

Alberta's Crumbling Economy and Fiscal Foundation

A Conversation with EQUUS Board and
Executive 23 November 2020 Red Deer

Bob Ascah

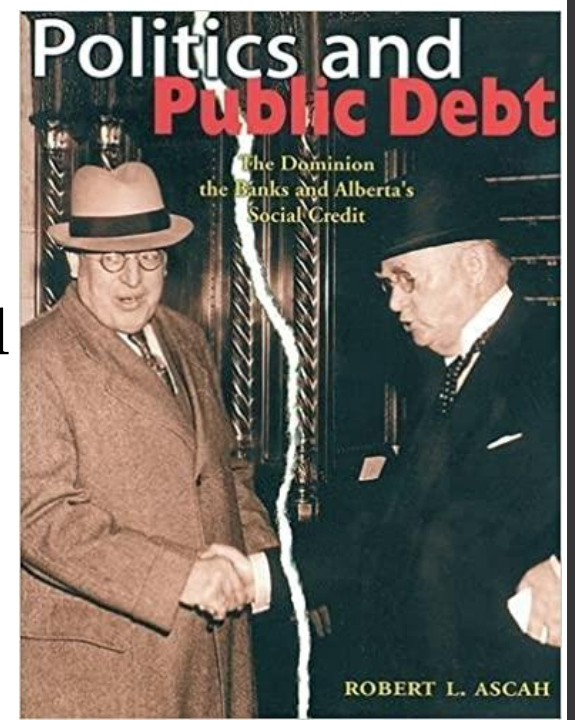
Principal, Abpolecon.ca

OUTLINE

- Where do I come from?
- Relevant and Interesting Books
- Global Context
- Alberta's Crumbling Economic Foundation
- Crumbling Fiscal Foundation
- Hope- Economic Prospects
- Key Takeaways

Where do I come from?

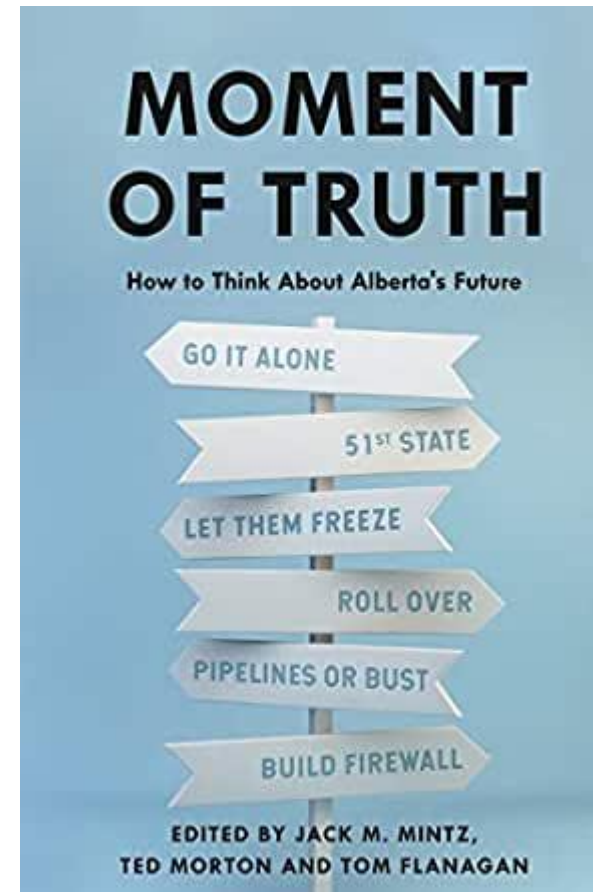
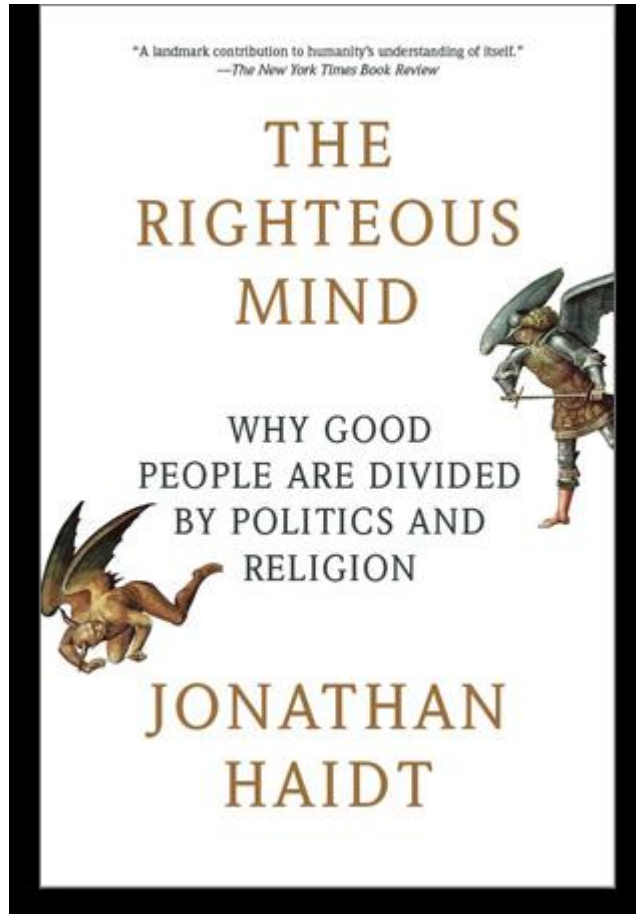
- Anglo, Caucasian, male, west Island Montreal
- Education and ambition
- First work experience -Accounting.. NOT!
- Go west young man....
- Politics and public debt
- Family
- 4 Alberta Public Sector Careers- FIGA, Treasury, ATB, and UofA
- Bias



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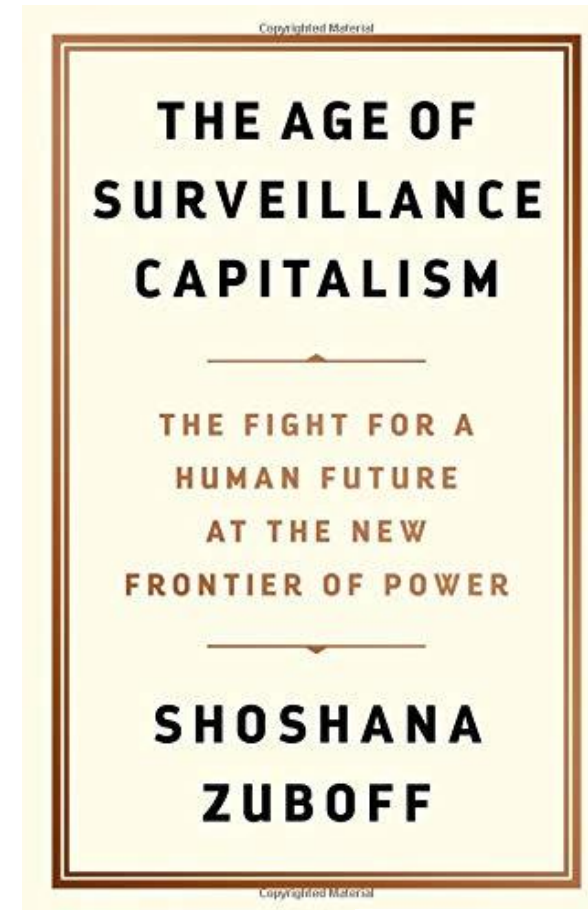
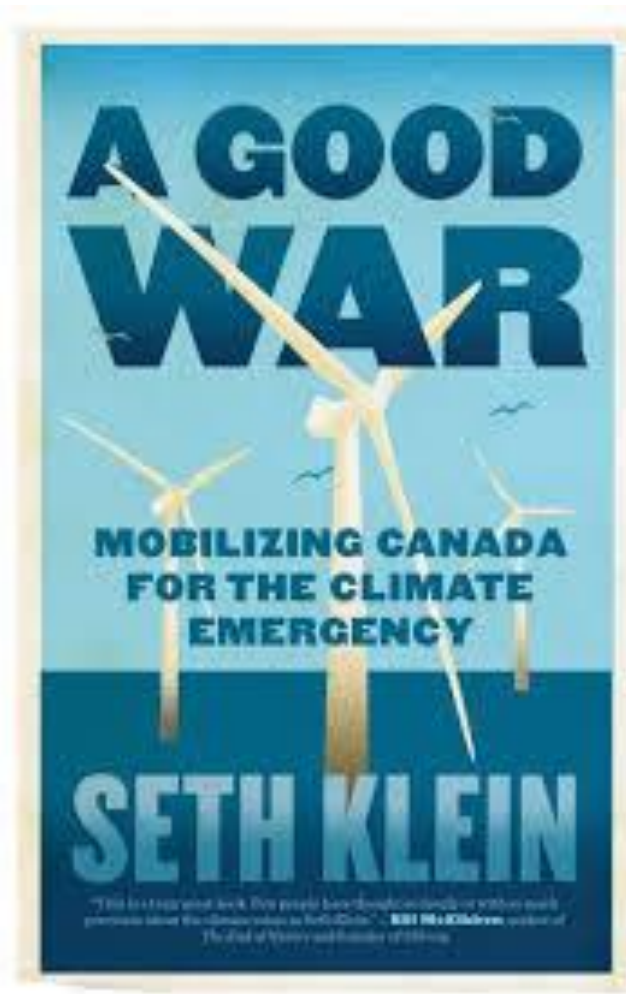
Relevant and Interesting Books



