Albertans will be forced to face debt with David Dodge

By David Parkinson
Jun2 25, 2015 – *The Globe and Mail*

For the better part of two decades, Alberta's definition of good government has been built on an aversion to debt. New Premier Rachel Notley's choice of David Dodge to come up with a blueprint for the province's infrastructure investment signals a major departure from that well-worn path.

Last Friday, Ms. Notley held a press conference to introduce Mr. Dodge, the professorial former governor of the Bank of Canada, as the adviser enlisted to recommend a plan to address Alberta's considerable infrastructure needs. Of all the outsiders Ms. Notley has recruited to the province in recent weeks to help guide her conspicuously under-experienced rookie government, Mr. Dodge is undoubtedly the biggest name.

"We need to get this right," Ms. Notley said. "We are turning to the experts to ensure that we do."

Mr. Dodge has been asked to come up with answers to the most fundamental questions of Alberta's infrastructure future: How much it should spend, what it should spend on, and – crucially – how it should finance the spending at a time when weak oil prices have put the province under a serious strain.

He will study these issues over the summer, and provide his recommendations before the presentation of a new capital plan in the government's budget scheduled for October. But it is no secret where he stands on the key principles. And if you are one of the many Albertans who are fiercely proud of the debt-free status the province enjoyed (albeit briefly) in the 2000s, you are not going to like what he has to say.

"Borrowing for infrastructure development that will lead to greater economic development, where there is an identifiable return on that investment, is absolutely appropriate – particularly at this point in time, when we've got very low interest rates," he said at the press conference.

That sums up what Mr. Dodge has been writing and saying about public infrastructure investment over the past year or so. In a nutshell, he strongly believes nothing is wrong with borrowing money to invest in long-term projects that will grease the wheels of economic prosperity – and with borrowing costs about as low as they are ever going to be, a government would be short-sighted not to do so.

Ms. Notley clearly leans in this direction as well. At the press conference, she said the choice by previous Tory governments to eliminate debt came "at the expense of infrastructure debt, which everybody decided to stop talking about until ceiling tiles started falling INTO major public buildings."

Of course, all those years of debt aversion have left Ms. Notley with room to borrow. The province still has no net debt – it has borrowed in recent years, but its financial assets outweigh those debts. Considering that the median net debt-to-gross-domestic-product ratio for Canada's other provinces is north of 30 per cent, Alberta could finance an awful lot of infrastructure and still be in comparatively good shape.

And paradoxically, Alberta's oil misfortune may have provided it with a window to fast-track its infrastructure development. Despite the pressure a slumping economy has put on government revenue, the slack in activity in the energy sector, especially the capital-intensive oil sands, means public-sector projects would face a lot less of the competition for labour, materials and equipment that has pushed up government infrastructure costs in the past.

This, too, is a point Mr. Dodge was already making before Ms. Notley hired him.

“The federal government and the provinces should consider accelerated investment in needed infrastructure to take advantage of the reduced wage and cost pressures resulting from the decline of private investment in the resource industries,” he wrote in an economic report published earlier this year by Bennett Jones, the Calgary-based law firm where he has served as a senior adviser in its Ottawa office since 2008.

Still, these arguments will stick in the craw of many fiscal conservatives – and the province has plenty of such beasts – who fear rampant borrowing at a time when the government is already spending beyond its means. The oil slump has taken a deep gouge out of provincial revenue, and the government is headed for a deficit in the ballpark of $5-billion this fiscal year.

But despite Mr. Dodge’s support for a ramp-up in infrastructure spending, his past suggests he is not about to send Alberta down a path to chronic problem deficits. Remember that, before he was governor of the Bank of Canada, he was federal deputy finance minister under Paul Martin – and in that role was instrumental in dismantling the crippling federal deficits of the 1980s and 1990s.

It is important to recognize that taking on debt is not the same as running up a deficit. Especially when interest rates are low, governments can borrow for the long term while incurring only fairly modest increases to their annual expenses. Just as you and I can borrow for a house and still make ends meet with our monthly mortgage payments, the government can carry debts within prudent budgets.

Consider that in the fiscal year ended March 31, 2015, Alberta’s government borrowing increased by about $4-billion. But the impact on its budget for the year – its cost of making payments on its debt – increased $130-million from the prior year, or just 0.3 per cent of the total budget.

The hurdle Ms. Notley will have to clear with a Dodge-styled capital plan – and it even came up from the media in last week’s news conference – is getting the public to see the distinction between debts and deficits. In a province where an entire generation of voters has been raised on the notion that government debt must be avoided, that is no small feat. But then again, neither was defeating a government that had reigned for 44 years.