

Alberta budget reminiscent of Ralph Klein's 'miracle on the Prairie'

By Kelly Cryderman

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Premier Jason Kenney's first budget is a jarring return to an era of program spending reductions, even if the budget cuts in Alberta will not be nearly as deep as a quarter century ago – during the austere early Klein years.

While the government of former premier Ralph Klein cut spending by an average of 20 per cent, Mr. Kenney's United Conservative Party is planning 2.8 per cent in reductions. However, it is far from sure these initial measures will be enough, and the economic outlook for Alberta is more complicated and obscure than it was in the mid-1990s.

A lot of what was unveiled in the budget process last week does feel familiar. In the early 1990s, Alberta voters were concerned about the heavy borrowing that had followed a 1986 oil price drop. The provincial government had a \$3.1-billion deficit and a provincial debt of \$20-billion – far from insignificant at that time.

Mr. Klein's Progressive Conservatives won the 1993 election with eliminating the deficit as a key plank. In early 1994, his government began in earnest. There were 30-per-cent cuts to many government departments, and even priority areas such as education, health care, postsecondary education and social services had their budgets slashed by an average of 16 per cent.

"I will not tell you this evening that it will be easy, because it won't," Mr. Klein said in a televised address. "This is about our tomorrows. This is about leaving to the next generation the kind of Alberta that was left to us."

It was a difficult few years: Tens of thousands of public servants lost their jobs and thousands

of people were forced off welfare. Protests erupted outside hospitals.

But in short order, the finances of the province looked less grim. The Klein government actually posted its first balanced budget in 1995, barely two years after the premier's deficit-cutting pledge. Energy prices were up. Higher-than-expected revenues came from lotteries, corporate income taxes, and oil and gas royalties.

Alberta went on to pay off its debt and post 14 consecutive years of surpluses. Over the years, when oil and gas prices were high, services and spending went up.

But now, again, Alberta's finances have been hurt by an oil price drop. A dearth of new pipeline capacity has made it difficult for the industry to attract or keep capital. Environmental concerns about the oil sands weigh on the investment climate. The provincial deficit stands at \$8.7-billion. The debt is approaching \$72-billion.

Mr. Kenney's televised address to the province last week felt like he was trying to channel Mr. Klein, echoing the sentiment about protecting future generations and acknowledging "this will be a challenging budget. It won't be easy."

In order to wrestle control of spending and eliminate deficit by 2023, the government is freezing the budgets for health, education and social services. Cities, postsecondary institutions, capital projects and a host of smaller government departments will be hit hard. The opening date for a hospital in southwest Edmonton has been pushed back to 2030. Hundreds of millions of dollars in funding promised to build Calgary's light rail

Green Line expansion have been delayed to the point of putting the project in jeopardy.

As a sign of things to come in the public service, jobs were already axed at the University of Calgary last week. In the months and years ahead – as the layoffs mount, as the number of students and patients increase, as projects are delayed or cancelled, as inflationary pressures hit – the budget cut will feel like a lot more than 2.8 per cent.

And even under this less-than-ideal scenario, a whole lot has to go tickety-boo for Alberta to avoid more cuts, or to be deficit free by 2023.

Not only do oil prices need to rise, but new oil pipeline capacity has to be built, even in the face of opposition. Investors have to return. The province's strategy of forgoing government revenues to spur job creation with a deep corporate tax cut has to work.

And the government has limited its options by saying no to raising money through other types of taxes, and by cutting targeted incentives to diversify the province's economy. The Alberta Investor Tax Credit, introduced by the former NDP government, gave a 30-per-cent tax rebate to investors in new technology, media production or tourism companies. Some are lamenting the loss of this credit and others, and the message it sends about whether the province really wants to attract and expand these sectors.

In Alberta in 2019, no one dares hope for better-than-expected. No one thinks there will be a quick turnaround. It will be – to use some of the language from the Klein era – a “miracle on the Prairie” to eliminate the deficit in the years ahead.