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Relevant and Interesting Books



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Global Context

Population



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GHGs

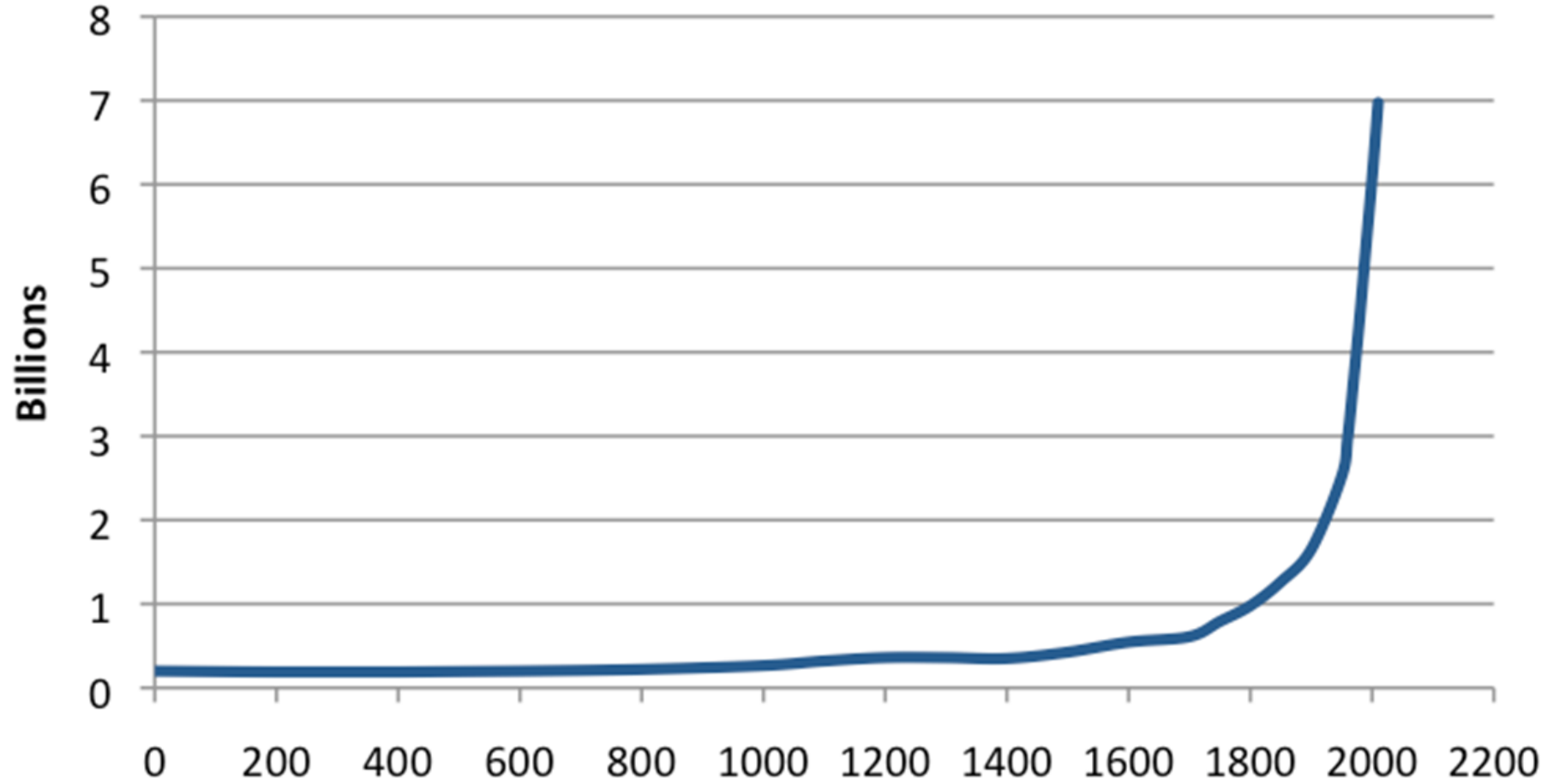


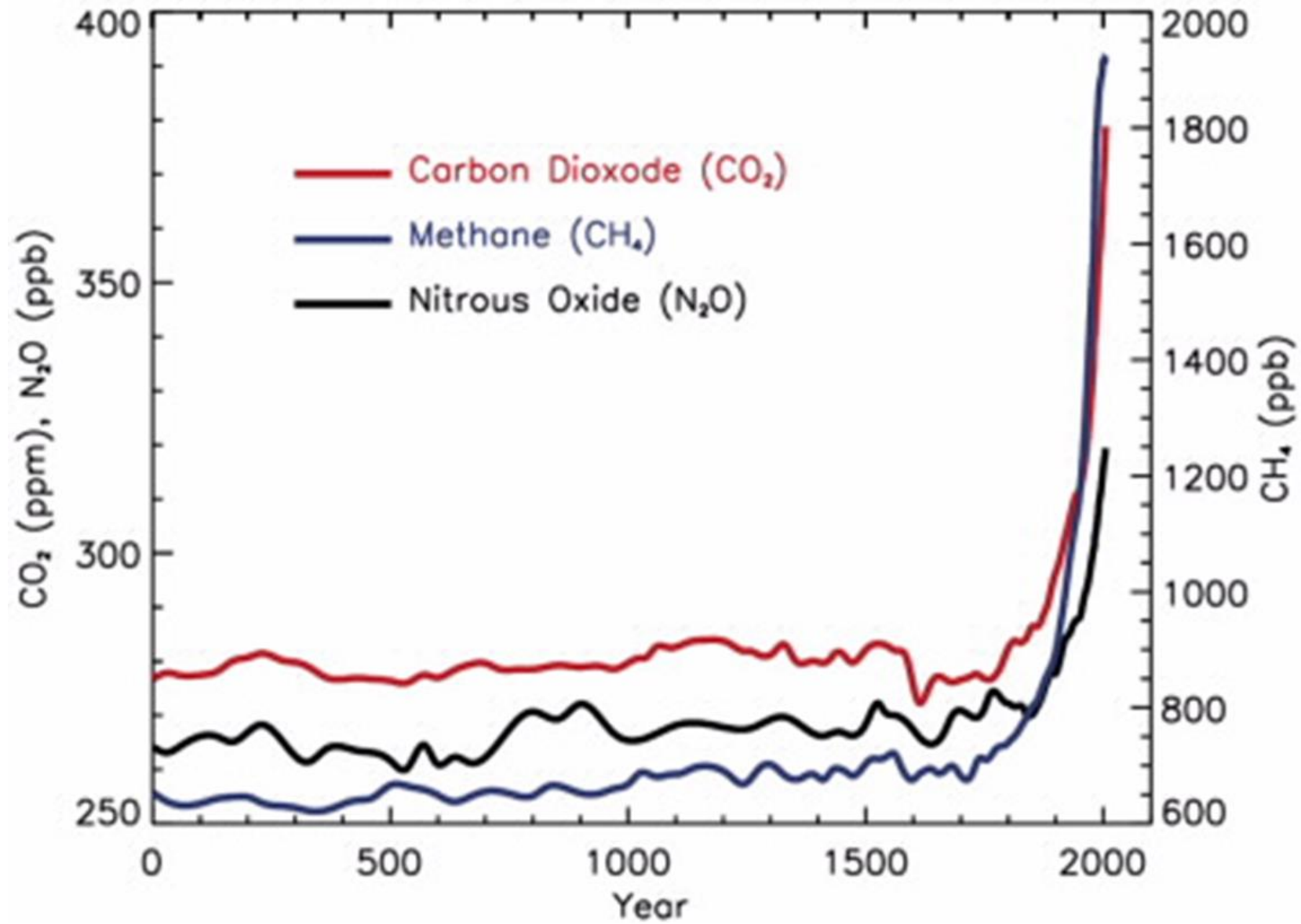
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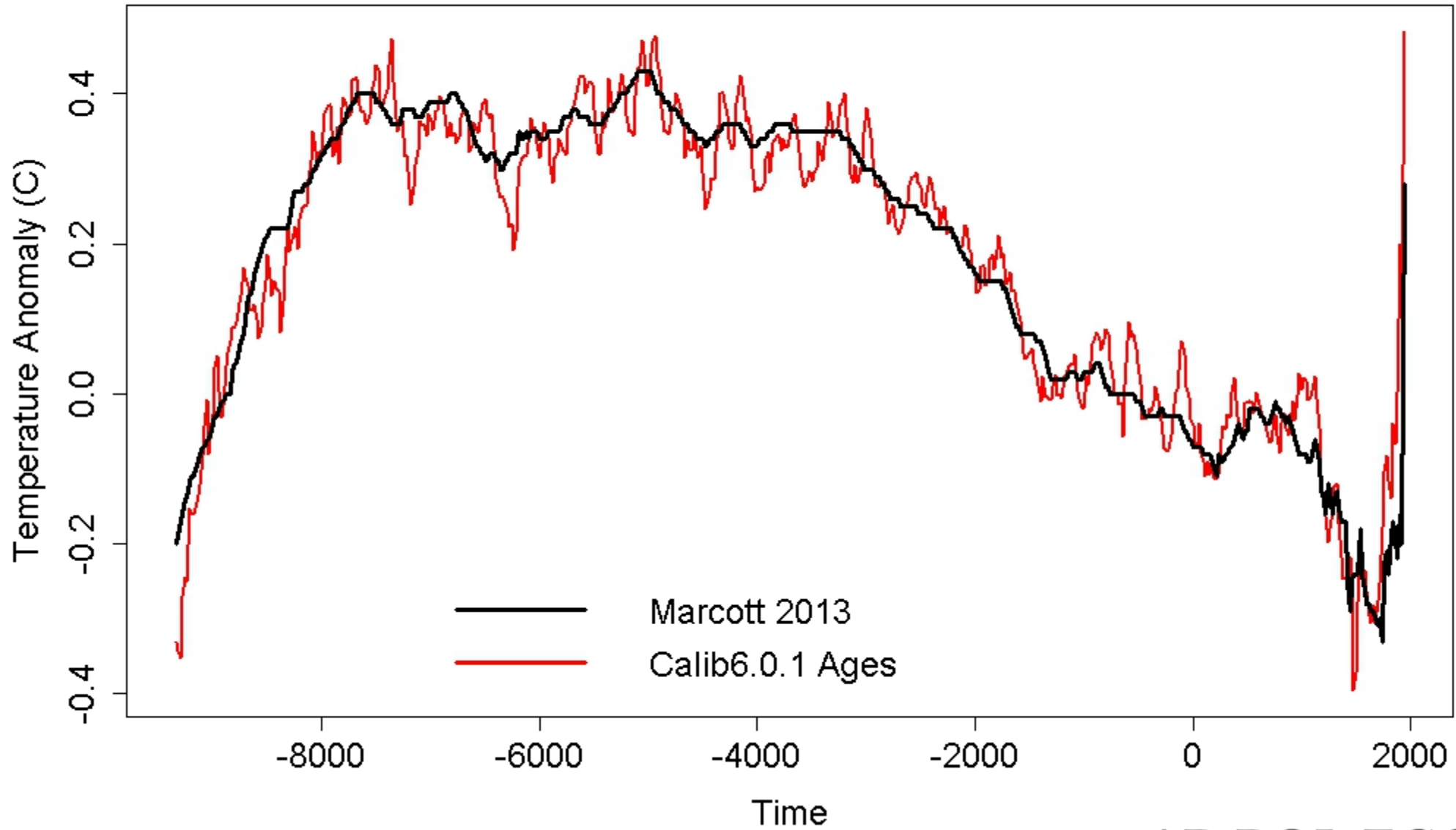
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World Population

