could be increased, eliminating thousands of Albertans from paying personal income tax. For example, with a provincial sales tax rate of 8 percent (a combined federal-provincial 13 percent HST rate), four-fifths of Albertans could no longer pay personal income tax as personal exemptions would almost triple (Bazel and Mintz 2013). Under this proposal, the province would receive the same revenue but Albertans would be taxed less since short-term workers and visitors would pay some of the HST as well.

As attractive as it might be to institute an HST to reduce personal income taxes, it is highly controversial. Unlike the made-in-Alberta consumer carbon tax, which is already being paid by Albertans as a federal tax, the HST is a new tax. No Alberta government has been willing to introduce it even if it replaces personal income taxes (the Liberals in the 2015 provincial election were the first to propose a sales tax, following the approach in Bazel and Mintz 2013). Nonetheless, a provincial general sales tax will likely remain on the agenda as a promising source of revenue if oil and gas royalties dwindle and Alberta needs to jolt its economy with growth-enhancing tax reform.

Tax reform is a complicated subject when evaluating specific measure in terms of economic, distributive and revenue effects. It is often worth having a panel to review options and make recommendations to the government that can be a solid foundation for consultations. This was done by the Klein government in the late 1990s after the budget was balanced. The UCP government has indicated it would create a tax panel of this sort. We endorse the idea.

## Conclusions

**Alberta has faced many challenges** in the past quite successfully. Its growing population has enjoyed one of the highest living standards in the world. Its livable urban and rural environments have attracted thousands of visitors each year. The province has showered its residents with the benefits provided through well-developed health, education, infrastructure, and other public services funded by low taxes and relatively low debt. There is no doubt that the province has benefited from its ownership of one of the largest oil and gas reserves in the world.

The world, however, is quickly changing. Like other high-income jurisdictions, Alberta's population is rapidly aging. Businesses are being disrupted by new technologies like artificial intelligence and digitization that can vastly improve productivity. The demand for decarbonization that is now unfolding will confront Alberta with its biggest challenge in the past century.

In this decade, Alberta will need to confront many new realities to maintain its high standard of living. The fiscal decisions that the provincial government makes in the next several years will have a significant impact on Alberta's prosperity in decades to come. In this paper, we suggest that the government should seek efficiency and productivity improvements in its delivery of public services, especially health and education. It should shift its mix of taxes to rely more on those levies having the least economic cost. The province should continue to rely on fiscal anchors to control spending and keep debt low.

New opportunities will arise with a more diversified economy. The province has some creative options available to it to improve its fiscal planning in coming years. Alberta is an entrepreneurial society – and its main hope lies with its people to choose the best path forward. **MLI**

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## Endnotes

- 1 We thank Philip Bazel and Mukesh Khanal for valuable research assistance. We also thank an anonymous referee whose comments were highly appreciated.
- 2 One could also adjust the increase to account for the impact of population aging on health care and other age-related expenditures.
- 3 The report also noted that higher levels of spending did not lead to higher quality services.
- 4 In the Commonwealth Fund rankings Canada placed 10 of the 11 countries studied (Commonwealth Fund 2021).
- 5 The 1939 Rowell Sirois Report assumed that contributions from employers and employees would raise most of the money (Canada 1940); the 1943 Marsh report linked the amount of coverage to the size of individual contributions (Canada 1943, 12-13); and Tom Kent, a senior advisor to Prime Minister Pearson, recommended that 25 percent of the cost of Medicare be paid by patients through the income tax system (Kent 1988, 369-70; 2000, 11-12).
- 6 Operating expenses increased significantly during the pandemic, making it difficult to assess cost containment measures.
- 7 CIHI National Average 2016 and reported by Blue Ribbon Panel 2019, 27.
- 8 Median number of days hospital stay extended until home care services or supports were ready [alternative level of care days], 2018-19, 16 days, 2020-21, 9 days; Government of Alberta, Annual Report, Health 2020-2021, p. 29.1.
- 9 The new targets include wait times for procedures, infant mortality rates for First Nations people, life expectancy of First Nations people relative to the provincial average, and rates for declines in smoking (Alberta, Ministry of Health 2022).

