

FISCAL POLICY TRENDS

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ALBERTA'S GOVERNMENT SPENDING: HOW BIG A PROBLEM?

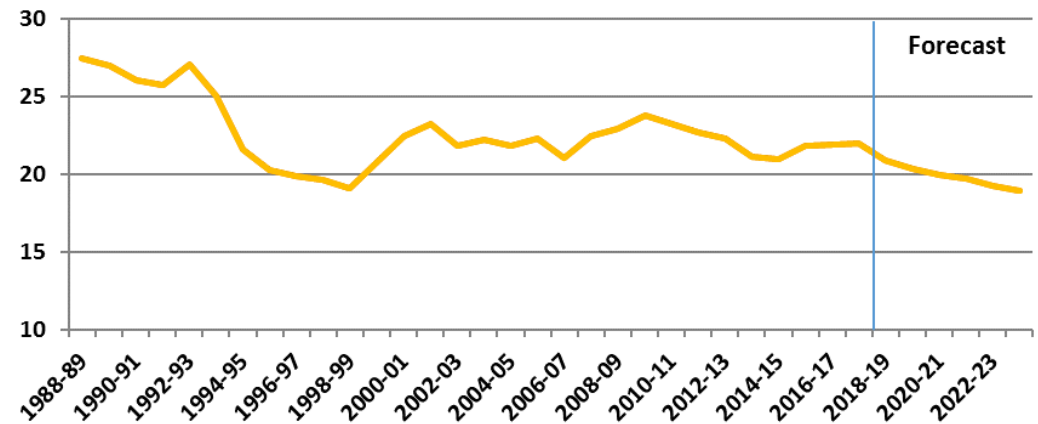
By Melville McMillan

The fiscal adjustment that Alberta will have to undertake to put its budget on a sustainable path was a topic of discussion at the September 20th School of Public Policy event on Learning from the Past: Moving towards Alberta's Fiscal Future. This leads to the question – Should the fiscal adjustment be on the spending side of the budget or on the revenue side? In other words – Does Alberta have a spending problem or a revenue problem?

This brief provides some insights into this question by comparing the level of provincial government expenditure relative to provincial household income. That is, what percentage of household incomes do provincial expenditures represent? And, how has that changed over time?

Figure 1 plots that percentage since the fiscal year 1988-89 and, using the “path to balance” projections in Budget 2018, looks forward to 2023-24. From 1988-89 to 1993-94, expenditures averaged 26.4 per cent of household incomes. Then the Klein government introduced “massive” cuts. Over the next five years, expenditures averaged 20.1 per cent of incomes and reached a low of 19.0 per cent in 1998-99. That, however, was followed by a sharp and substantial turnaround with expenditures increasing to 22.4 per cent within two years. Interestingly, since 2000 provincial program expenditures have averaged 22.1 per cent of household incomes and with relatively little variation (the percentage ranging from 20.8 to 23.7 per cent). That is, over the 19 years from 1999-2000 to 2017-18 and over a broad range of economic conditions and over five provincial premiers, provincial expenditures have been remarkable stable at about 22 per cent of incomes.

Figure 1. Alberta Provincial Government Program Expenditures as a Percentage of Household Incomes



Sources: Statistics Canada 10100039, 10100017 and 36100226 and Alberta

The drop in oil prices in 2014 and 2015 and the resulting recession imposed hardships on Albertans and on their provincial government. The province has been running large deficits the past three fiscal years and only expects to balance the budget in 2023-24.

The “path to balance” includes constraining expenditures and letting inflation, population growth and income growth take its toll. Looking forward, the provincial government’s projections imply that expenditures will decline steadily as a percentage of household incomes. That percentage is projected to drop from 21 per cent this year to 18.9 per cent in 2023-24.

Readers will note that the projected 18.9 per cent level is even slightly lower than the 19 per cent nadir of the Klein cut years. Also, the 19.8 per cent average level over the next six years is also slightly below the 20.1 per cent average during the years of the Klein cuts. Given that the Klein government appears to have overshot the expenditure reductions and readjusted to meet better

Albertans' preferences, will Albertans accept the planned constraints of the Notley (or some other) government?

Albertans will need to decide on their preferred level of provincial expenditures. With weak resource revenue growth anticipated and with no (further) tax increases planned, significant (relative) reductions in expenditures will be necessary.

Figure 2 shows provincial government program expenditures as a percentage of provincial household incomes for selected provinces. British Columbia and Ontario are notable as low per capita spending provinces. Yet, Alberta, an about average per capita spending province, has spending as a percentage of incomes similar to that in British Columbia and Ontario due to Alberta's higher household incomes. Over the nine years, the averages in Alberta, British Columbia and Ontario are 22.3, 21.3 and 20.0 per cent respectively and the percentages have converged during the most recent years. Note that in the other seven provinces, expenditures to incomes are considerably greater, averaging 29.5 per cent. Provincial expenditures as a percentage of household incomes in Alberta are low compared to most other provinces and are comparable to that in the two lowest spending provinces.

Albertans are facing the prospect of unprecedented low levels of provincial expenditures. Assuming resource revenues evolve as expected, the alternative is greater taxes. In such situations, it is expected that citizens will choose some of both – that is, somewhat reduced expenditures and somewhat greater taxes.

Figure 2. Program Expenditures as a Percentage of Household Incomes: Selected Provinces, 2007-08 to 2015-16