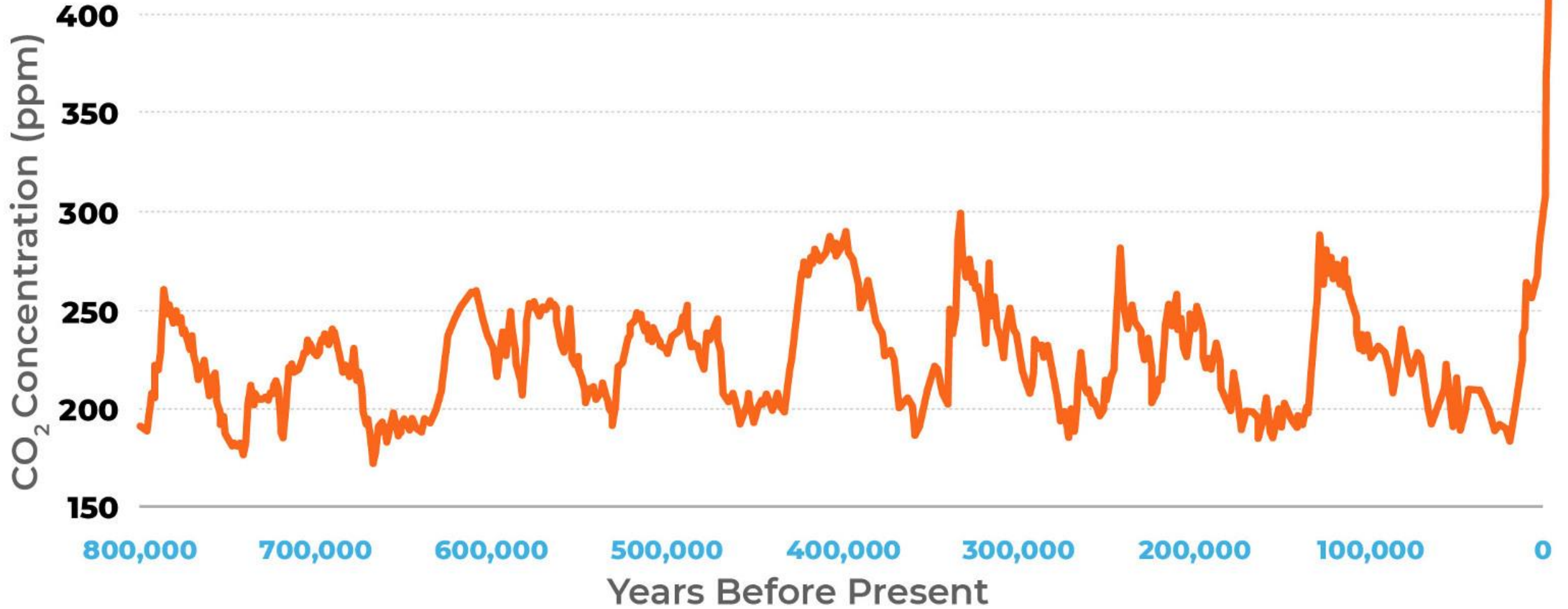




Simple Average



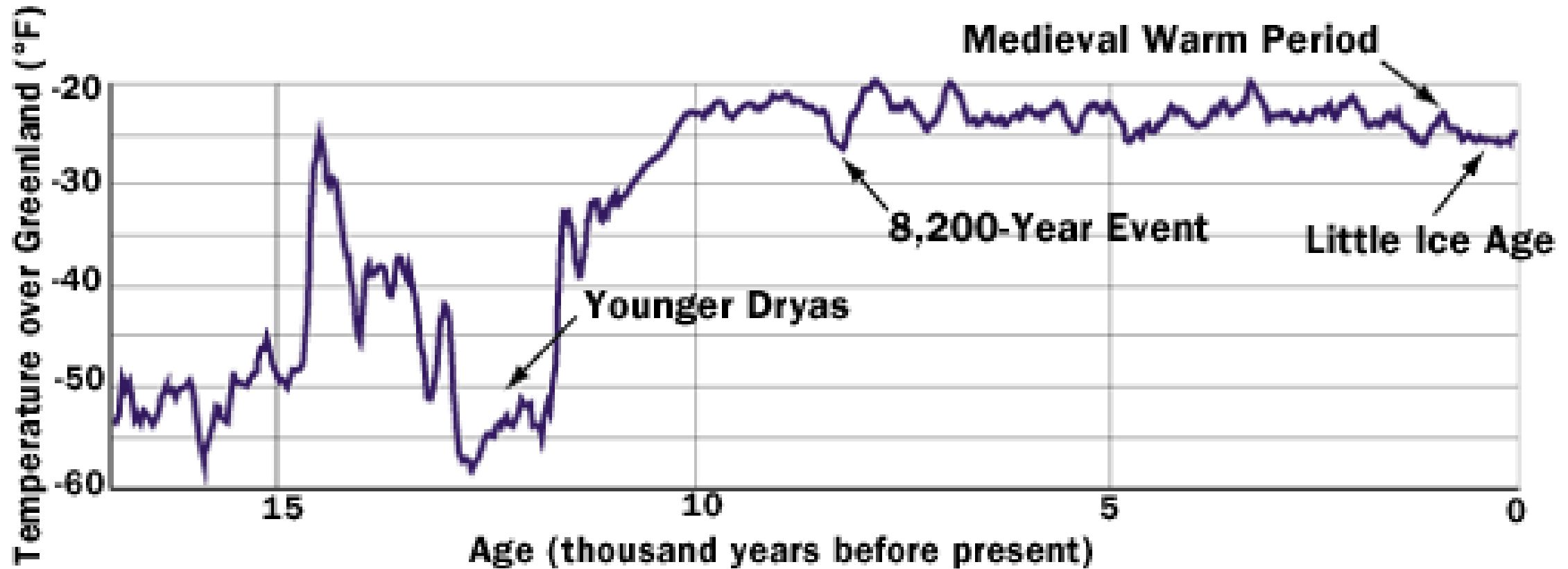
Carbon Dioxide Concentration (800,000 Years Ago to Present)



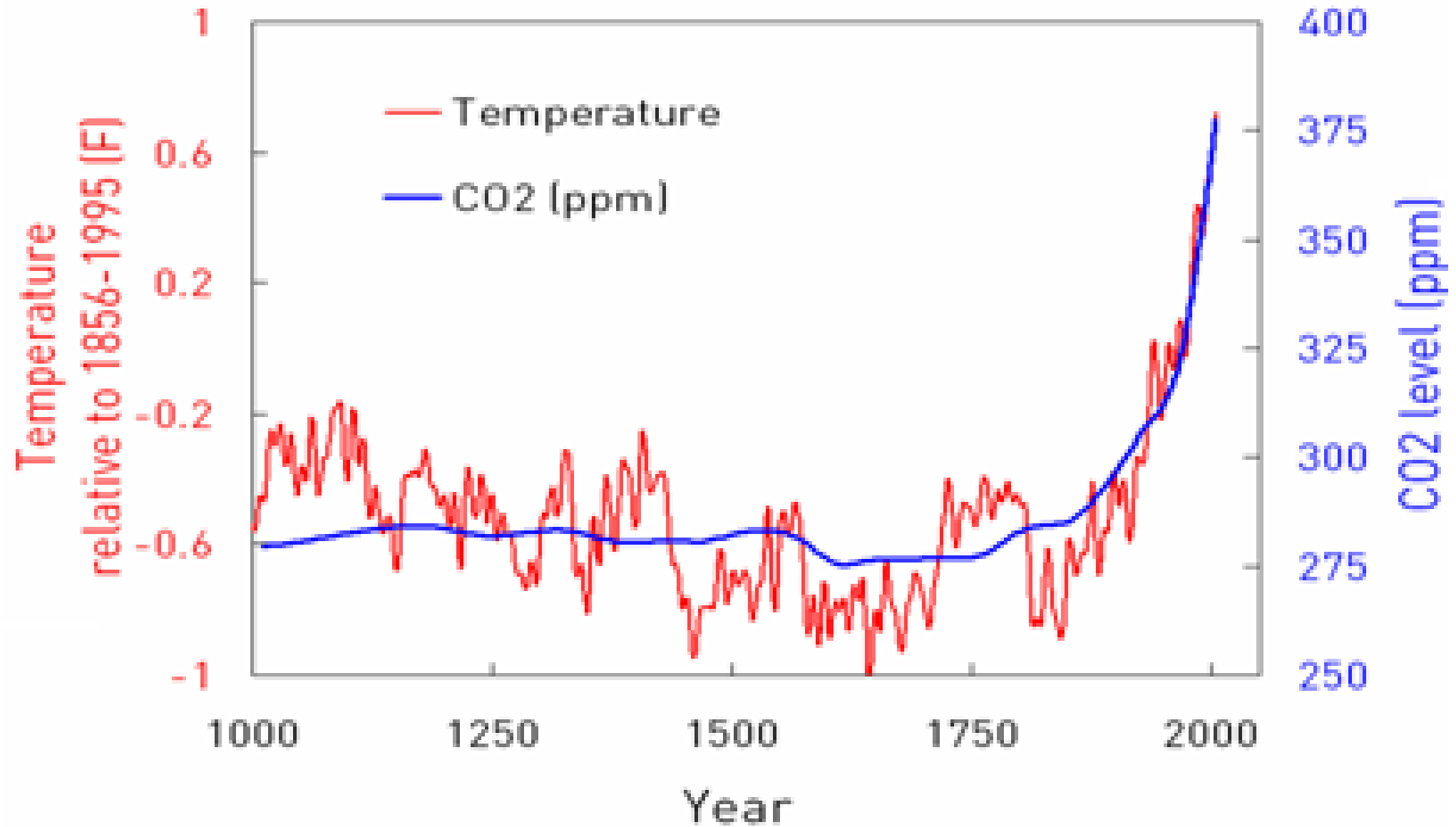
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Temperature and CO2 for Last 1,000 Years



