

# a time to reap

Re-investing in Alberta's Public Services



A study prepared for the  
Parkland Institute by  
Parkland's Standing  
Budget Committee





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ISBN 1-894949-04-8

## A study prepared for the Parkland Institute by **Parkland's Standing Budget Committee**

This report is the work of Parkland Institute's Budget Committee: Greg Flanagan, Tom Fuller, Trevor Harrison, and Yvonne Stanford. The Committee would like to thank Steve Patten for his assistance and advice on sections of this report. Additional thanks goes to Parkland Institute's executive director, Ricardo Acuña, its office manager, Cheri Harris, and office assistant, Chad Blackburn

### **Parkland Institute**

Parkland Institute is an Alberta research network that examines public policy issues. We are based in the Faculty of Arts at the University of Alberta and our research network includes members from most of Alberta's academic institutions as well as other organizations involved in public policy research. Parkland Institute was founded in 1996 and its mandate is to:

- conduct research on economic, social, cultural, and political issues facing Albertans and Canadians.
- publish research and provide informed comment on current policy issues to the media and the public.
- sponsor conferences and public forums on issues facing Albertans.
- bring together academic and non-academic communities.

## Introduction

Today, Alberta stands at a crossroads. A decade ago, public services, workers, and the poor took the brunt of efforts to tackle the deficit and debt. It is time for a significant reinvestment in public services. It is time average Albertans, and the disadvantaged, reaped the rewards for sacrifices made. But will this occur?

Alberta's recently released third-quarter update on Alberta's finances<sup>2</sup> makes clear that finances are not an impediment to such goals. The release, showing the province will have a surplus of at least \$3.3 billion for the fiscal year 2003-04, came on the heels of the Alberta government's Throne Speech, released February 17.<sup>3</sup> The Throne Speech laid out a number of new initiatives, including plans for additional funding for municipal police services, contributing \$500 to an Registered Education Savings Plan for children born after 2005, additional funding for K-12 and post-secondary education, and the opening of a new Alberta office in Washington, D.C. The Throne Speech also discussed a 20-year plan for the province to increase economic diversity. It was largely silent, however, on new initiatives and funding for health care and social welfare. Finally, the Throne Speech "confirmed the government's ongoing commitment to the fiscal principles of the Sustainability Fund, and to continued debt reduction."

Parkland Institute welcomes the government's stated intent to reinvest substantially in Alberta's education system. Likewise, the Institute applauds any initiatives that might break the province's dependence upon a few resources, notably oil and gas royalties. At the same time, we are mindful that the government has promised substantial reinvestments in the past, later unfulfilled. Only two years ago, Alberta's budget promised modest increases in expenditure in the core areas of health, education, and welfare, as well as transportation, infrastructure, and agriculture.<sup>4</sup> Within weeks, however, the government reversed its plans, scared off by a temporary decline in oil and gas revenues. This seems typical of government planning - or, rather, non-planning. Too often, government policy seems to be playing catch-up for mistakes made in the past, with the result that government services have suffered.

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2 Government of Alberta, Press Release, "Sustainability Fund fully funded sooner than expected." February 25, 2004. <http://www.gov.ab.ca/home/index.cfm?page=740>

3 Details taken here from the Alberta Government's Press Release, "2004 Throne Speech looks ahead to Alberta's centennial and a second century of success." The full Throne Speech can be found at [www.gov.ab.ca](http://www.gov.ab.ca).

4 Alberta Finance, Budget 2002, The Right Decisions for Challenging Times. <http://www.finance.gov.ab.ca/business/budget/index.html#budget%202002%Highlights>

We are skeptical. The government often appears stuck in yesterday's rhetoric of a debt crisis, too willing to engage in pitched battles with its civil servants, teachers, and nurses; disregarding of the needs of municipalities; and unresponsive to the plight of the poor and homelessness. Far from making genuine public reinvestments, the government seems more interested in maintaining low taxes - a policy that, as our report makes clear, has introduced instabilities into Alberta's financial predictions and that, in terms of distributional fairness, is less progressive than in the past.

We are additionally concerned the government appears to see public services not as worthwhile in their own right, but rather as a "Greenfield" for private "entrepreneurs"; hence, for example, its continued interest in promoting and implementing P3s (public-private partnerships). We fear, therefore, that Alberta's abundant wealth will be spent on private profit-making or empire building, while placing the public interest at risk.

What follows is Parkland Institute's 2004 report into Alberta's economy and finances.

Last year's report <sup>5</sup> predicted that Albertans would see little benefit from the province's ongoing surpluses; that the Alberta government is caught in an illusory debt trap, one which it exports to its citizen's at large, as a means of ensuring continued public sacrifices and reduced public expectations, while absolving itself of genuine or wholesale reinvestments in the public sphere. The Institute showed that, despite recent increases in funding, spending on many programs was only back to previous levels in some areas, while still lagging in others. Moreover, the report showed the province was accumulating an array of long-term social deficits. We termed this a "good enough" approach to policy. We believe the arguments made in our 2003 report remain valid. This year's report builds on this analysis.

Like last year, this year's report broadens the scope of analysis to examine briefly the overall performance of the Alberta economy. The report again examines in detail the province's current revenue structure and recent expenditures with special concentration given to the areas of health, education, and social services. It looks at two areas in somewhat greater detail this year, post-secondary education and the continuing plight of Alberta's poor. The report also once again examines current practices regarding fiscal accountability. Finally, the report makes a series of recommendations regarding the government's revenue sources, spending priorities, and accounting practices.

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5 Parkland Institute, Alberta's "Good Enough" Approach to Fiscal Management," March 2003.

## 1. data sources

*Unless otherwise identified, the data for the tables and figures included in this report are taken from the following sources:*

**Table 1:** Statistics Canada, CANSIM, table 384-0002 and Catalogue no. 13-213-PPB. Last Modified: 2004-01-12. Percentage changes our calculation. <http://www.statcan.ca/english/Pgdb/econ15.htm>

**Table 2:** Calculated from *The Canadian Global Almanac 2004*. Toronto: John Wiley and Sons, 2004, p. 44.

**Figure 1:** Alberta CPI data taken from Alberta Economic Development, *Monthly Economic Review*, January 2004. Federal CPI data from Statistics Canada, *The Consumer Price Index*.

**Figure 2:** Alberta CPI data taken from Alberta Economic Development, *Monthly Economic Review*, January 2004.

**Figure 3:** Alberta Economic Development, *Monthly Economic Review*.

**Table 3:** Government of Alberta, *Press Release*, "Sustainability Fund fully funded sooner than expected." February 25, 2004. <http://www.gov.ab.ca/home/index.cfm?page=740>

**Figures 4-9:** CANSIM II Canada: *Alberta Provincial Government* series V207002-V207066; *Population: Persons, Alberta* V15; and *Consumer Price Index Alberta*, all items V738721. The end date for the data in figures 3 through 7 falls on March 31, 2003. All data used in these figures is in constant 1992 dollars per capita.

**Table 4:** Calculated from *Canadian Global Almanac 2004*, "Individual Provincial Income Tax Rates, 2003," p. 239, data for the table supplied by PricewaterhouseCoopers.

**Table 5:** Statistics Canada, Centre for Education Studies, 2003. <http://www.statcan.ca/english/Pgdb/educ50a.htm>

**Table 6:** Manitoba Labour and Immigration, Research Branch. Minimum Wage Rates Across Canada, 2004. [www.gov.mb.ca/labour/labmgt/resbr/wages/minwage.html](http://www.gov.mb.ca/labour/labmgt/resbr/wages/minwage.html)

## 2. the Alberta Economy: The Big Picture

### 2.1 Gross Domestic Product

As the 2004-2005 Budget year commences, Alberta continues to boast the strongest provincial economy in Canada. For most of the last ten years, the province has enjoyed significant growth in Gross Domestic Product (GDP) (see Table 1), second in percentage terms only to Newfoundland between 1998 and 2002, and far ahead of its western neighbours.

**Table 1**

*Gross Domestic Product, Expenditure-Based, Provinces and Territories (in millions)*

	1998	1999	2000	2001	2002	%98-02
NWFD/LAB	11,176	12,184	13,863	14,196	16,555	+48
PEI	2,981	3,159	3,349	3,474	3,748	+26
NS	21,401	23,059	24,770	26,070	27,102	+27
NB	17,633	19,041	20,178	20,772	21,163	+20
QB	196,258	210,809	225,202	232,592	245,559	+25
ON	377,897	409,020	440,708	452,923	478,112	+27
MN	30,972	31,966	34,141	35,294	37,075	+20
SK	29,550	30,778	33,704	33,580	34,592	+17
AB	107,439	117,080	143,721	151,173	149,998	+40
BC	115,641	120,921	131,086	132,050	135,552	+17

Table 1 does not control for population, however, nor does it control for inflation. What about when both of these are taken into consideration?

