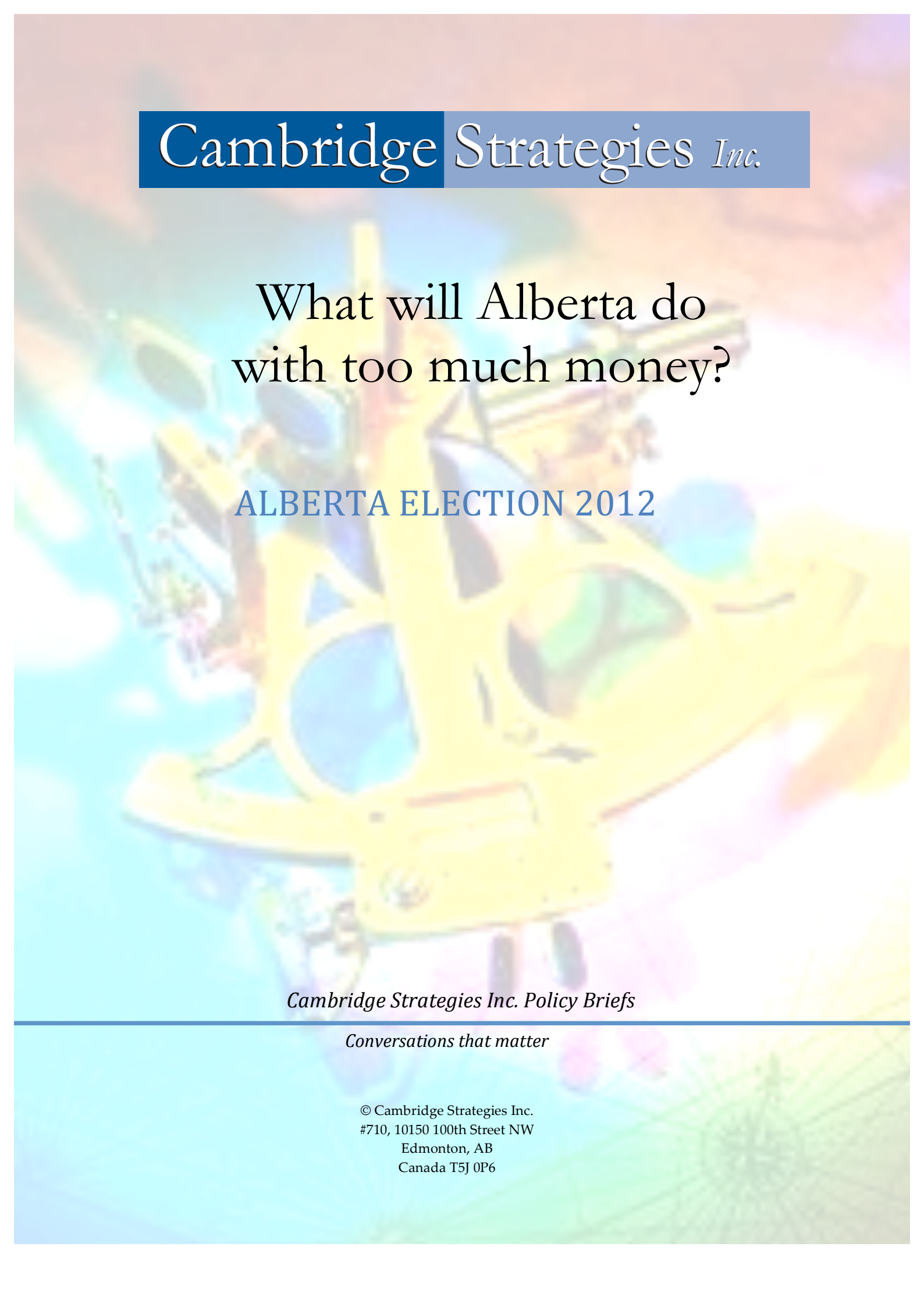




Cambridge Strategies *Inc.*

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ALBERTA ELECTION 2012

Cambridge Strategies Inc. Policy Briefs

Conversations that matter

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CAMBRIDGE STRATEGIES INC.
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What will Alberta do with too much money?

Alberta politicians are still focused on the debt and deficits of a bygone age, writes Satya Brata Das. Facing a future of multi-billion dollar surpluses from resource wealth, the real issue is what are we going to do with too much money?

No matter what the party, Alberta's politicians offer different variations of the same chorus: I will balance the budget.

Excellent.

And what would you do for the remaining three years, eleven months and 29 days of your four-year term?

The budget is balancing itself as we speak, thanks to surging royalties from bitumen

and synthetic crude oil. Those revenues will keep rising, as money bottled up in royalty deferrals flows and grows in the coming years.

We face unprecedented prosperity, for a very long time indeed. And we need to know what, if anything, our politicians have in mind to manage prosperity and steward our wealth.