Alberta's Crumbling Economic Foundation

- Oil - GHGs
- Construction-
& Capital Formation



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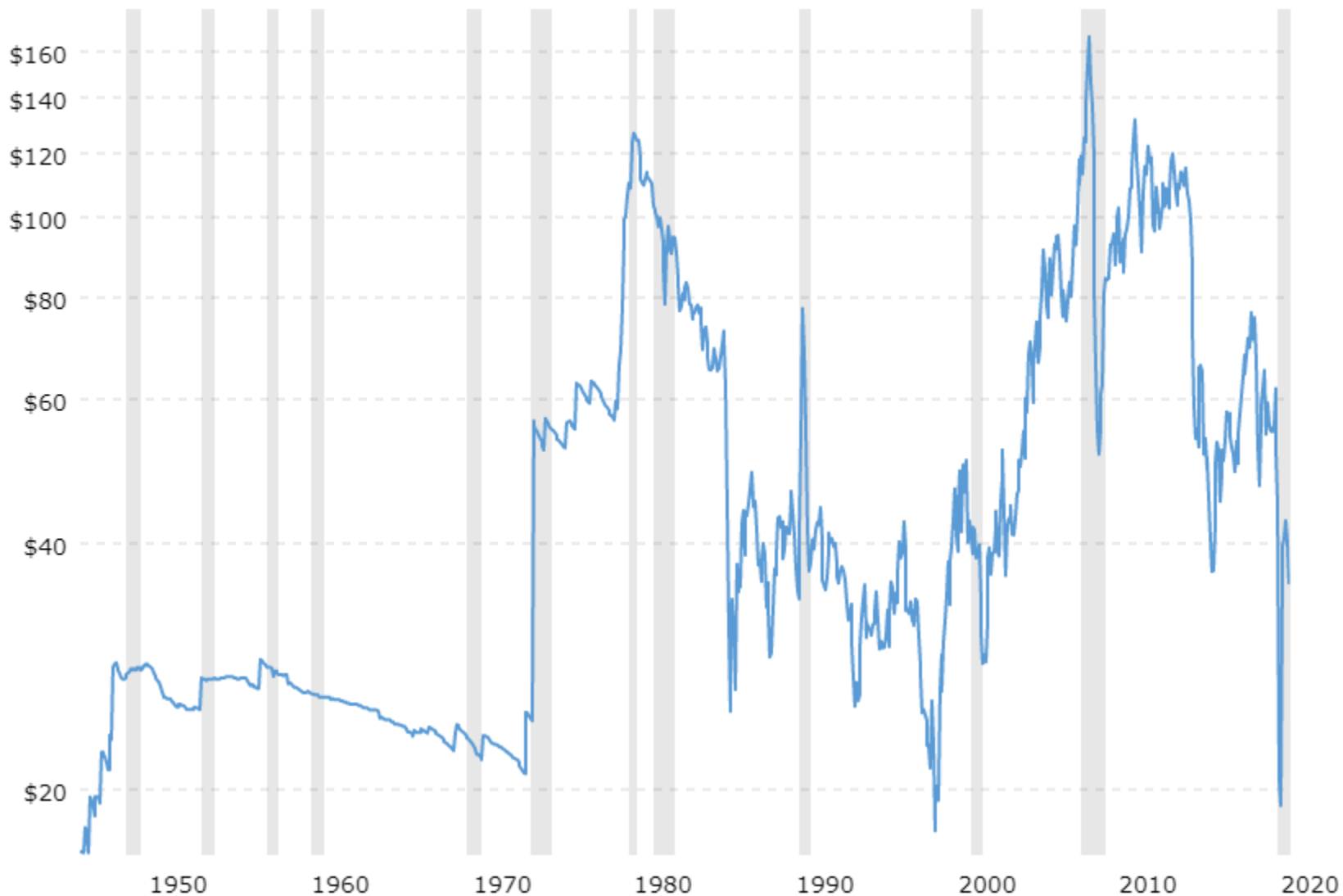
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Source: <https://www.macrotrends.net/1369/crude-oil-price-history-chart>