Last year's Parkland report showed Alberta's growth in GDP for the period 1992-2001, though volatile, generally outpaced Canada's GDP. Alberta's Department of Economic Development <sup>6</sup> estimates that Alberta's real GDP in 2002 trailed marginally that of Canada (3.2 percent vs. 3.3 percent), but forecasts Alberta's real GDP at substantially higher than Canada's for both 2003 and 2004, 2.9 percent vs. 2.0 percent for the former period; 3.6 percent vs. 3.0 percent for the latter period.

<sup>6</sup> Alberta Economic Development, *Alberta Business Outlook 2003-2004*, December 2003, p. 1.

This growth is particularly impressive given the Bovine Spongiform Encephalopathy (BSE) crisis, weakness in the American economy, and the surging strength of the Canadian dollar during 2003. The primary cause of Alberta's GDP growth was strong oil and gas prices (see below).

## 2.2 Population Growth

Alberta's impressive economic growth is a magnet for workers and their families from outside the province. While population growth in many provinces is stagnant, and in some cases negative, Alberta's population for the year 2003 is estimated to have grown by 44,000, or 1.4 percent (Table 2).

**Table 2**

*Population Growth (in %), Canadian Provinces, 2002-03*

Nfld	PEI	NS	NB	Que	Ont	Man	Sask	Alta	BC
-0.8%	0.0%	0.0%	0.1%	0.2%	1.2%	0.3%	-0.7%	1.4%	0.5%

Alberta's growing population must be taken into consideration when looking at government expenditures. New arrivals bring special skills the province needs, but they also have needs, in such areas as education, health care, housing, and (sometimes) temporary assistance.

## 2.3 Employment and Unemployment

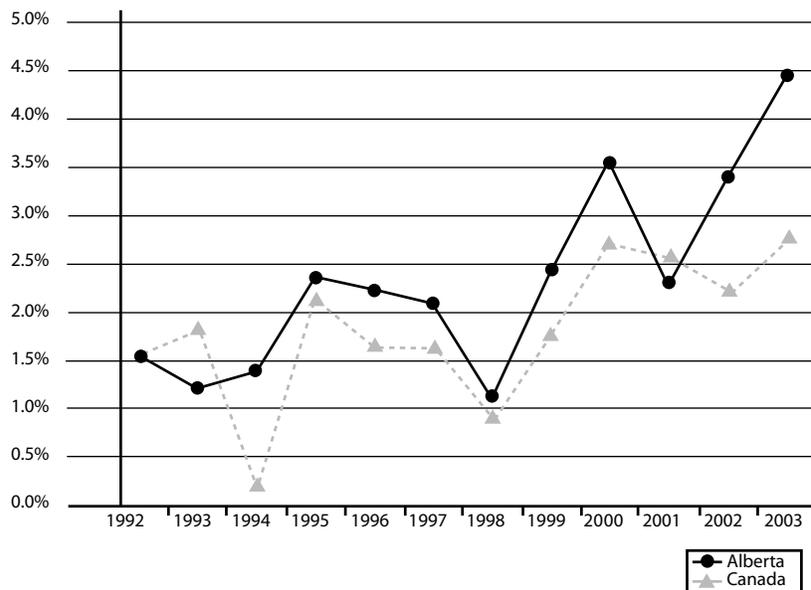
The people coming to Alberta are an asset to the economy, helping to fuel the province's growth. One indication of this growth is that Alberta has maintained a high rate of job creation. A recent Statistics Canada report <sup>7</sup> states that Alberta in 2003 created 44,000 new jobs. In December 2003, the proportion of Alberta's working-age population who were employed reached 70.2 percent, "the first time the employment rate has exceeded 70%," compared to the Canadian participation rate of 67.7 percent. Conversely, Alberta's unemployment rate finished 2003 at 4.9 percent, compared with Canada's December rate of 7.4 percent. For 2003, Alberta's unemployment rate averaged 5.2 percent.

<sup>7</sup> Statistics Canada, *Labour Force Survey*, January 9, 2004. <http://www.statcan.ca/Daily/English/040109/d040109a.htm>

## 2.4 Inflation

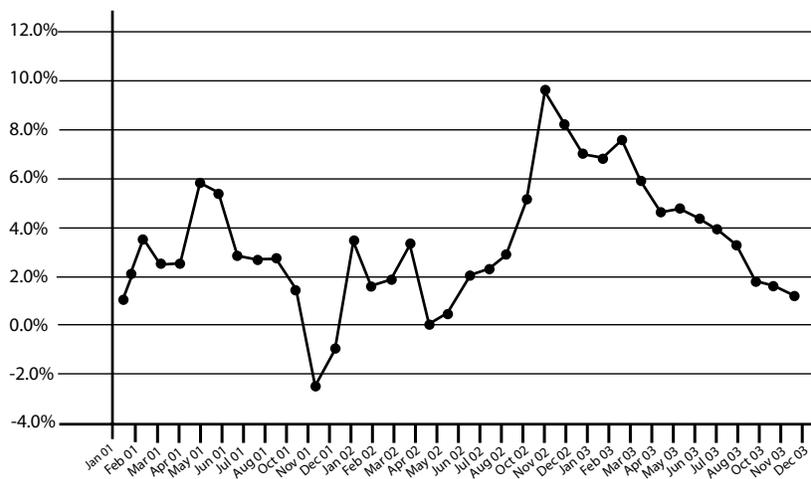
Alberta's inflation rate has been higher than Canada's inflation rate every year for the past decade, except 2001. Figure 1 compares Canada's and Alberta's inflation rates for the period 1992-2003.

**Figure 1**  
*Inflation: Canada and Alberta, 1992-2003*



This is to be expected in a growing economy. Since December 2001, however, Alberta inflation rate has diverged even more sharply from the Canadian rate. In 2002, for example, Alberta's inflation rate was 3.4 percent, while that of Canada was only 1.3 percent. For 2003, Alberta's rate is expected to be 4.4 percent compared with Canada's rate of 2.6 percent.<sup>8</sup> Figure 2 shows Alberta's inflation rate since December 2001.

**Figure 2**  
*Alberta Inflation Rates, Jan. 2001-Dec. 2003*



<sup>8</sup> The Canadian Global Almanac 2004, p.205.

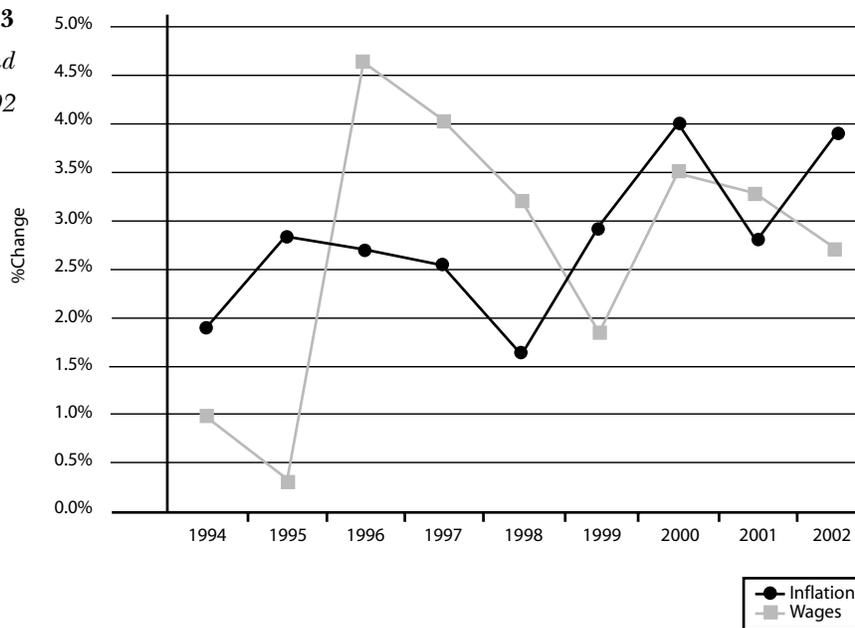
What factors are driving inflation in Alberta? The major causes of inflation in Alberta are escalating utilities costs (power and gas) and sharp increases in car insurance.

## 2.5 Wages and Salaries

A recent study by the Alberta Federation of Labour <sup>9</sup> argues that average real hourly wages for hourly paid employees in Alberta in 2002 was unchanged from 1992; in fact, wages were marginally down from \$16.92 per hour to \$16.89 per hour, a decline of .2 percent. Likewise, the AFL report showed that average real weekly earnings, all employees, were \$676.79 in 1992 and \$676.14 in 2002, a decline of .1 percent.

Data provided by Alberta Economic Development support this conclusion. Figure 3 shows the average annual percentage increase/decrease in earnings in Alberta from 1994 to 2002 and the average annual inflation rate during these same years. The two lines clearly show wages in the province have not kept up with the cost of living. It is in fact striking that during a period of massive productivity gains (as indicated by GDP figures above) that average wages in Alberta are stagnant.

**Figure 3**  
*Average Weekly earning and Inflation, Alberta, 1994-2002*



<sup>9</sup> Alberta Federation of Labour, Running to Stand Still, December 2003.