- 10 One alternative model is the Alternative Relationship Plan (ARP), which compensates doctors based on the number of patients they are responsible for in their roster across a comprehensive basket of services and care. As well as regulating volumes the project also provides additional value for patients that require more time with their family doctor. This program was also launched to buoy health system stability and predictability in health care spending (Alberta Health Services 2019; Kumanan and Premji 2022).
- 11 A recent report projected that upgrading current facilities and building new ones to accommodate the aging population would increase spending on institutional care to 4.2 percent of GDP by 2041 from 1.26 percent in 2018 (Drummond, Sinclair, and Bergen 2020, quoted in Wyonch 2021, 13).
- 12 The 2019 Ernst and Young review of Alberta Health Services reached a similar conclusion. The review stated that non-hospital surgical facilities, defined as publicly funded by independently operated, could perform a “defined basket of procedures” and experiences in other jurisdictions “indicate cost efficiencies of up to 70% by performing appropriate cases in private surgical environments” (Ernst and Young 2019, 59).
- 13 Alberta uses double overtime for nurses for most events/scenarios and 2.5 times basic salary for statutory holidays (KPMG 2019, 38, 39). See also the Alberta Health Services Performance Review, which cites provisions of the nurses’ contract that add cost and complexity “without providing any patient benefit” (Ernst and Young 2019, 29-30).
- 14 Alberta spends \$36,500 per FTE while British Columbia spends \$31,300 (\$5200 less), Ontario spends \$21,500 (\$15,000 less), and Quebec spends \$25,800 (\$10,700 less) (Blue Ribbon Panel 2019, 39).
- 15 Alberta’s 2022 budget supported the commitment to expand on-line learning; it allocated \$320 million over three years to build high-speed networks to provide internet access to all Albertans (Alberta 2022a, 18).
- 16 See <https://open.alberta.ca/dataset/alberta-population-projections-2022-2046-alberta-and-census-divisions-data-tables>.
- 17 It should be noted that some of the reasons students leave the province may go beyond academic issues and include the opportunity for young people to have a new experience (see Lane, Finch, and McAtee 2022).
- 18 The Canada-Alberta Jobs Grant funds employer-based training; the Alberta Jobs Now program helps offset the cost of hiring unemployed or underemployed people (Alberta 2022a, 26).
- 19 See also Laverty, Lane, and Rodych (2022), which discusses the barriers

to inter-provincial recognition of credentials and some of the solutions to those barriers.

- 20 Mexico is also building a new LNG export terminal on its west coast with a 20-year contract signed with Shell (Global Energy Monitor Wiki 2022).
- 21 Under Trudeau's leadership, Canada's oil production has increased about 25 percent and gas production has increased 7 percent, according to BP's Statistical Review of World Energy 2022. Yet the oil and gas sector's emissions have remained flat in the Trudeau era even as emissions in the transport sector have increased rapidly (Hirji and Rathi 2022).
- 22 This point is emphasized in several essays found in Mintz, Morten, and Flanagan (2020).
- 23 Ferede and Dahlby (2012) found a switch from income to sales taxes was growth-enhancing. A recent meta-analysis of 49 studies of OECD countries found a 10 percent reduction in distortionary taxes increased per capita GDP growth by 0.2 percentage points each year when funds are spent on non-productive spending (if spent on productive spending like infrastructure and education, tax increases can be net positive on growth). See Alianagyi and Reed (2021).
- 24 The distribution would be based on the a long-run expected rate of return net of inflation minus transaction costs multiplied by the portfolio value before the start of year (the portfolio value could be the previous years' average portfolio value).
- 25 It is sometimes argued that it is better to invest in an investment fund that earns a higher expected return than the interest rate on debt. However, this ignores risk. Portfolio decision-making is based on the principle that investors will be indifferent between equity and bond assets if the expected returns, net of risk and transaction costs are the same across assets. Each reduced dollar of debt would save the provincial government 4.25 cents each year (for a 20-year bond as of January 2023). If instead a dollar were invested in an endowment fund following the process laid out in the previous footnote, the distribution rate would be 3.5 percent for each invested dollar based on the estimated 10-year real return on AIMCOs portfolio net of inflation.
- 26 AIMCo forecasts an average 5.9 percent rate of return on its assets and 2.4 percent inflation rate for the period 2022-31. This would suggest a distribution rule of 3.5 percent (see AIMCo 2022).
- 27 Studies in both Canada and United States regarding investor tax credits have found that the rate of return on funded projects has been low, if not