Real oil prices 2020- Volatility Rules

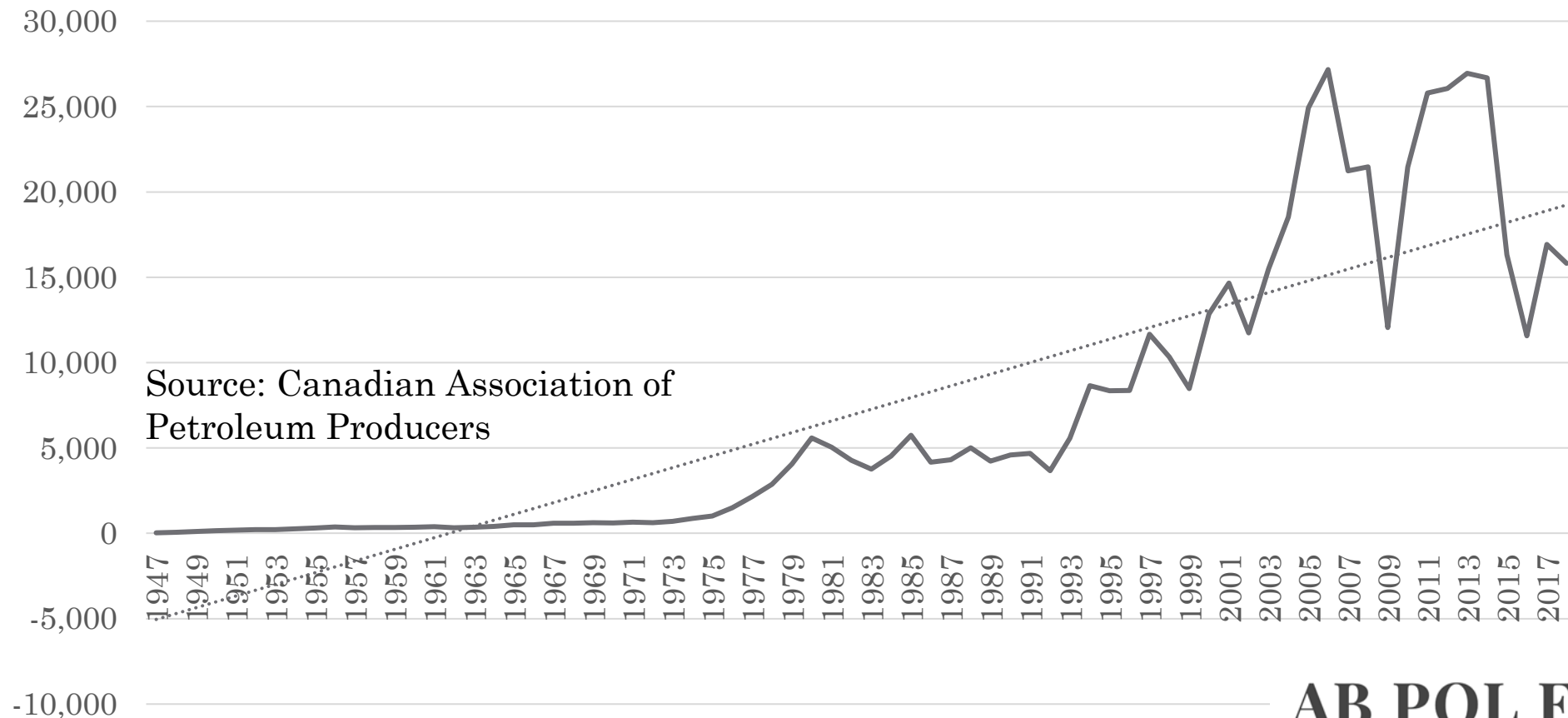


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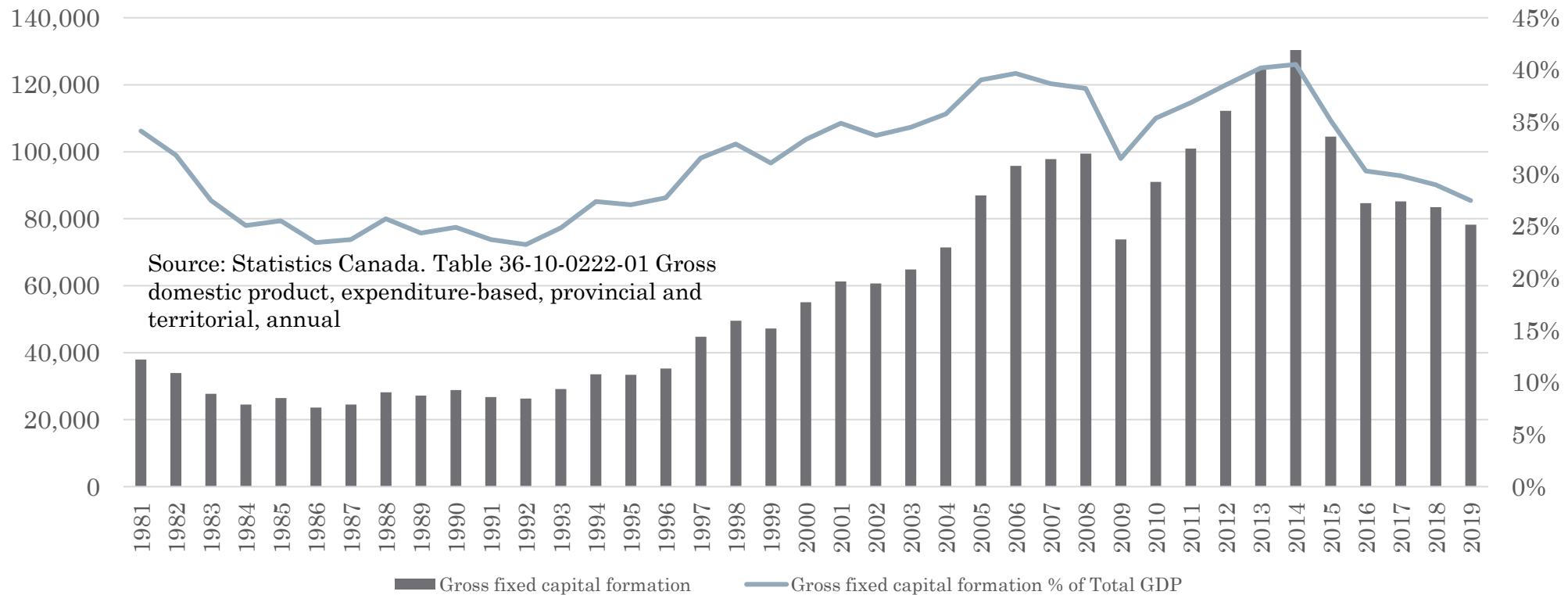
Oil, Gas, and Bitumen CapEx