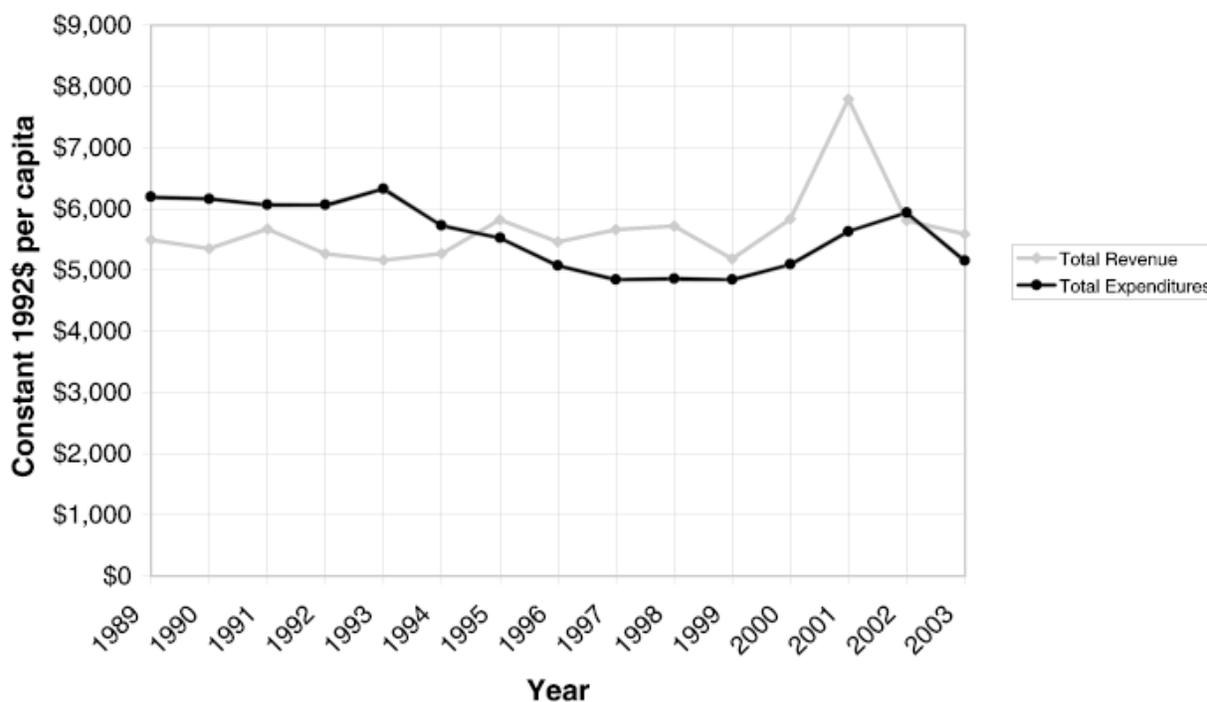
In summary, Alberta continues to have the strongest economy in Canada and seems well positioned to continue to grow. But what policy directions will the Alberta government take in the future? What directions should it take? Will average Albertans, along with small business, public sector institutions, and municipalities, be the beneficiaries of this continued high growth and economic prosperity? We turn now to an examination of Alberta's finances to assist in providing an answer to these questions.

### 3. Alberta's Fiscal Situation 2004

#### 3.1 Total Revenues and Expenditures

Figure 4 (below) shows Alberta's total revenues and expenditures for each Albertan from 1989 to 2003. With the exception of 2002, provincial government revenues have exceeded expenditures every year since 1995. Per capita revenues for 2002-03 were \$5,588, down from \$5,805 the year previous. At the same time, per capita expenditures dropped even more, from \$5,934 in 2001-02 to \$5,149 in 2002-03, resulting once more in a surplus of \$439 per person, or nearly \$160 million.

**Figure 4**  
*Total Revenue and Expenditures*



The government's third-quarter fiscal update continues this trend. The update projects revenues at \$25.3 billion (3.4 billion more than estimated in the spring budget) and expenses at \$22 billion (\$1.2 billion more than estimated in the spring budget), for an overall surplus of \$3.3 billion for the fiscal year 2003-04 (see Table 3).

**Table 3**

*Alberta Fiscal summary, Third Quarter Update, 2003-04 (millions of dollars)*

<b>2003-04 Budget Estimate</b>	<b>Second Quarter Update</b>	<b>Third Quarter Update</b>	
Revenue	21,928	24,080	<b>25,338</b>
Resource revenue	4,776	6,702	<b>7,446</b>
Expenses	20,800	21,922	<b>22,011</b>
Oil price	\$23.30 (WTI, US\$/bbl)	\$27.50 (WTI, US\$/bbl)	<b>\$30.75</b> (WTI, US\$/bbl)
Gas price	\$4.05 (Cdn\$/mcf)	\$5.15 (Cdn\$/mcf)	<b>\$5.64</b> (Cdn\$/mcf)
Sustainability fund	2,217	2,500	<b>2,500</b>
Debt retirement	—	428	<b>893</b>
Capital account	—	428	<b>893</b>
Accumulated debt (net)	4,736	4,198	<b>3,714</b>

The government has a long history of underestimating its revenues while over-estimating its expenses. Based on the continuing strength of oil and gas royalties, and adding in federal government transfers and a one-time federal health transfer, we estimate Alberta's surplus for 2003-04 will in fact be closer to \$4 billion.

### 3.2 Provincial Debt

The Alberta government's 2003 budget claimed the province's accumulated debt was then \$4.8 billion. As shown in Table 3, the government now estimates it will be able to pay an additional \$893 million towards this debt, leaving a debt at \$3.7 billion at the end of 2003-04.

The issue of debt continues to concern us, on at least two counts. First, in real terms, Alberta does not have, and has not had for several years, any net debt (assets minus liabilities). The government's recent third quarter update makes this clear.<sup>10</sup> It states "Alberta's net assets are forecast at \$20.4 billion as of March 31, 2004. This includes capital

<sup>10</sup> Government of Alberta, Press Release, "Sustainability Fund fully funded sooner than expected." February 25, 2004.

assets of \$10.5 billion.” Statements and calculations regarding an accumulated debt are therefore misleading insofar as they mask the health of Alberta’s economy.

Second, with the net debt eliminated and the government flush with revenue, attention in recent years has legitimately turned to what to do with surplus cash: spend, lower taxes, bank, or perhaps a combination of all three. After years of recommendations by various economists and research institutes (including Parkland), the government in 2003 announced it was creating a sustainability fund to ensure stable and predictable funding for government programs.<sup>11</sup> The program originally fixed resource revenue spending at \$3.5 billion, regardless of energy prices; mandated that energy revenues over \$3.5 billion went into the sustainability fund; and allowed that if resource revenue was lower than \$3.5 billion, the shortfall could be withdrawn from the fund for planned spending. The premier in his recent address in February announced that the spending limit had been raised to \$4 billion, with the extra \$500 million going to “Alberta’s top two priorities: education and health.”<sup>12</sup> While remaining supportive of the idea of a sustainability fund, Parkland Institute is concerned the fund may be used by the government as a means of sheltering surpluses, thus avoiding investments in crucial government programs.

### 3.3 Revenues

The government’s recent third quarter update suggests total revenues for 2003-04 of \$25.3 billion (see Table 3). This section of the report examines the Alberta government’s major sources of revenue. As will be shown, the trend has been away from taxes, a predictable source of revenues, towards less reliable sources. A second important trend has been to make taxes less progressive than in the past.

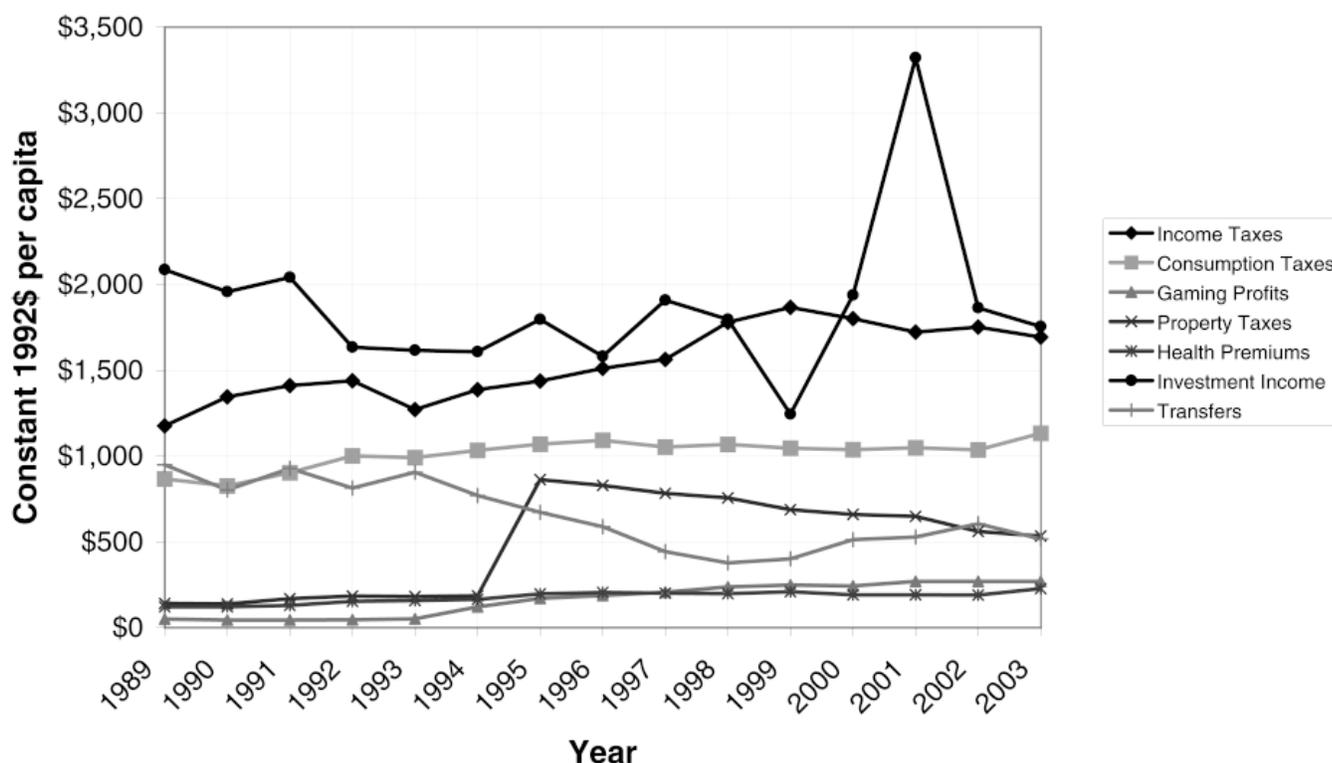
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11 Government of Alberta, News Release, “New sustainability fund will bring stability to Alberta’s fiscal framework,” February 24, 2003.