Debt and deficit really do belong to a bygone age. Alberta started running surpluses in 1995. And apart from dipping into accumulated savings to pay for an infrastructure binge in the last five years, there we've stayed.

According to the audited financial accounts of the province – real numbers, not political documents full of spin and guile – we've actually stayed in the black, when it comes to government operations.

The bottom line, "cash provided by operating transactions" shows surpluses. In 2011, when the budget deficit was nearly \$4.8 billion, the surplus in operating transactions was \$311 million.

Why the difference? The audited statements have to include ALL government revenue – such as revenues from schools, universities, colleges and hospitals. The budget doesn't.

The surplus cash from operations in 2010-11 was down from multi-billion surpluses in years past, but notable that it remained in the black during the largest budget deficit in Alberta's history. Of course that level of budget deficit is neither desirable nor sustainable. Yet the cash from operations shows we are far from a fiscal crisis.

Unfortunately, we get the province's consolidated financial statements more than a year after the budget is passed. It will be summer, well after the election, and well after the 2012-13 budget passed, before we know the province's bottom line as of March 31, 2012.

You can find the province's latest consolidated financial statements at the link below, duly signed and certified by Alberta's Auditor General, Merwan Saher.

http://www.finance.alberta.ca/publications/annual_repts/finance/index.html

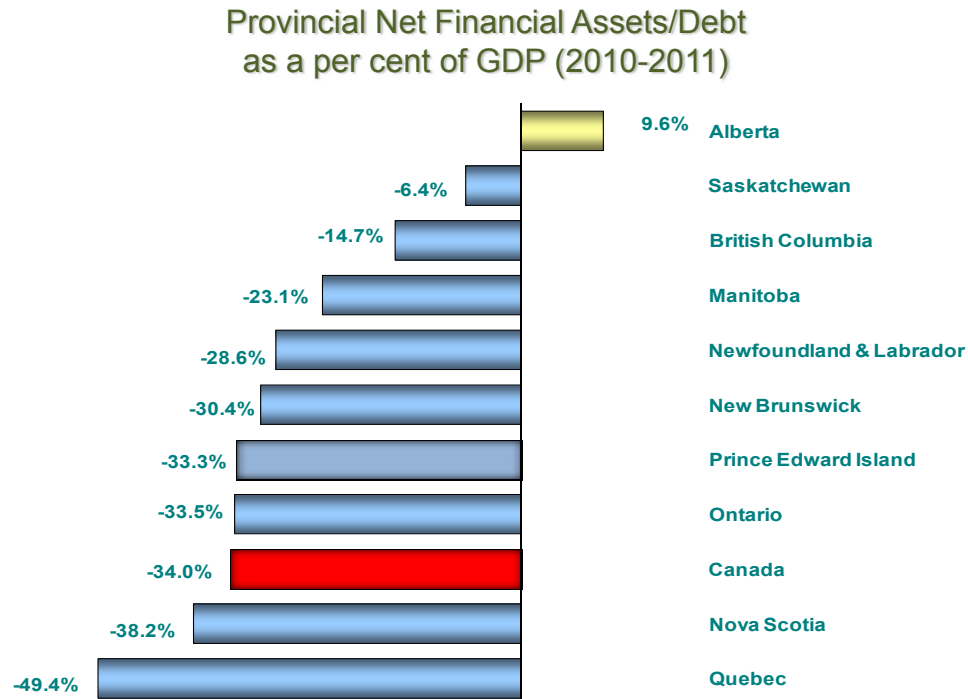
It's written in fairly plain language. And as an act of engaged citizenship, it's worth reading the document – especially to understand the difference between the province's audited finances, and the annual budget. The budgets exclude, for instance, money earned in fees by schools, colleges, universities and hospitals.

What the budget deficits really show, though, is that we're using non-renewable resource revenue – not tax revenues – to pay for core government operations.

That amounts to taking away the birthright of future generations. And it's not a discussion politicians like to have at election time – and maybe not ever.

So here's the question we should ask each candidate. Do you have any real vision for how we're going to manage our wealth?

Here's a basic fact, in handy graphic form below.



Source: Conference Board of Canada

We have no debt. We haven't had any debt for a very long time. And there's no imminent danger of ever going into debt again.
Every other province has debts. Alberta has assets.

No other jurisdiction save Norway, among advanced western democracies, can actually measure assets as a proportion of national income (Gross Domestic Product, or GDP).

That puts Alberta in a remarkable position of fiscal strength.

It is also a remarkable weakness. It means no constraints or restrictions on government spending. In fact it's an invitation to fiscally reckless behaviour. Norway, for instance, has built up a \$500 billion fund from its oil wealth, by adapting the discipline of paying for programmes out of income and consumption taxes.