ALBERTA CAPITAL EXPENDITURES (\$millions) 1947-2018

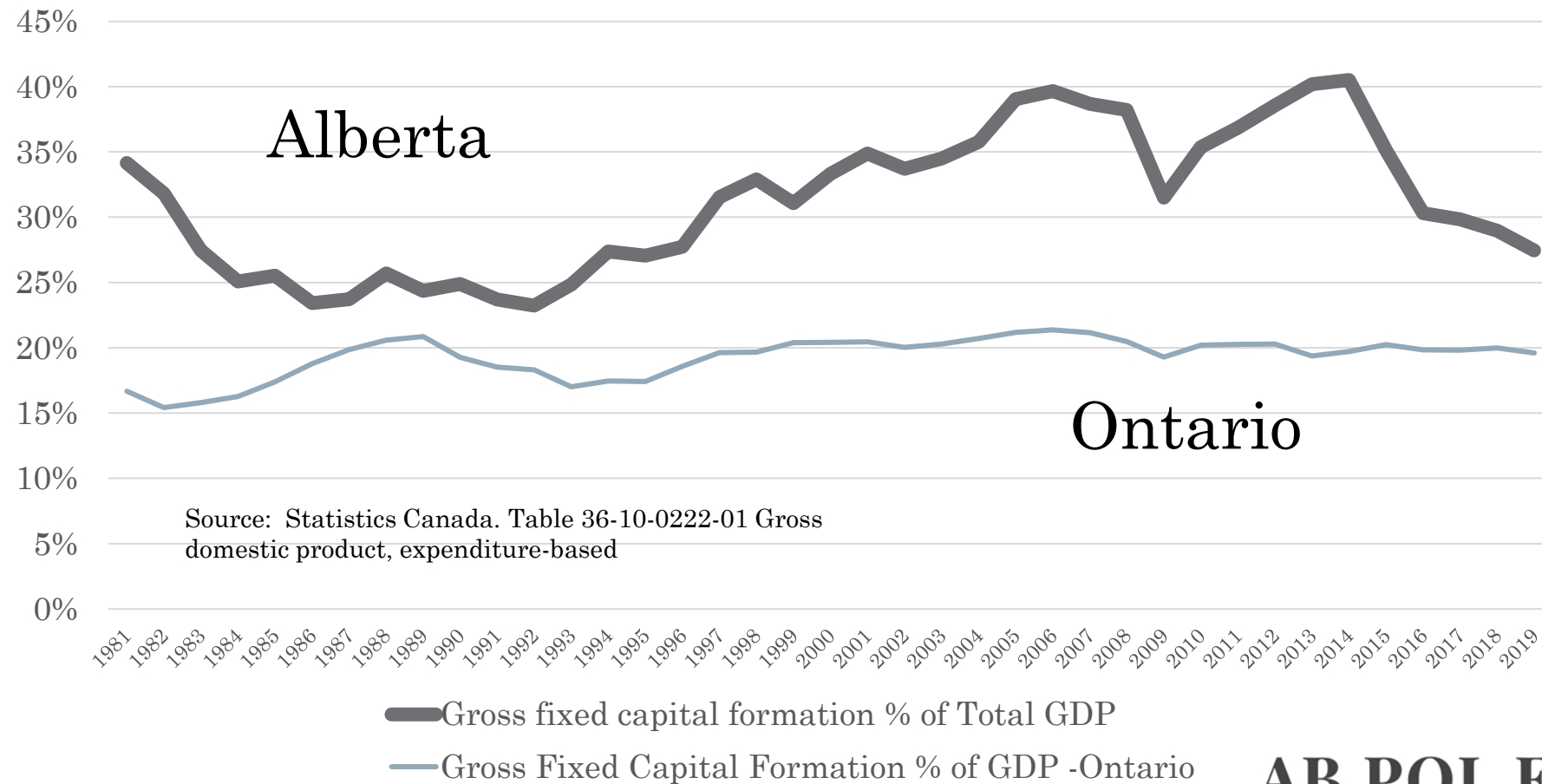


GDP Composition- simplified

Gross Fixed Capital Formation Alberta:1981-2019 (\$millions)



Alberta and Ontario Per cent Gross Fixed Capital Formation of GDP: 1981-2019



Source: Statistics Canada. Table 36-10-0222-01 Gross domestic product, expenditure-based

Crumbling Fiscal Foundation

- **Political culture:**
 - Optimist
 - Ambitious
 - Builders
 - In a hurry
- NOW, not the past or future

Crumbling Fiscal Foundation

Fiscal dilemma:

- Albertans (seem to) want:
 - Low taxes - necessary for economy to prosper
 - High level (quality and quantity) of public services
- Debt ok?
- What government can and can't control

Crumbling Fiscal Foundation

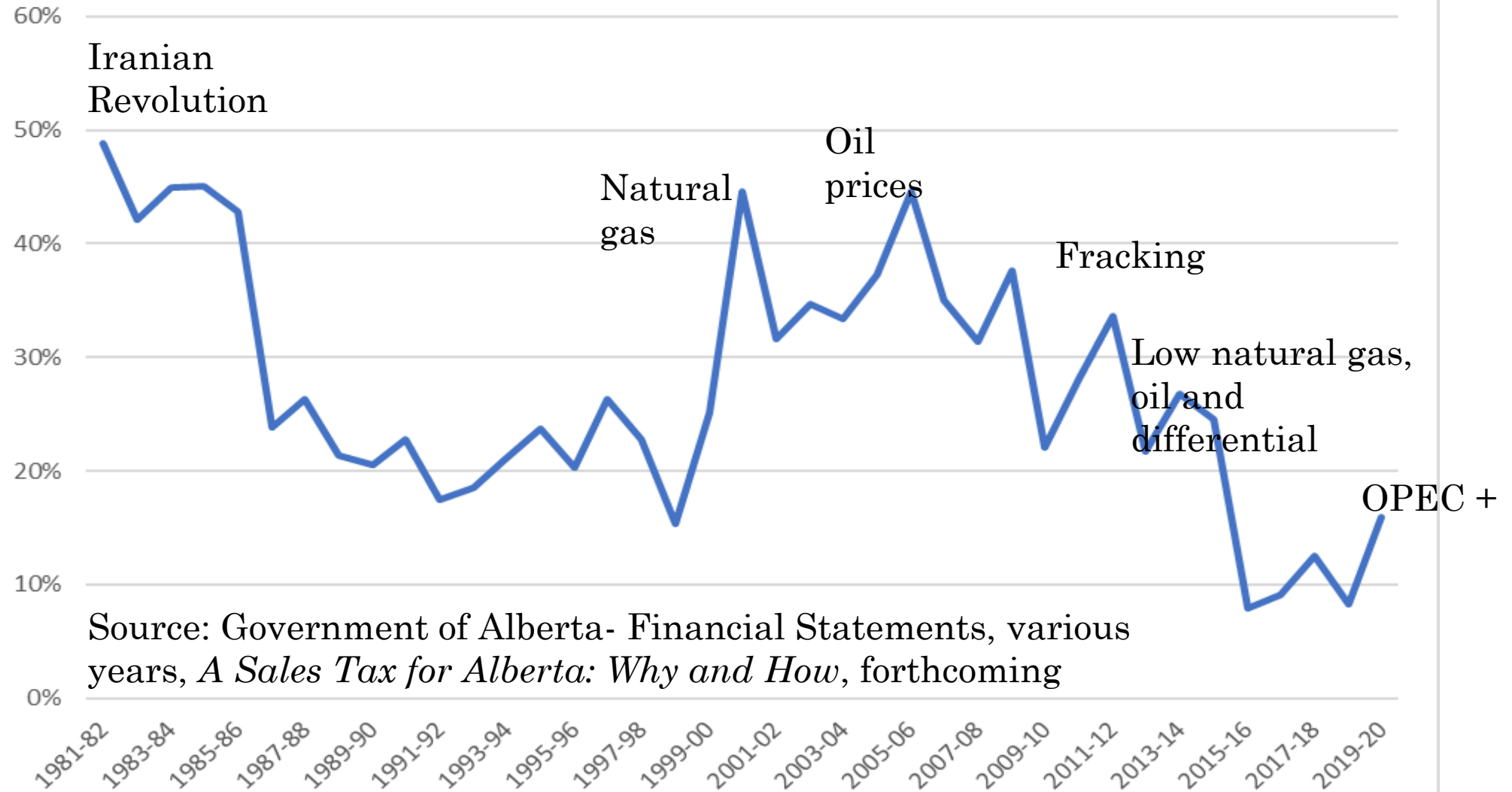
Can't control

- *Economy- Markets*: Oil/natural gas **prices** - Canadian dollar *exchange rate*
Interest rates -Financial market **returns**
- *Constitution*- Regulation of:
interprovincial **pipelines** - **banks** -
bankruptcy and insolvency - **railways**
telecommunications - **federal**
expenditures