12 <http://www.gov.ab.ca/premier/address2004>

Figure 5 details the major sources of Alberta revenues in constant 1992 dollars per capita from 1989 to 2003.

**Figure 5**  
*Revenue by Major Source*

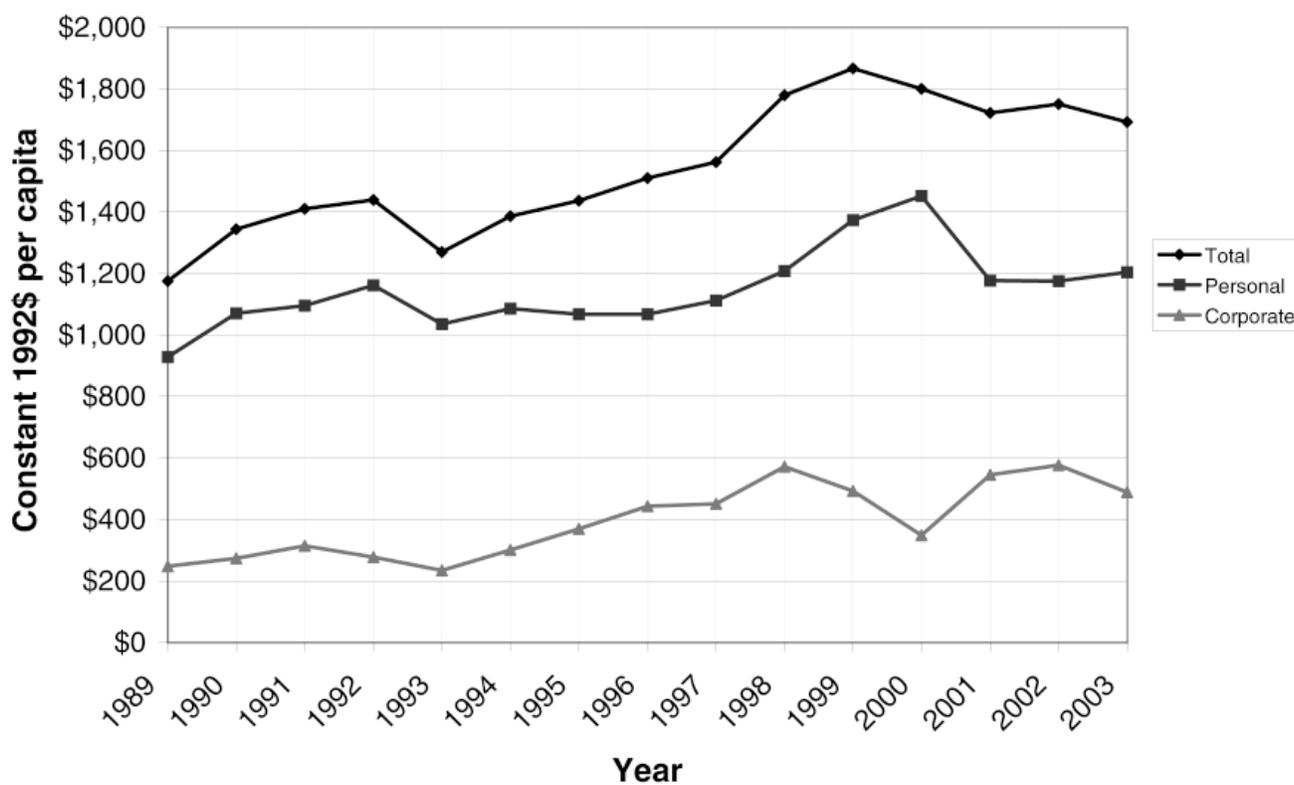


In general, Alberta's revenues continue to rely primarily upon investment income (\$1,754 per capita), including resource royalties<sup>13</sup> and stumpage fees, and income taxes (\$1,692 per capita). Both of these declined marginally in 2002-03, however. By contrast, there has been a constant rise in consumption taxes (mainly tobacco, but also alcohol and gasoline and motive fuels) and health premiums. Consumption taxes in 2002-03 went up nearly \$100 per capita from the previous year (\$1,035 to \$1,132), while health premiums hit a new historical high at \$226 per capita, up from \$188 per capita the year previous. Revenues from gambling remained steady at \$269 per capita, while property taxes and transfers declined, \$559 to \$533 for the former; \$604 to \$516 for the latter.

**13** The government's third quarter update suggests oil and gas royalties of \$7.4 billion, \$2.7 billion more than the spring budget estimate (see Table 3).

Taken together, the changing pattern of revenue sources points in the direction of increased instability. Income taxes provide a quite reliable source of revenues. Unfortunately, the government has intentionally moved away from this source, a move we view as unwise. Figure 6 shows Alberta's total tax revenue, showing the amount received from corporate income taxes and from personal income taxes (in per capita dollars).

**Figure 6**  
*Corporate and personal Income Tax*



Overall, income taxes in Alberta have declined since 1999, amounting to \$1,692 per capita in 2002-03 from \$1,751 the year previous. Within this total, however, personal income taxes increased from \$1,175 to \$1,204 per capita during the year in question, while corporate income tax declined from \$576 to \$488 per capita. On the surface, this suggests government tax revenues in real dollars per capita continue to decline.

Tax policy is also about distributional fairness, however. Table 4 shows clearly the implementation of a single rate tax system in 2001 has favoured high income earners in Alberta over middle-income earners. In Alberta, an individual earning \$30,000 and claiming only the basic exemption would pay \$310 more in 2003 than would the same individual in Ontario and \$340 more than in British Columbia. An individual earning \$60,000 and claiming only the basic exemption would pay \$550 more than in Ontario and \$600 more than in British Columbia. Only if the individual earned \$80,000 and more than the new single rate tax provide a benefit over counterparts in Ontario and British Columbia.

**Table 4**  
*Provincial Tax Paid If Only Basic Exemption*

**Approximate Provincial Tax Paid if only Basic Exemption**

<b>Income/Province</b>	<b>\$30,000</b>	<b>\$60,000</b>	<b>\$80,000</b>	<b>\$100,000</b>
<b>AB</b>	\$1,650	\$4,650	\$6,650	\$8,650
<b>BC</b>	\$1,310	\$4,050	\$7,300	\$9,900
<b>ON</b>	\$1,340	\$4,100	\$6,925	\$9,150
<b>Difference from AB</b>				
<b>BC</b>	-\$340	-\$600	\$650	\$1,250
<b>ON</b>	-\$310	-\$550	\$275	\$500

In short, while taxes as a whole have fallen, the distribution of taxes paid is less progressive than before 2001.