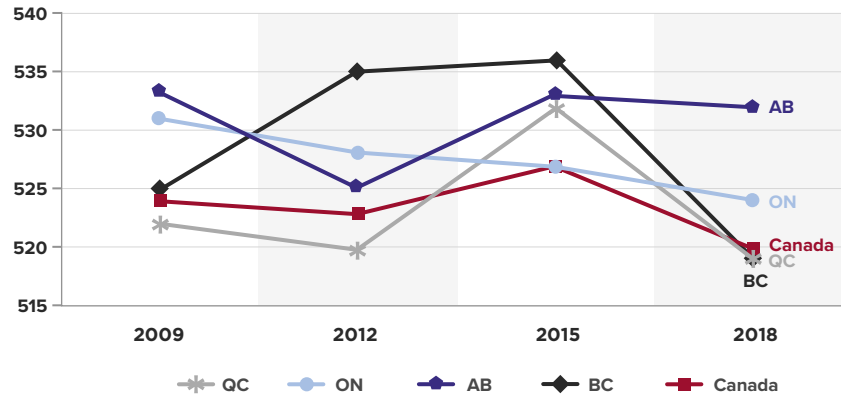


negative. For a recent paper showing that angel investor tax credits have little effect on entrepreneurship, see Denes, Howell, Mezzanotti, et al. (2021).

- 28 The Quebec carbon price could be closer to the carbon tax rate if the provinces choose to make fewer allowances available to raise revenues.
- 29 Data based on Environment and Climate Change Canada (2022). By using the 2022 report with 2020 data, we purposely underestimate carbon tax revenues by using a lower baseline of emissions.
- 30 However, fuel excise tax revenues are included in OECD estimates of carbon tax rates (see OECD 2022).
- 31 Calculated by Philip Bazel based on Statistics Canada SPDM data and consumer data to determine medical expenses.
- 32 Based on GST collections in Alberta for 2019, latest year available. See Canada Revenue Agency, <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/gst-hst-statistics/gst-hst-statistics-tables-2013-2019-calendar-years.html>.

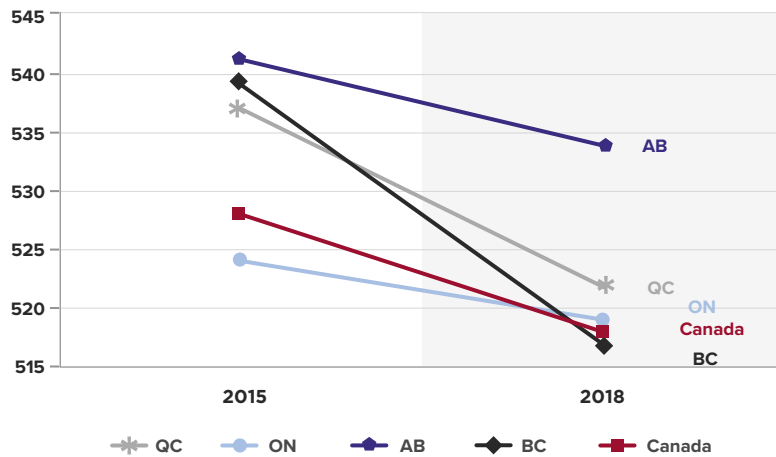
# Appendix

**FIGURES A.1: PERFORMANCE BY STUDENTS IN ALBERTA, BRITISH COLUMBIA, ONTARIO, AND QUEBEC ON PISA TESTS (AGE 15) FOR READING**



Source: OECD 2018.

**FIGURE A.2: PERFORMANCE BY STUDENTS IN ALBERTA, BRITISH COLUMBIA, ONTARIO, AND QUEBEC ON PISA TESTS (AGE 15) FOR SCIENCE**



Source: OECD 2018.

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