Can control

- **Revenue** (PIT, CIT, tobacco, alcohol, cannabis, gambling, fuel, carbon; medicare premiums, Royalty rates **Spending** – programs and capital- **Pace and scale of oil sands development** (Public sector **compensation** - **Appointment** of senior officials, agency boards- Debt management policies; Investment policies- **Minimum wage**- Occupational health and safety- Labour relations (except for federally regulated enterprises)- **Municipal Affairs**- Energy and Environmental regulation with some exceptions- **ATB Financial**

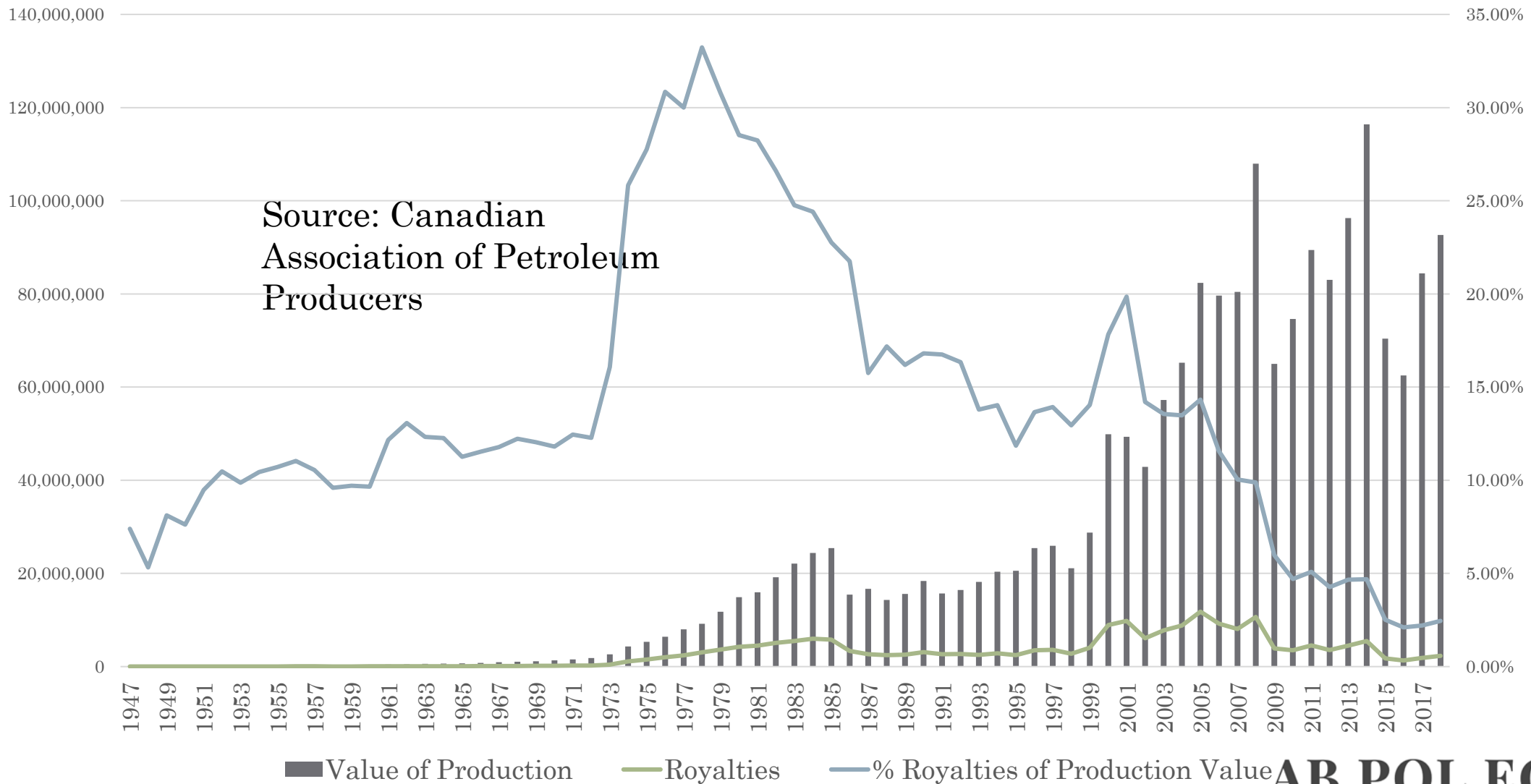
Figure 3.1 Non-renewable Resource Revenue as Per cent of Own Source Revenue 1981/82-2019/20



Source: Government of Alberta- Financial Statements, various years, *A Sales Tax for Alberta: Why and How*, forthcoming

Total Revenue, Royalties and Percentage Royalties/Total Revenue (\$000s): 1947-2018