### 3.4 Expenditures

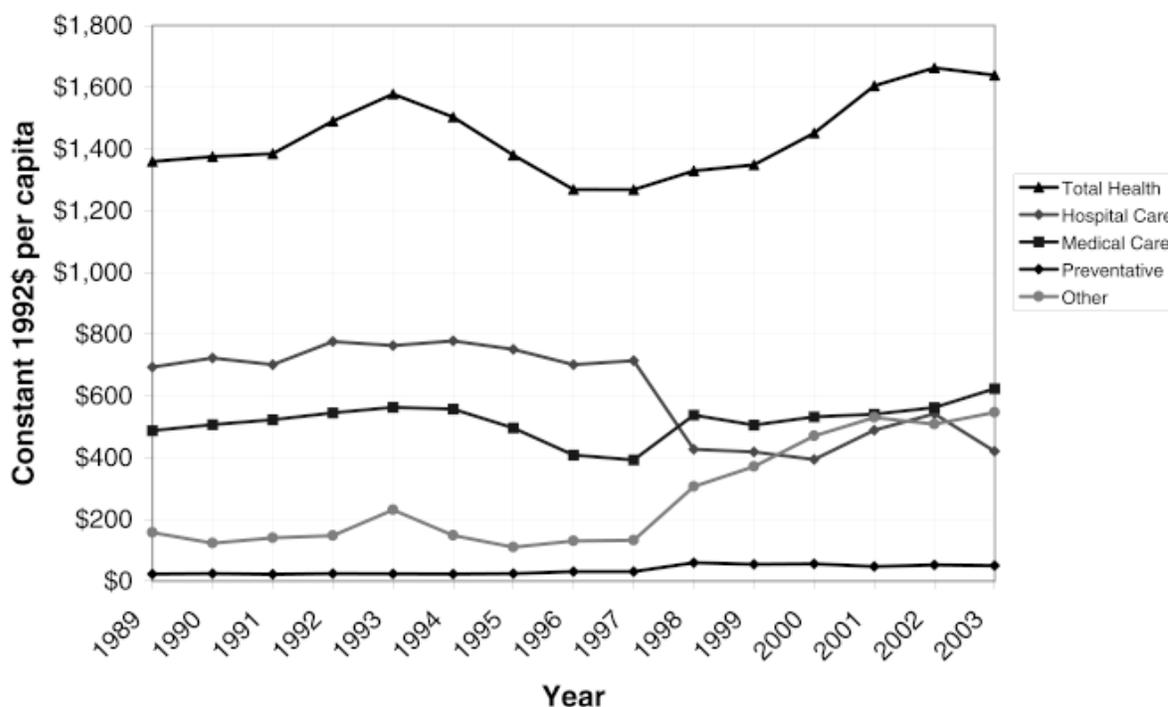
The government's recent third quarter update suggests total expenses for 2003-04 of \$22 billion, \$1.2 billion higher than budgeted in the spring (see Table 3 above). The major sources of this increase are \$915 million for forest fire emergency assistance and assistance for agriculture (including transfers from the federal government for BSE) and \$216 million for natural gas rebates.

This section of the report concentrates on expenditures involving the three largest government departments: health, learning, and social services. The data shows that per capita expenditures in real dollars on health and education in 2002-03 were back roughly to levels of the early and mid-1990s, before the cuts, but real spending on welfare remains extremely low.

#### 3.4.1 Health

Figure 7 shows total health expenditures in Alberta in constant per capita dollars from 1989-2002.

**Figure 7**  
*Health Expenditures*



Total health expenditures declined moderately in 2002-03, from \$1,663 the year previous to \$1,639. The level of expenditures on health in 2002-03 was considerably higher than the low point of 1995-97 when they were \$1,268 per capita, but only a little higher than in 1992-93 (\$1,578 per capita).

The biggest drop in spending in 2002-03 was for hospital care, going from \$542 in 2001-02 to \$420 in 2002-03. Medical care costs, primarily physicians' salaries, increased from \$562 to \$623. Preventive care remained fairly steady at about \$50 per capita. The ubiquitous category "other," which includes costs of auxiliary care, home care, and advertising, rose from \$508 to \$546.

The data does not support claims often made by the government<sup>14</sup> that health care spending is "out of control." We are concerned, however, that such claims will be repeated during the next budget year as a pretext for violating the Canada Health Act and bringing about greater privatization of the health care system.

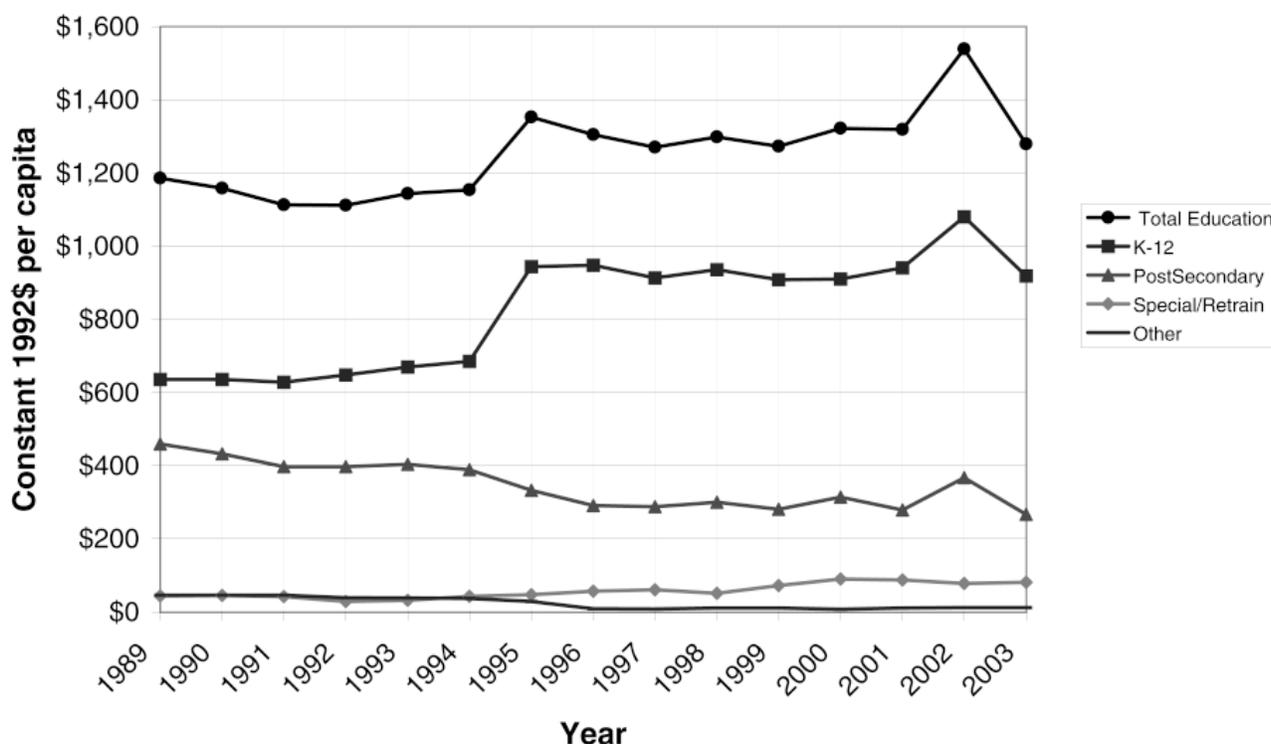
### 3.4.2 Education

For 2003, Alberta budgeted more than \$5 billion for education overall. This seems a lot of money - and it is. But as we continue to emphasize, for comparison, expenditures must be calculated in per capita, deflated dollars in order to take into account population increases and inflation. Figure 8 shows total education expenditures in Alberta per capita from 1989-2003. The figure shows a significant decrease overall in education funding for 2002-03 from the year previous, from \$1,538 per capita to \$1,279 per capita. As the figure shows, however, overall education spending in 2002-03 was on par with spending going back to 1994-95, the period during which the government took away taxing authority from local school boards, shifting school taxes into general revenues; hence, the resultant spike also in spending at this time.

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14 Alberta Government, Report of the Premier's Advisory Council on Health, 2001. See Parkland Institute's report, *Reclaiming Medicare: A Response to the Mazankowski Misdiagnosis*, 2002.

**Figure 8**  
*Education Expenditures*



The per capita decline in real spending in 2002-03 from the previous year is similar for both K-12 and post-secondary. For K-12, the drop was from \$1,080 per capita to \$918 per capita, though it should be noted that the 2002-03 figures for K-12 do not include one-time, lump sum increases in 2003, amounting to “\$94 million to assist publicly funded facilities, including \$30 million to assist school boards with the cost pressures for operations and maintenance.”<sup>15</sup> In the post-secondary case, the decline was from \$367 per capita to \$267 per capita. By contrast, special education and retraining went up marginally from \$78 per capita to \$81 per capita.

15 Alberta Learning, *Facts on Education Funding in Alberta, 2003*.

However, we caution readers to note that per capita figures may be misleading in the case of education. Given Alberta's young population, and the fact that many young families are moving to Alberta with school age children, a much more valuable figure is per student spending. Unfortunately, we do not have these figures for 2002-03, but there is no reason given Statistics Canada data to assume that the situation has changed much from last year. Those figures showed that K-12 per student funding in Alberta was as high as \$5,229 in 1987 but dropped in 2001-02 to less than \$4,500 per student. Last year's figures showed that post-secondary funding in 2001-02 was around \$5,800 per student, about what it spent per student in 1995.

It also should be kept in mind that tuition fees for students have risen sharply in recent years. Table 5 shows the cost of average undergraduate tuition fees for full-time students, by province, for the period 1999-2004. Tuitions decreased in Newfoundland and Manitoba during this time, while Quebec kept tuitions at a steady, and the lowest, level. By contrast, British Columbia has experienced the largest percentage increase in tuitions during this period (61 percent). Nonetheless, the average cost of tuition in Alberta has risen 21 percent since 1999 and today remains higher than BC, and is the fourth highest in Canada (behind Nova Scotia, Ontario, and Saskatchewan), 11.5 percent above the Canadian average.

