



## Breaking the Cycle

Stimulus with responsibility, stewardship  
and sustainability

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### Executive Summary

With the global recession, and oil prices in a slump Alberta's 2009 budget will be a critical one for the province and the country. Government has a responsibility to diminish recessionary effects – unemployment, idle resources and lost wealth. Most importantly recessions offer governments the opportunity to improve social services, particularly health and education, renew and expand infrastructure, and improve redistribution systems to help the unemployed, those with low income, the homeless and those in danger of being so. This report lays out a framework for Alberta's government to do just that.

Alberta is not immune to recession, and in fact is likely to be affected more severely than other provinces. Alberta's economy is particularly vulnerable because it is heavily reliant on construction, oil and gas and exports as economic drivers. Alberta's economy already contracted by 3.4% in the last three months of 2008. This is likely to get worse; the government projects that drilling activity will drop by 27% and investment in un-conventional oil will drop by 50% in 2009.

#### **Alberta: The Impacts of the Recession Construction, oil and gas and exports as key drivers**

In 2007 exports accounted for 55% of the Alberta economy and construction amounted to 22.5%. Construction employment amounts to over 10% of Alberta's workforce at 205,000 workers. About 64% of that construction was in the energy sector. These are the sectors being hardest hit by the recession.

#### **Alberta is leading on many recession indicators**

Alberta's has seen rapid declines in building permits, new housing price indexes and retail sales; falling faster than other provinces in all three areas. Alberta has also led the nation in per capita foreclosures on residential mortgages, and was one of the leaders in the increase in the number of personal bankruptcies.

#### **Employment trends a concern**

The province projects 15,000 jobs will be lost in 2009. But net jobs lost figures hide important details. Job losses have been significant in construction and manufacturing. In the fall of 2008, 35,000 jobs were lost in construction. Seasonally adjusted, that is 16,900 jobs. Manufacturing lost 24,500 between 2007 and early 2009, also seasonally adjusted. Also, there has been a large shift from full-time to part-time jobs. The province lost 158,700 full-time jobs and gained 104,200 part-time jobs between August 2008 and February 2009.

Another critical dynamic in the employment numbers is the number of international and inter-provincial migrants. As of December 2008, there were 57,843 temporary foreign workers in Alberta with the largest concentration in Edmonton and Calgary and many in the service sector. The fate of these workers is a controversial and difficult question, especially as many will be left without a job, without access to any income support and without the means to return home.

#### **A Growing Consensus**

Unlikely voices have converged, consistently recommending increased public spending, that governments run deficits and that spending will be

far more effective than tax cuts for stimulating jobs and the economy.

Tax cuts are used for saving or debt payments with only a small portion used for spending. Of that spending, a high portion is spent on imports which do not stimulate the local economy. Thus, targeted infrastructure spending is a much more effective tool than tax cuts. In the US, the impact of economic growth of infrastructure spending worth 1% of GDP is more than double the impact of tax cuts.

A Nanos Research survey in January 2009 found little support for industry bailouts and high support for social spending. For economic stimulus, 71.1% of participants from the West chose "government investing in healthcare, social services and education," over the 19.9% who chose "government financial support for businesses in the automotive, forestry or mining industries."

Another 2009 poll found that 78% of Albertans prefer subsidies for renewable and clean energy options while only 11% prefer subsidies for oil and gas development.

#### **What Can Be Done?**

Alberta, more than any North American jurisdiction and most other nations, has the financial assets to afford greater fiscal stimulus. The Capital Fund and Stabilization Fund together account for \$14.69 billion in available funds. Without having to touch long-term savings in the Heritage Fund, the province has plenty of financial assets at its disposal for stimulus spending.

Also, Alberta's expenditures on public services are a small percentage of GDP. This gives Alberta much room for greater public investment and social service expenditure.

#### **Creating the most jobs possible in Alberta**

An analysis of the Alberta government's multipliers for different industries gives a good indication of where government dollars can create the most jobs and GDP stimulus. Oil and gas extraction actually has one of the lowest multipliers for job creation. This is not surprising as it is very capital intensive. It does have a

relatively high multiplier for GDP, but no higher than health care and, in fact, lower than education. To translate that, for every dollar invested, health care can deliver as much GDP stimulus as oil and gas with almost seven times the jobs. Spending in education can actually deliver a better GDP effect with five and a half times the jobs

**Drilling incentives not a stimulus plan**

In 2008 and 2009, Alberta Energy Minister Mel Knight announced total of over \$6 billion in incentives and subsidies for oil and gas. The money is intended to “encourage new investment and help keep Albertans at work.” However, subsidizing oil and gas extraction is not a job creation strategy.

Oil and gas drilling in Alberta is a sunset industry; directing large subsidies at drilling in Alberta is only staving off the inevitable. The province should instead be investing in creating quality jobs in other sectors.

**Public-private partnerships are not viable**

With private capital unavailable or available only at high premiums, P3s are not cost effective. The spread between government and private borrowing costs has grown. Investors are seeking safe havens, placing government bonds at a premium, making public sector borrowing much cheaper than private sector. There have been recent high profile P3 deal collapses including Vancouver’s Port Mann Bridge.

**Vision and Recommendations**

The Alberta government will need to break its habit of pro-cyclical policies. In the short term there is a need for a vision that puts the most Albertans possible back to work building a new economy. In the longer term, the province needs a vision that eliminates its dependence on oil and gas revenues to fund social programs and other government operations, a vision which includes a much more diverse economy. This set of recommendations lays the foundation for that vision.

Key principles that should drive the stimulus plan are:

- Use a counter-cyclical strategy including deficit spending with a window for balancing the budget that is based on the economic cycle.
- Meet IMF and OECD targets for 2% of GDP for stimulus spending (just over \$5 billion).
- Maintain social program spending and increase it in key areas.
- Target spending to the areas where it will create maximum jobs per dollar invested and where it will help build a more sustainable economy.
- Renewable energy and green building should guide all infrastructure spending.
- P3 models should be abandoned, as they will be far more expensive than public financing models.
- Incentives aimed at expanding oil and gas drilling, including funds for carbon capture and storage, should be redirected to creating green jobs in construction and renewable energy.

To achieve these goals, the stimulus plan should include:

- Addressing the infrastructure deficit by targeting spending in order to get construction workers back on the job.
- Greening of the economy by putting construction workers back to work on green retrofits and transit.
- Diversifying the economy by targeting spending and regulation at building the infrastructure necessary to increase solar and wind manufacturing and generation.
- Social infrastructure stimulus that goes beyond adjustments for inflation and population growth in key areas including: social security where demand will go up; post secondary education where unemployed workers should receive re-training; increased operating funding to run new infrastructure such as schools and hospitals; health care where funds are needed to address the ageing population; and the voluntary sector which will be hit by both lower revenues and growing demand.

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