Source: Canadian Association of Petroleum Producers

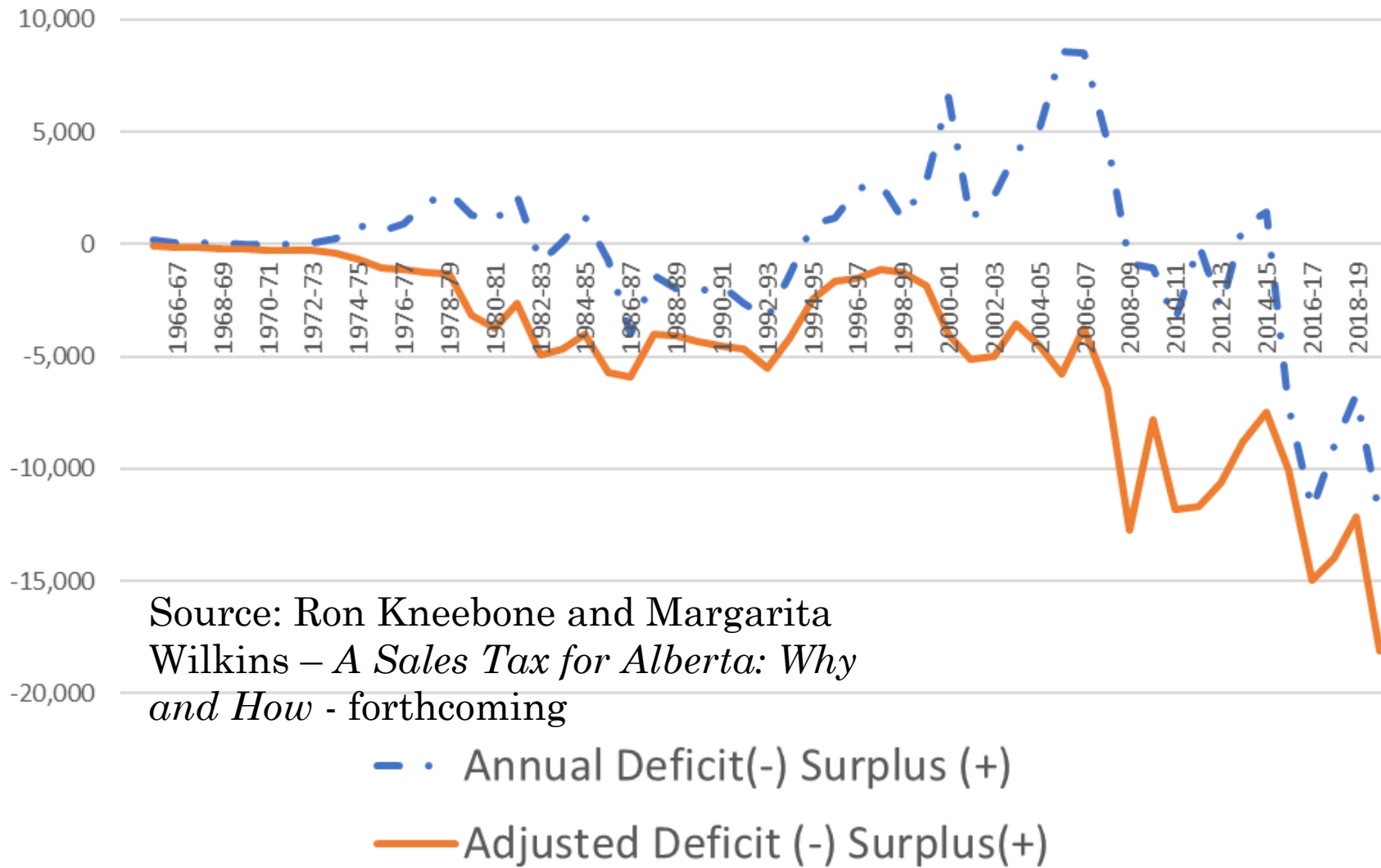


■ Value of Production — Royalties — % Royalties of Production Value

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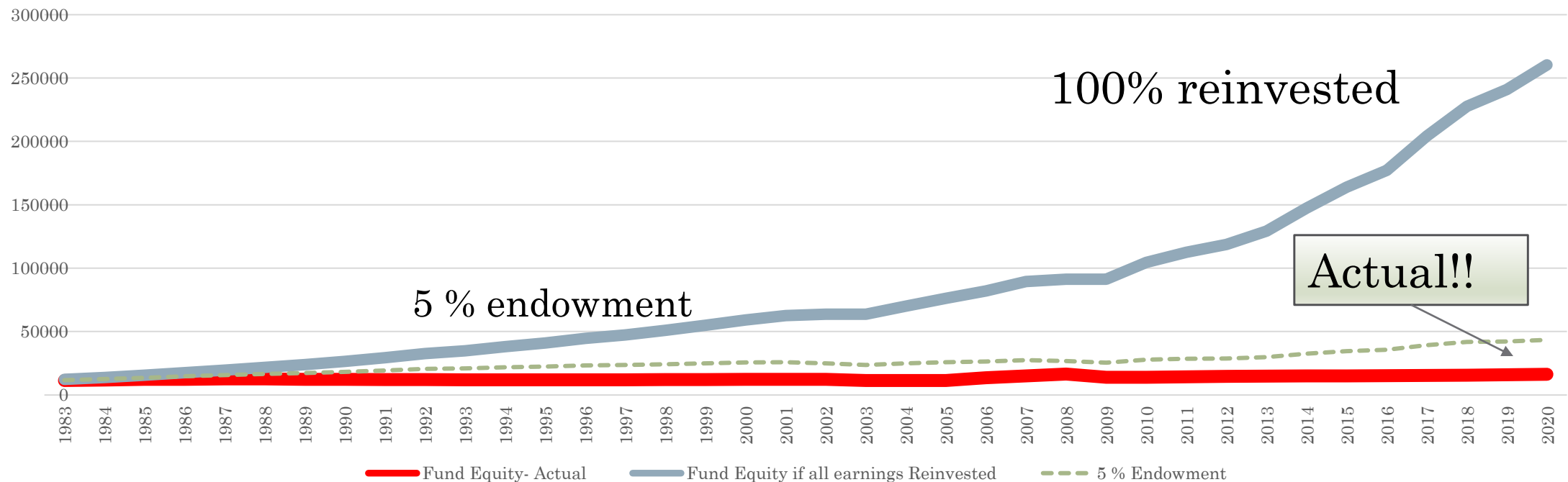
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Figure 3.2- Annual Deficit/Surplus and Adjusted Deficit/Surplus
1965/66-2019/20



Lack of Savings- Lougheed's great mistake

Value of Heritage Fund: 1983-2020- 3 scenarios



Source: Heritage Fund Annual
Reports

Environmental liabilities



Poor investments- 1980s parallels?

- Oil by Rail- \$2.1 billion estimate
- North-west Redwater Partnership- \$2.7 billion
- Keystone XL? \$7.5 billion potentially at risk
- Alberta Growth Mandate-(AHSTF) - \$500 million ?
- Trans Mountain \$2 billion loan guarantee backstop
- ATB Financial?
- Alberta Investment Management Corporation?

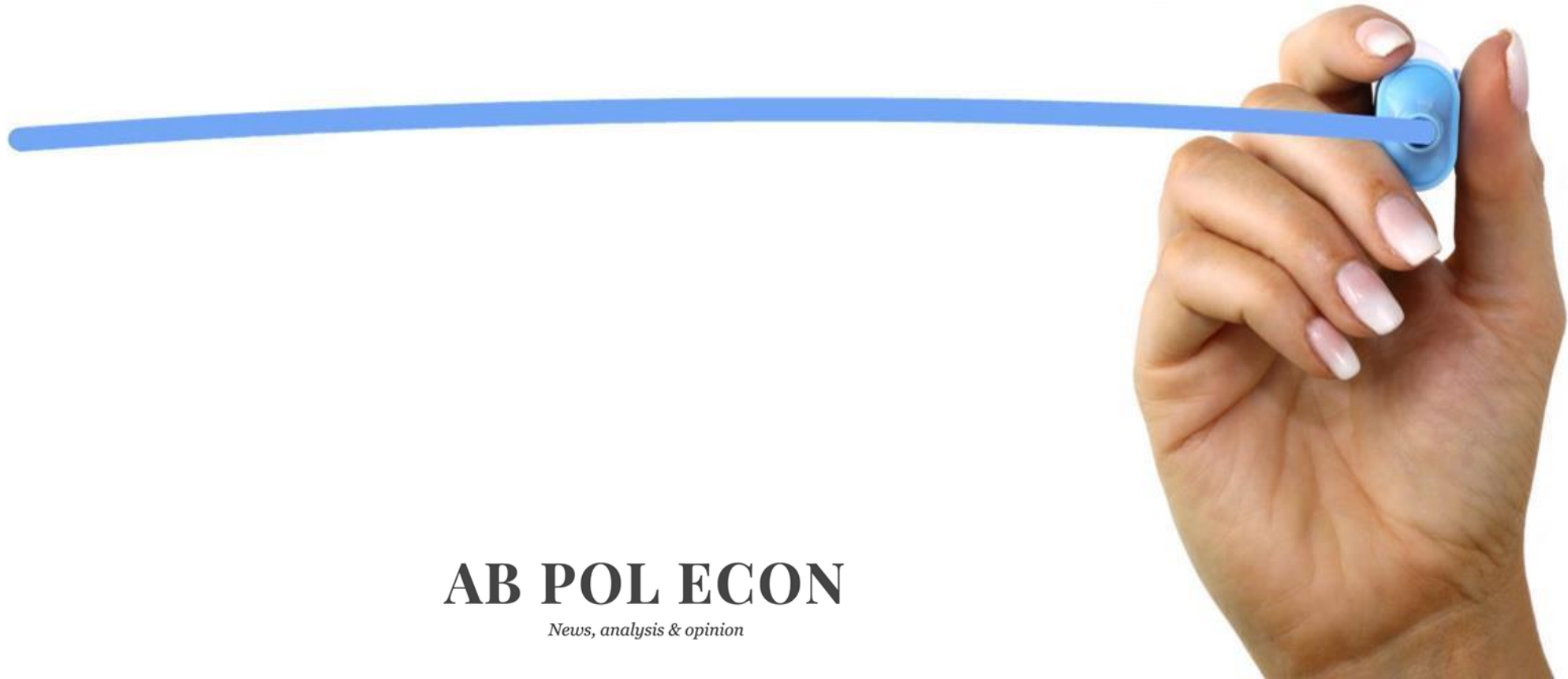
Hope- Economic Prospects?

- Young, well-educated society...but
- Opportunities for **green economy**-
solar, wind, hydrogen, agriculture
- (Relatively) Open society
- Co—operation vs. Competition

Key Take-aways

- Fossil fuel based economy will not generate wealth and growth Albertans have grown accustomed to
- Critical implications for GOA's finances
- Albertans' expectations re. economic growth and stability require change
- Adaptation and resilience- key

QUESTIONS



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