**Table 5**  
*Average undergraduate Tuition Fees, Full-time Students by Province, 1999-2004*

	1999-00	2000-01	2001-02	2002-03	2003-04	%1999-04
<b>NFLD/LAB</b>	3,373	3,373	3,036	2,729	2,606	-23
<b>PEI</b>	3,499	3,499	3,710	3,891	4,133	18
<b>NS</b>	4,262	4,631	4,855	5,214	5,557	30
<b>NB</b>	3,350	3,585	3,863	4,186	4,457	33
<b>QB</b>	1,813	1,818	1,842	1,851	1,862	3
<b>ON</b>	4,084	4,256	4,492	4,665	4,923	21
<b>MN</b>	3,488	3,219	3,243	3,144	3,155	-10
<b>SK</b>	3,367	3,668	3,879	4,286	4,644	38
<b>AB</b>	3,723	3,907	4,030	4,165	4,487	21
<b>BC</b>	2,568	2,592	2,527	3,176	4,140	61
<b>CANADA</b>	3,328	3,447	3,577	3,749	4,025	12

In short, government decreases in per capita and per student spending on post-secondary education correlate highly with increases in student tuitions. What are the consequences of this off-loading? One recent study suggests that higher tuition fees in Canada are making higher education increasingly less affordable for average income earners.<sup>16</sup> Another study indicates that higher tuitions, at the very least, may be determining career choice for some students.<sup>17</sup>

Alberta could be a model for post-secondary funding in Canada. Thirteen European countries have no tuition, while some American states are actually cutting tuition. At the very least, Alberta should be pointing the way towards a more progressive grant system. Instead, the province is moving in a regressive direction that penalizes lower income and even some middle income students and their families.

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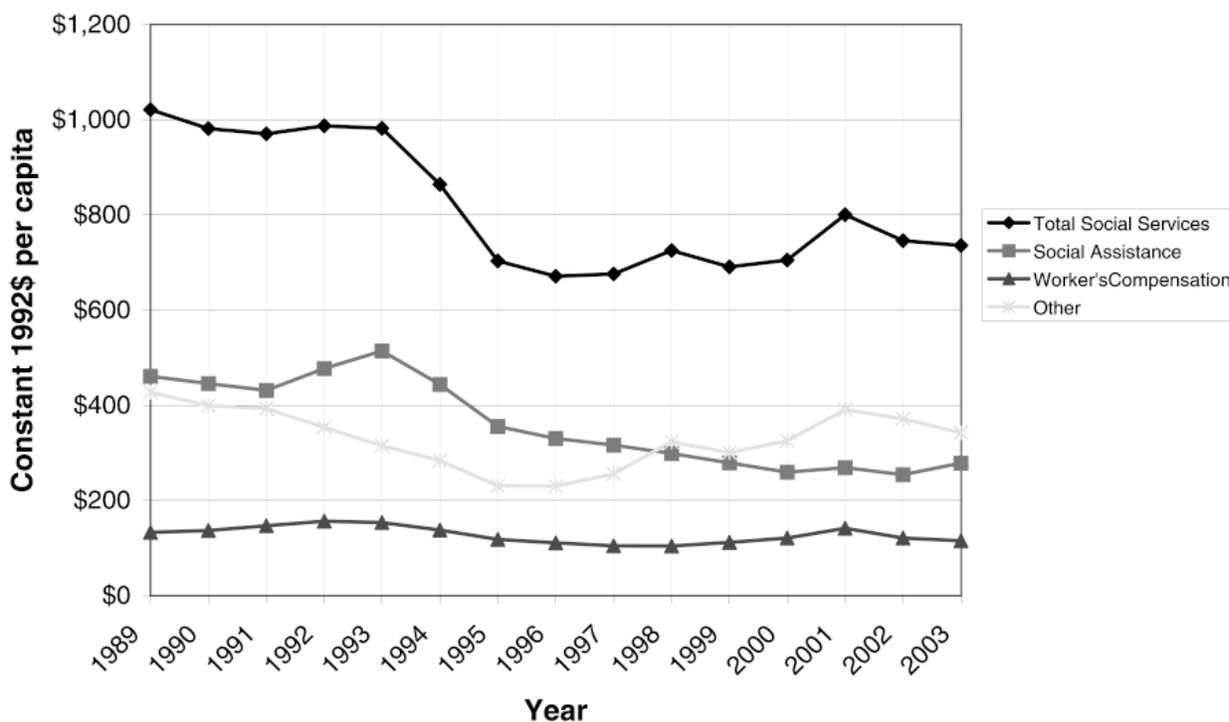
**16** Canadian Association of University Teachers, *University Tuition Fees in Canada, 2003: The declining affordability of higher education*. Vol. 5(1). www.caut.ca

**17** Canadian Bar Association, *Response to the Provost Study of Accessibility and Career Choice in the University of Toronto Faculty of Law*, April 2003.

### 3.4.3 Social Services

Figure 9 (below) shows total social service expenditures in Alberta per capita from 1989-2003.

**Figure 9**  
*Social Services*



As the figure shows, total social service spending declined marginally in Alberta in 2002-03 from the year previous, from \$745 per capita to \$735 per capita. The key trend line dates back to 1993 when the government instituted a series of drastic cuts that have reduced social assistance rates over time, in real terms, by between 30 and 40 percent, depending on the category of social assistance (e.g., single, single parent, etc.).

The government did make some minor adjustments to Alberta's assistance rates and benefits since last year's report.<sup>18</sup> These changes include:

1. A \$20 per month increase in Supports For Independence (SFI) on June 1, 2003, for families with children (between a 1.3 and 2 percent increase) and single people and childless couples who are not expected to work (a 2.4 to 4. percent increase).

<sup>18</sup> Alberta Government, *News Release*, April 8, 2003. [http://www.gov.ab.ca/can/200304/14170\\_8.html](http://www.gov.ab.ca/can/200304/14170_8.html)

2. A \$15 per month per child increase in August when the federal government increased payments under the National Child Benefit. This year, the provincial government will allow the federal increase to flow through to families.<sup>19</sup>
3. Some Alberta Income for the Severely Handicapped (AISH) clients who no longer qualify for income support because of increases in the Canada Pension Plan Disability benefits will now be able to access health coverage through the Alberta Adult Health Benefit.<sup>20</sup>

The modest changes in social assistance rates are reflected in figure 9. Per capita funding for social assistance rose from \$254 in 2001-02 to \$278 in 2002-03. As the figure indicates, however, there was a decline in workers' compensation during this period from \$121 per capita to \$115 per capita. There was also a decline in spending in the other category, which includes children's services, from \$371 per capita to \$342 per capita.

In the case of social assistance and AISH, any increase in benefits is welcome. We should keep in mind, however, that these changes come nearly a decade after rates were severely cut and never since restored, and that inflation has also been at work since that time. To put the increases in context, the extra \$15 per month under the National Child Benefit buys at best one half of a litre of milk a day, (\$3.70 per 4 litres). Similarly, AISH clients receive on average \$10,260 per year plus medical benefits, a 4.9 percent increase since 1993, but the cost of living has risen <sup>20</sup> percent during this same period, while rental rates in Edmonton have gone up 38 percent and in Calgary 33 percent and the price of electricity between 60 and 100 percent.<sup>21</sup> The adjustments are thus highly inadequate and fall well short of the recommendations made by a government committee less than two years ago. <sup>22</sup>

Alberta's level of support for the less fortunate appear wholly inadequate. Take, for example, the following figures<sup>23</sup>:

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19 All previous Federal Child Benefit payments were clawed back 100 percent from Alberta SFI rates.

20 AISH clients are forced to access their CPP at age 60, causing lower payments.

21 The Alberta Disabilities Forum, [www.albertadisabilitiesforum.ca](http://www.albertadisabilitiesforum.ca) The Forum has used Statistics Canada, Canadian Council on Social Development, Human Resources and Development Canada, Calgary Homeless Foundation, Premier's Council on the Status of Persons with Disabilities, Bank of Canada, and Canadian Mental Health Association.

22 Government of Alberta, *Low-Income Review presents a vision for the future*, May 22, 2002.

23 National Council of Welfare, "Welfare Income as a Percentage of the Poverty Line, Welfare Incomes 2002," *National Council of Welfare Reports* 119, Spring 2003, Table 5.1.

- A single parent with one child in Alberta receives income support of \$11,634 (current dollars), or 48 percent of the Low Income Cut off (LICO), the lowest in all of Canada as a percentage of LICO.
- A single employable person requiring social assistance in 2002 received \$5,034. This amount of money represented only 26 percent of the Low-Income Cutoff (LICO) levels, the largest poverty gap after Newfoundland and New Brunswick.

It is not merely the unemployed who are increasingly falling behind in Alberta. Alberta's minimum wage remains the lowest in Canada, as shown in Table 6.

