

Alberta's budget: déjà vu all over again

Two years ago, in light of the so-called “bitumen bubble”, Alberta’s residents were subjected to budgetary cuts of various sorts, in an effort by the Government of Alberta to keep its aggregate budgetary shortfalls within the bounds of acceptability from the perspective of its opposition in the Legislature, and its internal right-wing political elements. Then, the bubble burst, financial matters improved, and there was a (more or less) return to “business as usual”. Over the past several months, we have returned to a “crisis” financial situation from the perspective of the Government, which claims that we are facing an economic calamity in Alberta not seen in a generation, and representing a structural shift in the economic environment which is likely to last for some time. Thus, we all need to tighten our belts, make major cuts and, perhaps, introduce some tax changes.

A recent survey of over 3,000 Alberta residents directs the Government on the options it should pursue to solve its revenue problem. Meanwhile, the Government, stating it is willing to entertain all possible options, is not about to implement the most obvious solution – a sales tax – since this would, from the Government’s perspective, eliminate the “Alberta Advantage”. In this ongoing public dialogue, it is often observed that a sales tax is an inherently bad idea, since it is regressive, and penalizes the poorest in society. Thus, we should also avoid this solution for that reason. It is interesting to note, however, that the 3000-person survey mentioned earlier saw “user fees” and “sin taxes” as the most popular vehicles for raising revenues, followed by a re-introduction of so-called “health care premiums”. Too bad, then, that these are of the most regressive tools available in governments’ taxation toolkit. The poor will just have to suck it up, if the majority of those surveyed have their way.

Why is a sales tax (of the proper type) a good option, and why do all of the economists we have heard from on this matter adhere to it with such uniformity? A (percentage) sales tax, such as the Government of Canada GST, or a provincial sales tax harmonised with the GST, is the most efficient and fairest way to raise the needed revenues. In other words, one can either levy the (percentage rate) tax on income; or on expenditures, at the point of sale (a sales tax). In the case of a sales tax, there is no avoiding the tax. Those with higher incomes can’t use tax shelters such as tax-free savings accounts or RRSP contributions to avoid the tax they pay at the cash register. Furthermore, when the sales tax is uniform across all goods, there is no distortion in the relative prices of goods, so the allocation of resources is not affected. If, on the other hand, the coverage of the goods and services taxed is uneven, those goods which are not taxed are relatively cheaper, so consumers substitute towards those goods, meaning more resources migrate into those sectors to produce those goods than would occur in the absence of a distortionary sales tax levied on an uneven basket of goods and services. To deal with any disadvantage to low-income residents of such a sales tax, one can provide them with tax rebates, such as is already the case with low income earners who currently receive “GST rebate” cheques from the Government of Canada.

But, if this is just another episode where low oil prices are reducing Government revenues for a time, shouldn’t we just wait for the recovery of these prices, and garner extra resource royalty revenues once again? No. Because, in such a case, every time we consume these non-renewable resources with no commensurate investment, we are, in effect, robbing future generations of part of the asset base of the economy. Non-renewable resources can be consumed only once. If you sell the resource, and use the

proceeds for current consumption, as we have been doing in Alberta for years, you have permanently depleted your prospective revenue stream to support the provision of Government services. Payments to the Government by oil companies are not really tax revenues at all. They are one time contributions, or economic rents, reflecting the accident of who owns a non-renewable resource (asset), and how much someone is willing to pay for it.

It is also often pointed out in this ongoing debate that Alberta's "problem" is a spending problem, not a revenue problem, so we should cut spending, not raise additional revenues via the tax system. That Alberta is a per capita government spending leader in Canada is used as a point in favour of this position. However, if one looks at our neighbours in British Columbia (B.C.), where there are some similarities in population sizes and diversity of this and the Alberta economy, B.C.'s estimated per-capita government spending in fiscal 2013/14 was actually 3.7% *higher* than estimated per-capita government spending in the same period in Alberta. This B.C. government spending pattern is achieved, by the way, through a mix of personal income taxes, corporate income taxes, and a sales tax (which raises \$6B, in this last case), amongst other things.

To conclude, it is high time that the Government and the residents of Alberta weaned themselves off consuming their non-renewable resources to maintain their living standards, at the expense of future generations. This would involve adopting a reasonable approach to Government budgeting, through which what we consume in services is paid for through a fair tax system. Whether the taxes are levied on income or at point of sales is up for debate. But, the most efficient way to raise the volume of revenue needed is via a consumption (sales) tax system, harmonised with the GST. Let's not delude ourselves that the Alberta Advantage is to live in a province with no sales tax. The Alberta Advantage is the accident of history and geology which endowed this province with a vast natural resource base, which should be used for the benefit of all generations of Alberta's residents, not simply those who want to consume all of those assets now, thereby robbing our descendants.

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