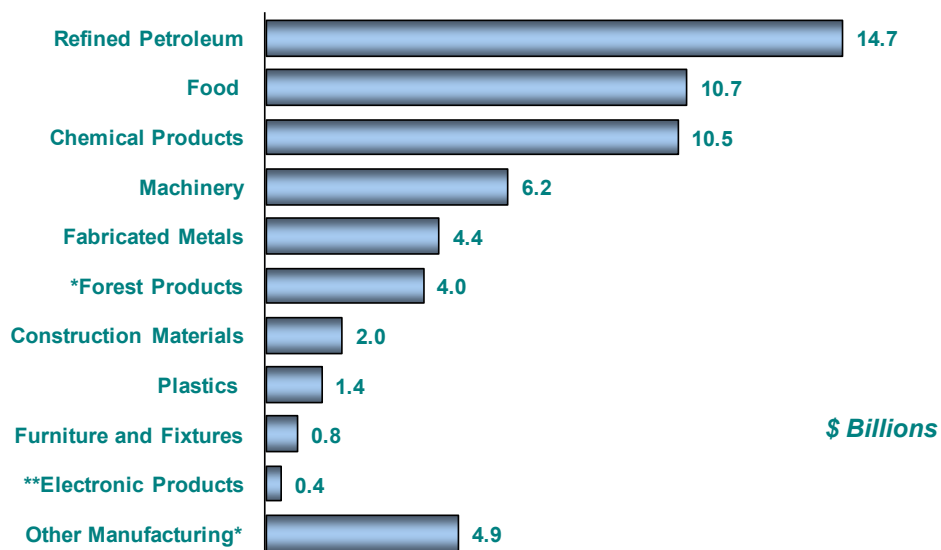
Alberta's net assets enables government to spend non-renewable resource revenue at will. To avoid any tax increases, for as long as it wants. And instead of the inventiveness that comes of necessity, it means a government can essentially doze off and throw money every once in a while at whoever complains.

It also enables a fundamental ideological choice: government, working with citizens, is a force for good; or that individual citizens, not government, can best decide what to do with their own money (hence the Ralph Klein/Danielle Smith idea of directly rebating natural resource revenues to citizens).

For politicians who believe in an activist government, a common priority is to diversify the economy. This too is an excellent idea. It responds to the worry that all of our wealth is based on extracting and shipping out raw resources.

So let's look at another handy graphic representation of facts:

Value of Alberta Manufacturing Shipments 2010 Total: \$60.1 Billion



*Includes wood and pulp & paper industries

**Includes telecom equipment

Source: Statistics Canada

There's obviously much more we can do to diversify Alberta's economy.

I've offered ideas for doing so in my 2009 book, *Green Oil: Clean Energy for the 21st Century?* (You can download it from amazon.com, or here):

<http://www.cambridgestrategies.com/Books/>

Green Oil recommends using the money from our hydrocarbon resource wealth to pay for and build renewable and alternative energies of the future. And investing in Alberta's next-generation bio-economy and nano-economy, unlocking hundreds of billions of dollars in new wealth, enabling us to be the best for the world in environmental stewardship and societal development.

My bias is obvious, towards a future led by citizens and supported by government.

I believe that we can find more sustainable ways of managing our natural resources safeguarding *both* the environment and our economy.

I know we can provide the public health care and education that Albertans demand and deserve.

Yet I also know we can't have the anything-goes recklessness that billion-dollar surpluses invite.

That means having a plan, defining success, measuring progress and outcomes.

It means an honest conversation, convened to share ideas and build consensus. I'd like to see the Pembina Institute for Sustainable Development and the Canada West Foundation at the same government policy table, sharing and developing ideas on the wise stewardship of our resources.

It means strategic investments at the right time to take advantage of economic cycles and costs.

It means the discipline of rolling five- to seven-year business plans for every public enterprise and public endeavour, to raise politicians' gaze beyond the electoral cycle.

This is short-, medium- *and* long- term thinking, to achieve robust strategic goals.

If we end up with a minority legislature, or a party with a small majority, we will have a fine opportunity to rethink how we deliver government programs.

We have the revenue necessary to plan with a blank slate. If we are to deliver public health care, public education, public services for our citizens, starting from scratch, how would we do it and what would it look like?

It means thinking about what we want to achieve and how we define success. Most importantly, it means aligning with citizen values and expectations.

Once we've done all that, we'll know how much we need to spend on the ideal, and how we're going to pay for it.

Bitumen and synthetic crude oil royalties are going to soar, and stay both high and stable, for the coming decade. That's because royalty deferrals granted to oil sands enterprises are expiring. By mid-decade, our natural resource revenues will be much more stable than in the past.

That's why this Alberta election is so critical. We need thoughtful leaders – ideally from all political parties contesting the April 23 vote – well prepared for the challenge of managing our prosperity and developing society in accordance with our citizens' priorities and values.

So when you meet your candidates, at the door or at a forum, ask them about their ideas to serve our common good with our common wealth.

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