**Table 6**

*Minimum Wage (per Hour), by Province, Canada 2003*<sup>24</sup>

Nfld	PEI	NS	NB	Que	Ont	Man	Sask	Alta	BC
6.00	6.25	6.25	6.00	7.30	6.85	6.75	6.65	5.90	6.00

As we argued in last year's report, minimum wages are important to economic well being in two ways. First, the higher are minimum wage rates, the higher are other wages.<sup>25</sup> Second, raising the minimum wage allows room for social assistance and other supports to rise. Unfortunately, the low minimum wage in Alberta is used both to suppress the wages of the working poor and as a lever for lowering the rates of the non-working poor, whom research has consistently shown tend disproportionately to be women and/or the elderly.<sup>26</sup>

<sup>24</sup> Note: These are standard rates, but many provinces have special rates. Nova Scotia's rate is \$5.80 for inexperienced workers (up .25 since last year). Quebec's rate of \$7.30 per hour listed here declines to \$6.55 for workers who receive gratuities. Ontario's rate is \$6.40 for students and \$5.95 for liquor servers. Manitoba's rate scheduled to increase to \$6.75 on April 1. British Columbia's rate of \$6.00 rises to \$8.00 after 500 hours of work. Not shown here: minimum wage in the Northwest Territories is \$6.50 and \$7.00 beyond the NWT Highway System for adults; and \$6.00, rising to \$6.50 beyond the NWT Highway System, for youth. The minimum wage in the Yukon is \$7.20 and in Nunavut \$8.50.

<sup>25</sup> See D. Card and A. B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton: Princeton University Press, 1995.

<sup>26</sup> Calculations using Survey of Labour and Income Dynamics data, in C. Schenk, *From Poverty Wages to a Living Wage*, 2001.

<sup>27</sup> The City of Calgary Community Strategies, Policy and Planning Division, *Poverty in Calgary, Fact Sheet*, November 2003.

<sup>28</sup> Edmonton Joint planning Committee on Housing, *A Count of Homeless Persons in Edmonton*, October, 2002.

<sup>29</sup> City of Calgary, *Corporate Affordable Housing Strategy*, 2002.

<sup>30</sup> *Calgary Homelessness Study*, 2002.

<sup>31</sup> "Mentally Ill and Homeless," *Alberta Views* Vol. 6(6), Nov/Dec 2003, as estimated by Calgary Drop-In Centre social workers, frontline workers at the Women's Emergency Accommodation Centre in Edmonton, a 2002 study of psychologists.

By any measure, the situation of Alberta's less fortunate today is scandalous. Consider the following facts:

### Homelessness

- Homelessness in Alberta continues to rise. In Calgary in 2002, the number of homeless was counted at 1737, up 34 percent from the last count in 2000. More alarming, the number of homeless families counted had increased 42 percent from 2000.<sup>27</sup>
- In Edmonton in October 2002, the number of homeless was 1915, an increase of 60 percent from 2000. Of these, 63 percent were termed "absolutely homeless." The count included 118 families, including 267 children under the age of 15, with 141 caregivers. Among these families, 70 percent were absolutely homeless.<sup>28</sup>
- The average cost of a 1-bedroom apartment in 2002 was \$657 a month, for a 2-bedroom apartment \$804. Persons receiving income support or working for minimum wage cannot afford average market rents. A person who makes \$10,000 or less can only afford \$250 per month for rent.<sup>29</sup>
- A 2002 Calgary study found that 50 percent of the absolutely homeless and 28 percent of the relatively homeless in Calgary were employed.<sup>30</sup>
- Best estimates are that 30 percent to 69 percent of the homeless in Alberta have a serious mental illness.<sup>31</sup>

## Hunger and Food Bank Usage

- Food bank usage is increasing, and more limits are being put on access to food banks as they struggle to meet this increasing demand. For example, 53,462 food hampers were distributed to 48,311 individuals in 2002 from the Calgary Inter-faith Food Bank, representing an increase of 11 percent from 2001. Forty-one percent of these individuals were children and youth.<sup>32</sup>
- The number of Albertans using a food bank has increased 29.7 percent since 1997.<sup>33</sup>

Of course, poverty and homelessness also have real health costs. Poverty makes people sick. The evidence for this is unchallenged, even by the government itself. Note the following comments taken from the Report of the Premier's Advisory Council on Health in 2001<sup>34</sup>:

The health of all Albertans should be promoted and improved by taking a global view of all of the factors that determine and affect people's health. This includes basic public health measures, economic well-being, early childhood development, education, housing, nutrition, employment status, quality of the environment, lifestyle choices and healthy behaviours.

Infant mortality is two-thirds higher in the poorest neighbourhoods than in the richest ones. People with low incomes are more likely to: be heavy users of physician services, visit emergencies, be admitted to hospital, take multiple medications, and require home care services.

Children should have the opportunity to live healthy lives with adequate food, a safe environment, and minimal risks to their own health. Government should ensure that adequate support is available to families who need it. They should ensure that appropriate financial assistance is available to support children living in poverty and low-income homes.

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<sup>32</sup> Calgary Inter-Faith Food Bank, *Annual Stats as reported in Poverty Fact Sheet*. City of Calgary, Community Strategies, Policy & Planning Division, November 2003.

<sup>33</sup> Canadian Association of Food Banks, *Hunger Count 2003*. at [www.cafb.acba.ca](http://www.cafb.acba.ca)

<sup>34</sup> Pp. 15 and 41. See also J. Benzeval and Whitehead, *Tackling Inequalities in Health: An Agenda for Action*, 1995, p. xxxi.

## Child Poverty

In its Throne Speech of February 18, 2003 the Alberta government said:

This government's highest priority must be to secure a bright future for children and youth. The government will demonstrate its commitment to that priority by undertaking a range of initiatives to ensure that Alberta's most precious resource, its children, are protected and enabled to develop to their fullest potential.

The government appears content to make empty gestures regarding children, however. Again, take the following examples:

- 12.2 percent of Alberta's children live below LICO in 2001, and 15.4 percent below the market basket measure (MBM).<sup>35</sup>
- 30.4 percent of children in female-headed lone-parent families in Calgary were living below the LICO in 2000. The number of homeless families counted in emergency shelters had increased 40 percent in 2002 from 2000.<sup>36</sup>

In summary, many of Alberta's public services continue to be underfunded when inflation and population are taken into account. The recipients of these services - students, patients, the poor, and disabled - have borne the brunt of cuts. At the same time, some few have benefited from an apparent transfer of wealth based on excessive tax cuts and the privatization of services.

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<sup>35</sup> Human Resources Development Canada, *Understanding the 2000 Low Income Statistics Based on the MBM*, May 2003 as reported in City of Calgary Corporate Affordable Housing Strategy, July 2002.

<sup>36</sup> City of Calgary, Community Strategies, Policy & Planning Division, *Poverty Fact Sheet*, November 2003.

## 4. Who benefits? Where is the accountability?

As in every year's report, we also comment on government accountability to ensure that Albertans receive maximum benefit from revenues obtained and expenditures made. This year, as last, we draw attention to the proliferation of public-private partnerships (P3s).

Albertans (and all Canadians) are justly angered at the moment at revelations coming out of Ottawa suggesting millions of dollars of federal money squandered, perhaps illegally, on federal sponsorship programs. While some of the details of this scandal remain to be fleshed out, the blurring of public and private spheres, the alleged mutual exchange of benefits, and the lack of responsible oversight for public money are similar to concerns surrounding P3s.

A report by Lisa Prescott, MSc, commissioned by Parkland Institute and released last fall into the privatization of highway maintenance in Alberta, raised similar concerns of accountability.<sup>37</sup> Justifying Ms. Prescott's findings, the County of Grande Prairie has recently complained of ineffective road clearing by private highway contractors that "endangered county residents."<sup>38</sup>

The problem is much larger than private road maintenance alone, however. The problem lies with a wholesale faith in the benefits of privatization without regard for proper monitoring and enforcement of contracts awarded. Moreover, the Alberta government does not seem to have in place adequate systems for a cost evaluation of benefits.

The Alberta Auditor General's most recent report<sup>39</sup> echoes many of our concerns regarding the private contracting of public services in Alberta, especially in the areas of competitiveness, ongoing monitoring, transparency, and cost-effectiveness. Take the following examples from his report:

### **Children's Services**

P. 69 Contract management systems

"We again recommend that the Ministry of Children's Services strengthen the processes used to award and manage contracts."

### **Community Development**

P. 81 Contract management

"We recommend that the Ministry of Community Development improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance."

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<sup>37</sup> *Un-accountable: The Case of Highway Maintenance in Alberta*, October 2003.

<sup>38</sup> "Alta. government, contractor rapped for poor road clearing," *Lethbridge Herald*, February 25, 2004, p. A2.

<sup>39</sup> *Annual Report of the Auditor General of Alberta 2002-2003*.

### **Gaming**

#### P. 131 Contracting Processes

"We recommend AGLC<sup>40</sup> strengthen its process to award and manage contracts by:

- establishing more comprehensive contracting policies
- improving monitoring of contractors' compliance with contractual terms and conditions.
- establishing contracts before services are provided.
- requiring consultants to formally confirm they do not have an interest in any organization that conflicts with their obligations to AGLC."

