



THE PROVINCES

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IN ALBERTA

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Climbing
out of debt

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Alberta expects to pay off its net debt by 2000, but will still owe \$12.5-billion, balanced by assets of the same amount in the Alberta Heritage Savings Trust Fund. Where do we go from here? Do we proceed to retire all debt, in effect re-creating the accumulated surplus the province had in the 1970s and early 80s? Or do we use the annual surplus for some combination of tax cuts and increased government spending?

The provincial Treasurer, Stockwell Day, has sent all households an information pamphlet including a reply form. Although I don't care for the pamphlet's rah-rah title (Talk It Up, Talk It Out), I appreciate the invitation to offer advice. So, Mr. Day, here are a few thoughts I couldn't squeeze into your questionnaire.

The Heritage Trust Fund was created in 1976 after the OPEC cartel had sharply raised the international price of oil. The increase was relatively sudden, and no one knew how long it would last. In the circumstances, it seemed prudent for Alberta to bank its higher royalties.

The original intent was to invest in order to diversify the provincial economy, to make it less dependent on oil exports. That goal has been at least partly achieved, but the fund had little to do with the success. As might be expected of an investment fund subject to heavy political influence, it experienced many years of bad decisions, sub-par returns and projects having little to do with its mandate. To its credit, the Alberta government has reformed the fund, giving it a clear mandate to generate investment income rather than pursue illusory goals of economic and social change.

The fund's history raises the general question of whether it is a good thing for governments to accumulate pools of investment capital.

On the positive side, holding an accumulated surplus may improve your credit rating and allow you to borrow more cheaply. (Even governments with sound finances need to borrow money to smooth out their cash flow.) And savings can cushion the impact of periodic downturns in tax revenue. These two factors probably justify a government's accumulation of a modest surplus when it has the chance.

There are, however, some very big negative considerations. First, money held by the government is taken out of civil society and the private sector. Unless you are a socialist, you have to believe that citizens can make better decisions with their own money than government can make for them. People might invest some of this money, buying shares in existing companies or starting new ones. They might consume some of it, thus creating business opportunities for others. They might give some of it to the non-profit sector, meeting human needs more effectively than rule-bound government bureaucracies can hope to do.

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Second, government investment funds are always open to political fiddling. In its heyday, the Alberta Heritage Trust Fund was helping other provinces by buying their bonds, paying for parks and recreation areas, and funding medical research. If these were worthwhile programs, they should have been exposed to political debate, not hidden in a poorly scrutinized, semi-autonomous investment fund. Things are better at the moment, but politics goes on forever. Large pools of investment capital under government control are always a temptation that politicians find hard to resist.

Third, possessing an investment fund creates in governments a hubristic sense of mastery over the economy as a whole. Quebec's Caisse de Dépôt et Placement is the largest pool of investment capital in Canada, and what have been the results? Increased *dirigisme*, mediocre returns and an ever-increasing economic gap between Quebec and Ontario.

In Alberta, the Lougheed and Getty governments wasted billions in failed development projects as they sought to diversify the economy. The mothballed magnesium smelter south of Calgary should be left standing forever as a reminder of this folly. The Heritage Trust Fund was supposed to be a cushion against hard times, but in practice it was more like a set of blinders, encouraging politicians to run up reckless deficits.

So, Mr. Day, my preference is strongly in the direction of tax cuts. Alberta may have the lowest taxes in Canada, but we are heavily taxed in comparison with the American states that are our chief competitors. Now that your government is about to eliminate net debt, it should remove the "deficit reduction" taxes introduced in 1987, when deficits were spiralling out of control. Once that is done, offset the pernicious effects of bracket creep, which has been silently raising everyone's taxes every year. Let the people keep more of their own money.

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