### **Health and Wellness**

#### P. 161 Calgary Health Region-contract management

"We recommend that the Calgary Health Region set financial reporting and assurance requirements for contractors and strengthen its monitoring of contractors' financial performance and risks."

### **Infrastructure**

#### P. 185 Construction management contracts

"We recommend that the Ministry of Infrastructure implement a process to ensure that contracts with construction managers protect the Ministry's interests as a funder and are cost-effective."

We express an additional concern, one we hope the Auditor General will examine in his next report. The Alberta government in recent years has set up a number of regional boards and otherwise encouraged these arms-length agencies to think of themselves as "private entrepreneurs." A case in point is the Calgary Health Region that has openly sought out opportunities to "sell" its services outside of Alberta and even Canada. This strikes us as a troubling development that may carry significant financial risks for Albertans.

Our concerns are not without precedent. In the late 1980s, the Southern Alberta Institute of Technology became involved in an Indonesian educational project. The management of SAIT thought the project would make money, perhaps a lot of it. Less than two years later, however, the project had failed, resulting in combined losses to SAIT and the Alberta government of \$10.5 million.<sup>41</sup>

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<sup>40</sup> Alberta Gaming and Liquor Commission.

<sup>41</sup> See "SAIT has some big trouble," Calgary Herald, February 12, 1991; Allan Maki, "Auditor finds sloppy spending," Calgary Herald, March 26, 1991; Ashley Geddes and Anthony Johnson, "Buccaneer charge made over SAIT barge move," Edmonton Journal, July 8, 1991.

## 5. Recommendations

This report has highlighted several facts about Alberta's economic situation and the fiscal opportunities open to the Alberta government in setting policy. The report has also indicated several problems, too long ignored, in need of redress. First, average real wages in Alberta are stagnant and have been for some time. Second, Alberta has the highest inflation rate in Canada. Third, Alberta's tax system has shifted away from being progressive, and now places a greater burden on middle-income earners. Fourth, while much of the money taken out of public services in the mid-1990s has now been returned, Alberta's level of spending on education and health care is not excessive, by any means, especially in the context of a growing and young population. Fifth, per capita spending on welfare services remains wholly inadequate and well below levels of the early 1990s.<sup>42</sup> Sixth, government policies and programs of privatization and deregulation are insufficiently monitored and may be exposing Albertans and government agencies to higher costs and financial risk.

These facts underlie Parkland Institute's list of recommendations that follow. Sadly, many of the recommendations must be repeated from last year's Parkland report.

### 5.1 Accountability

- Proper public accounting mechanisms for monitoring and assessing the benefits of private contracting should be put in place (as recommended also by Alberta's Auditor General). In particular, private companies contracted by the Alberta government must be made subject to the same reporting procedures and policies as those guiding public agencies and departments. Additionally, clear criteria should be established regarding what can effectively and efficiently be contracted out vs. what should remain in the public sector.
- The Alberta Treasury and government departments should replace the current cash basis system of accounting, involving money collected and spent during the year, with accrual accounting, involving future expenditures and benefits. In a related manner, comparative data (by year or jurisdiction) should be reported using per capita dollar figures adjusted for inflation as done in this report.

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<sup>42</sup> The government's own *Low-Income Review*, released on May 22, 2002, acknowledged this fact.

## 5.2 Education

- The government should develop funding mechanisms that are more sensitive to the specific situations of school districts (e.g., percentages of disabled or ESL students, rural-urban, or SES differences).
- The government should determine funding per student rather than per capita, and should aim for funding at the highest rate per student in Canada.
- The government should aim through the department of Learning to cap classroom sizes for K-3 students at a ratio of 17 students for one teacher and for higher grades at 25 students for one teacher, with the allowance of minor deviations according to local situations and conditions.
- The government should immediately reduce and cap university tuitions at 2000 levels (in real dollars).

## 5.3 Energy

- Deregulated electricity costs have been a major source of inflation. A recent report by the Alberta Advisory Council on Electricity, and commissioned by the Alberta government, has said deregulation is not working for a lot of Albertans. The Alberta Branch of the Consumers Association of Canada and the Industrial Association of Alberta argue the policy of deregulation has been largely a failure and should be reversed.<sup>43</sup> The premier himself admits that electricity prices may never decline.<sup>44</sup> We concur that deregulated energy prices will never go down. They will likely continue to increase, along with shortages. Albertans have been experimented on long enough. It is time for power once again to be regulated by the government for the benefit of all Albertans.

## 5.4 Fiscal and Economic Policy

- The flat rate tax system adopted in 2001 should be dropped in favour of a return to a progressive rate structure on taxable income, while maintaining the current level of basic and spousal exemptions adopted in 2001.
- Alberta's Auditor General's has recently recommended that, "the Department of Energy assess whether the royalty reduction programs are achieving their intended objectives." We concur and recommend the government strike an all-party committee to examine Alberta's current royalty rates on gas and oil and to

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<sup>43</sup> "Deregulation not working for most Albertans: report," *Lethbridge Herald*, February 25, 2004, p. A5.

<sup>44</sup> "Deregulation won't lower prices, Klein admits," *Edmonton Journal*, February 26, 2004, p. A7.

determine whether Albertans are receiving a fair price for their non-renewable resource in comparison with other similar jurisdictions.<sup>45</sup> Parkland further recommends an annual report be presented to the legislature on Alberta's royalty rates.

## 5.5 General Policy

- The government should commission an arms-length review and synthesis of existing research on P3s. Until such time as such a review has been conducted, all P3 projects should be halted.

## 5.6 Health

- Health care premiums are a form of privatization as they throw costs upon individuals, and should therefore be eliminated entirely, with health care funded solely out of general government revenues.
- The system of electing members to regional health boards should be restored to ensure public input, government accountability, and democratic practice.

## 5.7 Labour and Continuing Education

- The province's standard minimum wage should be raised to \$7.30 per hour, equal with Quebec as the highest in Canada.<sup>46</sup>
- In conjunction with the federal government and its departments and universities and colleges, the province should become more actively involved in continuing education with an eye to anticipating and meeting future social needs and labour force shortages.

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<sup>45</sup> *Annual Report of the Auditor General of Alberta 2002-2003*, p. 16. See also Parkland Institute's 1999 study by Bruce McNabb, James Daniels, and Gordon Laxer, *Giving Away the Alberta Advantage: Are Albertans Receiving Maximum Revenue from Their Oil and Gas?*

<sup>46</sup> The Edmonton Social Planning Council has similarly recommended recently a minimum income threshold be established for the province.

<sup>47</sup> It is reported that Labour Minister Clint Dunford has said as Alberta's finances improve, the government will consider raising social assistance rates and indexing them to a cost of living benchmark called the Market Basket Measure. Reported by John Cotter, "Alberta decides against raising welfare rates despite no increase in years," *Edmonton Journal*, March 26, 2003.

## 5.8 Social Welfare

- SFI rates should be returned to 1993 benefit levels (in real dollars). The government should also reconsider work requirements for SFI recipients with children below school age and should provide adequate supplements to cover childcare costs, and other costs associated with employment (transportation, clothing, etc.).
- AISH rates should be raised by 26 percent to the adjusted MBM.
- The government should ensure that subsequent rates for SFI and Assured Income for the Severely Handicapped (AISH) are tied to the annual increase in the Consumer Price Index (CPI).<sup>47</sup>

- Flexibility should be ensured to meet local and regional cost differences, and to otherwise deal with unforeseen, emergency needs. In particular, shelter rates should be raised in all low-income programs to market levels, recognizing high-cost, high growth communities with extraordinary housing costs.
- Shelter rates should be raised to market levels. Furthermore, the government should accept its constitutional responsibility to address housing issues and return capital funding for new affordable housing to 1993 levels.
- The government should implement some of the recommendations coming out of its own 2002 Committee to Review Low-Income Programs.

## Conclusion

Alberta is a very wealthy province. Many Albertans worked hard and sacrificed a great deal over the last decade to turn Alberta's finances around. The oil and gas companies, the private utility companies, government officials, and the very wealthiest salary earners have been more than rewarded. Indeed, any sacrifices they made can only be a distant memory.

For too many Albertans, however, the sacrifices continue. As this report shows, real wages for average Albertans are stagnant, while the situation of the unemployed and poor in Alberta has markedly declined. A great deal could be done for many Albertans with scarcely a dent in government coffers; indeed, the case can be made that distributional fairness is also smart economics, and would further stimulate Alberta's buoyant economy. Will this happen?

A similar case can be made for public services. The very wealthy can always purchase services in private markets. Lower and middle-income earners depend upon good public health care, education, and social services - not to mention drivable roads and safe communities. The circumstances of the very poor are offset by well-funded public services. Good - and affordable - public services make for a civil society. That is why they must be maintained and protected. That is why today in Alberta they require a genuine reinvestment. Will this occur?

It is time average Albertans reaped the benefits of their many sacrifices. Unless Alberta's wealth and opportunities begin to be shared more widely, we fear it is the whirlwind that the province will one day reap, and not the bountiful harvest that should be its citizen's reward.





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ISBN 1-894949-04-8